Realising the Benefits of Competition
The Client Rôle for Contracted Services
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Preface

Previous reports of the Audit Commission have examined the effects of compulsory competitive tendering (CCT) on local authorities' Direct Labour or Direct Service Organisations (DLOs and DSOs). Following the CCT legislation of the 1980s, auditors necessarily became involved in the trading accounts of internal contractors to ensure that the correct rate of return had been stated. The Commission has also commented on the client-contractor relationship in a number of studies of specific activities - for example, leisure management and ground maintenance. The present report builds on the Commission's earlier work, focusing on the rôle of the client in the client-contractor relationship for those services currently subject to CCT, although the general conclusions apply equally to work voluntarily put out to contract. Lessons learned from local government about the development of contracting skills can also be usefully applied in the National Health Service. The Commission will share this evaluation with the health sector.

Fieldwork for the study was carried out in authorities of different types, sizes and geographical locations in England and Wales — three London boroughs, four metropolitan districts, three counties and three shire districts, as well as shorter visits to a number of other authorities. In addition, a sample of forty authorities provided information via a questionnaire on client-side organisation and resources, and contract size. The Commission is grateful to all these authorities. Other data sources include the published reports by the Local Government Management Board (LGMB) in its six-monthly surveys of contracting experience, and a similar survey carried out by the Institute of Public Finance (IPF). The Commission acknowledges the use of this material.

Bodies such as the CBI, the Cleaning and Support Services Association (CSSA) - the trade association for private sector cleaning companies - and a number of large UK companies were consulted. The aim was to capture the experience of private contractors in dealing with local government, and to make direct comparisons with private sector organisations contracting out their own work. The Commission also benefited from guidance provided by an advisory group of senior local government officers. This group embraced a wide range of expertise, from chief executives to technical officers, on both the client and contractor sides. The Commission is grateful for their help, but the conclusions reached by the Commission are its own views, not necessarily those of its advisers.

The Commission's study team consisted of Greg Birdseye, Geoffrey Delamere and Janet Paske, under the direction of Doug Edmonds. Professor Kieron Walsh, from the Institute of Local Government Studies at the University of Birmingham, also provided valuable assistance.

The issues covered in this report will be considered by local auditors at individual authorities in 1993.
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By the end of 1992 almost £2 billion of work covered by the Local Government Act 1988 was subject to contract. The value of this contracted work for activities such as refuse collection, street cleansing, school catering and ground maintenance had risen from less than £100m in the late 1980s. The large bulk of the work (around 85 per cent) has been won by local authorities’ own Direct Service Organisations (DSOs). While market penetration by private contractors is rising slowly, DSOs are still winning the majority of contracts.

In order to cope with the 1988 Act, local authorities had to move a long way, very quickly. It is to local government's credit that, with few exceptions, the statutory timetable has been adhered to, even though there was no contract culture in many authorities for these activities, and there was often little interest from private contractors. Local government has adjusted to the need for a 'client-contractor split' with varying degrees of application. The client has the rôle of service planning, defining the work to be delivered by the contractor, and letting and managing the contract. Thus the traditional service provider such as an education department became the client, and the contractor — either internal or external — delivered services as defined by the client.

Many authorities have readily taken to this rôle and continue to provide good quality services. Others have been less successful for a number of reasons:

— poorly defined and, in some cases, over-defined specifications;
— unenforceable contract conditions;
— inadequate tender evaluation procedures;
— inefficient contract monitoring;
— bureaucratic contract administration.

Many of these shortcomings stem from one single cause - the failure adequately to involve the consumers of the service in the contract process. In a well-managed authority the general public, the headteacher on behalf of the school, its students and their parents, the housing tenant and other consumers of the services delivered by the contractor play an important part in the specification and monitoring of a contract.

Local government is changing in response to new government legislation and outside pressures. Changes in the education service, CCT for housing management, the purchaser-provider split in social services and, not least, local government reorganisation, will complicate further the letting and managing of contracts.

Lessons must be learnt as the first round of 1988 Act contracts come up for renewal, many in the next year or two. Specifications should be designed around the identified needs of the consumer and not simply a codification of the service historically provided. The specification should, as far as possible, be defined in terms of outputs, reflecting consumer requirements.
Contract conditions and contract letting procedures must be clearly defined and followed scrupulously and fairly. Contract monitoring and administration must be efficient and effective.

Some local authorities need to move on from the practice of rigidly applied contract conditions and limited communication between client and contractor. Exacting defaults from the contractor simply to cover the cost of the monitoring activity or to drive the contract to a termination is no more in the interest of the consumer than corner-cutting by the contractor. It is in the interests of both sides to provide quality services to the consumer: the contractor to deliver them and the client to enable that delivery.

Authorities have a short breathing space between completing the first round of contracts for the 1988 Act defined activities and renewing these contracts in an era of change. They should use that time to examine how service delivery can be improved in order to provide a quality outcome for the public.

However, authorities will be letting second round contracts in the face of further uncertainty — whether, in each case, the award of a contract constitutes a 'transfer of undertakings'. This may affect the enthusiasm of private contractors to bid for local authority work. Nevertheless, the Audit Commission's good practice still applies for any work subject to contract, whether compulsorily or voluntarily, and carried out by an internal or external contractor.
Introduction

1. In most councils, contracting with third parties is not new. Councils have often used external contractors rather than the internal workforce: for example, to meet specialist needs, to augment internal resources in times of peaks in workload, and where better value for money can be obtained. But generally this was the exception. Councils delivered most services internally and managed people rather than contracts. However, progressively through the 1980s the government obliged authorities to test local services in the market place. The process began with the Local Government, Planning and Land Act 1980, which required authorities to put highways and buildings construction and maintenance work out to tender.

2. The legislation created two quite distinct rôles: the client for the work, usually the department which previously had the direct responsibility for doing the work, and the contractor, which may previously have been part of that same department, but could equally well be an external company. In some authorities, the 1980 legislation necessitated the setting up of contracting arrangements from scratch, but most were able to draw upon a long history of experience — defining the work to be carried out, finding appropriate contractors and making sure that work was carried out as required. This was the least difficult area to start contracting. The product is usually visible and readily defined. There are alternative suppliers in the private sector, with experience in working to such contracts. In a number of reports the Commission has provided guidance on contracting for these activities (Refs. 1, 2, 3).

3. The Local Government Act 1988 extended compulsory competitive tendering (CCT) to more activities (Box A, overleaf), taking effect from August 1, 1989. This legislation broke new ground. For some of these activities, local authorities had little experience of working with contractors. Unlike the 1980 Act, the council had to specify services rather than visible products. There were few, if any, private companies with the experience or the capacity to undertake some types of work. For example, long-term contracts for large scale household refuse collection had few precedents in the UK. Even for activities such as building cleaning and catering, where a private sector market had existed for many years, the specialized requirements of local government were beyond the experience of many companies.

4. The introduction of CCT for these activities changed the culture of most local authorities. The previous way of defining and managing work may have been flexible but only because specifications for the work were often vaguely worded, if set out at all. Changes could be made easily, since management and the workforce were usually in the same department. Standards were set by local supervisory and bonus schemes and through contact between the workforce and the consumers of the service, e.g. school headteachers. A degree of give and take was possible, if not always evident, when disagreements arose.
5. This situation was unsatisfactory in many respects. Consumers were often dissatisfied with the service provided. Specifications, where they existed, were not always followed. Decisions on the amount and quality of service were taken in the education or social services department, rather than at the point of service delivery, such as the school or elderly persons' home. Headteachers had little say in the cleaning standards in schools. It was difficult for consumers to obtain redress if the service was inadequate, and there was confusion about the roles of the different parties involved. All this changed, or should have changed, with the new legislation and its associated regulations.

6. But despite its potential benefits, the introduction of CCT has been controversial. It has been argued that, while CCT has often produced a reduction in the cost of providing local authority services, these savings have been partly offset by disbenefits to the national economy such as higher unemployment and more families on income support and housing benefit. Others
have argued that, while unfortunate, these are short term problems which will he overcome by a long term restructuring of the economy. The argument as to whether CCT has been beneficial will continue to divide local government, often on political lines. Whatever the merits of the arguments, this debate is outside the scope of the Commission’s report. The Commission’s purpose is to identify best practice in the implementation of CCT so that councils secure quality and value for money in their contracted services.

7. To avoid saturating the market with local government work, the government adopted a phased approach to the implementation of the Act. Because of resistance to CCT, legislation was tightly defined to ensure genuine and fair competition. For example, regulations define the process authorities must follow in letting a contract: there are eight stages, divided between client and contractor (Exhibit 1). Time limits are specified for some stages; for example, to allow potential tenderers time to prepare their bids, but also to prevent authorities from introducing unnecessary delays. There are also regulations covering such matters as the number of tenderers to be included on a shortlist, and de minimis levels below which authorities are exempt from CCT. The Appendix summarises the main requirements of the legislation.

Exhibit 1
THE PROCESS FOR LETTING A CONTRACT
There are eight stages in the process, divided between client and contractor

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1 Draft regulations and guidance under the Local Government Act 1992 have been circulated. These affect aspects of the tendering process (such as the timing of stages in the tendering exercise and responsibility for the tender evaluation), and the treatment of assets.
8. The tight timetable laid down by the legislation caused significant problems for many authorities. They lacked experience in the contracting process. They frequently had to split departments into client and contractor. The necessary contract documentation had to be created where none had existed previously.

9. Nevertheless, the timetable set out by the regulations under the 1988 Act led to a substantial growth in the value of work under contract (Exhibit 2). By the end of 1992 almost all of the activities covered by the 1988 Act had been put out to contract. Only the final tranche of ground maintenance, and some leisure management contracts in Wales, still remained. The total of work under contract was approaching £2 billion, having grown from less than £100m before August 1989. Almost half of this total is composed of just two of the defined activities - refuse collection and catering (education and welfare) (Exhibit 3).

Exhibit 2
GROWTH IN WORK UNDER CONTRACT (1988 ACT)
There has been substantial growth in the value of work under contract

Note: These figures represent the value of work at the time contracts were let, not adjusted for inflation or subsequent changes to the specification

Source: LGMB

Exhibit 3
VALUE OF WORK UNDER CONTRACT (1988 ACT) (at August 1, 1992)
Two of the defined activities account for almost half of the total value of the work

Source: LGMB (Survey 6)
10. CCT is thus an established fact of life in local government. But, over the last four years, authorities have understandably paid greater attention to meeting the requirements of the legislation and the competitiveness of their internal contractor organisations, rather than to their rôle as client to the contract. Client functions have received less attention because they are less prescribed by the legislation.

11. It is now necessary to focus attention on the client rôle. Within the next two years a large number of 'first round' contracts will come to an end, and authorities will relet the work. Contract renewal provides an opportunity to redefine the rôle of the authority as client.

12. The next chapter describes experience so far and analyses the difficulties which have arisen in implementing the legislation. Chapter 2 discusses the many external changes now facing local government, which will add to the difficulties of operating in a contractual environment. The third chapter proposes ways of overcoming common problems. This is considered in two parts - firstly, how authorities should carry out the work preparatory to letting contracts, and secondly, how contracts should be managed. A final chapter of the report summarises the Commission's good practice recommendations.
1. What has Happened as a Result of the 1988 Act?

13. It was anticipated that CCT would realise significant financial savings for councils, would generate a mixed market of both public and private suppliers and would improve the quality of services through more precise definition of the work to be carried out. But in practice, the experience of CCT has been variable.

THE EXPERIENCE OF CCT

SAVINGS

14. A study (Ref. 4) for the Department of the Environment (DOE) by the Institute of Local Government Studies (INLOGOV) has reviewed the initial experiences of CCT. While observing that 'the financial effects of competition are not easy to assess, because changes in service standards and accounting methods make straightforward before-and-after comparison difficult' there is evidence of 'significant increases in productivity'. The report shows an overall reduction in the cost of contracted work of around seven per cent, after taking into account any increase in client-side costs. There are significant variations about this figure (Table 1), and some contract costs were higher than before CCT.

<table>
<thead>
<tr>
<th>Activity</th>
<th>Average saving (-)% or cost increase (+)%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Refuse collection</td>
<td>-12.4</td>
</tr>
<tr>
<td>Other cleaning</td>
<td>+2.2</td>
</tr>
<tr>
<td>Building cleaning</td>
<td>-20.6</td>
</tr>
<tr>
<td>Other catering</td>
<td>5.1</td>
</tr>
<tr>
<td>Catering (education and welfare)</td>
<td>+1.5</td>
</tr>
<tr>
<td>Vehicle maintenance</td>
<td>+1.8</td>
</tr>
<tr>
<td>Ground maintenance</td>
<td>-10.2</td>
</tr>
<tr>
<td>Overall</td>
<td>-7.0</td>
</tr>
</tbody>
</table>

Source: DOE/INLOGOV

15. Higher prices after CCT may be the result of authorities defining a higher service level than was provided previously, or because of higher client-side costs. CCT also made explicit the true cost of service provision. Additionally, describing service levels in an enforceable contract may encourage a quality of provision that was not realised in pre-CCT days. But the number of DSOs which are struggling to maintain their return on capital indicates that pricing was often very competitive. And for some activities, particularly building cleaning, there have been significant reductions in costs. It has been suggested that the second generation of contracts may see prices revert to pre-CCT levels. Others have argued that prices will be tighter now that the
private sector has established itself and learned from the first round. This is speculation, but the situation merits careful monitoring as contracts come up for renewal. As part of local value for money audits, the Commission's auditors will monitor the experience of authorities as the first round of CCT contracts are replaced. Auditors will collect a small number of indicators to compare before-and-after costs of contracted services. In addition, the national Performance Indicators determined by the Audit Commission as part of the Citizen's Charter will provide information such as the net cost per household of refuse collection.

INTERNAL OR EXTERNAL CONTRACTORS

16. There is no evidence that savings in the first round depended on whether the contractor was external or an authority's own DSO. The cumulative proportion of work won under the 1988 Act by DSOs has stayed roughly constant at around 85 per cent of total value over the last three years. For individual activities the proportion is much more varied (Table 2). Almost all of catering (education and welfare) work has stayed in-house, whereas a quarter of refuse collection work has been won externally. DSO success may indicate good value for money, but can also be a result of little private sector interest in the contract. In terms of the number of contracts as opposed to the value of the work, private sector market penetration has been greater. Building cleaning and ground maintenance, particularly, tend to be smaller-scale contracts and therefore more likely to be within the scope of smaller private sector companies. For these two activities DSOs have won only 54 per cent and 67 per cent of the number of contracts respectively.

Table 2
WORK UNDER CONTRACT - 1988 ACT (as at August 1, 1992)

<table>
<thead>
<tr>
<th>Activity</th>
<th>% of total contract value won</th>
<th>% of number of contracts won</th>
</tr>
</thead>
<tbody>
<tr>
<td>Building cleaning</td>
<td>83</td>
<td>54</td>
</tr>
<tr>
<td>Refuse collection*</td>
<td>75</td>
<td>72</td>
</tr>
<tr>
<td>Other cleaning</td>
<td>81</td>
<td>71</td>
</tr>
<tr>
<td>Vehicle maintenance</td>
<td>89</td>
<td>79</td>
</tr>
<tr>
<td>Catering (education and welfare)</td>
<td>97</td>
<td>92</td>
</tr>
<tr>
<td>Other catering</td>
<td>82</td>
<td>76</td>
</tr>
<tr>
<td>Ground maintenance</td>
<td>82</td>
<td>67</td>
</tr>
<tr>
<td>Sport and leisure management</td>
<td>84</td>
<td>82</td>
</tr>
<tr>
<td>Overall</td>
<td>84</td>
<td>69</td>
</tr>
</tbody>
</table>

* includes some contracts combined with 'Other cleaning'

Source: LGMB (Survey 6)

SERVICE QUALITY

17. Before the advent of CCT, service quality was not always explicit and often there were gaps between intended and actual levels of service. With CCT, specifications provide an opportunity for members to clarify the intended quality and to monitor its achievement. Consumers too can judge contract performance. Although some contracts rely on very detailed technical specifications of resources and methods, which make it difficult for both members and consumers to interpret the contract's intentions, well-defined contracts have succeeded in clarifying expectations about quality and ensuring its consistent delivery.
18. While competition between DSOs and private firms is important, it is a secondary issue. The central obligation upon local authorities is to provide a cost-effective, quality service to the public, regardless of the status of the supply organisation. The client rôle is no different whether the work is carried out by an external contractor or an authority's own DSO. Both client and contractor have distinct responsibilities. The client function is to prepare and manage the contract and the contractor to carry out the work. The legislation has encouraged an organisational split between the two parties to the contract (Exhibit 4). Nevertheless, there is still a need for good communication between them.

Exhibit 4
THE 'CLIENT - CONTRACTOR SPLIT'
The legislation has encouraged an organisational split

19. Organisational arrangements on the client side of authorities vary depending on the activity (Exhibit 5, overleaf)- Leisure management, refuse collection and other cleaning tend to have a single department as client, since other departments are not usually involved in the service. Building cleaning, vehicle maintenance and ground maintenance rarely have single clients, since they are required by most departments. The management of these activities on the client side is sometimes carried out by a central client unit, perhaps under the chief executive, or, particularly for ground maintenance, by one department taking a lead rôle on behalf of other departments. Education departments often take the lead in unitary authorities, since education property is likely to have the largest proportion of grassed areas. In these circumstances the education department acts as a 'client-agent' for other departments - for the housing department (estate open space and gardens), for the highways department (roadside verges) and for the parks department.

COST OF THE CLIENT SIDE
20. Some authorities have difficulty in identifying the precise costs of their client-side activities. Client costs estimated by the Commission's survey, as a percentage of the total annual expenditure on the service, vary according to the activity (Table 3, overleaf)- Average costs range from 1.4 per cent for education and welfare catering to 12.5 per cent for vehicle maintenance. The variation reflects the nature of the activity and the required degree of technical knowledge to define and monitor service delivery. Leisure management and catering - the activities with
the lowest average client costs - are delivered directly to consumers, who might be expected to complain immediately if the service is inadequate. The need for an employed client function is thus lower. In contrast, it could be argued that vehicle maintenance contracts require a greater degree of specialist expertise to specify and evaluate the work that has been done.

Table 3
COST OF THE CLIENT SIDE

<table>
<thead>
<tr>
<th>Activity</th>
<th>Total cost as % of total annual expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Average</td>
</tr>
<tr>
<td>Catering (education and welfare)</td>
<td>1.4</td>
</tr>
<tr>
<td>Leisure management</td>
<td>1.5</td>
</tr>
<tr>
<td>Other catering</td>
<td>1.8</td>
</tr>
<tr>
<td>Refuse collection</td>
<td>3.8</td>
</tr>
<tr>
<td>Building cleaning</td>
<td>4.4</td>
</tr>
<tr>
<td>Other cleaning</td>
<td>5.6</td>
</tr>
<tr>
<td>Ground maintenance</td>
<td>5.7</td>
</tr>
<tr>
<td>Vehicle maintenance</td>
<td>12.5</td>
</tr>
</tbody>
</table>

Note: 1. Total annual expenditure is defined as the sum of: client payments to the contractor, income retained by the contractor (e.g. entry fees at leisure centres), work not yet out to contract, and work exempt and de minimis.

2. A quartile is the dividing point between the lowest (or highest) quarter of values and the rest.

Source: Audit Commission survey
21. But these average figures conceal a lack of understanding of the client rôle, and client inefficiency in some councils. While contracts are running smoothly in many authorities, the implementation of the first round of 1988 Act contracts has been fraught with problems.

THE PROBLEMS

22. Problems are apparent in three general areas:

— dissatisfaction felt by some recipients of contracted services;
— difficulties in the way CCT legislation is being applied;
— evidence that the potential benefits of CCT have not been fully realised.

Each of these problems has a number of causes (Exhibit 6).
DISSATISFACTION

23. A survey of 150 schools, carried out by the Commission's auditors in a sample of authorities, revealed significant dissatisfaction with the provision of services such as cleaning, ground maintenance and catering. In answer to the question: 'how well do you feel the present contract meets your needs? ', nearly a third of respondents answered 'badly' or 'not very well'. Another survey (Ref. 6), on the impact of Local Management of Schools (LMS) reported headteachers' views on the quality of site management services. Over a quarter judged such services to be 'poor' or 'Very poor'. This evidence reinforces conclusions drawn from the study team's fieldwork. Interviews with headteachers and officers in education departments revealed that schools' expectations of the contract were not always delivered. The complaints take several different forms:

— the service specification, i.e. the definition of the work to be carried out, does not reflect the headteacher's wishes: for example, school sports pitches are not mown often enough;
— the specification may be right, but the service is not actually being delivered: waste paper bins not emptied or corridors not properly swept and polished;
— the dissatisfaction is compounded by an inability to get the problem put right: telephone calls are not answered, promised revisits do not take place, replacement staff are not properly trained.

24. These complaints are not confined to schools: similar statements of dissatisfaction were made to the study team by officers in other departments. In one authority, the social services department was concerned about standards of cleanliness at elderly persons' homes. The specification was at fault. Neither the building cleaning contract nor the ground maintenance contract included the removal of litter from outside reception areas, a task previously carried out by the directly employed cleaners in each home.

25. Some of these difficulties may be exaggerated, perhaps because service recipients have an inaccurate memory of service before OCT. Some difficulties may always have been there, and CCT has simply made them more explicit. And dissatisfaction is always likely to arise from a lack of resources to provide the 'ideal' service. But the problems are emphasised by the growing pressure from schools to opt out of local authority centrally arranged contracts when they come up for renewal.

THE APPLICATION OF CCT

26. The above problems are all about service delivery. All could have been equally evident if CCT had not existed, although CCT has highlighted them. But there is a second set of problems to do with CCT's application. Problems are apparent in:

— poor contractor performance, resulting in financial defaults or terminations;
— a bureaucratic approach to administration and contract documentation;
— inefficient use of client resources.

27. A survey by the LGMB (Ref. 6) shows that almost eight per cent of contracts have run into problems sufficiently serious for financial defaults to be levied or payments withheld. There
have also been a significant number of contracts terminated by authorities for inadequate performance, or of contractors failing or withdrawing from a contract after a relatively short period of time. The LGMB survey showed that 29 DSO and 37 private sector contracts have been terminated for reasons other than Section 14 notices, i.e. action by the Secretaries of State for the Environment and Wales, where authorities are deemed to have awarded contracts anti-competitively, or where the DSO has failed to meet its financial objectives. Where contracts are terminated, particularly when caused by contractor liquidation, there have been lapses in service provision to the public. Occasional problems leading to defaults or even termination are to be expected, but some of these difficulties result from inadequacies in the client rôle.

28. Authorities are spending too much time on administrative tasks - as much as 80 per cent of the total client-side effort on the building cleaning contract in one authority was spent on keeping work schedules up-to-date. There is abundant evidence that contract documentation can be both excessive and yet deficient in important detail. Contracts between private sector companies are not several inches thick: the CSSA encourages its members to use model contract documentation which is less than 50 pages long, for all cleaning work. But despite the extent of the documentation, legal officers in a number of authorities complain about the content of contracts. In one, the chief solicitor was shown the draft contract documentation only on the day before it was to be sent out. Significant elements were found to be missing, and different sets of legal conditions, from different sources, were found to contradict each other. Another contract, for school catering, did not include any provisions for meaningful action if the contractor failed to provide meals according to the specification — the contractors would be liable only to a series of warnings, with no sanction if these were ignored. Other contracts were let without thought given to monitoring procedures. In one case, the contractor's performance was not inspected for the first three months' operation of the contract. In another, the monitoring procedures were defined, but the authority did not have the necessary technical expertise to carry them out.

29. Some contracts provide no incentive for contractors to complete work to the standards set. In one vehicle maintenance contract, the contractor was paid a lump sum for maintaining each vehicle, but it specified no maximum 'down time' to provide a roadworthy vehicle and it was thus meaningless to monitor contractor performance.

30. Additionally, there are wide variations in the cost and staffing of the client side. The difference between the lower and upper quartiles for refuse collection, as shown in Table 3, represents over £30,000 for a typical contract value of £1m. And these differences are not related to the type of authority; high and low values are found for both shire districts and metropolitan areas.

EXPECTED BENEFITS OF CCT NOT REALISED

31. Competition is unlikely to realise financial benefits unless there is significant interest as well as bids from a range of potential contractors. But for some activities and in some areas this has not happened. Some authorities have problems in attracting interest from potential contractors and of sustaining that interest through to a formal bid for the work.

32. The number of contractors who respond to an advertisement, i.e. those applying for further details and a copy of the authority's formal questionnaire, varies by a factor of three to one
(Table 4), from an average of 21 for building cleaning, down to just over six for education and welfare catering. But on average, only one in four initial expressions of interest leads to a formal bid for the work.

**Table 4**

**INTEREST IN CONTRACT WORK**

Average number of contractors (including DSO) at each stage (up to August 1, 1992)

<table>
<thead>
<tr>
<th>Service</th>
<th>Expression of interest</th>
<th>Return of questionnaire</th>
<th>Invited to tender</th>
<th>Submitting tender</th>
<th>% of contracts awarded without competition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Building cleaning</td>
<td>21.2</td>
<td>12.1</td>
<td>8.1</td>
<td>4.4</td>
<td>18</td>
</tr>
<tr>
<td>Refuse collection</td>
<td>12.9</td>
<td>11.2</td>
<td>6.0</td>
<td>3.4</td>
<td>9</td>
</tr>
<tr>
<td>Ground maintenance</td>
<td>12.3</td>
<td>9.7</td>
<td>6.9</td>
<td>4.0</td>
<td>12</td>
</tr>
<tr>
<td>Other cleaning</td>
<td>11.6</td>
<td>9.1</td>
<td>6.2</td>
<td>3.4</td>
<td>13</td>
</tr>
<tr>
<td>Vehicle maintenance</td>
<td>11.4</td>
<td>8.6</td>
<td>6.1</td>
<td>3.1</td>
<td>27</td>
</tr>
<tr>
<td>Other catering</td>
<td>9.1</td>
<td>6.6</td>
<td>5.6</td>
<td>2.3</td>
<td>37</td>
</tr>
<tr>
<td>Sport and leisure management</td>
<td>6.6</td>
<td>4.5</td>
<td>3.8</td>
<td>1.8</td>
<td>56</td>
</tr>
<tr>
<td>Catering (education and welfare)</td>
<td>6.2</td>
<td>4.2</td>
<td>3.5</td>
<td>1.4</td>
<td>58</td>
</tr>
<tr>
<td>Overall</td>
<td>11.4</td>
<td>8.3</td>
<td>5.8</td>
<td>3.0</td>
<td>21</td>
</tr>
</tbody>
</table>

*Source: LGMB (Survey 6)*

33. Of most serious concern is the drop-out at the final stage. On average, almost half of all those invited to tender fail to do so (Exhibit 7), despite having returned a detailed questionnaire

**Exhibit 7**

**INTEREST IN CONTRACTS**

On average, almost half of those invited to tender fail to do so.
on their past experience and satisfying the council that they could successfully do the work. For education catering, the problem has been most acute, with 60 per cent of invited firms failing to tender.

34. Contractor drop-out represents a waste of time and resources for all concerned, although it is not too serious a problem if an adequate number of bids are actually received. But for some activities very few bids are received - for education catering and leisure management contracts the average number of bids is less than two. For these two activities over half of the contracts have been awarded without competition, nearly always to DSOs.

35. A number of reasons for this drop-out have been suggested. It may be a consequence of the protracted tendering process - over a year in some cases. Contractors 'hedge their bets' by showing initial interest in a large number of possible contracts. They might then choose only those contracts which are most advantageous to them or where they think authorities will be more sympathetic to an external contractor, in order to avoid overstretching their management resources and expertise. Some smaller contractors drop out when they realise the scale of the activity. Not all of these reasons are within the control of an authority as client, but councils should investigate the reasons at their local level.

36. Interest from contractors is greatest in London and the south east of England (Table 5). The early willingness by some innovative authorities to engage in voluntary competitive tendering, before competition became compulsory, may have increased private sector experience in the region. But there must be some question as to whether the full potential benefits of CCT have been realised nationally.

Table 5
AVERAGE NUMBER OF TENDERS (INCLUDING DSO), BY REGION
(up to August 1, 1992)

<table>
<thead>
<tr>
<th>Region</th>
<th>Building cleaning</th>
<th>Ground maintenance</th>
<th>Refuse collection</th>
<th>Other cleaning</th>
<th>Vehicle maintenance</th>
<th>Other catering</th>
<th>Sport &amp; leisure management</th>
<th>Overall</th>
</tr>
</thead>
<tbody>
<tr>
<td>North</td>
<td>1.5</td>
<td>2.4</td>
<td>2.7</td>
<td>2.0</td>
<td>1.6</td>
<td>1.2</td>
<td>1.1</td>
<td>1.8</td>
</tr>
<tr>
<td>N West</td>
<td>1.4</td>
<td>3.0</td>
<td>2.6</td>
<td>1.9</td>
<td>1.9</td>
<td>1.5</td>
<td>1.2</td>
<td>1.9</td>
</tr>
<tr>
<td>Yorks/Humb</td>
<td>2.5</td>
<td>2.5</td>
<td>2.9</td>
<td>2.5</td>
<td>2.3</td>
<td>2.6</td>
<td>1.4</td>
<td>1.7</td>
</tr>
<tr>
<td>Wales</td>
<td>2.1</td>
<td>1.8</td>
<td>3.1</td>
<td>2.4</td>
<td>2.6</td>
<td>1.9</td>
<td>1.0</td>
<td>3.1</td>
</tr>
<tr>
<td>W Midlands</td>
<td>3.3</td>
<td>4.1</td>
<td>3.5</td>
<td>3.6</td>
<td>2.4</td>
<td>1.4</td>
<td>1.5</td>
<td>2.8</td>
</tr>
<tr>
<td>E Midlands</td>
<td>3.9</td>
<td>2.9</td>
<td>3.9</td>
<td>3.7</td>
<td>3.6</td>
<td>2.3</td>
<td>2.0</td>
<td>3.2</td>
</tr>
<tr>
<td>South West</td>
<td>3.2</td>
<td>3.4</td>
<td>3.8</td>
<td>4.3</td>
<td>2.2</td>
<td>3.2</td>
<td>1.9</td>
<td>3.1</td>
</tr>
<tr>
<td>East Anglia</td>
<td>3.1</td>
<td>3.5</td>
<td>4.1</td>
<td>3.8</td>
<td>3.5</td>
<td>2.3</td>
<td>1.9</td>
<td>3.2</td>
</tr>
<tr>
<td>London</td>
<td>4.9</td>
<td>3.2</td>
<td>4.3</td>
<td>3.1</td>
<td>3.5</td>
<td>2.3</td>
<td>2.0</td>
<td>3.3</td>
</tr>
<tr>
<td>South East</td>
<td>7.9</td>
<td>4.5</td>
<td>3.4</td>
<td>3.6</td>
<td>4.8</td>
<td>2.7</td>
<td>2.3</td>
<td>4.2</td>
</tr>
<tr>
<td>Overall</td>
<td>4.4</td>
<td>4.0</td>
<td>3.4</td>
<td>3.4</td>
<td>3.1</td>
<td>2.3</td>
<td>1.8</td>
<td>3.0</td>
</tr>
</tbody>
</table>

* Note: Overall averages weighted by the number of contracts
Source: LGMB (Survey 6)

37. All of the difficulties discussed in this chapter need to be addressed by authorities in their client rôle. Improvements in the management of existing contracts can bring immediate benefits, particularly to the currently dissatisfied recipients of services. But the main benefits of an enhanced client rôle will be felt only when authorities renew contracts as they come to an end.
This will provide the opportunity to address more fundamental issues concerning the application of OCT.

38. The total cost of client-side activities in England and Wales, for 1988 Act services, is less than £100 million. Efficiency savings of up to 25 per cent may be achievable, but savings are not the primary issue. What counts is improved effectiveness in the nearly £2 billion of expenditure on contracted services: how can the authority, as client, influence service delivery to give recipients greater value for money and greater satisfaction with the service delivered by the contractor, whether internal or external?

39. In some of the Audit Commission's previous work, the identified potential improvements in value for money have still not been fully realised, possibly due to clients not yet having got to grips with their new rôle. A good example is in vehicle maintenance where the Commission's 1984 report (Ref. 7) identified potential efficiency savings of over £80m a year. Actual savings of only £30m had been fulfilled by the end of 1991/92. Even allowing for local circumstances, at least part of the discrepancy is likely to stem from directly transferring out-moded methods of working into new contracts, without considering how improvements could be brought about.

40. Chapters 3 and 4 of this report set out the steps that authorities should be taking to overcome the identified problems. But first, authorities must recognise that contract renewals are taking place in very different circumstances from when the contracts were first let. They will need to run harder just to stand still, and even well-organised authorities cannot rely solely on their accumulated experience since 1988. The nature of these additional pressures is the subject of Chapter 2.
2. The World has Changed

41. Local government is undergoing revolutionary change affecting almost all its functions. Learning from the first round of CCT would be a demanding challenge in its own right, but there are further changes which will compound the difficulties, calling for even greater client-side expertise. Some of these changes involve the removal from local government of functional areas, such as grant-maintained schools, further education colleges and voluntary housing transfers. For these areas, while there will be some transitional arrangements, the local authority client rôle will effectively come to an end. In terms of the continuing impact on the authority as client for contracted services the two dominant issues will be:

— changes in the balance of power between consumers and the traditional client function in the authority - Local Management of Schools (LMS), CCT for housing management, the purchaser-provider relationship in social services and the extension of CCT to corporate services, such as finance and legal services;

— other concerns, such as the effect of local government reorganisation and the increasing impact of European legislation.

THE BALANCE OF POWER
EDUCATION

42. The education service is the largest local government service. Schools receive 1988 Act services to the value of around £750m. About £50 per pupil per year is spent on each of caretaking/cleaning, and school meals/milk (gross cost excluding income), with about £10 per pupil on ground maintenance. In an individual authority, a large fraction of the annual contract value for building cleaning and ground maintenance is education-related (Table 6) although the proportions vary depending on the type of authority. In addition, nearly all of the expenditure on education and welfare catering contracts is the school meals service.

<table>
<thead>
<tr>
<th>Activity</th>
<th>Metropolitan districts</th>
<th>Typical values</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>London boroughs</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Counties</td>
<td></td>
</tr>
<tr>
<td>Building cleaning</td>
<td>69%</td>
<td>61%</td>
</tr>
<tr>
<td>Ground maintenance</td>
<td>10%</td>
<td>15%</td>
</tr>
</tbody>
</table>

Source: Audit Commission survey

43. LMS is now operational in all schools, except small primaries and special schools¹. In guidance from the Department for Education (DFE), there is a 'strong presumption' that existing

¹ LMS for special schools will be introduced in April 1994.
contracts between councils and contractors for services provided to schools will continue until they expire. But, for new contracts, the relationship with contractors changes as individual schools become clients in their own right. The school's governing body will have freedom to tailor the service to its own requirements and budget, and to choose its own contractor.

44. If Local Education Authorities (LEAs) are to remain involved, they must add value to the process by adopting a more user-friendly posture than has traditionally been the case in some LEA-school relationships. Schools opting into a central contract will expect a flexible service, tailored to their needs and resources. The LEA will need to be more responsive, with the threat of schools going their own way if they are not satisfied (Case Study 1). Where schools decide to organise their own contracts with private contractors, there may still be an important rôle for the LEA, acting as an adviser or agent to the school for a management fee. There will still be a need for specialist, technical advice which most schools will be unable or unwilling to provide themselves. The LEA may act as an interface between the school and possibly several different contractors - for building cleaning, ground maintenance and building maintenance. In effect, the school would receive a 'facilities management' service, provided by the LEA as agent.

Case Study 1

SURREY COUNTY COUNCIL

Services to LMS schools

Surrey County Council offers a priced 'menu' of cleaning and catering services from which schools can choose what they want and can afford. Most schools in Surrey have selected authority contracts rather than going their own way and thus have the benefits of the economies of scale in contract pricing. The authority also deals with all contractual matters on behalf of the schools.

CCT FOR HOUSING MANAGEMENT

45. The housing department is the client for a number of 1988 Act services, such as ground maintenance and building cleaning. In shire districts and metropolitan authorities these contracts can amount to 30 per cent of the value of an authority's 1988 Act contracts. The government proposes to extend CCT to housing management in a phased programme, with first contracts in operation for 1996/97. Services to tenants will be added to current contracted services to form a comprehensive housing management contract. Housing management contractors will therefore themselves become clients for existing contracts.

PURCHASER-PROVIDER RELATIONSHIP

46. Social services departments are already changing as a result of the National Health Service and Community Care Act 1990. They will take on the rôle of deciding appropriate 'packages of care' for people under their care and then 'purchasing' this care, such as a place in an elderly persons' home, from either a council or private provider. Council-owned homes will already be clients for services currently under contract, such as ground maintenance. When the home itself becomes a 'contractor' to the authority, accountable for its performance to the social services department as client, its performance as a provider of care will to some extent depend on how other contractors perform. But those other contractors will also be accountable to the social
services department as client, not the elderly persons' home itself. In principle, if the home is to be held accountable for its performance, then it should have direct control of the other contractors.

EXTENSIONS OF CCT TO CORPORATE SERVICES

47. In its consultation paper *Competing for Quality* (Ref. 8) the government proposed to extend CCT. Using existing powers under the 1988 Act, the government intends to subject defined percentages of central and professional services, such as finance, personnel and legal work, to CCT. While direct consideration of these issues is beyond the scope of this present report, there will be an impact on the client rôle for current contracts under the 1988 Act and even more so when they come up for renewal. Firstly, the providers of these professional services will themselves receive services such as building cleaning under contract. The cost of existing CCT services will have to be included in internal tenders for the new range of CCT activities. Secondly, internal bids for contract renewal for existing CCT services will have to include the contract cost of professional services, unless authorities allow DSOs freedom to buy elsewhere. A complex matrix of contracts will emerge within which councils must achieve coherence.

OTHER CONCERNS

LOCAL GOVERNMENT REORGANISATION

48. Where unitary authorities are created in the shire areas, significant changes to contractual arrangements will be required. Contracts of authorities which cease to exist are likely to be inherited by a successor authority. Where new unitary authorities are created from two or more districts, each will have its own set of contracts for the defined activities, probably with different contractors, for different periods and with different contract conditions and specifications. Merging such contracts will require considerable thought. A new authority will face three choices - to allow the existing contracts to run to expiry and accept some inequality in service provision; to 'level-up' the services at additional cost; or to 'level-down' thereby causing consumer dissatisfaction, and perhaps requiring contract penalty payments to the contractor. Even these options would not overcome the problem of contracts ending at different times. Some transitional arrangements will be needed. On the other hand, if county or district functions are transferred to a number of new unitary authorities when an existing contract has several years to run, those authorities would each have to negotiate with the contractor over the future provision of service. An increasing number of contracts will be coming up for renewal in authorities unsure of their future. New contracts must be sufficiently flexible to accommodate this; uncertainty may deter private contractors.

EUROPEAN LEGISLATION

49. European Community (EC) legislation is intended to break down national and regional preferences exhibited by public contracting authorities. Current EC public procurement directives apply only to works contracts and supplies, but from July 1993, many contracts let under the

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1 The Commission has commenced a second phase of its work on the client rôle, looking at the extension of CCT to these areas. The emphasis will be on relationships between service providers and users, for example using service level agreements and internal trading accounts.
The 1988 Local Government Act will become subject to the new Services Directive. Authorities choosing to put work out to voluntary competition will also be subject to the directive, whether or not the DSO is invited to bid. The *de minimis* levels are much lower, bringing nearly all such work into the net. The EC directives also introduce additional requirements to the contracting process, such as the minimum number of tenderers to be included on a shortlist and the maximum length of contracts. If the directive is not complied with, aggrieved tenderers may seek compensation through the UK courts under the EC Compliance Directive.

50. An additional complication stems from the 1977 EC Acquired Rights Directive. The directive protects the rights of employees in the event of a relevant transfer of an undertaking to a new employer. The 1981 Transfer of Undertakings (Protection of Employment) Regulations (TUPE) sought to bring the EC directive into effect in this country. If the regulations do apply, a private contractor would have an obligation to take on DSO staff (or the staff of the previous contractor) at the terms and conditions under which they were employed previously.

51. New guidance issued by the Government in March 1993 has confirmed that TUPE may apply to CCT contracts. The guidance reiterates the Attorney General's statement of January 21, 1993, that:

'It is clear from the case law that under both the [EC Acquired Rights] Directive and the [TUPE] Regulations, this [transfer of an undertaking] means the transfer of an economic entity which is capable of operating as a going concern and which retains its identity. The contracting out of a service is not a transfer of an undertaking unless it involves enough of the elements (Audit Commission emphasis) of the original operation such as premises, staff, goodwill or customer base to constitute the transfer of a going concern.'

But the Government has stated that the guidance is for information only and does not obviate the need for legal advice to be taken. The uncertainty about what constitutes 'enough of the elements' is inhibiting the process of competition from the perspective of both local authorities and potential contractors. Without this clarification, contractors may take a pessimistic view of the extent to which TUPE may apply in any given circumstances.

**The Role of Service Consumers**

52. Authorities must cope with these changes as their 1988 Act contracts come up for renewal. They will need to go through a cultural change as fundamental as that originally required by the 1988 Act itself. All of the above pressures directly or implicitly challenge the concept of the one-to-one client-contractor split. The true clients of the services delivered by contractors are the recipients or consumers of the services (Box B). Recognition of these many different consumers fundamentally alters the simple client-contractor relationship. Consumers have a vital part to play (Exhibit 8), even if existing contracts will not expire for some years. And consumers should have an input in the preparation of new contracts to ensure that mistakes are not repeated. Chapter 3 describes the necessary steps.
### Box B
THE CONSUMERS OF SERVICES

<table>
<thead>
<tr>
<th>Activity</th>
<th>Consumers (Examples)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Building cleaning</td>
<td>Headteachers and school governors (acting on behalf of parents, pupils and staff), local authority office workers, residents of social services homes</td>
</tr>
<tr>
<td>Refuse collection</td>
<td>Householders, commercial organisations</td>
</tr>
<tr>
<td>Other cleaning</td>
<td>General public, road users</td>
</tr>
<tr>
<td>Catering (education)</td>
<td>Headteachers and school governors (acting on behalf of parents, pupils and staff)</td>
</tr>
<tr>
<td>Catering (welfare)</td>
<td>Recipients of community meals</td>
</tr>
<tr>
<td>Other catering</td>
<td>Local authority staff, public</td>
</tr>
<tr>
<td>Ground maintenance</td>
<td>Headteachers and school governors (acting on behalf of parents, pupils and staff), public, housing tenants, residents of social services homes</td>
</tr>
<tr>
<td>Vehicle maintenance</td>
<td>Other contractors' staff, local authority staff</td>
</tr>
<tr>
<td>Sport and leisure management</td>
<td>Leisure facility users</td>
</tr>
</tbody>
</table>

### Exhibit 8
A NEW FOCUS FOR THE CLIENT - CONTRACTOR RELATIONSHIP
Consumers have a vital part to play
3. Right First (and Next) Time

53. The previous chapters have emphasised that the client rôle is much wider than simply keeping an eagle eye on what the contractor does, i.e. monitoring the delivery of services under a contract. The rôle comprises a series of elements under two main headings, contract preparation and contract management (Box C).

**Box C**
**ELEMENTS OF THE CLIENT RÔLE**

<table>
<thead>
<tr>
<th>Element</th>
<th>Illustrative examples of each element (from a school catering contract)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Contract Preparation</strong></td>
<td>- nutritious and tasty school meals to be provided;</td>
</tr>
<tr>
<td>The service direction sets out the policy objective for a service, reflecting the expectations and demands of consumers.</td>
<td>- divide schools into groups to encourage small contractors to bid;</td>
</tr>
<tr>
<td>The contract strategy translates this into operational contracts.</td>
<td>- meals ready to serve at the start of the school dinner break;</td>
</tr>
<tr>
<td>The specification translates policy objectives into contract terms.</td>
<td>- menu rotates on four-week cycle;</td>
</tr>
<tr>
<td>The contract conditions set out the service framework.</td>
<td>- cafeteria-style food at secondary school level;</td>
</tr>
<tr>
<td>Contract letting describes the processes that take place after the contract documentation has been drawn up but before the contract commences.</td>
<td>- effective start date of contract is first day of autumn term;</td>
</tr>
<tr>
<td></td>
<td>- contractor will not get paid if the meals are not ready on time;</td>
</tr>
<tr>
<td></td>
<td>- contractor must use existing kitchens/equipment;</td>
</tr>
<tr>
<td></td>
<td>- annual meal price review;</td>
</tr>
<tr>
<td></td>
<td>- arbitration if disputes not settled;</td>
</tr>
<tr>
<td></td>
<td>- advertisements placed in catering press;</td>
</tr>
<tr>
<td></td>
<td>- all tenderers treated equally;</td>
</tr>
<tr>
<td></td>
<td>- timetable for letting followed;</td>
</tr>
<tr>
<td></td>
<td>- contract let to lowest acceptable tenderer.</td>
</tr>
</tbody>
</table>

**Contract Management**

Contract monitoring evaluates whether the service has been delivered as specified.

Contract administration includes paying contractors, agreeing variations, levying defaults, facilitating communication and arranging training.

kitchens inspected for hygiene and safety;

checks on meal quality;

'hot-line' for complaints;

payments to contractors as agreed;

contractor notified of changes to specification.
54. Each element is interdependent (Exhibit 9) and each must be in place if the client rôle is to be exercised properly. For example, if the specification has faults then contract monitoring may be ineffective; if the contract conditions are inadequate then administration will be difficult. The second round of contracts provides an opportunity to correct any deficiencies in the first round. These second round contracts must also take account of the changing world: contracts must be prepared in the light of greater consumer power. Authorities should analyse their previous experience, and take a range of actions across all elements of the client rôle to remedy any identified problems (Exhibit 10).

Exhibit 9
THE CLIENT RÔLE
The elements of the client rôle are interdependent

CONTRACT PREPARATION
SERVICE DIRECTION AND CONTRACT STRATEGY

55. Members have an important rôle in setting the strategy. They should consider carefully the nature of the service to be provided (taking account of consumers’ views), market intelligence, contract packaging, contract length, and contingency planning. Additionally, members must have regard to the uncertainty about the reorganisation of local authorities. Contract strategy must be flexible to cope with this.

The nature of the service

56. Some authorities have a poor understanding of consumer requirements. This leads to an unsatisfactory specification. Service consumers should be consulted well before the details of the specification are finalised. But the problems are not all on the client side. Consumers must play their part. In one authority, only five out of 87 headteachers responded to a survey to establish desired cleaning standards under the new contract. As a result, very few schools had standards
 Authorities should take a range of actions to remedy identified problems

1. **Determine realistic service direction and appropriate contract strategy:**
   - balance priorities
   - obtain market intelligence
   - package contracts to maximise interest
   - plan for contingencies

2. **Write specification to:**
   - reflect consumers’ views
   - define contract outputs as far as possible
   - allow flexibility for changing circumstances
   - take account of experience with first round contracts

3. **Ensure contract conditions are comprehensive:**
   - define responsibilities of parties to the contract
   - spell out how variations should be made
   - clarify alternatives if things go wrong
   - set out administrative arrangements

4. **Make contract letting procedures as transparent as possible:**
   - define and adhere to timetable
   - provide relevant information to all potential tenderers
   - carry out tender evaluation fairly
   - utilise mobilisation period to resolve anticipated difficulties

5. **Involve consumers and contractors in contract monitoring:**
   - understand the purpose of monitoring
   - utilise complaints systems, and encourage consumer feedback
   - encourage contractor quality assurance
   - provide monitoring information to interested parties

6. **Streamline contract administration:**
   - set out clear responsibilities
   - hold regular meetings between client, contractor and consumer
   - resolve problems at the local level if possible
   - apply defaults fairly
   - use arbitration procedures where appropriate
agreed and confirmed with headteachers, creating ill-feeling between both parties. Poor consultation, and hence poor specifications, will often require contracts to be amended after they have been let, adding an avoidable administrative burden and a consequent increase in costs. Authorities should therefore make every effort to involve consumers (Case Study 2).

### Case Study 2

**KIRKLEES METROPOLITAN BOROUGH COUNCIL**  
*Ground maintenance contracts - responsiveness to consumers*

Individual schools were consulted in drawing up the general specification and some have agreed different service levels - one secondary school has agreed a higher level in exchange for additional payments from its delegated LMS budget, another has determined a lower level of grass cutting and used the savings for other ground maintenance tasks.

Schools are actively involved in monitoring the performance of the contractor (DSO). The views of head teachers are surveyed each term by client-side officers: where reservations are expressed a separate discussion is held to identify or resolve problems. Feedback from schools has generally been good. These principles also apply to other users of sports pitches.

A complaints mechanism encourages sports clubs to voice any concerns.

### Market intelligence

57. Authorities should encourage increased competition for their contracts. They should glean information on the market, not passively await the arrival of potential contractors. Officers need to know whether reliable companies will be interested and in what circumstances. Market making depends on market intelligence, which has a number of elements. Authorities should:

- use existing databases, such as those compiled by LGMB or the Institute of Public Finance, to obtain data on companies active in their area;
- evaluate the capacity of potential contractors;
- use target advertising in appropriate specialist publications and journals, not just the general local government press;
- learn from the experience of other authorities;
- ascertain why tenderers dropped out of the process in previous contracts;
- find out contractors’ preferences.

### Contract packaging

58. Contract packaging can influence the level of interest from contractors and the extent of competition. Authorities should package the work to maximise competition. In the first round, authorities generally let authority-wide contracts for each defined activity, but some have used other options: combining different activities to form larger contracts, or dividing the work into smaller parcels to make the contracts more accessible to smaller contractors.

### Combining contracts

59. Over a quarter of all refuse contracts are combined with other cleaning - mainly street cleansing. The combined contracts are significantly larger on average than for refuse collection.
Some authorities split their contracts for a given activity by size or geographical area. Building cleaning work is often split in this way. On average, building cleaning nationally has the highest number of tenders submitted per contract of all activities, and the greatest penetration of private contractors (46 per cent of the number of contracts). No other activity has more than a third of the contracts operated by private contractors. The average value of private contracts is less than a quarter of that of contracts won by DSOs (£120,000 compared with £550,000). Thus it appears that splitting building cleaning work into a number of smaller contracts does increase competition, by encouraging interest from smaller private contractors (Case Study 4).

Case Study 3

YNYS MÔN BOROUGH COUNCIL
Contract packaging in smaller authorities

The refuse collection and other cleaning work was combined into a single package. As a result, the contract was large enough to attract interest from major national firms. Together the contract value was over £1m, significant even for a large district authority. Five private contractors (plus the DSO) were invited to bid and four did so, including large companies with contracts in London and the metropolitan areas. Despite the authority’s relative remoteness, the successful private contractor regarded the appointment as a ‘flagship’ location in Wales. The successful tender price was about 25% lower than before CCT.

Case Study 4

KENT COUNTY COUNCIL
Contract packaging for building cleaning

For first round education building cleaning contracts, the county was divided into six areas with an average of five group contracts in each area plus a number of single school contracts. The contracts, with a total value of nearly £6m, ranged in size up to a package of 36 schools, which encouraged interest from all sizes of contractor. Over all six areas, more than 80 potential contractors expressed an interest, of which 45 were included on the shortlist. In total, more than 250 bids were received for the work and the 30 group contracts were split between 11 contractors, including both external contractors and the DSO.
Generally, greater competition leads to lower prices and authorities ought therefore to split rather than amalgamate contracts. Only when they have clear evidence to show that economies of scale or greater competition will result from contract amalgamation should such contracts be pursued.

Other arrangements can promote efficient service delivery. Some authorities have a ground maintenance contract for a defined geographical area which includes all grassed and landscaped areas across different services of the authority, including parks, school playing fields, highway verges and housing estate open space. It also makes sense to have the same contractor for adjacent grass cutting and ornamental flower beds.

**Contract length**

Flexibility in contract lengths is constrained by legislation (see Appendix), but local authorities should use the available flexibility to best advantage. Geographically disaggregated contracts for the same activity should finish at different times. This phased approach will prevent peaks in the client side's workload, as contracts will be renewed throughout the year, and may stimulate greater interest from contractors who might be unable to cope with a large contract or even a collection of simultaneous smaller contracts. But there are other circumstances where contracts should end at similar times, because there may be benefit in re-letting several contracts together. For example, a contract for the catering facility at a leisure centre should be let at the same time as the leisure management contract, or the ground maintenance contract with the contract for management of a golf course, to maximise co-ordination between different contractors operating at the same site.

**Contingency planning**

Some authorities have not anticipated the consequences of total or partial contract failure. If a contract is well managed, the likelihood of a contractor withdrawing should be limited. But if termination of a contract does take place, or a contractor voluntarily withdraws, authorities should have contingency plans. There is a link between contingency planning and contract size. If a service is divided into a number of small contracts, with more than one tenderer winning contracts, then one contractor may be able to step in, at least on an interim basis, when another fails.

Failure does not imply that all the service has to be replaced immediately. Authorities should analyse the likely effects of failure to identify which are the core aspects of the service, and how they could be provided at short notice. In education catering, where a replacement service is required immediately, a school may be able to use a 'fast food' supplier and charge the contractor. In contrast, civic catering has no core service, so alternative arrangements are not urgently required and fresh tenders can be sought. For each activity, authorities must determine what needs to be done immediately after failure; in the first week; the first month; and the first six months until the contract can be relet (Exhibit 11).

Contingency planning should include financial considerations. Where contractors are paid in arrears, money will be available to cover additional costs incurred by the termination of the contract. Further costs may be claimed from the contractor, depending on the arbitration and termination terms of the contract. Authorities frequently use performance bonds and, more
recently, parent company guarantees. These require private contractors to make arrangements with a financial institution so that, should the contract fail, funding will be available to provide the service, at least in the short term. In effect, contractors have to arrange insurance cover by paying a premium to the institution. Bonds are most often required by authorities for services with a high public profile, such as ground maintenance and building cleaning (Table 7, overleaf).

Exhibit 11
CONTINGENCY PLANNING
Authorities must determine what needs to be done immediately after contract failure
67. But there is scant evidence to show that bonds are effective. Very few authorities have obtained payment. The insurance company or bank usually contests claims and, in several cases, legal arguments have continued for years. Another disadvantage of performance bonds is that they may restrict the number of tenderers. Smaller companies may be unable to get bonds, or have to pay a higher premium. The only advantage of bonds is as a reference to a potential contractor's credit-worthiness, e.g. whether a bank or insurance company is prepared to underwrite the contractor. Given the experience of bond claims, authorities should concentrate on minimising the likelihood of contractor failure by getting the other elements of the client rôle right and by building a collaborative relationship with the contractor.

SPECIFICATIONS

68. Almost every local government service can be specified by a combination of inputs, processes and outputs, together with a definition of the object of the service, e.g. the classroom to be cleaned:

— **inputs** specify the resources that are to be used, e.g. the use of school kitchens in a catering contract;

<table>
<thead>
<tr>
<th>Activity</th>
<th>% of authorities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ground maintenance</td>
<td>52</td>
</tr>
<tr>
<td>Building cleaning</td>
<td>50</td>
</tr>
<tr>
<td>Refuse collection</td>
<td>39</td>
</tr>
<tr>
<td>Other cleaning</td>
<td>33</td>
</tr>
<tr>
<td>Other catering</td>
<td>18</td>
</tr>
<tr>
<td>Vehicle maintenance</td>
<td>15</td>
</tr>
<tr>
<td>Catering (education and welfare)</td>
<td>14</td>
</tr>
</tbody>
</table>

*Source: LGMB (Survey 6)*
— **processes** define the tasks that will be undertaken, e.g. fertilising a bowling green;
— **outputs** describe the services that consumers will receive, e.g. a roadworthy vehicle.

The appropriate emphasis on the three different elements will vary between services.

69. The first round of contracts tended to codify existing inputs or processes, possibly because authorities were basing their contracts on existing working methods and bonus schemes. Now that authorities are placing more emphasis on a quality service outcome for their consumers, specifications should start with a definition of the required outputs and then focus on processes and inputs where necessary (Exhibit 12). This will oblige contractors to achieve the required standard and encourage them to search for more productive methods. Output-focused specifications can reduce client-side costs and achieve greater consumer involvement. Where simple outputs can be defined, e.g. the height of grass, consumer monitoring is more feasible. Often a combination of output and some input and process elements is necessary because the short term output does not always reveal whether the contractor has done all the necessary work or whether the asset is being adequately maintained. A vehicle maintenance contract, for example, should specify that only authorised manufacturers' spare parts must be used. Similarly, health and safety regulations would require staff at swimming pools to have life-saving qualifications.

*Exhibit 12
SPECIFICATION FOCUS
Specifications should start with a definition of the required outputs*

70. The nature of the specification will have a major impact on the administrative costs of a contract. Changes to the volume and detail of work will often need to be made throughout the contract’s life, for example when temporary classrooms are removed from a school, or new houses are added to a refuse collection round. An input-focused specification will need constant updating to reflect changes in contractor workload, but an output-focused specification can be more flexible and require less administrative effort. An output specification for building cleaning, for example, should stipulate that small changes in the current workload, such as the number of waste-paper bins to be emptied, will not result in changes to payments.
71. Contract conditions provide the framework for service delivery and should not change for the duration of the contract. Contract conditions should satisfy eight key questions (Box D). Many authorities have built up contracts using conditions from a number of different sources such as the local authority associations and the Institute of Leisure and Amenity Management (ILAM). But client officers should seek legal advice when drawing up contract conditions; some overview is needed to ensure that the conditions are consistent and meet the authority’s particular circumstances (Case Study 5).

**Box D**

**ESSENTIAL QUESTIONS TO BE ANSWERED BY THE CONTRACT CONDITIONS**

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Who are the parties to the contract?</td>
</tr>
<tr>
<td>2.</td>
<td>What are the powers and responsibilities of these parties?</td>
</tr>
<tr>
<td>3.</td>
<td>When and how does the contract come into effect?</td>
</tr>
<tr>
<td>4.</td>
<td>How are changes to be made to the specification?</td>
</tr>
<tr>
<td>5.</td>
<td>What are the arrangements for making payments?</td>
</tr>
<tr>
<td>6.</td>
<td>What happens when things go wrong?</td>
</tr>
<tr>
<td>7.</td>
<td>What provisions are there for events outside the control of the contract parties?</td>
</tr>
<tr>
<td>8.</td>
<td>What happens at the end of the contract?</td>
</tr>
</tbody>
</table>

**Case Study 5**

**LEICESTER CITY COUNCIL**

**Legal input to contracts**

The Legal Services Department actively assists the client side in setting up and managing contracts. A separate lawyer in the department gives advice to DSO contractors. Legal Services draft the contract conditions and provide advice to client departments in drawing up the specification, emphasising the importance of separating the two documents. Training in the implications of CCT legislation has also been provided. Advice is provided during the operation of the contract, for example on redundancy costs and arbitration procedures. The legal department is moving towards formal service level agreements with client departments, using an internal trading account based on a time recording system.

72. The contract conditions should define the procedures for corrective action if contractors under-perform, with a reaction appropriate to the level of failure. Service delivery problems should be resolved at the lowest level possible but there should be steps available if problems persist (Exhibit 13). Consumers should be able to resolve complaints directly with the contractor on site, although any problems should be recorded in a local site log book with space for both
consumer and contractor comments. If a complaint is not resolved, the problem should be passed to the next line of client management, with the contractor possibly incurring a financial sanction, i.e. a default. Contract conditions must clearly state when the default provisions will apply. The service specification should also define the required performance standards. There must be discussions between the client side and contractor at the outset so that the contractor is aware of the standards expected.

73. At the start of the contract, a honeymoon period is often allowed, during which no default notices are issued. The Commission's survey showed that many authorities adopt this policy, with the period ranging up to six months, depending on the defined activity. Honeymoon periods demonstrate to tenderers that the authority wishes to adopt a co-operative approach. But they must be for a predetermined period appropriate to the service under contract and generally less than two months, otherwise the contractor will be under no pressure to meet required standards.

74. Many authorities either impose a fixed level of financial deduction for each default notice issued or use a sliding scale increasing the deduction if the number of default notices goes above a predetermined threshold. Ideally, deductions should equate to the actual cost of rectifying a service delivery problem. In practice this is not always possible to quantify, and a reasonable estimate has to be used. If it is not possible to make an estimate, then authorities should at least recover the administration cost incurred.
75. If problems persist or are too serious for the default provisions, arbitration may be needed. Appropriate clauses should be included in contract conditions to cover this eventuality. If possible, arbitration should be used to get the contract working again, rather than as an automatic route to contract termination, since consumers are more interested in service continuity than legal arguments. Most authorities use independent arbiters; but a significant proportion still rely solely on internal arbitration. Internal arbitration should only be used if there are clear safeguards to protect the independence of decision making.

CONTRACT LETTING

76. The contract letting process cannot begin until the tender documentation is complete; the contract conditions, the specification and other documentation such as the contractor questionnaire must all have been finalised and accepted by all relevant parts of the authority. All interested parties must affirm their acceptance and approval of the tender documentation before advertising the contract. This can be achieved by the use of a contract review checklist requiring signatures from each party, including the chief legal officer, the chief finance officer and a representative of the client service department.

77. Simple compliance with the letter of the CCT legislation is not sufficient to ensure genuine competition and value for money. An authority must be positive in its dealings with potential contractors and make the tendering process as transparent as possible in order to stimulate and maintain interest. Authorities need to weigh up the benefits of inviting bids from all the contractors who satisfactorily complete the questionnaire, against the costs of evaluating the bids, remembering that some contractors may choose not to submit a tender even if invited. Once invitations to tender have been issued, officers must ensure that any information given to one tenderer is given to all tenderers, for example, by holding seminars for potential tenderers to explain the main aspects of the service specification, to discuss the contract conditions and to answer any preliminary queries.

78. Evaluations must be done on a systematic basis using criteria which have been decided in advance and made clear to tenderers. An authority may decide to disallow a bid entirely if the tender has a high level of errors or if the tenderer is not prepared to stand by the tender submitted. Officers should interview tenderers at this time, if necessary, to clarify any assumptions which may have been made and to reduce any uncertainties. When bids are much lower than the client side anticipated, officers should explore why. Many local authorities have discovered that tenderers fail to price part of the specification, and have been concerned that private contractors have misunderstood the specification. But tenderers must not be allowed to change a bid once presented. Short-listed tenderers should be given the opportunity to make a formal presentation of their bid to the client-side officers, so that a thorough assessment of the bid and the contractor can take place. There should also be checks on sites currently run by tenderers, to assess the quality of service being provided.

79. After the contract has been awarded, every effort should be made to establish a good working relationship with the new contractor as soon as possible. During the contract set-up period, access should be allowed for staff interviews, planning of work, discussion on asset responsibilities, piloting service delivery, etc.
CONTRACT MANAGEMENT

80. Authorities' past failures in contract preparation and letting in the first round have created problems in the management of contracts. Authorities may have to live with some problems until the contracts expire, which could be another four or five years. But unless existing contracts are well managed, the pressure from consumers to pull out will increase. It is often possible to improve matters through better monitoring and administration. In particular, the client side should ensure that monitoring results feed through to contractor payments.

MONITORING BY CONSUMERS

81. Contracts must be properly monitored to ensure services are provided in accordance with the specification. Services which can be defined in terms of simple outputs can more easily be monitored by consumers, provided they know what standards to expect. Input-focused specifications, which define exactly when the work is to be done, are less suited to consumer monitoring and need to rely more on client-side monitoring. Consumers cannot always be expected to remember the timing for a particular task, e.g. if grass is to be cut on a particular day once a fortnight. But an output-focused specification would state that grass lengths should be kept within maximum and minimum figures. The output measure is easily understood by the public, who can monitor whether the grass is too long or not. Empowering consumers to act as monitors of service delivery by contractors will almost always be more effective and cheaper than employing an army of authority inspectors. The immediacy of the service to the consumer also influences the extent of their involvement in monitoring. In refuse collection, householders will soon complain if their bins are not emptied; the paying customer at a leisure centre will immediately let staff know if the equipment is broken.

82. There are some activities which need a combination of client-side and consumer monitoring. Maintenance of bowling green grass, for example, is more complex to monitor than ordinary parkland. Although bowlers will be good at monitoring grass length, they will be less able to monitor other processes which are necessary for the long term upkeep of a green, e.g. fertiliser application. In this instance, there is a need for client-side inspections.

CLIENT-SIDE INSPECTIONS

83. All authorities carry out client-side inspections. But some authorities have set the level of client-side inspections with reference to the resources previously employed, rather than by determining the level of inspections that are actually needed, taking account of the important rôle of consumer monitoring. In many councils, inspection budgets have been arbitrarily set at five or ten per cent of the contract value. But the Commission's survey discovered a high level of variation, with differences in the units inspected, such as individual classrooms as opposed to a whole school, as well as in the percentage of such units inspected. Authorities should define the purpose of the different methods of inspection that they use. Inspections must be used to provide an overview of a contractor's standard of service, and separately to monitor particular areas of concern. Most overview inspection samples are selected randomly, often using a computer system. But authorities should weight inspections towards sites where the financial or amenity value of the contract is high.
84. Overview inspections must be carried out in a systematic way so that comparisons can be made over time as well as between sites and areas and between different contractors. When inspecting sites, officers should check the site log book, against the outputs, processes or inputs specified in the contract. Overview inspections are required only once or twice a year, once the honeymoon period is over, although inspection may need to be intensified as the contract termination date approaches. Additionally, the client side must respond to problems as they arise. These may be identified in the overview inspections but information gleaned from consumer liaison and complaints systems are equally important. Inspections following complaints must not be random. They must focus on known or suspected problem areas so that the contract is performed properly (Case Study 6).

Case Study 6

OXFORDSHIRE COUNTY COUNCIL
Monitoring systems for building cleaning

The county has set up a combined contract monitoring unit for both building cleaning and catering. The overall level of client-side costs is in the lower quartile of authorities. The services are monitored with the aid of a computer system which generates a structured random sample of inspection visits to over 500 sites, batched together so that sites with consistently high standards are not over-inspected. Thus the inspections are targeted at known problem areas, based on the results of previous inspections.

85. To reduce disagreements about inspections, contractor representatives should be invited to attend site visits with client-side officers. An alternative, which may reduce client-side staffing, is to use videos and cameras to record the results of work carried out by contractors. The date and time is recorded on each film, providing evidence that contractors would find difficult to refute. Hand-held electronic recording devices are also used. These enable inspection results to be entered into a computer, using bar codes. The information is then down-loaded onto a central computer and analysed, removing the need for manual copying and analysts. This sort of approach is most appropriate for contracts such as ground maintenance or street cleansing, where inspectors are likely to visit a number of different sites in a day.

86. Some authorities have set up centralised client agent departments to carry out the client-side monitoring rôle at a corporate level. This can provide a pool of expertise and economies of scale (Case Study 7).

Case Study 7

ST. HELENS METROPOLITAN BOROUGH COUNCIL
The rôle of client agent

St. Helens has set up a combined client agent unit in the Environmental and Design Services Department, responsible for monitoring ground maintenance, refuse collection, building cleaning, other cleaning, catering and non-housing building maintenance. This unit offers a concentration of expertise, avoiding duplication of effort, and is pro-active in meeting the needs of service consumers. Overall costs of the client rôle are lower than average. The authority has also introduced a 'customer contract' for environmental services and systems to monitor consumer response.
MONITORING BY CONTRACTORS

87. Contractors, too, must have a rôle in contract monitoring. While some authorities assert that giving contractors a rôle in monitoring their own contracts is akin to ‘putting the fox in charge of the chickens’, contractors can have a rôle in monitoring service delivery through the use of quality assurance. A quality assured system focuses on achieving consistent outputs through the use of well defined procedures. BS5750 is the British Standard for quality assured management systems defined by the British Standards Institute. Implementing BS5750 involves both the cost of devising, documenting and implementing the quality system in an organisation, perhaps using external consultants, and the cost of achieving BS5750 certification using an external assessor. There are both advantages and disadvantages in authorities requesting certification from potential contractors (Exhibit 14). Certification can be valuable but is not the end of the story. It needs to be placed within a comprehensive contract management strategy.

Exhibit 14
BS5750 CERTIFICATION
There are both advantages and disadvantages

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>– Client confidence in contractor systems</td>
<td>– Cost to the contractors of obtaining it, especially where there is heavy reliance on outside consultants/assessors</td>
</tr>
<tr>
<td>– Potential for reduced monitoring costs for client</td>
<td>– Site specific: multi-site activities would each require certification</td>
</tr>
<tr>
<td>– Marketing edge for contractor</td>
<td>– Complacency of client; over-reliance by client on contractor</td>
</tr>
<tr>
<td>– Improved procedures and employee commitment, both from the client and the contractor</td>
<td>– Potentially misleading to client, e.g. if obtained for operations which form only part of the service provided or are not relevant at all to the service required</td>
</tr>
<tr>
<td>– Better trained contractor staff</td>
<td>– Over-documentation by contractor can result in focus on processes which ignores outputs and reduces flexibility of response</td>
</tr>
<tr>
<td>– Possible future EC requirement for public sector suppliers</td>
<td></td>
</tr>
</tbody>
</table>

88. An increasing number of authorities require contractors to work towards BS5750 certification (Table 8, overleaf), although so far, less than a quarter of contracts let in any one six month period for any of the defined activities, have had this as a condition. There are significant differences amongst the 1988 Act activities. At August 1992, refuse collection, building cleaning and sport and leisure management were the only activities where more than 20 per cent of authorities included the requirement to achieve BS5750. Sport and leisure management may illustrate a trend for other white collar services which are to be subjected to OCT. Compared with refuse collection it is much more difficult to assess the quality of the service, since a leisure centre provides a complete package of service to its customers - a clean and comfortable environment, safe conditions, helpful staff and convenient opening times. BS5750 may help to achieve consistency of standards.
REPORTING BACK

89. Monitoring will only be an effective use of resources if the results are used to redefine the service in line with consumers’ needs, and if chargepayers are able to see how their money has been spent. Monitoring results need to be reported to interested parties at several levels:

— **Consumers** will want to know how complaints are being handled and how well the service is operating overall.

— **Members** need to know how contractors are performing in order to judge the award of the next contract. They also need to be aware of any serious problems with performance which could result in contract termination.

— **Senior management** requires information on how contracts are working so that future needs can be assessed and service specifications developed. They also need to know if serious problems arise, since they are responsible for resolving any disagreements.

— **Contractors** want to know about their performance since their income will depend upon the results of monitoring. Local area contractor representatives should be informed of any problems raised by consumers.

— **Chargepayers** and other members of the general public want to know how their money has been spent and whether the contract is achieving general value for money in terms of the authority’s performance indicators.
This report does not provide a comprehensive list of examples of good practice in the client rôle. Rather, it offers a general overview, providing pointers to areas of potential improvement. The Commission has also produced an audit guide (Ref. 9), for use by local auditors, which contains a greater depth of advice on the issues.

The second round of contracts for the defined activities under the 1988 Act are beginning to be let. Authorities now have an opportunity to correct any deficiencies in the first round. Local authority budgets are under increasing pressure and CCT provides value for money opportunities. The client rôle as an interdependent set of functions in contract preparation and management is vital. By market making and intelligence and by packaging contracts so as to encourage competition, local authorities can obtain quality services at lowest cost.

Consumer involvement affects all aspects of CCT. Those undertaking the client rôle need to involve consumers when specifying the service. There must be flexibility in specifications so that they can meet the needs of individual schools and other service outlets. The specifications themselves should give emphasis to the outputs of the contract. This not only gives contractors a greater chance to effect efficiency improvement; it also helps the consumer to understand the intentions of the contract and to help to monitor it. This in turn can lead to savings in client-side monitoring costs.

Some authorities have started the process of consumer empowerment. The second round of tendering should give it greater impetus. Considerable change is needed where the original contracts were specified in terms similar to the previous detailed bonus schemes. These were unattractive to tenderers and made consumer involvement hard to achieve. The opportunity exists now to learn from the experience of the first round of contracts and bring about improvements. By so doing authorities can realise fully the benefits of CCT. Improvements are needed in all aspects of the client rôle (Exhibit 15, overleaf).
Exhibit 15

WHAT NEEDS TO BE DONE

Improvements are needed in all aspects of the client role

**PROBLEMS**

- Dissatisfaction felt by service recipients
- Difficulties in application of CCT
- Potential benefit of CCT not fully realised

**CAUSES**

- Specification not what is wanted
- Services not delivered to specification
- Difficult to get faults rectified
- Problems with contractors (contract termination or financial defaults)
- Bureaucracy of administration and documentation
- Client-side inefficiency
- Lack of interest in contracts
- Potential tenderer drop-out
- Efficiency savings not achieved

**SOLUTIONS**

- Determine realistic service direction and appropriate contract strategy
  - balance priorities
  - obtain market intelligence
  - package contracts to maximise interest
  - plan for contingencies
- Write specification to
  - reflect consumers’ views
  - define contract outputs as far as possible
  - allow flexibility for changing circumstances
  - take account of experience with first round contracts
- Ensure contract conditions are comprehensive
  - define responsibilities of parties to the contract
  - spell out how variations should be made
  - clarify alternatives if things go wrong
  - set out administrative arrangements
- Make contract letting procedures as transparent as possible
  - define and adhere to timetable
  - provide relevant information to all potential tenderers
  - carry out tender evaluation fairly
  - utilise mobilisation period to resolve anticipated difficulties
- Involve consumers and contractors in contract monitoring
  - understand the purpose of monitoring
  - utilise complaints systems, consumer feedback
  - encourage contractor quality assurance
  - provide monitoring information to interested parties
- Streamline contract administration
  - set out clear responsibilities
  - hold regular meetings between client, contractor and consumer
  - resolve problems at local level if possible
  - apply defaults fairly
  - use arbitration procedures where appropriate
Appendix

COMPULSORY COMPETITIVE TENDERING REGULATIONS  
(Local Government Act, 1988)

<table>
<thead>
<tr>
<th>Activity</th>
<th>Requirement</th>
<th>Other catering</th>
<th>Catering (education and welfare)</th>
<th>Building cleaning</th>
<th>Refuse collecting</th>
<th>Ground maintenance</th>
<th>Sport and leisure management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Length of contract (years)</td>
<td>min.</td>
<td>4 (England)</td>
<td>4 (England)</td>
<td>3 (LEA in England)</td>
<td>5</td>
<td>3 (LEA in England)</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>max.</td>
<td>3 (Wales)</td>
<td>3 (Wales)</td>
<td>4 (non-LEA in England)</td>
<td>6 (England)</td>
<td>4 (LEA in England and Wales)</td>
<td>3 (Wales)</td>
</tr>
<tr>
<td>Timetable for implementation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Authorities divided into 11 groups. Different activities let by different groups at approximately six-monthly intervals. First contracts to be let by 1 August, 1989; all work to be let by 1 January, 1992.</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Wales: 35% 1/1/92, 70% 1/8/92, 100% 1/1/93</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Authorities divided into five groups. Each group to let 100% of work by pre-specified date. First contracts to be let by 1 January, 1992; all work to be let by 1 January, 1994.</td>
</tr>
</tbody>
</table>

De minimis threshold Estimated gross expenditure in previous year less than £100,000 (excluding payments to contractors under works contracts, client costs which would have been incurred anyway, emergency works and specific exemptions).
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