



Briefing 10/55 October 2010

APSE's Competitiveness Continuum and Efficiency

To: All Chief Executives, Main Contacts and APSE Contacts

This briefing is one of a series of papers being issued by APSE around efficiencies and how local authorities can deal with budget constraints and maximise their opportunities for more effective approaches to procurement. As council's face tougher times and unprecedented financial constraints, APSE has brought together some examples of where real efficiency savings have been made and some examples of best practice in the form of case studies.

Key issues:

- Demonstrating competitiveness through contestability and best value.
- APSE's Competitiveness Continuum as a means of determining how and what services should be delivered and to what price and quality.
- Using an evidence based approach to service improvement and efficiency.
- Recent case study examples of service review techniques. Further information and support is available by contacting amudd@apse.org.uk

1. Introduction and background

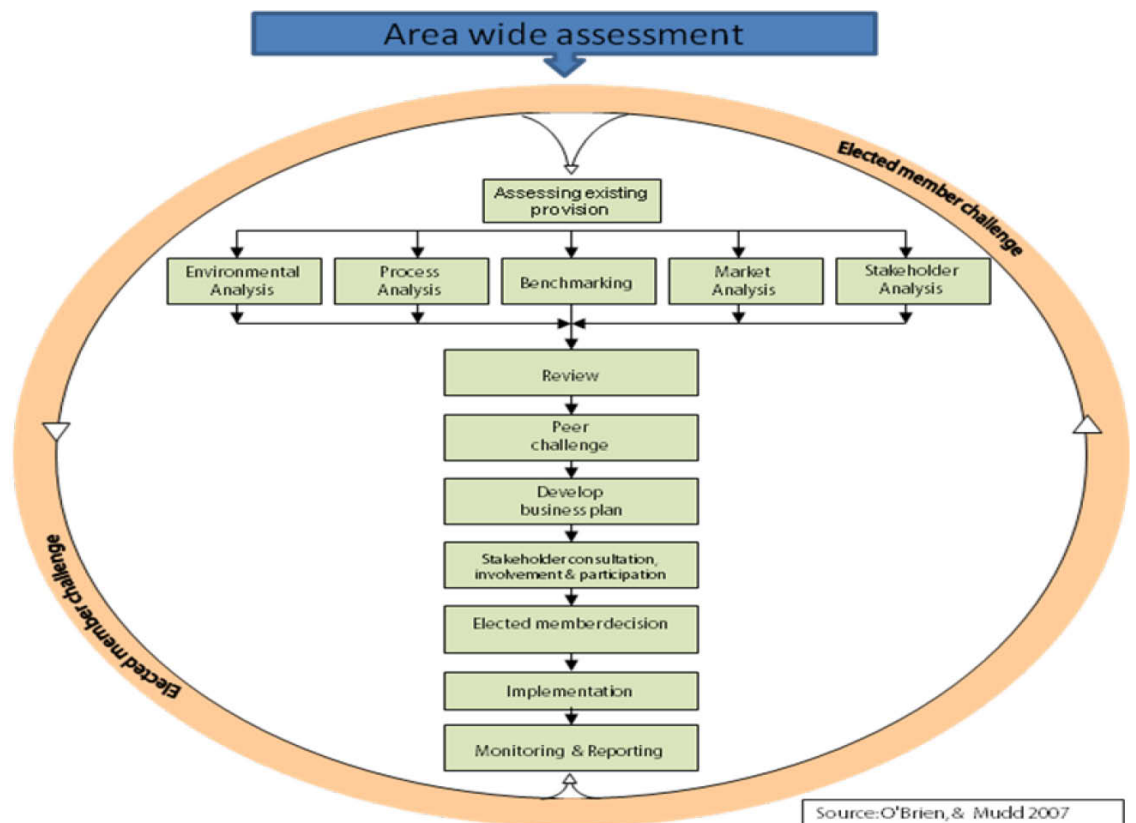
In 2008 APSE published a paper detailing how local government front line service providers might tackle the need to demonstrate their competitiveness against alternative, i.e. outsourced, service delivery arrangements. The paper relied upon two key propositions. Firstly, that the market place for public service delivery is characterised by a low degree of 'contestability' and secondly, that internal service deliverers should therefore be encouraged to demonstrate best value through mechanisms other than market competition.

Contestability refers to the ease with which firms can enter or leave a given market place and therefore to the extent to which incumbent providers are faced with a competitive threat. High barriers to entry to public service markets, which are partly administrative (complex procurement processes etc) and partly reflect the cost of capital equipment, such as refuse collection vehicles, mean that contestability is relatively low. The fact that there are a fairly small number of major private sector suppliers, despite the sector offering significant earning potential, reflects this.

Low contestability undermines the extent to which it is possible to rely on market competition to ensure lowest price. Essentially it is argued that competition, particularly where there is no 'in-house' bid, is a highly uncertain route to best value and that therefore Council's must develop more effective mechanisms for assessing whether in-house services are provided on a cost effective basis. To address these issues APSE developed what it referred to as the 'competitiveness continuum' – a cyclical evidence based approach to continual improvement in both cost and performance.

2. APSE's Competitiveness Continuum

The competitiveness continuum was designed to emphasise the 'golden thread' linking service delivery to the achievement of the overriding strategic objectives of local government. Unlike crude market based competition the approach recognises that it is elected members not market forces who ultimately determine how and what services should be delivered and to what price and quality. It also ensures that sufficient attention is paid at the appropriate level of the organisation to the detail of service delivery by creating an explicit link between decisions about inputs and the outcomes flowing from the provision of services. This is set out as a schematic below:



As local government now faces up to the prospect of the most significant pressure on budgets for a generation, the logic of the competitiveness continuum has taken on a new relevance. There will be increased pressure on Councils to turn to market competition in a bid to drive down costs. For the reasons discussed above this is unlikely to help. Recent comments by Ministers appear to recognise that private sector companies have been making excessive profit from public sector contracts for years ('Maude for it', Investorchronicle.co.uk, 4 August 2010) Whilst for the government this might simply point to a need for better contract procurement and management, it also suggests that attempts to obtain value from suppliers in a market with low competitive pressure could be ill conceived.

The question of whether the public sector can afford to rely on competition to deliver value for money must now be posed. At a time when public service must be as cost effective and efficient as possible it is questionable whether the nation can afford any level of private sector margin but excessive profits are now entirely unacceptable. Better procurement practice and improved contract management may well squeeze some additional value from private suppliers but will not deal with the fundamental problem of the lack of competitive pressure that is endemic in these markets.

3. An evidence based approach to service improvement and efficiency

The APSE approach to evidence driven service improvement planning has paid dividends for many authorities over the years. By encouraging in-house providers to adopt a robust performance management approach and to collect, benchmark and evaluate key data, APSE has helped to drive cost out of the system whilst also improving services. This systematic approach to service improvement is a fundamental tool that Councils can use to rise to the challenge of enforced budget reductions.

The use of service review techniques applying best value principles has over many years helped to optimise scarce Council resources. In one Council savings of £155,000 per annum were identified through a detailed study of resource utilisation, coupled with an analysis of output performance indicators which led to recommendations to improve economy and effectiveness. This was despite clear benchmark evidence showing that charge rates were already on the face of it highly competitive with those likely to be on offer from alternative providers. Had the Council relied on competition, even with an in-house bid these potential savings might never have come to light.

4. Case studies

Case study 1 – A borough council in the East Midlands – Environmental services

A best value review of environmental services is being undertaken in the authority. The review is in line with the best value 4 C's approach of Challenge, Consult, Compare and Compete. Through analysing the council's performance data and facilitating two workshops with Council officers, members, union representatives, the contractor and local stakeholder groups, APSE has been able to make a number of recommendations to identify efficiency savings for the authority. The review also looked at the current delivery methods and set out options for future service delivery.

Case study 2 – a county council in Wales – Building and property maintenance

The overall findings of the review team were that the building maintenance service was operating well and delivering value for money for the Council. Benchmarking suggested consistently above average performance and a forward direction of travel. Market positioning was healthy, competitive and has improved over the last two years. Building services was a well functioning department, indeed, one of the best APSE has seen and consequently any suggested improvements were of a minor nature. APSE

identified scope for increasing productivity by reviewing the need for operatives to travel to and from depot and this is linked to a need to implement a performance management approach to service delivery. APSE presented the findings to the cabinet and senior management team.

Case study 3 – City Council in South West – Waste and recycling

The Council was in the process of deciding how best to provide some of its core front line services over the coming period. It asked APSE to carry out a fundamental review of the waste and recycling services to achieve a service at a cost the authority could afford and which represented good value for money. This included a market testing exercise to look at alternative provision possibilities. APSE made a series of recommendations to improve the in-house offering, and since then the in-house bid has been successful for service provision.

Case study 4 – County council in Wales – Libraries

A cost saving review of the Library service was undertaken. The review involved elected members and allowed them the opportunity to consider the Library Service in the context of its contribution to the wider Council agenda, its role in local communities and its core function as a foundation for learning. The review assessed future provision of the service and how to reduce revenue expenditure by £90k from 2010/11 onwards without further reducing access to service users or damaging the quality of current provision.

Case study 5 – MDC in Northern England – Facilities management

APSE is providing assistance to the Council to evaluate and review the services provided through the Council's facilities management provider, including catering, cleaning, caretaking and school crossing patrols to the authority's schools and other Council buildings. These services are currently offered on a stand-alone basis rather than as an FM package. The review will determine how the service should be provided in the future. APSE is assessing performance information taken from its performance networks database of some 178 local authorities to evaluate the current service compared to other APSE members.

Case study 6 – City Council in Central England – highways and street lighting

APSE provided assistance to the Council and trade union looking at service provision for highways and street lighting. In the first place this was in the capacity of 'critical friend' to the Joint Trade Unions to facilitate effective involvement from the union side. This involvement subsequently evolved

to provide a degree of critical friend support to both management and unions in so far as workforce issues are concerned and eventually to taking on the role of chairing the Joint Consultative Committee.

Initially this involved assessing the case for PFI and alternatives. This included an assessment of the competitiveness of the Council's Highways Maintenance and Street Lighting Services, which were undertaken in-house. APSE benchmarked the current Schedule or Rate (S.O.R.) prices charged by the Council's in-house Highways and Street Lighting units, to see if they were competitive with current market rates in APSE performance networks data.

5. APSE Commentary

Often competition is used as a 'blunt instrument' to achieve cost savings and/or service efficiencies without a proper consideration of the evidence or the options for achieving the same through a local authority's own in-house services. The Competitiveness Continuum is a tool which can be used to assess current capacity and performance and the ability to deliver service improvements or efficiency gains.

The approach is based on tried and trusted techniques of external challenge and service review involving key stakeholders which have been used by very many local authorities across the U.K. and Northern Ireland. APSEs own consultancy service the best value consultancy can assist local authorities in applying the methodology and through APSEs performance networks benchmarking service, can provide robust and demonstrable measures of competitiveness, economy, efficiency and service quality.

For further information on the Competitiveness Continuum and approaches to efficiency please contact APSEs Principal Consultant, Andy Mudd at amudd@apse.org.uk

Mark Bramah, Assistant Chief Executive & Andy Mudd, Principal Consultant