

**This report may be of interest to: All members
This report will also be submitted to the Best Value Sub-Committee.**

BEST VALUE PROCUREMENT STRATEGY

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1.0 Purpose

- 1.1 To propose an outline Best Value procurement strategy and to highlight issues that will require further consideration in the coming months.

2.0 Summary

- 2.1 This report sets out a top level statement expressing the Council's approach to competition under Best Value and outlines a broad procurement strategy. The report asks members to give approval to this approach and to request that officers give further consideration to this issue with a view to developing a fuller strategy for implementation by the early summer.

3.0 Recommendations

- 3.1 To agree the statement set out in paragraph 5.2;
- 3.2 To agree the outline procurement strategy set out in paragraph 5.3; and
- 3.3 Members receive a further report in June setting out a more detailed procurement strategy.

4.0 Background

4.1 Guidance from the DETR has highlighted the need to develop a clear procurement strategy as a key step in preparing for Best Value. Based on the Local Government Act 1999, DETR Circular 10/99 and advice from the DETR to chief executives a procurement strategy is needed that will:

- (a) Express the Council's commitment to competition as key tool for delivering Best Value;
- (b) Explain the role competition will play in Best Value reviews;
- (c) Recognise the linkages between competition, challenge, comparison and consultation and how they relate to each other;
- (d) Highlight the criteria to be used in deciding whether to retain a service in-house or to procure it by other means; and
- (e) Clarify different procurement options.

4.2 Best Value requires councils to demonstrate that their services are competitive but gives them more freedom to set local priorities and find ways of delivering services that best meet the needs of local people. Unlike CCT it will apply to all services rather than a selected few.

4.3 Best Value aims to allow a more positive approach to competition, based on public, private and voluntary sector partnership and dialogue. New and innovative forms of service delivery will be made possible and encouraged under Best Value. Best Value will also allow contracts to be packaged differently and bring together services with more natural synergies.

4.4 Support for in-house teams is not, therefore, inconsistent with Best Value but will depend on in-house teams' ability to demonstrate that the in-house provision is the best option available. Best Value allows more opportunities for services to demonstrate this.

4.5 More pointedly the Government has said:

"Services should not be delivered directly if other more efficient and effective means are available. Retaining work in-house will therefore only be justified where the authority can show it is competitive with the best alternative"

DETR Circular 10/99, paragraph 46.

4.6 However, it is anticipated that Best Value will give powers for councils to provide services that they can not provide at the moment and to participate in companies. Best Value will provide new opportunities for DSOs and other services to extend their activities into areas they don't currently operate in and to focus on markets where they enjoy a competitive edge.

The Role Of Competition In Best Value

4.7 Competition operates in several different ways under Best Value. It is important to understand this in order to ensure that it is properly applied during the Best Value review process and in developing the Council's procurement strategy. Paragraph 36 of the DETR Circular 10/99, paragraph 36 says:

“fair and open competition.... is expected to play an essential and enduring role in ensuring best value, and reviews will need to consider how this can be achieved”

4.8 In broad terms councils are expected to:

- (a) Create a climate in which all potential providers of services can discuss issues
- (b) Analyse the structure of supply markets for different services and help create markets by looking at the way services are packaged to encourage innovation and competitiveness
- (c) Review all existing contracts to determine where they will meet the demands of best value, particularly continuous improvement
- (d) Assess the competitiveness of all services by way of comparison as part of the Best Value review process (this is likely to involve some form of benchmarking activity)
- (e) Determine as part of the Best Value review process the best value option for future service delivery – See Figure 1, Options For Procuring Services.

Option	Description
Pull-out or withdraw from activity (Directly provided or contracted)	This is not likely to be possible for most major areas of local authority activity. However, it may be possible for aspects of a service. It is clearly possible in cases where a local authority has powers to do things, but not a duty
Improved In-House Approach	Continue to provide a service in total or part through an improved in-house approach. An in house service is not an easy option. There will still need to be improvement targets and a plan for how they will be reached. There will still be public monitoring of service delivery.
Joint Commissioning	This involves joining with other local authorities or public bodies to jointly provide or purchase services. It can include delegation of powers to another authority, pooling of budgets, working with other government agencies, or arrangements with non-profit organisations
Market Testing	Competition with an in-house bid
Externalisation	Competition without an in-house bid
Transfer	Includes circumstances where the local authority’s client role is passed to another organisation. This may be a non-profit organisation, such as housing or community association, or a public/private partnership such as a joint venture company. In these cases the local authority retains a residual interest (rights to nominate people to use the service, a seat on the board) as in housing stock transfers or some transfers of leisure or care services, or a minority share-holding, as in the case of joint venture companies
Bring back in-house	Includes circumstances where an external provider has failed to offer Best Value. May be carried out as part of a contingency arrangement before market testing or as a direct

	result of testing.
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Figure 1: Options For Procuring Services

- 4.9 The Council needs to undertake further work on the implementation of each of these activities particularly around creating and stimulating markets and this will be the subject of a further report in the summer.
- 4.10 However, in the areas of assessing competitiveness and determining who is best placed to deliver service improvements, initial work has been already undertaken and is set out below as an outline procurement strategy.

5.0 Issues and Choices

Top Level Statement

- 5.1 Clearly the Council needs to develop an approach to competition which is consistent with Best Value. **Such a statement has to be included in the performance plan which will published by 31 March 2000. The statement needs not only to be consistent with the demands of Best Value but to allow the authority to use competition as means to secure the efficient and effective services for local people.**

- 5.2 A proposed statement is set out below:

Milton Keynes Council will use competition as a means of driving up standards across the whole Council and to help the Council define and deliver effective and efficient services to local people.

The Council will support in-house provision where it can be demonstrated that Best Value will be achieved, but will work with and encourage a range of alternative service providers as a means of securing effective choice and competition.

Outline Procurement Strategy

- 5.3 Drafting the Best Value Review Guide for the Council has started to tease out how each review will assess the competitiveness of the service under review. Effectively the review process outlines a broad procurement strategy. This is as follows:
- (a) As part of assessing the current service, the 4C's (challenge, compare, consult and compete) will be applied to determine how effective the service is in meeting the Council's objectives and priorities. The competitiveness of a service as compared with those of other authorities and alternative providers will be assessed. These comparisons will be carried out across a range of factors including costs, efficiency, effectiveness, equalities, and environmental sustainability.
 - (b) Reviews will then establish the "gap" between the current service and the best performers which ultimately will need to be closed by making changes to the current service.

- (c) Prior to determining how this might be done, each review team will be asked to propose a new service specification based on a range of factors and to set out the new standards, targets and outcomes expected from the service.
- (d) At this stage a range of options for securing the service improvements will be developed e.g. changing the objectives and priorities for the service, changing the arrangements for service delivery or changing the methods of delivery. The options for service improvement will be evaluated against a set of corporately agreed criteria to determine which one is most likely to close the “gap.”
- (e) Following this a decision will then have to be made about whether the in-house provider is the best placed to continue to deliver the service; whether it needs to be modified to make the service improvements required; or whether an alternative provider needs to be found i.e. to “buy-in” the service based on one of the possible options set out in Figure 1.

If the service is externally provided similar judgements will also be applied to them.

Within the corporate framework every opportunity will be given at this stage for in-house teams to re-organise themselves to provide the service required but this will have to be done within the requirements of Best Value. Ideally services should start to consider how well they are placed to deliver service improvements in advance of the formal Best Value review, and this issue will be addressed as part of the Council’s continuous improvement strategy.

- (f) Where a decision is taken to “buy-in” a service, rather than re-structure the in-house service to meet the performance of the alternative providers, an appraisal of the various different procurement options will then be made.
- (g) The review team will then identify and recommend an appropriate strategy which will:
 - (i) Define how much of the service should be exposed to competition (based on maximising savings and reducing process costs);
 - (ii) Define the contractual relationship (e.g. arms length or partnership); and
 - (iii) Identify risks and decide how they should be minimised.

This strategy will be based on research/understanding of the appropriate market, consultation with users and discussions with staff and potential providers.

5.4 Ultimately, both the chosen option for service improvement and who is best placed to deliver those improvements will be the one that:

- (a) Will meet the newly set standards and targets;

- (b) Promises the best value for money;
- (c) Offers the best balance between savings and quality improvements at the lowest cost of achieving this; and
- (d) Provides the best long term opportunities for staff.

Next Steps

- 5.5 If members approve the top level statement and outline procurement strategy, there is a clear need to develop this more fully in the coming months. The service review guide sets out how options for service improvement should be evaluated but clear guidance and advice is needed on the implications of pursuing one of the different procurement routes set out in Figure 1. A detailed procurement strategy and guidance is needed to ensure this happens. This will need to be in place by the early summer as Year 1 reviews will be well under way.
- 5.6 This strategy and guidance needs to take in a range of complex legislation as well as be translated into practical advice for officers to understand and members to approve. It is recommended that this work should be undertaken by the existing Contracts Unit and Purchasing Section.
- 5.7 In addition this team needs to set out how the Council can help develop and analyse market conditions which is also a requirement of Best Value.

6.0 Implications

6.1 Environmental

The choice and evaluation of the options for change and appropriate procurement route require an assessment of sustainability issues.

6.2 Equalities

The choice and evaluation of the options for change requires an assessment of equality issues.

6.3 Financial

There are no financial implications arising directly from this report.

6.4 Legal

The Local Government Act 1999 and subsequent guidance sets out specific requirements for the conduct of reviews and how the issue of competitiveness needs to be addressed.

6.5 Staff and Accommodation

Adopting a procurement strategy which aims to provide secure employment for staff is crucial. The development of options for service improvement also needs to ensure staff have involvement in key stages of each review and are properly consulted.

7.0 Conclusions

- 7.1 Agreeing an approach to competitiveness and procurement at this stage will allow further development of the Council's Best Value strategy in the coming months to ensure that the authority complies with all the legalisation in this area.

Background Papers:

Local Government Act 1999, Part One, Best Value, DETR Circular 10/99