

**APSE discussion paper**

# **The competitiveness continuum**

**Testing competitiveness by measuring continuous  
improvement**



# 1. Introduction

Local Government service providers are increasingly required to demonstrate that the services they deliver are 'competitive' with alternative delivery mechanisms including the use of external providers or transfer to other bodies (trusts, ALMOs RSLs etc). The Local Government Act 1999 implemented the duty to secure 'best value' by reference to economy, efficiency and effectiveness and to put in place mechanisms for continuous improvement. This was achieved through a review process that statutory guidance dictated should examine the 4Cs of Consult, Challenge, Compare and Compete. The Compete element was variously interpreted to imply a range of things through from CCT style tendering to price benchmarking.

## 2. Background

APSE has played a major part in developing a more consistent approach and recognises that competitiveness cannot be demonstrated through the use of a single measure or mechanism. APSE has been particularly critical of the market testing approach and in particular of so called soft market testing as was confirmed by the then ODPM (now DCLG) Circular 03/2003. This circular gave a duty to local authorities to consult staff and trade unions on Best Value Reviews, and during the Best Value process.

The circular included the Government's definition of best value as, "the optimum combination of whole life costs and benefits to meet the customer's requirements" and indicated that, "contract award should not simply rely on price alone" (source Annex C paragraph 12). The paragraph continues to recommend that most contracts should be awarded on the basis of the economically most advantageous tender as this allows quality to be taken into account.

This is because of the difficulties involved in ensuring that the price comparison involved is a true one which for example fully reflects client side costs when comparing schedules of rates. Even where relatively sophisticated models are used which do factor in the cost of contract monitoring and enforcement, it is still likely that no allowance is made for factors such as the inherent flexibility of in-house provision which can obviate costs associated with contract variation that inevitably come with external provision. Moreover it is highly unlikely that the duty of continuous improvement can be met by a mechanism that only kicks in once every five years or so.

Of equal importance, the circular put on local authorities a duty to consult staff and trade unions on Best Value Reviews, and during the Best Value process. In particular, the guidance is clear that "best value cannot be delivered without a well trained and motivated workforce" and "applies irrespective of whether work is carried out in house or externally" (paragraph 28).

## 3. Competition and the wider market

The problem stems at least in part, from attempts to introduce mechanisms from the private market place into the complex public service provision environment of the public sector. In the private sector price is determined by the balance between supply and demand. Products will come and go as the price that can be obtained for them changes in relation to the level of demand and the ability of suppliers to make sufficient profit to make it worth their while. A critical element in the operation of a market is the existence of choice and in particular the ability of purchasers to choose not to buy at all if the price rises beyond what they are willing or able to pay. This critical element is of course missing from the public service market where social policy

imperatives ensure that purchasers, at least in so far as 'core services' are concerned are essentially unable to make that ultimate market choice.

Competition, along with the profit imperative, throws up clear incentives to minimise the cost of producing goods and services. In theory, this should happen as a matter of course as those that fail to minimise their costs go out of business and are replaced by more efficient competitors. In practice, the competition process is often distorted by the development of oligopolies, with high barriers to entry undermining the impact of competition in terms of long term price competitiveness. Where private sector providers have been brought in to the provision of public services this distortion has happened quickly, with only a handful of providers typically competing for contracts. There are multiple reasons for this but the significant point in so far as this paper is concerned is that competition in the public service environment is unlikely to exert downward pressure on costs to the public sector, without a concomitant reduction in the quality of services provided. This of course is not best value, since best value requires a balance to be struck between economy, efficiency and effectiveness and requires continual improvement in relation to each. It also means that so called market rates are generally inadequate comparators when it comes to assessing the competitiveness of in-house provider costs as only truly competitive markets will ensure that these are minimised.

## **4. Contestability**

The Government has attempted to address this issue from time to time through interventions designed to stimulate the development of competition and has exhorted Councils to become involved in 'market making'. The focus is on attempting to create 'contestability' in markets for local government services.

The concept of contestability refers to the ease with which firms are able to enter or leave a given market in terms of barriers to entry and exit. Barriers to entry can include a need for capital investment but also costs of tendering and administrative obstacles such as the need to be able to point to a significant trading history. Given the legal framework of the European Public Procurement Regulations and at least for some services such as refuse collection, the need for a high level of initial investment, barriers to entry to UK public services markets are high and unlikely to fall significantly. For many services barriers to exit (sunk costs) are also high ensuring that market contestability remains low.

In any event contestable markets tend to encourage short term approaches with firms entering markets with ease, maximising short term profits and leaving with little penalty. Many would see this as undesirable for public service provision and prefer longer term, more stable arrangements. This has been apparent in the move away from the shorter term contracts that characterised the years of CCT, to much longer term relationships with substantial barriers to entry, in the form of bidding costs and even more substantial barriers to exit, in the form of sunk costs. This level of commitment clearly delivers long term stability but inevitably means that competition is severely depressed. The end result is that the overriding benefit of competition i.e. cost minimisation, which was in any event only partially realised by CCT, has been sacrificed for the apparently more desirable aim of stability. It is highly debatable whether this can be said to be delivering best value and in the long run is likely to leave public service providers dependent upon a small number of firms with excessive market power. In such circumstances it is difficult to see costs moving in any other direction than upward.

## **5. The link between contestability and competition**

The link between contestability and competition is not as significant to internal providers as the link between contestability and the expected behaviour of incumbent providers in contestable markets. This suggests that firms will tend to set their short term costs at a level that is below the short term profit margin with a view to making a return over the longer term. In this way new providers will be deterred from entering the market and the threat from competition will be averted or at least minimised. It is arguable that this is what happened under CCT and serves to explain why it was that the numbers of players in the market declined over the years that the policy was in place. It should be borne in mind that barriers to entry have never been particularly low, so the extent to which in-house services had to reduce costs levels would have been limited to the extent that their market position was otherwise protected by the costs to others of coming into and leaving the market place.

If this is correct then it suggests that competition can never be relied upon to deliver value for money in core public service markets. In fact, it would be better to use administrative measures to ensure that internal providers behave as if there was a contestable market, rather than to try and create one in an environment where at least long term profit levels will always be protected by barriers to entry and exit.

This is not to say that competition should not be a weapon in the procurement armoury of local government. Where in-house provision is unable to deliver either value for money or quality service provision it may be entirely appropriate to 'buy in' a service from an alternative provider (local government has always spent a significant proportion of its budgets in the private sector). In these cases competition should always be used to select a contractor or supplier and in some cases it might also be beneficial to have an in-house bid if this will aid the competition process.

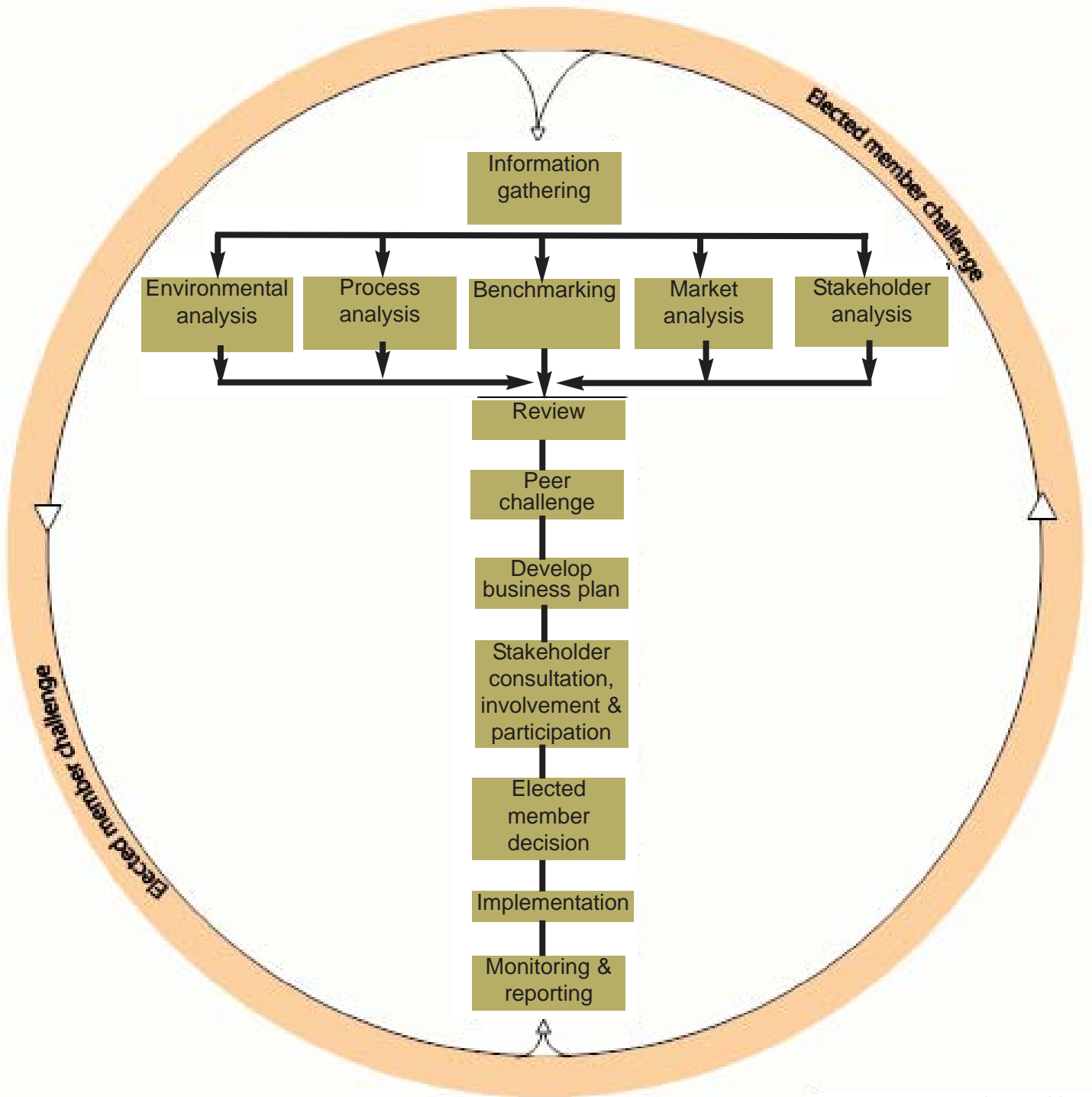
## **6. The APSE improvement model - A Competitiveness Continuum**

APSE has spent the last eight years developing its views and approach to this key issue. APSE has always presented a compelling argument in favour of the direct provision of core services. This has largely been framed in terms of service quality, accountability and flexibility but has also focused on competitiveness. Now and notwithstanding the highly successful track record of internal providers through the years of CCT, there is a need to move on from crude market rate comparators. For the reasons referred to above, neither soft nor hard market testing, is likely to provide a sustainable basis for improved value for money and does not contribute to the development of a workable model for the public sector.

APSE has now reached a point where it is able to identify measures that can be used as the basis for a performance management and assessment framework that can provide Councils with the information they need to form meaningful judgements, about both the quality and cost of the services they provide. None of these measures are entirely new and build on well established business planning techniques, addressing themselves to basic questions of what we are trying to achieve, how we are trying to do it and how we will judge whether we are successful or not.

The processes that are used as the basis for the comprehensive service improvement model can be summarised in competitiveness continuum diagram shown overleaf.

# The APSE improvement model - A competitiveness continuum



Source: O'Brien, Marsh & Mudd 2007

Essentially the continuum relies upon the robust collection and gathering of appropriate information, coupled with the establishment of robust mechanisms for the use of that information in decision making and service development. The principles within the continuum apply irrespective of whether the service is provided externally or in-house.

The process is intended to be carried out as a continuous review as can be seen from the diagram. The continuum concentrates on continuous improvement but does not preclude other decisions that may be necessary. For example the results of the elected member decision could refer the review back up the continuum for further work or decide that a procurement exercise is required.

It is considered optimum to work on the basis of three years worth of data in assessing past performance and the business planning cycle should also be on the basis of a three year forward period. The inputs to the process are:

### **Stage 1 - Information gathering**

#### **Stage 2 - External focus**

- ◆ Business Process efficiency analysis
- ◆ Benchmarking
- ◆ Market analysis
- ◆ Stakeholder analysis, perceptions and satisfaction
- ◆ Environmental analysis

#### **Stage 3 - Review and challenge**

- ◆ Peer review and challenge
- ◆ Elected Member challenge

#### **Stage 4 - Implementation and monitoring**

These issues were discussed in some detail at the APSE policy development workshop on 23 May2007. The comments raised by the delegates have been fed into the following paragraphs.

## **6.1 Information gathering**

This will include analysis of the service from an internal viewpoint. It should include a review of current business and service plans, key performance indicators and take full consideration of the views and perspectives of employees.

## **6.2 External focus**

### **6.2.1 Benchmarking against provision in other authorities**

APSE performance networks is the UK's largest multi-service benchmarking group and holds eight years of performance data. Benchmarking can be carried out at a number of different levels including with 'family group' authorities. The mechanism is particularly useful for identifying inefficiencies flowing from system failures such as poor productivity or absence management but should also be used as a means of identifying appropriate partners for what APSE has termed process benchmarking. Process benchmarking is a powerful improvement tool whereby it is possible to examine differences in the way that activities are carried out, with a view to quickly disseminating best practice and process improvements.



Key issues for Benchmarking:

- ◆ Ensuring that valid comparisons are made based on robust data collection;
- ◆ Essential that data benchmarking does not become all important at the expense of process benchmarking;
- ◆ Making sure a full range of cost, quality and perception information are benchmarked so there is not an over importance on single data sets;
- ◆ Benchmarking "club" needs to be of sufficient size.

### **6.2.2 Business process efficiency**

Through the use of brown paper mapping techniques it is possible to map and graphically display business processes. This helps to identify redundant procedures, duplication and unnecessary transactional relationships. Tackling these inefficiencies is probably the most significant contributor to improved service delivery and efficient use of resources.

Business processes can also be analysed and tested through peer review. Data benchmarking will provide an indication of where a service is performing less well than might be expected indicating those areas that are likely to benefit from closer scrutiny through process and cost analysis.

Key issues Business process efficiency:

- ◆ Process mapping should not be done in isolation and needs to be viewed corporately;
- ◆ Important to establish a baseline to identify value of processes, savings and where hard decisions may be required;
- ◆ Business process mapping should be carried out at a stage where future policy outcomes and priorities are clear to understand where to add value;
- ◆ Ensure that a robust methodology is in place
- ◆ Involve employees through groupings such quality circles to drive continuous improvement

### **6.2.3 Market and cost analysis**

Although soft market testing as a stand alone exercise is not considered particularly useful it is important to gain and utilise knowledge of wider industry costs. This information can be used to ensure that material and other costs are maintained at industry standard levels. Knowledge of the wider market is essential in establishing whether or not there are potentially viable external alternatives to in-house service provision.

Key Issues for Market Analysis

- ◆ Need to have effective and independent monitoring of both public and private sector markets;
- ◆ Need to be able to demonstrate this is not just about avoiding competition;
- ◆ Need to understand the analysis so can justify the occasions when and why costs may be high
- ◆ Establish methods to assess information received from market analysis strategically and not purely on lowest cost;
- ◆ Need to use as appropriate to test value for money, not a stand alone mechanism;
- ◆ Whole costs should be taken into account e.g. procurement, tendering, monitoring, ease of entry into market;
- ◆ Market intelligence should be comprehensive;

- ◆ Involve front line staff for their expertise
- ◆ Measure outcomes to determine achievement

#### **6.2.4 End user perceptions and satisfaction**

Although Performance Indicators provide a picture of how well a service is performing the ultimate test of effectiveness is how services are perceived by those who receive them. For some services these may be internal 'customers' but in many cases services are provided directly to the public. A variety of tools to assess levels of satisfaction are available including large scale surveys, focus groups and standing panels of citizens. In some cases results are capable of being benchmarked and can be used to identify areas for improvement and prioritisation.

Key Issues for measuring and assessment

- ◆ Setting a level where customer satisfaction is acceptable;
- ◆ Comparing what is being offered against what is being delivered;
- ◆ Consulting customers on what they want and expect and feeding this into service design and priorities;
- ◆ Building in adequate feedback loops;
- ◆ Choosing how and who to engage with;
- ◆ Getting across an understanding of service and limitations
- ◆ Making sure valid measurement system is chosen.

### **6.3 Review and challenge**

#### **6.3.1 Peer review and challenge**

Most local authority services are provided to similar groups of users in similar ways across many different authorities. This means that outcomes and processes are particularly suited to benchmarking but it also means that there is a wide range of knowledge and expertise that can be harnessed in a variety of different ways. One effective way of doing this is to open up services to peer scrutiny.

The use of external expertise can bring credibility and rigour to a review in terms of seeking validations of explanations and judgements. By establishing reciprocal arrangements for peer review and challenge, service providers can ensure that best practice is disseminated and collective learning is maximised.

The peer review should cover the planned timetable for implementation; an appreciation of the required standards and targets; an assessment of responsibility and an indication of how improvements will be evaluated.

Key Issues for peer review:

- ◆ Ensuring that peers to the process have the correct level of knowledge and are of an appropriate level and background;
- ◆ Achieving a balance with the peer as a critical friend;
- ◆ Building the peer review into the improvement review;
- ◆ Ensuring the peer review is not just about best practice but also a reality check.

#### **6.3.2 Elected Member challenge**

Elected members are uniquely placed to drive forward improvement and are the key to linking service performance with the delivery of strategic social policy objectives. In England and Wales the Local Government and Public involvement in Health Bill contains numerous provisions that strengthen the overview and scrutiny role of



councillors and extends the remit beyond the local authority. However, models of how best to achieve greater scrutiny of local public services are under-developed.

APSE believes that to achieve better elected member involvement in overview and scrutiny Councillors need to be provided with appropriate and accurate information along with a framework for their effective involvement. APSE has been working with one authority to develop this aspect of measuring and driving contestability and has developed an approach to assessing performance based on the building blocks shown as Appendix 1 at the end of the report. These blocks, along with an accompanying checklist of indicator questions, are designed to help members gauge on a scale of 1 to 10 how effectively services are tackling the need to demonstrate and deliver contestability.

Key Issues for elected member challenge:

- ◆ Need to build on the trust of elected members by the government in the role they play in this agenda;
- ◆ Ensuring that elected members receive open, honest and challenging information;
- ◆ A key role is judging compatibility of the market
- ◆ Elected member need to focus their role to on "what" not "how" can lead to less strategic and sustainable improvement

## **7. Effective business planning**

The results from this continuous improvement cycle should be reflected in effective business/service planning. All services must have a business plan which provides a clear sense of direction. At its simplest the business plan will:

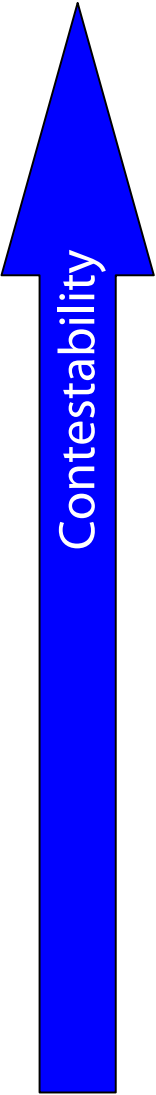
- ◆ Set objectives for the business which clearly show where it expects to be over a 3 year planning period and which are demonstrably linked to the Corporate priorities and objectives of the Council.
- ◆ Establish targets against these objectives which are specific, measurable, achievable, realistic and time bound (SMART). Longer term targets should be accompanied by milestones by which progress against them can be judged.
- ◆ Provide information about how the targets are to be achieved in relation to the resources required.
- ◆ Provide information about business processes including marketing and communication as appropriate.
- ◆ As with any business plan there should be clear evidence of a thorough understanding of the operating environment and the internal and external forces operating upon it.

## **8. Summary**

This paper describes a "competitiveness continuum" that is designed to measure and demonstrate continuous improvement. It can be used as an alternative to moving directly to a procurement process, however, if the current provider cannot demonstrate continuous improvement is being achieved it may be that a procurement exercise is necessary. Moving to a procurement exercise should not be seen as a means to achieve continuous improvement on its own. Additionally, the "competitiveness continuum" is designed to be used to demonstrate continuous improvement irrespective of who is the service provider. It may also be that at the decision making stage an authority may choose to move to an option appraisal or refer the business plan back for reworking and amendments.

The continuum identifies measures that local authorities can use as the basis to make meaningful judgements about the quality and costs of services. It is adaptable to different services and uses established measures built on proven business techniques that will enable authorities to make confident decisions regarding whether services are making the necessary improvements.

## Appendix 1

Performance Block	Direction of Travel	Detail of Performance Block/Evidence	
Service achieves synergy with other services and external partners		Outward looking with all other blocks in place	10
All data drives business improvement through robust service improvement planning		Culture of continual improvement in terms of economy, efficiency and effectiveness	9
Customer satisfaction/perception data gathered		Effective mechanisms in place to establish customer/end user satisfaction and perception	8
Business process analysis undertaken		Clear description of processes with inefficiencies identified	7
Benchmark data used as basis for comparing processes		Detailed understanding of why others perform better/worse	6
Performance indicators benchmarked		Nationally recognised benchmarking arrangement Ad hoc benchmarking with neighbouring or small number of authorities	5
Public reporting of results against targets		Reporting to public through elected members Reporting at officer level	4
SMART Targets in place		Balanced performance./cost targets Performance or cost targets	3
Performance indicators developed		Local PIs relating to local priorities National PIs	2
Performance data collected		Low	Data on service costs Data on service performance



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INVESTOR IN PEOPLE

**Association for Public Service Excellence**

2nd Floor, Washbrook House,  
Lancastrian Office Centre, Talbot Road,  
Old Trafford, Manchester, M32 0FP

**Tel:** 0161 772 1810 **Fax:** 0161 772 1811

**Email:** [enquiries@apse.org.uk](mailto:enquiries@apse.org.uk) **Web:** [www.apse.org.uk](http://www.apse.org.uk)