



Washoe County

Managed Competition Guidelines

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1. Introduction

1.1. Background

Local governments have begun utilizing performance based service delivery models to reduce costs and improve quality of their services. These models involve careful comparison of costs and benefits of services performed internally versus externally. Managed competition models have been successfully implemented in other counties and cities and have proven to instill market discipline, competitiveness, reduced costs, and improved quality into service delivery while assuming internal providers often do and can compete with external counterparts.

Over the past five years, Washoe County endured enormous strains on its operations and finances in the context of the country's economic downturns and slow recovery. While diligently struggling to deliver services, the County and its employees have suffered five years of successive and incremental budget cuts and personnel reductions. During this period, the County reduced spending by \$154 million and reduced its workforce by nearly 20%.

The County is now at a threshold where such incremental changes are no longer sufficient. More strategic and fundamental measures must be taken. As part of a "fundamental services review," Management Partners¹ recommended that Washoe County develop a managed competition process and execute it for selected services. These guidelines are a first step toward developing the managed competition process for the County.

1.2. Definition of Managed Competition

Managed competition is a structured and transparent process that gives public sector entities an opportunity to openly evaluate improvements and compare their service delivery processes, needs, costs, quality, and capabilities against those of external providers. The process gathers data, analyzes and documents service delivery, baselines performance, and establishes service levels. Managed competition is a means to analyze and make decisions about the manner in

¹ Management Partners was contracted by the Washoe County's Organizational Effectiveness Committee (OEC) to deliver a study in the summer of 2011.

which governments deliver their services. A managed competition environment ultimately requires “in-house service units to compete with external providers.”²

Managed competition is a team effort leveraging the expertise, creativity, ingenuity, and resourcefulness of staff within the government entity. With established process, it unites all levels of the government entity toward continuously improving services, becoming more competitive, gaining process efficiencies, and/or saving money. It encourages staff to continually critique existing processes, policies, and practices in order to provide the best possible services. The process does not assume any predisposition as to who will eventually provide the services.

Managed competition is distinct and different from outsourcing and privatization in that the service delivery provider can remain internal or become external. A study may result in the choice of the internal provider because it delivers the most efficient processes, highest quality, and lowest costs possible. Or, the government entity may choose the external service provider because that provider has the most efficient delivery of the service(s).³ However, the government entity is still responsible for the services. With privatization, the government entity decides to exit entirely from the services and sells off the entity’s assets related to the delivery of the services.

Effective implementation of managed competition requires staff resources and many support mechanisms to deliver integrity in the decision making processes, high quality analysis, and regular follow-on evaluation of the results. Required skills include: guidelines, policy and program planning; evaluation; continuous process improvement and workflow analysis; group process and facilitation; financial and cost analyses; risk assessment; implementation; audit; and on-going service level/performance management. Thus, internal and possible additional external resources are important factors in developing the environment to support success.

1.3. Other Definitions

The following terms are used in these guidelines:

² GFOA, [Managed Competition as a Service Delivery Option](http://www.gfoa.org/index.php?option=com_content&task=view&id=1557), http://www.gfoa.org/index.php?option=com_content&task=view&id=1557 (2006)

³ Throughout the rest of the guidelines, “services” will refer to one service or multiple related services.

- 1.3.1. Best practice – a method or technique that has consistently shown results superior to those achieved with other means, and that is used as a benchmark.⁴
- 1.3.2. Services – An individual or set of closely related County processes that deliver a mandated and/or otherwise identified value to a County citizen and/or internal County customer.
- 1.3.3. Process – The step or set of steps used in achieving an end (in this document, the end is a service or set of services).
- 1.3.4. Service delivery – the implementation of and method by which a County customer receives a County service.

1.4. Purposes of Managed Competition Guidelines

The purposes of these guidelines are to set forth:

- 1.4.1. Goals for the managed competition process at the County.
- 1.4.2. Guiding principles for conducting the managed competition process.
- 1.4.3. Selection criteria and qualifications of services to be evaluated for managed competition.
- 1.4.4. High level steps for the County’s managed competition process.
- 1.4.5. A foundation that can and will be edited as the County gains more managed competition experience and evolves its program.

2. Managed Competition

2.1. Goals

The overall goal of managed competition is to deliver competitive, sustainable, and high quality services which engender industry best practices and which can be measured and monitored to established service levels between the provider and the County. These services must ultimately satisfy the County’s external and internal customers. The County’s citizens and taxpayers expect the County to deliver “best value” services that are of the highest quality at the lowest cost. The County is committed to ensuring that best value services are delivered – but it does not necessarily have to be the actual provider.

⁴ BusinessDictionary.com, <http://www.businessdictionary.com/definition/best-practice.html>

The County managed competition process will:

- 2.1.1. Identify, through established criteria, County services and related processes that are high priority candidates for managed competition;
- 2.1.2. Support a sense of ownership of services, continuous improvement in the results achieved, and innovation in the delivery of the services.
- 2.1.3. Maintain or improve the quality of services provided and align that quality with customers' expectations and willingness to pay.
- 2.1.4. Result in competitively delivered services that are of high value and low cost while still meeting customers' needs.
- 2.1.5. Apply measurable, industry accepted baseline target service levels, and performance metrics for any services being studied for managed competition.
- 2.1.6. Consider alternative service delivery methods only if there is a better than 10% cost savings and if the level of services are equal to or better than existing.⁵

2.2. Guiding Principles

The County undertakes managed competition with the following guiding principles at the forefront:

- 2.2.1. *Efficient, Cost Effective and High Quality Services.* A key goal of managed competition is to provide customers with a high quality of services at the lowest reasonable cost ethically and efficiently possible. Continuous improvement distinguishingly achieves this in a business environment through a synergy of creativity, innovation, and employee empowerment that facilitates highly competitive and sustainable service delivery.
- 2.2.2. *Transparency and Fairness.* Throughout the lifecycle of a managed competition study, the County is committed to transparency and openness. The County will maintain the highest standards of ethics and will make every effort to avoid any actual or perceived conflict of interest. The operational and competitive assessments of internal and external providers will be conducted fairly and objectively.

⁵ See Guidelines section, Decision Criteria subsection for more details.

2.2.3. *Managed Competition Is Not Outsourcing.* Managed competition is commonly misperceived to be outsourcing. The intent of this managed competition process is to ensure the County is a competitive and sustainable service organization with the optimal mix of service delivery from inside and outside of the organization. The optimal mix is determined by an end to end analysis that ensures: services are delivered competitively, sustainably, and valuably; service levels are defined and understood; and performance is tracked, documented, and continually reviewed. While a result of this process may be a service being delivered from an external provider, it is not the initial goal.

Outsourcing would be a specific decision by the County to have services delivered from an external provider and should not involve any competition for services from internal resources.

2.2.4. *Adequate Resources and Support.* Managed competition requires staff resources and many support mechanisms to deliver integrity in the decision making processes, high quality analysis, and regular follow-on evaluation of the results. In order to provide these resources and support, the County shall take a measured and feasible approach to the managed competition process. The County shall facilitate personnel, training, consulting, continuous improvement resources, etc. as needed to support employees throughout the steps of the managed competition process.

2.2.5. *Competitive Assessment and Readiness.* The managed competition process must include a competitive assessment phase and, if needed, a competitive readiness phase.

- The managed competition process will first include a phase in which a team gathers and analyzes data about current delivery of services through County staff, operations, and processes.
- Additionally, the County will analyze operations according to accepted industry best practices, performance measures, and service level benchmarks to identify current performance levels and possible gaps.
- Should the County need to improve its performance, a competitive readiness phase will be available. This phase would give County operations sufficient time to develop and

implement recommended improvements to align with the industry best practices and performance levels.

- The average reasonable period for the competitive readiness phase is no more than 12 months. Each managed competition study will recommend the phase length based upon findings. The timeframe will sometimes be less than 12 months and sometimes more.

2.2.6. *Equitable, Fair and Consistent Request for Proposal (RFP) Process.* The County will, in accordance with public policy, treat all parties consistently and equitably should the managed competition study move to a RFP and bidding stage.

- Preference will be given to bidders that sustain local jobs.
- The process will comply with all County Purchasing guidelines and policies.
- To foster a level playing field, the following factors will be fairly, objectively, and consistently applied to all providers:
 - Industry accepted performance measures and metrics for the services.⁶
 - Cost calculations and comparisons based upon the above industry standards and made with verifiable data (including direct costs, indirect costs, actual wages, and/or prevailing wages).

2.2.7. *Imbedded Checkpoints / Decision Steps.* The managed competition process shall include checkpoints and decision steps along the course of a managed competition study. Recommended ones include, but are not limited to:

- Selection of service(s) to be part of the managed competition study. In accordance with the “Selection Criteria” section of these guidelines, the County shall, through the Strategic Planning Committee (SPC), carefully weigh the criteria when determining which services to proceed to study. The criteria include the degree of risk, legal restrictions, the marketplace of service providers, accountability, necessity, etc. The full list is itemized in the “Selection Criteria” section below.

⁶ If industry standard performance measures and metrics are not available or if they are not deemed applicable, the managed competition study will identify clear and objective measures that are communicated to the County and potential external providers.

- Post competitive assessment. After the process analysis, determine if a competitive readiness window is needed and work with the process team to improve service delivery according to recommendations.
- Embark upon RFP phase. After the process analysis and, if applicable, the competitive readiness phase, determine if services should be set out for competition. To determine this course of action, considerations should include whether or not a RFP phase will assist in achieving the goal of competitive, sustainable, high quality services.
- Provision of service. In consideration of changing a present method of service delivery, a successful bidder must show a more than 10% cost savings AND equal or better level of services.⁷
 - County costs include direct costs and appropriate indirect costs (including those costs that can be avoided if the services were to go to an external provider).
 - External provider costs include their bid price, the County's contract administration costs, and transition costs.
 - Both County and external provider costs should be netted by any estimated incremental revenue generation or cost avoidance where applicable.
- Review of performance to service level agreements and audit of results. Regardless of who provides the service, the managed competition process should result in established service level agreements and performance checkpoints between the County and the provider. The performance checkpoints and audit of services should be completed annually and include documentation in line with the County's internal audit standards and practices.

2.2.8. Possible Impacts. The managed competition process will impact services due to the inherent nature of enabling competitiveness, focusing on sustainability, delivering according to best practices, and establishing quantifiable service levels. One example might be a change in responsiveness because of new work prioritization levels. In

⁷ 10% is the generally accepted cost of contract administration, so the County shall focus on service delivery changes that are estimated to save at least more than this.

the past, all requests may have received similar call back windows. In the future, prioritized requests may receive graduated response times. Another example could be a change in what is considered necessary now but is viewed as not cost sustainable in the future.

2.2.9. *Employment Stability.* The County shall continue its commitment to employment stability for its workforce and will:

- Notify employees in advance of areas planned for a managed competition study.⁸
- Assist employees in navigating and working through the managed competition process.
- Offer tools and training to employees as needed to help with the managed competition process and with competitive readiness.⁹
- Provide placement services for employees who voluntarily decide to separate from the County.
- Require selected vendors to first consider utilizing County employees who know the services to assist them in providing services, should a study result in an external provider.
- Negotiate impacts with affected employee associations where required by collective bargaining agreements.

2.3. Selection Criteria

The County's Strategic Planning Committee (SPC) will identify the services to become part of a managed competition study. A study may be conducted for current services (internally or externally provided) or new services. The SPC members may also receive recommendations for study area(s) from the Board of County Commissioners (BCC), the County Manager, the Organizational Effectiveness Committee, employee associations, or other avenues upon which they agree.

The following considerations shall be used when selecting services for a managed competition study:

2.3.1. *Legal, Regulatory or Funding Restrictions.* The County will exclude any services that have legal, regulatory, or funding guidelines which restrict

⁸ The managed competition process encompasses the overall, standard and repetitive steps used in the methodology for managed competition. A managed competition study is a single instance of using that methodology to analyze and determine outcomes for services.

⁹ A training strategy for the managed competition process will be published separately. Also see below for more information about competitive readiness.

the provider to be County employees. If local ordinances or laws can be changed to accommodate possible managed competition, the County may explore such actions to an extent that is reasonable and feasible.

- 2.3.2. *Existence of Alternative Providers.* There must be at least two other existing qualified external providers (aside from the County) in the marketplace for the services being considered for a managed competition study.
- 2.3.3. *Cost Savings Potential.* The services should have reasonable likelihood that managed competition will result in reduced and/or avoided costs or increased revenue where possible.
- 2.3.4. *Service Identification and Measurement.* The services must be identifiable and measurable accordingly to industry accepted performance metrics (or other performance measures developed in lieu of absent industry standards).
- 2.3.5. *County Workforce Impacts.* The County shall consider and, where required, negotiate any impacts managed competition studies may have on County employees and their workload, productivity, efficiency, etc.
- 2.3.6. *Degree of Risk.* The County shall factor in the possible degree of risk associated with services provided by an external provider through a weighted evaluation procedure. The County shall consider the impacts of risks such as defaults, breach of contract, marketplace stability, liability, potential costs of re-entry (if the County exits the service), etc.
- 2.3.7. *Quality, Competitiveness and Sustainability.* The services should have reasonable likelihood that managed competition will improve quality for the same or lower costs. The services shall be measurably competitive and financially sustainable using the chosen service delivery provider.
- 2.3.8. *Asset Requirements.* The County shall consider the extent and nature of assets needed to deliver the services through various service delivery methods. Assets can be but are not limited to financial, human/labor (knowledge/familiarity), technological, or capital resources.

- 2.3.9. *Control and Accountability.* The County must be able to efficiently manage and control the services through the selected service delivery method. The County shall account for the responsible and appropriate use of public funds, customer satisfaction, service competitiveness, and service quality.

2.4. Steps

The high level steps for the managed competition process are:

- 2.4.1. Identify, through established criteria, County services that are likely and reasonable candidates for managed competition.
- 2.4.2. Select a service or services to be a part of a managed competition study.
- 2.4.3. Form a business process team with employees of the applicable area and possibly other employees affected by the applicable area for the managed competition study. The team shall include:
- Project lead.
 - Project team members including but not limited to a business process champion, business process experts and administrative services representatives.
 - Continuous improvement facilitator.
 - Managed competition process consultant.
 - Change management champion.
 - If needed, other external consulting expertise – e.g., managed competition process, industry and/or process specific, performance management, etc.
- 2.4.4. Coordinate managed competition study with other statutory board(s) as needed.
- 2.4.5. Analyze County processes for selected service(s) and document the analysis of processes against best practices and baseline performance measures.¹⁰

The study's analysis shall ensure that the County provider has:

- A business plan and strategy.

¹⁰ Best practices, performance measures and baselines shall come from as similar as possible industry comparables and entities to the County.

- Documented internal business policies and operating procedures.
- Benchmarks against industry best practices and performance measures.
- Fully allocated (burdened) service costs (costs including salary and benefits).
- Documented competitive advantages, disadvantages, gaps, recommended improvements, and next steps/options.

The study shall also contain the following (isolated from how the County may be providing the services):

- Picture of industry trends.
- Cost/benefit analysis for alternative service delivery methods.
- Pros and cons regarding different service delivery methods.
- Supported recommendation(s) for the next steps in the managed competition process.

2.4.6. Conduct a managed competition study review with the County Strategic Planning Committee. Consider options:

- Re-engineer and/or restructure internal provider operations – competitive readiness phase required.¹¹
- Retain as-is with internal provider.
- Continue with managed competition - conduct a competitive bidding process that includes the internal provider.¹²
- Partner with another entity to share services.
- Outsource.¹³
- Privatize.¹⁴

The Strategic Planning Committee will select an option and recommend actions to be taken by the BCC or other statutory board(s) as needed.

2.4.7. Begin further implementation steps based upon the option selected.

¹¹ If needed, recommend that the County service provider have a competitive readiness window. During this time, the County service provider shall implement recommended improvements so that the County service provider becomes competitive and sustainable according to industry best practices and standard performance measures.

¹² The managed competition study moves on to the next step where the County service provider competes with external providers via an RFP and bidding process.

¹³ The County makes the strategic decision to use only an external provider and moves on to an RFP and bidding stage with external vendors.

¹⁴ The County exits entirely from the services and sells the County's assets.

- 2.4.8. Support a notification and final review period. The Strategic Planning Committee will publish the managed competition study and recommendations and then begin a 30 day final review period during which comments and/or objections may be filed. The Strategic Planning Committee will review and consider such feedback within 2 weeks after the 30 day deadline, wherein final results will be communicated.
- 2.4.9. Conduct RFP and bidding process (after the competitive readiness phase if applicable).
- 2.4.10. Select provider and complete paperwork – including a signed service level agreement with the selected provider.
- 2.4.11. Review provider performance according to service levels. All providers shall be subject to an initial evaluation period after signing.
- 2.4.12. Monitor contract and performance (annually at a minimum) according to service level agreements.