

Public Services Management: The tender problem of buying in services: Competitive bids can lower costs but may not guarantee that people are served.

As reported by Paul Gosling in the Independent - 6 June 1993

WHEN Amber Valley Council in Derbyshire awarded its leisure management contract to Crossland Leisure it took all reasonable steps to ensure the company would be able to handle the work. It was a reputable business, with other satisfactory local government contracts. A financial investigation appeared to show it to be viable. Performance bonds were taken out for pounds 50,000 - well beyond the Department of Environment's recommendation of pounds 8,000. Any higher bond demand would probably have been ruled by the DoE to be anti-competitive.

Yet Crossland folded just one year later, leaving Amber Valley to put together a replacement service. Far from the council saving money, it is forced to foot a bill it estimates at several hundred thousand pounds. The replacement contract has since been awarded in-house, despite a cheaper bid that the council thought was too low to guarantee services.

According to one consultant, Ian McNichol of Leisure Futures, it is particularly difficult to evaluate and write specifications for leisure contracts. 'Everyone made mistakes on the specifications; we did on the ones we wrote. And most of the contractors are very new. 'Another problem is where there is a weak client - where authorities have not put their strongest people into the client side and there is a disparity in management grades between them and the direct service organisation. You end up with the tail wagging the dog.'

It can also be difficult to monitor the contracts. 'We don't think it is the client's job to check whether a receptionist's smile is sincere,' said Mr. McNichol. One result is a trend away from the simple payment of a management fee towards shared risk, with contractors taking a slice of the receipts. This has been encouraged by the recession when leisure takings in the South-east were reported down by 25 per cent.

Although this type of solution may be appropriate in leisure, where the authority in essence is offering a commercial service in competition with the private sector, it does not appear to be relevant in those service areas where the council is acting on behalf of the end user. Several authorities see the solution to this in traditional market research techniques of customer surveys and polls, and better complaint procedures.

Redditch Council, Hereford and Worcester, has gone further by setting up a permanent panel of users to monitor all the council's services. The 'Redditch Reports' are produced through consultation with 450 volunteers, who indicate not only satisfaction levels but also their priorities. Jamie Morris, head of marketing and policy at Redditch, explained: 'On refuse collection they were asked to rank in order of importance: punctuality, the cleanliness of the street after collection, response time to complaints, and recycling. Punctuality was seen as particularly important, response time not as important. We can put this on a matrix and using this can examine those services that are important and those not up to scratch.

'Then we go back to the same panel to identify which changes should be introduced. We can use that to set targets that are built into the standards for performance monitoring. This will lead to improved contract documentation. For example, on housing repairs, which comes up next April for renewal, 30 per cent of our panel are tenants, so this means that we have got a comprehensive view of our services.'

Some service contracting can be devolved as a means of improving standards. In Hampshire, decisions on school cleaning contracts are taken by governors, who are in a better position to know about the quality of the work undertaken, said David Ross, the county supplies officer. 'Schools are very hard-nosed where their money is being spent. We are moving from our old Phase One process of standard monitoring by people employed by us to Phase Two, to make customers their own

However, this still leaves open the question of who the real customer is, said Annie Faulder, executive director of Kirklees Council in West Yorkshire. 'In the end, we have to determine who the customer is: head teachers, governors, the children or parents.'

An extension of Hampshire's approach to devolution is the internal market adopted by Tower Hamlets. This has developed as a result of the council's commitment to devolving power and decisions to neighbourhood units. John Swinney, head of business services, explained: 'Neighbourhood units have absolute power over determining a contract. We have individual neighbourhood contracts. 'A neighbourhood can decide on which direction it wants to go. Stepney wants to put all sorts of things out to contract in advance of CCT (compulsory competitive tendering). Poplar is very traditional and wants to keep as much as possible in-house. It will be interesting to see which performs better.'

'Most services that have been kept in-house are now much better, and the same with those that have been contracted out. I'd say it was to do with our neighbourhood approach. We have turned round what was the worst London borough to what I would say was now the best.'

'We have created an internal market, where we have to win our work. The structure encourages intense competition within the borough. Everyone wants to make sure their streets are the cleanest. Here we are comparing housing in seven different bits, so everyone can see which is the best. The same applies to all the other services.'

Across the country, despite an increasingly competitive contracts market, many authorities are worried that there is scope for problems even worse than Amber Valley's.

Graham Shaw, head of corporate standards at Kirklees, said: 'We have been able to evaluate companies that tender, and confirm that contractors are able to do the work. But under CCT, if there are only three tendering companies, they must all be put on the list. New guidelines from the DoE suggest that lack of a track record is not a ground for refusal of a tender. It is extremely difficult to assess whether a tender is a 'loss leader'. We are considering asking for guarantees from the parent company, where there is one, but it is not always possible to identify it.' The concern of Mr. Shaw is that loss-leader bids - tenders at less than cost - will close down in-house teams and send other contract prices soaring. Only time will tell.