

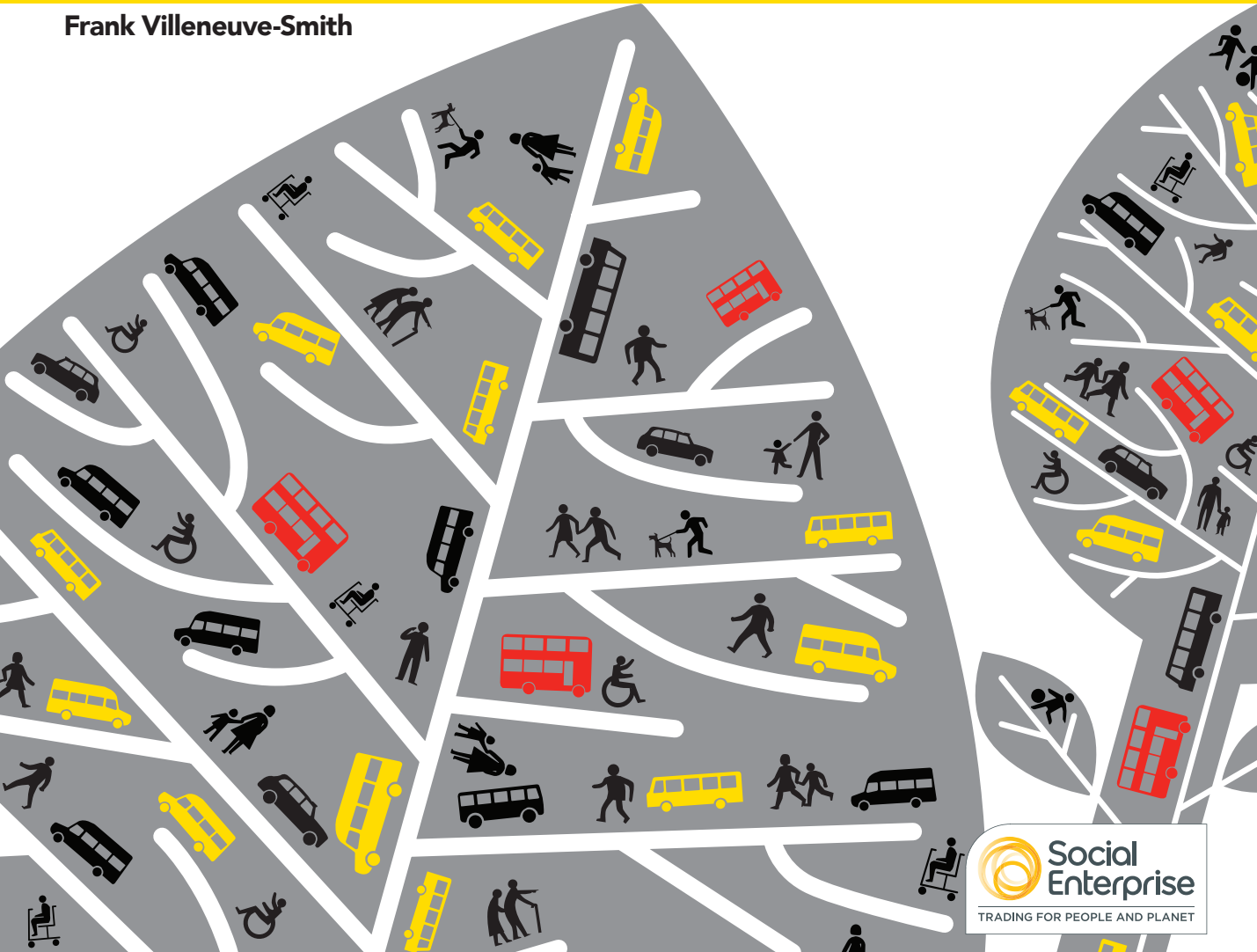


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innovation in transport procurement

seven big ideas to beat the
public spending crunch

Frank Villeneuve-Smith



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introduction

the recession in the public sector begins in 2010

The rescue of the financial services industry, high unemployment and six consecutive quarters of negative gross domestic product (GDP) growth with a peak-to-trough drop in output of 6%¹ have all combined to create a 'perfect storm', placing unprecedented pressure on public finances. For the first time since the late 1970s, fiscal discipline has become a central election issue and a new government of whatever stripe will seek to aggressively cut public spending. As a result, tomorrow will look very little like today.

For anyone involved in the delivery of public services – in commissioning, in procurement, in service delivery, this emerging reality will have been your concern and preoccupation for some time. The new decade will bring greater challenges for transport commissioners than ever before. The likelihood of extreme pressure on budgets, new approaches through the personalisation agenda and new priorities from government will all conspire to create dramatic change. One thing is certain: 'the same but cheaper' will not suffice.

If we want to preserve essential services and maintain the trust of our communities, innovation in service design and delivery must be the answer. More than ever before, there is a need for transport commissioners and transport providers to take the initiative, re-thinking from the ground up what they do, how they do it and why.

This booklet aims to present those involved in transport commissioning, procurement and service delivery with seven big ideas to beat the public spending crunch – a host of new options and new ways of thinking about the challenges to come. In the conclusion, we present a worked example of the sort of savings that are possible while improving the quality of service – so if you're short of time you should skip straight to the end to see what can be achieved.

The 'seven big ideas' presented here have been developed from the combined transport experience and expertise of HCT Group – a leading transport social enterprise, Mouchel – a consulting and business services group, and the Community Transport Association (CTA) – the lead UK body for voluntary and community transport. We work with colleagues in local authority transport every day and, as a consequence, we recognise the pressures that are to come; it's time that we helped by 'showing our cards' and sharing what we know.

This booklet cannot claim to be a definitive guide to innovation, or transport procurement, or to take into account the myriad local objective conditions in which transport commissioners work. Rather its aim is to deliberately challenge – to provoke debate, discussion and new thinking from its audience. If the reader can find one idea out of the seven presented here that helps them deal with the new realities, then it will have succeeded in its objective.

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Gross domestic product preliminary estimate, 4th Quarter 2009, Office for National Statistics, 26 January 2010

one

step back and see the big picture – it's about outcomes not inputs/outputs

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Frequently, transport contracts let by local authorities are based on a prescriptive model of inputs and outputs – a certain number of vehicles delivering a certain number of journeys along a given route. Although such an approach can incrementally reduce costs through competition, it does present transport commissioners with several challenges:

- It is profoundly tactical – the commissioning role in public services can be visionary, helping to shape the citizen's experience of their community and their environment. Commissioners may struggle to reach for the strategic issues if their procurement model embroils them in discussions about tyre specifications.
- Procurement on outputs locks out innovation – for most questions, there is more than one answer. Over-specifying contracts means there is no chance of being able to consider bold new approaches that might dramatically cut costs, improve services or even manage both at the same time.
- It can lead to a 'race to the bottom' in terms of service quality – the only dimension for your supply chain to compete on in an over-specified contract is price. After a point, this becomes counter-productive for service quality, as your supply chain does not invest in vehicles.
- It can be expensive and time consuming to administer – once you have procured at a high level of detail, the measuring of the outputs from inputs can be an enormous tactical task.

The alternative model is to commission on outcomes, not inputs and outputs. In this scenario, the transport commissioner steps back and commands the supply chain: 'This is the outcome we are after – solve the problem!'. So 'I'll have however many buses of a certain size, stopping here, here and here at these times', becomes 'I have 400 young people with special educational needs (SEN) who need to get to their school on time'.

Moving from a model of procuring outputs/inputs to a model of commissioning for outcomes provides transport commissioners with the opportunity to step back and explore four big issues.

We're going to have to solve the problem in another way

Transport procurement on inputs/outputs has saved local authorities plenty of money in the recent past, with the procurement cycle placing greater and greater downward pressure on costs. However, we are arguably at the end of simple savings from logical cost cutting at a time when potentially dramatic cuts in funding are just around the corner. Clearly, we are going to have to solve the problem in another way. This is where the key strength of outcome-based commissioning comes in – it allows you to reframe the question in such a way that innovation can flourish.

Sometimes, we really need to ask the tough, existential questions

What are we really trying to do here? Is it our job to do this? Why do we do it this way? Says who? It is very likely indeed that these questions will shortly be asked of you, quite possibly by someone who just plain doesn't understand the critical social function that access plays in our communities. In a climate of swinging cuts, it will probably be more effective if transport commissioners themselves take ownership of these understandably uncomfortable questions.

You may need to rethink fundamentally how you go about organising transport, approaching the challenges much more strategically. John Mooney at Mouchel points out that for any authority facing significant efficiency challenges, the bulk of savings will come from policy/commissioning changes – doing smarter things – rather than procurement – just doing things smarter – as set out in the simple diagram below.

Potential for savings

Source: Mouchel



Gaining efficiencies at Ayresome

When Middlesbrough Council were trying to make their social services transport more cost efficient and provide a better service, they decided to change the way they looked at it – seeking outcomes, not outputs. To deliver this, they teamed up with Mouchel and local social enterprise Ayresome Industries to explore what could be done.

The original set up had different departments looking after different elements of transport activity. Day care transport ran a completely different operation from a grant maintained dial-a-ride set up and so on. Each operation had a fleet, management, equipment and a supply chain, leading to duplication of activity and waste. So, for example, when a vehicle from one area needed repairs, they would hire a rental vehicle to replace it because they didn't have access to the other fleet's spare capacity. Each operation was specified on the outputs they needed and equipped to deliver the peak vehicle requirement for their particular area, even though those peak times were different.

Ayresome were successful in their proposal to take on all social services transport. This allowed the commissioners to step back one stage and see the whole challenge. By starting with what the service user wanted, Ayresome were able to take out waste and duplication and realise for the council a saving of 17% – while providing the same service standard – a saving of £170k on a £1m contract. But it doesn't end there. Ayresome and Mouchel estimate that if the Council can commission at a strategic level for all local authority transport on an outcomes basis, there are 20% total efficiencies available from changes to the logistics patterns alone.

In a final benefit to Middlesbrough, as Ayresome are a social enterprise, success on this contract supports its core work. This involves developing skills and providing real jobs in light manufacturing, construction and other areas for people in the city with a disability, health problem or material barrier to participation in the labour market.

Start at the very beginning

If you can start your strategic process with no preconceptions about the role of transport in your local authority – a genuinely blank sheet of paper – then you will have the opportunity to revitalise the position of transport within it. This process should allow you to consider where transport could enable or add value to the broader strategy of the authority and how it should match the direction of national policy (for example, the personalisation agenda or Building Schools for the Future programme). What's more, the act of aligning transport with these broader priorities may help to establish internal political capital that could come in handy in months and years to come.

But it's not just about looking upwards to policy, but also outwards to service users and stakeholders – what do they value? How might that be delivered? Starting from these perspectives, it becomes possible to consider what the outcomes are that have strong with organisational, democratic and service user mandates.

The joy of outcomes

A fully strategic approach based around setting out what you are really trying to achieve as opposed to what inputs you wish to see deployed – outcomes – can create the space for a broad pattern of innovation. This innovation could come from your supply chain, it could come from colleagues across the local authority, it could come from service users. All it requires is for you to accept that someone else might have a better answer – or, more likely, that by a process of dialogue you will discover a better answer together. There are three reasons why outcome based commissioning is more likely to foster innovation:

- Change is incentivised, rather than disincentivised – if you are not prescriptive about the solution, then your supply chain has the incentive to solve the problem in an entirely novel way, with the potential for order of magnitude savings.
- It is purposeful – new ideas do not flourish internally or externally when the reasons that underpin an approach are unclear or limited to simple custom and practice.
- It fosters dialogue and long term partnerships – rather than command and control. This means the potential for finding further innovations together increases over time.

Strategic commissioning at Torbay NHS Care Trust

Under pressure to do more and better for less, Torbay NHS Care Trust commenced a major modernisation programme for adult social care. The aim was to turn around how people experienced the service – and to do that, the service would have to be commissioned strategically on outcomes rather than tactically on inputs. This programme would go on to provide a step-change in both cost efficiency and service quality as it encouraged contractors to develop innovative approaches to rehabilitation and intermediate care. Whilst not a transport example, how the Trust approached this may provide you with a few practical ideas.

The Trust started from the very beginning, with a visioning exercise with people who currently used the services and other stakeholders – including the potential ‘long list’ of suppliers who could hear first hand what people valued in their services. The visioning exercise was no ‘tick box’ consultation, but the start of a process that supported the community itself to set the service specification, play a central role in the act of commissioning and oversee its eventual procurement.

As John Bryant, head of commissioning: community services at Torbay NHS Care Trust, points out:

The most courageous thing we had to do as a Trust was to let go, realising that a top-down approach would stop people telling us what they actually needed to support their independence. The successful suppliers from this process were the ones who genuinely valued a person-centred approach and could work flexibly to meet needs in new ways.

Building trust is key between the people on the frontline teams of both provider and micro-commissioner (social workers, healthcare assistants) who arrange the packages. This ability to work in a new way that allows flexibility, with the provider arranging times and care directly with the client, enables a focus on outcomes.

Because commissioning is strategic, it has ended an old model of adversarial procurement relationships and has provided a more mature, constructive set of partnerships. As a consequence, the Trust has greatly reduced its contracting and contract management costs whilst allowing innovation to flourish.

two

is it time to dismantle the big machine?

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Overheard at a recent community consultation event on personalisation

Facilitator

I'm here to work with you this afternoon and together, we'll find out how you would like to get to the day centre.

Current service user of social services transport

But I don't want to go to the day centre...

So far, so 'old news'. It is very likely you will have encountered the approach of commissioning on outcomes linked to the broader strategy of the authority before. Unleashing the innovation potential of your supply chain, your stakeholders and your service users is not a new idea. When we speak to those responsible for policy at the Department for Communities and Local Government, those within local authority senior management teams and those at the commissioning level, we hear these themes cited as established good practice.

So why the fuss? Because, for example, 'empowering all our citizens to lead as independent a life as possible for as long as possible' at the commissioning level far too frequently turns into 'This year, I'd like five minibuses that collect from here, here and here; same as last year, but a bit cheaper' at the procurement level. How did that happen?

It would appear that the current model, with a large number of notable exceptions, has built 'a big machine of custom and practice' that re-tenders annual micro-contracts in an immersive cycle of buying and then measuring buses, timing points, and so on, but without reflection on how that actually meets the strategic direction and local need that the commissioning level sets.

Managing change, particularly when challenging established custom and practice, is one of the hardest tasks for a leader. However, if services that meet the needs of citizens and communities are to be delivered in the face of diminishing budgets, now is the time to take on the 'big machine' of custom and practice or entrenched ways of working. If the first idea asked you to step back and see the big picture, this section sets out seven top tips for 'getting stuck in' and starting that process of change.

Re-ignite the dialogue between commissioning and procurement

As a first step in looking for outcomes, it will be worth investigating the process by which strategic commissioning is translated into action. If it ends up as a hyper-tactical procurement exercise, with the original intent forgotten or watered down, then it's time to strengthen the dialogue between strategy and delivery. The priorities from managing change will depend on where strategy stops and custom and practice begin, and whether the barriers arise from skills needs, information needs or a need for more robust culture change.

We're sure this wasn't what you meant

We recently heard a story from a fellow transport social enterprise that held a social services contract. This contract involved collecting a number of older people from their homes, taking them to the local day centres first thing and then returning them at home time. A classic transport contract focused on tactical outputs. You can tell, because between those times a fleet of expensive vehicles, drivers and passenger assistants were sitting around and reading the paper.

As a social enterprise, they knew that they could do better for the service users, so they asked them if there was anything else they could do to be helpful. As a result of that feedback, they asked their contract manager whether they could run other errands for the service users during the downtime. The social enterprise offered to do it for the marginal cost of the fuel. This request was declined for three reasons. First, it wasn't in their contract. Second, that was the job of home help staff. Third, and most dispiriting of all – it would just raise expectations.

Resist the temptations of micro-contracting and over-specification

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The example opposite shows some of the things that can go wrong when contracts are over-specified and at a very small scale. The reason that there was space in the middle of the day is that the contract was tiny – and specific to that particular group of day centres. A larger contract that took in several different types of transport need across the council would have massively increased the asset use – reducing the total number of vehicles needed to deliver exactly the same services.

One useful tip is to measure your asset use of vehicles in your in-house fleet or your contracted-in provider and benchmark against a courier firm or mid-scale commercial transport firm. If your asset use is markedly below these, then you could ask what else those assets should be doing – and if they are being managed at an appropriate scale.

Tightly managed specifications are also a barrier rather than an accountability measure. The reason the contract manager said 'no' in the example opposite was partly because s/he had a fuel target for the contract and success was defined as keeping that low. These pennies were saved at the expense of many pounds of home care costs – for which the tactical contract manager would have received no recognition. Commissioners can therefore identify inefficiently small and micro-managed contracts, intervening in the procurement cycle to regain a link to outcomes.

See the whole cost of contracts

It's easy to think about the cost of a service as its contract price. If only this were true. The process of each separate procurement exercise incurs staff and materials costs; rigidly specified contracts have extensive planning time costs and then ongoing monitoring and contract management costs. Seeing the whole cost of contracts means the commissioner thinking of a move to strategic outcomes can really understand all potential sources of saving.

Many of these costs can simply be avoided or passed onto contractors through longer term, appropriately scaled, outcome-based contracts. If you like, you can think of the ratio between your total procurement/contract management costs and the total value of your let contracts as a 'Management Efficiency Index'. If you don't already calculate this, it might be interesting to take a look. If you find that a non trivial percentage of your overall spend is on contract management/procurement, it might be time to think about solving the problem in another way.

Hang on a minute, who says it has to be a bus?

Sometimes, the 'big machine' keeps on commissioning transport services through custom and practice, ruling out more elegant, cost effective solutions because how the need is to be met is over-specified. Conversely, the best types of transport commissioning allow scope for the answer to be 'actually, it's not a bus you're after, at least not for the whole thing'.

One common example of this is the role of travel training in SEN contracts in areas with good mainstream public transport. Very few contracts allow for and incentivise contractors to develop the independence skills of service users to the point where they are no longer dependent on expensive specialist transport services. The medium term savings in transport alone of an outcome-based contract that facilitated independent travel are material. The lifetime value in terms of possible employment outcomes, independence outcomes, health outcomes and so on are incalculable. Commissioners have the opportunity to ask the big question: 'why do we do it like that?' encouraging procurement to see the big picture and look for new ways of meeting challenges.

ScotAbility instead of minibuses and taxis

In the London Borough of Camden, many people with mobility difficulties and/or disabilities used standard provision to get out and about – Dial-a-Ride, Taxicard, social services minibus transport and so on. However, people who used these services frequently found them inflexible and their frequent travel made providing services expensive.

Camden's solution was not 'more of the same' but the award-winning ScotAbility scheme, delivered by HCT Group, which lends mobility scooters and powered wheelchairs to service users keen to travel independently. It also means that people using the service don't have to pre-book numerous different types of service depending on what might be available – they can just go. This has led to an increase in satisfaction with the borough's services among these frequent users and has taken cost pressure off other services.

Whose bus is it anyway?

Commissioners are also best placed to guide procurement away from solutions inertia – 'If the right answer was a cheap bus this year, the right answer will be a cheap bus next year too'. Too strong a focus on transport as an end in itself can lock the service user out, leaving services designed for the convenience of the service provider. Transport as an end in itself can also remove the incentive for the contractor – why would a contractor present a more innovative solution if all that procurement cares about is the bus?

You can't do that! The bus will be empty!

We heard a story a few years ago where a transport provider persuaded a particular local authority to pilot travel training for the service users on a SEN contract that took 20 transition-age young people from home to school. Out of the 20 young people who received a transport service, 17 were still travelling independently 12 months later – a life-changing achievement for them and a spectacular saving for the tax-payer.

The project was deemed an abject failure by the commissioning authority – the bus was nearly empty! As this was a tactically procured service, it had become about the bus, not the service user. The transport provider, duly chastened, went back to competing on price for the set bus specifications – when in fact they had already taken out material amount of future costs to the authority for the year after at the very least.

Question the boundaries

One of the most important questions that transport commissioners can legitimately ask is about their sphere of control – where the boundaries of their operation should be. On the one hand, it begs the question of where the line between the local authority and contracted services lies, with choices ranging from all in house to just strategic commissioning.

On the other hand, such questions can also be used to challenge departmental and organisational boundaries. What would happen if you ignored departmental and organisational boundary stones in service design, basing the service instead around what is best for the service user? If you or your contractors would be better able to deliver if they were physically (rather than in reporting terms) placed in other departments or institutions then this is certainly worth exploring – as in the example opposite.

Redrawing the lines in the West Midlands

West Midlands Special Needs Transport (WMSNT) delivers a wide range of transport services across the region – including dial-a-ride, demand-responsive bus services, health transport and home to school transport. This is delivered on an outcome-based contract that allows them to seek broad scale efficiency savings. An example of the innovation that this makes possible was to challenge their boundaries.

A principal source of inefficiency was in schools liaison – working with teachers to coordinate the transport of large numbers of young people. Schools in the area were also not enjoying the experience as coordinating transport was taking up valuable teacher time and was outside the competences of the staff doing it.

The solution was simple, but only possible if all parties were open to new ideas: staff from WMSNT would be based in schools and coordinate the whole transport service from there – including the transport tasks that were in previously in the school's sole domain. This not only generated efficiency savings as it removed friction at the boundary, but schools could return their staff to what they did best – teaching – saving materially on staff costs and improving outcomes for learners.

Timing is everything

An essential step in challenging 'big machine' thinking is to get to grips with the role of time in transport procurement. Many contracts are tendered for one year, with a very tight bidding turnaround. Although it allows incremental cuts in price, it rules out step-changes in how services are delivered. Length of contract is arguably the most crucial issue because a one year contract is:

- an incumbent's charter – it's often just not worthwhile for new providers to come in and compete
- the reason why vehicle quality can be low – it's far too risky to buy new vehicles if the contract might go in one year. This actively hampers other objectives, such as the introduction of safer, greener and low-floor vehicles
- transactional in the extreme – you'll have a hard time building a strong partnership with a contractor and solving problems together, if they know that they could be out of the picture in a few months
- a bar on innovation – many innovations take more than a year to pay off – eg travel training. On a longer contract your contractors can take on that payback risk so you don't have to.

Another key way of signalling that you are serious about hearing new ideas is to markedly extend the tendering period. This gives you the chance to run a process of competitive dialogue to see if there are better ways of doing things – or it gives your tender respondents more time to assemble novel partnerships and solutions.

The final timing issue is putting in place longer lead times at the start of contracts. Short lead times actively put off new contractors entering the market and reduces the potential for competition. This is because there is no time to organise new vehicles – locking you into a needless and expensive pattern of leasing. Post-tender is also the time when real innovation can occur as the 'facts on the ground' can be explored in depth between you and your contractors.

Innovation for personalisation: the Transport Coordination Centre

One of the biggest challenges facing social services transport is how to respond to the personalisation agenda in a way that gives service users a choice of how they travel and supports those who are more vulnerable to manage their budgets and still get a choice of transport provision. At HCT Group we have developed a Transport Coordination Centre that uses a 'virtual purse' to blend different types of funding stream – from direct payments to people's savings to taxicard budgets – that provide transport based around the choice and preference of the person using it.

The system works by holding two types of information. First there is a database of the available transport from local authority, private and other sources with information on price, availability, vehicle type, accessibility and so on. This enables the user to make choices about the least cost, most appropriate transport option available, leading to cost savings from efficiencies in logistics. The second is the 'virtual purse' of the individual. This is underpinned by software that processes the financial reconciliations required between funder, provider and passenger – making everyone's life easier.

When an individual contacts the centre to organise a journey, they can be presented with options based on price, personal needs and convenience. It's then open to the caller which way they would like to go. The advantages for the service user are plain – they get the service that they want to meet their needs – it's like replacing an account with every legitimate transport provider in town with just one number. It also means that vulnerable people do not have to carry cash for their journey as the 'virtual purse' manages the payment for them.

The Transport Coordination Centre works because it is at the right level to see the whole picture and can aggregate demand for transport across the boundaries or organisations, types of transport and funding streams. HCT Group believes that it can be easily extended to meet the challenges of the personalisation agenda as it transforms adult social care.

three

if necessity is the mother of invention, incentives are the mother of innovation

It is a fact of life that people and organisations tend to act in their own interests, based around what they believe success looks like. For a business, those interests tend to the financial in terms of increased margin, turnover or market share. For a local authority, school, social enterprise or other stakeholder those interests may look completely different. One of the most powerful motivators for innovation is to speak directly and unequivocally to those interests – put simply, incentives.

Effective incentives are not always financial, but are always based on what is valued. Different organisations and individuals are motivated to different degrees by different types of incentive, reward, penalty and level of risk. By building structures that encourage people to take action or change their behaviour, transport commissioners will find that all sorts of things become possible. If you get the incentives right, your supply chain and other stakeholders will be up all night trying to work out how to solve your most intractable problems for you. This section shares five ideas for unlocking the power of incentives to get the changes and innovation you want.

Double tripping on an Ayresome day centre contract

Ayresome Community Transport were keen to cut the costs of delivery on a range of contracts – after all, they were incentivised to do so as part of the saving would go to them. On one particular day centre contract, they wanted to move from a ‘collect in the morning and return home at the end of the day’ model. They realised they could cut the vehicle requirement if they moved to providing a choice of mornings – ending with lunch, afternoons – starting with lunch, and an option to stay all day as before. The idea was a hit with service users as it markedly increased their choice, while maintaining the service for those who were happy with the full day model.

The idea was not at all popular with the day centre itself – they would have to change how they operated, disrupting a long-standing pattern of service. However, Ayresome quickly found the winning incentive – by moving to a mainly half-day model, the day centre could effectively double its capacity, eliminating its waiting list at a stroke. The innovation here is not around double-tripping on a day centre contract – Ayresome fully understands the changes that will come with personalisation – but rather showing what happened when they thought about what the day centre valued and incentivised change in behaviour accordingly.

Use incentives to get your supply chain to innovate for you

If you have commissioned on outcomes, you have more opportunities to see innovation drive down costs. For example, if your outcome is '400 young people with SEN at their mainstream schools on time – how much per pupil?' then suppliers competing for the contract are incentivised to find novel ways to meet the challenge.

Their approach might be based on a new logistical solution, it might be based on a partnership between travel training specialists in the third sector, a transport provider, and even the schools themselves – or it could be based on a completely different way of meeting the need. In any case, if they want your business, they will put in a great deal of thought on how to rethink your challenges – so you don't have to. What's more, they get to keep the rewards of further innovation if they can keep on thinking of better ways to meet the need.

Incentives are the key to being able to let go

The risk of cost over-runs and service delivery failure are a principal cause of over-specification and micromanagement – and the huge management costs that this inevitably leads to. Use incentives to get your supply chain to either share financial risk or take it off you completely. If incentives are the carrots, penalties can be the sticks. Risk is shared when there is a downside for the supplier if they get it wrong – often financial penalties or caps on what can and will be paid. Enterprises – social or otherwise – are arguably better at managing this type of financial risk, again due to different levels of incentive. If a local authority has a cost over-run, it's embarrassing; if a business has one, they can fold – managing this risk has their close attention.

Sticks and carrots at Transport for London

Transport for London's 700 or so mainstream red bus routes are, admittedly, tightly specified. However, a great deal of work is done to ensure that they meet the needs of Londoners. Prices are kept low by fearsome competition, but the real driver for innovation – at least in terms of operational efficiency – is the incentives system.

TfL has outlined what passengers value – punctuality, reliability, ride comfort and so on. The bonus prizes for excelling in these are compelling – but the penalties for failure are truly terrifying. Micro-management has been replaced in every London depot by powerful motivators to excel, enabled by a smart use of measuring technology. Contractors police themselves at worst, strive for excellence at best – as it is in their plain interest to do so.

To the innovator, the spoils

One key method of commissioning for innovation is through a process of competitive dialogue – where the commissioner explores with competitors novel ways of solving problems, gradually emerging at a specification. These processes need to be managed with care to ensure that the competitors have sufficient incentives to 'show their cards' in front of others. The 'spoils' from innovation must be great enough to change contractors' behaviour or it won't happen.

If incentives are strong enough and the commissioning is strategic enough, your contractor can even be encouraged to invest their own money – if they think that they are going to make it back, plus more. For example, one of the barriers to including the flexibility to deliver travel training in contracts is that it is expensive to deliver and pays back over the medium term – not easy to pull off in a spending crunch. However, step far enough back and that ceases to be a problem.

Imagine – in a deeply simplified example – a seven year, £5k per head/per annum outcome-based SEN transport contract. If a successful travel training outcome costs £2k per head and takes a full year during which those successful candidates are still using the service, your contractor has the incentive to invest in travel training because they are 'in the money' by the quarter 2 in year 2 – the authority doesn't have to invest a penny for this to be in the interest of the contractor.

How to end innovation in your supply chain – courtesy of the MoD

An example of where competitive dialogue can go spectacularly wrong by sending out the wrong signals comes from the Ministry of Defence (MoD). In the 1980s the contract for making ammunition trucks was retendered, and a small engineering firm came up with an entirely new solution – don't waste time unloading the truck at the front line, just unload pre-filled hoppers of kit that can be used as the local store – then pick those up when they are empty. Known as DROPS (Demountable Rack Offload and Pickup System), this approach cut truck unloading time from 2 hours to 10 minutes – it is now used by every western army.

But when the original tender hit desks at the MoD, they said 'that's clever, we'll have that thank you' and then immediately re-let the tender using the designs of the inventor as the new specification. Not only did the inventor fail to win the tender and then go out of business, this story is now 'in the blood' of every defence contractor, told as a salutary lesson about doing business with the MoD – contractors are actively disincentivised from game-changing innovation as a result.

But you should share in the saving

From HCT Group's perspective, it would be great if we could keep all the financial benefits from new thinking, new efficiencies and new ways of looking at services for ourselves – but that would be counterproductive in a time of budget cuts. Local authorities – if they have made their approach flexible enough – have every right to share in the fruits of innovation from their supply chain. In the consultancy sector, more and more contracts for work on improving efficiency are based on sharing the gains made – sort of a 'no win, no fee' model for using consultants. Why should the transport world not be included in this type of incentivising relationship?

If you are building long-term strategic partnerships with your supply chain, they will most likely be happy to operate an open book policy on contracts. Commissioners can establish contractual frameworks that allow supply chains to change what they do if they find a novel new way, sharing the returns. In these processes, it will be important to compensate suppliers for reductions in cost through higher margin – otherwise you would be asking them to accept a smaller contract without any incentive for coming up with new ideas.

Who gets the benefit?

Sometimes the incentives need to go to other stakeholders. Imagine a mainstream home to school contract where the schools needed pupils to be dropped off within the same 10 minute window. For your supply chain, double tripping with a drop of at 8am and then another at 9am with a similar pattern at home time dramatically reduces the number of vehicles needed, materially reducing the cost to you. However, it places the logistical burden on the school – they will just say no.

But what if we shared a third of the savings with them? If a third of the savings went to participating schools – in cash, from the supplier as this would prevent claw-back, one third came off the cost of your contract and a third went to the contractor who could close that deal? The schools would become a form of joint venture partner with your supply chain – not only that, they would have the free cash to kickstart their participation in initiatives like the wider schools agenda, leading to better outcomes for learners.

As in the example at the start of this section, using the deal-closing strengths of your supply chain can start to make the impossible, possible – as long as everyone gets a cut of what they value.

four

the bigger the conversation, the better

20

In section one, we suggested that innovation could come from anywhere – from your supply chain, from colleagues across the local authority, from service users. All that it requires is for you to accept that someone else might have a better answer – or more likely, that by a process of dialogue you will discover a better answer together. What would happen if that search for new ideas became fundamental part of your approach?

By this we don't mean that you should innovate by committee – that doesn't sound like it would work too well. Our point is rather that in service design and commissioning there are benefits each time you make the conversation bigger. The multi-stakeholder approach is also a central organising principle of social enterprise as a means to creating greater value. This section summarises what can be achieved each time you broaden out the conversation from just the one person saying 'I'll have five buses please', and how that can help you counter objections of 'but we've always done it this way'.

Add 1

The dialogue between strategic and tactical

In section three, we looked at what might happen when the internal conversation around procurement became bigger and its dialogue with commissioning became stronger. As a simple change that we can all make today, this is an excellent place to start.

Add 2

The benefits of competitive dialogue and adaptive working relationships

Section three explored what might happen when you incentivise your supply chain to join in with service design. By broadening out the conversation to your suppliers you can start to make them into long term strategic partners who can innovate on your behalf.

Add 3

Start with the service user

Too many services are designed to suit the provider, not the service user. What might your services look like if you begin there? No one can pretend that service user led and designed services are easy to master operationally but they do have clear advantages over services designed by 'folk who know best'. They are:

- fundamentally more legitimate, both in a philosophical 'you work for them' sense and in a practical 'this is what I would like to do' sense
- more likely to deliver the difficult to measure soft outcomes that citizens prize
- unconcerned with the internal 'sacred cows' in commissioning organisations and as a consequence, often a source of innovation.

Engaging service users effectively in service design will become increasingly important as the personalisation agenda comes to the fore. If you don't have one already, developing a departmental competence – either internally or through your supply chain – in supporting service users to articulate their needs and then genuinely translating those into services will probably be on your immediate to-do list.

Add 4 **Who else can add value?**

Because transport is very rarely an end in itself, there are a broad range of groups, departments and organisations with a stake in service design and innovation. These groups can either be a source of new ideas and approaches, in which case their contribution will add value, or they may have an entirely rational vested interest in the status quo, in which case they will need the correct incentives to buy them into your vision. In either case, broadening the conversation to include stakeholders such as schools, day centres, parents and so on, can mean the difference between success or failure for new approaches.

The 812 PlusBus – how service users designed a bus route

In the early 1990s, much of the transport for older people and people with mobility difficulties and or disabilities in Islington was a common pattern of dial-a-ride, social services minibuses and so on. However, such a pattern is expensive and arguably very disempowering. HCT Group used the opportunity of the Urban Bus Challenge and a good partnership with Islington Council to meet the needs in another way.

The Urban Bus Challenge gave us the space to work with service users, who, through an extensive process of consultation, told us they would prefer to take a community bus and then worked with us to design a bus route – what was to become the 812. The route is 'Hail and Ride', three times an hour, connecting homes with key services, shops, and day centres using fully accessible vehicles.

The service continues today – and as circumstances change, ongoing consultation changes the route, ensuring its abiding popularity among service users. What's more, service users don't have to wait on the convenience of the 'special bus' – and can just get on with their lives.

Although other services are still available for people who can't readily access the 812, recreating the volume of trips taken on the 812 through a more standard pattern of provision would be prohibitively expensive. Even better, as the 812 is a formally registered bus route, the operator can reclaim concessionary fares making the service very cost effective.

five

play to your strengths

22

As transport commissioners face the challenges of the next few years, they will need to make an honest assessment of where the boundary should lie between their organisation and their supply chain. This should start from the question of who is good at what – the idea of core competences.

Organisations tend to develop core competences in areas they see as key to their success – abilities that are valued, rewarded in the individuals and teams that possess them and have proved to be transferable to new and different areas as circumstances change.

All sustainable organisations develop these, including local authorities (regardless what some people in the private sector may tell you...). For many local authorities, the list of developed, high level competences might include the ability to:

- secure a democratic mandate for action
- articulate a coherent vision for people and communities and translate that into strategy so that the vision can be realised
- manage risk for the most vulnerable in society
- prioritise between the demands of complex and sometimes competing interests and stakeholders.

The list opposite is highly speculative and is intended to provoke you to start thinking about where your strengths really lie. Your own list may be startlingly different but it is likely that it will be different again to that of a commercial organisation, voluntary sector organisation or social enterprise. The list opposite does not contain any business skills – which some colleagues at local authorities might disagree with. But it does not omit them because they are somehow beyond local authority staff – that would be absurd – but because success is measured differently by a business and the incentives for action play out very differently.

Consequently, a realistic assessment of your competences can start the discussion on the boundary of what local authorities should do internally and what they should consider using the private, social enterprise or voluntary sectors for. This short section presents two questions for contentious debate:

Are business skills really valued?

In the past, commentators (normally from the business sector) have urged local authority staff to develop business skills in their areas of operation. In the case of transport these might include: formal logistics skills, management information system (MIS) skills, business analysis and decision skills, business financial planning skills, operations management and so on until the local authority can accurately benchmark against world-class transport providers.

These skills are indeed necessary for cost effective delivery – the challenge comes if success is measured in completely different ways in your environment. How career enhancing do you feel these skills really are in your local authority if you are ambitious and career minded? You may have also met people who have come from the commercial world in local authorities who struggle because they lack the political, coalition building and consultative skills to make things happen. Where is your team's incentive to become like a business if it doesn't help them prosper? Is it time to accept that the pattern of competences in a council is completely different to that in a business? Or is there sufficient cross over for the trade offs to be worth managing?

Who can take risks?

'You know the price of failure, Mr Bond'

Perhaps less contentious is the assertion that attitudes to and appetite for risk are very different between your supply chain and the local authority. In a local authority, you are democratically accountable for your actions and thus risk is to be mitigated. In a commercial firm or social enterprise risk is accepted as necessary to growth and is managed. These attitudes to risk frequently (but by no means universally) carry over into attitudes to experiment and failure in organisational culture.

Culture change is arguably the hardest management task in the pantheon, would you be better served trying to unleash the existing entrepreneurial innovation potential of your supply chain?

It would be very disappointing for a commissioner if, having gone back to square one and re-envisioned their entire approach based on unlocking the innovation potential of the supply chain, they found that said local supply chain responded with 'I don't know about that, I've got some buses, though'. Equally frustrating would be a local supply chain that consisted of a complacent monopoly whose response was either to giggle and go back to the newspaper or make the 'sharp intake of breath' noise favoured by some car mechanics to prepare you for serious financial pain.

In manufacturing for the past 50 years or so, many large organisations have found themselves faced with just these issues. Their solution has often been the direct development of suppliers by commissioners and, at best, this is a process of genuine developmental dialogue.

However, if that seems to be too time consuming or challenging amid the real-world pressures of the current environment, you can always incentivise innovation through greater competition. Given that many tender exercises in transport lead to only one response, attracting new blood to the local market may become very important. To do this, commissioners will need to remove barriers to entry. This section briefly sets out the three main barriers to entry and how to take them down.

Barrier to entry 1 **Lead time**

As described in section two, the lead time after the purchase decision is made and before the contract is to start can act as a barrier for new entrants. Most new entrants to your region will need to establish a depot and purchase, rather than lease, vehicles (a pre-requisite if they are to compete effectively on price). This takes time and potential entrants will not bid if they can't realistically set up in time. If you would like to see new entrants to the market in your region, consider a time period of four or so months from contract award to start – giving much greater time to set up a service than you had thought necessary will markedly increase the number of bids from credible suppliers.

Barrier to entry 2

Length of contract

A short contract means that the investment needed to come to a new area is never going to pay back – commercial and social enterprise suppliers have an appetite for risk, but a one year contract is just too risky. If you want to see new entrants in your market, think five to seven years. This will bring all the other benefits of time discussed in section two – and, as a bonus, you will have saved yourself lots of needless tender exercises.

Barrier to entry 3

The 'game must be worth the candle'

If you are trying to attract new entrants, it's worth thinking about the sort of organisation you are trying to attract and scale your contracts to suit that approach. If a contract is too small, it won't attract new entrants because it can't repay set up costs even over a reasonable length of time. If it's too big, you risk replacing one lazy, rent-seeking local monopoly with another. In short, when it comes to scale, you are looking for the 'Goldilocks contract' – that is, 'just right'. The alternative is to solve the problem very radically, contracting out the whole service based on outcomes and incentives as suggested in sections one and two.

seven

get more bang for your buck

26 When buying anything, what else can your money achieve? As the whole local authority will be seeking outcomes other than transport ones, thinking about what your spending can achieve outside a simple transport remit is really important. Local authorities are one of any area's largest potential markets and they can use their purchasing power to shape their community for the better.

Very few transport contracts currently recognise (in terms of scoring at least) the added value that can be obtained in the simple act of letting that transport contract. This section will present three issues to consider.

The range of possible broader impacts is vast

Your commissioning activity can deliver on a broad range of the local authority's wider issues. It is well within your rights to ask questions in tenders about how a part of your supply chain can contribute to these – not in terms of a costed project but just in the way they will operate. What will your contractors do for local unemployment? What can they do for community cohesion? What will they do for skills development? Social inclusion? The list is as long as your council's broader objectives. You can't specify for these kind of impacts because they are potentially very broad. But you could consider using social clauses in the scored part of tenders to see what else you can get for your money.

Social clauses not 'social enterprise lock-in'

This type of additionality is meat and drink to social enterprises – and this is part of the reason that they have been 'discovered' at national policy level. However, you don't have to be a social enterprise to have a positive social impact, and commissioners can take steps to ensure that you neither rule out traditional commercial contractors nor are placed in the invidious position of having to choose between stronger impact and your budgetary bottom line:

- standard businesses that are good corporate citizens in the way they care about the communities in which they operate should be just as capable as scoring points on social clause sections if the clauses are written in an open way
- in business parlance, if a commercial supplier doesn't understand what you mean when you say 'community cohesion' for example, they haven't worked hard enough to understand you, their potential customer
- no social enterprise worth its salt is asking for their social impact to materially outweigh the main elements of price and quality – all they are asking is for a small amount of recognition for their broader approach when the race is otherwise too close to call – you don't have to go overboard.

Not quite getting the hang of this new-fangled social enterprise business

A few years ago, HCT Group put in a tender for a supported mainstream bus service. The criteria centred on price, with an element that checked for a baseline standard of quality. We put in a really competitive quote. We also put in the unscored 'other information' section that, as a social enterprise, we would reach out into the local community, work with partners and train 10 long term unemployed people as bus drivers, who would then work on the service.

In post tender, our competitive price having found favour with the procurement committee, the issue of our social impact objectives was raised. 'We think that's great' said the procurer 'We'll give you a grant for that bit'. 'Thank you very much' we replied, 'we don't want to look a gift horse in the mouth but do you mind if we ask why you'd do that when, as a social enterprise, that's the kind of thing we do for free?' 'Simple,' our new partner responded. 'If we give you a grant we can count it as a regeneration outcome.'

Go on, be the one with vision

It is clear that in immediate terms, broader impact over in employment or regeneration or social services has nothing to do with how your performance is measured. So why bother with it? There are two simple answers, one cynical, one innocent. In an authority under pressure, this kind of activity can help win the allies you need and cement the role of transport as a critical enabler. It's also obviously the right thing to do. Taken together, the case for focusing on broader impact is compelling.

conclusion

show me the money

28 The introduction painted a depressing picture of swingeing budgetary cuts and maintained that innovation was the best possible answer. The seven big ideas that followed are our best offering as to how that might be achieved – but will they work? This will surely depend on the objective conditions on the ground in your locality – and what the art of the possible permits.

By way of a conclusion, we would like to present a very broad-brush worked example of what happens to a fictional 'big machine' contract as an authority applies increasingly sophisticated versions of these seven ideas to it. The numbers presented here are entirely notional as the actual costs and performance of this type of contract vary dramatically depending on local circumstance. The objective is to illustrate the thinking, rather than to act as genuine financial guidance.²

² Perhaps obviously, if you would like to talk this through using your real numbers, HCT Group or Mouchel would be happy to take your call.

Level 1

SEN home to school contract, let annually, that specifies 16 × 16 seater accessible buses: £1m.

Level 2

Seven year SEN contract that sets the outcome – 250 young people to school on time – but the tender documents imply it's still a pure logistics question. If a better approach is to use some 16 seaters, some accessible minibuses and subcontract some trips to minicabs, you might save 15% with some smart logistics. Contract price: £850k per year. The length of the contract means brand new buses.

Level 3

Same as level 2, but an open dialogue emerges and the contract becomes priced per young person, not on vehicles – £3400 per young person. Contractor proposes travel training, with savings shared. By year 2, 45 young people are travelling independently and will do so for the rest of the contract.³ Total saving £153k split two ways. Contract price year 1: £850k, year 2 onwards: £773.5k. The Net Present Value (NPV)⁴ to the council from the improved life chances of these learners is estimated well into to six figures each.

3

In a more sophisticated model, the numbers would account accurately for new learners joining the scheme and requiring training and learners leaving the service as they reached 18.

4

Net Present Value is a figure calculated from projected future cumulative financial returns/savings, discounted to account for the idea that money now is more valuable than money in the future.

Level 4

Same as level 3, but yet more open to innovation: the contractor closes a cash-sharing deal with most of the local schools that allows double tripping. Saving of £340k shared three ways. Contract price year 1: £736.7k; year 2 onwards: £660.2k. The schools use the cash wisely and half of them move from 'satisfactory' to 'good' at their next Ofsted.

Level 5

A more strategic commissioning approach is taken, where the SEN contract is part of a broader school contract, let purely on outcomes. The local authority gets the existing swimming, extended schools transport and school dinners transport contracts delivered for little more than their marginal cost over the SEN element.

Level 6

Social clauses were included in the contract. The winning contractor trains ten long term unemployed people as bus drivers, ensuring they gain a Level 2 qualification. Lifetime NPV saving to the state is into six figures per person. No change to contract price required.

And finally...

The interesting point here is that each type of innovation starts to bring material cost savings whilst maintaining or improving service quality. Consequently, it is our abiding belief that transport commissioners with both the vision and courage to unlock this will prosper – along with their service users – in the difficult months and years ahead. Who's first?

innovation in transport procurement **seven big ideas to beat the public spending crunch**

The recession in public services begins in 2010.

For anyone involved in the delivery of transport services – in commissioning, in procurement, in service delivery, this emerging reality will have been your concern and preoccupation for some time. The new decade will bring greater challenges for transport commissioners than ever before.

The likelihood of extreme pressure on budgets, new approaches through the personalisation agenda and new priorities from government will all conspire to create dramatic change. One thing is certain: tomorrow will look very little like today.

This booklet presents those involved in transport commissioning, procurement and service delivery with seven big ideas to beat the public spending crunch – a host of new options and new ways of thinking about the challenges to come.

About HCT Group

HCT Group is in the transport business, safely delivering 30,000 passenger trips on our buses every day. We provide a range of transport services – London 'red bus' routes, special educational needs transport, social services transport and community transport to name but a few. But this only tells part of our story. HCT Group is first and foremost a social enterprise, creating value and supporting social justice in the communities we serve. See www.hctgroup.org

About Mouchel

Mouchel is a consulting and business services group that provides many of the design, managerial and engineering services that support modern society. It builds great relationships with clients in the public sector and regulated industry to make a difference to customers and communities. Mouchel works with government agencies, local authorities, government-regulated industries and the private sector to provide safe, reliable roads and railways, well-managed education and civic infrastructure, and cost-effective energy. See www.mouchel.com