



The Economic Case for In-House Options and Bids

UNISON Barnet

UNISON Office,
Building 4, North London Business Park,
Oakleigh Road South,
London, N11 1NP
Telephone: 020 8359 2088
Fax: 020 8368 5985
Email: contactus@barnetunison.org.uk
www.barnetunison.me.uk

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Dexter Whitfield, Director

Adjunct Associate Professor, Australian Institute for Social Research, University of Adelaide

Mobile 0777 6370884

Tel. +353 66 7130225

Email: dexter.whitfield@gmail.com

Web: www.european-services-strategy.org.uk

The **European Services Strategy Unit** is committed to social justice, through the provision of good quality public services by democratically accountable public bodies, implementing best practice management, employment, equal opportunity and sustainable development policies. The Unit continues the work of the Centre for Public Services, which began in 1973.

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Definition of in-house options and bids

An in-house option is a proposal drawn up by management and staff to deliver a service, taking account of future needs, innovation and improvements, corporate policies and resources. It is not a 'status quo' or 'do nothing' option.

An in-house bid is a fully developed, resourced and costed plan for service delivery submitted by the Council's management (with staff participation) in response to an Invitation to Tender, Negotiate or Competitive Dialogue.

The economic case for in-house options and bids is very significant and is summarised in 12 key points.

1. Options appraisal

The purpose of options appraisal is to examine different methods of service delivery, assess the costs and benefits of each option and recommend either retention of the existing service with an improvement plan, or proceed to procurement of an alternative option. The Office for Government Commerce (OGC) recommends that local authorities should *"investigate options ranging from in-house delivery to degrees of partnership with the private sector and with others in the public sector."* (www.ogc.gov.uk/documents/BusinessCaseTemplate-DetailedContent.doc.pdf). No option should be ruled out at this stage.

A thorough and comprehensive approach is required to meet fiduciary duty responsibilities to ensure the Council achieves value for money, to satisfy public interest concerns that the Council is comprehensive, rigorous and fair and as a matter of good practice public management.

Excluding an in-house option at the options appraisal stage invalidates the appraisal process because the Council is deliberately excluding a potentially viable option that could deliver best value for money. Citizen and service user needs, costs, innovative methods of working and organisational development must be fully explored at this stage. Furthermore, a strategic commissioning role should not exclude opportunities to deliver best value, particularly for core services, when this can be obtained by an in-house option and bid.

2. Avoids the cost consequences of inflexible contracts

The Council must retain its ability to respond to changing community needs and economic circumstances. However, there is no such thing as a perfect contract and the Council could be tied into terms and a payment mechanism that may result in costly variation orders, contract amendments, legal and administrative costs and disputes. The initial contract price is only part of the total cost of the service.

3. Outsourcing savings exaggerated

Benchmarking service delivery costs can only provide a rough estimate of costs and should, therefore, only be used selectively. They will not be Barnet costs or prices – but will reflect the service requirements, budget constraints and corporate policies of other local authorities. Contract prices will also reflect the economic circumstances

and market conditions when contracts were awarded. National government financed research studies over the last two decades has shown that outsourcing savings have rarely been achieved with actual savings only a fraction of those claimed (Department of the Environment 1993 and 1996) or negative (Equal Opportunities Commission, 1995).

4. Long-term value for money

An in-house option/bid provides service quality, operational, innovation and financial standards against which other proposals and bids can be assessed. The Council must consider not just initial contract prices, but the full long-term cost in their assessment of costs and benefits.

The Council must also take account of the financial consequences of changes in the membership of the Local Government pension Scheme – a declining membership base could result in the Council having to increase its contribution to maintain the viability of the Scheme.

5. Better coordination and integration of services

The integration and coordination of services is an important part of the One Barnet concept. Deeper and more far-reaching horizontal and vertical integration between functions and services will be possible within and between the Council and other public bodies when services are delivered in-house. A variety of service providers with contracts of different scope, length and complexity will inevitably lead to duplication, operational and contractual vested interests that will make service integration more difficult and require additional management resources.

6. Cost transparency

Council access to accurate current costs of service delivery, management, staffing and so on will be increasingly important in developing One Barnet initiatives. The true cost of in-house services can be more readily assessed than those of private or voluntary providers, who use commercial confidentiality to avoid disclosure. Furthermore, the full costs of contracts are usually obscured by the frequent use of contract variations throughout the length of the contract.

7. More effective contract prices

An in-house bid has a key role in ensuring private firms submit effective and workable bids. Most private firms regard an in-house bid as providing a competitive edge and a benchmark – the Council should not be engaging with firms that dislike genuine competition. The cost of submitting an in-house bid is small compared to the financial and economic benefits gained from a rigorous examination of all options.

8. Reduces risk of a loss leader bid

Although a low or loss leader bid may initially appear to achieve a cost reduction, the contractor will usually claw back initial losses over the length of the contract. Consequently, loss leader bids frequently result in continuing problems in the quality of service delivery and higher contract monitoring costs for the Council. Loss leader bids are rarely in the interest of the Council or service users. A well-prepared in-house bid sets a standard that discourages the submission of loss leader bids.

9. Avoid unnecessary transaction costs

Procurement is a costly process (includes the cost of consultants, legal advice,

preparing contract documents, officer time managing the procurement process). The Office for Government Commerce and the Audit Commission recommend contract management costs for large contracts should be a minimum 2% of the contract price (the proportion increases for smaller contracts) rising to 7% for more complex PPP contracts. Local authorities with large or multi-functional contracts should expect to invest at least 3% of the annual contract value to resource the client side (Audit Commission, 2008). Thus, significant savings can be made when an in-house option is selected at the options appraisal stage.

10. Supporting the local economy and local jobs

In-house options and bids usually have a more substantial impact on local firms and jobs because they purchase a larger share of goods and supplies from local businesses and new start-ups. In contrast, private contractors usually have national and international production and supply chains. Thus local businesses lose out. Changing the provision of council services could have a negative effect on the local economy and implementation of the Council's 'Successful City Suburb' strategy. This impact must be taken into account in the evaluation of proposed changes in service delivery.

11. Support the local labour market

Council employment reduces the likelihood of cuts in staff terms and conditions, which is important for staff, families and the local economy and prevents the emergence of a two-tier workforce. In-house provision significantly reduces the risk of pay cuts and inferior pensions borne by staff if they are transferred to a new employer (ESSU, 2010).

12. More effective and efficient citizen engagement

The success of the Council's 'new engagement with citizens' will, in part, depend on the authority having direct access to service user and community information and local knowledge. It will need to avoid the duplication of community engagement initiatives and processes, a common feature of third party involvement.

Equally important, citizens, service users and community organisations want clarity about roles and responsibilities, reassurance about the security of private information and genuine and meaningful consultation.

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