

Public services

Summary

November 2007

Healthy competition

How councils can use competition and contestability
to improve services

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Councils can use market mechanisms like competition and contestability to generate benefits for taxpayers and service users.

- Over £50 billion, half of all council expenditure, per year is potentially subject to competitive pressure.
- When used appropriately, competition and contestability have reduced service costs and improved service quality.
- Councils are still using market mechanisms to improve efficiency. Up to £80 million of recent efficiency improvements in corporate services can be attributed to market mechanisms.
- There remains potential for further gains to be made in both cost and quality, but there is evidence that these may be increasingly hard to secure.

Competition and contestability can help councils deliver their place-shaping objectives.

- Councils are now expected to consider the role of markets and market mechanisms throughout the commissioning cycle.
- Councils are being challenged to use them alongside other mechanisms such as partnership working, citizen engagement and choice.

Successful councils are pragmatic in their use of competition and contestability.

- Councils that have used them well have:
 - done so as part of a broad set of improvement tools and not treated developing them as an end in itself;
 - created the right market conditions for them to have the greatest impact; and
 - used a mix of in-house and outsourced provision depending on where best value was to be found.
- Appropriate use of competition and contestability is associated with improved service outcomes and good performance.

But the pre-conditions for using competition and contestability most effectively are not widely in place.

- Competition and contestability are used most effectively where councils have a pragmatic mindset; understand markets, costs and performance well; and have the skills and capacity to procure effectively.
- However, members and officers do not always adopt a pragmatic approach to using market mechanisms.
- And councils generally lack:
 - sufficient people with the procurement, risk or contract management skills to make effective use of market mechanisms;
 - information about local public service markets that would enable them to use or develop those markets; and
 - information about delivery costs, management costs or service performance to determine the best service delivery option and the best way to secure that option.
- The Audit Commission will work with other agencies to develop tools to help councils use competition and contestability more effectively.

Recommendations

Local councils should:

- Establish the pre-conditions to make the best use of competition and contestability by:
 - identifying the current mindset and encouraging a pragmatic approach within the council;
 - identifying and filling any skills gaps in procurement and commissioning, either by building in-house capacity or seeking external expertise;
 - collecting and analysing market information before considering the use of competition and contestability in any particular service area; and
 - collecting and analysing performance information to ensure they adequately:
 - understand current performance;
 - assess the relative merits of the different options for service provision; and
 - monitor the performance of the chosen option.

Local government bodies and central government should:

- Establish a common language and approach to the role of competition and contestability in local public service improvement.
- Ensure that statutory and other guidance continues to set out the role of competition and contestability and enables councils to use them within the range of improvement tools at their disposal.
- Use the new National Improvement and Efficiency Strategy to enable councils to make the best use of competition and contestability, by:
 - providing training and development for senior officers and members;
 - establishing mechanisms to address skills gaps in procurement and commissioning;
 - providing better information on local public service markets;
 - supporting councils to establish the costs and benefits of competition and contestability; and
 - assessing the impact of these interventions.

The Audit Commission will:

- Disseminate good practice in using competition and contestability through its audit and inspection activity.
- Draw on the learning from this study to develop self-assessment and improvement tools that will enable councils to make more effective use of competition and contestability, in collaboration with local government and improvement agencies as appropriate.
- Work with central and local government to create a framework that encourages and enables councils to use competition and contestability effectively, through Comprehensive Area Assessment and use of resources assessments.

Checklist for members, chief executives and senior officers

Does my council have the right mindset to use competition and contestability effectively?

- What do members and officers understand by the terms competition and contestability?
 - To what extent are officers and members open to using competition and contestability? What is shaping their views?
 - How do we know if there is a common understanding and approach between officers and members, and between officers at all levels in the council?
- What part do competition and contestability play in the council's approach to service improvement?
 - To what extent do we use competition and contestability as part of a set of improvement tools to ensure that existing services are effectively challenged?
 - Do we use competition and contestability for wider objectives than solely to achieve cost reductions?
 - How did we consider the options in our most recent commissioning exercises? Did we consider all options, including outsourcing, retaining or bringing back the service in-house, or going into partnership?
 - How do we ensure that market mechanisms are used appropriately through the whole of the commissioning cycle, from the stages before the actual procurement, through the procurement process itself, and into contract management or internal performance management? How did we do so in our last major commissioning exercise?
 - Do we make more or less use of market mechanisms than the councils we like to compare ourselves against?

Does my council have sufficient skills and capacity to use competition and contestability effectively?

- How many officers in service departments are commissioning or procuring services?
 - How many of these have received any training or have any procurement qualifications? What do our procurement experts think of their capabilities?
 - Do our procurement experts provide effective support? What do service managers think of this support?

- How much training and experience do those responsible for procuring and managing contracts have in contract negotiation, risk management or performance management?
- How do we decide on the level of service expertise we need to maintain within the council when services are outsourced?
 - What proportion of our key people transferred to contractors during recent outsourcing exercises?
 - How confident are we that we still have sufficient skills and expertise to manage the service effectively?
 - How do we assess the appropriate size and balance of skills for a client side management team? Do our current teams match that model?

What does my council do to shape local markets?

- How do we assess the level of competitiveness in markets we want to use?
- In which services do we think there is effectively a monopoly? If a monopoly does exist, how can we bring market pressure to bear on the provider?
- Have we assessed the scope for establishing trading companies or entering partnerships with other commissioners to stimulate the market?
- What do we do with partners to shape regional markets?

Does my council have sufficient understanding of relevant markets to use competition and contestability effectively?

- How do we ensure that relevant members of staff have enough knowledge of the market to understand the potential of competitive processes?

i Copies of the full report are available at: www.audit-commission.gov.uk or to order a printed copy telephone: **0800 502030** quoting stock code: **LNR3411**

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