

HEALTH SERVICES MANAGEMENT

Competitive tendering in the provision of
domestic, catering, and laundry services

A practical guide and handbook

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Nuffield Provincial Hospitals Trust

FOREWORD

*by The Secretary of the
Nuffield Provincial Hospitals Trust*

Introduction

Early in 1983 the Government announced as a policy objective its intention to improve the effective use of resources by requiring health authorities to develop systems of competitive tendering for support services such as laundry, cleaning, and catering which would compare the performance of in-house arrangements with those which could be purchased from external agencies.

In the summer of 1983 the Trust commissioned Thornton Baker Associates to study the processes involved. The Trust's immediate objective was to see what help could be made available to Health Services Management to meet the requirements of the Government, particularly by sponsoring the development of a Handbook for Health Services Management on Competitive Tendering. It was also believed the exercise might usefully explore and open up for debate some of the more obscure issues facing NHS management in the pursuit of a policy of 'value for money', without losing sight of its principal responsibility to ensure that health care services of quality remain generally readily available to the public at large.

A DHSS Circular (HC(83)18) in September 1983 outlined the Government's specific intentions. This revealed clearly the need for a thorough investigation of the management issues involved and a clarification of the aims as well as the development of a coherent plan. When commissioning the survey, the Trustees had taken the view that if judiciously and carefully carried out, it might well demonstrate whether savings in resources might reasonably be achieved which when redeployed to patient care could contribute to the improvement of health services as a whole. At the same time it might also illustrate some of the practical problems of management which were likely to be touched upon in the Griffiths' enquiry which the Secretary of State had earlier commissioned. The Trust's initiative can thus be discerned as seeking to give practical help to Health Authorities in their pursuit of the 'value for money' concept and, at the same time, to identify and illuminate the factors which apply in the quest for optimum resource utilisation, some of which are sometimes evidently either not appreciated or ignored. Above all a major aim has been to enable valid comparisons to be made of 'in-house' and external enterprises.

The need for the replacement of rhetoric by unbiased analysis

In the realm of contracting for support services, emotions often run higher than analysis and rhetoric tends to obscure realities. Nor is it likely to be disputed that in the current atmosphere of constricted administrative effort, there is a lack of capacity in many Health Authorities, pre-occupied with a variety of other current problems, to engage in the comprehensive study necessary to develop and specify a total procedure and methodology for establishing valid comparisons in competitive tendering.

In such circumstances NHS management has traditionally welcomed constructive interest and contributions from independent and private bodies, such as the Trust. This is no exception. It has always been part of Trust policies to look for promising areas for the development of ideas—the more practical the better—and to contribute a portfolio of studies and initiatives geared towards more efficient and better-informed management. The management of support services of Health Authorities can clearly be considered to fit into this category.

A management programme

A deliberate approach to the tendering and contracting process must necessarily lead to a comprehensive management programme of action which must include a management overview; a precise delineation of responsibilities; an evaluation of financial and personnel issues; and the calculation of all key costs as well as a comparative assessment of possible alternative courses of action.

The Handbook provides such a comprehensive overview of the competitive tendering process. It can also be construed as a guide to improved management, with its outline of the procedures and skills involved. Its advocacy of an analytical and comprehensive approach too, poses questions concerning better information, a subject long close to a special interest of the Trust. It also incorporates lessons of general applicability to a number of substantive areas such as financial information for management, as well as quality control. At the same time the subject suggests the need for exploration of newer forms of managerial co-operation. There is indeed scope for innovative co-operation between Units and Districts when it comes to tendering and contracting, or for the aggregation of the activities of Units before requesting bids in pursuit of potential benefits from economies of scale and other such factors. Such innovative practices, like better management in general, requires tangible skills and therefore raises important questions of education and training, as well as invoking the need for greater understanding of all that is involved, on the part particularly of those given to take the way of easy

rhetoric rather than the critical paths which lead to greater productivity. The size of the managerial task should not be underestimated. The preparation must be done thoroughly and for this reason politicians and authorities in the higher tiers of management should be cautious about setting unrealistic targets.

The form of the Handbook

Each part of the Handbook is geared to a particular management audience, and to particular tiers and specialities within the management structure. It is hoped that this approach will increase the Handbook's ability to respond to the need of different areas of NHS management whilst at the same time enabling an overall and continuously developing perspective to be sustained.

While primarily concerned with the three main domestic services—laundry, catering, and cleaning referred to in the Circular—the Handbook also has implications for a wider range of services. It must be stressed that the aim is neither to force the pace nor to dictate or preach to authorities on the best course, but instead to raise considerations and principles which authorities apply in their own way.

Indeed, the study exposes and highlights areas where the NHS would do well to invest more in ensuring that the necessary skills and experience are readily available. It would be a mistake to assume that better management can generally be secured by lower levels of investment.

Acknowledgements

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3 Prince Albert Road,
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30 March 1984

Gordon McLachlan

HEALTH SERVICES MANAGEMENT

COMPETITIVE TENDERING IN THE PROVISION OF DOMESTIC CATERING AND LAUNDRY SERVICES

CONTENTS AND APPENDICES

	<u>PAGE</u>
P R E F A C E	1
General introduction	3
How to use the handbook	5
Glossary of terms	6
PART I MANAGEMENT OVERVIEW	9
1 The objective of competitive tendering	11
2 Management overview - awarding the contract	13
3 Management overview - implementing the contract	17
4 Management overview - financial matters	21
5 Management overview - personnel matters	24
PART II RESPONSIBILITIES AND ACTION PLANS	29
6 General management organisation	31
7 Action plan for work prior to contract	40
8 Responsibility for implementation	52
9 Action plan for implementing contracts	54
PART III OPERATIONAL MATTERS	61
10 The invitation to tender	63
11 Preparing the in-house tender	74
12 Comparison of tenders	83
13 Notes on quality control systems.	88

CONTENTS AND APPENDICES (continued)

	<u>PAGE</u>
PART IV FINANCIAL MATTERS	93
14. Financial organisation and responsibilities	95
15. Costing the in-house service	98
16. Financial comparison of tenders	114
17. Financial evaluation of prospective contractors	124
PART V PERSONNEL MATTERS	
18. Personnel organisation and responsibilities	133
19. Consultation and communication	136
20. Review of redundancy and redeployment policy statements	142
21. Personnel code of practice for outside contractors	147
22. Personnel procedures during implementation	153
APPENDIX I ACTION PLANS FOR WORK PRIOR TO CONTRACT	159
1. District working party - initial set up of competitive tendering process	161
2. District working party - invitation to tender and contract appraisal	169
3. Unit Management - invitation to tender and in-house proposal	175
APPENDIX 2 ACTION PLANS FOR IMPLEMENTATION	185
1. Unit management - implementation of in-house contract	187
2. Unit management - implementation of external contract	193

PREFACE

P R E F A C E

The preface consists of two short introductory sections, and a glossary of terms.

		Page
GENERAL INTRODUCTION	Describes the background to the study, and its aims and objectives.	3
HOW TO USE THE HANDBOOK	Describes the way in which the handbook has been structured to cater for the different needs of different levels of management.	5
GLOSSARY	Provides definitions of the main terms used in the handbook.	6

PREFACE

GENERAL INTRODUCTION

BACKGROUND

1. The Nuffield Provincial Hospitals Trust has been involved for some time in researching the public/private mix in health care in the U.K. and in developments to improve efficiency in the NHS. The Trust has had a general policy of issuing publications on these topics, and in 1982 published the result of a major study - "The Public/Private Mix for Health".
2. During 1983 the Government discussed with health authorities the way in which they might test and improve the efficiency of hospital catering, cleaning and laundry services by obtaining competitive tenders from commercial contractors. The Trust considered that this was an important initiative, with useful implications for both the public and private health sectors, and felt that it would be a valid topic for further research. The Trust therefore asked Thornton Baker Associates, the management consultancy division of Thornton Baker, one of the large U.K. firms of Chartered Accountants who have experience in the health sector, to make a preliminary review and report back on the possible objectives of further research and the form it might take.
3. Thornton Baker made their preliminary study during the spring and summer of 1983. They met a number of senior managers in the NHS, and in the private health sector, and they also had discussions at the DHSS. The general feeling expressed to Thornton Baker was that the most useful research which the Trust could carry out would be into the way in which the competitive tendering process should be carried out in practice. The need was for a handbook which would help all those in the health sector to understand the process and to give practical guidance to managers on the specific steps they needed to take.
4. Thornton Baker submitted the results of their preliminary study to the Trust during the summer of 1983, together with suggested contents for a practical handbook. The DHSS issued Circular HC(83)18 in September 1983, requesting hospital management to obtain competitive tenders from commercial contractors, and shortly after that the Trust commissioned Thornton Baker to prepare the handbook.

THE OBJECTIVES AND CONTENT OF THE HANDBOOK

5. The purpose of the handbook is to provide a practical guide for health service managers in the steps needed to operate the competitive tendering process. The handbook covers the general management of the process together with financial and personnel aspects. The handbook does not deal with the technical content of work specifications and contracts, because the DHSS has already issued detailed specimen documentation. It was not intended that this handbook should duplicate that work.

6. The aim was for the handbook to be of use to both the public and private health sectors, and it has been written with that dual purpose in mind. The size and complexity of the NHS inevitably means that much of the detailed text has had to deal with NHS matters. However the detailed steps described in the handbook for dealing with the competitive tendering process will apply equally to the private sector.
7. The DHSS Circular HC (83) 18 refers to health authorities in England. Similar circulars have been issued for Wales, Scotland and Northern Ireland. This handbook relates specifically to authorities in England, but its principles could be applied to authorities in other parts of the United Kingdom.
8. The DHSS Circular mainly concerns catering, cleaning and laundry services, and so the text of this handbook also deals mainly with these services. However, the competitive tendering process described could equally well be applied to other services in the NHS, and the general principles, responsibilities and action plans could also be used in those cases.
9. One point which was emphasised to Thornton Baker during their work was that management styles and practices vary between the NHS authorities for historical and geographical reasons, as indeed they will vary within private hospital groups. It follows that in practice many different approaches to competitive tendering will be required but in a handbook of this kind it is only possible to deal with one general approach. The handbook is not however intended to be prescriptive and it will be important for NHS authorities and private groups to review the suggested approach critically and to adapt it to their own particular organisation structure and management skills.

PREFACE

HOW TO USE THE HANDBOOK

1. The handbook has been structured to enable it to be of use to all levels of management from members and senior managers who need to understand the main principles involved, through to those managers who will be carrying out detailed competitive tendering work at unit level.
2. For this reason, it is suggested that to make most effective use of the handbook managers should use it selectively, reading those sections which have been written for them, although all managers may find it useful to read the management overview given in Part I. The suggested reading for each management level is given in the following table.

MANAGEMENT LEVEL	SUGGESTED READING
(1) MEMBERS AND SENIOR MANAGEMENT <u>Purpose:</u> To provide senior management with understanding of key issues.	PART I MANAGEMENT OVERVIEW <u>Content:</u> Brief overview of general, financial and personnel aspects.
(2) GENERAL MANAGEMENT <u>Purpose:</u> To provide managers with overall responsibility for competitive tendering with an understanding of the steps required.	PART II RESPONSIBILITIES AND ACTION PLANS <u>Content:</u> A suggested allocation of responsibilities and commentary on the work required at region, district and unit level
(3) SPECIALIST MANAGEMENT <u>Purpose:</u> To provide managers dealing with specialist functions with assistance on technical matters	PART III OPERATIONAL MATTERS PART IV FINANCIAL MATTERS PART V PERSONNEL MATTERS <u>Content:</u> Each of the above parts provides supporting technical information relating to the tasks given in the action plans
(4) DISTRICT AND UNIT MANAGERS <u>Purpose:</u> To provide managers with direct responsibility for competitive tendering with an action plan of the main tasks	APPENDIX I ACTION PLANS FOR WORK PRIOR TO CONTRACT APPENDIX II ACTION PLANS FOR IMPLEMENTATION <u>Content:</u> Each appendix contains detailed action plans for district and unit management

GLOSSARY OF TERMS

Adjusted tender price	the tender base price, as submitted by contractors, adjusted by the authority for additional costs, savings and income not included.
Authorised officer	the officer appointed under a contract as an authority's representative on all matters relating to the work to be performed under the contract, irrespective of whether the contract is let internally or externally.
Avoidable costs	those costs which would be saved if an in-house service were to be closed down.
District designated officer	the person nominated by the district management team to be responsible for carrying out the competitive tendering process at district level.
District finance officer	the person appointed to represent the treasurer's department on the district working party.
District personnel officer	the person appointed to represent the personnel department on the district working party.
District supplies officer	the person appointed to represent the supplies department on the district working party.
District working party	the working party appointed by the district designated officer to carry out the competitive tendering process at district level.
Financial comparison statement	a statement to be prepared to enable a financial comparison of tenders to be undertaken.
Independence principle	the principle that those officers involved in preparing the in-house tender should not be involved in taking the final decision on which tender to accept.
In-house service cost statement	a statement showing the total annual cost of the present in-house service.
Initial responsibilities	The overall tasks required to set up the competitive tendering process.

Non-avoidable costs	those costs which would require to be borne by an authority irrespective of whether or not an in-house service were to be closed down.
Organisation statement	a statement setting out the changes to be introduced in a particular service department if the in-house tender is successful.
Overhead statement	a statement showing the overhead services provided to in-house managers and highlighting the avoidable element of such services.
Recurring responsibilities	the repetitive tasks to be carried out at each unit as each service becomes due for a competitive tendering review.
Regional working party	the working party, appointed by the regional management team, with responsibility for the day-to-day detailed aspects of competitive tendering, both within the region and for assisting districts.
Revised service cost statement	a statement showing the estimated future cost of the in-house service based on the changes described in the organisation statement.
Statement of additional costs	a statement showing the additional costs, savings and income, which will arise in addition to submitted tender prices.
Tender base price	the tender price submitted by contractors.
Tender comparison price	the price on which the decision to award a contract is taken, being the "adjusted tender price" after redundancy costs have been taken into account.
Unit accountant	the person nominated from the treasurers department to assist unit management on the financial aspects of competitive tendering.
Unit designated officer	the person nominated by the district working party to be responsible for carrying out the competitive tendering process at unit level.
Unit personnel officer	the person nominated from the personnel department to assist unit management on the personnel aspects of competitive tendering.

Unit supplies officer

the person nominated from the supplies department to assist unit management in tendering and the provision of supplies in relation to competitive tendering.

Unit working party

the unit working party appointed by the unit designated officer to carry out the competitive tendering process at unit level.

PART I

MANAGEMENT OVERVIEW

PART I MANAGEMENT OVERVIEW**SUMMARY OF CONTENTS**

The purpose of Part I of the handbook is to provide management with a brief summary of the competitive tendering process, and to indicate those key areas which are of particular importance and which are likely to need time and attention by senior managers.

		<u>Page</u>
CHAPTER 1	The objective of competitive tendering	11
	Considers the nature of competitive tendering in health services and the benefits to be obtained.	
CHAPTER 2	Management overview - awarding the contract	13
	Deals with the general management of competitive tendering up to and including the decision to award the contract.	
CHAPTER 3	Management overview - implementing the contract	17
	Deals with the steps management have to take to implement the contract successfully, whether the contract has been awarded to the in-house service, or to an external contractor.	
CHAPTER 4	Management overview - financial matters	21
	Discusses the main financial aspects of competitive tendering and indicates key topics.	
CHAPTER 5	Management overview - personnel matters	24
	Reviews the personnel matters which need to be dealt with during the competitive tendering process including implementation work.	

PART I

Chapter 1 THE OBJECTIVE OF COMPETITIVE TENDERING

INTRODUCTION

1. The competitive tendering process which is now being undertaken by the NHS is based on the principles outlined in the DHSS Circular HC (83) 18 of September 1983, and has a rather broader scope than the simple selection and purchase of services from an external contractor in the way normally carried out by private industry.
2. Private industrial and commercial companies make wide use of external contractors to provide services such as accounting and computer work, technical design and development and special production processes. Their main reason for doing so is to reduce their operating costs and minimise the use of capital, as well as to meet peak work loads and provide a specialist capability not already available in the company.
3. The normal practice for selecting an external contractor in private industry will be to ask for quotations from a small number of potential contractors and to make a selection after appropriate technical and financial evaluations have been made.

The competitive tendering process in the NHS

4. The competitive tendering process being undertaken by the NHS is different from the normal practice of private industry because the particular services being considered are for the most part already being provided by existing in-house departments, and because management has been asked to prepare in-house tenders to be submitted in competition with the tenders from external contractors.
5. This particular approach to competitive tendering has a number of important effects. First, it makes the process very much more complicated than making a relatively simple choice between a number of independent, external contractors. It means that a tender has to be produced for the in-house department, and it means that consideration has to be given to closing down the department if its tender does not prove to be competitive, with the implications which that may have on staff and on the longer term future of the service.
6. Secondly, once the in-house department is regarded as a bidder in the competitive tendering process, the department's managers and staff become "interested parties" and so can no longer be expected to take an objective view in making the final decisions relating to the particular service and contracts under consideration. The process thus becomes a difficult one from an organisational and personnel point of view.
7. The third important effect of asking the existing in-house service to bid in competition with outside contractors is that it provides senior management with a powerful technique for making improvements in

efficiency and cost reduction in the in-house department. Change is always difficult to obtain in any organisation, but, if an in-house department is going to compete successfully with external contractors it may well need to reorganise its operations. The motivation for management and staff to make such a reorganisation will be considerable, and may well enable important and far reaching changes to be made in the operation of existing in-house departments. The process can be regarded as a continuous one. Contracts, once awarded, will be for a given period, including those awarded to the in-house department, and so the service will be subjected to review again at the end of the contract period.

8. Finally, the principles of the competitive tendering process as defined in the DHSS Circular mean that there can be no presumption in favour of either the external contractors or the in-house service being awarded the contract for the work. Throughout the process, all bidders must be regarded as having an equal opportunity to put forward their proposals for evaluation and comparison, with the final selection being based on the tender offering the most efficient, effective and economic service.

The objective of competitive tendering

9. Following from these considerations it may be useful to set out a broad definition of the principal objective of the competitive tendering process as being undertaken by the NHS. One simple definition of the process can be stated as "To enable an efficient and effective service to be provided at a minimum cost, regardless of whether the service is to be provided by an in-house department or by an external contractor".
10. During the competitive tendering process, management will have to make many difficult and complex decisions in areas where the position is by no means clear. It is by reference to the overall objective of the process that sound decisions will be reached. The objective of the competitive tendering process described above has formed the basis on which this handbook has been prepared.

PART I

Chapter 2 MANAGEMENT OVERVIEW - AWARDING THE CONTRACT

INTRODUCTION

1. The purpose of this chapter is to provide senior management with a brief description of the competitive tendering process up to and including the award of the contract, and highlights certain key aspects of which senior management need to be aware.

THE COMPETITIVE TENDERING PROCESS

2. The main work of the competitive tendering process will be at district and unit level. There will be certain initial tasks needed to set up the process following which there will be a number of repetitive steps to be carried out at each unit as each service becomes due for a competitive tendering review.
3. The first of these steps will be to prepare the detailed and precise specification of the work to be put out to tender. The work specification will then be incorporated in an invitation to tender which will be sent to a number of outside contractors and to the manager of the in-house service. Tenders for the work will then be received from all the contractors, including a tender from the in-house service which will be submitted in the same form as those from external contractors. The final step will be to select the tender providing the most effective and economic service.

KEY TOPICS FOR MANAGEMENT

4. In carrying out this process, there are a number of key topics which will need careful attention by management.
 - (1) the organisation and management of the process;
 - (2) the preparation of the work specification;
 - (3) the review of the in-house service;
 - (4) the decision process;
 - (5) the personnel function;
 - (6) the staffing implications and timescale.
5. The key topics are discussed in the remainder of this chapter.

Organisation and management responsibilities

6. It will be important for the organisation and management responsibilities for carrying out the competitive tendering process to be clearly defined and understood by all taking part. Members and officers at region will

have a part to play in the process. However, the main part of the work will be carried out at the hospitals or units and at district headquarters, and it is here that an essential division of responsibilities has to be made. The hospital or unit management will normally be responsible for producing the in-house tender and so it will be difficult for them to be objective when it comes to deciding whether the contract should be given to an outside contractor or be retained in-house. A key principle in organising the competitive tendering process must be therefore, that those managers involved in preparing the in-house tender should not be involved in making the final decision about which tender to accept.

7. A suggested organisation structure for the work of competitive tendering is given in Part II, but whatever structure is adopted by individual authorities, it will be essential for it to be based on the independence principle described above.

The work specification

8. The preparation of the work specification is mentioned in this management overview in order to emphasise its importance. No contract, whether internal or external, will be successful unless a detailed specification of the work to be done is prepared and is agreed by users of the service. The preparation of the work specification is therefore critical. It is however a lengthy task and the time and effort required must not be underestimated when preparing detailed work programmes and timetables, and in planning the total time required for a district to complete its competitive tendering programme.

Review of the in-house service

9. The objective of the competitive tendering process is to obtain the most effective and economic service for the unit or hospital concerned. When the tender is being prepared for the in-house service the opportunity should therefore be taken to consider what improvements in efficiency could be made to the in-house service regarding manning and working practices. In practice, it may be found that a review of this kind must be considered if the in-house service is to be able to compete successfully against external contractors.
10. Reviewing the organisation of the in-house service is therefore a key element in the competitive tendering process and many authorities will already have been taking steps to do this. It will require a considerable amount of time and the manager of the in-house service will require assistance and support from senior management if the task is to be completed successfully.

The decision process

11. The final selection of the contract to be adopted will be a difficult process as it will involve not simply choosing which outside contractor to select, but will involve deciding whether to discontinue the in-house service.

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12. The DHSS Circular makes it clear that the contract should be awarded to the lowest priced tender, unless there are compelling reasons not to do so. However, management will have available to them information of a non-financial nature which they may wish to take into account.
 13. In reaching their decision management may therefore wish to consider non-financial matters such as how the service could be retrieved at very short notice should the contractor fail. How, for example could the service be returned in-house in later years if necessary? What will be the competitive position of the authority in future years when the contract is due for renewal?
 14. The decision process should also involve long term considerations and should not be based solely on a short term view of immediate benefits.

Personnel matters

15. It will also be necessary to consider staff and their position during the competitive tendering process.
16. There is no doubt that the position of all staff concerned with the services under consideration will be a difficult one. At each individual unit the process is going to take several months to complete for each service being considered. During this lengthy period staff will be subject to uncertainty about the future of their jobs which inevitably produces considerable stress and personal difficulties.
17. Part V of this handbook has been allocated to dealing with personnel matters and describes the steps which need to be taken. The topic is raised here because it is one which must be borne in mind throughout the competitive tendering process, and it is one to which the senior management must give a considerable amount of attention.
18. The real and imagined effects of change, including the threat to the status quo, create anxiety which in turn deflects people's attention from work to a concern for security and stability. It will be easy for management to become deeply involved in the technicalities and detailed work of the competitive tendering process and to pay insufficient attention to keeping staff informed and dealing with the personnel aspects of the process. The penalty will be a severe loss in staff morale and deterioration in the quality of the service.

Staffing implications and timescale

19. There will be a need to assess how the required expertise and staff resources can be made available to meet what will undoubtedly place a heavy additional work load on staff. Staff will have to carry out all the various tasks necessary for competitive tendering while at the same time maintaining their existing work and responsibilities. Staff resources will thus need to be given detailed consideration when preparing and agreeing the plans and timetables for competitive tendering.

20. Suggested action plans are given in part II of the handbook. It is important that senior management appreciate that the competitive tendering process is a lengthy one, starting well before the invitations to tender are issued, and ending only after successful implementation of the selected contract.

PART I

Chapter 3 MANAGEMENT OVERVIEW - IMPLEMENTING THE CONTRACT

INTRODUCTION

1. Once the decision has been taken as to which tender is to be selected for the service concerned, the next step will be to implement the new contract. Implementation needs to be dealt with very carefully if the full benefits and savings of the new arrangements are to be obtained. In practice implementation work will be different depending on whether the in-house service or an external contractor has been selected.

IMPLEMENTING THE IN-HOUSE SERVICE

2. The steps needed to implement the new arrangements when the in-house service has been selected to carry out the contract will be to introduce the service and the work as defined in the in-house tender. It will be necessary to introduce the reorganisation of the department on which the in-house tender was based. The manager mainly responsible for the work will normally be the manager of the in-house service, reporting to the unit administrator.

KEY TOPICS FOR MANAGEMENT

3. The key points of which senior management need to be aware when implementing the in-house contract are:
 - (1) achieving the expected benefits;
 - (2) developing the new role of the in-house manager;
 - (3) introducing quality control;
 - (4) dealing with personnel matters.

Achieving the benefits

4. It will be remembered that the in-house service will have been selected on the basis of the in-house tender which was submitted in competition with outside tenders. The in-house tender may in turn have been based on certain plans and proposals for making changes in the in-house service department to improve efficiency and reduce costs. Therefore, a major emphasis in implementation when the in-house tender has been selected must be to ensure that the promised improvements are actually achieved in practice.
5. The improvements concerning the in-house department will all have been defined and agreed in detail in the organisation statement which was prepared before the in-house tender was submitted. They may include such matters as reduced manning, revised bonus schemes, and new work patterns all of which must now be introduced. Equally, however, the improvements may also concern other departments where working changes were agreed in the overhead statement and which must now also be introduced.

6. Once the in-house service has won the contract, there may be reluctance to introduce changes of this kind, particularly those concerning people. It will require emphasis by senior management to ensure that all the agreed changes are implemented promptly and so achieve the benefits and cost savings which are the objective of the competitive tendering process.

The role of the in-house manager

7. The emphasis of the in-house manager's job will, to some extent, change once the contract has been awarded to the in-house service. He or she, will of course remain responsible to the unit administrator for the satisfactory provision of the service, but it must be remembered that a comprehensive tender has been submitted by the in-house service which precisely defines the work of the department. Not only has the work been specified, but also the total annual cost, which by definition now becomes the department's budget.
8. The manager of the in-house department thus takes over a role which in many ways is similar to that of an outside contractor. The manager has in effect "contracted" to provide the specified service at the agreed cost and so will have to adhere strictly to the work specification and only agree to changes if corresponding changes are made in the budget.
9. This general tightening up of the in-house service manager's role will be of great benefit in improving budgetary control systems and general financial and operational control. This new role is to be encouraged and supported by senior management as an important part of the implementation process.

Quality control

10. Quality control over the service provided is an essential element in the successful implementation of any contract, and this applies equally to the provision of service by the in-house department. To be fully effective, it may be advisable that staff responsible for quality control do not report to the staff who are providing the service, and their line of responsibility should be through to the unit administrator.
11. The responsibility for quality control, and for the setting up of the necessary reporting and control systems will be an important part of implementation work and is noted in this chapter as a matter needing attention from senior management.

Personnel matters

12. It may be thought that there will be no personnel matters to be dealt with when the in-house service has been awarded the contract, but this is not necessarily so. The review of the in-house department will almost certainly have concerned staff and may well involve redundancies, staff transfers and modification to working arrangements. Personnel aspects will almost certainly form an important part of implementing the in-house contract, and of achieving the planned benefits and savings.

IMPLEMENTING AN EXTERNAL CONTRACT

13. The steps needed to implement an external contract will involve the work needed to close down the existing in-house service as well as that needed to introduce the new contract.
14. Closing down the existing service will mainly concern dealing with staff matters but it will also concern determining the changeover date and the arrangements for transferring work to the new contractor.
15. The work needed to introduce the new outside contract will involve appointing a person at the unit to be responsible for the contract. That person must then develop with the contractor, the detailed day to day working arrangements to be followed and must then monitor the continuing operation of the new service.

Key topics for management

16. The key points for management in the implementation of an external contract are:
 - (1) dealing with the personnel matters involved in closing the existing services;
 - (2) ensuring that benefits are obtained;
 - (3) liaising with the new contractors;
 - (4) introducing quality control;

Personnel matters in closing the existing service

17. When a contract is awarded to an external contractor, one of the most difficult tasks of implementation will be dealing with the in-house service staff. Some may transfer to the new contractor, some may be redeployed within the NHS or take early retirement and some may leave the service. In any event, there will be a period of uncertainty for most members of staff which will be difficult to deal with in a way which will enable the service to be continued successfully during the changeover period.
18. The planning and implementation of staff matters during the closing down of the existing service will therefore, require considerable skill from personnel officers, and will also need a substantial amount of time from senior management.

Obtaining the benefits of contracting out

19. The decision to use an outside contractor to provide the service will have been based on the financial appraisal of the costs and savings of doing so. The savings to be obtained will have been evaluated by the finance department from information provided to them about the changes which would follow if an outside contractor was appointed.

20. Once the contract has been awarded to an outside contractor, it will therefore be an important part of implementation to make sure that all the promised savings are achieved.
21. The main saving will be the labour and other direct costs relating to the in-house service, but other savings will also be available such as the "avoidable" overhead charges made to the in-house service by other departments. It will be necessary for senior management to monitor implementation of the outside contract and make sure that all these savings are achieved in practice.

Liaising with the new contractor

22. Outside contractors cannot be expected to provide a satisfactory service unless they are given full co-operation by the user departments. The initial achievement of that co-operation will require considerable liaison between the unit management and the contractor before the contract start date.
23. The unit will have appointed one of its managers as the authorised officer to deal with the contractor. This officer will have to make sure that the contractor and the user departments understand precisely each other's roles and will have to plan in detail the precise arrangements for the changeover period and monitor the contract thereafter.
24. The success of the contract and the future service will in many ways depend on the effectiveness of this liaison work between the users and the contractor and senior management will need to give emphasis to this aspect throughout implementation.

Quality control

25. As in the case of implementing the contract when awarded to the in-house service, quality control will be a key element when an outside contractor is appointed. Adequate quality control systems will play an essential part in maintaining a high level of service and for this reason, the development of effective quality control systems will be an important part of implementation work.
26. It must be remembered that an authority's ultimate sanction will be to dismiss the contractors. The occasions when this is necessary will be rare, but they will happen and authorities must be prepared to exercise this option. On these occasions, a sound system of quality control will help to provide the necessary evidence and justification.

PART I

CHAPTER 4 MANAGEMENT OVERVIEW - FINANCIAL MATTERS

INTRODUCTION

1. This chapter aims to provide senior management with a brief overview of the financial aspects of the competitive tendering process and to indicate the key factors involved.

THE COMPETITIVE TENDERING PROCESS

2. The main part of the financial work during the competitive tendering process will be at unit and district level. The first main task to be carried out at unit level will be to calculate the cost of operating the present in-house service and then to help the in-house manager to consider how those costs could be reduced through reviewing the organisation of the in-house department and its methods of working. When the costs of operating the reorganised department have been calculated, they will be used by the unit accountant to prepare the financial parts of the in-house tender for submission to district management, in competition with the tenders from outside contractors.
3. The second main task will then take place at district level, where it will be necessary to make the financial comparison between the in-house tender and the tenders submitted by the external contractors. This financial comparison is clearly of central importance in the process, and it will raise a number of difficult problems where sound financial experience and judgement will be needed.
4. It will be appreciated that finance officers involved at unit level in preparing the in-house tender should not be involved in making the comparisons between the in-house and external tenders and in deciding which tender to adopt.
5. After the contract has been awarded, whether to the in-house service, or to an external contractor, finance staff will play an important part in implementing the new arrangements. They will need to assist unit management to set up the necessary budgets and to monitor costs. A further important task of implementation will be to introduce any new management information systems which are needed to control the new arrangements.

KEY TOPICS FOR MANAGEMENT

6. There are a number of key factors relating to the financial aspects of the competitive tendering process:
 - (1) obtaining financial information;
 - (2) calculating the avoidable costs;

- (3) comparing the tenders;
- (4) developing management information systems.

These factors are discussed in the remainder of this chapter.

Obtaining financial information

- 7. There will be a need for a considerable amount of financial information from which to calculate the costs of the present in-house service, the estimated costs of the reorganised in-house service and the additional costs to be incurred if an outside contractor is employed or if the contract is awarded internally.
- 8. Much of this information will be required in a form not readily available from the present accounting and budgeting systems and will need to be calculated specifically to deal with competitive tendering.
- 9. It will be important, therefore, for the necessary financial information to be identified at an early stage so that interim systems and special exercises can be developed in order to ensure that any additional information will be available when needed. It is clearly essential for the financial information to be comprehensive and reliable; the subsequent decisions as to whether to contract out the service will be based on it.

Calculating the avoidable costs

- 10. An important stage in the competitive tendering process is that of estimating the revised costs which would result if the service is contracted out or if it remains in-house.
- 11. In arriving at these operating costs, it will be essential to distinguish between avoidable and non-avoidable costs. Avoidable costs are those which the authority would cease to incur if the contract is awarded to an outside contractor. Clearly, the amount of the avoidable costs will have a very important bearing on whether the contract remains in-house or not.
- 12. The definition and calculation of avoidable costs may sometimes be extremely difficult. In some cases, for example, the direct labour costs of the in-house department, it will be clear that the costs are avoidable. In other cases, for example where an in-house laundry uses the services of a personnel department, it may be difficult to establish the precise costs involved, and to obtain the agreement of the personnel officer that such costs could be avoided.
- 13. Avoidable costs are thus a difficult area to deal with, but it is essential that they are fully identified if correct decisions are to be taken and if the financial benefits of awarding the contract to an outside contractor are to be achieved fully.

Comparing the tenders

14. A key task in the competitive tendering process is the financial comparison of the tenders received, including the in-house tender. It is this task which leads to conclusions about which tender should be accepted, and although the final decision may not be taken solely on the financial grounds, clearly financial considerations must form a major factor in reaching the decision.
15. The financial comparison will be carried out by district staff. They will have the tender prices submitted by each contractor, including the in-house service, but the financial comparisons which have to be made are not simple comparisons between these prices. What also has to be taken into account are the additional costs and savings which have not been included in the tender price, but which will have been calculated before the tenders have been opened.
16. It follows that the financial comparison has to be made in such a way that it shows which course of action will result in the minimum expenditure being incurred. It is essential, therefore, that the statement shows the avoidable costs of the in-house service and the additional expenditure which would result from adopting an external contract or from accepting the in-house tender. Strict calculation and comparison of expenditure in this way will be essential if correct decisions are to be taken.

Developing management information systems

17. After the contract has been awarded, whether to the external contractor or to the in-house service, it may be necessary to introduce additional management information systems to help management control the new arrangements.
18. It must be remembered that if the in-house service has won the contract, the in-house manager is to some extent in the position of an outside contractor. The manager has put in a tender to provide the service quoting a price in exactly the same way as the outside contractor, and so having won the contract the manager may need additional management information systems to help operate the contract in the precise way which was quoted and to meet the budgeted cost.
19. The alternative situation is when the contract has been awarded to an external contractor. In that situation additional management information systems may also be needed to help the unit management to monitor and control the external contractor's work and the contract costs.
20. The development of effective management information systems to deal with the situation after the contract has been awarded are thus an important step in implementation, and are essential as a means of ensuring that the financial benefits of the competitive tendering process are finally obtained.

PART I**CHAPTER 5 MANAGEMENT OVERVIEW - PERSONNEL MATTERS****INTRODUCTION**

1. The purpose of this chapter is to give senior management a brief overview of the personnel work to be carried out during the competitive tendering process and of the key employment issues which need to be dealt with.

THE COMPETITIVE TENDERING PROCESS

2. The first general matter to be undertaken by personnel officers should be to consider the staff consultation process which needs to be adopted by the authority and to ensure that the process is agreed with all those involved. It will then be necessary to assess the general redundancy and employment policies which are in operation in the authority and to decide whether and, if so, in what way they need to be renegotiated to deal with the particular needs of competitive tendering.
3. Personnel officers will then carry out the consultation process relating to each contract in conjunction with managers. They will assist the in-house manager of the present service when reviewing the organisation of the in-house department, and they will assist in providing estimates of staff redundancy, redeployment and transfers, to enable the costs of contracting out the service to be estimated. During implementation of the contract, whether awarded in-house or externally, personnel officers will have the major responsibility for implementing all the redundancy and staff matters concerned.

KEY TOPICS FOR MANAGEMENT

4. There are a number of key topics relating to employment issues which need to be raised in a management overview of this kind.
 - (1) staff consultation;
 - (2) employment policies and procedures;
 - (3) staff matters if the in-house tender is successful;
 - (4) staff matters if an external contract is awarded;
 - (5) staff matters if a co-operative is formed;
 - (6) staff matters in a management buy-out.
5. These topics are discussed below.

Staff consultation

6. From the date of publication of the DHSS circular, employees in catering, domestic and laundry services have experienced a natural anxiety about

the security of their employment. Without sensitive and effective management it would be understandable for anxiety to spill over into frustration.

7. Employees in other parts of the health service, even those not directly associated with patient care, are not immune either. They share a common goal of providing the best possible care to patients which requires the close integration of all services. There is, therefore, a widespread and legitimate interest in the level and quality of service which will be provided after the tendering exercise has been completed.
8. A prime task of the management team will be therefore, to harness the knowledge and motivation of employees into the production of an in-house tender on the most competitive terms possible whilst at the same time making and agreeing contingency plans for a transfer to a service operated by an external contractor. In order to have confidence that the in-house tender can be implemented it may be advisable to incorporate changes into a negotiated agreement with trade unions and staff organisations using the appropriate negotiating machinery.
9. It is thus a period of considerable uncertainty for employees, for which they will need help from management, while at the same time, management has to put together constructive plans for the future of the service under review. These two difficult processes can only be combined successfully by means of consultation with employees throughout the competitive tendering process. The importance of consultation is stressed, and is a topic which will require senior management attention.

Employment policies and procedures

10. The potential introduction of large numbers of contractors' employees working alongside NHS staff means that it will be necessary to review existing personnel practices and policies.
11. First, there is an obvious need to review local redundancy and redeployment policies which may not be adequate to deal with the situation of an incoming contractor offering employment to selected members of the existing staff.
12. Secondly, although authorities will not be able to specify rates of pay or conditions of employment for contractor's staff, they must decide which employment policies should be adhered to by contractors in order to ensure that statutory obligations are discharged, to protect patients' interests and to reduce the possibilities of friction between contractor's and NHS employees.

Staff matters if the in-house tender is successful

13. When the in-house tender was being prepared, the opportunity may have been taken to plan a reorganisation of the in-house department to enable it to put in as competitive a tender as possible. If so, this will have involved planning changes regarding manning, bonus schemes, work schedules, hours of work including overtime and other employee matters.

14. Those changes will need to be discussed with the employees concerned in order to reach agreement on a contingency basis, i.e. that the changes will be introduced if the in-house tender is successful. Employees will have to be prepared to acknowledge the changes in advance so that there is no doubt that the in-house service will be able to deliver the service within the constraints of the tender if called upon to do so.
15. The employee discussions relating to these changes may be difficult because they will be contingent on events which may not take place. They will however, be particularly important, and the success or otherwise of the in-house tender may well depend on them. This aspect of consultation will be one which will require considerable management time and effort.

Staff matters if the contract is awarded to an external contractor

16. When the contract is awarded externally the contractor will be at liberty to decide whether or not to offer employment to members of the existing staff of the department.
17. The authority will need to decide how they can assist the contractor in recruitment of existing staff; what facilities should be made available and what information about current employees should, with their agreement, be provided. Close liaison will need to be established with existing employees and with the contractor at an early stage in order to ensure a dovetailing of the contractor's recruitment activities with steps taken by the authority to achieve redeployment or implement redundancies.
18. The period between awarding the contract to an outside contractor and the actual changeover date will thus be a difficult one regarding employee matters. In addition to dealing with the new contractor, there will be the major problem of closing down the in-house service and of maintaining morale and service from the existing staff who may become redundant at the end of the changeover period. Full consultation, counselling and assistance to existing employees will be essential throughout this period.

Staff matters if existing employees form a co-operative

19. It may be that a large number of existing employees of the in-house service decide to form a co-operative to compete for the contract. In this event, the co-operative will need to formulate a membership agreement setting out the terms under which the members work and to issue offers of employment to any employees it wishes to recruit. The co-operative will also have to satisfy the authority that it would be financially and technically sound before tenders could be accepted.
20. As far as the authority is concerned, despite the fact that the co-operative is comprised of members who are the authority's employees, it must treat the co-operative as an external contractor afforded the same facilities and information as other external bidders. There is no

reason why the co-operative's tender should not be entered in competition with the in-house tender but it must be acknowledged that this may result in employees being less willing to accept changes aimed at making the in-house tender fully competitive.

21. If the co-operative includes the present manager of the in-house service the authority may face an additional problem of having to find another officer with sufficient knowledge and experience to produce a viable in-house tender because of the service manager's conflict of interest.
22. It can be seen then that where employees decide to form a co-operative, the employee consultation process will be equally as important as in the other alternatives. The consultation process will, however, need particularly careful handling because the interests of those employees who are not in the co-operative will be different from those who are. It will require considerable management expertise to ensure that all employees are consulted and their interests protected.

Staff matters if a "mangement buy-out" organisation is formed

23. A management buy-out is a transaction by means of which a small team of managers acquire a substantial holding in an organisation, usually the one in which they are already employed. A common feature of management buy-outs is that the managers obtain a major - often a controlling - equity interest in the newly formed company which then operates as a separate legal entity.
24. As in the case of a co-operative, the authority will need to be convinced of the technical and financial viability of the new company and will face the problem of conflict of interest if the present service manager is involved in the new company.
25. The personnel problems which will arise when a management buy-out is set up will thus be similar to those involving a co-operative. The consultation process will again be critical, and will involve a clear understanding of the different interests between the small team of managers forming the management buy-out and the larger number of existing employees who may or may not be offered employment in the new company.

PART **II**

**RESPONSIBILITIES
AND ACTION
PLAN**

PART II RESPONSIBILITIES AND ACTION PLANS**SUMMARY OF CONTENTS**

Part II of the handbook describes a suggested way in which the responsibilities might be allocated for dealing with the competitive tendering process, and then suggests a series of action plans for carrying out those responsibilities. It consists of the following chapters:

	<u>Page</u>	
CHAPTER 6	General management organisation	31
	Discusses the roles which members and officers might take in the competitive tendering process and suggests how responsibilities might be allocated.	
CHAPTER 7	Action plan for work prior to contract	40
	Outlines the suggested series of tasks to be carried out up to and including the decision to award the contract.	
CHAPTER 8	Responsibility for implementation	52
	Proposes the suggested allocation of responsibilities for implementing the selected contract, whether it has been awarded to the in-house department or to an external contractor.	
CHAPTER 9	Action plan for implementing contracts	54
	Describes a suggested action plan for implementing the selected contract, whether in-house or external.	

PART II

Chapter 6 GENERAL MANAGEMENT ORGANISATION

INTRODUCTION

1. At present there are four main levels of management within the NHS, each of which will have a particular role to play in the competitive tendering process. The four levels are:
 - (1) members of regional and district health authorities, who have responsibility for deciding overall policy within their regions and districts;
 - (2) regional management who are responsible to regional members for the operation of policy within the region;
 - (3) district management who are responsible to district members for the operation of policy within their district;
 - (4) unit management who are responsible to district management for the day to day control and operation of individual units. A unit will consist of one or more hospitals, clinics or other establishments.
2. Each of these levels of management has a different and specific role to play in the competitive tendering process. It is important that these roles are clearly understood and the purpose of this chapter is to provide a suggested definition of the appropriate roles and responsibilities.
3. It is appreciated that in practice the precise form of management of each NHS region and district will vary depending on historical and geographical reasons, and so the responsibilities defined in this chapter should be regarded as suggestions to be used by regions and districts as a general guideline in developing their own definitions.
4. A brief summary of the main responsibilities of each level of management is given in Figure 1 and Figure 2. The responsibilities are then discussed more fully in the remainder of the chapter.

REGIONAL AND DISTRICT MEMBERS' RESPONSIBILITIES

5. Members are responsible for deciding and monitoring the overall policies of their region or district. Members will want to decide for themselves the extent to which they wish to be involved in detailed matters relating to competitive tendering and it is suggested that at an early stage members of regional and district authorities will find it useful to prepare a statement which sets out the specific matters on which they want to be consulted.
6. It is suggested that this statement should include the points at which regional and district members wish to be consulted on the following:

Figure 1

A DIAGRAM OF SUGGESTED ORGANISATION AND RESPONSIBILITY FOR COMPETITIVE TENDERING

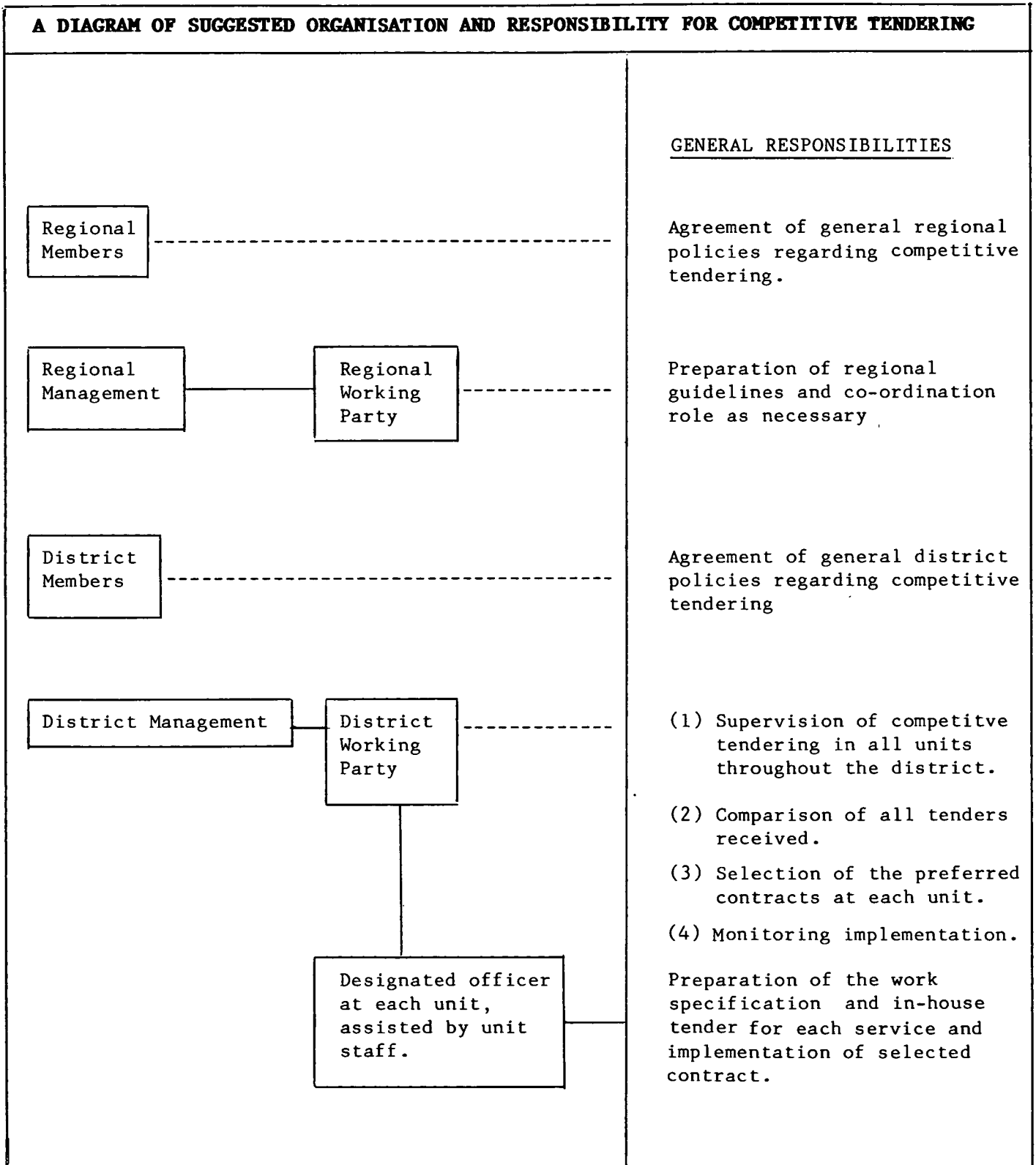


Figure 2

SUMMARY OF SUGGESTED RESPONSIBILITIES

SUMMARY OF SUGGESTED RESPONSIBILITIES			
REGIONAL AND DISTRICT MEMBERS	REGIONAL MANAGEMENT	DISTRICT MANAGEMENT	
		DISTRICT WORKING PARTY	UNIT MANAGEMENT
<p>Agree general programme</p> <p>Agree general policies</p> <p>Agree criteria to be adopted in awarding contracts</p> <p>Decide on award of major contracts</p>	<p>Review and monitor district programmes</p> <p>Develop regional guidelines</p> <p>Co-ordinate competitive tendering process where necessary</p> <p>Review DHSS model invitation to tender and contract</p> <p>Obtain tenders for the region's own services</p> <p>To provide training and assistance to districts when requested</p> <p>To maintain list of approved contractors</p>	<p><u>Initial responsibilities</u></p> <p>Prepare and agree district programme and timetable</p> <p>Agree district policies</p> <p>Review DHSS model contract and invitation to tender</p> <p>Confirm procedures for receiving and evaluating tenders</p> <p>Maintain district list of contractors</p> <p><u>Recurring responsibilities</u></p> <p>Nominate designated officers at units</p> <p>Review unit programmes and monitor</p> <p>Review all invitations to tender</p> <p>Receive tenders from contractors</p> <p>Evaluate tenders and make recommendations to District management team</p> <p>Monitor implementation of awarded contract.</p>	<p><u>Recurring responsibilities</u></p> <p>Prepare work programme and report progress</p> <p>Supervise preparation of work specification</p> <p>Supervise preparation of invitation to tender</p> <p>Supervise preparation of in-house tender</p> <p>Implement the awarded contract</p>

- (1) the general programme and timetable for competitive tendering;
 - (2) the selection of the order in which units are to be submitted to competitive tendering;
 - (3) the general policies to be adopted towards personnel, in particular redundancy and relocation;
 - (4) the general financial and other criteria to be used in evaluating tenders;
 - (5) the decision to award individual contracts.
7. The preparation of a statement of this kind will help to set out clear rules concerning delegation to officers and the methods by which officers report to members. Once the members decide to go out to competitive tender they should ensure that any scheme of delegation allows the officers to proceed with the work in the most efficient manner.

REGIONAL MANAGEMENT RESPONSIBILITIES

8. Each regional authority is managed by a team of senior ranking officers known as the regional team of officers. They are responsible for the implementation of policies set by the members of their authority. Their role in the competitive tendering process should be that of providing general guidance and assistance to district management when asked to do so. They will in many cases also have a liaison and co-ordinating role to play to help ensure that consistent practices are followed where appropriate.
9. The regional team of officers will probably find it advisable to appoint a regional working party to deal with the day to day detailed aspects of the work. A regular reporting procedure should be established whereby progress to date is monitored by the working party and matters requiring confirmation or decision are passed from the working party to the regional team of officers for action.
10. The suggested membership and responsibilities of the regional working party are described below.

Regional working party membership

11. The composition of a regional working party should be based on full time representatives of the administration, finance, personnel and supplies disciplines. This full time team of four should either co-opt, or seek advice from senior members of other disciplines as necessary. For example, they will certainly need advice from specialists in the catering, domestic and laundry fields, who if not on regional staff will need to be provided from a district. They may well also require assistance from legal and work study staff.

Regional working party responsibilities

12. As already explained, the general responsibility of regional management in relation to competitive tendering for specialist services will be to provide advice and guidance as necessary to districts, and to provide co-ordinating roles to help ensure that consistent policies are applied throughout the region where this is necessary. In more detail, it is suggested that these responsibilities should be:
- (1) to review and monitor the annual programmes submitted by the districts in response to circular HC(83)I8 and report to the regional team of officers,
 - (2) to develop regional guidelines regarding personnel matters relating to competitive tendering. Although districts will be making their own arrangements regarding personnel matters, it may well be helpful for this to be done within a regional framework;
 - (3) to develop regional guidelines on other matters relating to competitive tendering. The topics on which regional guidelines will be required will vary from region to region and will depend on the judgement of the regional working party. Regional guidelines might however, be usefully developed for:
 - (a) the financial methods and bases to be used to compare competitive tenders;
 - (b) the non-financial criteria to be used in comparing tenders.
 - (4) to act in a co-ordinating role as necessary in those situations when the contract for a given service will concern two or more districts. For example, it may be decided to let one main laundry contract, possibly involving substantial capital investment, to serve several districts. In such a case, regional co-ordination will be essential and should be provided by the regional working party;
 - (5) to arrange for the contractual conditions of the tender documents issued to be reviewed by a legal expert. Any changes to the DHSS specimen contracts should only be introduced after careful consideration and legal advice. It may be more effective if this is done at regional level so that a body of knowledge is built up and so that the same contractual conditions can be used by all units within the region;
 - (6) to be directly responsible for obtaining and evaluating tenders for the region's own services such as cleaning of headquarters and the provision of meals for regional staff. The responsibilities to be undertaken by the regional working party, in this instance, will be the same as those of the district and units which are discussed below. However, it will be necessary to achieve independence between those responsible for preparing the in-house tender and those carrying out the evaluation and selection. It may thus be necessary to obtain independent assistance from elsewhere in the region.

- (7) to provide regional seminars to discuss the problems of competitive tendering, and to keep management informed on the practical experience gained by districts generally;
- (8) to give advice and assistance as requested by districts on specific matters;
- (9) to develop a list of approved contractors to be drawn up by the regional supplies officer.

DISTRICT MANAGEMENT RESPONSIBILITIES

13. Each district authority is managed by a team of senior officers, known as the district management team. The district management team will probably wish to delegate the detailed responsibility for competitive tendering to one officer or perhaps to a district working party.
14. For example, a suitable arrangement would be for the district management team to nominate the assistant district administrator as the district designated officer for buying in services in the district. He or she could then decide to appoint a small working party. In this book it is assumed that a district working party would normally be appointed, and its suggested composition and responsibilities are described below.

District working party membership

15. The district working party should be a multi-disciplinary team and a suitable composition would be as follows:
 - (1) assistant district administrator (Chairman);
 - (2) assistant district treasurer (full time member);
 - (3) district personnel officer (full time member).
16. The working party will wish to co-opt specialists to assist from time to time as necessary, in particular:
 - (1) supplies officer;
 - (2) management services officer;
 - (3) nursing officer;
 - (4) service specialists in catering, domestic and laundry services, works and estate management.

District working party responsibilities

17. The general responsibility of the district working party will be to plan and monitor the work of individual units through the whole competitive tendering process. The initial, one-off responsibilities of the district working party can be summarised as follows:

-
- (1) to agree with the district members and the district management team those matters which must be referred to them during the competitive tendering process;
 - (2) to prepare the programme for competitive tendering in the district, and then to monitor and report progress against that programme;
 - (3) to prepare the policies which the district intends to follow in the competitive tendering process (for example, those relating to personnel and financial matters, taking into account any regional guidelines which have been issued);
 - (4) to review and confirm the suitability of the DHSS specimen work specification, tender and contract documents for use throughout the district;
 - (5) to review standing orders and financial regulations and suggest modifications as necessary to the procedures for seeking quotations and for opening and evaluating tenders;
 - (6) to maintain a list of approved contractors for use within the district, in conjunction with any regional list.

18. The recurring responsibilities of the district working party will be repeated for each contract at each unit. The recurring responsibilities can be summarised as follows:

- (1) to nominate the district designated officer to be responsible for the competitive tendering process at each unit and ensure he or she is aware of all relevant district policies;
- (2) to review and agree the work programme and timetable produced by each unit for preparing work specifications and in-house tenders and subsequently, to monitor progress;
- (3) to review the invitation to tender (which includes the work specification and contract) for each unit before issue, and to obtain any necessary legal advice;
- (4) to receive all tenders from contractors including the in-house tender in accordance with agreed procedures;
- (5) to carry out the comparative evaluation of all tenders, including financial and other factors, and make recommendations to the district management team, on which contract to accept;
- (6) after the contract has been awarded, whether in-house or external, to review the implementation programme prepared by the unit administration and to monitor progress, and to appoint the "authorised officer" responsible for the contract.

UNIT MANAGEMENT RESPONSIBILITIES

19. Each district is divided into a number of units. Unit management will be responsible to the district management team for the operation of the unit.
20. It will be the responsibility of the district working party to nominate the person to be responsible for carrying out the competitive tendering process at each unit. This person would be called the "unit designated officer" and in most cases the person will be the unit administrator. For large and complex units, the person given this responsibility may want to set up a unit working party, along similar lines to the district working party.
21. However, for many smaller units that may be too cumbersome a process, and in those cases the most suitable arrangement will be for the unit designated officer to co-ordinate all the work, asking for assistance from other members of unit management when needed. In some cases it may be necessary to obtain assistance from other sources and to use staff from elsewhere in the district or region. One way of doing this might be for specialist teams of people to be nominated to carry out certain aspects of the competitive tendering process throughout the district. An advantage of doing this might be that the team would build up experience of competitive tendering, but in each case it would be essential for the team to report to unit management who should retain full control. However, in this handbook it has been assumed that staff would be available from within the unit and titles such as unit personnel officer and unit accountant, have been used throughout.
22. The responsibilities of the designated officer for each unit should be:
 - (1) to prepare work programmes and timetables for competitive tendering in the unit, to agree them with unit management, and with the district working party;
 - (2) to monitor progress against the timetable and report to the district working party;
 - (3) to supervise the preparation of the detailed work specifications;
 - (4) to assemble the work specifications, equipment details and other detailed schedules supporting the invitation to tender and submit them to the district working party for approval and subsequent issue to contractors;
 - (5) to supervise the preparation of the in-house tender, and to submit it to the district working party in accordance with the agreed tender procedure;
 - (6) to take part in subsequent discussion with contractors only as agreed with the district working party;

-
- (7) to implement the awarded contract, and if the contract is awarded in-house, to ensure that all changes incorporated in the in-house tender are put into practice.

PART II

Chapter 7 ACTION PLANS FOR WORK PRIOR TO CONTRACT

INTRODUCTION

1. In the previous chapter, the general responsibilities of the various levels of management were discussed and suggestions made as to how those responsibilities should be allocated during the competitive tendering process.
2. In the appendices, draft action plans have been prepared showing the steps which will have to be taken by management to carry out these responsibilities.
3. The purpose of this chapter is to describe the action plans for the work up to and including the decision to award the contract to the in-house service or to the external contractor. The action plans for the implementation work required after awarding the contract are discussed in the next chapter.
4. Action plans for work prior to contract have been prepared as follows:

WORK PRIOR TO CONTRACT	APPENDIX I
<p style="text-align: center;">DISTRICT WORKING PARTY</p> <p>Initial work</p> <p>Recurring work for each contract</p>	<p style="text-align: center;">INITIAL SET UP OF COMPETITIVE TENDERING PROCESS (Appendix 1 Statement 1)</p> <p style="text-align: center;">INVITATION TO TENDER AND CONTRACT APPRAISAL (Appendix 1 statement 2)</p>
<p style="text-align: center;">UNIT MANGEMENT</p> <p>Recurring work for each contract</p>	<p style="text-align: center;">INVITATION TO TENDER AND THE IN-HOUSE PROPOSAL (Appendix 1 statement 3)</p>

5. Action plans have not been prepared for regional members, regional management or district members, because it was considered that the definitions of responsibilities given in Chapter 6 gave sufficient information about the work to be done.

THE FORM OF THE ACTION PLANS

6. The detailed action plans show the main tasks to be carried out, and for each task suggest the officer to be responsible.

7. The action plans also include an indication of the duration of each task. It must be clearly understood that these times are only broad allocations of time to tasks for a project covering the period shown. It is emphasised that no study has been made to establish these times and that they are based only on general discussion with hospital managements. Although, clearly highly tentative, it was felt useful to include an indication of timescale on the action programmes to provide readers with some idea of the relative length of the tasks, and also to show the interrelation of the tasks over a period of time.

HOW TO USE THE ACTION PLANS

8. It is suggested that the action plans should be used by management as a basis on which to prepare their own plans for their own districts and units. It is suggested therefore, that the best way to use this chapter of the handbook will be to:
- (1) read the general commentary on each action plan given in this chapter;
 - (2) refer to the relevant action plan in the appendix, and use them to,
 - (3) prepare specific action plans for the district or unit concerned.
9. The purpose of the remaining part of this chapter is to comment on the detailed tasks given in the action plans and where necessary to describe them a little more fully. The headings and references given below are the same as those in the action plans.

ACTION PLAN COMMENTARY - DISTRICT WORKING PARTY

INITIAL SET UP OF COMPETITIVE TENDERING PROCESS (Appendix 1 Statement 1)

10. The first action plan covers the steps needed to set up the general competitive tendering process in the district. The work will be carried out at district level and will not need to be repeated for each service and contract.

District working party set up

11. The first step will be to nominate the district working party and the officers who will take part in its work. Terms of reference for the working party need to be agreed particularly those defining the matters which need to be referred to district management team and to district members.

Action plan reference: DM1.1 - DM 1.4

District programme development and monitoring

12. The next step should be for the district working party to consult unit management and to prepare the overall programme and timetable for

competitive tendering for their district. This work will have been completed by end of February 1984 and submitted to regional management in accordance with the DHSS request. One factor which should be considered at this stage by the district working party is the effect on neighbouring authorities of contracting out a particular service. For example, where a laundry service is currently provided by one authority to another, the DHSS recommended in Circular HC (83) 18 that there should be joint agreement on the basis on which the service is to be put out to tender.

13. It will be the job of the district working party to update the programme and to monitor district progress throughout the competitive tendering process, and to report to the district management team accordingly.

Action plan reference: IM2.1 - IM2.9

District policy set up and training

14. Once the overall programme has been agreed, the district working party's first main task will be to draft and agree with management and where relevant, consult staff organisations about a number of important policies regarding the competitive tendering process. These policies will be developed for:

- (1) financial and accounting matters, relating to such topics as how tenders are to be priced and compared;

- (2) personnel matters, relating to:

- (a) the district redundancy policy
- (b) the personnel code of practice (see part V)

15. Once agreed, these district policies should be communicated to unit management, and they should be given training to enable them to apply the policies and to carry out the management of the competitive tendering process at their units.

Action plan reference: IM3.1 - IM3.6

Review of DHSS documentation

16. The DHSS has prepared specimen work specification forms, invitation to tender and contract documentation. Before these are issued to unit management for use, the district working party will need to review them to see whether in general terms they are appropriate for their district. Legal advice should be obtained for any changes.

Action plan reference: IM4.1 - IM4.4

Review of standing orders and financial regulations

17. District standing orders and financial regulations will need to be reviewed to see that they will be able to deal with the competitive

tendering process, for example the receipt of tenders, including the in-house tender.

Action plan reference: DM5.1

Development of approved contractors list

18. A list of approved contractors should be set up at this stage by the district, unless it is decided to use a regional list. Preliminary technical and financial vetting of contractors on the list should be carried out.

Action plan reference: DM6.1

Define immediate information needs

19. An important and major initial task of the district working party will be to define the financial and other information which will be needed by all units in the district.
20. Information will be needed to prepare the in-house tenders and to make the financial comparisons of tenders. It will be essential to define the information which will be required at this stage so that the necessary accounting systems or special exercises can be set up to provide it.
21. Information can be costly and time consuming to extract, but if it is not available it will not be possible to complete the competitive tendering process on time. Once the information needs have been agreed, the necessary system changes and special exercises needed to obtain it must be initiated. Most of this work will be at district level, as most of the relevant accounting systems are operated on a district basis, but some of the work will be at unit level.

Action plan reference: DM7.1 - DM7.7

Longer term management information development

22. An equally important area, but a less urgent one, will be the development of the management information systems needed to monitor and control the new arrangements after the contract has been awarded whether to the in-house service or the external contractor.
23. These management information requirements need to be defined at this stage by the district working party so that the necessary systems can be developed in time to be introduced when the first contract has been implemented.

Action plan reference: DM8.1 - DM8.2

Development of staff consultation procedures

24. A major task of the district working party will be to consider the staff consultation procedure which should be applied at districts and units

throughout the competitive tendering process. The personnel officer should draft the procedure which should then form the basis of discussion with the district joint consultative committee. A decision should also be taken on whether it is desirable to formalise the agreed changes to be made within the service if the in-house tender is successful into a negotiated agreement with the appropriate trade unions and staff organisations.

25. The development of a sound consultation process for competitive tendering will be of major importance to the success of the process in the district, and needs to be done before the first contracts come under consideration.

Action plan reference: DM9.1 - DM9.3

Staff consultation relating to general district matters

26. Having agreed the general staff consultation procedure, it will be necessary to apply that procedure. Consultation at district level should be carried out at this stage relating to:

- (1) the overall timetable for competitive tendering in the district;
- (2) the district's redundancy policy statement;
- (3) the personnel code of practice.

Action plan reference: DM10.1

ACTION PLAN COMMENTARY - DISTRICT WORKING PARTY

**- INVITATION TO TENDER AND CONTRACT APPRAISAL
(Appendix 1 statement 2)**

27. The second action plan covers the steps required by the district working party to monitor the competitive tendering process for each service at each unit. The work on this plan will, therefore, be repeated on each occasion that competitive tenders are obtained.
28. The corresponding steps required at unit level during this stage of the work are described in the next action plan. (Invitation to tender and the in-house proposal. Appendix 1 statement 3).

Unit programme monitoring

29. As each service at each unit becomes due for competitive tendering according to the overall district timetable, the designated officer at each unit should submit to the district working party a programme for the necessary work. The district working party needs to review these programmes and confirm that they are in line with the overall district timetable. They should then monitor progress on each programme and they in turn should report progress to their district management team.

Action plan reference: DM11.1 - DM11.5

Review of invitation to tender for each contract

30. The next matter to be referred to the district working party will be the specific invitation to tender and associated documents which it is intended to send to contractors to enable them to quote for the specific service under review at the unit concerned.
31. The general form of the invitation to tender, work specification and contract for each service will already have been approved by the district working party (See DM4) and it will now be necessary to review the documents relating to each specific case before they are issued to contractors to ensure that:
 - (1) work specifications and contract requirements are adequate;
 - (2) district policies have been complied with;
 - (3) legal advice has been obtained relating to changes to the specimen contract.

Action plan reference: DM12.1 - DM12.3

Issue of the invitation to tender for each contract

32. Once agreed by the district working party, the invitation to tender can be issued to contractors (including the in-house service). This will probably best be carried out by the district supplies officer who would be co-opted to the working part for this part of the work.
33. The updated list of approved contractors for the district will be held by the district supplies officer who should decide in conjunction with the unit designated officer whether the list contains all the names suitable for the contract being considered. If it does then the supplies officer will be able to issue the invitation to tender. If not they may decide to advertise locally for any further contractors who may be interested in tendering.
34. In general no more than six external contractors should be asked to tender. More than this would render the task unwieldy. It should not be forgotten that some neighbouring NHS district may wish to tender for the work; this may be particularly relevant in the laundry service, but will probably not apply to domestic services.

Action plan reference: DM13.1 - DM13.2

Site visits

35. Once they have received the invitation to tender, most contractors will want to visit the site and discuss working arrangements with management before submitting their tender.
36. It is essential that contractors are allowed to do this. It does, however, cause a problem for the hospital or unit management, because it would not be appropriate for the outside contractor to be shown round the site and given information by the manager of the present in-house service who will also be bidding for the contract, even though that manager may

have been involved in preparing the work specification. To overcome this difficulty it is suggested that:

- (1) the district supplies officer should be the sole contact point for contractors, and should arrange all site visits;
- (2) the unit designated officer should lead all site visits and should answer all contractors questions;
- (3) the manager of the present in-house service should only be present during these visits, in his capacity as originator of the in-house tender.

Action plan reference: IM14.1

Receipt of tenders

37. Completed tenders will be received by the district supplies officer, including the in-house tender, in accordance with the district's normal procedures for opening and recording tenders. It is important that the in-house tender is treated in exactly the same way as external tenders.

Action plan reference: IM15.1

Comparison of tenders

38. The comparison of the tenders leading to a decision as to which contract to accept will be the major part of the work undertaken by the district working party.

39. The first step is for financial evaluation to be made by the district finance officer of all the tenders including the in-house tender. It will also be useful if evaluations of personnel and technical matters are prepared.

40. It is important to appreciate that these evaluations will be made by staff at district level, and in no event should be made by the staff at the unit concerned who may well have been involved in producing the in-house tender.

41. However, unit management will have to manage any future contract which is awarded, and so it will be good management practice for them to have an opportunity to comment on the tenders submitted. For this reason, it is suggested that the unit administrator should be asked to make comments to the district working party regarding the tenders received.

42. When the above comparisons have been made it is probable that there will be areas included in the lowest priced tenders which are not clear to the district working party. There could therefore be a need for discussion or clarification with the contractor.

43. It is suggested that, subject to any existing regulations, any such discussions should be carried out by members of the district working party and not by unit management. Specialist advice on catering, cleaning and laundry matters should be provided to the working party by

officers who are not employed at the unit concerned. However the unit administrator should be present at any discussions of this kind to answer detailed questions about the unit and to obtain further understanding of the contractor's method of working.

Action plan reference: DM16.1 - DM16.5

Contract decision

44. After the evaluation process, the district working party should make a decision as to which contract to recommend for acceptance. It is important that unit management do not take part in this decision although their views will have been given to the district working party by the unit administrator.
45. The district working party will make their recommendation to the district management team who after consideration, will refer to the members of the district as necessary.

Action plan reference: DM17.1 - DM17.3

Contract award

46. Once the decision has been agreed by the district, contractors must be informed and the necessary contract prepared and signed. This work may be carried out by the district supplies officer, with legal assistance where needed.

Action plan reference: DM18.1 - DM18.2

ACTION PLAN COMMENTARY - UNIT MANAGEMENT

- INVITATION TO TENDER AND THE IN-HOUSE PROPOSAL (Appendix 1 Statement 3)

47. The action plan for unit management covers the work to be done at each unit for each service in preparing the work specifications and invitation to tender, for issue to contractors. It also covers the preparation of the in-house tender.
48. At the completion of these two stages, the relevant documents will be passed to the district working party whose work has been described in the previous action plan - "Invitation to tender and contract appraisal". (Appendix 1 statement 2).

Project management

49. The district working party will have appointed a designated officer for each unit to be responsible for the competitive tendering process in that unit. The designated officer will act as project manager for each contract being considered, and will report to the district working party accordingly. To carry out this role he or she will have to nominate other members of unit management to assist in the way already described in the chapter relating to responsibilities.

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50. The first main task of the designated officer for each unit will be to prepare a comprehensive work programme and timetable for each service being considered, based on the district's overall timetable. It will be essential for the programme to be prepared in conjunction with the other members of unit management to ensure that:
- (1) all unit officers concerned understand the tasks they have to undertake;
 - (2) work programmes and timetables are realistic;
 - (3) adequate staff resources are available.
51. The critical dates to be included in the unit work programme are:
- (1) date by which the work specification will be approved;
 - (2) date of issue of invitation to tender;
 - (3) date on which tenders will be returned including the in-house tender;
 - (4) date on which successful contractor will be appointed;
 - (5) date on which new contract will commence.
52. In considering these dates it will be necessary for attention to be given to two tasks which are of critical importance in the process, namely:
- (1) preparing the work specification for the service to be provided;
 - (2) planning the review of the organisation of the in-house service and preparation of the in-house tender.
53. Once prepared, the unit's programme for each contract should be agreed with the district working party and then used by the unit designated officer to monitor progress and manage the project.

Action plan reference: UM1.1 - UM1.4

Staff consultation set up

54. The general pattern for staff consultation will have been agreed at district level (see DM9), but it will now be necessary to decide in detail how and when the general arrangements are to be applied at the unit for the particular service under review.
55. It will be necessary for the unit and district personnel officers to prepare the suggested unit consultation process for discussion and agreement with unit staff representatives .

Action plan reference: UM2.1 - UM2.3

Staff consultation prior to invitation to tender

56. Within the overall consultation process agreed above, the first step will be to consult on a number of matters prior to issuing the invitation to tender. The main ones will concern the planned timetable of events for the service under review, and the way in which the district redundancy

agreement will apply. Consultation on these matters should take place at this stage at unit and department level as necessary.

Action plan reference: UM3.1

Preparation of the work specification

57. One of the key steps in the competitive tendering process is the drawing up of a clear, concise specification of the work to be put out to tender. The DHSS service specialists have produced a specimen work specification format for each of the services under consideration. This handbook will not duplicate that work and so will not describe in detail the work of preparing the specification.
58. The work specification should be prepared by a specialist in catering, domestic services or laundry, who has been nominated by the designated officer for the unit. There is no reason why the specialist officer concerned should not be the manager of the in-house service.
59. The first step in preparing the work specification should be to consider the DHSS specimen work specification format and establish which items apply to the specific unit and service being considered. It may be necessary to change the specimen format to meet local needs. Account must also be taken of any instructions given by the district working party.
60. The next step should be to ascertain what is provided by the present service and what changes might be made. Staff and users of the present service should be consulted. At the end of this step a brief written description of the present service should be prepared including a note of possible changes to the level and type of service required. This is an essential step because it will be found very difficult to prepare the detailed work specification for the future service without a clear factual record of what service is provided at present.
61. Senior unit management then need to decide broadly whether the present level and scope of service is adequate, or whether a reduced or enhanced service is needed. Senior management need to provide general guidelines on the level of service needed. Based on these guidelines, the nominated service specialist should then specify the exact service required, using the DHSS specimen documentation. This exercise will be a major part of the work of competitive tendering and the specialist manager responsible may well need assistance from other staff.
62. When the detailed work specification has been prepared, the final step should be for it to be agreed with the users of the service. This is an essential step which must be carried out thoroughly, even to the extent of obtaining formal written agreement from users. This is because no future contract, even if awarded to the in-house service, can be operated and controlled effectively if the users are dissatisfied with the basic specification of the service to be provided.

Action plan reference: UM4.1 - UM4.6

Planning the form of contract

63. While the detailed work specification is being prepared, it will be necessary for unit and district management to consider what will be the best financial and commercial arrangements should an outside contractor be appointed. This will require very careful thought to decide on such matters as what premises and plant should be offered to the contractor, and on what terms, and on what basis should supplies be provided. Another factor which could be considered at this stage is the effect of different levels of activity and workload.
64. In planning the form of contract, it will be necessary to consider the costs and savings which would result if the contract were awarded externally. Final estimates of these costs and savings will be made later in the work programme (see UM9) when estimates of the additional costs of contracting out are prepared for the district working party, but it may well be useful to consider preliminary estimates of these costs at this stage. It will also be useful to make estimates of these costs on the basis of different arrangements which could be agreed with an outside contractor so that the most beneficial form of contract arrangements can be set up.
65. This will be a difficult part of the competitive tendering process; it will require senior management time at both district and unit level and it will be important for it to be carried out thoroughly if maximum savings are to be achieved from the competitive tendering process.

Action plan reference: UM5.1 - UM5.4

Preparing the invitation to tender

66. When the work specification and the form of contract have been agreed by unit management, they should be incorporated in the invitation to tender document.
67. The invitation to tender will be assembled by the unit designated officer. On completion, the invitation to tender will be submitted to the district working party for review and issue to contractors.

Action plan reference: UM6.1 - UM6.7

Reviewing the in-house service

68. Reviewing the in-house service to enable it to submit a competitive tender is one of the most important parts of the competitive tendering process. It will normally be carried out by the manager of the in-house service, who will probably require considerable assistance from other managers in the unit.
69. The first steps will be to define the basis of the present in-house service and include the preparation of statements of the present staffing, operating costs, and assets used by the service. These initial steps are relatively straightforward as they simply involve recording the

present arrangements and so management should not spend too much time on this part of the work, in for example, establishing present costs in excessive detail.

70. The next series of steps are however, of great importance and it is here that emphasis needs to be placed. In these steps it is necessary to consider the present arrangements alongside the detailed work specification which was included in the invitation to tender and to decide how the present in-house department should be reorganised to meet the work specificaiton in a commercially competitive way.
71. To do this, the manager of the present service will have to consult with many other managers in the unit and district; for example with the personnel officers and work study officer, about manning levels, bonus schemes and work patterns. At the end of this process, an "organisation statement" should be prepared setting out all the changes in the department which will be made if the in-house tender is accepted. The unit accountant will then have to produce a cost statement showing what the budgeted operating costs of the reorganised department would be. The cost statement will then form the basis on which the costs are calculated in the in-house tender and if that is successful, will form the future budget for the in-house service.
72. It is essential that all changes relating to staff such as manning levels, bonus schemes and overtime are the subject of full staff consultation so that if the in-house tender is successful any reorganisation can be implemented immediately. It may well be advisable for these changes to be formalised into a written agreement with the appropriate trade unions and staff organisations before submitting the in-house tender.

Action plan reference: UM7.1 - UM7.7

Submitting the in-house tender

73. The next steps in the action plan are to use the organisation statement to prepare the in-house tender on the same documentation used for obtaining external tenders and to submit the tender to the district working party. The in-house tender must be submitted on the same date and according to the same procedures as those applied to the external tenders.

Action plan reference: UM8.1 - UM8.2

Estimate of additional costs

74. The final step in the action programme for unit management will be to prepare statements of the costs and savings which will be incurred in addition to the tender price. Estimates of these costs should be made before tenders are opened as they will be required by the district working party when making the financial comparisons between the in-house and external tenders.

Action plan reference: UM9.1 - UM9.5

PART II**Chapter 8 RESPONSIBILITY FOR IMPLEMENTATION****INTRODUCTION**

1. The main responsibility for implementing the contract will be that of the unit management with district management not being closely involved in the work. This will be so regardless of whether the contract has been given to the in-house service or to an external contractor.
2. The purpose of this chapter is to define the main responsibilities of the unit officers concerned.

RESPONSIBILITIES IF CONTRACT AWARDED IN-HOUSE

3. When the contract is awarded to the in-house service the management responsibilities will normally be as follows:
 - (1) the unit administrator will take overall responsibility for the operation of the service within the unit and for ensuring that all the agreed improvements to the service are obtained and effective quality control is operated;
 - (2) the manager of the in-house service will be responsible for reorganising the service on the basis agreed in the organisation statement and for operating it to meet the work specification;
 - (3) the unit personnel officer will be responsible for assisting the service manager to implement any reorganisation of the in-house service in so far as staff redundancies, bonus schemes and other staff matters are concerned;
 - (4) the unit accountant will be responsible for ensuring that the budget for the reorganised in-house service is correctly based on the in-house tender and is adequately monitored.

RESPONSIBILITIES IF CONTRACT IS AWARDED EXTERNALLY

4. When the contract is awarded externally, the management responsibilities should be allocated as follows:
 - (1) the unit administrator should be responsible for the overall operation of the service within the unit;
 - (2) the unit administrator should appoint an "authorised officer" (see below), who will be responsible for dealing with the outside contractor on all matters and for ensuring that adequate performance of the contract is obtained through quality control procedures;
 - (3) the unit personnel officer should be responsible for dealing with all the personnel matters relating to closing down the existing in-house service;

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- (4) the unit accountant should be responsible for seeing that all the planned affects of contracting out are adjusted in the unit's budget and monitored accordingly.

The authorised officer

5. The specimen contracts and other documents prepared by the DHSS suggest that an "authorised officer" should be appointed for each contract, irrespective of whether a contract is awarded internally or externally. This officer will be the person named in the contract as the authority's representative on all matters relating to their work. It is a useful concept, and it is suggested that the authorised officer should be regarded as the manager of the contract and should report to the unit administrator regarding its performance. He should supervise quality control and needs to be the focal point for user's comments and requests for additional or changed requirements from the contractor. It will be essential that the contractor accepts instructions from no-one other than the authorised officer. The role is thus an important one, and the authorised officer will be heavily involved in implementing the new contract. His duties will probably be greater where a contract is awarded externally as he will be the main point of contact with the contractor.
6. In some cases it may be advisable to have one authorised officer responsible for a number of contracts in various units; in these instances the authorised officer should normally be appointed by district management.

PART II

Chapter 9 ACTION PLAN FOR IMPLEMENTING CONTRACTS

INTRODUCTION

1. Action plans have already been given in the previous chapter for the work needed up to, and including, the selection of the preferred contractor. In this chapter action plans are provided and discussed for the work required for successful implementation of the selected contract. Alternative plans are given for implementing the in-house contract and implementing the external contract.

IMPLEMENTING THE CONTRACT	APPENDIX 2
<p data-bbox="289 766 535 792">UNIT MANAGEMENT</p> <p data-bbox="351 832 586 858">Recurring work</p> <p data-bbox="351 958 586 984">Recurring work</p>	<p data-bbox="874 832 1290 923">IMPLEMENTATION OF IN-HOUSE CONTRACT (Appendix 2 statement 1)</p> <p data-bbox="874 958 1290 1050">IMPLEMENTATION OF EXTERNAL CONTRACT (Appendix 2 statement 2)</p>

2. Implementation work will be almost entirely at unit level, and so no implementation plans have been prepared for district management.

THE FORM OF THE ACTION PLANS

3. The form of the implementation action plans is the same as that used for the plans relating to work prior to contract. The implementation plans also include projected time allocation which may be found appropriate. It is again emphasised that the projected time allocation is based on initial impressions and discussions and that no detailed study and estimates have been made. The projected time allocations are intended to indicate the relative length of tasks, and their interrelationship.

HOW TO USE THE ACTION PLANS

4. As with the action plans given for the work prior to contract, the best way to use this chapter of the handbook will be to:
 - (1) read the general commentaries on each action plan given in this chapter;
 - (2) refer to the action plans in the appendix and use them to;
 - (3) prepare the specific action plans for the unit concerned.

ACTION PLAN COMMENTARY - UNIT MANAGEMENT

- IMPLEMENTATION OF IN-HOUSE CONTRACT (Appendix 2 statement 1)

Initial set up and monitoring

5. The first step after the contract has been awarded to the in-house service will be for the unit administrator to nominate the "authorised officer" who will be responsible to him for all matters relating to the implementation and management of the contract. The in-house manager will be responsible for preparing a detailed plan and timetable and implementing all the changes to the in-house service which were agreed in the organisation statement on which the in-house tender was prepared. This work will be supervised by the authorised officer.
6. The plan must be agreed with the various managers and departments who will assist in making the changes and must be agreed with the unit administrator.

During implementation the authorised officer should report progress to

7. the unit administrator at agreed, regular intervals.

Action plan reference: UM10.1 - UM10.4

Personnel consultation and implementation

- A reorganisation of the in-house service may well involve introducing new
8. manning levels, bonus arrangements and other changes affecting staff. These changes will have been described in the organisation statement and fully discussed with staff at that time. Now, they will have to be implemented. The in-house manager will have to agree implementation of these changes with the unit personnel officer. If new or revised bonus schemes are to be introduced, then the work study officer may also be required to assist.

An essential step at this stage will be staff consultation. It will be

9. necessary for the plan for implementing the in-house reorganisation to be fully discussed with staff together with the arrangements for redundancy, transfers and early retirement. Staff consultation must continue throughout the implementation process.

Action plan reference: UM11.1 - UM11.3

Management information

- The manager of the reorganised service will require management
10. information and performance indicators to enable him or her to manage the service efficiently and maintain it on a competitive basis for tendering against outside contractors in the future. The information which will be needed will have been considered by the district working party as part of its initial set up work (see IM8).

11. It will now be necessary for the unit and district finance officers to design and implement these systems, so that the in-house manager has the necessary control information as soon as possible.

Action plan reference: UM12.1 - UM12.4

Equipment needs

12. The organisation statement may have included the use of new or additional equipment as a means of increasing efficiency. If this is so, then implementation of the in-house contract must include the purchase and introduction of the new equipment .

Action plan reference: UM13.1 - UM13.2

Working practices

13. Similarly, the organisation statement may well have been based on introducing revised and more efficient working practices. If so, these new practices need to be designed in detail, staff trained, and the revised working practices introduced.
14. This work may also concern other departments, where a change in method of working may simplify the work of the in-house service. If such changes were included in the organisation statement, then they must now be introduced.

Action plan reference: UM14 .1 - UM15.4

Budgetary control

15. A fundamental principal of the DHSS circular HC(83)18 is that if the in-house tender is accepted, the price quoted in that tender must become the annual budget for the future. The price quoted in the tender will have been calculated from the organisation statement and it will now be necessary for the unit accountant to structure a new budget on this basis, and for the budget to be agreed with the manager of the in-house service. The unit accountant must then report actual costs against the budget at regular intervals during the year to the in-house manager and to the unit administrator.

Action plan reference: UM15.1 - UM15.4

Quality control

16. One of the key elements in operating a successful contract, whether it is the in-house service contract, or an external contract is quality control. To be effective, quality control systems should not be operated by the manager providing the service concerned. The unit administrator should thus be ultimately responsible for the quality control systems when the in-house contract is in operation. It will be necessary to

design suitable quality control systems to ensure that the work specification is being effectively carried out. It will then be necessary to train staff in operating the systems, and to introduce the new systems as soon as the in-house contract becomes operational.

Action plan reference:UM16.1 - UM16.4

ACTION PLAN COMMENTARY - UNIT MANAGEMENT

- IMPLEMENTATION OF EXTERNAL CONTRACT (Appendix 2 statement 2)

Initial set up and monitoring

17. When the contract is awarded to an external contractor the first step should be for the unit administrator to nominate the "authorised officer" who will be responsible to him for all matters relating to implementing and managing the new contract.
18. The authorised officer should prepare the detailed action plan for the implementation, discuss and agree it with the external contractor and with unit management. In preparing this plan, a critical factor will be the time required to close down the existing in-house service and it must be remembered that the statutory redundancy period of notice is 12 weeks. Morale of the in-house staff will not be good, and as early a changeover date as possible should be selected, consistent with the required notice period.
19. Once the implementation plan has been agreed, the authorised officer should meet regularly with the outside contractor to discuss progress and should report to his unit administrator as necessary.

Action plan reference: UM17.1 - UM17.6

Personnel consultation and implementation

20. Staff consultation will be particularly important when the contract has been awarded to an external contractor. It will have to deal not only with any arrangements which have been agreed for the new contractor, to consider existing in-house staff for employment, but also with closing down the in-house department.
21. The unit personnel officer must prepare implementation plans for dealing with both these operations and these must be the basis of extensive consultation with staff at unit and department level.
22. Once agreed, it will be the responsibility of the unit personnel officer to carry out the implementation plans for completion by the changeover date.

Action plan reference: UM18.1 - UM18.5

Contract preparation and signing

23. It will be necessary for the formal contract with the contractor to be prepared and signed. It will probably be best if the district supplies officer supervises this in order to complete the work of the district working party in selecting and appointing contractors.

Action plan reference: UM19.1 - UM19.3

Plant, equipment and buildings

24. The precise arrangements relating to plant, equipment and buildings will have been specified in the contract and it will now be necessary to implement them. If, for example, the contractor is going to use the authority's plant or premises free of charge then it will be necessary to identify the exact items and to define their condition so that the contractor can be held responsible for their subsequent use.
25. If maintenance is to be provided by the authority, the procedures and timing will need to be defined and agreed with the contractor ready for introduction on the changeover date.

Action plan reference: UM20.1 - UM20.5

User department liaison

26. A critical matter in the success of any contract operated by an outside contractor will be the working arrangements with the user departments. It will be necessary for these arrangements to be very carefully defined so that there can be no misunderstandings about who does what, and where the contractor's responsibilities end.
27. It is suggested that the authorised officer should prepare written definitions of these cut off and liaison procedures for each point of contact between the contractor and user departments. These definitions should show the duties of contractor and user staff and should be agreed in detail with the user department and with the contractor.
28. Once agreed, the definitions should be published and staff given the appropriate explanations and training before the changeover date.

Action plan reference: UM21.1 - UM21.3

Quality control

29. The continuous monitoring of performance of the contract through sound quality control procedures will be an essential part of ensuring that the external contractor performs according to the work specification.
30. The authorised officer should be responsible for introducing the appropriate procedures.

Action plan reference: UM22.1 - UM22.6

Budgetary control

31. The decision to appoint the outside contractor will have been made on the basis of the financial comparisons which were made between the in-house and external tenders. Revised budgets must now be prepared based on the contractor's price and on the savings and costs shown in the financial comparison statement.
32. This is an essential step which is needed to ensure that all the savings which were planned when the decision to award the outside contract was taken are achieved in practice. The revised budgets should be prepared by the unit accountant, agreed with the managers concerned, and monitored using the district's budgetary control procedures.

Action plan reference: UM23.1 - UM23.3

Contract control

33. Systems of quality control and budgetary control will be available to help the authorised officer to control the contract. In addition, the authorised officer may need more detailed management information relating to costs and work throughput.
34. The general development of management information systems will have been considered by the district working party during its initial set up work. It will now be necessary to decide precisely what information will be needed to control the particular contract in question and to take steps to provide it using the district systems or the unit's own systems as necessary.

Action plan reference: UM24.1 - UM24.7

Final implementation

35. The detailed arrangements for the changeover date to the new contractor will need careful planning as it is important for the new contract to be successful from the start. The precise handover arrangements from the existing in-house service will need to be defined and agreed with the in-house service manager, the user departments and the contractor. Where practicable a phased handover period covering several days or even longer may be found to offer a simpler way to deal with the change to the new contractor.

Action plan reference: UM25.1 - UM25.4

PART **III**

**OPERATIONAL
MATTERS**

PART III OPERATIONAL MATTERS**SUMMARY OF CONTENTS**

Part III of the handbook deals with the management of the competitive tendering process up to and including the selection of the preferred contract whether that is to be with the in-house service or with an external contractor. It consists of the following chapters:

		<u>Page</u>
Chapter 10	The invitation to tender	63
	Considers the invitation to tender documents being the conditions of tender, the specification of work and the contract, and discusses key points for consideration.	
Chapter 11	Preparing the in-house tender	74
	Describes the way in which the in-house tender should be assembled based on the development of improved efficiency and working arrangements in the in-house department.	
Chapter 12	The comparison of tenders	83
	Discusses the factors to be considered when comparing the tenders which have been received and suggests the steps to be taken to enable the most suitable contract to be selected.	
Chapter 13	Notes on quality control systems	88
	Provides a brief description of the general nature of quality control systems.	

PART III

Chapter 10 THE INVITATION TO TENDER AND DRAFT CONTRACT

INTRODUCTION

1. The invitation to tender is an important document in the competitive tendering process. The steps needed to prepare the document and the responsibilities of the officers concerned have been described in the action programmes.
2. There are however a number of important general matters to be considered when assembling the invitation to tender which will have a major effect on the ultimate success of the contract. The purpose of this chapter is to discuss these matters, and where appropriate, to indicate to management the main alternative courses of action open to them.

THE INVITATION TO TENDER

3. The DHSS has prepared specimens of the invitations to tender for catering, domestic and laundry services. These have been reviewed and approved by Counsel. Changes should only be made after careful consideration and authorities would require to obtain specialist legal advice. The sample invitations to tender consist of three main documents:
 - (1) the conditions of tender;
 - (2) the contract documents;
 - (3) the specification of work documentation.
4. In practice, there will also be attached certain other schedules relating to assets, accommodation and working practices.
5. The conditions of tender and the contract document will often be similar for a particular service at whichever unit that service is to be provided. Therefore decisions about the general contents of these two documents should be made by the district working party for approval by the management team, and where necessary, by members. Legal advice should be obtained for any changes which are made.

THE MATTERS TO BE CONSIDERED

6. There are a number of matters which management will wish to consider when deciding on the precise form and content of the conditions of tender and the draft contract to be used in specific cases. The main factors are listed below and are discussed in the remainder of this chapter.
 - (1) control of assets;
 - (2) supplies;
 - (3) contract price;

- (4) period of contract;
- (5) inflation;
- (6) variations;
- (7) payments to contractors;
- (8) default and termination;
- (9) income.

7. Personnel factors are also important matters to be considered in preparing the invitation to tender and draft contract, and they are dealt with in Part V.

CONTROL OF ASSETS

8. The ability of a hospital to maintain services is of fundamental importance. In the general commercial world, if a contractor fails to perform, or goes into liquidation, the loss of the bought in service for a period may be important, but will probably not be critical. In the case of a hospital however, the loss of say the catering service would become critical in a matter of hours. Hospital management is thus justifiably concerned and it is necessary for them to consider how they would retrieve the service at short notice should the contractor default for any reason.
9. In general terms, the most important factor in retrieving a service rapidly will be the control of the assets. If an authority retains control over the physical equipment required for a service, then it will be relatively easy to get the service operational at short notice. If however assets have been dismantled or sold to the outside contractor, then restarting the in-house service could be a lengthy task.
10. These general considerations need to be borne in mind when considering the invitation to tender and contract documents. The main options available for dealing with premises and equipment are discussed below.

The provision of equipment

11. Several alternative methods are available for the provision and ownership of equipment to be used by the supplier of the service. The main options appear to be as follows.
 - (1) All the necessary equipment could continue to be owned by the authority, with use of the equipment being provided free of charge to the contractor. The authority would replace the equipment as and when required and would maintain all equipment.

Advantages

- Retention of assets makes it easier to retrieve the service.
- Equipment is kept up to date and in good working order.
- Control of the equipment remains with the authority and so is kept on site and not used for third party service.

- Disadvantages
- Capital investment has to be provided by the authority. Investment may thus be restricted which could prevent or slow down technological advancement.
 - Contractors could use the condition of equipment as a reason for a poor standard of service and default.
 - Maintenance problems may arise because of difficulties of maintaining equipment under the operational control of an outside contractor.
 - No incentive to maintain the equipment.

(2) Selected existing equipment could be leased by the authority to the contractor. Replacements would be leased by the authority with the contractor paying the leasing charge. The leases would revert to the authority on termination of the contract. Alternatively, selected items of the existing equipment could be sold to the contractor, at current market value with a provision for the authority to buy back the assets in use at any time during the contracts at current market value. The advantages and disadvantages of both these options are broadly similar:

- Advantages
- Creates cash for use by the authority
 - Maintenance would be done by the contractor, under the contractor's full control.
 - Enables the contractors to use the equipment and methods they prefer, rather than imposing equipment upon them.
 - Capital investment by the contractor is encouraged

- Disadvantages
- Makes retrieval of the service at short notice more difficult than when the authority retains full ownership of assets.
 - To ensure maximum use of their capital investment the contractors will want to use their assets on the authority's premises for supplying a service to third parties
 - Control over the standard and condition of equipment is weakened.

(3) The third main option would be to allow the contractor to provide all his own equipment; the authority would dispose of its own equipment, and have no recourse to the contractor's equipment if the contractor failed. The advantages and disadvantages of this option are broadly similar to those in (2) above. The retrieval of the service at short notice would however be very much more difficult.

12. It is not possible to express a general view on which of these options will provide the most effective solution for authorities, as much will depend on local conditions and on the present state of the particular equipment concerned. However, in the immediate future, perhaps the overriding need is for authorities to be satisfied that they would be able to retrieve the service at short notice should the contractor fail or should they want to re-introduce the in-house service. For that reason, the first of these alternatives, in which equipment is provided

free of charge and remains in the authority's ownership may well be the one to be selected as it provides the greatest safeguard in that respect. In the longer term, when more experience of using contractors has been obtained, other arrangements in which contractors provide their own equipment, and hence capital funding, may be found to be useful.

The provision of premises

13. The three services will have different needs regarding the premises required by a contractor. The premises needed by a cleaning service are clearly not a major requirement, consisting of an office and some storage space for materials and equipment.
14. The premises required by laundry and catering services will however, be substantial, and the precise terms on which they are to be used by an outside contractor will have to be carefully determined. In deciding how to deal with premises, authorities will have to take into account the way in which it is proposed to deal with equipment as the two matters are very closely linked.
15. Summarised below are the three main ways in which it appears authorities could deal with their premises and each way is considered in conjunction with the different ways already discussed for dealing with equipment.
 - (1) The authority could continue to own the premises and allow the contractor free use for the period of the contract. The options relating to equipment would be:
 - (a) The contractor could be allowed free use of the equipment which remains owned by the authority.
 - (b) The authority could lease or sell the equipment to the contractor, or the contractor could introduce his own equipment.

if alternative (b) is adopted careful consideration must be given to how the authority could regain use of the premises quickly if the contractor should fail.

- (2) The authority could rent the premises to the contractor. This would probably only be appropriate when the premises were separate and not part of a hospital complex. The same considerations regarding equipment apply as in the previous alternative. It would be essential in this event for clauses to be included in any rental agreement allowing repossession in the event of failure by the contractor, although as indicated above it may be difficult to obtain prompt repossession in practice.
- (3) The third alternative would be for the authority to sell the premises to the contractor. This would probably only be appropriate if the premises were separate from a main hospital unit. If this option were adopted then it would almost certainly follow that

equipment should be sold to the contractor as the authority would probably not want to own or lease assets to be held on a third party's premises.

16. The considerations in deciding how best to deal with premises are similar to those for dealing with equipment, with possibly the most important one being the ability of the hospital to take repossession of both premises and equipment at short notice so that the service can be continued should the contractor fail to perform the contract. Bearing this in mind, the option in which both premises and equipment are provided free of charge to a contractor may well be found to be the most suitable one in the first instance.

THE PROVISION OF SUPPLIES

17. The provision of supplies and materials may not form a major part of cleaning and laundry contracts, but will be important in any catering contracts which are awarded to outside contractors. There are two main alternative ways in which supplies could be provided.

- (1) The authority could purchase all materials and issue them free of charge to the contractor.

Advantages

- The authority retains control of quality and type of materials.
- The authority obtains the full benefit of its bulk purchasing power- contractors may not be able to buy as cheaply.
- The authority retains suppliers and it will therefore be easier to reinstate the service if necessary.
- The authority can retain existing health and safety procedures.

Disadvantage

- The contractor may argue that inferior materials prevent him performing to the work specification.
- The authority carries the cost of purchasing and stocking.
- The contractor has no incentive to control waste

- (2) The alternative approach would be for the contractor to purchase all his own materials.

Advantages

- The contractor chooses his own materials and cannot blame lack of performance on material quality.
- The contractor is totally responsible for usage and waste.
- The contractor bears purchasing costs and stock costs.

Disadvantages

- The authority may lose purchase discounts not only on the materials concerned, but possibly elsewhere due to a reduction in total goods purchased.

- The authority loses contact with suppliers and hence there would be difficulties in reintroducing the service quickly.
- The authority will have to set up revised health and safety procedures.

18. The selection of the appropriate alternative will depend on the particular conditions at each location. One of the major factors to consider is however the question of the discounts received on purchases. No research has been done on this topic in preparing this handbook, but it is clear that the NHS through its substantial purchasing power obtains its materials at very competitive prices. Some of that cost advantage may well be lost if the contractor provides his own materials. A possible third way of dealing with materials would therefore, be for the authority to purchase all materials and make a charge for them to the contractor. However, this alternative would need considerable investigation before being adopted.
19. In addition to supplies, services may also be provided in certain contracts such as, for example, energy. It should be practicable to monitor and record the services provided, and to make a charge to the contractor. There are advantages in doing so, as for example, in the case of energy, it will result in the contractor being responsible for the cost of waste.

CONTRACT PRICE

20. The precise composition of the contract price to be defined in the invitation to tender and draft contract will depend on the actual terms and conditions of the tender. The price must be structured on the basis of:
- (1) the services which the contractor is being asked to supply;
 - (2) the services and facilities which are to be provided free by the authority;
 - (3) the services and facilities which are to be provided by the authority for a charge.
21. Authorities will also have to decide whether the price to be quoted should be:
- (1) fixed for the period of the contract;
 - (2) fixed for year one only;
 - (3) related to throughput or volume.
22. With regard to price, it is unlikely that authorities will be able to negotiate fixed price contracts, except in the very short term and for areas of a service which can be clearly defined (e.g. cleaning of a health centre for one year). The specimen tender and contract documents

issued by the DHSS provided that any contract for a period of twelve months or less should be on a fixed price basis, but accept that other situations will, probably, involve some variations to the price over the period of contract (e.g. for inflation).

23. Where authorities intend to follow the specimen tender and contract documents issued by the DHSS, they should ensure that the contract price basis is not materially altered from that given in the specimen. The contract papers are legal documents and any changes would require to be vetted from a legal point of view to ensure that the underlying legal status of the document as a whole had not been altered.
24. The competitive tendering process will place heavy demands on the financial and management accounting systems of authorities. Much of the information demanded will not be available at present and may not even be easily and readily obtained in the short term. When selecting a tender basis, therefore, authorities must be mindful of the cost of providing the amount of detailed information it will require, both as regards preparing the in-house tender and monitoring the contract when let.
25. For this reason, particularly in the early years of competitive tendering, authorities may opt for a simple basis on which to calculate the contract price, due to the numerous changes which would require to be made to the existing financial and management accounting systems if a more complicated basis was chosen.

PERIOD OF CONTRACT

26. Health authorities are free to set whichever period of contract they deem best suited to their own particular circumstances. However, it is generally accepted that longer term contracts will provide benefits from greater stability and keener prices. The latter applies particularly to services which involve significant expenditure on capital or equipment as the contractor will be able to spread these over a longer period.
27. The major factors affecting the selection of the period to be covered by the contract are therefore:
 - (1) the service under review - it is likely that laundry contracts will span a longer period than cleaning and catering services, due to the higher level of capital investment required;
 - (2) the present circumstances surrounding the service - whether or not significant increases or decreases in the level of service to be provided are envisaged (e.g. the opening or closing of a hospital or significant part thereof);
 - (3) the state of the existing equipment being used and when replacement will be required.
28. In order to test whether or not keener prices would be obtained from a longer term or shorter term contract, authorities may ask tenderers to quote on the basis of providing a particular service for, say, a period of three years, and also, a period of five years.

INFLATION

29. With the exception of those contracts let for a period of twelve months or less, which will probably be on a fixed price basis, some provision will be required to take account of inflation. Inflation increases will normally apply only in the second and later years as the price base for the first year will be fixed at the outset.
30. The basis on which an inflation adjustment can be applied depends to a certain extent on the basis on which the original contract price has been calculated e.g. if this does not show separately labour and materials, it will not be possible to adjust each separately for inflation.
31. Inflation adjustments will, also, depend on the relative weight given to particular cost elements in the contract price, for example:
 - (1) catering services will have a high materials content as well as a high labour content;
 - (2) domestic cleaning services will have a high labour content, with the material content depending on who provides what materials and the exact nature of the service;
 - (3) laundry contracts will tend to be capital intensive with labour and materials assuming less overall importance.
32. The DHSS specimen tender and contract documents provide for inflation adjustments based on:
 - (1) DHSS published price indices for laundering services;
 - (2) DHSS Health Services price index;
 - (3) the annual percentage change in rates of pay received by analogous NHS grades or the nearest equivalent.
33. Whatever bases are used, it is important that the necessary support, in the form of adequate financial accounting systems, is provided for at the outset. Any changes required to management accounting systems should be highlighted before the contract is let in order that they can be developed and introduced. They should not be left until the first inflation calculation is required only to discover that the base data is not readily available.

VARIATIONS

34. Variations may become necessary in the course of a contract arising from changes in such matters as:
 - (1) the type or mix of services to be provided;
 - (2) the volume of services to be provided;

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- (3) the frequency with which services should be provided;
 - (4) the equipment, materials and services to be provided by the authority.
35. It will be extremely difficult to draft comprehensive variation clauses in contracts. Great care must, therefore, be taken in making any changes to the DHSS specimen contract regarding variations.
 36. Where variation clauses have to be included in a contract, care should be taken, that an authority has adequate financial and accounting systems to support such clauses. Where changes need to be made to existing systems, these should be clearly defined at the outset and before the contract terms are finalised.
 37. Normally variation clauses will follow the detail involved in the calculation of the contract price. Thus, systems adequate to support the contract price calculation should also be adequate to support variations.
 38. In addition to the types of variation which are allowed under a contract, consideration must be given to the frequency with which variations can be allowed and accounted for. If a contract provides for adjustments to be made, say, within a week of the end of each month, it is probable that the financial and accounting systems would not be able to provide the information in time. Therefore, this is an important area to be considered when drafting these clauses.

PAYMENTS TO CONTRACTORS

39. A contract would normally contain provisions relating to the basis on which, and the frequency with which, payments will be made to a contractor. The DHSS specimen tender and contract documents provide for the following frequencies:
 - (1) laundry services - monthly in arrears, based on the number of articles laundered times the contract rate per 100 average articles;
 - (2) domestic services - equal weekly instalments in arrears;
 - (3) catering services - equal monthly instalments in arrears.
40. Authorities are, however, free to determine the basis on which the contract price is paid. There are numerous options open to authorities, for example:
 - (1) equal instalments;
 - (2) actual number of items laundered or meals produced times a predetermined unit charge;
 - (3) a fixed weekly or monthly amount, with an adjustment at six or twelve monthly intervals to take account of actual throughput.

41. In selecting the basis of payment, authorities must ensure that there will be adequate provision to check the amounts due prior to payment. This means that there must be:
- (1) adequate supervision by the authorised officer of the authority;
 - (2) formal certification of sums due by the authorised officer;
 - (3) adequate supporting financial, costing and management accounting systems to provide the necessary information to enable performance to be monitored and sums due to be certified;
 - (4) adequate financial, costing and management accounting systems to enable variations to contract to be effected quickly, verified and actioned with certainty.
42. Authorities should take steps to ensure that systems and procedures will be adequate to deal with payments under contracts prior to the contract being let.

DEFAULT AND TERMINATION

43. Contracts will contain default or penalty clauses to enable an authority to determine an agreement in whole or in part if, for example, a contractor fails to provide the contracted services, to the contract standard by the due date. There will also be clauses dealing with the termination of the agreement due to, for example, the bankruptcy of the contractor.
44. Penalty clauses, in respect of default by the contractor, should contain provision for an authority to recoup from the contractor the cost of obtaining alternative services, together with a contribution towards administration costs. It may not be possible for an authority to recover such costs if a contractor goes into liquidation. However, the provisions should ensure that if funds are available, the authority has a legal claim.
45. Clearly, authorities will require legal advice on all matters relating to the contract, particularly in connection with penalty clauses. It will also be necessary to consider the authority's accounting and other systems to ensure that they would be able to support the penalty clauses included in the contract. In addition to the recording of sums due and paid to the contractor which existing systems would be able to deal with, penalty clauses may require the introduction of systems to establish:
- (1) the actual cost of obtaining alternative services (e.g. administration costs);
 - (2) the excess of the cost of the new services over the cost of the previously contracted ones;
 - (3) any disruption costs incurred.

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46. Authorities must ensure that the existing systems are adequate to provide the information necessary to support the default and termination clauses in contracts.

INCOME

47. Although there may be little income arising in respect of domestic services, authorities will require to consider the way in which receipts from catering and laundries are to be treated under the contract, e.g.

(1) a contractor may collect and retain the income and offset it against his tender price;

(2) a contractor may collect the income and pay it over direct to the authority.

48. The method to be adopted must be clearly stated in the invitation to tender and contract documents.

PART III

Chapter 11 PREPARING THE IN-HOUSE TENDER

INTRODUCTION

1. The preparation of the in-house tender is one of the most important elements in the competitive tendering process. This document will form the basis of the decisions to be taken regarding the retention or otherwise of the in-house service.
2. The main tasks to be carried out in completing the in-house tender have already been listed in the action plans given in this handbook. The purpose of this chapter is to give the manager responsible for preparing the in-house tender a description of the points which should be considered when carrying out the action plan steps.
3. Four main aspects of this work are discussed in this chapter:
 - (1) the points to be considered in preparing the "organisation statement". This statement shows the changes needed to make the department more efficient and to enable it to compete with outside contractors;
 - (2) the points to be considered in preparing the "overhead statement" which shows the costs of the services provided by other departments to the in-house service;
 - (3) the completion of the in-house tender;
 - (4) the completion of the statement of additional costs which shows the costs which would be incurred in addition to the tender price.

PREPARING THE ORGANISATION STATEMENT

4. It will be remembered that the first steps given in the action plan for preparing the in-house service were to prepare written definitions of the present staffing of the service, equipment and assets and to prepare an operating statement of present costs of the service.
5. After those steps, the need is to consider every aspect of the present department in conjunction with the new work specification which has been prepared. The aim is to decide whether the department could be changed in a way which would reduce operating costs and ensure that the in-house service can submit a commercially competitive tender. At the end of this work an "organisation statement" should be produced, showing all the changes which would be made in the department if it is awarded the contract. That statement will then be used by the unit accountant to calculate the costs of the reorganised in-house service which will enable the in-house tender to be priced.

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6. The following section of the chapter provides a check list of the main items to be considered in preparing the organisation statement, and suggests which other managers and specialists could be consulted to give help and advice as to how the efficiency of the in-house service could be improved and costs reduced.

Working methods

7. The first step should be to define the present working methods. It is then necessary to review these methods to assess whether they are effective. What changes could be made to methods to reduce time and eliminate wasted effort? What changes might be made in other departments which would simplify the work? What changes in the methods for receipt and delivery of items could simplify the work? How could working practices be simplified?

Consult: Work study officers
Supervisors and staff in the present service
Unit personnel officer

Equipment and machinery

8. Consider the present equipment available to the in-house service, and its affect on working methods and staffing. What changes in equipment could lead to changes in working methods and reductions in staff numbers? What would be the cost of this equipment and would the cost be met by the savings?

Consult: Works officers and maintenance engineers
Equipment suppliers
Work study officers

Manpower needs

9. Review staff numbers and staff grades in the present in-house service. Calculate how many staff will be needed for the new work specification and at what grades. Take into account any changes in working methods which could be made and any changes in equipment which could reduce work loads or alter staff mix.

Consult: Work study officer
Unit personnel officer

Revision of bonus schemes

10. Although health authorities are required to review the operation of bonus schemes regularly, changes in bonus schemes to reflect changes in working patterns may not have been effectively introduced. It may be possible to achieve improved productivity by reviewing all schemes in operation.

Consult: Work study officer.
Personnel officer

Reduction of overtime

11. It may be possible to reduce or even stop overtime working. By re-arranging of rosters, work schedules and methods of working to keep down the payment of overtime at enhanced rates, the cost of providing a service can be drastically reduced.

Consult: Work study officer
Unit personnel officer

Managerial and supervisory staff

12. Management can be an expensive overhead and, by re-structure or review, can sometimes be reduced without affecting the level of service provided. But, remember, that if the in-house tender is successful the service must comply with the contract in exactly the same way as an external contractor, in terms of supervision and control over work and staff.

Consult: Supervisory staff.

Material supplies

13. If the invitation to tender specifies that contractors will provide their own materials, then it will be necessary to consider the cost of materials very carefully in preparing the in-house tender. This will be particularly important in relation to the catering service. It will be necessary to find out how materials are purchased at present. What bulk discounts are obtained? What changes to purchasing methods could be made to improve purchasing and reduce material costs? If materials are to be provided free issue to contractors, then the cost of materials will not be included in the in-house tender and will not be a factor in deciding how to award the contract. Even so, the costs of materials should be reviewed as the cost will be an important item in the unit's budget regardless of who wins the contract.

Consult: District supplies officer
Unit accountant
Suppliers

Material usage

14. The importance of material waste will also depend on whether the invitation to tender specifies that materials will be provided free to contractors. Even so, waste of materials can be a substantial element of cost, particularly in catering. What are the present waste control arrangements? How could they be improved? Would changes to meal ordering arrangements reduce waste? What new waste control procedures should be introduced.

Consult: Supervisors of present service
Users of the service

Energy and water costs

15. In many hospitals the costs of electricity, gas, water and steam will be a significant item. If the invitation to tender specifies that the contractor is to be charged by meter for usage of these items, then the same arrangements will apply to the in-house service and consideration needs to be given to what the charge will be, how it should be reflected in the in-house tender, and how it should be kept to a minimum.

Consult: Works officer and maintenance engineers.

Use of other departments services

16. The in-house service department makes use of the services provided by other departments. The avoidable costs of those services will be included in the in-house tender. It will therefore be useful to consider how the use of other departments' services could be cut down and how the costs involved could be reduced.

Consult: Heads of other departments
Unit accountant

Income

17. In addition to costs it is also necessary to consider possible income. This applies particularly to catering, but to some extent to laundry. What changes could be made to increase income? Could new services be offered which would increase income? Could prices be increased for existing services?

Consult: Heads of user departments

AGREEING THE ORGANISATION STATEMENT

18. At the completion of the review of the in-house service, the manager of the service should prepare the organisation statement. The statement should be divided into the main headings listed above, and for each heading should specify:

- (1) the arrangements which would apply to the in-house service department if it is awarded the contract;
- (2) the changes which will have to be made to introduce the new arrangements.

19. When the organisation statement has been prepared, the manager of the in-house service should agree it with the unit administrator and with other managers concerned. This is an essential step, as it is necessary to make sure that the proposed changes are realistic and practicable, and will not have a detrimental effect on other departments. It would clearly defeat the objective of the competitive tendering process if the contract were awarded to the in-house department, only to find that the proposed changes could not be introduced.

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20. The organisation statement should be discussed with staff representatives as part of the consultation procedure. This is because some of the main changes proposed for the in-house department may well relate to manpower, bonus schemes and working practices. It will be essential for full staff co-operation with the proposed changes to be obtained before the in-house tender is submitted to make sure that the proposed changes can be implemented if the contract is awarded to the in-house department. Staff consultation procedures are described in the chapters relating to personnel matters.
21. Once the organisation statement has been agreed in the way described, it can be passed to the unit accountant who can calculate the estimated costs of making the changes and operating the new arrangements. The in-house tender should then be based on this statement.

PREPARING THE OVERHEAD STATEMENT

22. In addition to the direct activities of the in-house service which are defined in the organisation statement, it is also necessary to define the overhead services provided by other departments to the in-house catering, domestic or laundry service under consideration. In particular, it is necessary to identify specifically which of those overhead services would no longer be required if the in-house service is contracted out. These are termed "avoidable services" and may represent a cost saving if the in-house catering, domestic or laundry department is closed down. The overhead statement should show:
- (1) the total overhead service being provided at present by each department;
 - (2) the staff and other resources in those departments used to give the service;
 - (3) the "avoidable" element of the staff and other resources.
23. The action plans show that the overhead statement will be prepared by the unit specialist for laundry, cleaning and catering, together with the unit accountant and the heads of the other departments concerned. In the remainder of this section a checklist is given of the matters to consider in preparing the overhead statement and of the main departments to be included.

Salaries and wages on-costs

24. Under present arrangements payment of remuneration for the staff employed in the catering, domestic and laundry services are part of the wages and salaries system used by the district. The avoidable element of the staff and resources used for the preparation of wages and salaries which would no longer be required if the catering, domestic or laundry service were contracted out will have to be specified by the manager of the wages department.

Consult: District treasurer
Manager of wages department

Accounts processing and financial services

25. The in-house cleaning, laundry and catering services will make use of the general financial services provided by the district. Accounts need to be checked and paid and financial information systems have to be operated. Financial services will be provided by the district treasurer and the charge for this service must be the subject of detailed discussions between the treasurer's and service manager's department. Avoidable elements of the service will have to be defined by the treasurer.

Consult: District treasurer
Unit accountant

Supplies department services

26. Supplies department provide a purchasing and stores service to the in-house laundry, cleaning and catering services. The extent of the service should be defined. The avoidable costs will depend on whether the invitation to tender specifies that an outside contractor would carry out his own purchasing. If so, then the avoidable element of the service could be appreciable, particularly in the case of catering.

Consult: District supplies officer

Building and equipment maintenance

27. The full cost of the in-house service should include any work done on the repair and maintenance of buildings and equipment used in the provision of the service. It is highly unlikely that this will apply to the domestic services contract unless separately identified storerooms exist. However, the avoidable element of the maintenance service will depend on whether the invitation to tender specifies that the outside contractor would carry out his own maintenance. If so, the avoidable element of the maintenance service could be large.

Consult: Works officer
Maintenance engineer

Personnel services

28. The personnel department will provide a service to the in-house catering, domestic and laundry departments relating to recruitment, welfare, training and other matters. The costs of these services need to be considered and any avoidable costs identified.

Consult: Unit personnel officer

Transport and distribution services

29. The laundry service, and to a lesser extent, the catering and domestic services, may make demands on the transport pool of the authority. The avoidable element of transport costs may be large and must be carefully determined.

Consult: Transport manager

AGREEING THE OVERHEAD STATEMENT

30. The overhead statement should cover the overhead services provided by other departments to the particular in-house service under consideration.
31. The overhead statement should be agreed by the unit administrator and by the managers of the departments concerned. There is no doubt that the preparation and agreement of the overhead statement will be a difficult task as it is always difficult to quantify the amount and cost of overhead services provided by one department to another. It will be necessary to identify all the avoidable elements of cost, and to obtain the agreement of the department managers concerned who will naturally be reluctant to see reductions being made in their staff and resources. If the full cost benefits of contracting out a service are to be achieved, it will be essential for avoidable costs in other departments to be identified at this stage. Where avoidable overhead costs relate to saving in manpower, it will also be necessary for these to be discussed with staff interests using the consultation procedures recommended in this handbook.

COMPLETION OF THE IN-HOUSE TENDER

32. When the organisation statement and the overhead statement have been prepared, the action plan shows that they should be passed to the unit accountant whose responsibility it is to cost both the statements, and to use the resulting costs to prepare the in-house tender. The non-financial aspects of the tender should be completed by the manager of the in-house service using exactly the same documentation as those used by the external contractors. No detailed guidance on completing the forms is given in this handbook as the DHSS specimen documentation is self explanatory.

THE STATEMENT OF ADDITIONAL COSTS

33. When the in-house tender has been completed, the final task for management at unit level will be to prepare the statement of additional costs.
34. The purpose of this statement is to show the costs which will arise in addition to submitted tender prices. An example of this kind of cost is the staff redundancy cost incurred in reorganising or closing down the existing service.
35. The detailed information contained in the statement will be used by the district working party when they make the financial comparisons between the in-house and external tenders, and so the statement of additional costs forms an essential part of the competitive tendering process.
36. The statement of additional costs should be prepared by the unit designated officer and the unit accountant, and not by the manager of the present in-house service, in order to maintain independence. The unit designated officer's responsibility will be to define in detail the areas where additional costs and revenues will arise, and the unit accountant's

role will be to assist in estimating the amount of the costs and additional revenue.

37. When completed, the statement should be approved by the unit's administrator and submitted to the district working party at the same time as the in-house tender. The finance officer on the district working party will then use the statement to prepare the financial comparison between the in-house and external tender for consideration by the working party.
38. The content of the statement of the additional costs will depend on the content of the invitation to tender for each individual contract. The invitation to tender will show precisely what services are to be provided by the outside contractor, and what services are to be provided by the authority.
39. When preparing the statement of additional costs it will therefore be necessary to determine:
 - (1) what additional facilities and resources will have to be provided;
 - (2) what additional one-off changeover costs will be incurred;
 - (3) what affect will awarding the contract externally have on other departments' costs and revenues.
40. In considering these points the designated officer for the unit will need to hold discussions with other members of unit management. Listed below are a number of areas where additional costs may be incurred to act as a check list for those discussions:
 - (1) the use of buildings, equipment, supplies or services where the outside contractor's usage would be different from that of the in-house service;
 - (2) the use of buildings, equipment, supplies or services for which the authority would make a charge to the outside contractor;
 - (3) additional staff required to monitor and control the service of the outside contractor;
 - (4) new facilities which would be required to enable the outside contractor to operate in accordance with the contract;
 - (5) facilities which would no longer be required if an outside contractor were appointed;
 - (6) the amount of discount on materials purchase which would be lost if the outside contractors provide their own materials;
 - (7) redundancy costs incurred in closing down the existing in-house service.

41. In Chapter 16 of Part IV of the handbook, a more detailed consideration of these items is provided with reference to the way in which the relevant costs should be estimated and used in making the financial comparison between the in-house and external tenders.

PART III

Chapter 12 COMPARISON OF TENDERS

INTRODUCTION

1. The comparison of the tenders received, including the in-house tender, is a critical step in the process leading to the decision as to which contract to accept.
2. The main tasks to be carried out in this process have been listed in the action plans given in this handbook. The purpose of this chapter is to give the managers carrying out these tasks some additional information about comparing tenders and the decision process.
3. The topics covered in this chapter are:
 - (1) the allocation of responsibilities;
 - (2) the decision process;
 - (3) the non-financial factors to consider.
4. The financial and costing factors to be considered in making the comparison between tenders are discussed in Part IV of the handbook.

RESPONSIBILITY FOR COMPARISON OF TENDERS

5. It is essential that officers who have been involved in the detailed preparation of the in-house tender should not be involved in the comparison of the tenders received, or in the final decision process. This concept is an essential part of the action plan and it may be useful to repeat here a summary of the various roles involved.
 - (1) The manager of the in-house service will have prepared the in-house tender, and so should not be involved in the comparison of tenders or the selection process.
 - (2) Other members of unit management will have helped to prepare the overhead statement, and the statement of the additional costs. They will also be responsible for managing the external contractor if one is appointed. For these reasons the district working party may wish to consult them and hear their views, but unit management should not take part in the final decision process.
 - (3) The main comparison work will fall to the district working party which will ask its officers for reports as follows:
 - (a) a financial comparison from the district finance officer;
 - (b) a personnel comparison from the district personnel officer;
 - (c) a technical comparison from the technical officer concerned.

Based on these reports the district working party will submit a recommendation to the district management team.

- (4) The district management team may then make a decision as to which contract to accept, or they may refer the matter to their members. It may be that the district management team may also ask regional management for their views.

THE DECISION PROCESS

6. Reaching a decision on which contract to accept from a number of tenders is always a difficult task. It can, however, be made somewhat easier if a consistent approach is adopted.
7. Before suggesting a suitable approach, it is necessary to be aware of the instructions given in the DHSS Circular HC (83) 18 on this matter which in Appendix I of the Circular states:

"If, after having taken all financial implications into account, the lowest private tender shows clear savings in the total cost to the authority, the health authority should enter into contract. Provided the tender documentation is properly completed and assuming that the authority is satisfied about the ability of the contractor to deliver the service in accordance with the contract terms, the contract should be let to the lowest tenderer. In no circumstances should a contractor not submitting the lowest tender be awarded the contract unless there are compelling reasons endorsed at district authority level for not taking such a decision."

8. In considering the steps to be taken in arriving at a decision, it is also necessary to remember that the in-house tender has a particular significance in most districts, and it will be necessary to show management and staff that the in-house tender has been fully considered throughout the decision process.
9. Based on these considerations, a suitable procedure for arriving at a decision may be structured as follows.
- (1) The technical and personnel reports on the external tenders will indicate which of the submissions, if any, should be rejected as clearly being incapable of providing a satisfactory service.
- (2) After reviewing these reports, it should therefore, be possible to produce a list of outside contractors which could meet the technical requirements ranked in order of cost.
- (3) It will then probably be advisable to reduce the list to a shortlist of say the two lowest cost outside contractors to which should now be added the in-house tender.
- (4) A financial comparison should now be made between the in-house tender and the two shortlisted outside contractors. The suggested form of the financial comparison is given in Part IV.

-
- (5) The financial comparison will give a major indication as to which contract to accept. Before deciding however, it will be necessary to consider the non-financial factors which may be relevant. (A list of non-financial factors is given in the next section of this chapter).
 - (6) At this point it may well be found useful to ask the shortlisted contractors, including the in-house manager, to attend for interview. Clarification can be obtained on matters included in their tenders, and much may be learned from the contractor's presentations. If the contractor's own plant is to be used then a site visit is essential at this stage, if it has not already been made.
 - (7) The final decision can now be made, and will normally be based on accepting the tender offering the most economic service to the authority, unless there are overriding non-financial matters.

NON-FINANCIAL FACTORS TO BE CONSIDERED

10. In the concluding section of this chapter a description is provided of the non-financial factors to be considered when deciding which contractor including the in-house service should be awarded the contract. No attempt has been made to indicate the relative importance of these factors, or to say which might be regarded as overriding a cost advantage in another contractor. Much will depend on local conditions, and on the the policies of individual authorities and their members.

Technical factors

11. The question as to whether the contractor can meet the work specification satisfactorily from a technical point of view is clearly fundamental. Some important questions which need to be answered are:
 - (1) does the tender meet the exact requirements of the work specification (for example infection control procedures)?
 - (2) if modifications to the work are proposed by the contractor in his tender, do they raise doubts about the contractors' ability to meet user needs?
 - (3) if the contractors are proposing using their own plant and equipment on their own site is it adequate bearing in mind the other workload on the plant? Does the site visit confirm this?
 - (4) where is the contractor's own site and management? Are they based reasonably close to the hospital? Is the management regarded as capable and committed to providing the service required?
 - (5) what are the views and experiences of other users of the contractor's services?

Personnel factors

12. Personnel factors to be considered may well be significant in selecting a contractor. They will include:

- (1) is the staffing proposed adequate in terms of numbers and quality?
- (2) is the management proposed adequate in terms of seniority and experience?
- (3) is the contractor proposing to conform with the authority's requirements regarding personnel matters?
- (4) will the contractor conform to the authority's health and safety and training requirements?

Commercial factors

13. The contractors will have received the preliminary financial vetting by the region or district described in Part IV for them to have been included on the approved list of contractors. It will now be advisable to make more searching enquiries about shortlisted contractors, and carry out the second stage of the financial vetting outlined in Part IV. The questions to be asked include:

- (1) does the most recent set of the contractor's accounts show a reasonably secure financial position?
- (2) what up-to-date bank, trade and user references have been provided and are they satisfactory?
- (3) what other major contracts, including NHS work, has the contractor received recently and can they deal with the workload?

Other benefits

14. An important non-financial factor to be considered in deciding whether to contract out a service will be what other benefits are to be obtained.

- (1) Will contracting out the service in question result in buildings being freed for use elsewhere in the unit?
- (2) Will contracting out the service result in improved management elsewhere in the unit?

Reintroduction of the service

15. One key factor referred to previously in this handbook, is the question of being able to reintroduce the service should the contractor fail for any reason. In making the final decision as to which contractor to select, or whether to leave the work with the in-house department, the reliability of the service and the ease and speed with which the service

could be reintroduced needs to be considered very carefully, together with the availability of other contractors who could take over at short notice.

Longer term benefits

16. A final factor to consider is the longer term position of the authority and particularly what will be the position when the contract comes up for renewal. It will be advisable for authorities to have considered longer term matters before reaching the point of decision on which contract to accept. Some of the matters to be considered are:

- (1) what will be the state of plant and equipment at that time? Will it need renewal by then, and if so what would be the options open to the authority?
- (2) what will be the position of the authority in the market when the contract is being renewed? If the contract is being awarded now to a major contractor, will there be adequate competition in the future when the contract is being renewed?

PART III**Chapter 13 NOTES ON QUALITY CONTROL SYSTEMS****INTRODUCTION**

1. The purpose of this chapter is to provide a brief description of the general nature of quality control systems. The importance of quality control has been mentioned a number of times in this handbook, and it was felt useful to provide some information about the principles on which such systems are based so that managers can see how quality control could be applied after the competitive tendering process has been completed.
2. Quality control systems could be applied to catering, cleaning and laundry services, and to any other services being considered. Similar systems would be needed whether the service is contracted out, or retained in-house. Although the general principles of quality control will be the same throughout, the specific procedures required will have to be specifically designed for each location and for each service.

THE RESPONSIBILITY FOR QUALITY CONTROL

3. The purpose of quality control is to monitor the general level of the service being provided so that action can be taken before the service falls below the standard required.
4. The providers of the service will be operating their own detailed control systems and procedures to supervise their work force and to ensure that each person carries out the work as specified in the work specification. This will be so whether the service is being provided by the in-house department or by an external contractor.
5. Quality control should be operated separately from these detailed work control procedures with the aim of monitoring the general level of service provided. To be effective, there needs to be an element of independence in the quality control system and for this reason quality control should be made the responsibility of a manager who is not directly involved in providing the service concerned.
6. In the case where an external contractor provides the service the person responsible for quality control might well be the authorised officer. When the in-house department carries out the service, responsibility for quality control might best be given not to the manager of the in-house department, but to a manager who reports separately to the unit administrator. This might also be the authorised officer, if one has been appointed for the district.

THE ELEMENTS OF A QUALITY CONTROL SYSTEM

7. Quality control is a system of inspection, analysis and action which is normally related to a product, but which can, subject to clearly defined

boundaries, be related to services such as cleaning, catering and laundry. The main elements of a quality control system are:

- (1) a clear definition of, and agreement on, the required standards;
- (2) a satisfactory method of sampling to test the service;
- (3) an adequate system of inspection to carry out the necessary sampling;
- (4) a means for reporting the results of inspection and sampling;
- (5) a means for discussing results and taking action.

These main steps are discussed below.

Standards of quality

8. Clearly, the first step in a quality control system relating to services needs to be the setting up of standards against which quality is to be assessed. For the services in question, detailed specifications of the work to be provided will have been prepared in the invitation to tender. These specifications may themselves provide certain standards on which quality control can be based, but if not, they should form the basis from which suitable standards of quality can be derived. These should be agreed with the contractor before they are put into use.
9. In developing standards for quality control purposes, it will not be necessary to prepare standards for every aspect of the service. The aim should be to have clearly defined, and where possible, measurable standards for the aspects of a service which are critical to its success. In this way the quality control system can be designed to concentrate on essential items only.

Sampling results

10. For quality control purposes it will be impractical and unnecessary to check every item as it is laundered, or every meal which is served. It will be found adequate to test on a sample basis only each item where a standard of quality has been described.
11. The basis of sampling needs to be defined. A random basis is usually required, and this means that a method for selecting items to be checked will need to be decided. Similarly, the frequency of sampling each item will have to be agreed, depending on resources available and on practical considerations.

Inspection systems

12. Whatever sampling basis is being adopted, it will almost certainly involve inspection. Inspection can be carried out on a purely subjective basis, but to provide a quality control system which all concerned are prepared to accept it will be necessary to make inspection objective as far as possible.

13. Objectivity of inspection can be improved by structuring the inspection task which staff are asked to carry out. For each item being subjected to quality control, a check list should be provided showing what needs to be checked, and how many items need to be included.
14. For some items the check can be factual, (i.e. a room has or has not been cleaned), but for others the check may involve subjective judgement (i.e. how well has the room been cleaned). Where subjective judgement is concerned, it will be helpful to provide the checklist with a scale of values which the person making the inspection can use.
15. A further method of reporting on the standard of service is the satisfaction of the user. Nursing staff will complain if wards are not cleaned to the required standard, or uniforms and linen are not thoroughly clean. The patient is the recipient of the catering service and their views on the service are important. If clear systems are instituted for complaints to be reported to the quality control staff, the user can have an important role to play in monitoring the service provided.

Reporting results

16. An important part of the quality control system will be the reporting of the results of the inspection work. The results of the sampling should be summarised, probably in simple numeric form, and should be reported at weekly or monthly intervals. A cumulative record should be maintained to provide a record of the results over time and as a basis for calculating performance statistics.
17. The observations taken during the sampling should be analysed to show precisely where and when variation from the standard is occurring and, if possible, why. It will be useful if the results are shown for the week or month being reported on, and also on a rolling six or three month basis so that trends can be observed.
18. The reports should be prepared by the manager responsible for quality control, and should be given a wide circulation to make management generally aware that quality control is being carried out. It is suggested that the circulation should be to:
 - (1) the unit administrator,
 - (2) the provider of the service (the in-house manager or the external contractor);
 - (3) the principal users.

Subsequent action

19. It will be important to set up a procedure to ensure that the quality control system can cause changes to be made when the service is not up to standard. To do this it is suggested that a discussion is held at regular intervals between the provider of the service, and the person

responsible for quality control. The aim of the discussion will be to identify areas where quality is not conforming to required standards and to establish the reasons. Where necessary, changes should be agreed with the provider of the service.

20. When, as a result of analysis, action is required to improve quality standards, the action may take various forms including:
- 1) adjustment to service frequencies;
 - 2) re-rostering of personnel;
 - 3) re-training in methods and procedures;
 - 4) disposal or rejection of unsuitable equipment and materials;
 - 5) review of methods, materials and equipment;
 - 6) technical induction and continuation training of supervisor staff;
 - 7) counselling/re-training/disciplining operators who consistently produce below-standard work;
 - 8) replacement of management;
 - 9) imposition of contract penalty clause;
 - 10) dismissing the contractor.

PART IV

**FINANCIAL
MATTERS**

PART IV FINANCIAL MATTERS**SUMMARY OF CONTENTS**

Part IV of the handbook examines the financial and accounting considerations relevant to the process and covers:

	<u>Page</u>
CHAPTER 14 Financial organisation and responsibilities	95
Discusses the responsibilities of regional, district and unit management in relation to financial matters.	
CHAPTER 15 Costing the in-house service	98
Reviews the problems involved in calculating the actual cost of the present service and determining which costs should be included in the in-house tender and how these can be arrived at.	
CHAPTER 16 Financial comparison of tenders	114
Covers the factors to be taken into account when comparing tenders and the methods of evaluation to be used.	
CHAPTER 17 Financial evaluation of prospective contractors	124
Discusses the ways in which the financial soundness of potential contractors may be investigated.	

PART IV**CHAPTER 14 FINANCIAL ORGANISATION AND RESPONSIBILITIES****INTRODUCTION**

1. The general responsibilities of regional, district and unit management in the competitive tendering process were described in Part II of the handbook. In this chapter, the particular responsibilities of the finance staff at each of these levels of management are discussed.

REGIONAL RESPONSIBILITIES (FINANCE)

2. In Chapter 6 of Part II of the handbook, suggestions were made as to the general responsibilities of regional management relating to competitive tendering.
3. It will be remembered that a regional working party was proposed, and that a regional finance officer would be one of its full time members. In that capacity, the regional finance officer would take a general role in all the specific responsibilities allocated to the working party.
4. Some of the responsibilities listed in Chapter 6 of Part II contain a major financial element, on which the regional finance officer would need to be closely involved.
5. These are:
 - (1) The development of regional guidelines to supplement the DHSS guidance on financial matters. The extent to which regional management will wish to provide guidance will vary, but general financial advice may well be useful on such matters as:
 - (a) the basis on which the costs of the in-house service are to be calculated.
 - (b) the basis on which the financial comparison of tenders is to be made.

The regional finance officer would be responsible for drafting financial guidelines, for discussion and agreement by the regional working party, regional management and where appropriate by regional members.

- (2) To deal with the financial matters for competitive tendering relating to the region's own services. In this case, the regional finance officer will have to decide how to achieve independence between those responsible for preparing the in-house tender and those carrying out the final evaluation and selection. It may be necessary to obtain independent financial appraisal assistance from elsewhere in the region.
- (3) To organise and co-ordinate the financial content of any regional seminars and training which are given.

- (4) To give specific financial advice and assistance to districts as requested.
- (5) To assist the regional supplies officer in carrying out a preliminary financial evaluation of a list of approved contractors maintained by the region.

DISTRICT RESPONSIBILITIES (FINANCE)

6. District responsibilities were indicated in Chapter 6 of Part II. It was suggested that the district management would probably wish to appoint a working party to supervise all competitive tendering within the district. One of the full time members of that party would be a senior member of the finance department and in that role he or she would assist on all the general district responsibilities listed in Chapter 6.
7. The initial one-off financial responsibilities contained in that list can be summarised as follows.
 - (1) To prepare a statement of district financial policies. A regional financial policy statement may be available, but in any event it will be necessary to define the district financial policies to be applied so that financial management throughout the district is aware of the principles to be applied. The financial policy statement should cover similar topics to those suggested for the regional statement, namely:
 - (a) the basis on which costs of the in-house service are to be calculated. (see Part IV chapter 15).
 - (b) the basis on which the financial comparison of tenders is to be made (see part IV chapter 16).
 - (2) To assist in carrying out a preliminary financial appraisal of the district list of potential contractors.
 - (3) To review the management information requirements of the units in the district in relation to the competitive tendering process and subsequent contract monitoring, and to develop new systems where needed.
8. The recurring responsibilities of the finance officer on the district working party which specifically relate to financial matters are:
 - (1) to nominate the accountant who is to assist the designated officer at each unit in the competitive tendering process and to review that person's work programme and to advise on the work as necessary;
 - (2) to review the financial aspects of each invitation to tender before being sent to contractors;
 - (3) to carry out the financial comparison of the tenders received and assist the working party to decide which tender to recommend;

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- (4) to assist the district supplies officer in carrying out a final financial evaluation of the short list of contractors for each contract.

UNIT RESPONSIBILITIES (FINANCE)

9. The detailed work of preparing the work specification, the invitation to tender and the in-house tender for each contract will be carried out at unit level. The general responsibilities for this would be allocated to the designated officer at each unit, and the relevant responsibilities were listed in Chapter 6 of Part II.
10. The unit designated officer would be assisted by the unit accountant nominated by the district finance officer and his specific responsibilities prior to contract would be:
- (1) to cost the present in-house service.
 - (2) to cost the planned organisation of the in-house service after it has been reviewed;
 - (3) To prepare the financial parts of the in-house tender;
 - (4) to calculate any estimated costs and savings which might arise additional to the tender price.
11. After the contract has been awarded, either to the in-house service or to the external contractor, the unit accountant's main responsibilities would be:
- (1) to monitor and advise the appropriate officer of the financial results of the new arrangements against the budget;
 - (2) to assist district management in introducing and operating the financial systems needed to control the contract.

PART IV

CHAPTER 15 COSTING THE IN-HOUSE SERVICE

INTRODUCTION

1. One of the main financial tasks of the competitive tendering process will be to cost the in-house service. This work will consist of three major stages:
 - (1) costing the present service i.e. providing a comprehensive statement of the total cost of operating the present arrangements, which will provide a sound basis from which to review the service;
 - (2) costing the organisation statement i.e. calculating what the total cost would be after reviewing the service and introducing those improvements necessary to make it competitive vis-a-vis external tenders;
 - (3) preparing the in-house tender i.e. completing the financial aspects of the tender document, in accordance with the estimated costs of the reorganised in-house service.
2. The specific work required for these three stages has been listed in the unit management action plans. The purpose of this chapter is to provide a description of the financial matters to be considered in each case.

DEVELOPMENT OF POLICY GUIDELINES ON COSTING

3. In a previous chapter the responsibilities of regional and district financial management were indicated. One of the responsibilities was to provide policy guidelines on financial matters to assist the accountants carrying out the detailed work and to ensure a consistent approach. It is suggested that policy guidelines relating to costing the in-house service should cover the three stages noted in the previous paragraph and should deal with:
 - (1) which costs should be considered for inclusion;
 - (2) acceptable methods of arriving at such costs;
 - (3) the classification of costs (i.e. into direct, indirect, overheads);
 - (4) the definition of avoidable and non-avoidable costs;
 - (5) the acceptability of using estimated figures in particular circumstances;
 - (6) the merits of providing completely accurate figures weighed against the costs of so doing;
 - (7) levels of materiality i.e. for deciding when costs are too immaterial to warrant separate calculation or estimation.

COSTING THE PRESENT SERVICE

4. The first main accounting task must be to determine the annual cost of operating the present in-house service. It is only by knowing what the present service is costing, both in total and for particular items of

Figure 3

THE IN-HOUSE SERVICE COST STATEMENT

COST	TOTAL COST £	AVOIDABLE £	NON-AVOIDABLE £
DIRECT COSTS OF THE SERVICE DEPARTMENT			
MANPOWER			
Ancilliary staff - basic pay			
- overtime			
- bonus			
- superannuation			
- national insurance			
- other allowances			
Service manager costs			
Supervisory staff costs			
CONSUMABLES			
Materials			
Equipment			
Protective clothing			
OPERATING COSTS			
Energy costs			
Distribution costs			
Maintenance			
<u>TOTAL ANNUAL DIRECT COST</u>	£		
INDIRECT COSTS OF THE SERVICE DEPARTMENT			
Rates			
Rent			
Administration - stationery			
- telephone			
<u>TOTAL ANNUAL INDIRECT COST</u>	£		
OVERHEAD CHARGES FROM OTHER DEPARTMENTS			
Personnel Department - training			
- staff welfare			
- recruitment			
Works Department - building maintenance			
- plant maintenance			
Treasurers Department - wages preparation			
- financial services			
- computer			
Supplies Department - purchasing			
- stores			
Transport Department			
Other Central Departments			
<u>TOTAL ANNUAL OVERHEAD CHARGES</u>	£		
<u>ANNUAL TOTAL OF ALL OPERATING COSTS</u>	£		
<u>INCOME</u>	£		

expenditure, that it will be possible to prepare a credible organisation plan to make the service more effective.

5. Service managers may feel that this is an unnecessary use of limited time and may wish to direct their immediate attention to reorganising the service. However, for the organisation statement to be accepted as feasible, it will require to be put in context by comparing it with the full costs of the present service.
6. It is suggested that the costs of the in-house department should be formally set out in an "in-house service cost statement". A suggested form of this statement is included in the handbook as Figure 3. The suggested format would be broadly suitable for costing each of the three services under consideration.

The form of the in-house service cost statement

7. In designing the in-house service cost statement, reference has been made to the guidance notes published by the DHSS in conjunction with Circular HC (83) 18.
8. The statement has been designed to segregate costs as follows:
 - (1) avoidable costs - these are costs which would be saved if the in-house department were to be closed down (costs are saved if they are no longer incurred or if they are incurred for a different purpose e.g. redeployment of staff onto other work would be counted as an avoidable cost);
 - (2) non-avoidable costs - these are costs which would require to be borne by an authority irrespective of whether or not the service was provided wholly externally.
9. The preparation of a statement of the total cost of the department and analysing costs as avoidable or non-avoidable at an early stage will have the following advantages:
 - (1) it will facilitate the subsequent review of the service to make it more cost effective, as attention can be concentrated on avoidable costs;
 - (2) it may assist in the determination of tender terms and conditions (e.g. if maintenance costs cannot be avoided then it may be more advantageous for external contractors to use an authority's maintenance service as opposed to their own);
 - (3) it will speed the preparation of the in-house tender as costs will already be classified in the manner required.

Sources of information for preparing the in-house service cost statement

10. The in-house service cost statement should preferably be prepared using the latest forecast or budget data for the coming period. If this

information is not available then the statement will have to be based on historic costs for the most recently completed year.

11. Sources of information from which the in-house service cost statement will be prepared are:

- (1) budgets and forecasts for the next accounting period.
- (2) the cost account returns made by authorities to the DHSS. These contain separate memorandum accounts for laundry and catering, but not for domestic services. The cost of the latter being shown as a total figure under hospital costs.
- (3) the management accounts. These will normally contain greater cost detail, but the level to which costs are analysed may vary from authority to authority. In general, the major operating costs of the department under review will be separately identifiable, but overhead costs will be included in other department's cost statements, and so not be allocated to user departments e.g. engineering and estate management costs.
- (4) special exercises to extract the cost of operating existing services. These will have to be determined at an early stage in the process, so that they can provide the necessary information in time for the first tender.
- (5) the "overhead statement". This statement will have been prepared by the manager of the in-house service and will show the use made by the service of the work of other departments and the avoidable element of those services. This document should provide the basis on which the unit accountant can establish the overhead costs of the service in question, and the avoidable costs.

The costs to be included in the in-house service cost statement

12. The in-house service cost statement illustrated in this chapter lists the main cost headings which will normally be required. However, two points need to be made about the costs which have been included on the statement:
13. First, capital costs have been totally excluded from the in-house service cost statement. These costs are a complex matter, and it was considered that it will be simpler to deal with them all at one time. Capital costs will therefore, be dealt with in the cost comparison statement on which the financial comparison between tenders is made.
14. Secondly, it is recommended that all costs relevant to the in-house department are calculated and shown on the in-house service cost statement. It might be considered that if an item was eventually to be provided free of charge to an outside contractor there would be no point in including it in the in-house service cost statement. This however, is not so because the cost of all items may eventually be needed for budgetary control and so should be calculated. Also, to prepare an

in-house service cost statement in which certain costs were omitted would be misleading and would make it difficult to use the statement when calculating the future savings to be derived from the reorganisation of the department.

15. The main cost items to be included in the in-house service cost statement are listed in the following paragraphs, together with brief notes about how each one might be calculated. The headings are those used on the sample in-house statement illustrated.

Direct manpower costs

16. Manpower costs should be readily available from existing records. To determine whether or not manpower costs are avoidable reference will require to be made to the duties of the staff concerned:

- (1) staff employed wholly in providing the service in question will be avoidable;
- (2) staff employed in a managerial capacity, or only partly on the service in question, may or may not be avoidable (e.g. staff may retained, even if the contract was awarded externally, due to the other duties they perform).

17. The district finance officer should provide unit accountants with guidance on salaries and wages in relation to:

- (1) which costs should be included;
- (2) the level of detailed analysis required;
- (3) the distinction between direct and indirect costs;
- (4) how costs should be arrived at;
- (5) the allocation of management and supervisory time.

18. It should be possible to identify total manpower costs from existing records, but it may not be possible to ascertain readily a detailed analysis of the total into:

- (1) basic pay;
- (2) overtime;
- (3) bonus;
- (4) other allowances;
- (5) superannuation;
- (6) national insurance;
- (7) other costs.

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19. Although such a detailed breakdown may not be necessary to arrive at the total cost of a service, it will be required for the next stage (i.e. reviewing the present service). Attempts should, therefore, be made at this stage to arrive at a sufficiently detailed analysis to facilitate any review deemed necessary. Care should be taken to balance the cost of obtaining a particular level of detailed analysis against the benefits of that degree of detail.

Direct materials cost

20. In the in-house service cost statement, the term "materials" has been used to include all materials used by a particular service, for example:

- (1) cleaning materials for domestic services;
- (2) provisions for catering;
- (3) cleaning materials and fluids for laundry services.

In a cost statement for a particular service, this cost head should be sub-analysed into its major component parts. The level of detail will depend on the service in question and on the existing management accounting systems. It should, however, be sufficiently detailed to enable the cost effectiveness of the existing service to be reviewed, the in-house tender to be prepared and the major cost elements of any future operation to be closely monitored.

21. Obtaining the necessary level of detailed analysis of materials for existing service costs may mean that a number of manual exercises have to be undertaken. The same considerations apply as in the extraction of labour costs, in that the benefits of a particular level of detail must be balanced against the costs of obtaining it.
22. Two particular problems, which may affect the identification of material costs in preparing the service cost statement are:
- (1) ascertaining the cost of materials used as opposed to purchased;
 - (2) ensuring that only those materials used by the service in question are charged.
23. Regarding the first of these points, the costing systems in many authorities identify only the cost of materials purchased for a particular service and take no account of opening and closing stocks. Depending on the service in question, the volume of materials accounted for in this way may or may not be material. Where it is significant, however, it is important that the service cost statement is based on materials used.
24. Some formal guidance should be given to unit accountants as to how they should ascertain materiality in this context. Where accurate figures are not known, the use of estimated figures, and guidance on arriving at these in the context of a particular authority's services, should be supplied at district level.

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25. Regarding the second point raised above, the use of NHS standard codings for materials will require to be reviewed to ascertain exactly what expenditure is being charged against a particular head. For example, it may be that costs coded to cleaning materials are not all relevant to a domestic services department. Where instances of inaccurate or incorrect codings are known or suspected, manual exercises may be required to arrive at a true material cost for a particular service.
26. The cost of materials should include the cost of related items such as transport storage, purchase and receipt. Where materials are purchased and delivered direct to a particular service (e.g. fresh foods for catering), these additional costs may already be charged against the service. However, in most authorities a high proportion of all materials are purchased through the central supplies department. In these instances a separate charge will require to be made for stores overheads and would be shown in the overhead charges section of the in-house service cost statement.

Direct equipment cost

27. Small items of plant and equipment may be regarded as consumables and charged direct to a particular service (e.g. replacement of small items of hardware and crockery for catering services). The level at which such items should be charged direct is a matter for decision by individual authorities and the policy to be followed should be formally set out by the district treasurer, following discussions with the specialists in each area. Large items of plant and equipment will be classified as capital expenditure, the treatment of which is discussed later in this handbook.

Direct protective clothing cost

28. The cost of protective clothing provided for staff (e.g. uniforms and overalls), together with the costs of laundering such clothing, should be charged against the service in question. Most authorities will be able to identify the purchase costs, but may not be able to separately identify any laundry costs. In the case of the latter, it would normally be acceptable to calculate a charge based on a unit cost per item laundered.
29. Most staff will receive new uniforms each year, in which case the particular service should be charged with the full cost in the year in question. Where uniforms or protective clothing are expected to last for more than one year, only a proportion of such costs should be included when calculating the total cost of the present service. It will normally be acceptable to allocate the full cost pro rata over the number of years concerned.

Direct energy costs and water

30. The energy costs incurred by authorities comprise expenditure on the coal, oil, gas, electricity and water.

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31. Energy costs will include the full cost of running and maintaining a boiler house i.e. steam costs. Where a boiler house is used solely to service a laundry, then the total costs of the boiler house (including labour, maintenance and a charge for the use of the capital assets involved) should be made to the laundry service. Where the boiler house serves a hospital complex, which includes a laundry, offices, wards and a kitchen, the costs will require to be apportioned. Authorities are required to make annual returns on energy and utility consumption, which could be used to allocate the costs of operating a boiler house.
 32. Gas and electricity usage may or may not be separately metered. Where these costs are not metered, an apportionment will require to be made if the usage is considered to be sufficiently material and it can be determined with an acceptable degree of accuracy. Where such costs are significant, consideration should be given to the introduction of metering.
 33. Water usage may or may not be separately metered for individual units or parts of a hospital complex. However, such usage is likely to be material only in relation to boiler houses, laundries and very large kitchens, for which separate charges should, as far as is possible, be determined.

Direct distribution costs

34. Where an in-house service operates its own vehicles, direct distribution or transport costs should be charged as direct operating costs of the service under review. These relate to such matters as:
 - (1) collection and delivery of laundry items;
 - (2) delivery of meals from a central kitchen to outlying units.
35. The full cost of such items should be calculated. This should comprise all labour and vehicle costs, including a charge for the capital cost of vehicles.
36. However, where an authority operates a central transport pool which services all other departments, it may not be possible to allocate distribution costs directly to a particular service. In this case, such costs would be charged in the overhead section of the in-house service cost statement.

Direct maintenance cost

37. Maintenance expenditure will be incurred in respect of buildings and equipment. As in the case of distribution expenditure, where such costs can be identified specifically, (e.g. in the case of separate laundry), they may be charged against the service under review, as a direct operating cost. Where an authority's records do not permit such analysis (e.g. where a kitchen is part of a large hospital complex), the costs will have to be estimated and included in the overhead section of the statement. For this purpose, the number of hours spent in providing

maintenance should be ascertained, and a total cost arrived at by using a calculated hourly rate for each maintenance department. Any calculated hourly rate should be based on the total cost of the department concerned, including equivalent annual charges for capital expenditure.

Direct stores costs

38. Some in-house departments may operate their own stores, in which case the costs should be included as direct operating costs on the in-house service cost statement. In many cases however, a high percentage of an authority's materials and equipment are purchased via central supplies in which case the costs will have to be included as an overhead cost on the statement.
39. The calculation of a general stores overhead will have to take account of the regional supplies network as well as any district supplies or stores staff. Stores overheads should be based on the full cost of operating the whole network of central supplies. The cost could be calculated on the basis of the cost of materials and equipment purchased for different services. Determining the allocation of total purchases to respective services may necessitate special analyses being carried out manually.

Indirect administration costs

40. Administration overheads will normally include such items as:

- (1) stationery;

- (2) telephone.

41. It will probably be possible to identify stationery costs from the existing accounting records as these are normally charged direct to departments.
42. Telephone costs, however, will be more difficult to ascertain unless a service occupies a separate building, or a sophisticated telephone system is in operation. Any charge for telephone costs will require to be estimated on the basis of the number of telephone lines or a temporary call logging system. It may be decided that telephone costs in the case of certain services are immaterial and need not be taken into account.

Indirect cost - rent and rates

43. Rates will be incurred on all properties, but rents will be incurred only where an authority does not own the premises being used. It should be possible to ascertain such expenditure from present accounting information, even although the costs are not charged direct to the service in question. Where premises are shared an apportionment of the total costs will be required. Apportionments may be done on the basis of property valuations or on the square footage of the relative areas used by each service or part of a service. Premises occupied should include such areas as storage accommodation and rest rooms or changing rooms.

Overhead charges from other departments

44. To arrive at the total cost of operating the in-house service department it will be necessary to include the overhead charges representing the services which are provided to it by other departments. A list of the main departments concerned is shown on the cost statement illustrated in this chapter and includes the services provided by such departments as personnel, works and treasurer's departments.
45. In many authorities there will be no system in operation for calculating and charging the costs of these services to other departments, and so bases for doing so will have to be agreed to enable the costs to be included on the in-house service cost statement. It is suggested that a useful procedure for unit accountants and the in-house service manager to follow will be:
- (1) to meet each of the heads of the departments which provide a service to the in-house department under review according to the "overhead statement" prepared by the in-house service manager;
 - (2) to agree with each head the general basis to be used for apportioning their costs to user departments and then complete the total cost column on the in-house service cost statement;
 - (3) to agree the specific costs in their department which would be avoided if the in-house service under review were contracted out. This will enable the avoidable costs column on the service statement to be completed.
46. In preparing the in-house service cost statement, the identification of the avoidable costs will be critical as these costs will play a significant role in deciding whether to retain the in-house service. For this reason it is essential that the avoidable costs agreed with each department head are specific and identifiable, in terms of itemised cost savings and numbers of employees who would be made redundant or transferred. The managers of these overhead departments need to understand that these avoidable costs will be deducted from their budget if the service under review is contracted out.

Income

47. It is unlikely that domestic services will have any sources of income. However, catering services and laundries may receive monies from the following sources;
- (1) catering - sale of swill;
- staff meals;
- vending machines;
- non-staff cafeterias;
 - (2) laundries - services provided to other authorities;
- in-house laundrettes;
- laundry of staff clothing;
- laundry of patients' clothing;

48. It will normally be possible to identify such receipts, although they may not at present be credited to the in-house service.

COSTING THE ORGANISATION STATEMENT

49. When the in-house service cost statement has been prepared showing the present costs of the department, most authorities will wish to review the existing department prior to inviting outside tenders, in order to ensure that the department is operating efficiently and is competitive. The work of carrying out this review is shown on the action plan for unit management. It will normally be carried out by the present manager of the in-house service, assisted by other managers as necessary, who will produce the "organisation statement" for the service showing all the changes which would be made to the in-house department if it wins the tender.

50. It is the unit accountant's task to prepare a revised service cost statement based on the changes described in the "organisation statement". The revised service cost statement, once agreed by management becomes a key document in the competitive tendering process because it will be used to calculate:

- (1) the tender base price, which will be the in-house tender price;
- (2) the in-house service budget total, which will be applied if the in-house tender is successful.

The form of the revised service cost statement

51. The revised service cost statement will be in the same form as the statement already prepared showing the costs of the present service. The bases used to prepare it will be the same, but, the revised service cost statement must be based on the budgeted or forecast costs for the period of the future contract and not on historic cost. This is because the revised service cost statement will be used to cost the in-house tender, and so it must be based on projected future costs for the contract period.

Sources of information for preparing the revised service cost statement

52. The sources of information to be used in preparing the revised service cost statement will be:
- (1) the in-house service cost statement which has already been prepared for the existing in-house department;
 - (2) the authority's budgets and forecasts for the coming year's expenditure;
 - (3) the organisation statement prepared by the manager of the in-house department showing the proposed changes to be made in the department.

Suggested approach for preparing the revised service cost statement

53. The form of the "organisation statement" has been described in Chapter 11 of the handbook. In that chapter the main areas where improvements should be considered in reviewing the service were described and suggestions made as to how areas for improvement might be identified. The main topics covered in that chapter were:
- (1) working methods;
 - (2) equipment and machinery;
 - (3) manpower needs;
 - (4) revision of bonus schemes;
 - (5) reduction of overtime;
 - (6) managerial and supervisory staff;
 - (7) material supplies;
 - (8) material usage;
 - (9) energy and water costs;
 - (10) service and liaison with other departments;
 - (11) income.
54. It will be the unit accountant's job to assist the manager of the in-house department to examine each of these topics and to help to decide where costs can be saved. To do this, the unit accountant will have to evaluate the various proposals being put forward by the in-house manager to show which ones will achieve worthwhile cost improvements. Particular attention should be paid to the accuracy of indirect costs such as energy and maintenance
55. At the end of this process, when the manager of the in-house department under review considers that he has taken into account all the changes which could be made to the department, the unit accountant should prepare the revised cost statement. The revised statement will then be used to prepare the in-house tender.

PREPARING THE IN-HOUSE TENDER

56. When the revised cost statement has been produced, the next step is to use that statement to calculate the necessary financial information for insertion in the in-house tender.
57. In the notes to Circular HC (83) 18, the DHSS state that in-house tenders should incorporate all necessary equipment and costs, including any separately identifiable costs of monitoring the service. The overriding rule, however, is that only avoidable costs should be included i.e. those costs which are capable of being saved if a tender should be awarded to an outside contractor.
58. For this reason, the costs to be included in the in-house tender should be based on the total avoidable cost column of the revised service cost statement.
59. The final decision as to which costs should be included in the in-house tender will depend on the specific terms of the invitation to tender and

on precisely what services would be provided by the authority to an outside contractor. It will be very important to make sure that costs are correctly treated in both the in-house tender and in the subsequent financial comparison of tenders.

60. Before preparing the in-house tender, it will therefore be necessary to review each item shown in the avoidable cost column of the revised service cost statement in conjunction with the draft contract which would be offered to an outside contractor. The aim of this review is to make sure that each cost item is correctly included either in the in-house tender or in the financial comparison.
61. It is not always easy to decide how items should be treated and so the following set of "rules" have been prepared to help unit accountants to ensure that avoidable costs are dealt with correctly in both the in-house tender and in the subsequent comparison of all tenders.

TENDER TERMS	IN-HOUSE TENDER	COMPARISON STATEMENT ADJUSTMENTS
(1) Facilities to be provided free by an authority to the external contractor, where the rate of uptake is the same for the in-house service.	Exclude costs	None
(2) Facilities to be provided free by an authority to the external contractor, where the rate of uptake is different from the in-house service.	Include costs	Add estimate of costs to external tenders.
(3) Facilities to be provided by an authority for a charge.	Include costs	Add estimated costs less charges levied to external tenders.
(4) Facilities to be provided by the contractor.	Include costs.	None

62. In the remaining sections of this chapter, some notes are provided on the likely financial information required by the invitation to tenders for each of the three services being considered.

Domestic services

63. Tenders will, normally, be submitted on the basis of a fixed price for the first year of the contract period. The price will be calculated based on the cost of providing the detailed services set out in the tender specification. The specimen DHSS tender and contract documents provide for this to include:
- (1) labour (including supervision and management);
 - (2) materials and equipment;
 - (3) maintenance of equipment;
 - (4) external telephone link;
 - (5) insurance;
 - (6) overheads.
64. Other overhead costs (e.g. rates, personnel management) should be included to the extent that they are capable of being saved, if the contract is let to an external contractor.
65. The DHSS guidance notes assume that an authority will provide:
- (1) certain specified materials;
 - (2) protective clothing for staff;
 - (3) storage space and office accommodation;
 - (4) staff catering, rest room, wash room and lavatory facilities as specified;
 - (5) internal telephone system;
 - (6) thermal disinfection of equipment.
66. Where such services are to be provided to external tenderers, the costs should be dealt with in accordance with the "rules" table provided in the previous section.

Catering services

67. Tenders for catering services will normally be on a fixed price for the first year of the contract period. The price will be calculated in accordance with the detailed tender specification and will involve similar calculations to those outlined above for domestic services.
68. However, certain additional information will be required for catering tenders e.g.:

- (1) sample costed menus for patient services and the authority's staff, covering four consecutive weeks, giving for each menu the costed recipes and the sizes of portions involved;
- (2) a four week consecutive patient menu, ingredients list and recipes, provided by the authority, will need to be costed by each tenderer;
- (3) a separate analysis of the projected weekly food cost for patient services, for staff and for other catering services;
- (4) proposed tariffs for staff catering, vending machines, functions, entertainments and other similar services;
- (5) a costed analysis of the tenderer's projected staff establishment, showing the hours of work, rates of pay, allowances and bonuses for each part, together with the value of any free meals provided and provision for holidays, sickness, national insurance, superannuation and any other staff costs;
- (6) a projected annual financial summary for year one.

Laundry services

69. Laundry contracts will normally be based on a calculated price per article. The following operating costs should be considered for inclusion in the in-house tender:
- (1) salaries and wages:
 - manager and supervisory staff;
 - ancillary, basic pay;
 - ancillary, bonus;
 - superannuation;
 - national insurance
 - (2) engineering maintenance;
 - (3) materials and ancillary items;
 - (4) water;
 - (5) steam;
 - (6) gas and electricity;
 - (7) distribution (transport) expenditure.
70. Examples of other costs, which are not at present allocated to the service, but which should be included if they are capable of being saved include:
- (1) building maintenance;

- (2) rates;
- (3) rent, if on a rented site;
- (4) overheads e.g.
 - personnel management;
 - calculation and payment of wages;
 - telephone;
 - senior management time;
 - laundry staff uniforms;
 - staff welfare.

PART IV

Chapter 16 FINANCIAL COMPARISON OF TENDERS

INTRODUCTION

1. The final stage, prior to selecting a contractor, is the comparison of the tenders received. The financial work at this stage will be concerned with the preparation of the financial comparison statement showing the net effect on costs, both of contracting out and of maintaining a service in-house. This statement will be important in reaching a decision as to whether or not a service should be contracted out.
2. The specific tasks required for this part of the work have been given in the detailed action plans. The purpose of this chapter is to give further information about the suggested working methods and the particular factors to be considered in preparing the financial comparison statement.
3. The requirement to demonstrate independence when allocating contracts means that those persons involved in preparing the in-house tender should not be involved in the comparison process. Thus, the financial comparison of tenders should be undertaken at district level, as opposed to unit level. It will normally be the responsibility of the finance officer on the district working party.

DEVELOPMENT OF POLICY GUIDELINES ON FINANCIAL COMPARISONS

4. In a previous chapter the responsibilities of regional and district financial management were indicated. One of those responsibilities was to provide policy guidelines on financial matters to assist the accountants carrying out the detailed work and to ensure a consistent approach.
5. Policy guidelines regarding the financial comparison of tenders should deal with the methods and principles covered in this chapter and in particular could include the following:
 - (1) the identification of the additional costs;
 - (2) the identification of notional costs;
 - (3) the treatment of capital costs;
 - (4) the treatment of VAT;
 - (5) the treatment of redundancy costs;
 - (6) the financial decision process.

THE FINANCIAL DECISION PROCESS

6. The detailed action plans show that, when all the tenders have been received, statements should be prepared comparing the tenders from

technical, personnel and financial points of view. The financial appraisal will normally be the responsibility of the finance officer on the district working party.

7. Investment appraisals can range from the simple to the complex and there are a number of different techniques and approaches which can be adopted, depending on the particular circumstances under review.
8. In circular HC (83) 18 and the supporting specimen tender and contract documents, the DHSS have advocated that the financial comparison of tenders should be made on the basis of a calculated annual contract sum. To arrive at this figure:
 - (1) recurring costs should be shown as the annual amounts arising - these will normally include all revenue costs such as labour, materials, energy, maintenance and transport;
 - (2) non-recurring costs should be shown in the form of equivalent annual charges - these would apply to large amounts of revenue expenditure and to capital items.

The calculation of equivalent annual charges and the rationale behind these is discussed in the HM Treasury booklet "Investment Appraisal In The Public Sector" and in "An Introduction to Present Worth Techniques" by the DHSS Engineering Division.

9. The use of the above method is appropriate for most short term contracts and, because it is a simple and readily understood technique, it should be used where possible. The financial evaluation process given in this handbook is based on this approach.
10. However, more complex situations may arise, where a contract is for a lengthy period, involves high capital expenditure and results in cash flows which fluctuate considerably over the period. In contracts of this kind, it may, be necessary to use more advanced project evaluation techniques involving discounted cash flow analysis.
11. It is not the purpose of this handbook to discuss the merits and demerits of the more advanced methods of investment appraisal techniques which are applicable to the public sector. These are set out in the HM Treasury guide and the DHSS Engineering Division booklet referred to above. These advanced techniques should be used to evaluate contracts in the following categories:
 - (1) those covering an extended period;
 - (2) those where high capital expenditure is involved;
 - (3) those where major fluctuations in the level of cash flow occur as between different years.

FINANCIAL COMPARISON STATEMENT

12. The general procedure to be followed in reaching a decision as to which contract to accept has been described in Chapter 12. The suggested

Figure 4

THE FINANCIAL COMPARISON STATEMENT

PRICES AND COST	IN-HOUSE TENDER £	LOWEST COMMERCIAL TENDER £
TENDER BASE PRICE £		
REVENUE ADJUSTMENTS TO BASE PRICE		
<u>Additional Operating Costs</u>		
- Supplies and services provided to contractors free of charge but where uptake is different		
- Supplies and services provided to contractors for a charge		
- Additional monitoring costs		
- Miscellaneous changeover costs		
<u>Notional Costs</u>		
- Loss of discounts		
- Insurance		
<u>Income</u>		
<u>TOTAL REVENUE ADJUSTMENTS</u> £		
CAPITAL ADJUSTMENTS TO BASE PRICE		
1) Existing assets used by in house service which will become redundant if contract awarded externally.		
- Assets with no other use or resale value		
- Assets with other use or sale value		
(2) Existing assets to be used by both in-house service and external contractor		
- Provided free to contractor but where uptake is different		
- Provided for a charge to the contractor		
(3) New assets to be purchased		
- To improve in-house service		
- To enable external contractor to operate.		
<u>TOTAL CAPITAL ADJUSTMENTS</u> £		
VAT ADJUSTMENTS		
- 1% EC levy		
<u>TOTAL VAT ADJUSTMENTS</u> £		
<u>ADJUSTED TENDER PRICE</u> £		
<u>REDUNDANCY COSTS</u>		
<u>TENDER COMPARISON PRICE</u> £		

procedure would require a financial comparison statement to be prepared which compares the lowest base price submitted by an external contractor with the price submitted by the in-house service. Occasionally it may be necessary to include more than one outside contractor in the financial comparison, where, for example, contractors have made different proposals which would mean that different adjustments would be required in the financial comparison statement.

13. A suggested form for the financial comparison statement is given in Figure 4. This is followed by a brief description of the type of costs to be considered for inclusion. In the statement illustrated in Figure 4 and in the supporting narrative, it has been assumed that the equivalent annual charges method of evaluation as suggested in the DHSS circular HC (83) 18 is being adopted.
14. It should be noted that the precise structure of the comparison statement will depend on the particular contract in question, but the format illustrated indicates the main types of cost which should be taken into account.
15. When the financial comparison statement has been prepared, the finance officer on the district working party will submit it to the working party, together with a recommendation as to which contract should be selected on purely financial grounds.
16. The sources of information required by the district working party to complete the financial comparison statement will be:
 - (1) the quoted tender prices submitted by each contractor and by the in-house service;
 - (2) the statement of additional costs prepared by the unit accountant.
17. The financial comparison statement can be analysed into three main sections:
 - (1) the tender base price, which is the price submitted by contractors;
 - (2) the adjusted tender price, which includes adjustments for additional costs, savings and income which have not been taken into account in the tender base price;
 - (3) the tender comparison price, which is the adjusted tender price after redundancy costs have been taken into account and is the price on which a decision will be taken.
18. These three elements of the financial comparison statement are discussed in the remainder of this chapter.

THE TENDER BASE PRICE

19. The tender base price is the price submitted by contractors, both in-house and external. The precise form in which tender prices are submitted by

contractors will depend on the form requested in the invitation to tender. However, in order to make a valid comparison between tenders, it will always be necessary for the tender base price to be calculated as being the annual cash outlay to be met by the authority.

THE ADJUSTED TENDER PRICE

20. It will be necessary to make adjustments to the tender base price to take into account, additional costs, savings or income which will arise which have not been included in the tender base price. The specific items concerned will depend on the arrangements specified in the the invitation to tender, but a number of the headings under which adjustments of this kind would normally be found necessary have been shown on the financial comparison statement illustrated in Figure 4. The source of information needed to make these adjustments will be the statement of additional costs.

The statement of additional costs

21. The adjustments to be made to the tender price will have been defined in the statement of additional costs which was described in Chapter 11 of the handbook. They comprise:
- (1) additional revenue cost adjustments;
 - (2) notional costs;
 - (3) capital adjustments.
22. The statement will have been prepared by unit management at the time that the in-house tender was being prepared, and where possible the items shown on it will have been costed by the unit accountant.
23. A suggested form for the statement of additional costs has not been illustrated in this handbook, because it will cover the same cost headings as those shown on the financial comparison statement. In the following paragraphs each of these cost headings is described, together with an indication of the costing methods to be used.

REVENUE ADJUSTMENTS TO TENDER BASE PRICE

24. The first group of adjustments to be made to the tender base price will relate to the recurring revenue items described below:

Supplies and services to be provided during the contract

25. In addition to the basic service to be provided under the terms of the invitation to tender and draft contract, which is covered by the tender base price, there is also the question of the facilities to be provided by the authority. In many cases facilities will be provided free of charge to the contractor and no adjustments would be required in the financial comparison statement. However, where the rate of up-take would be

different for the in-house and external contractor or where the authority would make a charge to an external contractor, adjustments will be needed. In this context facilities include:

- (1) use of supplies such as energy, water and materials;
- (2) use of services such as training and staff medical examination.

26. It has been explained in the previous chapter that the way in which the costs of these facilities are dealt with in the financial comparison must relate precisely to the way in which they have been dealt with in the in-house tender. A decision table was given in Chapter 15 to assist in making sure that such costs are correctly dealt with, and the table is repeated below.

TENDER TERMS	IN-HOUSE TENDER	COMPARISON STATEMENT ADJUSTMENTS
1) Facilities to be provided free by an authority to the external contractor, where the rate of uptake is the same for the in-house service.	Exclude costs	None
2) Facilities to be provided free by an authority to the external contractor, where the rate of uptake is different from the in-house service.	Include costs	Add estimate of costs to external tenders.
3) Facilities to be provided by an authority for a charge.	Include costs	Add estimated costs less charges levied to external tenders
4) Facilities to be provided by the contractor.	Include costs	None

27. The amount of the costs relating to these facilities will have to be calculated by the unit accountant and will be shown on the statement of the additional costs which will be submitted to the district working party.

Additional monitoring cost

28. Authorities will require to institute monitoring procedures, additional to those already in force, for the purposes of supervising and controlling external contracts. The additional costs to be borne should be added to the commercial tenderer's base price.

Miscellaneous changeover costs

29. Miscellaneous one-off costs may be incurred as a result of changing over to an outside contractor. These should be included in the changeover costs section of the financial comparison form. These might relate to the cost of a temporary telephone call-logging system as a basis for charging a contractor for telephone calls or to costs involved during a period of dual running or staffing.

Notional costs and losses

30. The costs defined so far on the financial comparison statement are specific costs which the unit concerned will have to carry. In addition to the costs of this type there are notional costs which may not be borne by the unit, but which in the longer term will affect the district or the region. These costs should also be included in the comparison statement and the two main ones are:

- (1) potential loss of discounts,
- (2) notional insurance.

Each of these is considered separately below.

31. Discounts on material and provision purchases are a significant feature in catering contracts and certain laundry contracts. The awarding of contracts in which the contractor provides materials may adversely affect the discounts negotiated for an authority on the remainder of its purchases. Where this is likely to happen some attempt should be made to quantify the potential loss of discounts. This should be treated as an additional cost of contracting out and added to the external tender price.
32. Health authorities act as their own insurers and, consequently, pay no external premiums. Circular HC (83) 18 stipulates that some provision for insurance should be made in the in-house tender and so a notional cost of insurance will require to be calculated. Authorities may arrive at a charge by analysing their claims or losses register and basing the charge on past experience. It may, however, be simpler to obtain a quotation from insurers, who act for commercial companies in the area under review and to base their charge on this.

INCOME

33. Whether or not income items will appear in the financial comparison statement, will depend on the tender terms and conditions, for example:-
- (1) If the contractor retains income and deducts it from his tender base price, no adjustment will be required at the tender comparison stage;
 - (2) If the contractor pays the monies collected over to the authority, it should be credited to the contractor at the financial comparison stage.

In both cases shown above the income should have been credited in the in-house tender and no adjustments will be required to the in-house submission at the comparison stage.

CAPITAL ADJUSTMENTS TO TENDER BASE PRICE

34. It will be remembered that capital costs were excluded from the in-house service cost statement and so are not included in the in-house tender base price. Adjustments relating to the use of all capital items will therefore, be required in the financial comparison statement.
35. In many contracts, the in-house service and the external contractor would both use the authority's existing assets, for which no charge would be made to the contractor. In this case, the cost of these assets would be the same for the external contractor and for the in-house department and so they would be excluded from all the calculations. However, where other arrangements are planned relating to assets, adjustments will need to be made and these are described in the following paragraphs.

Redundant assets

36. Existing assets used by the in-house service which would become redundant if the contract were awarded externally will have to be dealt with as follows:
 - (1) assets with no resale value or other use to the NHS would be scrapped and the estimated net cost of so doing should be added to the external contractor's tender price in the financial comparison statement;
 - (2) assets with a resale value or some other use to the NHS would be credited in the commercial contractors column on the financial comparison statement at the annual equivalent of the resale value or at their "opportunity" cost if of use elsewhere in the NHS.
37. Some examples may be helpful. An example of the first situation would be where a catering contractor will use his own kitchen and existing equipment has no value and will be scrapped. An example of the second situation is the kitchen building which when vacated could be used for other services in the hospital.

Continued use of existing assets

38. Where existing assets will be used by both the contractor and the in-house department, but on different bases, adjustments will need to be made in the financial comparison statement.
 - (1) Assets provided free to contractor, but where uptake is different from the in-house usage: the cost differential should be charged as appropriate in the financial comparison statement based on the annual equivalent value of the assets concerned.
 - (2) Assets which would be used equally by the in-house service or by the external contractor, but for which the contractor will pay a charge:

the cash to be received from the contractor relating to the charge should be credited to the contractor the comparison statement.

39. It will be seen that where existing assets are used by both internal and external contractors, the costing principles are similar to those for supplies and services, and the table of decision 'rules' given in that section will also apply.

New assets to be purchased

40. New assets may have to be purchased in order to:
- (1) improve or maintain the in-house department performance; or
 - (2) enable the external contractor to operate.
41. In these cases the equivalent annual charge of the assets concerned would be charged in the financial comparison statement.
42. An example of the first of these situations would be if the in-house tender has been based on the purchase of new, more efficient laundry equipment. The second situation might occur if a new loading bay had to be constructed to enable the outside contractor to operate his laundry delivery service.

VAT ADJUSTMENTS TO TENDER BASE PRICE

43. Regarding the treatment of VAT in comparing tenders, the DHSS circular HC (83) 18 states the following:-
- "Although VAT on service contracts will be refunded in full to health authorities, the Government has to pay to the EC 1% of VAT levies. Thus, for comparison purposes this 1% must be taken into account, as appropriate, on both sides of the equation".
44. The financial comparison statement given in Figure 4 shows the 1% of VAT being treated in this way. Although, health authorities cannot reclaim VAT on purchase of materials and equipment, the DHSS have indicated that this element of VAT should be excluded from the comparison statement.

THE TENDER COMPARISON PRICE

45. When adjustments of the kind described above have been made to the tender base price to arrive at the adjusted tender price, the final step should be to make an adjustment for staff redundancy and other severance costs to arrive at the tender comparison price. These costs may arise on the reorganisation of the existing service as well as when a contract is awarded externally.
46. Staff redundancy costs may be substantial and they have been shown separately in the financial comparison statement. In Circular HC (83) 18, it is advocated that the total of redundancy costs net of receipts from the redundancy fund be shown below the line in order that the effect is clearly demonstrated.

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47. Estimates of the redundancy costs will have been made by the unit personnel officer. It will be difficult to make precise estimates because the precise numbers of people to become redundant, to be transferred and to take early retirement will not be known. It may therefore, be necessary to give a range of estimates, showing a potential maximum and minimum cost and for these to be shown on the financial comparison statement.
48. A difficult point to be decided regarding redundancy costs is whether to show the costs in the year in which they are incurred or whether to spread them over the life of the contract. The decision will depend on the financial techniques used to evaluate and compare the tenders. Where a major contract covering a lengthy period is being considered, it will probably be evaluated using discounted cash flow techniques and in those cases the redundancy costs would have to be charged in the year in which they were incurred.
49. However, where short contracts are concerned and simpler methods of financial evaluation are being used, it may not be appropriate to charge the full cost of a major redundancy against the life of the contract. In these cases it may be necessary to spread the redundancy cost over a longer period. It is difficult to make specific recommendations on the period over which redundancy costs might be spread as much will depend on the particular circumstances. In any event, it will be useful if the financial comparison statement is prepared showing the effect of spreading redundancy costs over different periods to assist the working party to reach a realistic decision.

PART IV**Chapter 17 FINANCIAL EVALUATION OF PROSPECTIVE CONTRACTORS****INTRODUCTION**

1. It has been suggested in this handbook that registers of approved contractors should be kept at regional or district level to whom invitations to tender can be sent. The purpose of this chapter is to make suggestions as to how the preliminary financial evaluation of contractors should be carried out before they are included on these lists and how a more detailed evaluation could be made of shortlisted contractors thereafter.

THE PURPOSE OF FINANCIAL EVALUATION AND THE INFORMATION AVAILABLE

2. The primary objective of financially evaluating prospective contractors is to ensure that the chosen contractor is sound enough to perform the required services throughout the contract period. The evaluation is therefore mainly concerned with the contractor's solvency and adequacy of working capital. The difficulty is however to obtain reliable and up-to-date information which will enable these matters to be established.
3. It will be appreciated that unincorporated businesses do not have to file financial information with the Registrar of Companies. For this reason, often they may not be known to credit rating organisations. Unincorporated businesses are likely to be small in size and local in operations and are therefore unlikely to attract press or journal comment. It is likely, however, that only a minority of tendering contractors will be unincorporated, and that the majority will be limited companies for which published information will be available, although much of it may not be up-to-date. Subject to these comments, the main sources of information are:
 - (1) financial references e.g. banks and existing customers, including other health authorities;
 - (2) public records, e.g. Companies House;
 - (3) the contracting organisation under consideration;
 - (4) credit rating organisations;
 - (5) financial information services;
 - (6) investigating accountants.
4. The information available from each of these sources is described briefly below.

Information from financial referees

5. All potential contractors can be asked to provide references from their bankers and from one or two of their existing customers. The request for the reference should originate from the authority rather than from the contractor. Replies from referees will usually be accompanied by appropriate disclaimers of responsibility, but nevertheless should provide the authority with some comfort about the financial status of the contractor. Any unwillingness on the part of a contractor or referee to provide a reference will give cause for concern. A request for a bankers reference should if possible be made in specific terms, such as asking whether the contractor could undertake a contract for a given sum over a given period.

Information from public records

6. Limited companies must file annual audited accounts with Companies House within 10 months of their accounting year-end (reduced to 7 months for public limited companies). Other information available at Companies House includes past and present directorships of the company's directors and details of any legal charges or mortgages over the company's assets.

Information from the contracting organisation

7. Unincorporated businesses need to prepare accounts for tax purposes. These accounts are not required to be prepared by qualified accountants nor are they subject to audit. Even assuming the business was willing to release them to the authority, the usefulness of unaudited accounts is open to question.
8. Some organisations will prepare budgets and forecasts for internal use. They are unlikely to agree to those being reviewed by the authority and almost certainly such information will not have been subject to review by independent accountants. In any event, the accuracy of the information is dependent on the organisation's budgeting ability.
9. Tendering organisations can however be asked for specific information concerning their ability to service the proposed contract, for example, how they would be financing any capital expenditure or additional working capital that might be required. This will be a useful and effective source of information in making financial evaluations.

Information from credit rating organisations

10. There are a number of commercial organisation which provide business reports and credit ratings.
11. Whilst primarily for the benefit of potential suppliers, these reports nevertheless contain useful information on the financial viability of companies. Their sources of information include annual accounts and other information at Companies House, reports from suppliers and trade references. Information from suppliers can be specially useful as it gives an up to date indication of a company's ability to pay its trade

debts within normal settlement terms. The cost of reports from credit rating organisations is typically about £20. Reports can also be obtained on a continuing basis whereby the client can be notified of any significant changes in the company's financial position. It is suggested that authorities should make use of these services.

Financial information services

12. Certain organisations are able to provide summarised financial statistics for companies listed on the Stock Exchange. This information includes salient points from a company's annual and interim accounts and chairman's statements. Other organisations are also able to provide detail of press cuttings, etc. relating to a particular business. Usually this will only be relevant for public or significant private companies.

Investigating accountants

13. Investigating accountants can be appointed to make a detailed review of a business. This requires an examination of the business's records and can only be done with the agreement and assistance of the company's management. The use of investigating accountants is only likely to be appropriate where major contracts are concerned, or where the business appears to be in serious financial difficulties. with an existing contract.

SUGGESTED APPROACH

14. A region or district which decides to maintain a register of potential contractors may well have to evaluate a large number of applicants from a technical and financial point of view. A full evaluation of every applicant could involve a substantial amount of time and effort from regional or district staff. It is therefore suggested that financial evaluation should occur in two stages:

(1) stage 1 - a brief initial check of financial status;

(2) stage 2 - a more comprehensive evaluation of those contractors invited to tender for each contract.

15. Evaluation should be performed by persons having a sound understanding of financial accounting matters. Depending upon resources, this may best be achieved at regional rather than district level. Evaluation at regional level may be desirable if the contracting organisation is tendering for services in a number of districts. In this case, it is important that the organisation's ability to service all its commitments is considered. Similarly, liaison with other regional authorities will be required if tenders are being sought in more than one region.

STAGE 1 - INITIAL FINANCIAL EVALUATION

16. It is suggested that the initial financial evaluation to be carried out on organisations applying to be put on a list of potential contractors should consist of obtaining written references from:

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- (1) the contractor's banker;
 - (2) at least one of the contractor's major customers;
 - (3) at least one of the contractor's major suppliers.
17. A simple procedure of this kind could enable a large number of applicants to be dealt with quickly. If however, the number of applicants was small and adequate resources were available, then additional financial tests could be carried out from those listed in Stage 2.

STAGE 2 - DETAILED FINANCIAL EVALUATION

18. The steps needed to carry out a more detailed financial evaluation of those contractors shortlisted for each contract are listed below:

Review of accounts

19. The first step should be to request a copy of the company's latest audited accounts. If the company is a subsidiary of another company then a copy of the group's consolidated accounts should also be obtained. If the company is listed on the Stock Exchange, a copy of any interim announcement issued since the last published accounts, should be requested.
20. When the above information is available it is necessary to review it to establish the company's solvency and adequacy of working capital. This will clearly require financial knowledge and expertise. Some of the questions which should be asked are:
- (1) Was the directors' report dated less than 10 months from the balance sheet date (7 months in the case of a public company)?

If approval of the accounts occurs more than 10 months from the balance sheet date (7 months for a public company), the company has not complied with the Companies Acts. Furthermore, it may indicate difficulties in preparing and finalising accounts and possibly a reluctance to provide financial information for public record.

- (2) Is the balance sheet date less than 12 months from today's date?

A negative answer indicates that the accounting information available for evaluation is in danger of becoming out of date.

- (3) Is the auditors' report free from reference to the company's ability to continue as a going concern?

An audit qualification indicates uncertainty that the company can continue as a going concern for a period of at least six months from the date of the auditors' report. The qualification will usually have arisen because the auditors have been unable to obtain sufficient comfort that the company's bankers will continue to support it to the extent necessary for it to continue as a going concern.

- (4) Is there uncertainty over the values of any significant assets (especially debtors) or liabilities?

An audit qualification relating to these indicates that future cash flow may be reduced. This could affect the company's financial viability depending upon the eventual outcome of the points of uncertainty.

- (5) Does the balance sheet show that share capital and reserves are positive?

A negative figure of share capital and reserves indicates that past performance has not been profitable. It must also cast serious doubt upon the company's ability to continue in business.

- (6) Has the company made a profit on "ordinary activities before taxation" (as shown in the profit and loss account) for both the current and previous accounting periods?

A negative answer suggests that the company's future ability to survive must be in question.

- (7) Do current liabilities exceed current assets?

In this event the company's solvency is in doubt.

- (8) Are the director's report and the accounts free from reference to any events occurring after the balance sheet date ("post balance sheet events") that indicate a deterioration in the company's financial position?

If not, a careful review of these events is needed, with specific questions being directed to the contractor.

Enquiry about financing arrangements

21. An effective way of making the financial evaluation of contractors is to request specific information from them. A useful area in which this can be done is to ask for information about the contractor's future financial arrangements if the contract is awarded to them. Information can be requested on two particular aspects.

- (1) What additional assets will the contractor require to carry out the contract and what additional working capital will be needed? The authority would want to be satisfied that the contractor had defined these needs and that confirmation could be obtained from bankers or other sources that the required finance would be available.
- (2) What other contracts have been awarded to the contractor, or are about to be awarded, by the NHS or other large users? How will these contracts be financed and is confirmation available from the sources of that finance?

Credit rating business reports

22. The obtaining of a "business" report from a commercial credit rating organisation will be a useful initial step in financially evaluating potential contractors. The cost of obtaining these reports is not high, and if the numbers of contractors applying are not large, it might be done as part of the initial evaluation suggested for stage 1.
23. Particular points to consider in reviewing the business reports from credit rating organisations are:
 - (1) does the report indicate that the suppliers consider the organisation credit worthy?
 - (2) is the credit rating satisfactory?
 - (3) does the report show the business to be free of any County Court judgements, winding-up petition, etc.

PART **V**

PERSONNEL MATTERS

PART V PERSONNEL MATTERS**SUMMARY OF CONTENTS**

Part V of the handbook examines the personnel aspects of the competitive tendering process in the following chapters.

		<u>PAGE</u>
CHAPTER 18	Personnel organisation and responsibilities	133
	Expands on the general responsibilities given in Part II and relates them to the personnel functions.	
CHAPTER 19	Consultation and communication	136
	Describes the form of consultation procedures which may be required to deal with competitive tendering.	
CHAPTER 20	Review of redundancy and redeployment policy statements	142
	Deals with the need to review existing redundancy and redeployment statements to enable them to meet the needs of competitive tendering.	
CHAPTER 21	Personnel code of practice for outside contractors	147
	Discusses the need to review personnel policies and practices to establish any changes needed and to define those which should be mandatory on an outside contractor and those which are discretionary.	
CHAPTER 22	Personnel procedures during implementation	153
	Outlines the main personnel matters to be dealt with during implementation of an in-house or external contract.	

PART V**CHAPTER 18 PERSONNEL ORGANISATION AND RESPONSIBILITIES****INTRODUCTION**

1. The general responsibilities of regional, district and unit management in the competitive tendering process were described in Part I of the handbook. In this chapter, the particular responsibilities of the personnel officers at each of these levels of management are discussed. It must again be stressed that whereas for clarity responsibilities have been assigned to regional, district and unit level personnel officers, variations from this model may be necessitated by the personnel resources available to each authority.

REGIONAL RESPONSIBILITIES (PERSONNEL)

2. In Part I of the handbook suggestions were made as to the general responsibilities of regional management relating to competitive tendering. Some of these responsibilities contain a major personnel element, on which the regional personnel officer would need to be closely involved. These are:
 - (1) the development of regional guidelines on personnel matters. The extent to which such guidelines will be appropriate will vary depending on the arrangements in each region;
 - (2) to co-ordinate the approach of all districts in the region to general personnel problems to ensure a consistent approach throughout;
 - (3) to deal with detailed personnel aspects of competitive tendering for the region's own services;
 - (4) to arrange and provide the personnel content of regional seminars and training;
 - (5) to give specific advice and assistance on personnel questions to districts as requested;
 - (6) to collect and disseminate information about staff vacancies in districts and other regions;
 - (7) to arrange the hearing of staff appeals if any are requested.

DISTRICT RESPONSIBILITIES (PERSONNEL)

3. District responsibilities were also indicated in Part I. It was suggested that district management should appoint a working party to supervise competitive tendering throughout the district and a list of the working party's main responsibilities was given.
4. The initial one-off responsibilities contained in that list which relate particularly to the district personnel officer concern the review of existing district policy and procedures regarding:

- (1) redundancy and redeployment policy;
 - (2) consultation procedure to be adopted;
 - (3) codes of personnel practice for contractors;
 - (4) early retirement procedures;
 - (5) health and safety policies.
5. District policies on these matters should be drafted by the district personnel officer for agreement by district management, and where appropriate by members and for negotiation or consultation with staff organisations, prior to circulation to unit personnel officers.
6. The recurring responsibilities of the personnel officer on the district working party which relate specifically to personnel matters are:
- (1) to nominate the personnel officer who is to assist the designated officer at each unit in the competitive tendering process and to review that person's work programme and to advise and assist on the work as necessary;
 - (2) to plan, facilitate or be involved in the consultation procedure at each unit;
 - (3) to review the personnel aspects of each invitation to tender before being sent to contractors;
 - (4) to carry out the appraisal of the personnel content of each tender.

UNIT RESPONSIBILITIES (PERSONNEL)

7. The detailed work of dealing with the competitive tendering process will be carried out at unit level. The general responsibility for this would be allocated to the designated officer at each unit.
8. The unit designated officer would be assisted normally by the unit personnel officer. The exception to this would be the planning and conduct of consultation which would normally be carried out by the district personnel officer with the assistance of the unit personnel officer as required.
9. The specific responsibilities of the personnel specialists should be:
- (1) to plan and carry out the consultation procedure at the unit throughout the competitive tendering process;
 - (2) to assist the in-house manager to plan and cost the personnel aspects arising from any review of the in-house department;
 - (3) to prepare the personnel aspects of the in-house tender based on the district's code of personnel practice;

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- (4) to estimate with finance staff the staff redundancy and related costs to be incurred if the contract is awarded externally.
10. After the contract has been awarded either to the in-house service or to the external contractor, the unit personnel officer's main responsibilities regarding implementation will be:
- (1) to carry out the staff redundancy, staff transfer, early retirement and protection of terms and conditions plans as necessary;
 - (2) to monitor the external contractor's implementation of the personnel practices as defined in the contract.

PART V**CHAPTER 19 CONSULTATION AND COMMUNICATION****INTRODUCTION**

1. The parallel activities of joint consultation and individual communication will be vital to the smooth and effective implementation of the DHSS circular.
2. The action plans show the main points in the work programmes at which consultation will be required and the purpose of this chapter is to provide further information about the consultation process and to suggest the objectives and subjects for discussion at each stage. The need for a managerial initiative to communicate directly with all employees is also examined.
3. The chapter is divided into two main sections:
 - (1) the machinery to be used for consultation;
 - (2) the consultation process.

THE MACHINERY USED FOR CONSULTATION

4. Consultation machinery generally exists at national, regional, district and unit levels. Although some consultation may take place at national and regional levels, most consultation relating to competitive tendering is likely to be at district and unit level. The existing consultation machinery at these levels is described first, with a note of the possible developments required to deal with competitive tendering being given at the end of the section.

Consultation machinery below national level

5. Consultation below national level takes place within constraints imposed by general Whitley Council agreements, but there is no standard pattern of consultative machinery below national level and what exists may need to be supplemented in order to cope with the unusual demands created by competitive tendering.
6. Some regions have joint consultative committees with staff interests represented by trade union full-time officials and senior representatives of the other staff organisations. They were set up primarily to provide a forum for issues arising from the 1982 reorganisation and in some regions have now completed that role. There is a mechanism to set up ad hoc regional committees where necessary.
7. It is at district level that the majority of consultation on competitive tendering will take place. Most districts have formally constituted joint consultative committees and in most districts issues arising from the DHSS circular have been circulated for discussion by these committees. In some authorities, management side representation is

comprised of members of the authority advised by officers but in the majority of districts members do not attend meetings but are consulted by the officers who comprise the management side. The composition of the staff side is left for local determination.

8. Below district level, formally constituted consultative committees covering some or all of the units exist in many districts.
9. Outside the formal machinery a great deal of informal consultation takes place between district personnel officers and representatives of staff organisations. Which organisations are invited or request to be included in discussions on particular topics is, again, left for local determination according to the issues to be discussed.

The development of consultation for competitive tendering

10. Consultation relating to competitive tendering can be dealt with broadly within the present machinery. Although some consultation may be required at national and regional level, it is felt that this may not be extensive and that the present arrangements are adequate to deal with it. National and regional consultation has not therefore, been considered in detail in this handbook.
11. At district and unit level extensive consultation should take place during the competitive tendering process. It will be advisable at an early stage to define the precise machinery which will be available and to agree that with the staff interests concerned. It is suggested that an effective machinery could be developed on the following lines.
 - (1) At district level, discussions may be held using the existing joint consultative committees as constituted at present. However, some authorities have found it useful to discuss specific issues in a separate forum made up only of representatives of members in the particular service being subjected to competitive tendering. This approach may help in ensuring a full discussion of all the issues relating to each service.
 - (2) At unit level, discussions may be held using the unit joint consultative committees. It may be necessary to set up ad hoc committees where formal consultative committees do not already exist.
 - (3) At department level, a procedure for employee meetings will generally be needed to discuss issues of direct relevance to those departments. It is this level of consultation which is not fully operational in the present arrangements and where procedures need to be agreed. Department meetings may also go some way towards discharging the statutory duty to consult with employees whose jobs will become redundant if the contract is awarded externally, although it will also be necessary to undertake individual consultation.

THE PROCESS OF CONSULTATION

- 12 Consultation requirements relating to competitive tendering at district and unit level can be divided into the following stages:

stage A - The initial set-up discussions relating to general matters affecting the whole district. These discussions will be at district level.

stage B - The discussions during the competitive tendering process which will relate to the detailed terms and arrangements for each service at each unit. These discussions are mainly at unit level.

stage C - The implementation discussions concerning the implementation of the contract whether it is awarded in-house or to an external contractor.

13. In the following sections, the process of consultation is examined and subjects appropriate to each stage are identified for district, unit and departmental level consultation. It must, however, be acknowledged that there will be a great deal of overlap between discussions at district and unit level.

Stage A - initial set-up discussions

14. Consultation during the initial set-up period will be mainly at district level and will have the following objectives:

(1) facilitating the competitive tendering process;

(2) protecting the interests of employees in services selected for competitive tendering;

(3) protecting the interests of patients, other users of the services and the public;

(4) maintaining morale and motivation and hence the level and quality of service during the tendering process and beyond.

15. The following subjects may be included for discussion.

(1) The authority should determine the order in which services should be selected for competitive tendering and should seek staff-side comments.

(2) The proposed overall timetable should be discussed together with that for each selected service, including dates by which tender specifications will be prepared, tender submission dates, decision dates and contract commencement dates.

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- (3) The existing redundancy policy statements will need to be jointly re-examined and where necessary amended to take account of the possibility of a service being taken over by an external contractor.
 - (4) Some personnel policies and practices will need to be re-examined and possible amendments discussed in relation to the use of outside contractors.
 - (5) Safeguards to be built into the contract to ensure an adequate level of service to patients and other users and to ensure a smooth working relationships between staff employed by the contractor and by the authority. These will include:
 - minimum levels of skill and training
 - disciplinary procedures
 - health and safety practices and procedures
 - occupational health and hygiene standards
 - liaison procedures between the authority and the contractor
 - facilities to be available to contractor's staff, e.g. canteens.
 - (6) The procedures for building into the tender specification discovery of the contractors' personnel policies and practices so that these can be evaluated as part of the tender evaluation process.
 - (7) The procedures for discussion and determination of staff-led items. The detailed discussions will probably take place at the unit or department level but the district forum may be the appropriate one for deciding how issues should be raised and for resolving problems not dealt with at the lower levels.
 - (8) The procedures for discussing the affects on staff of the reorganisation of the in-house services at each unit.
 - (9) The criteria by which tenders will be evaluated should be discussed with particular reference to the non-financial criteria which are indicative of the contractor's ability to deliver the service specified.
 - (10) What information or facilities should be given to a contractor who wishes to recruit the authority's staff on being awarded the contract.

Stage B - Consultation during the competitive tendering process

16. During the competitive tendering process for each service at each unit staff consultation will be carried out mainly at unit and departmental level. This period of consultation will continue up to the point at which the contract is awarded to the in-house service or to the external contractor.
17. The main objectives of consultation during this period will be:

- (1) the maintenance of morale and motivation of staff in services subject to competitive tendering;
 - (2) the establishment of commitment to entering a viable in-house tender on the most competitive terms possible;
 - (3) securing the understanding, agreement and commitment to any changes in working methods, standards, procedures etc, which are considered necessary if the in-house tender is to be competitive.
18. Subjects for discussion will follow closely upon those listed for district level discussion but will obviously be more detailed in relation to the particular service or services under review. The main subjects are listed below.
- (1) The general arrangements and procedures which will apply throughout the competitive tendering process for the service under review.
 - (2) The programme and timetable being used for the particular service under review.
 - (3) The redundancy policy statement and its application in the case under review.
 - (4) The personnel policy statement and its application in the case under review.
 - (5) The affects on staff of the reorganisation of the in-house service needed to enable a competitive tender to be submitted. This will be a major topic of discussion on which detailed arrangements need to be dealt with and agreed so that if the tender is awarded in-house, implementation can proceed immediately.
 - (6) Discussions with members of management concerning possible changes to their contracts of employment. These will include any changes in the responsibilities of the in-house manager if the contract is awarded internally, and of the person to be appointed as "authorised officer".

Stage C - Consultation during implementation

19. After the contract has been awarded, staff consultation must take place throughout the period of implementing the new arrangements. Consultation during this period will be mainly at departmental level although some will be at unit level. The topics for consultation during this period will vary depending on whether the contract has been awarded to the in-house service or to an external contractor.
20. The main topics to be covered when the contract is awarded to the in-house department are summarised below:
 - (1) the announcement that the contract has been awarded in-house;

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- (2) the timetable for implementation;
 - (3) the detailed arrangements for reorganising the in-house department on the lines already agreed;
 - (4) the arrangements for making redundancies, early retirement and transfers;
 - (5) the arrangements for changing bonus schemes, overtime, etc;
 - (6) the introduction of new working practices and any training which may be required;
 - (7) the incorporation of changes into contracts of employment.
21. The main topics to be covered when the contract is awarded to the external contractor are:
- (1) the staff should be informed of the authority's decision on the award of the contract and the main reason for it;
 - (2) the contract commencement date should be communicated and any necessary preparations identified and discussed;
 - (3) the detailed arrangements for the outside contractor to interview the in-house staff and make offers of employment should be discussed;
 - (4) the detailed arrangements for making redundancies, early retirement and transfers should be published;
 - (5) the detailed working arrangements between the contractor's staff and the authority's staff should be discussed and agreed.

COMMUNICATION

22. Consultation with employee representatives using established or modified consultative machinery will be extremely important to the success of the competitive tendering exercise. It should not be forgotten, however, that not all employees will have access to information through these channels and authorities should consider supplementing consultation with direct communication with employees using whatever media are appropriate to their particular circumstances. Such communication may be appropriate at the following stages:
- (1) when the programme for competitive tendering has been agreed by the authority;
 - (2) when tenders have been invited;
 - (3) when the decision on the award of a contract has been made.

PART V**CHAPTER 20 REVIEW OF REDUNDANCY AND REDEPLOYMENT POLICY STATEMENTS****INTRODUCTION**

1. Competitive tendering for services inevitably raises the possibility that jobs will become redundant. Many authorities already have jointly agreed security of employment and redundancy policies and one of the important tasks given in the action plan was to review and amend the content and operation of these policies. The purpose of this chapter is to summarise the present general position in the NHS regarding statements of redundancy policy and to suggest points to be considered in reviewing them to meet the needs of competitive tendering. It is acknowledged that in respect of redundancy payment and rebate the NHS is covered by Section 111 of the Employment Protection (Consolidation) Act and not sections 81 and 104 which generally apply to commerce and industry.

THE CONTENTS OF THE REDUNDANCY AND REDEPLOYMENT POLICY STATEMENT

2. The principal contents which will normally be found in a typical authority's redundancy policy statement are summarised below.

General Statement of Intent

3. This typically sets out the parallel responsibilities and duties of the authority to manage its resources in the most efficient way and to maintain the security of employment of its employees wherever possible.

Consultation and Notice

4. This section would normally define:
 - (1) the minimum statutory periods laid down for consultation where redundancy is contemplated, according to the numbers of employees affected;
 - (2) the content of the notice to be sent to the Secretary of State for Employment and copied to recognised Trade Unions and other staff organisations;
 - (3) the procedure for considering and reporting back on points raised for consideration by staff representatives during the consultation period;
 - (4) procedures for resolving any disputes on hearing appeals arising from the operation of the policy;
 - (5) procedures for consulting individual employees within the at-risk group.

Alternatives to Compulsory Redundancy

5. The agreed actions to be taken, in order of priority, to reduce or eliminate the number of compulsory redundancies would normally be defined in this section. These may include:
 - (1) cessation of external recruitment to specified employment groups - any vacancies existing or arising being used for redeployment;
 - (2) reduction or elimination of overtime working where departments are under establishment;
 - (3) voluntary transfer of employees in redundant posts to vacancies within the authority or in other authorities;
 - (4) voluntary redundancy or early retirement (this may also specify the criteria for selection in the event that volunteers exceed the number of posts redundant);
 - (5) voluntary redundancy or early retirement on organisational change in other employment groups not affected by redundancy, and voluntary transfer of holders of redundant posts to vacancies so created;
 - (6) offers of any suitable alternative employment and the special terms, e.g. protection, which will apply.

Alternative employment

6. Assuming vacancies exist or are created by any of the processes described above, the procedure by which transfers are to be made would be found in in this section of a redundancy policy statement. These may include:
 - (1) procedures for "advertising" or advising staff of vacancies and application procedures;
 - (2) the content and timing of any formal offers of alternative employment;
 - (3) the legal requirement for a trial period;
 - (4) procedures for accepting or rejecting alternative employment;
 - (5) definitions of suitable alternative employment and the circumstances in which it is reasonable for alternative employment to be rejected;
 - (6) the treatment of employees who unreasonably refuse suitable alternative employment;
 - (7) the application and provisions of the Whitley Council agreement on protection of pay and terms and conditions of employment.

Criteria for selection for compulsory redundancy

7. The agreed criteria on which employees will be selected for compulsory redundancy would normally be found in this section. These may include, singly or in combination, length of continuous service, age, level of skill and disciplinary or performance records.

Treatment of those selected for compulsory redundancy

8. This section would set out the provisions covering:
- (1) statutory notice periods;
 - (2) formal redundancy notices;
 - (3) treatment of requests to leave before the formal notice expires;
 - (4) time off to seek alternative employment or to undertake training;
 - (5) counselling.

Administration

9. This section would normally be used to specify who will be responsible for key activities such as:
- (1) defining redundant posts;
 - (2) preparing and submitting relevant documents relating to notifications, redundancy pay and rebates, early retirement and pension benefits;
 - (3) consultation with individual employees;
 - (4) counselling
 - (5) arranging training for redeployed staff.

REVIEW OF THE REDUNDANCY AND REDEPLOYMENT POLICY STATEMENT

10. In many cases, authorities will already have redundancy and redeployment policies covering the main topics listed in the previous section. In any event, however, it will be advisable to review the content of these redundancy policy statements bearing in mind the general needs of the competitive tendering process. There are a number of specific points where particular attention will have to be placed in making this review, and these are described below.
- (1) The Transfer of Undertakings (Protection of Employment) Regulations 1981 remove the automatic right of an employee to a redundancy payment if the ownership of the business in which he is employed is transferred to a new owner. Owing to the definition of a "business" contained within the Regulations, it is not anticipated that they will apply if a contractor takes over a service previously operated by a health authority, but the position is by no means clear. It will be necessary to clarify this matter when reviewing the redundancy policy statement.
 - (2) The Whitley Council Agreements for redundancy payments are set out in Section XXV of the General Whitley Council Conditions of Service Handbook. The following aspects are relevant.

- (a) enhanced levels of redundancy payments over and above statutory minimum levels are available to employees aged 41 to 49 years and to employees aged 50 or over with less than five years' service at the date of termination;
- (b) in calculating reckonable service, a break in continuous employment of not more than 12 months is ignored.

Both these conditions suggest that authorities may be obliged if services are contracted out, to make redundancy payments to displaced employees who cannot be redeployed which are larger than the statutory minimum levels on which claims for rebate have to be based. Sample age distributions for employees in domestic, catering and laundry services in one region show that 28% fall into the 40-49 age group and 26% are aged 50 or over. These enhanced redundancy payments will clearly have a significant effect if this pattern is repeated nationally. This matter will have to be taken into account in considering the financial effects of contracting out the service.

(Note: a similar point arises relating to superannuation in which employees over 50 with five or more years service would be entitled to enhanced superannuation benefits).

- (3) In some regions where regional joint consultative committees exist, "framework" redundancy policies for the guidance of authorities have been agreed and circulated, but the majority of authorities have negotiated their own policies or inherited them from Area Health Authorities which existed prior to the latest reorganisation of the Health Service. In some cases, these agreements contain "no redundancy" clauses which commit the employers to seek alternatives to compulsory redundancy. Although these may not be enforceable, where they exist, these clauses will require dealing with when reviewing the redundancy policy statement.
- (4) There needs to be an understanding on what action, if any, the authority should take to facilitate the employment by the contractor of its employees currently employed in providing the service. Possible alternatives include:
 - a) providing time off for employees to attend interviews with the contractor off the premises;
 - b) allowing the contractor facilities to interview on the premises;
 - c) providing information about employees with their agreement to the contractor for use in selection.

This matter should be dealt with in the redundancy policy statement.

- (5) The eligibility or otherwise for a redundancy payment of an employee who rejects an offer of alternative employment with the contractor needs to be included in the redundancy policy statement.

- (6) In view of the possibility that contracts may only be let initially for relatively short periods, staff organisations may seek assurances about re-employment by the authority if the service reverts to an in-house operation within a specified length of time, assuming this is feasible within manpower and financial constraints then current. It may be advisable for this to be dealt with in the redundancy policy statement.

PART V**CHAPTER 21 THE PERSONNEL CODE OF PRACTICE FOR OUTSIDE CONTRACTORS****INTRODUCTION**

1. The Fair Wages Resolution was rescinded on 21 September 1983. Since then, health authorities have no longer been obliged to let contracts only to suppliers who pay Whitley Council rates to their employees. The DHSS letter DA (83)40 announcing the changes made it clear that the levels of pay or conditions of service which the contractor proposes to apply to his employees cannot be specified in the contract. However there are a number of other personnel matters which will need to be considered in determining the suitability of the contractor and his ability to deliver the standard of service required.
2. In this chapter these matters are identified and a method of ensuring that they are taken into account is suggested.

The need for a personnel code of practice

3. Every district will have developed over a period of years, a set of personnel policies, practices and procedures some of which are probably applied throughout the district but some of which will be unique to individual units. If a service is to be undertaken by a contractor, the authority must examine those conditions and policies to assess:
 - (1) where the authority must insist that the contractor's personnel practices are identical to its own;
 - (2) where it is desirable that they are similar.
4. Because policies develop over a period of time, it is unlikely that they have been collected into a single handbook. It is more likely that they exist in different documents in different files and that some may not even exist in written form, having grown up by custom and practice.
5. In order that nothing is overlooked, it is suggested that all relevant practices, policies, procedures and conditions are assembled and the following steps taken:
 - (1) evaluate each to assess its relevance if an external contractor is appointed;
 - (2) divide between mandatory and discretionary groups - mandatory being those which it is essential are applied by contractors to their staff in an identical form: discretionary being those which it is desirable are applied to contractors' staff in a similar or compatible form;

- (3) prepare a brief statement of all relevant discretionary and mandatory employment practices, to be known as the personnel code of practice for the purpose of the competitive tendering process;
- (4) agree the content of the code of practice with the district working party;
- (5) ensure that the mandatory conditions are included with the invitation to tender so that potential contractors know that they will be required to comply with them.
- (6) ensure that contractors are asked to provide information about their own practices relating to the subjects included in the discretionary section so that the code of practice can be used as a basis from which to make the evaluation of these aspects of the tenders.

THE CONTENT OF THE PERSONNEL CODE OF PRACTICE

6. The personnel code of practice should be prepared by the district personnel officer as part of the district working party's initial set up work. It should be structured to cover three main subjects:
 - (1) the need to ensure the health and safety of patients, its own employees and others who are authorised to work at or visit premises owned by the authority;
 - (2) the duty to patients and other users to provide a certain level and quality of service, and to protect users from the effects of inefficiency, dishonesty, or failure to provide a service;
 - (3) the need to ensure harmonious working relationships and to avoid friction between employees of the contractor and those of the authority.
7. The suggested detailed matters to be dealt with under each of these three headings are listed below. Under each heading it will be necessary to show which are the mandatory and the discretionary items for the authority concerned.

Health and safety content of code of practice

8. The Health and Safety at Work Act 1974 places a general duty on all employers to ensure that all that is reasonably practicable is done to safeguard the health and safety of their own employees and also to ensure that they do not endanger people authorised to use their premises who are not their employees.
9. Where a service is contracted out, there is a separate duty on the authority as the controller of the premises and employer of the majority of the personnel on site and on the contractor as the employer of his staff. Each could be liable in the event of an accident or other incident.

10. It is, therefore, in the interest of both the authority and the contractor that their employees are subject to the same standards, practices and procedures. Most authorities will already have detailed health and safety policies but these should now be reviewed, in the context of contracting out.

11. The following checklist may be of assistance.

(1) Equipment:

- who is responsible for maintenance, periodic inspection and testing for safety?
- are there any hazards associated with its use and what are the rules for avoiding or minimising them?
- what safety training is needed in relation to equipment and should only trained operators use it?
- how are manufacturers' safety recommendations made known to operators?
- what supervision or monitoring is needed?

(2) Substances:

- what procedures exist for approval of new substances?
- who should be involved from the authority and the contractor in the approval procedure?
- what controls exist to prevent substitution by unauthorised substances?
- what rules apply to storage and use of substances?
- what training is needed in the safe use of substances?

(3) Occupational health and hygiene:

- what health standards should apply to new starters for different occupations?
- what tests are appropriate and who should carry out and monitor them?
- at what frequency is retesting needed or after what events?
- under what circumstances should a staff member be suspended on medical grounds or required to undergo a medical examination?

(4) General:

- what safety equipment is required and who shall specify, replace, and monitor the use of it?
- what procedures exist for the control of cross-infection?
- what are the arrangements for administration of first aid?
- what are the fire precautions?
- what are the procedures for reporting accidents, hazards and dangerous occurrences and for their investigation?
- what is the role of safety representatives?
- what general safety training is required and who should provide it?

Protection of patients content of code of practice

12. The personnel code of practice needs to contain provisions relating to care of patients and maintenance of the standard of service relating to use of an outside contractor. The main topics to be covered are listed below, and again the mandatory and discretionary provisions need to be identified.

(1) Recruitment standards

The draft contracts refer to the contractor's duty to employ "only such persons who are careful, skilled and experienced". There is a need to define these terms more precisely.

The standards of skill and experience currently demanded should form the basis of these definitions for positions not already specified in the draft contracts and any tests used, qualifications, or minimum lengths of experience expected should be specified for contractors' staff. Procedures for checking the validity of claims about experience and qualifications should also be included.

(2) Training

In addition to safety training already mentioned, there will be a requirement for induction training and orientation of new recruits and those assigned to hospital work for the first time. It needs to be decided by whom this should be given and monitored. The draft contracts contain lists of subjects for training of contractors' staff. The content of courses and the qualifications of persons giving instruction will need to be approved by the authority and the proportion of operatives who have received training will need to be monitored.

(3) Disclosure of offences

The Rehabilitation of Offenders Act 1974 allows for some former offenders to conceal convictions after a rehabilitation period. There is, however, an exemption which requires such offenders to reveal otherwise spent convictions if applying for employment concerned with the provision of health services and which would allow access to patients in the normal course of duty. At present, personnel officers inform applicants for such positions of their legal duty to reveal all convictions and this practice would have to apply to staff recruited by contractors. The exempt positions need to be defined and a list of disqualifying offences drawn up.

(4) Sex Discrimination

The Sex Discrimination Act 1975 makes it an offence to discriminate between applicants for employment on the grounds of their sex or marital status unless it is a "genuine occupational qualification" that a job needs to be carried out by a person of a particular sex. If any job within a service subject to competitive tendering has been

designated as suitable only for a particular sex, the contractor must be informed.

(5) Employee Identification

To maintain security, contractor's employees will need to comply with established procedures for identifying authorised employees. The procedures to be followed and the responsibility for supplying and paying for any badges or I.D. cards needs to be specified.

(6) Industrial Relations

It is widely believed in the NHS that contractors' employees cannot be expected to show the same degree of identification with standards of patient care as direct employees and that this may lead to a greater propensity to take industrial action in the course of a dispute with their employer. The authority needs to be satisfied about potential contractors' industrial relations policies and procedures and relevant information may include:

- (a) the history of serious disputes, if any, within each organisation;
- (b) the company's procedure for the avoidance of disputes;
- (c) the facilities provided for staff representatives;
- (d) its policy regarding time off for trade union activities.

A procedure by which the authority is informed of impending or actual disputes which may affect the contractor's ability to provide the service, including disputes between his employees and those of the authority, needs to be established. As a separate exercise, contingency plans for taking over the service in the event of industrial action or other default should be devised.

Working relationships content of code of practice

13. The final main section of the personnel code of practice needs to deal with the working relationships between the authority's staff and the outside contractor. The main headings are listed below. Mandatory and discretionary provisions need to be defined.

(1) Disciplinary Procedures

It is desirable that there is similarity between the disciplinary treatment applied to the contractor's employees and those of the authority. Any discrepancy in the treatment of individuals by the different employers in similar circumstances will cause friction between the two groups.

The specimen contracts contain provision for the authority to require the contractor to take disciplinary action or remove from site any of his employees but it is advisable for the nature of that disciplinary action to be known in advance. In particular, there is a need for offences which undermine the contractor's compliance with

the mandatory conditions of contract to be defined and penalties specified. Authorities may also wish to consider whether contractors' employees should be covered by and subject to the NHS complaints procedure.

(2) Facilities for Contractor's staff

The draft contracts require the Authority to provide a list of catering, wash room, rest room and lavatory facilities available for the use of contractor's staff.

In consultation with staff organisations, the authority should decide whether any other facilities (e.g. sports and social facilities) should be made available and under what conditions.

PART V**CHAPTER 22 PERSONNEL PROCEDURES DURING IMPLEMENTATION****INTRODUCTION**

1. The unit personnel officer will play an important role during implementation of the contract whether the in-house or external contractor has been selected. The action plan for implementation work indicates the main steps required, and the purpose of this chapter is to describe the action required more fully, and to indicate the main procedures which will be needed.

PROCEDURE WHEN THE CONTRACT IS AWARDED TO AN EXTERNAL CONTRACTOR

2. If the contract for the service is awarded to an external contractor, the following main steps will be required.
 - (1) The contractor's intentions regarding existing staff need to be confirmed. During the tendering process, contractors may have been asked to give an indication of their intentions but it is unlikely that this will have been built into the conditions of the contract. Once the contract has been awarded, the contractors must be asked to inform the authority as soon as possible whether they wish to offer employment to any existing staff members or not.
 - (2) Whether or not offers are to be made, the authority should immediately begin the consultation process as a first step towards implementing its redundancy and redeployment policy.
 - (3) If the contractor intends to make offers, this fact should be included in the notification given to the Secretary of State and to staff organisations. The notification should be submitted without delay, not waiting until the final number of redundancies, if any, is known.
 - (4) The authority should then take whatever action is agreed to facilitate the contractor to select and make offers to redundant staff.
 - (5) The contractor must keep the authority's personnel officer informed about:
 - a) the application procedure to be followed;
 - b) applications received or staff members to be interviewed;
 - c) applications rejected;
 - d) offers made;
 - e) offers accepted and rejected;
 - f) starting dates;
 - g) arrangements for trial periods;
 - h) rejections of employment after trial period.

- (6) The unit personnel officer can then identify which employees remain without alternative employment and the terms of the redundancy agreement can then be applied to those employees.

PROCEDURE TO BE USED IF THE IN-HOUSE TENDER IS SUCCESSFUL

3. The in-house tender may have been prepared on the basis of making changes to the working patterns, hours of work, and bonus schemes of the current work force. This may have involved a full scale work study exercise giving rise to the possibility of reduced manning levels. The main steps required to implement the in-house tender are described below.

Selection of employees to be made redundant

4. If manning levels are reduced, the authority will have to select from its existing staff the employees it wishes to retain for the service and those who are not required. Alternatives to redundancy will be explored first, but if despite this, any of this latter group are dismissed, the authority will potentially have to justify its selection of these employees for dismissal and the fairness of its operation of the agreed criteria, or the reasons for departing from them. This situation does not arise when contractor is selecting from the authority's employees.

Employees retained in the "new" service

5. All employees will have been consulted about and agreed to the changes to be implemented in order to reorganise the in-house service. These changes will need to be incorporated into employees' contracts of employment by formal notification to, and written acknowledgement by, the individuals concerned.
6. If, despite previous consultation, an employee decides that the changes are unacceptable and rejects the amendment to his contract of employment the alternative courses of action will be:
 - (1) if other employees from that group are being made redundant, offer the rejected position to one of the redundant employees and declare the first individual redundant;
 - (2) if there are no employees being made redundant offer any alternative employment available;
 - (3) if there is no alternative employment or an offer is rejected, there may be no alternative to dismissal without compensation as the dismissal was occasioned not by redundancy (the rejected position would need to be filled) but by the reorganisation of the service and the employee's refusal to accept change.
7. Any training required by employees to carry out their new duties would need to be arranged by the personnel department during the period between the award of the "contract" and the commencement date.

EMPLOYEES TRANSFERRING TO OTHER JOBS WITHIN THE HEALTH SERVICE

8. Whether displaced by the award of the contract externally or by the reduced manning levels required to implement the in-house tender, the preferred alternative to compulsory redundancy is redeployment within the health service.
9. If any employee accepts an offer of alternative employment and that offer is made before the expiry of the redundancy notice such that employment begins within four weeks of the expiry of the notice, there is no entitlement to a redundancy payment unless the job is subsequently rejected after a trial period.
10. At-risk employees need to be advised of vacancies and personnel officers will need to set up systems for central reporting of vacancies arising in other units and in neighbouring authorities. Employees should be given facilities to be interviewed for vacancies and a formal offer of transfer made before the expiry of the redundancy notice.
11. The offer should specify:
 - (1) the job title;
 - (2) the main conditions of employment;
 - (3) the effective date of transfer;
 - (4) any provisions for protection of pay and conditions of service which apply;
 - (5) whether continuity of service is preserved;
 - (6) length of the trial period;
 - (7) procedures for provisional and final acceptance of the offer following a trial period;
 - (8) any other special conditions arising from the transfer, e.g. assistance with additional travelling expenses where they apply.
12. Trial periods are required wherever an offer of alternative employment is made to an employee who would otherwise be made redundant (Section 84 EP (C) Act 1978). If during the four-week period, the employee reasonably decides to reject the position, he does not forfeit his right to a redundancy payment. It is recommended that the employee be asked to give a formal acceptance of the employment at the end of the trial period.

EMPLOYEES OPTING FOR EARLY RETIREMENT

13. The National Health Service (Compensation for Premature Retirement) Regulations 1981 circulated to health authorities under cover of SD(81)15 make provision for the immediate payment of superannuation benefits to employees aged between 50 and normal retirement age with five years' or more service, who leave service, inter alia, because of redundancy.
14. The regulations allow for additional periods of service to be credited over and above actual reckonable service and there is no effect on redundancy payment entitlement below a threshold of 6 2/3 years of additional service.

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15. Applications may need the approval of the regional health authority in consultation with and on the recommendation of the employing authority. Approved applications are then forwarded to the DHSS Superannuation Branch for certification, calculation of benefits and implementation.
 16. This procedure will need to be fitted into the normal redundancy procedure and will inevitably cause delays before final decisions on redundancies and alternative employment opportunities can be confirmed. There will also be an increased need to provide pre-retirement counselling and personnel officers will need to consider the resources available for this.

EMPLOYEES DISMISSED FOR REDUNDANCY

17. The following are the main stages which need to be considered in dismissing employees for redundancy. Except where otherwise stated, they will normally be the joint responsibility of the district personnel officer and line managers.

- (1) Consultation

In addition to collective consultation with staff organisations, individual employees must be consulted about the redundancy situation. The possibilities of voluntary redundancies or early retirement can be discussed without commitment at an early stage, and the employee's attitudes towards redeployment established. Any personal circumstances which may have a bearing on selection for redundancy can also be established.

- (2) Voluntary redundancy

An employee volunteering for redundancy may indicate his willingness to consider this possibility subject to being told how much redundancy compensation he will receive. Therefore, procedures need to be agreed for employees to make informal requests for voluntary redundancy consideration to be given and for an estimate of redundancy pay and other applicable benefits. The procedures need to include how and when a final decision has to be given by the employee.

- (3) Formal redundancy notice

The Authority must give formal notice of redundancy to both compulsory and confirmed voluntary redundancies. The period of notice must be at least that required by the contract of employment or the statutory minimum period i.e. up to 12 weeks notice for employees with 12 years' continuous service or more.

- (4) Employees not eligible to redundancy pay

A minimum of two years' continuous service over the age of 18 is required to qualify for redundancy pay (five years if the employee

works between 8 and 16 hours per week). Those not eligible should still receive formal notice and confirmation that they will not receive a redundancy payment.

(5) Employees who leave before the expiry of the notice period

It is open to the employer and employee to agree to waive their right to notice and this can be done without loss of entitlement to redundancy pay. Similarly, the employee can serve written counter-notice after being given notice by the employer and this again preserves entitlement to a redundancy payment. If, however, the employee leaves early in other circumstances, the personnel officer will have to decide whether he is still entitled to a payment, and appeals against such decisions may be heard through the appeals machinery.

(6) Calculation of redundancy payments

The amount of the redundancy payment due to each individual should be calculated according to the rates specified in the GWC Handbook. A separate calculation needs to be done according to the statutory rules as it is the latter figures which will be used as the basis of the eventual claim for rebate from the Redundancy Fund. This will normally be the responsibility of the finance department.

It is good practice to ensure by individual consultation that the basis of the calculation is understood and the total agreed by the employee before cheques are prepared. Any discrepancies between statutory amounts and actual payments should be explained at this stage.

(7) Rebate procedures

Not later than 21 days before the first dismissal takes place (if the total is less than ten dismissals this period is reduced to 14 days) advance notification must be sent to the Department of Employment Redundancy Payments Office on form RP1.

The calculation of the statutory redundancy payment should be shown on form RP3 (or RP3 (Pen) where payment is reduced to take account of superannuation benefits) and the employee should sign this form as a receipt for the payment when it is received.

When all payments have been made and before the expiry of 6 months from the date of the first payment, a claim for rebate should be made by sending to the Redundancy Payment Office form RP2 completed to show the statutory amounts paid to each redundant employee and supported by signed RP3s.

Finally the rebate when received, will need to be reconciled against the claim. This, again, will normally be the responsibility of the finance department.

(8) Counselling

Personnel officers will be required to give advice to employees about to leave through redundancy. Unless they have recent experience of counselling, they may themselves, need training in counselling skills and up-dating on benefits, claim procedures etc. This training may be made available by the regional education and training section.

APPENDICES

APPENDIX 1

Action plans for work
prior to contract

APPENDIX 1**ACTION PLANS FOR WORK PRIOR TO CONTRACT****SUMMARY OF CONTENTS**

The purpose of Appendix 1 is to provide a suggested set of action plans for the work needed up to and including the decision to award the contract to the in-house service or to an external contractor. It contains the following statements:

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|--------------------|--|
| Statement 1 | District working party - initial set up of competitive tendering process |
| Statement 2 | District working party - invitation to tender and contract appraisal. |
| Statement 3 | Unit management - invitation to tender and in-house proposal |

Statements 2 and 3 refer to the work to be repeated by the district working party and the unit management on each service at each unit as it is subjected to competitive tendering. The two statements are therefore shown on the same timescale, which covers a single project lasting 25 weeks from the start of the work through to the decision to award the contract.

The plans indicate a duration for each task. The duration times shown must be regarded only as broad indications of possible allocations of time for a project covering 25 weeks; no detailed study of these times has been made. In practice, authorities will have to prepare precise project plans and time allocations based on the particular size and complexity of the unit and service under review

The following symbols are used on the action plans:

- | | |
|---------------|---|
| (1) * | - represents a single action |
| (2) ———— | - represents a more or less continuous activity |
| (3) - - - - - | - represents a continuing but intermittent activity |
| (4) DM | - stands for district management |
| (5) UM | - stands for unit management |

DISTRICT WORKING PARTY

INITIAL SET UP OF COMPETITIVE TENDERING PROCESS

TASK NUMBER	TASK	RESPONSIBILITY
	DISTRICT WORKING PARTY	
	INITIAL SET UP OF COMPETITIVE TENDERING PROCESS	
DM 1	<u>District Working Party Set Up</u>	
DM 1.1	Nominate the chairman and full time officers on the district working party	District management team)
DM 1.2	Agree the matters to be referred to members by the district management team	District management team and members)
DM 1.3	Agree the matters to be referred to the district management team by the district working party	District management team and working party)
DM 1.4	Agree the form and timing of periodic reporting to district management team	District management team and working party)
DM 2	<u>District Programme Development and Monitoring</u>	
DM 2.1	Nominate "designated officers" at each unit and ask them to appoint their unit teams	Working party chairman)
DM 2.2	Ask the designated officer in each unit to prepare a note of the general timescale and other factors to be considered in obtaining competitive tenders for each service in their unit.	Working party chairman)
DM 2.3	Use the above unit reports to decide the order in which services and units are to carry out the competitive tendering process	Working party)
DM 2.4	Consider effects of contracting out services on other health authorities	Working party)
DM 2.5	Prepare the overall programme and timetable for the district	Working party)
DM 2.6	Consult the staff interests at district level about overall district timetable	District personnel officer)
DM 2.7	Agree the overall district timetable with district management team and members as necessary	Working party chairman)
DM 2.8	Submit agreed district programme to regional management for consolidation into regional programme for return to DHSS	District management team)

to have been completed by February, 1984

to have been completed by February, 1984

ACTION PLAN

DISTRICT WORKING PARTY

INITIAL SET UP OF COMPETITIVE TENDERING PROCESS

TASK NUMBER	TASK	RESPONSIBILITY	
DM 2.9	Monitor progress against the district programme and report at agreed intervals to district management team	Working party) to continue throughout district timetable)
DM 3	<u>District Policy Set Up and training</u>)
DM 3.1	Consider regional policy guidelines on competitive tendering where these have been issued.	Working party)
DM 3.2	Prepare draft district policies for competitive tendering:)
DM 3.3	(a) Financial and Accounting matters	District finance officer)
DM 3.4	(b) Personnel matters - redundancy policy statement - 'code of personnel practice relating to outside contractors	District personnel officer)
DM 3.5	Agree district policies with district management team and members as necessary. Inform officers at units	Working party chairman) to have been completed as soon as possible after end) March 1984. Thereafter to be modified as practical) experience is gained
DM 3.6	Inform units of policies and train officers.	Working party chairman)
DM 4	<u>Review of DHSS Specimen Documents</u>)
DM 4.1	Consider the general suitability of the DHSS specimen work specification, invitation to tender and draft contracts in meeting the particular situation and policies of the district	Working party)
DM 4.2	Design changes to the specimen DHSS documents and develop new documentation as necessary	District supplies officer)
DM 4.3	Obtain legal advice relating to all changes or new documentation	District supplies officer)
DM 4.4	Issue the general form of the agreed work specification, invitation to tender, and contracts to unit management for use	Working party chairman)
DM 5	<u>Review of Standing Orders and Financial Regulations</u>) to have been completed as soon as possible after end) March 1984
DM 5.1	Review the district standing orders relating to opening and recording tenders and obtain amendments where necessary	Working party and district supplies officer)

ACTION PLAN

DISTRICT WORKING PARTY

INITIAL SET UP OF COMPETITIVE TENDERING PROCESS

**APPENDIX I
STATEMENT I**

<u>TASK NUMBER</u>	<u>TASK</u>	<u>RESPONSIBILITY</u>
DM 6	<u>Development of Approved Contractors List</u>	District supplies and finance officers)
DM 6.1	Set up and maintain list of approved contractors and carry out preliminary financial and technical appraisals (only applicable if there is no regional list)	To be set up as soon as possible after March 1984)
DM 7	<u>Define Immediate Information Needs</u>))
DM 7.1	Define the financial and other information needed :))
	(a) To cost the inhouse service and prepare the in house tenders))
	(b) To make the financial comparisons between tenders))
DM 7.2	Specify which of the above information is currently available	District finance officer)
DM 7.3	For the information not currently available decide whether it shall be obtained by:))
	(a) One off special exercises))
	(b) Systems changes))
DM 7.4	Initiate one off exercises as necessary))
DM 7.5	Carry out design and implementation of system changes	District finance officer)
DM 7.6	Inform the unit accountants of the financial information which will be available to them from district systems as a result of the above	District finance officer)
DM 7.7	Inform unit accountants of the financial information which they will have to obtain from unit sources.	District finance officer)

CONTINUED NEXT PAGE

ACTION PLAN
DISTRICT WORKING PARTY
INITIAL SET UP OF COMPETITIVE TENDERING PROCESS

TASK NUMBER	TASK	RESPONSIBILITY	
DM 8	<u>Longer Term Management Information Development</u>		
DM 8.1	Define the financial information needed to monitor and control each of the three services after the contracts have been awarded:	District finance officer	to be carried out after DM 7
	(a) Where the in-house service wins the contract	District finance officer and staff	
	(b) Where an external contractor wins the contract	District finance officer and staff	
DM 8.2	Design and test new systems needed to produce the necessary information ready for implementation when the contracts have been awarded.		
DM 9	<u>Development of Staff Consultation Procedures</u>		
DM 9.1	Consider the existing consultation machinery in the district and define any additions or changes needed to deal with competitive tendering.	Working party and district personnel officer	
DM 9.2	Define the matters on which consultation should take place at district, unit and departmental level	Working party and district personnel officer	to be carried out as soon as possible
DM 9.3	Discuss and agree the consultation machinery and discussion points with the appropriate joint consultative committee.	District personnel officer	
DM 10	<u>Staff Consultation Relating to General District Matters</u>		
DM 10.1	Carry out the agreed consultative process relating to general district level matters:-	District personnel officer	to be completed before final invitations to tender are issued to contractors
	(a) Overall district timetable		
	(b) Redundancy policy statement		
	(c) Personnel practice relating to outside contractors		

THIS COMPLETES THE INITIAL SET UP WORK AT DISTRICT LEVEL

ACTION PLAN
DISTRICT WORKING PARTY

INVITATION TO TENDER AND CONTRACT APPRAISAL

TASK NUMBER	TASK	RESPONSIBILITY	WEEK NUMBERS																									
			1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	
	<u>DISTRICT WORKING PARTY</u> <u>INVITATION TO TENDER AND CONTRACT APPRAISAL</u> (This work would be repeated for each service at each unit being subjected to competitive tendering)																											
DM 11	<u>Unit Programme Monitoring</u> Inform the designated officers of each unit of the agreed district programme for competitive tendering	Working party																										
DM 11.1																												
DM 11.2	As each service becomes due for competitive tendering, ask the unit designated officers to prepare a detailed action plan and timetable which will meet the dates given in the overall district programme	Working party	*																									
DM 11.3	Review the unit programmes for each service	Working party		*																								
DM 11.4	Receive monthly reports from each unit on progress against timetable	Working party					*					*						*										*
DM 11.5	Report progress to district management team (see DM 2.1)	Working party					*				*						*											*
DM 12	<u>Review of Invitation to Tender</u>																											
DM 12.1	Review the work specification and invitation to tender for each contract as prepared by the designated officer at each unit.	Working party																										
DM 12.2	Request the unit designated officer to make changes as necessary	Working party															*											
DM 12.3	Obtain legal advice on invitation to tender and draft contract if not already done by the unit designated officer	District supplies officer																										
DM 13	<u>Issue Invitation to Tender</u>																											
DM 13.1	Agree list of contractors to be asked to tender	District supplies officer and designated unit officer																										
DM 13.2	Issue invitations to tender to contractors including in-house service	District supplies officer																*										

TASK NUMBER	TASK	RESPONSIBILITY	WEEK NUMBERS																								
			1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25
DM 14	<u>Site Visit</u>																										
DM 14.1	Arrange for contractors to visit site before preparing their quotations	District supplies officer and unit designated officer																									
DM 15	<u>Receipt of Tenders</u>																										
DM 15.1	Receive, open and record all tenders (including the in house tender) in accordance with agreed procedures	District supplies officer																			*						
DM 16	<u>Comparison of Tenders</u>	Working party																									
DM 16.1	Specialists to carry out comparative evaluation of all tenders as follows: (a) Financial comparison	District finance officer and Working Party																									
	(b) Personnel Comparison	Personnel officer																									
	(c) Technical comparison	District laundry, cleaning or catering officer																									
DM 16.2	Unit administrator at the unit concerned to review tenders	Unit designated officer																									
DM 16.3	Comparative evaluations of tenders to be reviewed by working party and discussed with unit designated officer	Working party																									
DM 16.4	Further discussions to be held with contractors submitting tenders, including site visits	Working party plus unit designated officer																									*
DM 16.5	Carry out final investigation into financial standing of shortlisted contractors.	District finance officer																									*
DM 17	<u>Contract Decision</u>																										
DM 17.1	Recommendation by working party as to which contract to accept	Working party																									*
DM 17.2	Submission of recommendation to district management team and decision taken	Working party chairman																									*
DM 17.3	Reference to members of decision by district management team as required by members	District management team																									*

ACTION PLAN

DISTRICT WORKING PARTY

INVITATION TO TENDER AND CONTRACT APPRAISAL

APPENDIX 1

STATEMENT 2

TASK NUMBER	TASK	RESPONSIBILITY	WEEK NUMBERS																								
			1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25
DM 18	<u>Contract Award</u>																										
DM 18.1	Notify successful and unsuccessful contractor (or in-house service)	District supplies officer																									*
DM 18.2	Prepare and issue contract subject to legal advice as necessary	District supplies officer																									*

THIS COMPLETES THE INVITATION TO TENDER AND CONTRACT APPRAISAL WORK AT DISTRICT LEVEL

ACTION PLAN
UNIT MANAGEMENT

INVITATION TO TENDER AND THE IN-HOUSE PROPOSAL

TASK NUMBER	TASK	RESPONSIBILITY	WEEK NUMBERS																									
			1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	
	UNIT MANAGEMENT																											
	INVITATION TO TENDER AND THE IN-HOUSE PROPOSAL (This work to be carried out for each service at each unit as it becomes due for competitive tendering).																											
UM 1	<u>Project Management</u>																											
UM 1.1	Obtain overall district programme showing the planned timetable for each unit and service to be considered for competitive tendering	Unit designated officer																										
UM 1.2	Before the due date for each service prepare a detailed programme of the work to be done and agree with all relevant unit managers.	Unit designated officer																										
UM 1.3	Agree the unit programme for each service with the district working party	Unit designated officer																										
UM 1.4	Monitor progress and prepare a periodic written report for the district working party	Unit designated officer																										
UM 2	<u>Staff Consultation Set Up</u>																											
UM 2.1	Consider the general staff consultation arrangements which have been agreed at district level (IM 9)	Unit personnel officer																										
UM 2.2	Decide how the arrangements should be applied in the particular unit and service under consideration	Unit personnel officer																										
UM 2.3	Discuss the arrangements with unit staff representatives	Unit personnel officer																										

INVITATION TO TENDER AND THE IN-HOUSE PROPOSAL

TASK NUMBER	TASK	RESPONSIBILITY	WEEK NUMBERS																									
			1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	
UM 3	<u>Staff Consultation Prior to Invitation to Tender</u>	Unit personnel officer																										
UM 3.1	Carry out initial consultation at unit and department level relating to: (a) The district redundancy agreement (b) The district personnel practice relating to outside contracts (c) The planned timetable of events																											
UM 4	<u>Preparation of Work Specification</u>																											
UM 4.1	Review the DHSS specimen work specification for the service concerned as already agreed by the district working party and modify as necessary to meet the unit's particular needs	Unit designated officer and unit specialist concerned																										
UM 4.2	Prepare a brief written description of the present service	Unit specialist																										
UM 4.3	Use the description of the present service to obtain senior management views on its adequacy and on the changes needed	Unit specialist and users																										
UM 4.4	Specify in detail the precise service to be provided in future using the agreed work specification forms	Unit specialist																										
UM 4.5	Obtain formal agreement of the managers of all user departments that the new work specification meets their needs	Unit designated officer and unit specialist																										
UM 4.6	Obtain senior unit management agreement to the work specification	Unit designated officer																										
UM 5	<u>Planning the Form of Contract</u>																											
UM 5.1	Consider the general form of the contract arrangements which will be appropriate for the service concerned.	Unit designated officer and unit management																										

INVITATION TO TENDER AND THE IN-HOUSE PROPOSAL

TASK NUMBER	TASK	RESPONSIBILITY	WEEK NUMBERS																								
			1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25
UM 5.2	Consider the additional costs and savings which will arise if an outside contract is awarded (see UM 9)	Unit designated officer and unit management																									
UM 5.3	Consider the present condition and location of premises and equipment	" "																									
UM 5.4	Based on the above considerations decide on the specific contract arrangements with an outside contractor which would be most suitable for the unit	" "							*																		
UM 6	<u>Preparing the Invitation to Tender</u>																										
UM 6.1	Review the DHSS specimen invitation to tender and contract as already agreed by the district working party and make the changes needed to meet the above contract arrangements	Unit designated officer																									
UM 6.2	Incorporate the agreed work specification into the invitation to tender	Unit designated officer												*													
UM 6.3	Finalise the invitation to tender for the specific unit and service concerned regarding: (a) Financial information to be requested (b) Personnel information to be requested (c) Technical information to be requested (d) Arrangements regarding premises and equipment (e) Arrangements regarding supplies	Unit accountant Unit personnel officer Relevant specialist officer Unit designated officer Unit designated officer Unit supplies officer Unit designated officer																									
UM 6.4	Obtain legal advice on the invitation to tender and draft contract where changes have been made to DHSS specimens	Unit designated officer																									
UM 6.5	Obtain final unit management agreement to invitation to tender	Unit designated officer																									
UM 6.6	Agree with district supplies officer the contractors to be asked to tender	officer Unit designated officer																									
UM 6.7	Submit invitation to tender to district working party which after agreement will issue it to contractors	Unit designated officer																								*	

INVITATION TO TENDER AND THE IN-HOUSE PROPOSAL

WEEK NUMBERS

TASK NUMBER	TASK	RESPONSIBILITY	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25
UM 7	<u>Reviewing the In-House Service</u>	Manager of in-house service																									
UM 7.1	Establish the basis of the operation of the in house service with particular reference to staffing, working methods, and equipment	Manager of in-house service																									
UM 7.2	Prepare the "overhead statement" for the present service showing what use it makes of other departments and showing the avoidable element of that use.	Manager of in-house service																									
UM 7.3	Prepare the "service cost statement" which shows the avoidable and non-avoidable costs of operating the present service.	Unit accountant																									
UM 7.4	Review all aspects of the present in-house service and prepare the "organisation statement" showing all the changes which should be made to enable the service to compete with an outside contractor	Manager of in-house service																									
UM 7.5	Prepare a "revised service cost statement" showing the estimated costs of the in-house service after being reorganised	Unit accountant																									
UM 7.6	Agree the organisation statement and the revised service cost statement with unit management	Manager of in-house service																									
UM 7.7	Carry out staff consultation relating to the review of the in-house service at unit and department level	Unit personnel officer																									
UM 8	<u>Preparing the In-House Tender</u>	Manager of in-house service assisted by unit accountant																									
UM 8.1	Prepare the in-house tender based on the organisation statement and the service cost statement.	Manager of in-house service assisted by unit accountant																									
UM 8.2	Submit in-house tender to the district working party on the due date.	Unit designated officer																									*

CONTINUED NEXT PAGE

ACTION PLAN

APPENDIX I

UNIT MANAGEMENT

STATEMENT 3

INVITATION TO TENDER AND THE IN-HOUSE PROPOSAL

TASK NUMBER	TASK	RESPONSIBILITY	WEEK NUMBER																								
			1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25
UM 9	<u>Estimating Additional Costs</u>																										
UM 9.1	Consider the possible areas where additional costs or savings will occur.	Unit designated officer																									
UM 9.2	Prepare preliminary estimates of the possible costs involved, and discuss with unit management when deciding on the general form of the contract to be offered (see UM 5)	Unit designated officer and unit accountant																									
UM 9.3	Prepare the following statements (a) Redundancy and personnel numbers (b) Facilities to be provided for the contractor (c) Contract monitoring requirements (e) Potential for loss of discounts (f) Insurance needs (g) Capital items	Unit personnel officer Unit designated officer Unit designated officer District supplies officer Unit accountant																									
UM 9.4	Pass the above statements to the unit accountant for the relevant costs to be estimated.	Unit designated officer Unit designated officer																									
UM 9.5	Submit the statements of additional costs and savings to the district working party to enable the financial comparison of tenders to be carried out.	Unit designated officer																									*

THIS COMPLETES THE UNIT WORK ON INVITATION TO TENDER AND IN-HOUSE PROPOSAL

APPENDIX 2

Action plans for implemtation

APPENDIX 2**ACTION PLANS FOR IMPLEMENTATION****SUMMARY OF CONTENTS**

The purpose of Appendix 2 is to provide a suggested set of action plans for implementing the selected contract, whether it has been awarded to the in-house department or to the external contractor. It contains the following statements:

- | | | | |
|--------------------|-----------------|---|-------------------------------------|
| Statement 1 | Unit management | - | implementation of in-house contract |
| Statement 2 | Unit management | - | implementation of external contract |

It should be appreciated that the two plans follow the plans shown in Appendix 1, and that week 1 is thus the first week after the award of the contract.

The comments regarding the duration of tasks and the symbols used are the same as those for Appendix 1.

IMPLEMENTATION OF IN-HOUSE CONTRACT

WEEK NUMBERS AFTER AWARD OF CONTRACT

TASK NUMBER	TASK UNIT MANAGEMENT IMPLEMENTATION OF IN-HOUSE CONTRACT	RESPONSIBILITY	WEEK NUMBERS AFTER AWARD OF CONTRACT																								
			1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25
UM 10	(NOTE: The system of numbering continues from that used in Appendix 1 so that each unit management step has a unique number). <u>Initial Set Up and Monitoring</u>																										
UM 10.1	Appoint the "authorised officer" for the contract	Unit administrator																									
UM 10.2	Prepare a detailed implementation plan for the reorganisation of the inhouse service in conjunction with other managers concerned	Manager of in-house service																									
UM 10.3	Agree plan with the authorised officer and unit administrator	_____ "_____"																									
UM 10.4	Monitor plan and report progress to unit administrator	Authorised officer & manager of in-house service						*											*								
UM 11	<u>Personnel Consultation and Implementation</u>																										
UM 11.1	Plan the detailed implementation of all the changes relating to staff which were included in the organisation statement	Unit personnel officer and manager of in-house service																									
UM 11.2	Consult staff at unit and department level about the implementation plan	Unit personnel officer and manager of in-house service																									
UM 11.3	Carry out the implementation plan and agreed consultation procedures relating to: (a) Redundancies (b) Transfers (c) Early retirement (d) New bonus arrangements (e) New overtime arrangements	Unit personnel officer and manager of in-house service																									
UM 12	<u>Management Information</u>	Unit accountant																									
UM 12.1	Obtain the management information proposals considered at district level for the service concerned (see IM 8)	Unit accountant and manager of in-house service																									
UM 12.2	Plan design and implementation of the proposals for the unit and service concerned	Unit accountant and manager of in-house service																									
UM 12.3	Implement the district systems as planned, together with any unit systems required	Unit accountant and manager of in-house service																									

ACTION PLAN

UNIT MANAGEMENT

IMPLEMENTATION OF IN-HOUSE CONTRACT

APPENDIX 2

STATEMENT 1

EXERCISE NUMBERS AFTER AWARD CONTRACT

TASK NUMBER	TASK	RESPONSIBILITY	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25
UM 12.4	Explain the new systems to management of the in-house service and train where necessary	Unit accountant																									
UM 13	<u>Equipment Needs</u> The organisation statement may be based on the use of new or additional equipment. If so: (a) initiate purchase of equipment (b) receive and commission	Manager of in-house service, unit supplies officer and works officer			*																						
UM 14	<u>Working Practices</u> The organisation may have been based on new working practices for the in-house department. If so:	Manager of in-house services																									
UM 14.1	(a) publish new working practices				*																						
UM 14.2	(b) train staff as necessary	Training officer																									
UM 14.3	(c) introduce and monitor new practices																										
UM 14.4	Meet managers of other departments and design new working practices for those departments where needed to interface with the reorganised in-house service.	Manager of in-house service			*																						
UM 14.5	Introduce new practices in other departments	Heads of other departments																									
UM 15	<u>Budgetary Control</u>																										
UM 15.1	Revise the detailed annual budget for the in-house service based on the cost shown on the in-house tender and organisation statement.	Unit accountant																									
UM 15.2	Prepare revised annual budgets for other departments affected	Unit accountant																									
UM 15.3	Agree the revised annual budgets with the in-house service manager, heads of department and unit administrator	Unit accountant																									
UM 15.4	Carry out financial reporting against budget using the district's normal budgetary control routines	Unit accountant																									
UM 16	<u>Quality Control</u>																										
UM 16.1	Consider the quality control procedures needed to monitor the in-house service	Authorised officer																									

ACTION PLAN

UNIT MANAGEMENT

IMPLEMENTATION OF IN-HOUSE CONTRACT

WEEK NUMBERS AFTER AWARD OF CONTRACT

STATEMENT 1

APPENDIX 2

TASK NUMBER	TASK	RESPONSIBILITY	WEEK NUMBERS AFTER AWARD OF CONTRACT																								
			1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25
UM 16.2	Design the quality control procedures	Authorised officer																									
UM 16.3	Appoint quality control staff and train them	Authorised officer																									
UM 16.4	Introduce quality control procedures	Authorised officer																									

THIS COMPLETES THE IMPLEMENTATION OF THE IN-HOUSE CONTRACT

IMPLEMENTATION OF EXTERNAL CONTRACT

WEEK NUMBERS AFTER AWARD OF CONTRACT

TASK NUMBER	TASK	RESPONSIBILITY	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25
	UNIT MANAGEMENT IMPLEMENTATION OF EXTERNAL CONTRACT																										
UM 17	(NOTE: The system of numbering continues from that used in statement 1 of this appendix)																										
	<u>Initial Set up and Monitoring</u>																										
UM 17.1	Appoint "authorised officer" for the contract	Unit administrator	*																								
UM 17.2	Prepare a detailed action plan for the implementation of the external contract	Authorised officer																									
UM 17.3	Agree the plan with individual unit managers as necessary	Authorised officer		*																							
UM 17.4	Agree the plan with the external contractor	Authorised officer		*																							
UM 17.5	Meet at regular intervals with the contractor during implementation to discuss progress	Authorised officer						*					*							*							*
UM 17.6	Monitor plan and report progress to unit administrator	Authorised officer						*					*							*							*
UM 18	<u>Personnel Consultation and Implementation</u>																										
UM 18.1	Meet with outside contractor and agree arrangements for contractor to employ existing in-house staff where appropriate	Unit personnel officer	*																								
UM 18.2	Plan arrangements for closing down the in-house service	Unit personnel officer																									
UM 18.3	Consult staff at unit and department level about the plans agreed at 17.1 and 17.2 above	Unit personnel officer																									
UM 18.4	Carry out arrangements for contractor to interview and make offers of employment to existing staff	Unit personnel officer																									
UM 18.5	For remaining staff carry out redundancy, transfer and early retirement procedures in accordance with agreed proposals to close in-house department.	Unit personnel officer																									
UM 19	<u>Contract Preparation and Signing</u>																										
UM 19.1	Prepare the formal contract for signing	District supplies officer with legal assistance where needed																									
UM 19.2	Obtain legal assistance as necessary	District supplies officer with legal assistance where needed																									

includes 12 weeks statutory notice period and statutory consultation period

ACTION PLAN

UNIT MANAGEMENT

IMPLEMENTATION OF EXTERNAL CONTRACT

WEEK NUMBER AFTER AWARD OF CONTRACT

TASK NUMBER	TASK	RESPONSIBILITY	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25
UM 19.3	Arrange for contract signing	District supplies officer with legal assistance where needed			*																						
UM 20	<u>Plant Equipment and Buildings</u>																										
UM 20.1	Identify which of the authority's plant and equipment is to be used by the contractor (or sold to him)	Authorised officer assisted by works officer and maintenance engineers																									
UM 20.2	Prepare inventories of the above plant for passing to the contractor	"																									
UM 20.3	Hand over plant to the contractor on the due date	"																									
UM 20.4	Agree maintenance procedures	"														*											
UM 20.5	Implement maintenance procedures on the due date	"														*											
UM 21	<u>User Department Liaison</u>																										
UM 21.1	Discuss and agree with the contractor and with each user department the detailed cut off and liaison procedures for the contractor's work with each department	Authorised officer, user departments; and contractor																									
UM 22.2	Train the staff in each department and also the contractor's staff in the liaison procedures	Authorised officer user departments; contractor																									
UM 23.3	Introduce the liaison procedures from the due dates	Authorised officer user departments; contractor														*											
UM 22	<u>Quality Control</u>																										
UM 22.1	Consider how quality control of the contract is to be maintained,	Authorised officer																									
UM 22.2	Discuss with the contractor and the user departments	Authorised officer																									

UNIT MANAGEMENT

IMPLEMENTATION OF EXTERNAL CONTRACT

WEEK NUMBERS AFTER AWARD OF CONTRACT

TASK NUMBER	TASK	RESPONSIBILITY	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25
UM 22.3	Design quality control procedures taking into account possible application of financial penalty clauses.	Authorised officer																									
UM 22.4	Agree with users of the service	Authorised officer																									
UM 22.5	Train staff in quality control procedures	Authorised officer																									
UM 22.6	Implement procedures	Authorised officer														*											
UM 23	<u>Budgetary Control</u>																										
UM 23.1	Use the contractor's tender price and the financial comparison statements on which the estimated costs and savings were shown to prepare revised budgets as follows: (a) For contracted out costs (b) For other department's affected (c) For in-house service closure	Unit accountant																									
UM 23.2	Agree budgets with department managers concerned	Unit accountant																									
UM 23.3	Carry out normal unit budgetary control procedures to monitor and control the new budgets	Unit accountant																									
UM 24	<u>Contract Control</u>																										
UM 24.1	Review the general management information system changes proposed by the district (These were planned in the district action plan DM 8)	Unit accountant																									
UM 24.2	Consider what short term ad hoc systems may be needed at the unit until the district systems changes have been implemented	Unit accountant																									
UM 24.3	Consider what additional local information will be needed to manage the particular contract concerned	Unit accountant																									
UM 24.4	Consider what internal controls are needed relating to accepting and passing contractors invoices	Unit accountant																									
UM 24.5	Agree the needs defined in (2) and (3) and (4) with the authorised officer	Unit accountant																									
UM 24.6	Design the local systems needed to meet (2) and (3) and (4)	Unit accountant																									

ACTION PLAN

APPENDIX 2

UNIT MANAGEMENT

STATEMENT 2

IMPLEMENTATION OF EXTERNAL CONTRACT

WEEK NUMBERS AFTER AWARD OF CONTRACT

TASK NUMBER	TASK	RESPONSIBILITY	WEEK NUMBERS AFTER AWARD OF CONTRACT																								
			1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25
UM 24.7	Introduce the local and district management information systems and assist authorised officer to use and interpret them.	Unit accountant																									
UM 25	<u>Final Implementation</u>																										
UM 25.1	Discuss with the contractor the detailed procedures for taking over from the in-house service	Authorised officer and in-house service manager																									
UM 25.2	Prepare a detailed hand over programme	Authorised officer																									
UM 25.3	Discuss and agree the hand over with user departments	_____																									
UM 25.4	Contractor starts work	_____																									*

THIS COMPLETES THE WORK OF IMPLEMENTING THE EXTERNAL CONTRACT