

**HERTFORDSHIRE COUNTY COUNCIL**

**CABINET**

**MONDAY 19 MARCH AT 10.00 AM**

**EXECUTIVE COMMITTEE**

**MONDAY 19 MARCH AT 2.15 PM**

**FRAMEWORK FOR THE CONSIDERATION OF CORPORATE PROCUREMENT AND OUTSOURCING**

Report of the Chief Executive

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**1. Purpose of the report**

- 1.1 The first recommendation of the Transport Operations Best Value Review was that a Corporate Outsourcing Strategy should be developed. And that this should then be applied to the whole or parts of transport operations.
- 1.2 During the process of developing an outsourcing strategy it has become clear that the strategy needs to address a wider range of options than whether to outsource services or not. This paper therefore presents the work that has been done on formulating a high level framework for the consideration of all corporate procurement and outsourcing decisions.

**2. Summary**

- 2.1 The Corporate Procurement and Outsourcing Framework, will give us a structured way of making sure that we consider all the important factors when comparing different possible models of service provision. This will ensure that decisions about the way services are provided are based on objective criteria.
- 2.2 The most important factors in any decision will be:
  - Service quality
  - Cost effectiveness
  - Need for investment
  - Management focus and skill
  - Opportunities to enhance services by exposing them to the market
  - Management of the organisation's risks

- 2.3 The framework also includes a range of other factors, including the interests and views of staff, which will shape any proposal.

### **3. Cabinet Proposals**

The Cabinet, on 29 January 2001, proposed:

That the proposed framework for the consideration of corporate procurement and outsourcing be supported and forwarded to the Resources Prosperity and Partnership & Consultation Select Committee for comment.

The comments of the Select Committee will, be reported.

### **4. Financial Implications**

- 4.1 The development of the Strategy has no financial implications in itself, the work is being undertaken through the PACMAN Board. Financial considerations are, of course, a key factor in all procurement decisions.

## **Framework for the Consideration of Corporate Procurement and Outsourcing**

### ***Introduction***

Constant review of service delivery is part of the council's ongoing performance management. One of the elements of that review is to consider how each service can best be provided – whether direct provision; partnership with another organisation or an outside provider will be most effective. The purpose of a Corporate Procurement and Outsourcing Framework is to provide a common basis for decisions:

- Whether or not services currently provided in house should be outsourced,
- Whether existing outsourced contracts should be renewed, refocused or services brought in house
- How services are best packaged and managed internally or for contracting purposes.

### **Policy Framework**

#### ***Should Services be Outsourced?***

In Hertfordshire the decision about whether or not to outsource a service will be considered separately for each case. There is not a dogmatic assumption that in house provision or outsourcing is necessarily the preferred option. Each case will be judged on its individual merits.

**When reviewing services we will consider outsourcing as one option. If or when a sound business case is made which demonstrates that the people of Hertfordshire will be better served by an external provider services will be contracted to the provider best able to meet the council's service objectives.**

Members will need to make a decision on a case by case basis about whether there are some things that they do not wish even to consider for outsourcing.

#### ***Service Review***

Due to the constantly changing nature of the environment in which we work a decision about the best way to provide a service, which is right at one time, can quickly become out of date. We will therefore review outsourcing or other procurement options:

- Whenever a Best Value Review is carried out
- When contracts are due for renewal
- When changes in external factors (e.g. legislation, financing arrangements, market developments) suggest there may be an opportunity for improvement
- Regularly, through the service planning cycle, as part of the council's continuous improvement
- As an alternative to items in the capital programme

## *E-Commerce*

Constant review of procurement decisions is particularly important in the light of rapid developments in e-commerce. Review of the way that developments in e-commerce relate to the particular service under consideration should be an integral part of every service review and may affect an outsourcing decision either way. The market place may be able to offer innovations which the council cannot sustain itself but an outsourcing decision might equally be delayed while technological advances mature. The whole nature of a service might need to be redefined because of technological advances or cultural changes resulting from them so that the specification needs to address a different set of criteria.

## **The Procurement or Outsourcing Decision**

The Decision matrix (attached) can be used to weigh and balance all the factors below. If consideration of the primary factors does not indicate that the option under consideration is viable the shaping factors don't need to be considered. Where the primary factors indicate that an alternative to the current procurement arrangement is desirable the shaping factors will then shape the way the specification is approached. Consideration of the shaping factors may demonstrate that, though desirable, the alternative is impractical

The matrix provides a tool for balancing factors but the decision made will only be as robust as the scores given to each factor. It will be important that each weighting is based on sound evidence.

### *Primary Factors*

The primary factors that will influence the construction of a business case for alternative provision of a service are:

**Economy/Quality** - Where an equivalent service can be provided more cheaply or the with the same or improved quality by an external provider

**Investment** - When new investment in a service is needed and an outside provider may be able to provide the opportunity

**Management Focus** - Where a service can be more effectively managed externally. This may be because recruitment and retention of staff can be improved, because the providers business has a single focus, because of links to related services or for other reasons.

**Opening a Service to Market Opportunities** – Where an in house service can be enabled to market and sell its service

**Transference of Risk** – the extent to which the council's risks can be managed/minimised through outsourcing

## *Shaping Factors*

**Control** – The extent of the need to retain control of a service will influence the decision about whether a service needs to be retained in house, the level of in-house client retained, the level of prescription in a contract and the length of contract.

**Potential Benefit** – the larger the package and longer the term of a contract the greater is the potential financial benefit. This needs to be balanced against the risk of stagnation during a contract term and of closing down market diversity.

**Service Improvement** – In the past Hertfordshire has had a policy of ensuring that services are performing well before outsourcing them. However, outsourcing can be used as part of a programme of improvement.

**Strategic Contracting** – Strategic contracting aims to build a partnership approach whilst maintaining clear parameters based on outcomes. All those involved in any transaction are involved at the earliest opportunity enabling problems to be spotted and ironed out.

**Common Business Processes** – The existence of common business processes will affect a decision about the way that services are packaged and managed together. Advances in e-commerce mean that streamlining processes such as invoicing or adopting a “triage” approach to accessing services may deliver economies and other benefits which council structures do not allow.

**Alternative Models** – The nature of the service being considered may affect the type of contract entered into. The existence of voluntary sector partners may suggest a trust or partnership agreement is the most appropriate in some circumstances for example.

**Maturity of the Market** - Contracting within an immature market can increase the organisation’s risks. If the market is immature it may be appropriate to delay an outsourcing decision or take on a short-term contract and await developments

**Organisational Knowledge** – Outsourcing a service can hold the danger of losing organisational knowledge. Conversely effective sharing of knowledge with a contractor or partner can increase the overall knowledge and skill base available to the council. Knowledge management is an increasingly important part of any organisation’s management capacity and hence an important factor in any outsourcing decisions.

## **How we do it**

### **Involvement and Treatment of Staff**

Staff have a unique insight into the way that services operate and can often identify ways that they can be improved. We will consult with staff and take account of their views both in order to inform procurement decisions and to shape services once decisions have been made. Where a decision to outsource is taken and results in staff being transferred to other organisations we will make every effort to safeguard their interests, including using TUPE (Transfer of Undertakings for the Protection of Employees) legislation where it applies.

## **The Outsourcing Process**

The principles that guide the way outsourcing is done are part of the council's procurement strategy. These include:

- We will use competition to identify suppliers
- Use purchasing power to influence market development
- Maximise purchasing power and harness economies of scale through consortia
- Consider sustainability as an important criterion
- Seek Member approval for larger purchases or where the future of staff is affected
- Departments act corporately
- Management of contracts by appropriately skilled officers
- Active management against clear performance targets
- Requirement for adherence to standards of conduct for employees
- Ensure equal opportunity in dealings with suppliers
- Pay suppliers promptly