

## Procurement and Contract Management 2008/09

### Introduction

Cherwell is exploiting the benefits of contemporary procurement practice and has approved annual investment circa £200k in additional procurement capacity in the current financial year. The approach is innovative and the team itself operate under an “invest to save” initiative, with annual targets ensuring the operation is “self funding” and providing additional returns. Success is already evident. The approach has secured savings of £309k in 2008/9 which is a return of 255% on the actual in-year expenditure initial investment of £121k. These savings are, of course cumulative and the 2009/10 target requires a further £313k. The savings secured to date result in the team being self funding for the future with the savings increasing year on year.

We are proud of the outcomes secured to date which include:

- Reduction in net expenditure circa £440k pa by 2009/10
- Direct benefit to local tax payers
- Improved opportunities for local suppliers and SMEs to trade with the Council
- Improved contract management, ensuring effective performance management and improved service delivery
- Greater collaboration, both with other Local Authorities, within and beyond county boundaries, and across public sector boundaries including other statutory bodies such as the PCT. This is providing direct financial benefits to all tax payers and access to a greater range of services and inter-organisational learning opportunities for all parties.

### Improving our processes

Our improvement in procurement was recognised by the Audit Commission in our Use of Resources assessment for 2007/2008 with a move from a 2 to a 3 in KLOE 5. This in turn informed our CPA corporate assessment report (March 2009), which identified that good arrangements were in place, that our procurement strategy links to our medium term financial strategy, and that significant savings were already being made as a result of the investment.

A new framework and suite of governance and procedural arrangements were agreed prior to 2008/09. A specialised Corporate Procurement Team has been formed during 2008/09 headed by an experienced strategic procurement manager. We agreed our 12-month Procurement Programme of Activities in March 2008 and the financial returns to date have exceeded the original targets across the board securing gains 55% above budget.

Comprehensive Procurement Procedure Rules have been introduced along with a dedicated intranet site offering guidance and information for staff and managers. An interactive procurement guide will be launched during April 2009.

Our Capital Investment Delivery Group has been re-focused to meet our changing needs by evaluating/providing peer challenge to new capital bids for submission to CMT/Executive and ensuring financial effects are fully explored and projected benefits appraised. The role of our Extended Management Team has been clarified with all taking an active role in directorate weightings of initial capital bids.

### Clear Vision of Expected Outcomes

Our corporate plan target for 2008/2009 was to secure £210,000 in efficiency savings of which £160,000 were targeted as savings in the way the Council procures goods and services. This was exceeded during the year.

Our overall approach has 3 components each with separate but clearly understood and tangible outcomes.

#### 1) Innovative and open approach to contemporary procurement practices.

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This has involved a range of tender options ranging from complex specifications and combined construction and long term service provision, such as our £27million sports centre modernisation programme to more contemporary solution focussed exercises involving the use of design and build solutions such as our one stop shops and accommodation review. In the current year the team has delivered support and advice for 28 tenders with a combined value circa £8m.

We recognise the importance of utilising external expertise when needed with specialist consultants engaged for the sports centres. We have participated in collaborative arrangements with other districts using a variety of mechanisms such as consortium arrangements (OGC, CBC, EPSPO and YPO), partnership working (Internal Audit with Oxford City Council) and services commissioned via initial specification input from another council (Glass Recycling). We have also provided procurement services for partners such as the PCT.

Our communication processes are key and we actively seek to engage staff members and local suppliers to ensure we improve our approach, promote awareness and understanding and make it easier for SMEs to trade with the Council. Our dedicated 'Selling to the Council' website pages give a clear, accessible explanation of our procurement process (<http://www.cherwell.gov.uk/index.cfm?articleid=3633>), with a downloadable guide giving contact information. We are also inviting feedback from current and potential suppliers via our forthcoming email circular that will invite companies to complete an online questionnaire on their experience of working with the public sector.

We have utilised our procurement expertise to drive changes and improvements to both internal and external services. For example, the introduction of the PayPoint networks externally and internally, the introduction of our electronic Purchase cards. The Purchase card programme has been rolled out during the course of the year and has secured savings of circa £22k as a result of reduced processing costs. We have also reaped the additional benefits of being able to reduce resources applied to creditors processing and increase that allocated to credit control. Our performance in credit control is significantly improved as a result with real term collection rates in excess of our target. Our staff and suppliers benefit from improved payment arrangements and convenience as a result. For example our housing team is equipped with Purchase cards enabling speedy procurement of emergency accommodation.

Successful joint procurement activities have been undertaken for Internal Audit (Oxford City and Kidlington Parish Council, see case studies), Recruitment and Advertising (County and all districts) and Vehicle Spare Parts (Cherwell implemented contract and Oxford City Council now seeking to participate). The Council are now pro-actively contacting Town and Parish Councils to understand their procurement needs and open up existing contracts for their use.

Currently we are working with South Oxfordshire and Oxford City Council on the Sustainable Procurement Flexible Framework and with other districts on a waste management software procurement exercise. We are also seeking a wider buy-in on an Engineering Services Framework contract currently being put out to tender. We have also expressed an interest in the re-provision of Bicester Community Hospital by submitting a PQQ for the Competitive Dialogue procedure being undertaken by the PCT.

In addition during 2008/09, we have analysed our spend profile, reduced the level of off-contract expenditure, rationalised the number of suppliers used, negotiated more beneficial contractual terms and implemented new and improved services such as PayPoint.

Progress against these objectives has been monitored by the Executive at its September 2008 meeting. We have a strong commitment to develop the local economy and have signed up to the Small Business Friendly Concordat. We also have a strong focus on sustainable procurement in our activities and will be developing this in 2009 with the rollout of Sustainable Procurement

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training and appointment of champions in key services that will move the Council from Level 1 on the Sustainable Procurement Strategy Flexible Framework to Level 3 by April 2010.

### 2 Effective and Contemporary Contract Management

The Council's approach to its contract management has changed and improved markedly since the new corporate procurement team was established. Since then, a number of important contract management principles have been adopted as standard practice. These are:

- Contract management requirements are now considered at all stages of the procurement process from the initial options appraisal, to the writing of an effective specification, the drawing up of the evaluation criteria and the final market testing.
- A shift in emphasis to the contract management stage in addition to the procurement stage where value for money and sustainability in delivering specific outcomes are key components in the contract set up and management thereafter.
- A requirement of contractors to provide their own quality management systems and processes which explicitly meet the Council's specification outputs thereby ensuring there is clarity and consistency in contract expectation.

A Procurement Forward Plan ensures adequate Procurement Resources are secured at the outset of a project and facilitate a planned approach to the entire procurement process, resulting in a robust contract management methodology. A contracts register is in place which is both internal and external facing. Internally, all officers involved in procurement can see what contracts are in place and can assess whether their service requirements can benefit from them. The external facing benefits are even greater: as all existing and potential future contracts of greater than £10,000 lifetime value are included, the Council is in a position to forward plan its onward going procurement, take a strategic overview, receive feedback from suppliers and the market and be able to offer its partners the opportunity for improved value for money through contract collaboration.

Our procurement team now supports service managers beyond the procurement process for the duration of the contract itself. Even for a simple re-tendering process contract meetings are put in the manager's diary on a monthly basis for the first three months after the contract is let and thereafter on a quarterly basis, with meetings being minuted.

Our improved contract management has delivered improved outcomes in relation to:

**Performance management** – for example turning around poorly performing suppliers of recruitment and advertising services, our costs are lower, our response to advertisements is improved (see case study) our vacancies are filled more effectively and our services protected as a result.

**Reduced Costs** – we have secured savings relating to current contracts, successfully renegotiating unfavourable annual price increases in the light of the currently suppressed RPI/CPI indices.

**Improved Capacity in contract management** – our management team now has access to internal support and expertise in all aspects on contract management.

We have successfully embedded procurement best practice: working alongside stakeholders, drawing up a suite of templates to use, including a contract management SLA and KPI outline. We have developed improved options appraisal techniques and as a result have achieved improved competence in specification writing and improved evaluation criteria which, in turn, will lead to improved SLAs and KPIs for contract monitoring purposes.

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### 3 Strategic Procurement – changing the shape of our organisation

#### Reviewing Service Competitiveness, improving Value for Money and Service Performance

We continue to review delivery of our services as part of our Value for Money Review Programme and we are currently focussing on the value for money achieved from key support services having already reviewed a number of front line service areas. The approach to reviewing support services considers the three dynamics of performance, cost and customer satisfaction for each service independently. We are examining services individually (ICT, Legal services, Finance) as well as part of an overall 'basket' of services that may be able to be delivered in different ways (shared service, outsourcing, partnership approach). We have timetabled the review programme so that the outcome of these reviews can feed into the 2010/11 budget process and the work programme for the procurement team.

The review programme is also looking at the procurement of services, such as insurance and utilities, to ensure that these overhead costs deliver best value for the current and future shape of the organisation.

A number of reviews have already taken place and Internal Audit has already been externalised as a result, (see case study attached) property services is currently underway and Revenues and Benefits will follow shortly.

We recognise the need for additional capacity in relation to the client/contract management function and planning is already underway to accommodate this within our structure.

Receptiveness to new ideas where innovation is an explicit contract requirement is reflected in the evaluation criteria weighting for all tenders. This recognises that the experience of contractors through market testing processes can provide innovative and value for money contract solutions that take the Council forward in its improvement cycle.

Our new medium term financial strategy identifies a number of tools for savings and requires ALL managers to consider alternative mechanisms for service delivery as part of our annual service and financial planning process.

Maintaining service delivery during transitional phases of externalisation is a key challenge, we have succeeded in this area with an innovative application of specially negotiated flexible "sling contracts", providing levels of support that can be ramped up or down to meet organisational needs. This enables recruitment freezes during transition offsetting associated adverse impacts on cost base and staff morale.

#### Extensive Involvement in Commissioning

We are engaging with communities more actively in the design of our services. Our One Stop Shops were designed with user involvement, particularly the disabled community, and made extensive use of our customer intelligence. We have used our Equality Impact Assessments and established an Equality and Access Advisory Panel to improve the quality of Council's services by providing members of the community the opportunity to talk to service managers about access to the services they provide. For example, our Choice Based Letting system has been developed to include text based bidding for families with limited access to the internet. Another example was the commissioning of our Sustainable Communities Strategy, where the LSP commissioned and the Council facilitated the project with a representative from the business community sitting on the evaluation panel and being given a genuine say in the final award decision.

Our Knowing our Communities project will provide us with an analysis of the key needs and issues facing a number of communities within the district using the SWAN model (requirements in terms of community support, wants, abilities and needs) during 2009, and will provide solid evidence for us to use in our Sustainable Communities Strategy for the development of any new services.

#### Understanding the Supply Market

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We have developed a Local Business Liaison Group to provide direction and facilitate action for the Council's proactive engagement with local businesses with a particular focus on Small and Medium-sized Enterprises (SMEs). We have held supplier workshops to explain the procurement process to businesses that have previously done little work with the public sector. An e-database of local businesses suppliers has been created which is being used to send out an email circular to advise businesses of how we plan to liaise more effectively with them and to invite them to complete an online questionnaire to provide suggestions as to how we might improve on our current strategies. The responses received to the online questionnaire will inform our plans to launch a quarterly Procurement Newsletter via email and our preparations for the Meet the Buyer events we have held in partnership with Oxford City Council and the scheduled local events in Bicester, Banbury and Kidlington to be held from early July onwards.

We are active participants in the MKOB Procurement Partnership, ensuring that all new contracts are offered as frameworks that others can opt to join.

### Evaluation of Procurement Options

A procurement forward plan has been developed to ensure our procurement team become involved sufficiently in advance of plans to procure or commission to ensure that full options appraisals take place. Stakeholder questionnaires are used to gain the key operational needs for each service in helping determine a range of procurement options. Options appraisals influenced the choices made for the procurement of Sustainable Community Planning Consultancy, CCTV upgrade (resulted in the use of two existing contracts with Thames Valley Police and OGC via mini tenders, saving us expense and time on our own tenders), Vehicle Spare Parts (developing a strategic approach involving base savings, early payment savings and RPI freeze savings).

### Supporting Evidence

1. Corporate Procurement, Executive Report (3 March 2008)
2. Comprehensive Procurement Procedure Rules
3. Capital Investment Delivery Group (CIDG) Supporting Information briefing note
4. Corporate Procurement Progress Report, Executive Report (15 September 2008)
5. Draft Access to Services Strategy (March 2009)
6. Project Mandate; Knowing our Communities
7. Procurement Forward Plan, 2009 to 2010
8. Stakeholder Questionnaires: waste management software and audio system replacement
9. 2009/10 Corporate Improvement Plan (Including VFM Review Programme), draft Executive Report (6 April 2009)

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The following are some key procurement and contract management case studies which demonstrate the three-fold approach we have adopted to procurement within the Council

### 1 An Innovative and open approach to contemporary procurement practices

The case studies in this category reflect how our approach to procurement and contract management has evolved from using a detailed specification of requirements for exacting contract management (sports centre management) into using a more open, output-based approach that encourages innovation that allows the market to provide the most appropriate solution (accommodation improvements).

#### Case Study – Sports Centre Management

**Contract value:** £700,000 per annum plus £27m capital

**Contractor:** Parkwood

**Description:** The contract commenced in April 2008 to design, build, operate and maintain three sports centres. It involves the combination of the largest capital construction contract (£27m) and the longest service contract (25 years) let by the Council. It has a two year construction period during which there is an interim services phase followed by a 25 year full service contract. It also delivers services for local schools on behalf of Oxfordshire County Council.

The contract is run using the Prince 2 methodology. Due to its scale and complexity, the contract has a Project Board which meets monthly for decision making purposes and provides 6 monthly monitoring reports to the Council's Executive. The Board is supported by a Project Team which uses external consultants and professional advisors for specific elements of the contract.

There are monthly client meetings between Cherwell Leisure Ltd (the special purpose vehicle set up for the contract), Kier Moss (the construction contractor), Parkwood (the leisure operator) and the Council dealing with all construction issues and separate monthly leisure operator's meetings dealing with all operational, compliance, performance management and help desk aspects of the contract. All unresolved or significant cost issues are referred to Project Board for decisions.

Prior to committing to the contract, the Executive considered regular reports on affordability and value for money. One of the main drivers for the contract was to invest capital and operate in a manner which provides better facilities and recreation opportunities with increased customer satisfaction at a lower annual cost to the Council. A reduced revenue cost of £745,000 will be delivered in 2009/10 following the completion of two of the three facilities in June 2009 and the third in January 2010. It is against the affordability envelope and value for money position agreed by the Council that the contract is being managed.

As a key part and prior to commitment to the contract, the Executive considered all aspects and specifically future contract, project and partnership management functions. These aspects were a key feature in terms of resource allocation and personnel functions in the Council wide re-structure process being undertaken at that time. Contract sustainability was considered in terms of periodic benchmark reviews and the use of whole life costing.

The key document is the Project Agreement but it is the Output Specification which contains statements of the Council's requirements for the service and is the document which forms the basis on which the contractor is assessed and payments made. In essence, it establishes the performance criteria that the contractor is required to deliver via the construction programme and throughout the contract period and against which it will be monitored.

The Council engaged the 4Ps to undertake relevant Gateway Reviews on the procurement process which also included elements of contract management. In addition, annual reviews were

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held with Gordon Westley (The Audit Commission leisure contract specialist) and the local District Audit Manager to review the procurement process and contract management. The outcomes from both these review processes were fed into the Council's decision making processes about procurement and contract management.

In addition to the contractor consortium, a key partner in this contract is Oxfordshire County Council. Extensive work has been undertaken with the County Council and local schools to explore the best means of delivering the facilities required and their access to them both physically and time wise. Similarly, throughout the procurement and contract process, considerable dialogue and communication has been undertaken with sports centre users whose feedback has influenced facilities and designs.

### Outcomes

The innovative and flexible approach adopted by the Council to the project's affordability, means that in spite of spending £29m capital, it will deliver a £100k net annual revenue saving for at least the first five years of the contract.

The contract works have been carried out while the facilities remain open, ensuring a continuity of public service.

The project will see the delivery of top quality, modern leisure facilities intended to address the consistent average or below customer satisfaction levels. The most recent informal customer feedback has been positive as demonstrated by the 2008 increase in customer satisfaction to 63%. This along with user numbers, are expected to increase further when all facilities have been completed and are fully open.

The new facilities provide every resident the opportunity to lead a healthy active lifestyle. Tenpin Bowling and increased swimming capacity in modern leisure environments will be provided in addition to improvements to existing facilities which will benefit both the general public and local schools through new joint use agreements.

### Case Study – Accommodation Improvements - Bodicote House

**Contract value:** £1,010,900

**Contractor:** Paragon

**Description:** In line with our business re organisation and with the implementation of a One Stop Shop, we entered into a 9 month design and build contract enabling Bodicote House to be made into an "open plan" environment.

The Procurement Manager assisted the business in completing a tender exercise where Paragon Interiors were awarded the contract. Due the short timescales and the issue that the building was "live" with staff located in the building during the conversion, strict project management principles were put in place to ensure the contract was delivered on time and on budget with no loss of Council service while the build took place.

A rigid project structure was set up with a project board consisting of the Chief Executive, Director of Customer Services and Resources, 2 Councillors, Head of HR, Communications Manager, Head of Property Services and the Project Manager. This board meets on a monthly basis to discuss full project progress including change management. A monthly board pack is produced by the project manager where all project information is discussed including the risk and issue log.

To feed into the board, the project team (site project manager from Paragon and project manager from Cherwell) meet on a daily basis ensuring that the key milestones are achieved and the relevant quality standards met.

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A fortnightly project meeting between Cherwell and Paragon also goes ahead where all aspects of the project build are discussed. Issues which exceed the strict tolerances of time and cost are escalated to the project board for a decision.

The contract has delivered in terms of time and budget.

### Outcomes

- Minimal disruption to staff during a substantial programme of works on site, enabling 'business as usual' to continue.
- A high degree of environmental improvements as part of the works: 80% recycling of materials on site during works, more efficient lighting and better access to natural light, better circulation of air for ventilation, and better levels of occupancy.
- Co-location of previously separate teams on one site, improving access to services for customers.
- The consequent release of two previously occupied buildings for partnership occupancy arrangements – providing income generation opportunities, contributing around 20% to our 2009/10 public promise to reduce our net cost of services by £1million.

One of the released buildings is already subject to contract arrangements with the PCT for a GP led health centre. This will be delivered in partnership with the council: funded, project managed and maintained by us. This will lead to reduced council overheads, a reduced council tax burden to local residents and increased access to healthcare services for local residents as part of our Safe and Health strategic priority.

## 2 Effective and Contemporary Contract Management

The two case studies below demonstrate how we have reviewed existing contractual arrangements to ensure they comply with our procurement guidelines, but also deliver real improvements to service delivery and value for money.

<h3>Case Study – Glass Recycling</h3>
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**Contract value:** £80,000 per annum

**Contractor:** Thamesdown Recycling

**Description:** The former contract was extended over a number of years due to the increased tonnages being generated from an evolving and uncertain glass recycling service. Because of the uncertainty about the nature of the future service requirement and the rolling on of the contract, we were not complying fully with our own procurement rules having used the same glass recycling contractor for a number of years with no exposure to the market.

A service level agreement was developed by the Procurement team in discussion with the recycling manager, which was used for an OJEU open tender process. The SLA was developed into a set of key performance indicators for the recycling manager to monitor, with the procurement team supporting contract management by diarising review meetings with the successful contractor.

A key aspect of this procurement exercise was how we worked with Oxford City Council to benefit from their greater experience in this area. The City Council provided input into the Specification in particular and the tender exercise was undertaken by the Council's Procurement team. This demonstrates our effective use of partnership in procurement.

### Outcomes

The outcome of this has been a more responsive service providing increased flexibility and better management information at no increased cost. This in turn will assist in maintaining the trend of continuous improvement in glass recycling tonnages and customer satisfaction with the Council's



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70 community located recycling banks which residents have told us is a high priority service for them.

### Case Study – Recruitment and Advertising

**Contract value:** £280,000 per annum

**Contractor:** Tribal succeeded by Barkers

**Description:** The current contract, a framework agreement tendered by the Oxfordshire County Council and drawn down upon by the Council in 2007, proved to be cause for genuine concern from a performance management view in September 2008. The Strategic Corporate Procurement Manager worked closely with the HR team to turn around the service levels, introducing an SLA where one had not previously existed, agreeing SMART KPIs that could be tracked on a regular basis and implementing procedures that clarified the responsibilities for both employer and supplier.

The work undertaken by Procurement and HR fed into the re-tendering exercise undertaken with Oxfordshire County Council and provided a more focused and output focused specification based upon effective contract management methodology. As a result the contract management structure was already in place when the new contractor, Barkers, was appointed in March 2009.

This has given the Council and the new supplier a workable structure around which to agree the contract management process, with an SLA, KPIs and a clear procedural methodology in place ahead of the new contract start date of 1<sup>st</sup> April 2009.

#### Outcomes

This exercise has allowed the Procurement team to go out to areas of the Council who were not previously using the corporate contract – partly due to issues with performance management – confidently with a clear and workable solution for corporate needs for all types of public notice and advertising, meaning that the scope and effectiveness of the contract has been extended beyond its original focus on Recruitment Advertising. Better value is now achieved through the new contract, and satisfaction with the arrangements has improved.

### 3 Strategic Procurement – changing the shape of our organisation

The following case studies show how we are using our procurement in a strategic way to achieve our longer term goals and shape the future delivery of services so that they have lower overheads and deliver better outcomes.

### Case Study – Internal Audit

**Contract value:** £121k

**Contractor:** PriceWaterhouseCooper

**Description:** The council had operated a traditional internal audit service which focused on largely process-based audits. Costs were very high due to the large number of audit days used each year (twice the number as the average authority). Despite this level of attention, the Council experienced a significant number of errors in its financial reports, had additional audit fees imposed by the Audit Commission because of less reliance on Internal Audit work, and external audit charges were increased by the Commission for extra work needed to gain assurance on the Council's systems of control. Satisfaction with the service amongst senior managers was poor and the quality of audit reports was questionable.

As part of a value for money review different delivery options were explored: retaining the service in its current format, working with another council using a shared management resource, joining a

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local consortium where staff are 'pooled' and managed by a single council, and a wholly outsourced approach. A decision by the Accounts, Audit and Risk Committee saw the service tendered (in conjunction with Oxford City Council) with the contract won by PWC. To ensure that continuity of service was maintained an interim contract was let with PWC for the transition period to the contract start date of 1 April 2009.

The new service has two contract managers; one in each authority. The Annual Audit plan will be more focused on the strategic risks to the authority than on process-based audits, which has led to a significant reduction in the number of days used.

### Outcomes

The contract sum has enabled the council to make savings of £110,000 per annum, largely helped by the collaborative nature of the procurement. The nature of the contract will allow for other authorities to benefit from the service should they choose to join and provide further savings to all partners based upon retrospective discounts for increased draw down on the framework.

The use of PWC gives the council access to a wide pool of expertise and the benefits of using one of the 'big five' national audit companies. The strategic focus of the service allows a more flexible approach, focused on areas of corporate priority.

The Council now fully complies with the CIPFA code of practice, providing greater degrees of assurance to management, members and the public

### Case Study – Property Maintenance

**Description:** Concerns regarding the comparative high cost of maintaining council buildings led to a value for money review of the Property Service, which confirmed that the Council spends considerably more than average on its property maintenance compared to other District Councils, although its buildings are in very good condition. At the same time the council has performed poorly over a number of years in improving disabled access to council buildings. A detailed specification-based approach to individual contracts within the service has not delivered real benefits for building occupants (for example, lift maintenance contracts ensure attendance on site within 4 hours, but not that the lifts will be repaired in good time).

Members are clear that the maintenance of buildings, while important for service delivery, is not considered core business for the council and that the service should be market tested to see if real improvements in service delivery and cost can be achieved through using external facilities management expertise.

An exercise is currently in hand to decide on the best way to approach the market with the existing service divided into 'lots' that will attract a good range of tenderers, but also allow the service to be delivered through one supplier. A key aspect of this will be in determining a successful approach to the contract monitoring function to ensure that appropriate expertise is in place, while an output-based specification will seek to ensure that the market determines the best approach to ensure outcomes are delivered in the most effective way

### Outcomes

Although it is too early to judge the success of the market testing exercise, interest in tendering for the work has been expressed by a number of major facilities management companies.

A mixed solution approach has provided a range of options. Some elements lend themselves well to collaborative solutions as part of the existing County framework contracts, other elements are more suited to a tender process utilising a performance based specification.