

## **PRACTICAL GUIDE**

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# **Private sector partnering in the police service**

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**A practical guide to major business partnering,  
custody partnering and consultancy support**





Inspecting policing  
in the public interest



National Audit Office

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# Foreword

Successive operational and legislative reforms over the past three decades have prompted the police to work with other forces or public sector organisations to achieve their strategic objectives. However, in common with other public bodies, the police are now also increasingly looking to work in partnership with private sector organisations.

For many forces this is a new development and they will need to continue to adapt and innovate, to meet the challenges of a changing landscape while maintaining services for their communities. Forces have limited experience or information available to help them as they procure and manage partnerships with the private sector.

Forces face different levels of financial and operational challenge depending on their individual funding arrangements and the communities they serve. When considering how to address these challenges, this guide will be of particular use to chief constables and police and crime commissioners. Chief constables are responsible for operational policing, and police and crime commissioners will hold chief constables to account for policing in their force area on the public's behalf.

The forces we visited were some of the 'first to market' in entering into partnerships with the private sector. We would particularly like to thank those who gave up their time to be involved in interviews and focus groups, and who gave access to contracts and other documents. Their welcome and assistance, without which this guide could not have been written, will help inform decision-makers and practitioners in the future.

**Thomas P Winsor**  
HM Chief Inspector of Constabulary

**Amyas C E Morse**  
Comptroller and Auditor General

July 2013

# Summary

**1** Police forces in England and Wales have contracted with the private sector for several decades. However, this activity has increased over the last two years as the service responds to the budget reductions required by the 2010 spending review,<sup>1</sup> with more forces agreeing high-value, long-term contracts.

**2** Her Majesty's Inspectorate of Constabulary (HMIC) has reported on this increase in police/private sector partnering in three publications: *Adapting to Austerity* (2011), *Increasing Efficiency in the Police Service* (2012); and *Adapting to Austerity: One Year On* (2012). These found that:

- private/public partnerships can help forces develop new and more efficient approaches to providing services, but the service was not yet fully exploiting the benefits, and there are also associated risks (*Increasing Efficiency in the Police Service*); and
- there is a lack of good quality, comparative information on the potential benefits from different private or public sector collaborations (*Adapting to Austerity*).

**3** As a result, HMIC identified a pressing need to share good quality, comparative information on the potential benefits of different private/public sector initiatives.<sup>2</sup>

**4** The National Audit Office (NAO) has produced numerous reports examining arrangements between the public and private sector in providing public services. These range from in-depth examinations of specific private finance initiative (PFI) contracts to wider reviews looking at thematic issues such as financing and tendering. The NAO also has a role in scrutinising the value for money of the grants that central government makes to the police service – for example, the NAO published a report looking at police procurement in March 2013. This report described the various types of collaboration forces entered into, including with private sector providers, and made recommendations for how further savings could be achieved.<sup>3</sup>

## Our approach

**5** In summer 2012, the NAO and HMIC committed to working together to produce a practical guide on procuring and managing private sector partnerships. This guide is based on good practice and areas of learning identified in the police forces we visited. It is informed by our wider expertise in policing, commissioning and private finance.

**6** We reviewed a selection of private sector partnerships already in place in forces (see **Figure 1** overleaf and **Figure 2** on page 8). We focused on three delivery models:

- **Major business partnering**, where the force contracts a private sector partner to provide a significant area of policing (for example, by outsourcing business support services). These contracts are typically high value and medium term (up to ten years).
- **Custody partnering**, where the force contracts a private sector partner to provide either services (for example, detainee management, catering and cleaning), buildings or both, including through PFI contracts. PFI contracts are typically long term (between 25 and 30 years).
- **Consultancy support**, where forces purchase skills and expertise to help a transformation and can include contractually committed levels of savings. Contracts are short term (typically one to twelve months).

We chose these types of delivery models because we judged them to have high potential for the realisation of savings and supporting transformation. We also viewed them as the most likely arrangements to provide useful and transferable lessons for other stakeholders.

<sup>1</sup> For instance, while in spring 2011 only 29 of the 43 forces had identified how savings could be made through collaboration, by November of that year all forces were planning to realise collaborative savings. See *Increasing Efficiency in the Police Service: The Role of Collaboration*, HMIC, 2012.

<sup>2</sup> References to relevant HMIC and NAO publications can be found in the further resources section of this guide.

<sup>3</sup> Comptroller and Auditor General, *Police procurement*, Session 2012-13, HC 1046, National Audit Office, March 2013.

**Figure 1**

## Types of police/private sector partnership arrangements and case studies

Type of arrangement	Characteristics	Case studies
<b>Major business partnering</b>	<p>Covers a significant area of the cost base</p> <p>Partner assumes responsibility for the delivery of services</p> <p>Affected police force staff are either transferred or seconded to the partner organisation</p> <p>Contracts are typically medium-term – ten years or more</p>	<p>Avon and Somerset Constabulary</p> <hr/> <p>Cheshire Constabulary and Northamptonshire Police</p> <hr/> <p>Cleveland Police</p> <hr/> <p>Lincolnshire Police</p>
<b>Custody partnering (buildings and services)</b>	<p>Partner assumes responsibility for the delivery of services focused around custody</p> <p>Forces retain managerial oversight of operations through warranted roles</p> <p>Staff may be transferred to the partner organisation</p> <p>Can involve the provision of buildings through private finance initiative (PFI) contracts</p> <p>PFI contracts which are long-term – 25 to 30 years</p>	<p>South Wales Police</p> <hr/> <p>Norfolk Constabulary and Suffolk Constabulary</p> <hr/> <p>Metropolitan Police Service</p> <hr/> <p>Sussex Police</p>
<b>Consultancy support</b>	<p>Forces purchase external skills and expertise to facilitate transformation</p> <p>Contracts are short-term – one to twelve months</p>	<p>Staffordshire Police</p> <hr/> <p>West Midlands Police</p>

Source: HM Inspectorate of Constabulary and National Audit Office analysis

**Scope of services, contract length, size and frequency of staff involved**

Commenced in 2008, involving the following services: enquiry offices; district HR; estates; financial services; site administration; facilities; corporate human resources; information services; purchasing and supply; and reprographics.

Ten year contract involving 554 seconded staff

Commenced in 2011, involving the following services: shared business services in human foundation and resources; finance; purchasing; logistics, estates and facilities; analytics (business intelligence); payroll; and duty management.

Ten year contract involving 125 transferred staff

Commenced in 2010, involving the following services: call handling; support for the preparation of criminal case files; and shared business services covering finance, HR, payroll, commissioning and fleet management.

Ten year contract involving 514 transferred staff

Commenced in 2012, involving the following services: assets and facilities management (including fleet management); central ticket office and road collisions unit; crime management bureau; criminal justice unit; custody (excluding custody sergeant role); finance and procurement; firearms licensing; force control room (excluding inspector role); HR services (excluding occupational health); HR learning and development; ICT; resource management unit and support services.

Ten year contract involving 600 transferred staff

Commenced in 2004, and re-tendered in 2009 the following services: detainee management services; provision of laundry services; and 'street to suite'.

Non-PFI five year service contract

Commenced in 2010, involving the following services: six new buildings with contract management services; estates and facilities services; grounds maintenance services; utilities and energy management services; catering services; cleaning, waste and pest control services; and detainee consumables services.

30 year PFI contract

Operational from 2004, involving the following services: four new builds and custody suites at three locations with police services comprising front office staff; custody assistants; property officers and typists. Other services provided include cleaning; catering and building maintenance.

25 year PFI contract

Commenced in 2001, involving the following services: four new buildings and refurbishment at two others with detainee management; cleaning; prisoner identification; facilities management and medical services.

30 year PFI contract

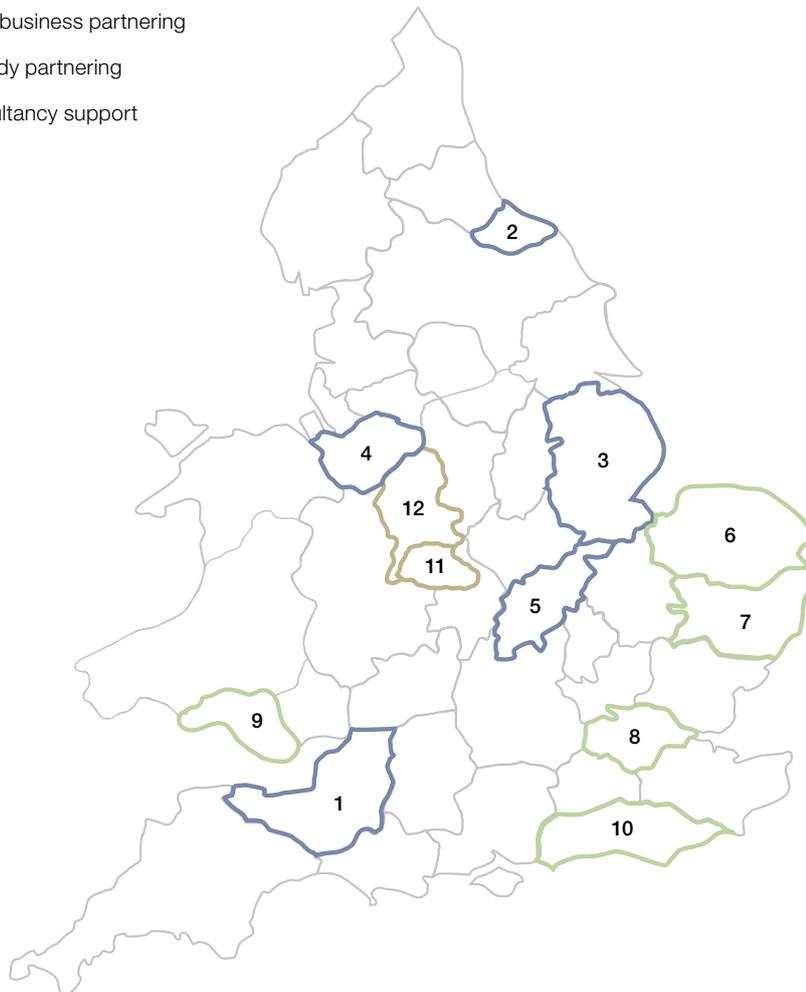
Commenced in 2008-09, and split into phases. Focused on operational policing as well as business support functions.

Commenced in 2010-11, and split into phases. Focused on all operational policing areas and local policing units.

**Figure 2**

Map of forces visited during fieldwork

- Major business partnering
- Custody partnering
- Consultancy support



- |                                  |                               |                         |
|----------------------------------|-------------------------------|-------------------------|
| 1 Avon and Somerset Constabulary | 5 Northamptonshire Police     | 9 South Wales Police    |
| 2 Cleveland Police               | 6 Norfolk Constabulary        | 10 Sussex Police        |
| 3 Lincolnshire Police            | 7 Suffolk Constabulary        | 11 West Midlands Police |
| 4 Cheshire Constabulary          | 8 Metropolitan Police Service | 12 Staffordshire Police |

Source: HM Inspectorate of Constabulary and National Audit Office analysis

**7** To examine how these arrangements worked we visited 12 forces between October and December 2012 and held interviews and focus groups with representatives from the force, the office of the police and crime commissioner,<sup>4</sup> and private sector partners. We also spoke to industry representatives; the Home Office; the Association of Chief Police Officers; and the College of Policing, to explore opportunities and barriers for future partnership arrangements.

**8** We focused on drawing out lessons. We did not evaluate the overall value for money of the partnering arrangements but we have identified practices that present risks and opportunities to value for money.

## Findings

**9** This practical guide describes in some detail the four main stages of a procurement and contract management exercise. In this summary, we focus on the lessons for each of these stages from the experiences of forces who have already gone through them; the early indications on the outcomes from the partnerships already in place; and the problems for the whole police service as it collaborates more with the private sector. These lessons should act as a useful prompt for forces and Police and Crime Commissioners (PCCs) who may be considering such steps.

## Lessons learned

**10** We found examples of well-run procurement processes and carefully managed contracts across all model types. The rest of this section contains the key findings and lessons learned from forces for each of the four stages of the procurement and management life cycle. Further resources are set out in the guide to help support decision-making on partnering.

## Identifying strategy, objectives and service outcomes

- It is important to have clear strategies, objectives and outcomes communicated to the market, and to identify the appetite for risk and tolerance levels early on.
- Success depended on there being strong leaders, who recognised where there were shortages of commercial skills and expertise (either in themselves as strategic leaders, or in their procurement teams) and acted to address them.
- Careful planning is needed to develop detailed service specifications. Forces should use cost and performance analyses to help align the specifications to their wider force priorities, drawing on available benchmarking data.
- Some forces acknowledged that they initially placed too great a focus on 'saving money' as an objective. Many have since altered their key performance indicators and introduced measures that help improve service quality.

<sup>4</sup> We visited forces between October and December 2012, during the transition from police authorities to Police and Crime Commissioners (PCCs) when arrangements for financial decision-making in forces changed. This guide therefore provides some examples that are applicable after this transition.

### Sourcing and tender evaluation

- Forces should develop their relationships with their potential partners and ensure both sides understand each other's culture and values. This will help to inform the bid and contract award processes.
- Forces should consider contract flexibility early in the process.
- Forces entering into partnerships should be aware that the sourcing stage; tender evaluation; baselining of costs and performance; and improving business understanding are resource-intensive activities. The advantages should be weighed against the costs incurred.

### Governance, leadership and stakeholder management

- It is important for senior leadership to act as a catalyst for ensuring that projects have impetus and direction – this has been repeatedly stressed.
- Forces should consider how best to communicate with their stakeholders and how they respond to feedback. This will help to ensure that stakeholders support the project as far as possible and achieve the best outcomes.

### Contract and performance management

- Forces should consider a strategy for monitoring performance. For example, whether to pursue service credits wherever the contract provides this, or to adopt a more flexible approach during periods of complex change. Forces should agree and document these decisions.
- Forces should also understand how they will obtain feedback from end-users.

### Outcomes recorded by forces

**11** We did not evaluate the overall value for money of the partnering arrangements. However, we discussed with forces the outcomes they had achieved through their partnerships. Those whose collaborations were still at an early stage naturally had limited information, but had conducted some appraisals. Forces with more mature operational contracts had evaluated them, often using external independent evaluators. Forces that had undertaken an external review highlighted that it had helped them to be more 'intelligent clients' and independent scrutiny had given legitimacy and increased stakeholder buy-in. The main outcomes that forces reported to us included the following:

- **Financial outcomes.** Forces gave us evidence of savings and reduced running costs in contracted areas and also described positive impacts on the retained functions of the force. This was not always the case in the early stages of contracts, where some forces had prioritised service improvements and had not quantified savings.
- **Performance outcomes.** Forces cited several areas where performance had improved because of what they had learnt from their private sector partners. Some forces noted that an early focus on quantitative performance information may not have driven the right behaviours and they needed to adapt performance measures to make such improvements.
- **Improved professionalism and working environments.** Private sector expertise improved the professionalism of many roles, particularly custody. Managers and staff in all custody arrangements we visited said that the facilities exceeded their expectations.

- **Better data and business intelligence leading to improved force performance.** Several forces said that they had improved how they captured, recorded and shared knowledge across the force. This better quality management information helped them to improve performance elsewhere in the organisation.
- **Unanticipated delays or increases in costs.** Forces said that engaging with potential partners sometimes exposed their lack of business understanding. For example, there was no performance monitoring information in some service areas. This meant that bidders would have to do research to fully understand force requirements. Dealing with these issues could therefore cause unanticipated delays in the sourcing phase of the procurement.

### The challenge ahead: opportunities for improvement

**12** We identified – through fieldwork interviews and engaging with stakeholders – a number of common challenges that forces, PCCs and the private sector face. With increasing collaboration between forces, other public sector organisations, and private sector providers, the context in which forces operate and engage with others is becoming more complex. This can contribute to uncertainty in these relationships, with potential impacts on costs and delivery. Focusing on the following two areas could give the service opportunities for making improvements:

- **Improving private sector engagement.** This could help forces and PCCs to better understand what outcomes partnership can offer, while also improving potential partners' awareness of forces' requirements. Forces can use experience from mature partnerships to help explore the issues involved in partnering. The College of Policing could take a role in coordinating this engagement.
- **Building the sector's commercial skills and capabilities.** Both forces and private sector partners said they wanted to help the policing sector become more of an 'intelligent customer'. Again, the College of Policing could be active in helping forces achieve this.

### Key considerations for future private sector partnerships

**13** PCCs and forces can learn much from those who have already entered into these arrangements. We found good examples of well-run procurement processes and carefully managed contracts.

**14** As partnering becomes more widespread, forces and PCCs should further develop their ability to benchmark before entering deals. They could use data and expertise from the College of Policing. Forces and PCCs could articulate their service outcomes in a way that encourages innovation and fits with their overall strategic objectives. Forces should consider how to maximise stakeholder buy-in and support for business partnering activities as far as possible. They should also consider how best to ensure that contracts are flexible enough to adapt to any new requirements – particularly for medium or long-term contracts – given the rapidly changing policing landscape.

**15** There is a risk that engaging individually with private sector partners means not reaching the most efficient deal or losing the opportunity to share skills and expertise more widely. The Home Office, the College of Policing and the Police ICT Company can all work to ensure that forces achieve value for money when they engage with the private sector.

# Background

**16** This guide has been produced jointly by Her Majesty's Inspectorate of Constabulary (HMIC) and the National Audit Office (NAO). The remit of each organisation is as follows:

- **Her Majesty's Inspectorate of Constabulary:** Her Majesty's Inspectorate of Constabulary (HMIC) inspects and reports on the efficiency and effectiveness of police forces and specified national police agencies. Its overall objective is to provide, in the public interest, independent, professional assessments of police efficiency and effectiveness for the public, their elected representatives and the police. HMIC undertakes inspection of police forces under section 54 of the Police Act 1996.
- **National Audit Office:** the National Audit Office (NAO) gives independent opinions and evidence to help Parliament hold the government to account. The NAO certifies the accounts of all government departments and a wide range of other public sector bodies. It also reports on the economy, efficiency and effectiveness with which departments and other bodies have used their resources. It can also reasonably and helpfully point out what it understands to be principles of good practice and areas for learning in service provision.

## The nature of policing

**17** The policing model in England and Wales is underpinned by the concept of 'policing by consent'. This means that policing should promote public respect, approval and willing cooperation. Public trust and confidence from the communities the police serve is essential for effective policing, whether this is by the police or through a partnership arrangement. The public will hold the police to account for providing services. Using the private sector for some aspects of policing can raise important questions about issues such as accountability, public consent (where the liberty and protection of the public is at stake), and risk management.

**18** There are other critical aspects of policing that forces considering contracting with the private sector will need to take into account. For example, providing all police activity coherently and consistently; restrictions on the transfer to other bodies of policing activities that are legally required to be undertaken by individuals who hold the Office of Constable; public confidence in warranted police powers; fairness and transparency in resolving disputes; the allocation of resources and administering justice.

**19** In November 2012 police authorities were replaced with democratically elected PCCs. New governance and leadership arrangements have changed how strategic and financial decisions are made. PCCs, and chief constables with the consent of the PCC, have a statutory power to enter contracts, acquire and dispose of property and borrow money. From their elected position they will be mindful of public opinion and may have different views on private sector involvement in policing.

## The policing context and the challenge of austerity

**20** PCCs and chief constables are separate corporate bodies. PCCs receive grants from central government, determined by the specific needs of their areas. PCCs also raise revenue to fund their police forces' operations by levying a precept on council tax collection authorities, which is added to local people's council tax bills. The ratio of central government to local taxpayer funding varies between forces and means that changes to central government funding following the 2010 comprehensive spending review affected forces differently. In total, the specified reduction in central government funding is £2.1 billion in real terms (£1.2 billion in cash terms) by 2014-15, compared with funding in 2010-11.

**21** The challenge for forces is to maintain or improve services to the public while funding is being cut. To understand how forces are responding to this challenge, HMIC has conducted two 'Valuing the Police' inspections covering all forces in England and Wales. In its most recent inspection report, it found that forces are balancing their books by cutting the workforce and reducing their spending on goods and services. It also found that more forces are collaborating to provide services and working with the private sector to make savings.

**22** The police have contracted with the private sector for several decades, but this activity has increased recently and some forces have now agreed high-value, long-term contracts. HMIC identified in its report, *Policing in austerity: One year on*<sup>5</sup> that these arrangements can help forces develop new and more efficient approaches to providing services. However, such partnerships can also heighten operational and financial risks. HMIC and the NAO therefore agreed to work together to identify good practice and learning from force collaborations with the private sector.

### **Police service delivery models**

**23** There are a range of different service delivery models that are available to the police. Some services are provided solely by the police, while other models are supported by central government, third sector or private sector organisations. These are set out in **Figure 3** overleaf.

### **Lessons from partnering in other sectors**

**24** Private sector partnering activity occurs across the public sector. According to the government, around £200 billion will need to be spent on economic infrastructure<sup>6</sup> over the next five years, with the majority of this expected to come from the private sector. At the same time, the government is seeking to be more efficient in its spending to make annual infrastructure savings of £2 billion to £3 billion.<sup>7</sup> Examples of private sector partnering arrangements in the public sector include the following:

- **Hospitals.** The Department of Health helps hospital trusts to manage their operational PFI contracts for providing hospital buildings and services.
- **Homes.** The Department for Communities and Local Government allocates funding for PFI contracts for providing new homes.
- **Schools.** The Department for Education provided new schools through the Building Schools for the Future programme.
- **Prisons.** The Ministry of Justice oversees those providing prison buildings and services to accommodate young and adult offenders.

5 HM Inspectorate of Constabulary, *Policing in Austerity: One Year On*, 2012.

6 HM Treasury, *Infrastructure UK: National Infrastructure Plan 2010*, October 2010. Available at: [webarchive.nationalarchives.gov.uk/20130129110402/www.hm-treasury.gov.uk/ppp\\_national\\_infrastructure\\_plan.htm](http://webarchive.nationalarchives.gov.uk/20130129110402/www.hm-treasury.gov.uk/ppp_national_infrastructure_plan.htm)

7 *Cost Review*, HM Treasury, December 2010. Available at: [www.hm-treasury.gov.uk/iuk\\_cost\\_review\\_index.htm](http://www.hm-treasury.gov.uk/iuk_cost_review_index.htm)

**25** In many of these examples, local private sector contracts are coordinated centrally by sponsor government departments to help manage the market. This central coordination framework<sup>8</sup> has helped, in some cases to:

- collate lessons to avoid local projects making errors through lack of experience;
- reduce the need to commission similar advice; and
- identify and negotiate economies of scale and efficiencies, for example where similar services are needed for several organisations.

### Figure 3

#### Police service delivery models

##### Police-led delivery

Police-led service delivery involves the provision of services without the direct use of the private sector or other organisations. For example, this includes policing activities which require a warranted police officer to undertake the service.

##### Central government support

Central government departments such as the Home Office can support forces through the procurement of framework contracts for goods and services, including ICT service provision and management consultancy. The Home Office also supports forces by helping them to fund PFI contracts.

##### Third and private sector delivery

The use of voluntary individuals or agencies to support policing services. For example, charitable and philanthropic organisations can assist forces with community-focused crime prevention or harm reduction activities. PCCs can commission services and award grants to third or private sector delivery that address priorities identified in their annual Police and Crime Plan.

##### Public – private sector delivery

###### Outsource

Forces can contract out an individual service or group of services to an external body. Services may include corporate support functions or specialist functions including custody services.

###### Private Finance Initiative

PFI contracts have been used by forces where external capital has been required to finance projects and services. The balance is paid off over approximately 25-30 years through the force budget and Home Office grants. PFI is being replaced by 'PF2' which may enable forces to achieve greater value for money.

###### Joint Venture

Forces can enter into joint-ventures where a new body is formed between two or more organisations to deliver agreed objectives. They exist in a variety of forms and are formed by transferring staff and assets from the participating organisations into a separate entity, the joint venture, and/or receiving equity in return for the transfer of assets. Responsibility for delivery, revenues, expenses, assets and control of the organisation are shared between the parties in the agreement.

###### Consultancy support

Forces can independently contract consultancy services from the private and third sector to help achieve a defined business objective. For example, this could include specialist legal and technical advice during a period of ICT-enabled business transformation.

Source: HM Inspectorate of Constabulary and National Audit Office analysis

<sup>8</sup> The government is encouraging, where appropriate, the departmental centralisation of procurement under the new private finance model, PF2, to enable economies of scale and efficiencies across a procurement programme. This centralised approach will be used within the Department for Education in the first PF2 programme, the Priority Schools Building Programme.

**26** In contrast, partnering activity in the police sector has typically taken place individually with police forces and authorities assessing their own needs. The purpose of this guide is to provide key learning points and signpost further support for forces and PCCs considering partnering. However, we also question whether each force pursuing its own strategy is the most efficient way of partnering and whether better value for money could be achieved and risk better managed with greater coordination and support.

### Structure of this guide

**27** This guide is divided into six parts. Parts One to Four provide an overview of key processes and highlight opportunities and risks to help readers make informed decisions. We present key learning points through force case studies and highlight external resources to support forces and PCCs in considering such arrangements. Part Five describes outcomes that forces reported on those partnering arrangements we visited. Part Six looks at current policing challenges and suggests further action. The structure of the guide is set out below:

- **Part One** outlines how forces could develop strategy, objectives and service outcomes for partnering activity.
- **Part Two** sets out what forces should consider when they start the sourcing process and tender evaluation stages.
- **Part Three** highlights the importance of effective governance, leadership and stakeholder management throughout a private sector partnership.
- **Part Four** notes what forces should consider in their contract and performance management.
- **Part Five** examines forces' reflections on some of the outcomes that have been achieved.
- **Part Six** describes the challenges PCCs, forces and the private sector face, and some areas where we suggest developing further action.

**28** Throughout the guide, we highlight observations from our document review and fieldwork visits. These are not exhaustive and are provided for illustrative purposes.

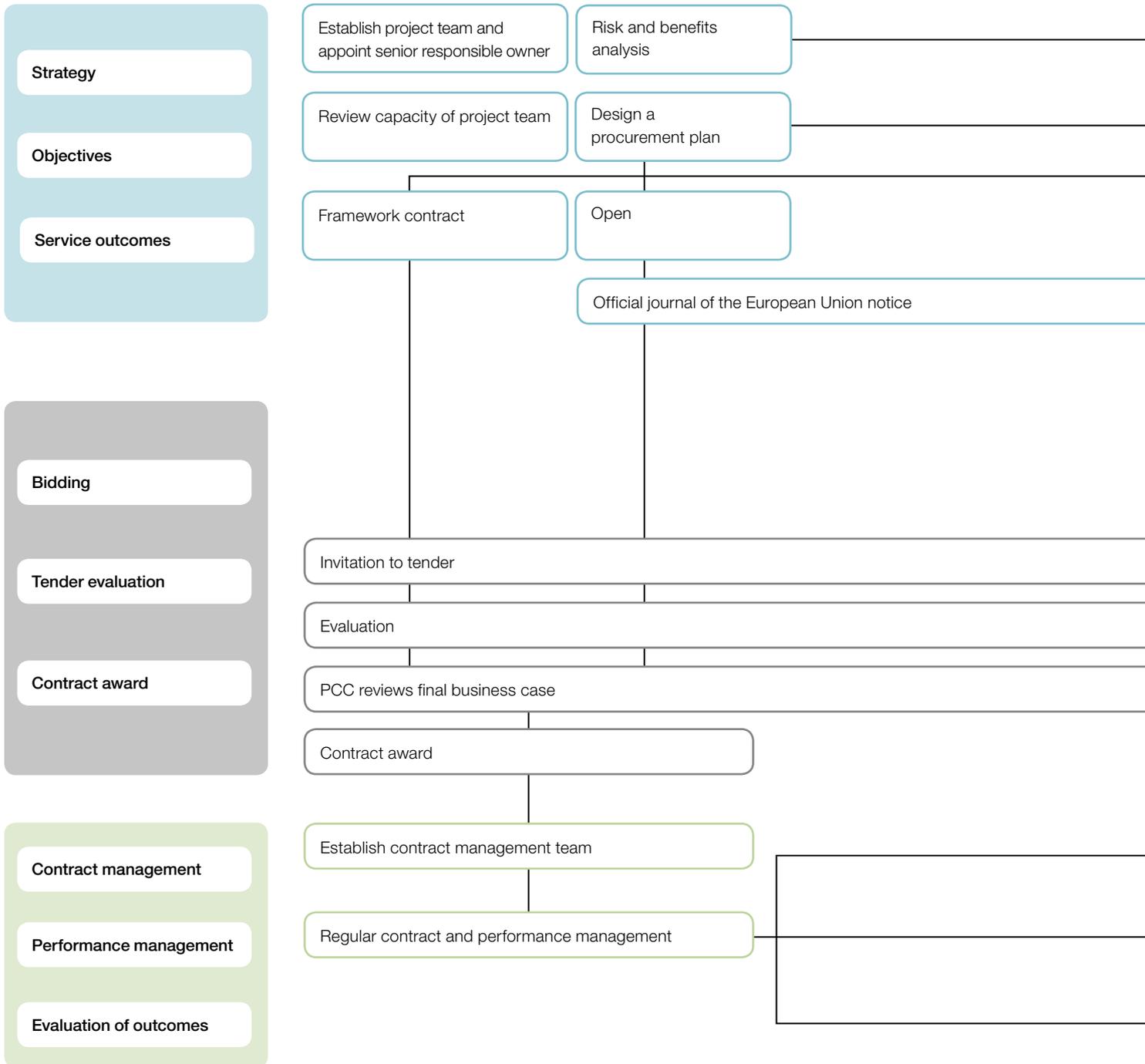
**29** We visited forces between October and December 2012, during the transition from police authorities to PCCs where arrangements changed for financial decision-making. This guide therefore provides some examples from both before and after this transition.

**30** PCCs and chief constables have roles in approving and overseeing partnering arrangements. The chief constable is responsible for managing resources and expenditure. They must appoint a chief finance officer (CFO) to administer the chief constable's financial affairs.<sup>9</sup> The PCC prepares a 'scheme of consent' to set out any conditions attached to how the chief constable exercises these powers to enter into contracts and acquire or dispose of property. We have reflected these differences in Part Three.

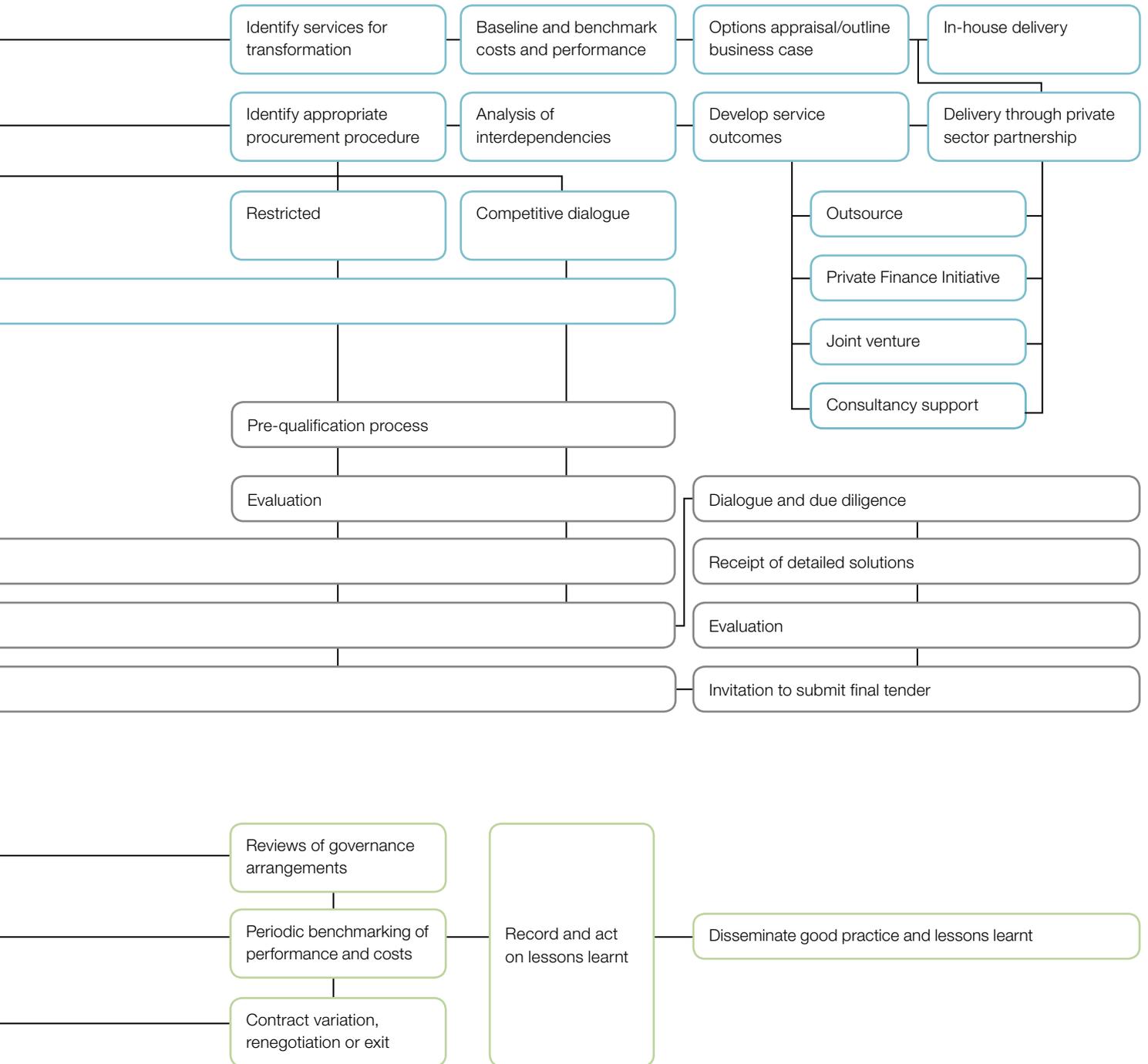
**31** **Figure 4** on pages 16 and 17 provides an overview of how Parts One to Four relate to the stages and processes described in this practical guide.

<sup>9</sup> *The Financial Management Code of Practice for the Police Service of England Wales*, Home Office, January 2012. Available at: [www.official-documents.gov.uk/document/other/9780108511332/9780108511332.asp](http://www.official-documents.gov.uk/document/other/9780108511332/9780108511332.asp)

**Figure 4**  
Private sector partnering process map



Source: HM Inspectorate of Constabulary and National Audit Office analysis



# Part One

## Developing strategy and objectives

**Principle: The outcome of effective identification of strategy, objectives and service outcomes is that they are aligned to the forces' priorities.**

**Part One outlines the strategy and objectives that forces will need to develop and areas to consider before they enter a partnering arrangement. It also explores, using a business analysis tool, how to decide what services may be considered for partnering.**

### Background

**1.1** There are a number of important motivations for entering private sector partnerships. Forces and PCCs should consider the relative weighting of such factors when considering their strategy, objectives and the outcomes they aim to achieve:

- **Reduced government funding.** Forces and PCCs are identifying more cost-effective ways to provide services, for example, through standardising service provision.
- **Updating systems.** Forces and PCCs are replacing outdated systems with investments in ICT being used to support business transformation.
- **Legal changes.** Policing reforms have necessitated investment to meet new requirements, such as improving custodial facilities and services so they are more efficient and safe.
- **Increasing productivity.** Working with a partner can offer opportunities to reduce costs and improve productivity through better information sharing, reducing workloads and improving capabilities where there are gaps in skills and expertise.

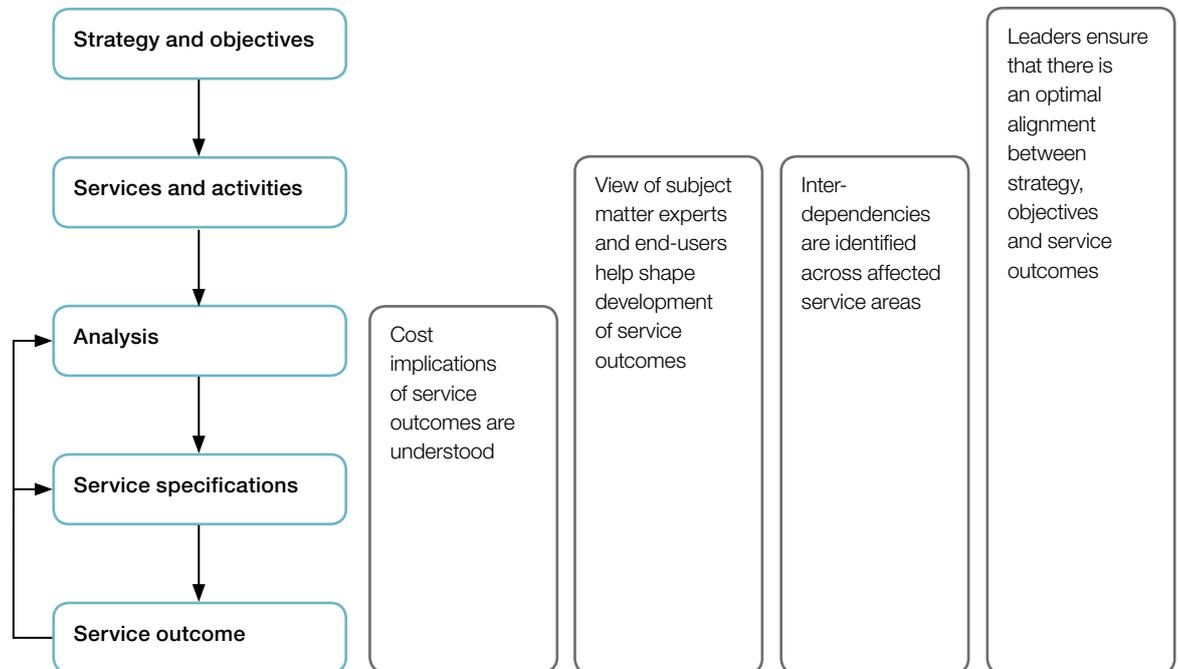
### Developing service outcomes from strategy and objectives

**1.2** Senior leaders should initially agree a strategic plan that defines the force's and PCC's strategy and objectives. Service specifications which will lead to the desired outcomes can then be developed. **Figure 5** sets out how leaders and stakeholders should be involved to align outcomes with priorities. Senior leaders should also identify key interdependencies across affected service areas.

**1.3** The force and PCC should create clear objectives based on their strategy and show the key activities that they will use to achieve them. When considering partnering arrangements, they should select the most cost-effective and achievable objectives that are most likely to further the organisation's goals. They should be clear on the objectives and outcomes they want to achieve and the parameters within which they should be achieved, while being open to alternative proposals from providers that would meet their requirements.<sup>10</sup> An effective strategy should give forces flexibility and resilience to guard against uncertainties. However, entering into a partnership brings additional risks that should be considered.

<sup>10</sup> This may exclude policing requirements which have a statutory basis, such as the adherence to the welfare needs of detainees.

**Figure 5**  
Involving decision-makers in developing strategy



Source: HM Inspectorate of Constabulary and National Audit Office analysis

### Areas for consideration before partnering

**1.4** Outlined below are some of the factors that could be considered when developing a 'strategy to partner'. These may also help forces and PCCs decide how to proceed after identifying that a partnering arrangement is suitable:

- **Financial implications.** Any significant change in approach to delivering strategic objectives is likely to have financial implications and the force will need to consider what these might be during its planning work. The force should estimate how costs might differ from their current approach – and why – in order to help it evaluate proposed approaches in an informed manner. This should include identifying how costs relate to the force's strategic objectives.
- **Risk appetite.** Decision-makers will have varying risk appetites based on their circumstances and priorities. Before seeking to partner they should agree the parameters of the risk appetite they are willing to accept in working towards the organisation's objectives. When engaging with the private sector they should carefully assess the anticipated risk of such an arrangement.
- **Leadership.** Visible leadership is fundamental to the effectiveness of partnering arrangements. Senior leaders should invest time to make sure that their approach is clear. There should be robust internal assurance so that the final partnering decision by force leadership is effective and evidence-based and all alternative options are fully considered.

- **Managing change.** Staff are likely to be affected where the potential partner is contracted in; from changing ways of working, to potentially transferring their employment to a new partner. Leaders will need to consult, communicate, address questions and concerns while keeping the process moving and keeping on top of their day-to-day commitments. The time required to manage change and business-as-usual operations should not be underestimated.
- **Commercial skills.** Forces and PCCs should consider if they have suitable commercial skills to handle the initial negotiation of the partnering arrangement and the ongoing contract management. If they lack these skills they must decide how to remedy this, for example through recruitment, or professional or legal advisers. Staff with the best commercial skills should work with partners or give training to those who need it.
- **Corporate culture and values.** Corporate culture impacts on how people act, make decisions, solve problems and find solutions. When considering working with partners the cultural fit should be considered. This is a difficult area to get firm evidence for but can be very important. Any decisions affected by considering corporate culture should be clearly documented and communicated to potential partners.

### Deciding what is 'in' and 'out' of scope

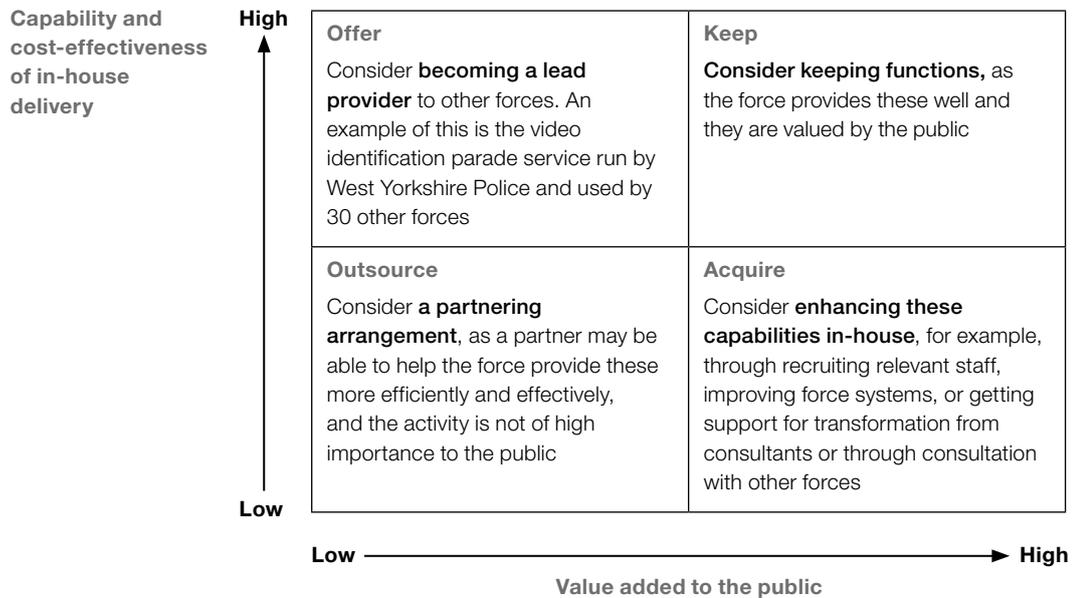
**1.5** Before deciding on whether to engage the private sector a detailed analysis of the costs and the effectiveness of existing activities should be undertaken. This may prompt the force to: retain functions and keep transformation in-house; identify alternative approaches in-house; or focus on improving efficiency and effectiveness in chosen areas.

**1.6** Forces and PCCs should try to agree what might be 'in' scope and 'out' of scope in developing different options. Deciding on what activities might be kept against what aspects they might want to transfer to a partner brings together the key factors and motivations for change.

**Figure 6** outlines an approach for considering where partnering might add value and in this exercise decision-makers would first do the following:

- **Step One:** Draw up a comprehensive list of activities.
- **Step Two:** Identify how important each activity is to the public or other stakeholders.
- **Step Three:** Assess how capable and effective the force is at providing the activity at present.
- **Step Four:** Consider how capable alternative providers might be at providing activities. This is likely to vary considerably. For example, a force will have sufficient expertise in investigating serious offences but potential partners may be better able to provide an efficient payroll service.

**Figure 6**  
Options for force activities



**NOTE**

1 The example in 'Offer' is the National Video Identification Parade Electronic Recording (VIPER) Bureau service.

Source: HM Inspectorate of Constabulary and National Audit Office analysis, based on the Boston Matrix developed by the Boston Consulting Group: B Henderson, 'The Product Portfolio', BCG Perspectives, 1970, p. 66

**1.7** As a result of these considerations, forces and PCCs may decide to pursue the option of a partnership with the private sector. There are four main phases in the procurement life cycle, as follows:

- **Pre-sourcing phase.** Identifying a need; developing specifications; risk assessment; market assessment; business case development; and sourcing strategy (including sourcing route analysis or decisions).
- **Sourcing phase.** Inviting bids; evaluating bids; negotiations and awarding contracts.
- **Contract management phase.** Making sure that the contractor performs in line with the contract.
- **Post-contract phase.** Learning lessons and sharing experiences from the relative success of the partnership.

## Fieldwork observations

### Developing strategy and objectives

**1.8** We saw examples of how forces used their knowledge to inform their choices and develop strategic objectives. Avon and Somerset Constabulary had clear outcome-focused objectives in the context of the partnership, which are shown in the case study below:

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#### Figure 7

##### Avon and Somerset Constabulary's outcome-focused objectives

- to continue to provide quality support services to front-line policing whilst meeting the challenges of future funding arrangements;
- to improve the operational efficiency and transform the delivery of corporate, transactional and support services;
- to improve access to, and delivery of, front-line services;
- to invest in new, world class technologies that improve productivity throughout the organisation; and
- to provide an excellent working environment where staff can do their best for the customers of Avon and Somerset Constabulary and enjoy good employment prospects where they can develop to their full potential.

*Source: Extract from Avon and Somerset Constabulary business case*

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**1.9** In addition, from our document review, we identified similar practice in other forces. The case study below sets out Cheshire Constabulary's objectives described in their outline business plan, which aligns with their force priorities:

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#### Figure 8

##### Business objectives described by Cheshire Constabulary

- to optimise and improve the quality of business service delivery to the front line;
- to reduce, as far as possible, the amount of time police officers and staff spend on business services administrative tasks;
- to reduce the overall cost of business services to the Constabulary;
- to improve use of resources; and
- to release resources.

*Source: Extract from Cheshire Constabulary business plan*

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### Risk appetite

**1.10** We found evidence that often, forces had carefully considered their risk appetite, with awareness of reduced tolerance levels for sensitive operational activities. However, forces and partners sometimes had different perceptions of risk. Forces tend to have a low risk appetite given the potential impact of service failures on the public. Forces we visited did consider the trade-off between transferring risks against increasing costs. In some cases forces' requirements for minimum levels of acceptable risk meant that incremental improvements in service quality led to disproportionately larger costs. However, both partners and forces described some uneasiness about risk transfer and which party held ultimate responsibility. For example, Cleveland Police viewed the risk as staying with the force and they were accountable for the outcomes and potential errors even though provision was through their partner. This meant that often forces had to carefully explain their risk appetite for operations to potential partners. This was particularly so for more sensitive operational activities, such as those in the force control room or in custody.

### Leadership and managing change

**1.11** In the forces we visited there were several examples of strong leadership where ownership clearly rested with one person who championed change. However, we found it difficult to get evidence of whether leaders had fully considered alternative options to partnering. Some senior decision-making appeared to be based on previous experience and judgement. Leaders also recognised that partners could help inject pace and independence into processes for change, helping to overcome barriers and acting as 'change agents'. We saw that the leadership in Northamptonshire Police had considered a range of partnership options before collaborating with Cheshire Constabulary, described in **Figure 9**.

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## Figure 9

### Exploring approaches to partnering in Northamptonshire Police

In 2010-11, Northamptonshire Police had made business support services more efficient and needed to identify further savings. The force considered alternative technologies used in other forces and local government and outsourcing arrangements. However, it found that many potential partners wanted a larger scale project and this was not the force's preferred approach.

A regional collaboration already existed for occupational health and learning and development. However, to expand regional collaboration the force would have had to purchase a new human resources system. The payback for this arrangement would be five to six years.

Throughout the options appraisal process, Northamptonshire Police and Cheshire Constabulary had maintained a close strategic relationship. As relatively small forces, both identified that a sharing arrangement would be beneficial, particularly because their business cases were similar and the benefits could apply to both. In addition, they estimated a return on investment of between two to three years.

Senior project leads described both police authorities and chief officer leadership as supportive and this gave them confidence to work with their partner.

*Source: HM Inspectorate of Constabulary and National Audit Office analysis*

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### Commercial skills

**1.12** Leaders identified that using partners to help manage service provision required significantly different skill sets to those for day-to-day policing. They considered whether they had people with the right capabilities to manage and lead a contract. These include a breadth of understanding across a range of sectors, commercial skills, influencing, and managing demanding external relationships. Some forces said that their contract team might have benefited from training and guidance in strategic relationship management and senior leaders from training in commercial practice.

### Corporate culture and values

**1.13** Forces and partners consistently advocated the benefits of working together to better understand corporate culture and values. Their view was that successful partnerships needed to have shared principles, aligned management styles and clearly articulated mutual benefits. Where a longer sourcing phase took place, forces identified that this helped to build relationships before agreeing a contract. Several forces said they used this process to help gauge their potential partner's thinking and approach to risk.

**1.14** Forces emphasised the importance of understanding the 'psychological contract' between the force and its staff. In partnerships where staff were transferred or seconded to the partner organisation, forces concentrated their efforts on those staff to try to maintain performance. For example, they involved them in designing new letterheads and uniform requirements.

**1.15** However, forces did acknowledge that they had sometimes neglected staff and departments who were 'out of scope' but whose way of working would be affected. This was most noticeable in forces that experienced rapid transformation. For example, forces found that when they made some business processes 'self-service' this caused difficulties for some staff. The nature of interactions with staff changed significantly with this approach. Some forces agreed they would have benefited more by addressing and communicating the cultural change this required.

### Deciding what is 'in' and 'out' of scope

**1.16** Some forces had established robust baseline costing and understood their current performance. Others had entered into long periods of competitive dialogue with the market without having such robust information. The consequences of this included:

- extending the length of competitive dialogue during procurement;
- limited clarity on the scope of transformation between parties; or
- difficulties estimating savings or transformation outcomes.

**1.17** We did find, however, that these forces were aware of these constraints and they could develop their business understanding and opportunities significantly during competitive dialogue. Invariably, these forces were 'first to market', meaning that they sometimes could not benefit from an evidence base from a mature market to inform their decision-making.

**1.18** Forces emphasised the importance of documenting any discussions during stages of extended competitive dialogue to maintain long-term organisational memory. People move on. As time passes, fewer people will remember the intention behind a particular specification and this increases risk of misinterpretation by both parties.

## Service outcomes

### Background

**1.19** Forces and PCCs have different organisational priorities and an options appraisal should clearly identify the rationale for engaging with the private sector to achieve outcomes. For example, an options appraisal could address:

- what the organisation is trying to achieve;
- how these desired outcomes fit with organisational priorities;
- why an in-house solution to transformation is unrealistic or unachievable;
- if a partnering approach will be affordable when funding is being cut;
- what contract length would be required to satisfy the force, PCC and the partners' objectives; and
- how partnering will contribute to savings, targets and outcomes.

**1.20** A business plan, which incorporates key assumptions and interdependencies across the organisation, will allow forces and PCCs to understand how to achieve their desired outcomes. The benefits of this approach are that milestones are identified and ways to measure the project's progress are developed. In addition, a plan can show the complexity of the tasks and help to identify the resources needed to achieve them.

### Defining service outcomes

**1.21** Forces should have several service specifications that help them achieve their objectives or outcomes. If a force is considering changing its operating approach then it must define its service specifications to make informed decisions about provision. This is likely to be an iterative process involving senior leaders, heads of departments and subject matter experts who understand what services are provided and the end-to-end processes involved. They will need to identify any interdependencies to make sure that service specifications align with priorities and do not act against them. There should be an agreement with clear boundaries about which services or functions will be fully retained and which will be partially transferred.

**1.22** It is preferable to engage with the market with well-defined service specifications. However, they can be refined during the competitive dialogue stage. This can help test what alternative approaches the partner could offer and avoid closing down opportunities prematurely although more time, knowledge, skills and expertise are needed to scrutinise bidders' proposals for redesigning services. This will make the competitive dialogue process more resource intensive and is likely to incur additional costs – for example, legal fees for reviewing draft contracts.

### Defining the baseline

**1.23** Establishing a baseline for service costs requires a detailed cost analysis of the inputs, activities and processes involved in providing a service. Simply adding up the sum of the staffing costs for one function is too simplistic and may not include other relevant activities and their costs.

**1.24** As far as possible the organisation should:

- map all the activities connected with the service and assign straightforward staff and non-staff costs to each activity; and
- estimate the costs of additional, interdependent activities.

**1.25** This sort of costing will require careful consideration. Forces and PCCs should consider which staff best understand business processes and their interdependencies to help calculate a baseline. They will also need to consider at what point further refinement of costing estimates will cease to be helpful.

### Benchmarking

**1.26** Forces could usefully draw on any cost estimation work undertaken during their planning. This could involve comparing the costs and performance of their services with other forces, and, where appropriate, other public or private sector bodies, giving a more informed perspective when deciding whether or not to engage in a partnership. It can put decision-makers in a strong negotiating position during competitive dialogue and when deciding on performance measures. This approach could also be useful if services will be provided in a significantly different way where meaningful comparisons with existing service data are problematic. However, benchmarking is an intensive process that relies on the availability of good data.

### Affordability and contract length

**1.27** As well as ensuring that arrangements are affordable when starting a contract, forces and PCCs should consider the risk of future funding changes. Contracts that are a larger proportion of overall spend will limit room for manoeuvre if further cost reductions need to be made. To make sure that forces can adapt to changes in financial circumstances, forces and PCCs should consider building financial flexibility into the contract, although flexibility may increase contract costs.

**1.28** The level of financial and skills investment required may also impact on the length of the partnership contract. For example, longer contract lengths are associated with PFI contracts for the provision of custody buildings. This is because the level of capital invested by the partner requires a long repayment period. In major business partnerships, the length of these contracts is often medium-term. This may be related to costs of new ICT infrastructure and the degree of business transformation required. Consultancy support is likely to be a considerably shorter engagement (for example, the need to acquire skills, knowledge and expertise to transform services). Priorities should be weighed up against the opportunities and limitations associated with different contract lengths.

### Measuring success

**1.29** When considering how to identify and agree measures the focus is often on outputs, especially for a complex service which might rely on several factors outside the partner's control. There is a continuum from outputs (measuring if a service has been delivered) into longer-term outcomes. Therefore, how a range of measures, both quantitative and qualitative, can be meaningfully used should be considered. Further information on performance management is set out in Part Four of this guide.

### Achieving full business benefits

**1.30** Forces and PCCs want to achieve the greatest benefits from a partnership arrangement. To do so, they should consider early on how the new arrangements will fit with their retained functions. They should agree a contract that allows for flexibility by both parties when defining outcomes. This can minimise the risk of unintended outcomes occurring that might reduce operational or financial performance. It can provide scope for additional non-financial benefits such as improving the customer experience.

## Fieldwork observations

### Developing service outcomes

**1.31** When developing detailed service specifications, most forces focused on their desired operational outcomes rather than processes. This meant potential partners could develop innovative solutions to make efficiencies and cost savings, such as through process and ICT-based transformation.

**1.32** We saw different approaches to arriving at detailed service specifications. Lincolnshire Police considered a broad original list of services to transform and then refined this, based on the benefits of outsourcing balanced against the potential risks. Cleveland Police set out with a more closely defined scope, which was widened after early engagement with potential partners suggested that more could be covered. These approaches both resulted in detailed service specifications.

### Defining service outcomes

**1.33** Most forces gave partners a prospectus showing their desired outcomes and importantly the outputs that underpin them. **Figure 10** describes some of the planned organisational outcomes for Lincolnshire Police. Where forces did not have detailed service specifications the competitive dialogue stage was more prolonged. The scale and scope of the service specifications sometimes needed revision during the sourcing phase of the procurement, and contract management after the contract began. This can add cost and time to designing the contract and must be weighed against any potential added value.

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## Figure 10

### How Lincolnshire Police communicated organisational outcomes to the market

“Lincolnshire Police would require a partner to help us become a more customer focused service provider, which is valued by its customers. We will be interested to see how a partner can better use the available resource to deliver a class-leading service to our customers.

Our focus is on getting information to frontline officers and staff that will enable them to deliver the high quality of service our customers demand and deserve. We are looking for real innovation and best practice; and want to deliver solutions that are good for our staff and the people of Lincolnshire. They must be able to feel and see a real benefit.

We are already a leading force in relation to mobile data and social media and we want to build on that success and fully exploit the benefits these approaches can deliver.

Any bidder will need to take cognisance of the national picture and explain how their approach will help deliver against any challenges. We will be particularly interested in how the partner will facilitate and support any process of national convergence.

In order to achieve the above outcomes we are already taking steps to achieve the following outputs:

- Releasing officer time to focus on public facing duties.
- Improved demand management.
- Increased opportunity to integrate more volunteers.
- An embedded performance management culture at all levels that is robust and open to internal and external scrutiny and review.”

*Source: Lincolnshire Police Prospectus, distributed at a bidder event, 8 April 2011*

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### Defining the baseline

**1.34** Most forces relied on only identifying the staffing costs of providing a service. The time and cost involved in developing a more comprehensive cost baseline before agreeing a contract were generally cited as barriers to doing so. Force ICT systems can help support costing activities, although some older systems were described as less effective. One result of not understanding baseline costs is that it may limit appreciation of the contract costs. Where activities cannot be fully costed, more analytical work would be required to reach realistic cost estimates. This may require external expertise.

**1.35** Some forces have used Priority Based Budgeting (PBB), which aims to establish the link between the inputs used and the outputs and service outcomes. Mapping interdependencies also shows how different combinations of inputs can impact on overall service levels. **Figure 11** shows the benefits West Midlands Police reported from this exercise.

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## Figure 11 Priority Based Budgeting in West Midlands Police

The Priority Based Budgeting (PBB) process challenges managers to identify different ways of working which enable the service levels to be maintained at a lower delivery cost (known as Method changes). In addition, the process identifies external factors which have an impact on the cost of the service (known as Volume changes). These changes could reduce costs, such as through fewer staff requiring training, or increase costs, such as through new legislation being implemented.

One of the key features of the PBB process is that it involves staff from many levels of the force. This means that staff who are closer to service provision can contribute in a way that traditional budgeting does not always allow, particularly when thinking of ways to make savings.

A key feature of PBB is that it examines in detail the relative merits of each service level option. This helps users to make informed decisions about where to cut costs and consider which services will be affected, rather than being more arbitrary.

*Source: HM Inspectorate of Constabulary and National Audit Office analysis of West Midlands Police internal documents*

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### Benchmarking

**1.36** There was a lack of benchmarking data available for comparative analyses when setting SMART<sup>11</sup> strategic objectives, even for simple transactional costs such as payroll and procurement. Many of the forces which had PFI contracts were early adopters of this partnering model in the sector and there was little police specific data available. Norfolk Constabulary drew on their previous experience with PFI contracts to help with their contract for custody.

**1.37** Those forces entering major business partnerships did not undertake any performance benchmarking activities because they lacked high-quality data and the procurement had time constraints. A risk associated with this limited understanding is that they will be unable to fully assure themselves that the partner's performance is competitive. Instead, they relied either on continuous improvement or benchmarking clauses in the contract to help give this assurance.

### Key learning points

**1.38** Forces had clear strategies, objectives and outcomes and had communicated these clearly to the market. They identified their risk appetites and tolerance levels. Forces had strong leaders who recognised where there were shortages of commercial skills and expertise. Forces and PCCs should consider how they will develop detailed service specifications. They should understand what cost and performance analyses will help to align these to priorities, drawing on and developing benchmarking data where possible. They will also benefit from developing their relationship with their potential partners and understanding each other's culture and values.

<sup>11</sup> SMART: specific; measurable; attainable; relevant and time-specific.

# Part Two

## The sourcing stage

**Principle: The desired outcome of an effective sourcing process and tender evaluation is deciding to award a contract to a partner that can give the best value for money and show a commitment to the organisation's aims.**

**Part Two outlines the procurement lifecycle, describing the four phases involved. It describes the sourcing and tender evaluation stages and highlights some of the associated risks and describes the different types of sourcing procedures.**

### Background

**2.1** After planning, the challenge is to communicate the objectives effectively during the sourcing process. There are four main types of sourcing procedure under European Union procurement rules, which are set out in **Figure 12**.

**Figure 12**

Types of sourcing procedure

	Description	Examples
Open	All interested parties invited to tender No pre-qualification stage No contract negotiations	Basic goods and services, such as cleaning or detainee catering
Restricted	Pre-qualification stage Shortlist of providers invited to tender No contract negotiations	Specialist services, such as data analysis
Competitive dialogue	Used when open or restricted procedures will not allow a contract to be awarded Used where forces and PCCs do not know the 'technical means capable of satisfying their objectives' Pre-qualification stage Shortlist invited to dialogue Contract negotiation	Complex service contracts Major ICT transformation Buildings and infrastructure
Competitive negotiated	Used in exceptional circumstances, for example when there is only one suitable supplier Pre-qualification stage Shortlist of providers invited to negotiate	Complex infrastructure projects

Source: HM Treasury and Office of Government Commerce, *Guidance on using the competitive dialogue procedure*, 2008.  
Available at: [webarchive.nationalarchives.gov.uk/20110601212617/http://www.ogc.gov.uk/procurement\\_policy\\_and\\_application\\_of\\_eu\\_rules\\_specific\\_application\\_issues.asp](http://www.ogc.gov.uk/procurement_policy_and_application_of_eu_rules_specific_application_issues.asp)

**2.2** The majority of forces we visited had used competitive dialogue in procuring the services we reviewed.<sup>12</sup> This part therefore focuses on competitive dialogue, but this should not preclude using other appropriate approaches.

**2.3** Forces and PCCs will need to set out realistic milestones for timescale and budget and put in place the resources and management to achieve these. They must adapt them as necessary for the competitive dialogue and tender evaluation stages.

### Governance

**2.4** Before entering the sourcing stage forces and PCCs should identify a suitable senior responsible owner and project manager with clearly defined roles. They should oversee the project, supported as necessary by regular meetings with relevant staff. These could include subject matter experts (within management, or end-users) during procurement, which can help to develop evaluation criteria. They should also consider whether they need external professional and legal advice. More detailed information on governance, leadership and stakeholder management is in Part Three and information on contract management is in Part Four.

### Soft-market testing

**2.5** Forces and PCCs may wish to find out more during the planning stage about which partners may be interested in making a bid. This 'soft-market testing', which can involve informal interactions with potential partners, can help enhance service specifications. However, there is a risk of subsequent legal challenges if this approach is not undertaken appropriately. Forces must give the market consistent access to information and record actions and decisions in an auditable way. In addition, the opportunities and risks of soft-market testing should be considered before proceeding and this may require internal or external legal advice.

### Outline business case

**2.6** A sound business case stating the operating and financial context, and the purposes of the desired outcomes should be set out. The business case should highlight the options for change that have already been explored, outline the associated costs and justify the chosen approach to delivery. It should describe:

- the assets or services to be procured;
- the minimum service standards in the service specifications;
- risks to service continuity and possible mitigating actions;
- areas that need to be addressed in the contract, for example financial risk transfer or service recovery protocols; and
- the estimated costs of undertaking different sourcing procedures.

**2.7** The project manager and senior responsible owner, or appropriate colleagues, should sign off the business case. This will clearly document the above factors and a final business case can then be developed.

<sup>12</sup> Staffordshire Police and West Midlands Police acquired their partnerships through framework contracts that the Home Office developed.

## Procurement plan

**2.8** The procurement plan should identify the critical path<sup>13</sup> to create a legally compliant and robust procurement, and:

- set out the key timescales for completing milestones;
- identify the key risks and mitigating actions to successful provision;
- develop protocols to manage relationships with potential partners; and
- state how it will record key actions and decisions throughout the procurement.

**2.9** Several factors will impact on how the project plan is designed. These include the availability of expertise, knowledge and skills. There are unknown factors that will have to be responded to, which could include the likely level of market interest at the start of the sourcing phase.

**2.10** In addition, before starting the sourcing phase forces should consider how the process will be managed afterwards, including:

- governance arrangements;
- human resources;
- stakeholder communication;
- bid evaluation; and
- contract management.

Such preparation can help with the transition from advertising the contract to evaluating bidders' proposals.

## Relationship management

**2.11** In a private sector partnership contract, effective partnerships need professional relationship management. Effective relationship management will allow the best possible benefits from the procurement to be achieved. This is highlighted in more detail in Parts Three and Four.

## Developing contracts

**2.12** When developing contracts during procurements, forces and PCCs should be explicit about what products or services need to be provided, and, if known, state whether or not they should be provided in a particular way. A consistent understanding of contract requirements between key stakeholders will help to ensure that contracts remain unambiguous. This will help forces' negotiating positions during the sourcing phase of the procurement and is more likely to enable achievement of value for money.

**2.13** Forces and PCCs should recognise that different partnering arrangements will involve varying levels of financial and non-financial risk and complexity in service specifications. For example, the design of a short-term contract for consultancy support will inevitably be more straightforward than a PFI contract for multiple custody buildings and outsourced services. Therefore, the level of detail embodied in contracts should be proportionately linked to the level of complexity in the partnership.

<sup>13</sup> The critical path identifies the key milestones to delivery.

**2.14** PCCs and senior force leaders need to ensure that partnership contracts provide the maximum possible safeguards against legal and financial risks. As such, contracts should be developed by a suitably qualified, skilled and resourced procurement team with access to internal legal advice, particularly for high-value or complex procurements.

**2.15** Those developing contracts should work closely with subject-matter experts to ensure that each contract reflects internal expectations around the retention and allocation of risk. After forces and PCCs have identified their risk appetite, they should agree how flexible they want the contract to be. There is a risk that long-term, high-value commitments may be poor value for money if circumstances change. However, flexibility is likely to come at a cost and there will need to be a balance between financial risk and financial rewards that incentivise both parties.

**2.16** In addition, forces and PCCs should consider how the contract will specify the payment mechanism; contract management and performance measurement systems; dispute resolution and escalation procedures; and exit from the partnership in the event of prolonged or serious service failures. PCCs and force leaders should also consider whether or not value for money can be enhanced by mandating service improvement; open book accounting (OBA, see **Figure 13**) and gain-share mechanism provisions in contracts. Contracts should be treated as live documents in that they should be fully understood by all relevant parties and actively referred to in routine governance arrangements. In longer-term contracts, PCCs and forces need to be confident that the contract price remains competitive. Therefore, clear procedures for utilising benchmarking data, such as from other forces or local authorities, should be stated in the contract.

**2.17** There are specific contractual arrangements concerning PFI contracts. Past HM Treasury guidance on PFI contracts<sup>14</sup> had three main objectives:

- to promote a common understanding of the main risks which are encountered in a standard PFI project;
- to allow consistency of approach and pricing across a range of similar projects; and
- to reduce the time and costs of negotiation by enabling all parties concerned to agree a range of areas that can follow a standard approach without extended negotiations.

**2.18** In December 2012, the government signalled that it is replacing PFI with PF2. Existing HM Treasury guidance on PFI contracts will be updated to reflect the change in policy.

**2.19** OBA should enable partners to decide on a gain-share mechanism based on robust and transparent evidence. A gain-share mechanism is a way of sharing financial savings made when a partner improves efficiency or effectiveness. It is specified in the contract and can take different forms and may incentivise the partner to make further savings. These considerations will help the force and PCC to act as 'intelligent clients' during the sourcing phase of procurement.

<sup>14</sup> Available at: [webarhive.nationalarchives.gov.uk/20130129110402/http://www.hm-treasury.gov.uk/ppp\\_standardised\\_contracts.htm](http://www.hm-treasury.gov.uk/ppp_standardised_contracts.htm)

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## Figure 13

### Open book accounting

Open book accounting (OBA) is a term used to describe arrangements whereby part or all of a contractor's financial records for a project can be seen by the force. OBA is used as a mechanism for promoting trust and transparency that can enhance accountability. It is normally agreed in a contract, requires a culture of trust and cooperation and open and honest communication between partners.

OBA can be understood in different ways by different parties. For example, some partners could think that this could be limited to publishing company accounts and may be reluctant to reveal profit margins. Forces should be clear on the level of detail they would expect to see as there is no fixed methodology associated with OBA. It is an approach that they and their partners will need to agree on during contract negotiations. There are several questions that forces will need to consider to ensure OBA meets their needs. For example:

- **What skills and expertise will be needed to successfully manage OBA?** Effective commercial, auditing and supplier relationship management skills and expertise will be required to manage OBA. The force should have the capacity to understand how to act on information in a way that drives value for money.
- **How will OBA be implemented?** Forces and PCCs need to agree on procedures for reporting costs with their partner and the frequency of reporting. The level of measurement for reporting also needs to be agreed, for example, the reporting of unit costs or the costs associated with operational outcomes.
- **How will OBA be scrutinised?** Existing contract and performance management arrangements should be used to review cost information and where appropriate, use information obtained through independent audit. These mechanisms should provide assurance that OBA is producing the intended behaviour and outcomes. Disclosure facilitates comparative analyses of costs through benchmarking activities.

**The expected positive outcomes of OBA will vary in different partnership approaches and may include:**

- incentivising the partner to reduce costs and pass on savings (for example, through a contractual gain-share mechanism);
- positive incentives for changes in partner behaviours, including quality of service provision and the minimisation of service delivery costs;
- helping to promote financial accountability; and
- allowing forces and PCCs to be better informed during contract and performance management.

**Forces and PCCs should be aware of some of the risks associated with OBA. These may include:**

- a lack of commercial skills and financial expertise may mean that OBA disclosure does not achieve value-for-money benefits;
- partners may assign important costs to areas not covered by the adopted level of disclosure; and
- OBA could unduly increase contract and administration costs.

*Source: Her Majesty's Inspectorate of Constabulary and National Audit Office analysis*

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**2.20** The sourcing phase under competitive dialogue procedures is described in **Figure 14**, where bids are invited, evaluated and negotiated and contracts awarded.

#### Desired outcomes of the sourcing stage

**2.21** A successful sourcing stage should:

- be completed on time and on budget;
- maintain competitive tension by generating enough expressions of interest;
- generate high quality and innovative bids; and
- show auditable decisions and actions taken.

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### Figure 14

#### Description of the sourcing phase

##### Official Journal of the European Union (OJEU) notice and expressions of interest

Under competitive dialogue and other procedures, the contract must be advertised in an OJEU notice. Following this advertisement to the market, potential partners will respond with 'expressions of interest'. This will give an indication of the likely commercial interest.

##### Pre-qualification questionnaires

After reviewing the expressions of interest, potential bidders are invited to submit pre-qualification questionnaires (PQQs). The PQQ is a two-way process and should not be burdensome for bidders. It will boost the force's and PCC's confidence that their proposition is a real priority and is a first step to eliminate unsuitable partners from the sourcing phase. For example, partners may show a lack of experience in meeting comparable contracts in other sectors, or show evidence that their financial position is not resilient enough to risk entering a partnership with them.

##### Invitation-to-tender documents

Invitation-to-tender (ITT) documents are issued once it potential partners are selected. This step helps understand how potential partners will approach the transformation and how this may affect costs.

It is helpful to fully disclose information to potential partners when issuing ITT documents. The documents should be linked with the detailed service specifications as far as possible and set out how tenders will be evaluated. Further information on tender evaluation is set out below. At a minimum, this should include disclosing the substantive evaluation themes as well as any weightings or sub-weightings that may apply. Information on mandatory requirements that attract a binary yes or no score, or a potential exclusion from the bidding stage, should be explicit.

Disclosing information will help encourage bids that meet priorities. However, there is also a risk that increasing access to information may lead to standardised responses from bidders. This should be considered when designing scoring approaches so there is sufficient differentiation between bidder's submissions. This milestone marks the end of the initial sourcing stage and the start of a more detailed examination of bids.

*Source: HM Inspectorate of Constabulary and the National Audit Office review of HM Treasury and Office of Government Commerce Guidance and police force internal documents*

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## Fieldwork observations

**2.22** Across the forces we visited, we saw that people and expertise were used to manage the planning and sourcing stages effectively. For example, in Lincolnshire Police all members of the police leadership team and police authority were part of the project team to procure the strategic outsourcing contract. They developed service outcomes and received bids. The project team identified staff with specific expertise and made them responsible for leading on suitable portfolios of work. The force used a 'buddying' system, where 'buddies' would move between portfolios. Therefore, the whole team could understand the developments taking place across the organisation and identify how proposed changes could affect other areas of the business.

**2.23** Lincolnshire Police also identified the continuity of partner personnel as important to the success of the early stages of the partnership. Some interviewees in other forces were concerned about a lack of continuity between sales and delivery teams. This could lead to a loss of momentum or unexpected change of approach from the partner in the early stages of the contract. Forces and PCCs should make sure they understand how potential partners will manage this transition. They could otherwise make continuity a requirement or advantage in the invitation to tender and reiterate this during competitive dialogue, if they decide this is important.

**2.24** We saw evidence of forces engaging actively with the market and bidders. However, focus group participants said that forces did not always communicate planned changes to staff. This was particularly the case where forces had transferred or seconded their staff to the partner organisation.

## Soft-market testing

**2.25** We saw forces that used soft-market testing to their benefit. Cleveland Police engaged with a range of market providers before issuing the OJEU notice and incorporated this information into preparatory work. Lincolnshire Police held an event attended by over 150 market providers during soft-market testing. This provided the force with additional savings and ICT transformation opportunities beyond those the force had originally envisaged.

## PQQ evaluation

**2.26** We saw examples of effective management tools for evaluating bidders' suitability at the PQQ stage of sourcing. South Wales Police, for example, used a scoring matrix which clearly set out the requirements in detail and their approach to scoring. **Figure 15** overleaf provides an extract.

**Figure 15**

Extract from PQQ scoring assessment matrix in South Wales Police

Bidders completed the prequalification questionnaire, which the force then used to prioritise suitable candidates to invite to tender for providing custody. The force weighted particular requirements that matched their priorities

Requirement	Max score (1-5)	Assessment		Weighted score	Marking guidelines	Evaluator's notes
		Actual score	Weighting (1-3)			
Must contain a comprehensive summary of ability to perform similar contracts	5					
Must provide training and be able to provide examples	5					
Must provide details of suitable strategies	5					
Must provide suitable examples of effective communication strategies	5					
Must provide suitable information as requested	5					

Source: Extract from South Wales Police PQQ scoring spreadsheet

### Sourcing phase

**2.27** Setting a realistic time frame for tendering a complex contract can be difficult. A successful partnership should be underpinned by a high-quality contract with an appropriate risk transfer, so some flexibility over timing may be necessary. For example, Lincolnshire Police facilitated greater flexibility during competitive dialogue which allowed further negotiations on the contract. However, this increased their costs and forces and PCCs should balance the costs of extending the dialogue stage against the possible rewards.

### Contract and performance measurement

**2.28** We have seen cases where payment and performance measurement regimes were well designed and communicated during the pre-sourcing phase. This made implementing and managing these systems effective, once contracts began. For example, Avon and Somerset Constabulary's contract management team included experts in the service areas of the joint venture. This allowed the force to align contract and performance management with its priorities. Further information on contract and performance management is set out in Part Four.

**2.29** Several forces said they did not pay enough attention to potential contract and performance flexibility issues initially. This was highlighted by changes to staff terms and conditions for those who were transferred and unforeseen legislative changes. Other forces and PCCs can learn from their experiences and should seek more flexible pricing in contracts to avoid difficulties around budgets.

## Tender evaluation

### Background

**2.30** In our fieldwork, we found that forces that started major or custody partnerships in recent years used competitive dialogue procedures. Under competitive dialogue procedures, forces and PCCs must choose a partner that provides the 'most economically advantageous tender' rather than a partner that can provide the 'lowest price'. HM Treasury and the Office for Government Commerce jointly prepared a good practice guide on the competitive dialogue procedure which forces and PCCs will find useful.<sup>15</sup> Forces and PCCs will therefore need to reach a defensible value-for-money judgement in their pre-sourcing planning activities and translate these clearly into their assessment criteria. This evaluates how tender responses may affect the contract price; the costs retained by the force; financial and non-financial risks; the quality of service provision and timely delivery. Competitive dialogue can help as it is an iterative process, but it can cost forces and partners more than other sourcing options.

**2.31** There are various risks and opportunities for forces and PCCs engaging in this process and they can usefully draw upon the learning identified in our examination. Importantly, the process chosen in pre-sourcing planning should be followed as closely as possible to avoid legal challenges.

### Competitive dialogue and evaluation stages

**2.32** There are several mandatory stages in the competitive dialogue and evaluative phase of sourcing, from receiving tenders to signing the contract. Forces and PCCs should identify clear milestones and suitable resources to avoid costs from an overly lengthy dialogue. They should consider how many bidders they want to pass through the successive milestones. They must balance sustaining competitive tension with ensuring the evaluative burden remains reasonable.

### Receiving tenders

**2.33** Forces and PCCs should evaluate how tenders address their outcome requirements, against the process set out in pre-sourcing documentation. They should consider inviting a smaller sample of bidders to participate in dialogue. Giving feedback to unsuccessful bidders will help to give assurance that they are conducting the sourcing fairly and transparently.

### Invitation to participate in dialogue

**2.34** Forces and PCCs should set out what topics will be discussed in a detailed timetable for the dialogue stage. This will give early insight of bidders' technical solutions and indicative costs. They will need to balance the principle of disclosure of information to aid the process with ensuring they are fair and transparent when communicating with bidders. Restricting communication to nominated individuals in the organisation will help with this and maintain consistency in understanding the merits and limitations of proposed solutions. They will also need to be careful not to inadvertently disclose information between competing bidders.

<sup>15</sup> *Guidance on using the competitive dialogue procedure*, HM Treasury and Office of Government Commerce, 2008. Available at: [webarchive.nationalarchives.gov.uk/20110601212617/http://www.ogc.gov.uk/procurement\\_policy\\_and\\_application\\_of\\_eu\\_rules\\_specific\\_application\\_issues.asp](http://webarchive.nationalarchives.gov.uk/20110601212617/http://www.ogc.gov.uk/procurement_policy_and_application_of_eu_rules_specific_application_issues.asp)

### Due diligence and invitation to submit a detailed solution

**2.35** Due diligence is a two-way process where potential partners are given detailed but controlled access to documents and people. This can help both parties to understand the scope of the transformation and the likely resources required to achieve it. For effective due diligence, forces and PCCs should consider how and where they present information and any security or vetting procedures that may apply. Auditable records of what information has been seen by potential partners and the people who have been consulted should be kept.

**2.36** Due diligence could include:

- interviews between force and bidder personnel, including heads of service provision or other technical or subject matter experts;
- conducting new, or reviewing existing, financial or ICT audits of the force and PCC, including business process mapping and an inventory of estates and physical assets; and
- reviewing human resources data, performance information and risk registers.

### Invitation to submit final tender

**2.37** After the due diligence stage, forces and PCCs would invite bidders to submit comprehensive and technically detailed solutions for further evaluation before inviting remaining bidders to submit final tenders. The invitation to submit a final tender must contain 'all the elements required and necessary for the project to perform' under European Union procurement regulations.<sup>16</sup>

### Approaches to evaluation

**2.38** Forces and PCCs may exercise discretion around how they evaluate final tenders, but they must be consistent with the approach in the OJEU notice. Bids should be considered fairly and transparently, with a sufficiently resourced and appropriately skilled evaluation team.

### Questions to consider

**2.39** Throughout the process, there are several questions that could help forces and PCCs make their decision and manage the contract. These questions may also help develop thinking when considering entering into a partnership:

- **Contract price:** How will the force and PCC assure itself that the proposed contract prices are competitive, compared with other bids in the process or other comparable public-private sector partnering arrangements?
- **Retained costs:** Have ongoing costs been estimated for the retained parts of the organisation under the proposed solutions?
- **Financial risk:** How much financial risk is likely to be incurred under the proposed solutions by both parties? Will the level of financial risk incurred by the potential partner be sufficient to incentivise performance?

<sup>16</sup> Regulation 18(25), The Public Contracts Regulations 2006 cited in *Guidance on using the competitive dialogue procedure*, HM Treasury and Office of Government Commerce, 2008. Available at: [webarchive.nationalarchives.gov.uk/20110601212617/http://www.ogc.gov.uk/procurement\\_policy\\_and\\_application\\_of\\_eu\\_rules\\_specific\\_application\\_issues.asp](http://webarchive.nationalarchives.gov.uk/20110601212617/http://www.ogc.gov.uk/procurement_policy_and_application_of_eu_rules_specific_application_issues.asp)

- **Non-financial risk:** Have the proposed solutions addressed the non-financial risks, such as meeting legislative requirements associated with their proposed method of provision?
- **Quality-of-service provision:** Do the proposed solutions meet the expectations on service quality that the force has communicated?
- **Timeliness:** Are the proposed solutions likely to be able to be provided in a sufficient timescale, if applicable?

## Fieldwork observations

### Aligning resources and expertise

**2.40** Overall, we found the competitive dialogue and tender evaluation phases of the sourcing were well structured for recent arrangements. Forces were careful to make sure that they had adequate resources to manage the process. With more mature contracts we could not get as much evidence on how the process has worked owing to limited organisational memory. This was due to the turnover of staff originally involved in the sourcing or limited records.

### Competitive dialogue and tender evaluation stages

**2.41** Forces weighted the bid evaluation scores to reflect their priorities, typically with contract price accounting for between 20 to 30 per cent. They placed more emphasis on non-financial benefits, such as transforming services and provider professionalism. Where documentary evidence was available, they had communicated scoring criteria to bidders and recorded scoring decisions. Cleveland Police, for example, set out detailed and clear award criteria for evaluating tenders, as described in **Figure 16**.

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## Figure 16

### Cleveland Police final award criteria

The force distinguished between mandatory requirements that attracted a 'pass' or 'fail', for example, complying with workforce matters and discretionary requirements. It weighted its award criteria between quality (80 per cent) and price (20 per cent).

In the 'quality' criteria, there were four sub-criteria: people, professionalism, problem solving and partnership. In the 'problem solving' criteria, the force explicitly listed and weighted the following:

- Continuous improvement.
- Transformation services.
- Transformation projects (for example, Service Innovation and Integrity).

In their award criteria for price, the force listed the following sub-criteria:

- Affordability.
- Added value.
- Flexible pricing.
- Transparency and completeness.

*Source: Extract from Cleveland Police award criteria disclosed to bidders*

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### Due diligence

**2.42** Forces consistently said that competitive dialogue was demanding, in particular the periods of due diligence. Sometimes they underestimated the resources involved in managing this phase of the procurement. This caused some difficulties when the contract began. One force extended the due diligence stage to help manage the workload involved. Although this added to costs, the force and partners understood the complexity of the proposed solutions.

**2.43** Several forces told us they came to better understand their own organisation during these processes. They explained that they felt relatively naive about their business understanding before the procurement. This was exposed in a variety of ways, such as through identifying that they had no performance monitoring information or a limited awareness of internal operational processes. Other forces and PCCs could learn from this experience and seek to establish baseline information on costs and performance before engaging in procurement activity.

### Reflections on the evaluation stage

**2.44** Frequently, we heard that bidders exhibited a lack of police-specific operational knowledge. For example, forces had to spend time describing their responsibilities for providing detention and control room services. We were also told that bidders did not always understand priorities. For example, Lincolnshire Police commented that considerable effort had to be put into raising bidders' awareness about the force's operating context and cultural values. They also adopted a more disciplined approach to give assurance on the bidders' approach. Bidders had to show that they had refined their bids based on force feedback. The force refused meetings with bidders who had failed to review key documents (monitored through specialist procurement software).

### Key learning points

**2.45** Forces undertook their sourcing stage and tender evaluation effectively and recorded their scoring decisions. Forces and PCCs should consider issues of contract flexibility early on. They should also baseline their costs and performance as far as possible. However, we recognise that they did this during the sourcing phase and improved their business understanding. Those forces and PCCs entering into partnerships should be aware that these activities are resource intensive and should weigh the advantages gained against the costs incurred.

# Part Three

## Governance, leadership and stakeholder management

**Principle: The desired outcomes of effective governance are to support value for money and enhance accountability. Effective leadership will align contract goals with force priorities. Good stakeholder management seeks to balance the organisation's needs with stakeholders' needs.**

**Part Three outlines the importance of strong governance, leadership and stakeholder management and describes some approaches to these that we saw. It highlights the PCCs role to maintain an efficient and effective police force.**

### Background

**3.1** Private sector partnering can offer benefits, including improved performance and cost savings. However, forces and PCCs need to invest in strong governance structures and stakeholder management for long-term commitments to be successful. These require sufficient time and resources to achieve a successful project outcome. Depending on the type of partnership arrangement, forces could commit between 1 and 4 per cent of the annual contract value in contract management costs.<sup>17</sup>

**3.2** In November 2012 police authorities were replaced with PCCs. New governance and leadership arrangements have changed the way strategic and financial decisions are made by moving away from committee-based scrutiny (see **Figure 17** overleaf which describes key legal considerations in this context). PCCs may require high-quality information from forces, or choose to engage independent financial and commercial expertise to make informed decisions about proposed partnering arrangements.

**3.3** Where contracts are entered into by the chief constable, PCCs should be mindful of the importance of their role to scrutinise partnering arrangements. They can scrutinise decisions to help provide assurance that the best options are chosen. Having a more detached view can help to challenge thinking. Questions that could be asked are as follows:

- Have the force's requirements changed since the project proposal was developed?
- Are there new options to provide the service that could be explored?
- Is spending on the project sustainable, given budget restrictions?

**3.4** Where a PCC enters into contracts then the Police and Crime Panel may also wish to ask similar questions. The Joint Audit Committee will also provide independent assurance on the adequacy of the corporate governance, financial affairs and risk management arrangements in place for both the Office of the Police and Crime Commissioner and the force.

<sup>17</sup> After fieldwork, we requested the costs of contract management and contract values from forces. This calculation is based on those returns.

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## Figure 17

### Legal considerations

There is a statutory requirement that a PCC appoints a chief executive and a chief finance officer (CFO) for the office of the police and crime commissioner under Schedule 1 Paragraph 6(1) to the Police Reform and Social Responsibility Act 2011 ('PRSR Act 2011') (and under section 127 of the Greater London Authority Act 1999 for MOPAC). A chief constable must also appoint a CFO for the police force under Schedule 2 Paragraph 4(1) to the PRSR Act 2011. The responsibility for proper financial administration lies with the CFOs. Further detail on the discharge of these powers is provided in The Financial Management Code of Practice for the Police Service of England and Wales 2012.

To govern the relationship between the PCC and chief constable in financial matters each PCC should produce a single set of standing orders in close consultation with the two CFOs, chief constable and the chief executive. These will include safeguards to ensure proper administration and discharge of statutory functions and be supplemented by a scheme of consent. This will set out conditions attached to the PCC's consent to the chief constable's exercise of financial powers, including how the chief constable will be held to account for managing funds as per section five of the Code of Practice.

PCCs are able to enter contracts, acquire and dispose of property and borrow money under Schedule 1 Paragraph 14(2) to the PRSR Act 2011 along with a role allowing them to enter into contracts for local services (section 9(1) to the PRSR Act 2011).

*Source: Her Majesty's Inspectorate of Constabulary and National Audit Office analysis*

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## Governance

**3.5** The PCC has overall responsibility for property and contracts. With their consent, the chief constable and their staff can carry out the daily administration of property and contracts, and a chief constable can enter into contracts. All contracts will be governed by standing orders with procedures for procurement, tenders and contracts. When managing these contracts on behalf of the PCC, forces should aim to put in place governance mechanisms that help those managing the project meet the force's priorities. The business case, for example, could set out the force's proposed approach for governance and the opportunities and risks attached to this. Effective governance should give sufficient oversight and control to manage risks and ultimately help achieve value for money. However, governance arrangements may need to be adjusted throughout the procurement phases, including contract management. **Figure 18** shows some examples of suitable outcomes of different arrangements during pre and post-award stages.

**3.6** **Figure 19** summarises a common governance structure, which we frequently saw in fieldwork visits. At each level, the partner may be invited to participate in different governance activities.

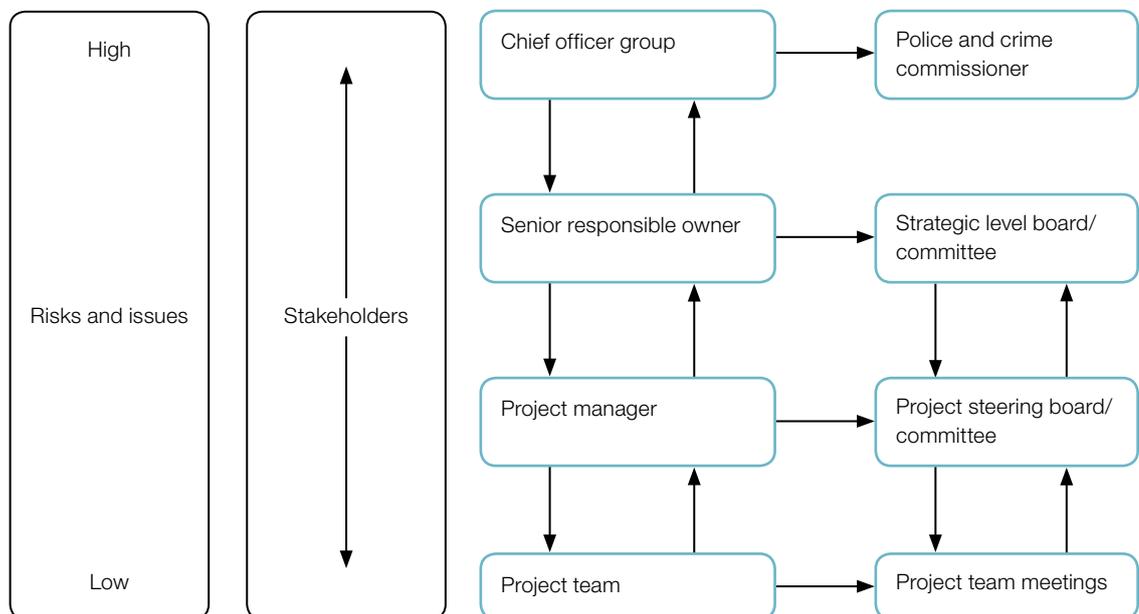
**3.7** The senior responsible owner, budget holder and project manager roles are critical to project success. When the contract begins there should be a clearly defined contract manager and support team to secure continuity of governance. The contract manager should consider reporting contract and performance issues into the organisation's business-as-usual governance processes, rather than through a 'stand-alone' governance model for the contract. Part Four gives a more detailed outline of contract management team structures.

**Figure 18**  
 Characteristics of effective governance, before and after agreeing contracts

<b>Pre-award characteristics</b>	<b>Post-award characteristics</b>
Facilitates a willingness to adapt the contract terms to reflect change and problems.	Actively manages the partner and holds them to account.
Promotes innovation through sharing ideas between the force and the partner.	Allows positive feedback to be shared with the partner.
Helps senior managers to recognise that the partner needs to achieve its objectives and make a reasonable margin.	Develops and supports an effective 'intelligent client' culture.
Promotes an effective formal relationship.	Builds on establishing joint medium- and long-term goals.
Makes sure that the right people, with the right commercial, interpersonal and management skills are leading the project.	Makes sure that there are specific, measurable and achievable improvement plans with the partner.
	Manages expectations, creates a sense of certainty and minimises surprises.

Source: Her Majesty's Inspectorate of Constabulary and National Audit Office analysis

**Figure 19**  
 Governance arrangements at visited forces



Source: HM Inspectorate of Constabulary and National Audit Office analysis of documents and fieldwork evidence

**3.8** Contracts are challenging to understand for those who do not have the relevant legal and financial expertise. Project managers can help stakeholders understand contract language and key components of the partnership, such as service levels and responsibilities.

**3.9** A source of increased costs in contract management can be where a lack of flexibility means that risk management sits with the partner less able to deal with them. Good governance, as well as good relationship management between partners, considers whether some risk management and the associated costs could be transferred. To minimise the risk of a contract dispute an auditable record of contract discussions, decisions taken and the intentions behind those decisions should be kept.

### Leadership

**3.10** The senior responsible owner should fully communicate the strategic rationale for a new contract. This is not a given, as personnel directly involved in negotiating a new contract may not always be fully aware of the strategic rationale. The project or contract manager should understand why the organisation is pursuing such an approach. They can then negotiate immediate and long-term goals and put all of the relevant provisions in place to achieve these.

**3.11** The senior responsible owner should assemble a suitably resourced, skilled and experienced project team for the scale, complexity and importance of the project. This may require specialist advice and expertise from external sources. An operational lead should be appointed to provide business continuity and a smooth transition. They should consider requesting that the partner does the same, to have a single point of contact in both organisations.

### Stakeholder management

**3.12** The proposed partnership may impact on stakeholders to varying degrees, so effective stakeholder management and clear communication is important. Forces and PCCs should identify all material stakeholders, what their needs are likely to be and how they will actively manage them. They may wish to prioritise stakeholders, particularly with large or complex projects, using categorisations such as the following:

- **Primary stakeholders:** may include those with a formal, official or a contractual relationship with the force and PCC, such as the workforce and end-users.
- **Secondary stakeholders:** may include public interest groups, the media and local community organisations.
- **Indirect stakeholders:** may include those who have an ongoing interest, such as government agencies, other contractors and the public.

**3.13** As far as possible, stakeholders should support the partnership, engage with it and be satisfied with the development of the project. Forces and PCCs can help achieve this by communicating with stakeholders at key stages of the project, depending on their interest in it. Different means of communicating can include formal and informal consultation and surveys. Forces and PCCs should also identify potential conflicts between stakeholder interests and consider how to manage these.

## Fieldwork observations

### Governance

**3.14** Forces who said that their contracts were working well said that they had clear relationship boundaries with their partner and a transparent, 'no surprises' approach. In practice, this meant that both parties were fully briefed which minimised unanticipated issues. Typically, forces changed the governance structure after contract award to strengthen performance monitoring activities for holding the partner to account. This often involved changing the project team's skills mix to link detailed contract specifications with operational outcomes.

**3.15** Avon and Somerset Constabulary, Northamptonshire Police and Cheshire Constabulary retained more personnel from the pre-contract award stage than in other partnerships we reviewed. Northamptonshire and Cheshire planned to ensure that their Multi Force Shared Service worked before they started a process to take out additional savings. This benefited relationships and helped resolve contract issues quickly, with little escalation required. Forces should consider balancing the benefits of retaining expertise against the cost implications. By contrast, Cleveland Police significantly reduced costs by retaining fewer personnel, but this reduced the level of retained knowledge about the contract.

**3.16** We found evidence of active engagement and involvement from chief officer teams and police authorities. In Cleveland Police, for example, there was evidence of the partner reporting and advising at operational and strategic meetings. The force documented the frequency and purpose of partner engagement with different groups and key individuals and recorded the purposes and outcomes from these meetings. The force also identified a need to review governance arrangements and appointed independent auditors to review them.

**3.17** Lincolnshire Police tried to balance internal expertise and using specialist advisers when the required expertise and knowledge was not available internally. This had the unexpected benefit of transferring knowledge, which helped internal staff take the project from transition to implementation.

**3.18** Other forces identified that using specialist expertise with knowledge of the outsourcing market, particularly commercial end contract designing expertise, was vital to the success of the project. Specialist advisers:

- designed the outline business case;
- provided legal expertise during pre-sourcing when designing the sourcing phase, ensuring legal compliance, helping to design the contract and develop more advantageous commercial arrangements;
- provided financial expertise during commercial negotiation, such as analysing the financial elements of bidders' solutions; and
- provided ICT and human resource expertise during commercial negotiations and contract development.

**3.19** Within governance structures the roles and responsibilities of key individuals were well documented. Cleveland Police produced a comprehensive partnership document, which included job roles for directors and managers.

## Leadership

**3.20** We found partner relationships were planned and structured with appropriate governance and senior ownership. Senior Responsible Owners led partner relationship management and made sure that projects had impetus and direction. For example, Staffordshire Police's senior responsible owner managed and maintained the pace of the project, such as quickly meeting large data requests from their partner.

**3.21** Forces said they benefited from having short timescales during sourcing activities, which made them ambitious and maintained momentum. The benefits of this were most pronounced in the forces that used consultancy support. Staffordshire Police and West Midlands Police had 'Benefits Realisation' and 'Continuous Improvement' teams respectively. The Senior Responsible Owners oversaw these teams, with analytical support from their partners in the design stage. Forces described establishing this capability as labour intensive but said it put them in a stronger position to pursue further savings and transformation.

**3.22** Although some forces involved in major business partnering had continuous improvement clauses, holding partners to account on these was difficult. For example, Northamptonshire Police and Cheshire Constabulary acknowledged that better knowledge transfer would have helped to transfer their shared service function and make savings more quickly. Both forces have now improved how they capture, record and share knowledge and have established toolkits to transfer knowledge.

## Stakeholder management

**3.23** Forces said that there had been clarity and quality in the messages on strategic direction from heads of service and departmental heads. This was described as important as these leaders were then involved in communicating and embedding these messages throughout the organisation. However, our focus groups often described proposed changes and feedback mechanisms as being poorly understood or communicated. Senior leaders acknowledged that they could have communicated the impact of future working arrangements and what the new contract would actually mean more clearly. This would have helped staff members transferring to the new organisation and those remaining with the force.

**3.24** Senior leaders and focus group participants at Staffordshire Police conveyed to us a very constructive process. The force invited all staff to attend workshops to present a 'declaration of options' and listen to and gather responses. The force held one-to-one discussions with affected staff and involved staff associations, so they could contribute ideas and voice concerns. Similarly, the partner set up a trade fair-style event to present options for service design to staff and to answer questions. Staff in focus groups were positive about this, reporting that it catered to their needs.

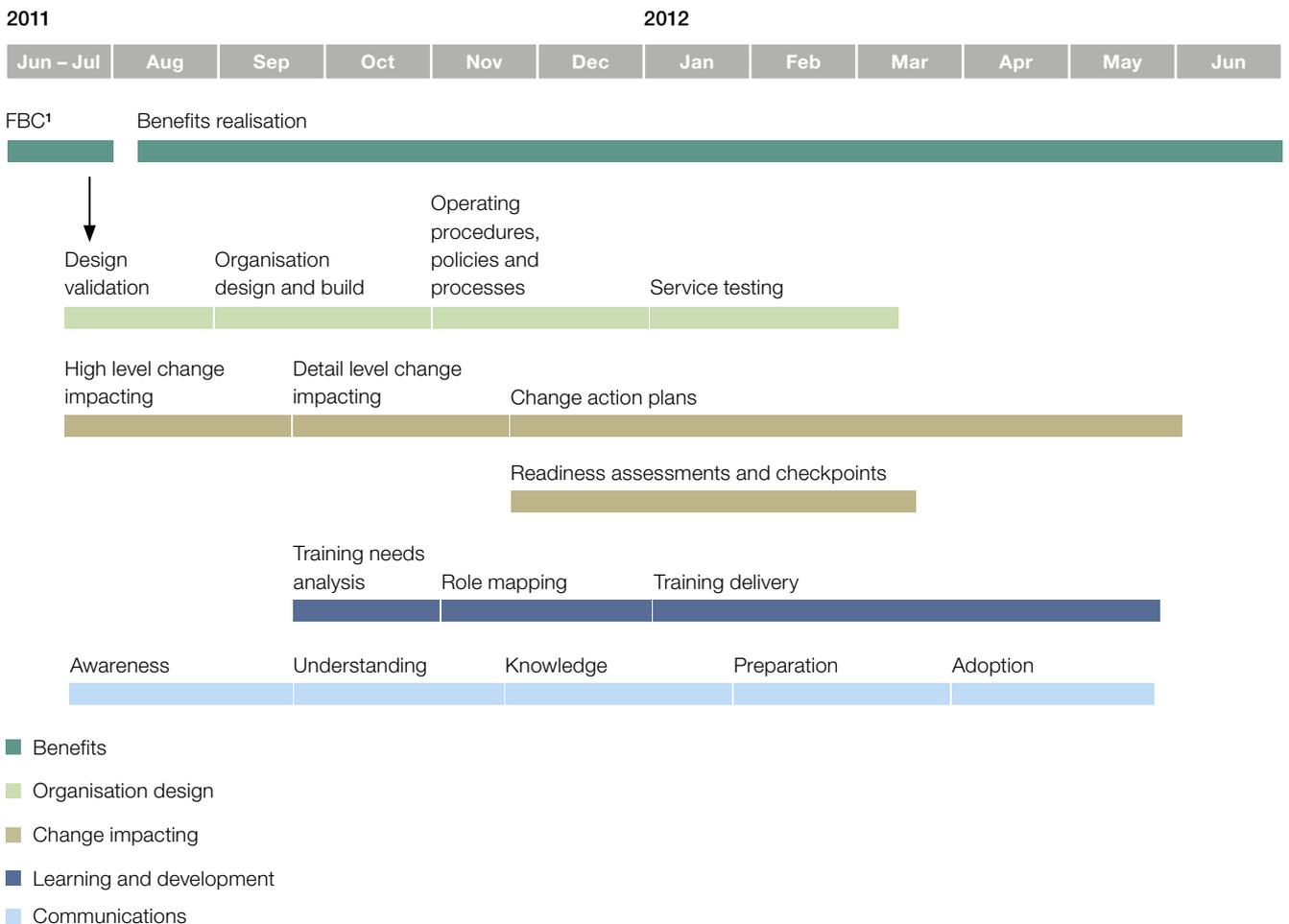
**3.25** Cheshire Constabulary also identified the importance of stakeholder communication throughout its project. **Figure 20** shows an example of their communications plan objectives and how the plan linked to the wider change programme in the force.

**Figure 20**  
Stakeholder communications planning in Cheshire Constabulary

The force looked at a wide range of stakeholders and identified that an effective 'people change and communication strategy' was critical to achieve benefits from transformation. They identified that system changes alone could only provide a small proportion of benefits and changes in work practices, behaviours and culture. The force formulated a communication plan to support the change management strategy. The stated key objectives for the communications plan were to:

- Stimulate awareness of, and support for, the move to a new approach for delivering business services.
- Provide facts, not speculation.
- Ensure staff know what to expect during the programme and when.
- Ensure staff are prepared for change; and have realistic expectations.
- Help limit resistance among stakeholders.

**Multi-force shared service change plan**



**NOTE**

<sup>1</sup> FBC = Final business case.

Source: Extract from Cheshire Constabulary internal change plan

**3.26** Forces said that there was less stakeholder engagement with the community, except through media announcements. This was partly because contracts were mostly for business support functions and therefore seen as of limited interest. Forces that agreed contracts involving custody provision, which could have more operational risks, engaged with community stakeholders about the proposed build site. However, forces did not note receiving requests for information regarding partner skills and expertise in detainee management.<sup>18</sup>

### **Key learning points**

**3.27** Forces described senior leadership as a catalyst for ensuring that projects had impetus and direction. They were aware of when they needed external support and recognised that partners could bring innovative approaches to stakeholder management. Forces and PCCs entering a partnership should consider what, and how, they will communicate with their stakeholders and make sure that they respond to their feedback. This will help stakeholders to support the project as far as possible and achieve optimal outcomes.

<sup>18</sup> Detainee management refers to the process of detaining an arrested person when brought into police custody.

# Part Four

## Contract and performance management

**Principle: The desired outcome in effective contract and performance management is to monitor service provision against contractual and wider requirements to achieve value for money.**

**Part Four outlines the roles and responsibilities and structure of contract and performance management. It describes how to develop a system to manage performance, including different quantitative and qualitative methods of appraisal.**

### Background

**4.1** Contract and performance management starts when the contract is signed and continues throughout the contract life. Forces must identify any new skills and expertise that will be needed in the contract management team. It will also need to consider how far this will build on the original project management team or require staff with different skills and experience, such as relationship management.

### Roles and responsibilities

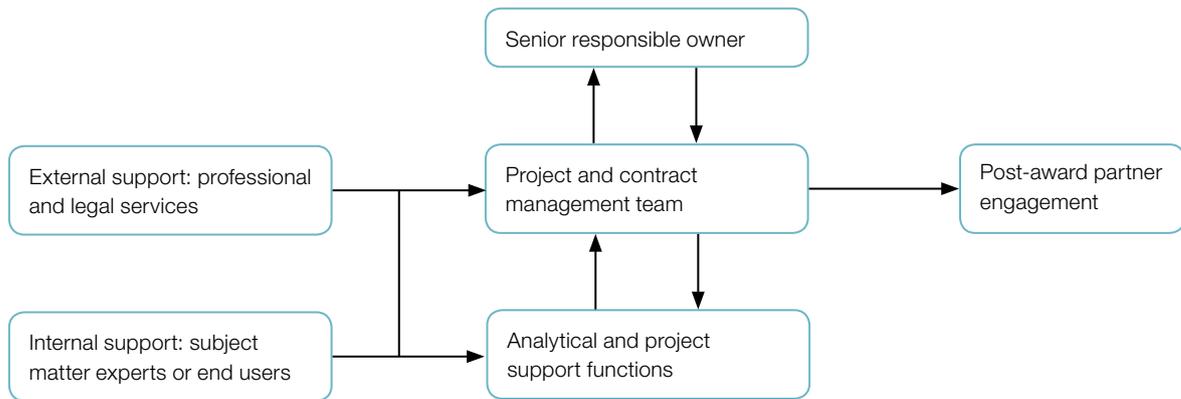
**4.2** Forces and PCCs should carefully consider how contract management will work. This should include the composition of the contracts management team, how it will deal with service incidents and in what priority. It should also include arrangements for reviewing performance information and giving the partner feedback. The team must be capable of handling unexpected issues, which are likely to emerge during a complex partnership. This is particularly so at the beginning of the contract when services may be subject to rapid reform.

**4.3** **Figure 21** overleaf shows how contract and performance teams may be structured. It includes appropriate internal and external support and partner engagement. A good contract and performance management team should have:

- skilled and knowledgeable staff;
- knowledge of the force's and PCC's contractual obligations;
- a detailed understanding of costs across the organisation, as identified in Part One; and
- the ability to apply performance appraisal mechanisms and adjust them when business requirements change.

**Figure 21**

An example of a contract and performance management governance structure



Source: HM Inspectorate of Constabulary and National Audit Office analysis

#### Desired outcomes of effective contract and performance management

##### 4.4 Good outcomes could include that:

- services are being provided as expected, services are improved and costs are cut;
- an effective working relationship is formed, with governance arrangements working well and both sides understanding the other's perspective; and
- issues are regularly resolved at working level, rather than requiring escalation and, where necessary, financial penalties or service credits are promptly pursued.

#### A system for managing performance

**4.5** The contract should clearly set out how the partner's performance will be monitored. If there is a robust baseline for its pre-contract activity then this can be used as a basis to evaluate performance.

**4.6** A good performance management tool will give a detailed and timely understanding of the partner's performance. If possible it should set out and link the inputs, outputs and outcomes of different activities with financial and operational information.<sup>19</sup> This could be done through a combination of quantitative and qualitative indicators. Performance should be monitored to identify issues quickly and take decisions against strategic objectives.

<sup>19</sup> The NAO published a good practice guide, *Performance Frameworks and Board Reporting* in July 2009. It contains a useful maturity model for performance measurement frameworks that forces can use for a self-appraisal of the maturity of their performance management systems. Available at: [www.nao.org.uk/publications/1012/performance\\_frameworks\\_and\\_boa.aspx](http://www.nao.org.uk/publications/1012/performance_frameworks_and_boa.aspx)

### Quantitative performance indicators

**4.7** Performance measures are commonly defined in quantitative terms, such as a percentage of activities that have been achieved in a given time frame. Such 'key performance indicators' (KPIs) should be:

- **valid** – reflecting what they are intended to do;
- **reliable** – using data of sufficient quality; and
- **continuous** – providing comparable data over time.

**4.8** Both parties should agree who will collect such data and what methodology they will use to do so reliably. Where there is reliance on a partner's performance data, assurance that it is being reported accurately, for example through using regular dip-sampling,<sup>20</sup> should be sought.

**4.9** Both parties will need to agree clear criteria to evaluate performance, for example whether an activity or service must meet a fixed threshold or whether continuous improvement is required. They should also agree how performance reporting impacts on the payment mechanism.

**4.10** However, KPIs have limitations and cannot give a complete picture of good or poor performance. Over-reliance on KPIs as a measure of success or failure may incentivise service providers to prioritise activity that meets performance requirements at the expense of desired outcomes. They may also unfairly penalise partners for factors that are not in their control. To mitigate such risks the following should be considered:

- how well their KPIs align with desired outcomes;
- how many KPIs are needed to effectively appraise performance balanced against the associated costs;
- how discretion will be exercised over applying service credits or performance penalties, if necessary;
- whether partners should be able to submit mitigating evidence if performance falls short of targets; and
- how to reconcile the need for performance information with finding opportunities for innovation.

### Qualitative performance indicators

**4.11** Qualitative information can help to contextualise KPIs. Forces and PCCs should consider how to collect, understand and report qualitative information about their partner to improve performance. For example, they could collect information from subject matter experts or end users through periodic meetings, focus groups or surveys. This could identify some of the less apparent aspects of the partnership that may need addressing. These could include barriers to improvement, communication problems or the quality and usefulness of new ICT systems. They should also seek feedback directly from their partner of their experiences of working with the force. Such measures can complement the KPIs and help improve overall performance.

**4.12** In the beginning of the partnership, forces and PCCs may wish to allow a 'grace period' to build goodwill and common understanding in the relationship. As the contract proceeds, the payment mechanism should be regularly reviewed so that it continues to help meet priorities. The force and PCC can retain too much financial risk when payment mechanisms are not managed effectively. By contrast, where the penalties in the payment mechanism are too high, too much financial risk may be passed on to partners.

<sup>20</sup> Dip-sampling is a method where a sample of information is selected for review. It is often used for quality assurance.

## Fieldwork observations

### Roles and responsibilities

**4.13** Where applicable, there were identifiable contract managers who were responsible for managing the partner's performance.<sup>21</sup> Where information was available, we saw evidence of robust recording practices with good examples of:

- clarity in the force's and partner's responsibilities;
- service provision issues being resolved at the appropriate level; and
- the wider workforce, including end users and senior officers, being actively engaged in the partnership.

**4.14** Several forces also stated that contract management improved when the workforce was given relevant commercial understanding about the partnership. For example, information on who is responsible for different service areas, what the agreed service levels are, and how feedback can change practice.

### Developing a performance management system

**4.15** We saw several examples of forces using performance information to their benefit. **Figure 22** shows some KPIs from Avon and Somerset Constabulary.

## Figure 22

Illustrative examples of KPIs used by Avon and Somerset Constabulary at monthly partner performance meetings

The KPIs come from quantitative and qualitative sources. The performance measure descriptions are clear as well as the identified thresholds and frequency of reporting. The force, with its partners, meets regularly to review operational performance and to share and scrutinise management information.

Service line	Performance measure	Frequency of reporting	2012-13 Target	Jan 2012	Feb 2012	Mar 2012
ICT	Percentage availability of key systems	Monthly	99%	● 100%	● 100%	● 100%
Enquiry office	Availability against published opening times	Monthly	Not > than 60.5 hours	● 3 hrs	● 17 hrs	● 13.45 hrs
Enquiry office	Recovery of service provision within four hours	Monthly	Not > 2 occasions per month	● 0	● 1	● 0
Finance and Administration	Sales invoicing – sales invoices to be raised within five days of receipt of request	Monthly	98%	● 100	● 100	● 100
Finance and Administration	Customer Satisfaction of 'good' and above	Annually	74%	● 66.2%		● 78%
Property and Facilities	Inspections completed in line with agreed plan	Quarterly	100%			● 90%

Source: Extract from Avon and Somerset Constabulary performance management information

21 Staffordshire Police and West Midlands Police undertook consultancy support and both established continuous improvement (or equivalent) teams.

**4.16** However, many forces found that relying solely on KPIs risked driving partners into focusing on short-term objectives rather than sufficiently addressing the longer-term priorities of the partnership. We saw examples where forces concentrated on promoting effective personal relationships and seeking qualitative feedback on provider performance to reduce this risk. Putting continuous improvement and innovation clauses in contracts was also useful for this.

### Baselining of performance information

**4.17** Where forces had transferred service provision to their partner and baseline performance information was available, this was regularly used to measure performance after implementation. However, forces often found, before agreeing contracts, that they did not have performance information for some business areas. This meant that the first year of the contract was used to establish a 'zero-base' for measuring future performance. This may have limited the incentives for partners to perform to their potential and for forces to gain assurance that performance has improved. As noted in Part One, forces will benefit from understanding their organisation's performance.

### Qualitative performance indicators

**4.18** Some forces did not fully exploit the opportunities from getting regular feedback from key stakeholders. Forces and partners often established effective relationships at more senior levels, but were less clear about how some elements of service transformation were working for end users. While some forces used surveys or focus groups with staff to gather such information, others did not have such processes. This meant that forces relied solely on information from their partner to understand how operational delivery was working.

### Payment mechanism

**4.19** We saw a number of approaches to using payment mechanisms in the beginning of the partnerships. Some forces used service credits wherever their contract provided for it while others chose a different approach, particularly during periods of complex change. For example, 'goodwill registers'<sup>22</sup> gave flexibility without being too bureaucratic or costly.

### Contract management

**4.20** Forces recognised the importance of taking a working level and strategic approach to contract management. However, they highlighted the usefulness of developing and maintaining professional relationships with their partners. The two case studies (**Figure 23** overleaf and **Figure 24** on page 55) illustrate different approaches to contract management and payment mechanisms.

<sup>22</sup> A goodwill register is a record of decisions or activities that have taken place beyond the terms of the contract.

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**Figure 23****Contract and performance management in the Sussex Police PFI contract for custody buildings, services and facilities management****Background to the partnership**

Sussex Police had outdated custody buildings, which were inefficient, expensive to run and a potential risk to detainee safety. Upgrading, rationalising and centralising the buildings was a priority. Following an options appraisal, the force found that it required significant capital investment to do this. It entered into a 30-year PFI contract in 2001, supported by grants from the Home Office.

**Background to the contract**

The contract included building four new custody buildings, renovating a further two and providing custody services including cleaning, catering, medical and detainee identification. The contract also included providing detainee processing services, staffed by the partner.

**Early contract and performance management**

In the beginning of the contract, Sussex Police actively managed it and obtained service credits for poor performance. After transferring force custody staff to the partner, a 'business as usual' approach was taken with little differentiation between force and partner staff roles. Formal contract and performance management mechanisms fell into disuse and more reliance was placed on personal relationships.

There are now no force contract management staff and few officers remaining who were involved when the contract was agreed. Combined with limited records, such as meeting minutes, this meant there was little organisational memory. In 2010, the force took independent advice to conduct a quality assurance review of the contract.

**Force learning and changes to practice**

The force re-established a contract management team with a project and contract manager with additional administrative support. The force now reviews performance in detail monthly, with clear recording practices to inform future decision-making. Since the election of the PCC in November 2012, further scrutiny is being undertaken by the PCC on the PFI contract with a greater focus on performance monitoring to ensure the service is being delivered as contracted.

While relationships between force and partner staff remain positive, the force has reported learning valuable lessons on having a more formal approach throughout the entire life of a contract.

*Source: HM Inspectorate of Constabulary and National Audit Office analysis of interview evidence*

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**Figure 24****Contract and performance management in Norfolk and Suffolk Constabulary's PFI contract for custody buildings and facilities****Background to the partnership**

Norfolk and Suffolk Constabularies identified a shared need to modernise their custody buildings. In 2010, after an options appraisal, the forces procured a 30-year PFI contract to provide six Prisoner Investigation Centres (PICs). The contract included providing services such as facilities management, utilities, catering, cleaning, and detainee consumables. The contract does not include managing detainees.

**Background to the contract**

The payment mechanisms, including retrieving service credits for underperformance, were drafted carefully in the contract. Norfolk Constabulary took advantage of learning from a previous PFI contract for building its force headquarters. For example, the financial penalties associated with underperformance are subject to a 'ratcheting' effect, where the daily penalty incurred is 50 per cent higher than the previous day while issues remain unaddressed.

**Post-contract operational difficulties**

Early contract performance problems resulted in deductions from the unitary charge in accordance with the agreed performance payment mechanism. The joint force contract management team engaged closely with the contractor to ensure that the mechanism operated as intended and provided an incentive to early resolution.

**Force learning and changes to practice**

Overall, senior police officers and operational staff have been pleased with the PICs prisoner investigation centres and service quality. Both forces have reflected that the centres have professionalised the service and improved working practices. They are now considering how to focus attention on resolving remaining performance issues without transferring too much financial risk to the partner.

*Source: HM Inspectorate of Constabulary and National Audit Office analysis of interview evidence*

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### Positive impacts of good contract and performance management

**4.21** Forces described several common benefits from good contract and performance management, including the following:

- **Informal dialogue and feedback.** Forces described developing their relationships to facilitate informal dialogue and feedback as benefiting both parties. They said it helped to align organisational aims in the partnership and created a longer-term, strategic approach to delivery.
- **Greater professionalism.** Formal contract management has prompted forces to reflect on how they can take a more 'businesslike' approach to service provision.
- **Resolving issues.** Clarity in governance arrangements meant that issues were dealt with at the appropriate level without the need for regular escalation.

### Contract management costs

**4.22** Forces found it relatively easy to understand the staff costs of their designated contract management teams. It was more difficult to understand the costs associated with input from either senior staff or subject matter experts whose involvement was more intermittent. Based on our evidence, those forces and PCCs entering into major business partnering projects could anticipate staff contract management costs to be approximately 2 to 4 per cent of the annual contract value. By contrast, those forces and PCCs considering a custody partnering arrangement using PFI could anticipate staff contract management costs to be approximately 1 to 2 per cent of the annual contract value. In both cases, forces and PCCs should evaluate these costs against efficiency gains and cashable savings.

### Key learning points

**4.23** Forces stated that they had effective contract and performance management and made sure that they had robust recording practices. Forces cited several benefits of good contract management, which included informal dialogue and feedback, greater professionalism and resolving issues effectively. We suggest that forces and PCCs assess how they intend to monitor performance. They should then decide whether to pursue service credits, wherever the contract provides, or a more flexible approach during periods of complex change. These decisions should be agreed and documented. Forces and PCCs should also understand how they will get feedback from end-users to review these decisions and should review their approach to performance appraisal regularly.

# Part Five

## Reported outcomes

**Part Five summarises the key learning points identified so far and comments on what forces said to us about their most significant outcomes. In describing these outcomes below, we did not do a formal evaluation and nor can we make recommendations from these stated outcomes.**

**5.1** Throughout this guide we have presented the key points of learning that we identified during our fieldwork. This review was not an inspection or audit and therefore we have not evaluated the value for money of the reported outcomes. However, those forces involved in this review highlighted several significant learning points that could benefit other forces, PCCs and the private sector.

Key learning points identified in this guide so far, are as follows:

- **Strategy, objectives and service outcomes.** Forces had clear strategies, objectives and outcomes and had communicated these clearly to the market. They identified their risk appetites and tolerance levels. Forces had strong leaders who recognised where there were shortages of commercial skills and expertise. Forces and PCCs should consider how they will develop detailed service specifications. They should understand what cost and performance analyses will help to align these to organisational priorities, drawing on benchmarking data where available. They will also benefit from developing their relationship with their potential partners and understanding each other's culture and values.
- **Sourcing and tender evaluation stages.** Forces undertook their sourcing stage and tender evaluation effectively and recorded their scoring decisions. Forces and PCCs should consider issues of contract flexibility early on. They should also baseline their costs and performance as far as possible. However, we recognise that they did this during the sourcing phase and improved their business understanding. Those forces and PCCs entering into partnerships should be aware that these activities are resource intensive and should weigh the advantages gained against the costs incurred.
- **Governance, leadership and stakeholder management.** Forces described senior leadership as a catalyst for ensuring that projects had impetus and direction. Forces were aware of when they needed external support and recognised that partners could bring innovative approaches to stakeholder management. Forces and PCCs entering a partnership should consider what, and how, they will communicate with their stakeholders and make sure that they respond to their feedback. This will help stakeholders to support the project as far as possible and achieve optimal outcomes.
- **Contract and performance management.** Forces stated that they had effective contract and performance management and made sure that they had robust recording practices. Forces cited several benefits of good contract management, which included informal dialogue and feedback, greater professionalism and resolving issues effectively. We suggest that forces and PCCs assess how they intend to monitor performance. They should then decide whether to pursue service credits, wherever the contract provides, or a more flexible approach during periods of complex change. These decisions should be agreed and documented. Forces and PCCs should also understand how they will get feedback from end-users to review these decisions and should review their approach to performance appraisal regularly.

## Reported significant outcomes

**5.2** This section builds on the key learning points identified above and reflects on both forces' and partners' experiences. We asked forces what outcomes the partnerships had achieved. Those forces who were at an early stage had limited outcome information but had conducted early 'lessons learnt' appraisals. These learning points are incorporated below. Forces with more mature operational contracts had conducted evaluations, many of these by external independent evaluators. Forces that had carried out an external review highlighted that it had helped them to be more 'intelligent clients' and independent scrutiny had given legitimacy and increased stakeholder buy-in.

### Financial outcomes

**5.3** In some of the early contracts we saw, information on financial outcomes was not always available and forces had prioritised service improvement and business transformation. Approaches to contract management helped to make cost savings and improve service quality. Where these contracts have been either renegotiated or re-tendered the new contracts are now more detailed.

**5.4** Forces gave us evidence of savings and reduced running costs in contracted areas and also described positive impacts on the retained functions of the force. For example, in South Wales Police, the 'street to suite' scheme<sup>23</sup> helped release officers back to their operational duties more quickly.

**5.5** Avon and Somerset Constabulary achieved their forecasted levels of procurement savings earlier than expected and the partnership anticipates it will achieve further procurement savings over the contracted levels.

### Performance outcomes

**5.6** Forces cited several areas where performance had improved because of their learning. For example, criminal investigation teams in Staffordshire Police saw dramatic improvements to charge and police bail rates<sup>24</sup> and 'no further actions',<sup>25</sup> which means the force can now focus more on quality and prevention. They said that they had transformed their existing operating model with a new workforce profile, improving performance and making savings.

**5.7** Where there was considerable urgency to make savings some forces acknowledged that an early focus on quantitative performance may not have driven the right behaviours. Many have since altered their KPIs and introduced measures that help improve service quality. This adjustment may partially reflect a lack of sufficient detail in the original specification.

### Expertise outcomes

**5.8** Private sector expertise improved the professionalism of many roles, particularly custody. Managers and staff in all custody arrangements we visited said that the facilities exceeded their expectations. The atmosphere and routine was seen as more professionalised, with responsive maintenance and cleanliness dealt with very quickly. Norfolk and Suffolk Constabularies and South Wales Police said that they now have waiting lists for the custody sergeant role. Many officers said that custody was a more professional service, provided by highly trained and motivated people.

<sup>23</sup> This scheme is where the partner takes the detained person from the place of arrest to the custody suite.

<sup>24</sup> Police charge rates are the measure of the number of people charged for an offence. Police bail rate is the measure of the number of suspects who are released without being charged but must return to the police station at a later date.

<sup>25</sup> 'No further actions' are decisions not to proceed with a prosecution. This may be because the threshold test is not passed, if there is not 'a reasonable suspicion that an offence has been committed' or it would not be in the public interest to proceed.

**5.9** Partners have also built up their expertise, for example in complex command and control systems. This has generated innovative ICT products in Cheshire Constabulary, where the force shared intellectual property rights with their partner.

**5.10** Many forces identified that going through the contract stages and working with the private sector helped them to find talent in the organisation, which they would not have identified otherwise. For example, in West Midlands Police the Senior Responsible Owner decided the heads of service would have 'observer-only roles' during their initial Priority Based Budgeting process. This allowed staff to take more of a lead in discussions. This helped to challenge mindsets and got managers to think differently about how they might provide services. This process helped the force identify a rich talent pool that they did not know existed. This experience has been replicated by other forces entering into contracts.

### Business intelligence outcomes

**5.11** All forces reported that the higher-quality management information they obtained helped them to improve performance elsewhere in the organisation. For example, South Wales Police introduced a metric for the quality of forensic evidence taken in custody. This allowed greater scrutiny and remedial action on areas of poor performance. The force said that this positively impacted on investigative outcomes. Cheshire Constabulary and Northamptonshire Police said that there was greater visibility of costs and productivity. For example, data derived from automated sources allowed them to concentrate on priority areas. In addition, self-service functions have made processes more visible. Staff can then identify potential issues that can be resolved, with consequent cost savings.

**5.12** Self-service platforms have also provided better data to collate and analyse costs across the force. Cheshire Constabulary and Northamptonshire Police can now consolidate multiple invoices to suppliers to see where costs are generated and reduce unit costs. West Midlands Police have greater transparency for costs and service levels, which means that they can consider a wider range of responses to changes in operational performance or crime figures. Several forces said that they had improved how they captured, recorded and shared knowledge across the force. Some had also made toolkits to transfer knowledge.

### Cultural change and continuous improvement outcomes

**5.13** Forces entering large and complex contracts said that involving the partner helped to make changes more quickly. Partners undertaking consultancy roles have also operated as 'change agents'. Staffordshire Police report that their partner helped to 'unclutter their thinking' which led to a cultural change, with more self-reflection and constructive challenge. They said this led to a number of improvements, which are set out in **Figure 25** overleaf.

**5.14** In some contracts there are continuous improvement provisions. Cleveland Police have a service improvement plan, which the partner must update yearly. This includes:

- an updated asset register;
- descriptions of planned upgrades or refreshers;
- new outline business cases to improve services;
- a timetable for moving from an outline business case to a final business case;
- provisions for professional advice; and
- a willingness to cooperate with third-party advice providers.

## Figure 25 Continuous improvement in Staffordshire Police

The force set up a Benefits Realisation Team which identified business benefits in several areas. For example, the force looked at how it dealt with incoming calls and deployed response officers. It identified potential improvements in operational resourcing, call handling and the switchboard.

### Operational resourcing

Increased use of single crewing<sup>1</sup> during times of low demand on the Control Room and reducing unnecessary usage of the radio system.

Benefits include:

- Structured model to manage single crewing of controllers
- Better match of capacity to demand within the Control Room
- Improved radio discipline

### Call handling

Revision of the current shift and staffing model in the Control Room to match capacity to demand better.

Benefits include:

- Improved quality of service by aligning capacity to community needs
- More time for Call Handlers to close calls
- Better management of staffing levels

### Switchboard

Using technology to manage external calls to the Switchboard.

Benefits include:

- Improved service to the public
- More cost-effective service

Effective process mapping underpinned by good-quality management information has helped the force to identify benefits beyond those originally envisaged.

### NOTE

1 'Single crewing' generally refers to the use of individual police officers in police cars.

Source: Staffordshire Police internal continuous improvement documentation

**5.15** Some forces stated that partners brought much more business discipline. For example, Avon and Somerset Constabulary has the contractual powers to mandate Continuous Improvement and a Quality Management regime. The partner now uses an adapted version of the European Foundation for Quality Management<sup>26</sup> combined with quality management methodologies. Cheshire Constabulary and Northamptonshire Police have set up a 'sustain improvers group'. Super users of the new systems are visible and accessible to help promote new behaviours and give support.

**5.16** Cleveland Police, supported by an uplift in ICT performance, has been able to develop a new operating model, part of which includes a consolidated information and intelligence management function to be delivered through a force 'hub'.

### Unexpected benefits

**5.17** Many staff who transferred to the partner said that they felt that they have better career paths and development opportunities. For example, custody staff now have a career path from custody officer through to team leader. Focus group evidence was consistent with this message. We were also told that a change in scale with the private sector organisation gave access to different job opportunities.

**5.18** In Staffordshire Police the opportunity for retained staff and officers to work with private sector employees provided career development opportunities not normally associated with their role. The force proactively went to department heads and selected staff who they thought would be able to promote the improved processes from their consultancy contract. This broadened the knowledge transfer across the force. After the contract began, leaders said that there was a feeling that skills had been brought into the force. This could have longer-term benefits, with forces having better skills and expertise to identify improvements.

**5.19** There have also been benefits for retained teams that work closely with those teams that are now partner led. Norfolk and Suffolk Constabularies identified that by centralising their crime investigation units they could share information, intelligence and good practice.

**5.20** The South Wales Police partner reported that using custody vans on the streets had a positive benefit, which the public commented on. It was explained that the external livery on the van is similar to police livery and has helped to act as a deterrent in busy areas.

### Unexpected costs

**5.21** Sometimes, there is more than one partner in a contract. This brings potential for unexpected cost increases if one partner changes their strategic direction during the contract, and this may make partnership management more challenging. Forces will need to consider how to overcome these challenges.

**5.22** Several forces highlighted that during the sourcing and tendering stages some bidders assumed they could bring generic thinking and 'off-the-shelf' products. We were told these did not meet expectations and exposed potential bidders to increased costs arising from these assumptions. Sometimes, this approach was evident in the methodology potential partners used to carry out their due diligence tests. Some bidders did not talk to the workforce and relied only on document reviews and process mapping. Using this type of methodology eventually added to their costs as they then significantly underestimated the level of change required.

**5.23** An example of both partners and forces underestimating the complexity of policing was the difference in how forces interpret the 2003 Police Regulations.<sup>27</sup> In Northamptonshire Police and Cheshire Constabulary this only became apparent when the partner tried to install the ICT payroll software. For example, in Northamptonshire Police the day starts at 7 o'clock in the morning, whereas in Cheshire Constabulary the day starts at midnight. In a 24-hour service this has planning and cost implications for different forces when officers and staff are paid and start rest days and bank holidays at different times. This is likely to be a potential problem in other areas of police business and is not unique to such partnerships.

<sup>27</sup> The Police Regulations and Determinations 2003. Available at: [www.legislation.gov.uk/uksi/2003/527/contents/made](http://www.legislation.gov.uk/uksi/2003/527/contents/made)

### Risk-transfer outcome

**5.24** Risks need to be placed with the party best able to deal with them. Forces and PCCs will need to carefully judge how far risks have been genuinely transferred through their contracts and therefore whether extra costs are really justified.

**5.25** Forces suggested to us that providers would benefit from going through a 'day in the life of a force' during scoping or dialogue stages, to understand how each side would approach and deal with the same issue. An example of culturally different approaches was that forces tend to err on the side of characterising some incidents as 'critical' and rapidly providing specialist resources, before downgrading incidents. Partners were more inclined to investigate more before deciding whether to escalate matters. Understanding where risk ultimately lies during these early stages would have benefited the force and potential partners.

**5.26** The final part of this practical guide describes challenges and opportunities for forces, PCCs and the private sector. We also make suggestions to develop further action.

# Part Six

## Future considerations

**Part Six is divided into two sections. It describes the challenges for forces, PCCs and the private sector and makes suggestions for further action.**

### Background

**6.1** Our fieldwork interviews and engagement with stakeholders identified a number of cross-cutting themes. As the policing landscape changes, how forces operate and engage with the private sector is becoming increasingly complex. This adds cost and uncertainty to the police and private sector relationships. Police leaders and stakeholders identified several options for making improvements locally and nationally.

### Challenges for forces, PCCs and the private sector

**6.2** Senior police leaders, industry representatives and private sector partners noted the increasing fragmentation across the policing landscape and the increasing costs to manage this complexity.

#### Increasing fragmentation

**6.3** Forces have pursued individual solutions, which have increased variation between forces in technology, processes and partnering options. Even within forces there are multiple levels of collaborations, outsourcing, shared service, PFI and joint ventures. For any force this creates management complexity and cost because different functions and components are provided using multiple approaches. For partners it adds costs, decreases returns, reduces competition and prevents new entrants to the police sector. There are also a limited number of private sector providers of specialist police services. This is particularly so for custody partnering arrangements, such as providing custody services.

#### Increasing costs

**6.4** Engaging with 43 separate forces is costly for private sector partners and less likely to make economies of scale and maximise potential yield. For example, smaller single forces may have to bundle together some functions, making it less attractive to the private sector community. In addition, it makes the policing market less attractive for new market entrants and difficult to introduce further competitive tension.

#### Flexibility of contracts

**6.5** Some force contracts are agreed over long periods, particularly where upfront investment in infrastructure is required. However, policing changes rapidly. There are examples of flexibilities being built into contracts, as well as benchmarking and continuous improvement clauses to maximise value for money. However, it is difficult for forces to compensate for inflexible long-term contracts and locking in elements of their budgets for so long.

**6.6** However, industry representatives stated that there were opportunities to increase pricing flexibility. For example, ICT procurement is changing. There could be more 'pay as you go' models, which would reduce the need for significant investment in infrastructure initially. This could lead to shorter contracts to recoup investment costs and might provide more flexible pricing frameworks.

### Developing the market

**6.7** Those forces who used competitive dialogue all received high volumes of expressions of interest. However, despite this interest, only two providers reached the final negotiating stages with Lincolnshire Police, Cleveland Police and Cheshire Constabulary. Often, these were providers who had a demonstrable track record of working with the police or criminal justice system. If forces and PCCs are concerned about a lack of competitiveness, they could encourage bids from a consortia of bidders. This could allow the relative strengths of several providers to meet the organisation's needs. Forces and PCCs should therefore consider how far they can help develop the market.

### Suggestions for further action

**6.8** Police leaders and stakeholders identified several options to make improvements nationally and locally. These options involve forces, PCCs and private sector partners working towards common outcomes.

### Improving private sector engagement

**6.9** Improving supplier engagement could have several positive outcomes. We were told ideally that it would need to be coordinated by a lead party. However, it need not be overly directive or centralist and should involve forces, PCCs and private sector partners.

**6.10** Improved engagement could achieve the following outcomes:

- Potential partners will better understand forces' and PCC requirements; and forces and PCCs will understand which commercial delivery models could be taken from private to public and what gains would be possible.
- Different commercial models could provide greater flexibility. For example, using shorter contracts with the latest approach to technology, such as cloud-based transaction pricing where users can access application software and databases by subscription or on a pay-per-use basis. Forces will need to weigh the implications of storing data on a cloud provider's server against reduced costs.
- Exploring issues that would build or maintain public confidence, such as how to maintain or improve transparency and accountability.
- Give tailored guidance and feedback from projects to enable PCCs and forces to identify and disseminate lessons learned.

**6.11** The Cabinet Office is developing and is due to publish 'model contracts' for ICT services for the public sector. If adopted by the policing sector, these could provide a positive first step towards achieving some of these outcomes. This could include reducing duplication and improve forces' and PCC's ability to take advantage of pre-existing frameworks set up by other forces. They could help to standardise services and reduce procurement costs. However, where the anticipated complexity of providing some services is high, it may be necessary for a bespoke contract to be put in place.

### Building the sector's skills and capabilities

**6.12** Forces and private sector partners said they wanted to build on existing expertise and develop commercial leadership skills. This would help the policing sector to become a more 'intelligent client'. They said that the College of Policing could help the service to build skills, knowledge and expertise. The College may want to look to both the skills development and talent management of those with subject knowledge in these areas. It should develop the evidence base, effective practice, case studies and further guidance.

**6.13** These suggestions could help build on existing knowledge and partnering activity and make improvements locally and nationally. Police leaders and PCCs will also need to show a willingness to share lessons across the sector. Together with a central coordination lead, this will help them both act as intelligent clients in a rapidly changing landscape.

# Appendix One

## Methodology

### Document review

Forces gave the study team many documents to support our case study visits. The main types of documents that we reviewed were:

- force corporate strategy documents and financial plans;
- option appraisals and business cases;
- service specifications;
- procurement plans and tender documents;
- partnership contracts;
- risk registers;
- committee, board and meeting minutes; and
- performance management information.

### Fieldwork

Our fieldwork took place with forces between October and December 2012 and consisted of interviews and focus groups.

### Interviews

To gain a deeper insight into how partnership arrangements are working, we interviewed representatives from the force, Office of the Police and Crime Commissioner (OPCCs) and the private sector. The types of interviewees varied across visits, according to the local context of the partnership. They included:

- chief police officers;
- finance directors and heads of finance;
- leads for procurement, human resources, estates, facilities and ICT;
- contract and performance managers;
- OPCC chief executives; and
- service provider representatives.

### **Focus groups**

The study team facilitated focus groups to allow participants to reflect on some of the aspects of the partnership. Focus group participants included:

- operational police officers and police staff who were either end-users or were working directly with the service provider; and
- service provider staff, including senior representatives and former police staff who had either transferred or were seconded to the partner.

### **Consultation with wider stakeholders**

Following our fieldwork with forces, we engaged with wider stakeholders, including industry representatives, the Home Office, the Association of Chief Police Officers and the College of Policing.<sup>28</sup> The purpose of this was to explore opportunities and barriers to working with the police sector and the future of partnership arrangements.

28 Before the College of Policing began operating on 1 December 2012, we engaged with the National Police Improvement Agency.

# Appendix Two

## Glossary

**Affordability.** How far a service or asset will be affordable over the contract's lifecycle.

**Baseline costs.** The identified costs of business activities that serve as a reference point for future appraisal.

**Baseline performance.** Levels of performance associated with a defined business process or outcome, or both.

**Benchmarking.** Comparing service cost or performance, or both, such as with other public or private sector bodies.

**Benefits Realisation Team and Continuous Improvement Team.** Named teams in Staffordshire Police and West Midlands Police respectively, responsible for using acquired skills, knowledge and expertise to identify service transformation and savings opportunities.

**Business plan.** Sets out organisational goals and priorities and how they will be achieved.

**Cloud-based transactions.** Alternative method of ICT provision, with data on a partner's server accessed via subscription or pay-per-use.

**College of Policing.** Professional body for the police service – sets standards for training, development, skills and qualifications.

**Competitive dialogue.** One of four ways of awarding a contract under the Public Contract Regulations 2006 (the others being 'open', 'restricted' and 'negotiated'). It can be used where a contracting authority wishes to award a particularly complex contract. The dialogue enables a 'solution' to be developed on the basis of the ideas and proposals put forward by each tenderer.

**Consultancy support.** The police use of private sector consultancy services for business transformation purposes.

**Custody partnering.** A police-private sector partnership involving custody buildings and/or services.

**Detainee management.** Processes involved in detaining an arrested person when brought into police custody.

**Due diligence.** A process of prudence to reasonably assess the risks of entering a financial commitment. It may cover legal, financial, organisational, capacity, capability and reputational risks.

**Final business case.** Sets out the scope, costs, affordability and risks of a given service or asset and provides a timetable for project delivery. Often the final document will be agreed with the PCC.

**First to market.** Those forces who were early customers of a service or asset.

**Gain-share mechanism.** A way to share in the financial savings made when a partner improves efficiency or effectiveness. Specified in the contract, it can take different forms and may incentivise the partner to make further savings.

**Goodwill registers.** A record of actions or decisions, or both, that have been made to assist the other party and that are not formal elements of the contract.

**Intelligent clients.** A force's business understanding, skills, and capacity to offer, negotiate and manage a contract effectively to achieve value for money, maintain service standards and manage risks.

**Interdependencies.** Where there are mutually dependent relationships or processes between activities.

**Joint venture.** A venture formed between two or more organisations to deliver agreed objectives. They exist in a variety of forms and are formed by transferring staff and assets from the participating organisations into a separate entity, the joint venture, and/or receiving equity in return for the transfer of assets. Responsibility for delivery, revenues, expenses, assets and control of the organisation are shared between the parties in the agreement.

**Key performance indicator.** A quantitative or qualitative measure of a significant element of performance. It may stand as a proxy for wider measurement of performance.

**Major business partnering.** A police-private sector partnership involving a number of corporate support or operational policing activities, or both.

**OJEU.** Official Journal of the European Union.

**Open book accounting.** Arrangements whereby part or all of a partner's financial records for a project can be seen by the force.

**Options appraisal.** An analysis of opportunities and limitations of different options to meet defined business objectives.

**Organisational memory.** The capacity of an organisation to acquire, retain and retrieve both formal and informal information over a period of time.

**Outline business case.** The broad service outcomes, indicative costs and risks of a business proposal. It also includes an options appraisal.

**Outsourcing.** Contracting out a service or asset to an external body.

**Payment mechanisms.** The method of determining how much a body should be paid and when. Such a mechanism may be simple or complex, include incentives and penalties and be linked to service levels, outputs or outcomes.

**PF2.** The replacement for the Private Finance Initiative (PFI), intended to make the procurement faster and cheaper, improve the flexibility of services under the contracts, and improve transparency and risk allocation.

**Private Finance Initiative.** Where public bodies use capital from private sector bodies to finance projects and provide services.

**Police and crime commissioners.** Elected roles in police forces in England and Wales (the equivalent in the Metropolitan Police Service is the Mayor's Office of Police and Crime and equivalent in the City of London Police is the Common Council).

**Police authorities.** Statutory bodies that scrutinised the efficiency and effectiveness of forces in England and Wales. They were superseded by police and crime commissioners (PCCs) in November 2012.

**Private sector partnering.** Partnership between a central or local state body with a private sector body to deliver a service or asset.

**Psychological contract.** The strong affiliation that officers and staff hold about their force which includes beliefs, perceptions and informal obligations.

**Public bodies.** State bodies, for example, consisting of central government departments, executive agencies, non-departmental public bodies, NHS trusts and local authorities (including councils, fire and police OPCC).

**Relationship management.** Collaboratively planning for, and managing interactions with, potential and awarded partners in order to maximise the value of these relationships.

**Risk appetite.** Method of understanding a force's approach to risk and defining the level that it considers acceptable.

**Risk management.** Identifying, assessing and mitigating financial or non-financial risks, or both.

**Service credits.** Imposing agreed financial penalties for underperformance.

**Service outcomes.** Effect that occurs from a service being provided.

**Service specification.** Set of requirements that need to be satisfied.

**Shared service.** Sharing of business support services often of a transactional nature in one place.

**Soft-market testing.** Informal interactions with potential partners to help forces enhance their service specifications.

**Sourcing stage.** A stage in the sourcing phase of the procurement where bidders respond to the contract notice and completed when the force chooses the successful bidder.

**Subject matter experts.** Individuals or groups of people, or both, who have a high degree of specialist knowledge of a given area.

**Tender evaluation.** The process of assessing tenders against predetermined criteria during the sourcing phase in procurement.

**The office of constable.** Designation of legal powers to individuals as crown servants to undertake police roles and activities.

**The Office of the Police and Crime Commissioner (OPCC).** Designated corporate support role for PCCs, comprising a chief executive, chief finance officer and other support roles.

**Value for money.** The economy (level of spend), efficiency (outputs per inputs) and effectiveness (outcomes per inputs) of a given activity.

**Warranted powers.** The legitimate and proportionate use of powers, for example, the power to arrest.

## Further resources

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# Where to find out more

The National Audit Office website is

**[www.nao.org.uk](http://www.nao.org.uk)**

Her Majesty's Inspectorate of  
Constabulary website is

**[www.hmic.gov.uk](http://www.hmic.gov.uk)**

Twitter: @HMICgov

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