

Local services: better for less



Research into how well local authorities are positioned to meet the 2014 budgetary challenge, and how they perceive outsourcing and partnerships can support them to achieve this



Better for less

Executive summary

Local authorities are being challenged by Strategic Spending Review cuts of between 20 per cent and 30 per cent over the next three years. Although the ultimate date by which these changes need to be made is 2014, the front-loading of the cuts means this challenge must be addressed now.

Councils have already made significant efficiency savings in recent years, but the new challenges are tougher. Furthermore, local government has to face additional political, people and place issues.

The following research, commissioned by Interserve and undertaken by YouGovStone, involved interviews with chief executives and directors at a representative sample of 101 separate British councils. Findings indicate that almost a third (31 per cent) of councils expect to outsource over 40 per cent of services by 2014, and that between 2011 and 2014 the average scope of services outsourced will increase from 20 per cent to 34 per cent.

In Interserve's previous local authority 'Mind the gap' report, published in 2010, only 28 per cent of councils expected there to be more outsourcing, but outsourcing levels have already doubled. In early 2010 Interserve found that 84 per cent of councils thought the budgetary challenge of £5.5 billion saving for 2008-2011 was unachievable. By 2014 local councils are expected to achieve a further 27 per cent of total savings over the four-year Spending Review period; even with this significant increase in savings targets three in four councils now believe this target is achievable.



What has changed?

There has been a significant shift in local government activities, especially when it comes to savings, and 83 per cent of councils have developed and started to implement a strategic approach to achieve this challenge.

But the market is set to change further, and with topics such as the big society, localism and shared services becoming increasingly common in local government language, councils are debating the future shape of their delivery models. By 2014:

- 61% of councils believe they will be outsourcing over 20 per cent of their services
- Outsourcing levels will increase on average by 14 percentage points, from 20 per cent to 34% of all services
- 84% believe that outsourcing has been successful in achieving its objectives

However:

- 40% don't have a politically-approved strategy to achieve these savings
- One in four councils aren't confident they will have achieved all their savings;
- And only one council in 10 is expecting to achieve over 30% of efficiencies by 2014

The drivers for local authority procurement models are also changing:

- 59% see a benefit in sharing services across council and public sector bodies
- 76% believe more local control will enhance the ability to meet targets
- 75% believe the local voice as being important in making future decisions

But there are some issues where change is still being fought against. Local councils are insular, they want service providers who understand their market, they look to their peers for best practice and not the wider industry, and they believe they are being hampered by the politics.

Outsourcing is a significant part of their future, but it is a more than a quick fix: it is an opportunity to help redefine delivery and instigate a positive change.



A note from Interserve...

It is certainly a challenging and 'interesting' time for local authorities. They are facing a period of significant change that will affect their delivery models and approach more deeply than they have seen for many years. This is a time for innovation, a chance to start looking more radically than ever before at the way they deliver services.

I would challenge local government to go further than it is currently contemplating. The extent of the authorities' proposed efficiency savings is in line with government savings, the areas where they believe savings can be achieved are consistent with what they know and are comfortable with, and they are focused on using providers and expertise from within their sector. They could aim to make bigger savings for their communities, address areas of service that they have not previously considered and look beyond the local government sector to exploit knowledge and experience gained elsewhere.

It isn't an easy time in local authorities. They have been the leaders in achieving savings to date within the public sector but they are being challenged yet further. However, this is an opportunity to take an even more innovative approach to their procurement. The voice of the citizen is becoming ever-more important and is playing a role in how services are measured. This is an opportunity for chief executives to assess how they deliver services and to tackle some of the inherent and deep-rooted costs in their operating models.

In a time of austerity, and most importantly a time of change, the local way is being redefined, challenged and improved. What the future will be like is definitely a topic that's up for debate. But one thing is for certain: it will revolve around a new model that is shaped to deliver both savings and flexibility for local councils. Authorities need to outsource to achieve these savings and they need partners who can help them - partners who put front-line services and the needs of the authorities and their citizens at the heart of their operating model.

Adrian Ringrose, Chief Executive of Interserve



A note from the BSA

Effective outsourcing can improve the day-to-day services that people get from their local councils, as well as reducing the costs of those services for squeezed council budgets. The research detailed here has revealed some interesting information about the attitudes of top-level officials in British councils towards outsourcing.

Local government is being asked to make the biggest cuts to its expenditure in history - 26 per cent in real terms over a four-year period. With half of local government revenue being spent on suppliers, we believe that we need to have a debate on the importance of effective outsourcing - and that debate can't be had without the voice of the outsourced services industry.

With 17 per cent of councils still in the planning stages of a strategy to find efficiencies, outsourcing should be at the forefront of decision makers' minds. And where a strategy has been developed, it's not too late to consider outsourcing as a means to achieve those goals.

Interserve's important research has allowed us to understand better the attitudes towards outsourcing of councils up and down the country. Although we have long suspected that local officials - those who are charged with finding spending efficiencies - recognise the value of outsourcing, this research has confirmed it. It is clear now that the greatest barrier to reform that we face is political preconceptions.

Attitudes do seem to be changing, however, perhaps based on the strong record of success the private sector has had. We want real partnerships with local communities, and we are adamant that a public service ethos is not just the preserve of the public sector. Our industry is working hard for people around the country, collecting their rubbish, sweeping their streets and tending to their parks. At a time when councils are facing deep financial challenges we can do it for less money and, very often, to a far higher standard."

Mark Fox, Chief Executive at Business Services Association



Key findings

The challenge

- 40% don't have a politically-approved strategy and 17 per cent of councils are still at the strategy formulation stage when it comes to making cuts
- On average councils have to make 20% savings and 72% of councils are confident that they will have achieved this savings target. However one in four councils don't think they will achieve these savings by 2014.

Outsourcing

- Outsourcing is believed to increase from levels of 20% to 34% in the next three years
- 58% of councils believe outsourcing is critical to them achieving these savings
- 84% of councils perceive outsourcing to be successful in achieving objectives
- Councils see benefits of IT, Revenue and Benefits and Facilities Management departments sharing outsourced services - this view is especially prevalent in larger councils - but are unwilling and see minimal benefits sharing services across Adult Care, Children's Care and Public Protection departments
- Whilst 59% see benefits in sharing services across council and other public sector departments
- Political concerns are the main barrier to outsourcing but a lack of capacity and skills also play a key role

Partnership

- 63% of councils rank partnership as the most important factor in a contract arrangement with private sector; lowest cost doesn't even make the top five factors. However, smaller councils are more cost-conscious than their larger council counterparts
- Whilst 87% of councils wish to balance risk and control, this requires partners able to take on risk

A changing future

- 76% believe more local control will enhance the ability to meet council targets
- 75% see the citizen's voice as being important in future
- Only 8% of councils start the procurement process by engaging a consultant, whilst one in five start it by looking towards local government best practice



"Outsourcing is not always an efficient tool if the objective is solely to make cost savings. The greater benefits lie in a combination of cost savings, risk transfer from the public sector to the external provider, and budget certainty / budget stabilisation within the framework provided by a contract. This combination is what best rewards and protects public services provided by private or voluntary sector providers. Unfortunately, while voluntary sector organisations might be able to do things "cheaper", they are not always able to accept the transfer of risk that returns the wider benefits of outsourcing to the public sector client - nor indeed are all private sector organisations able to do so."

Chief Executive, metropolitan borough council

"Better to have a pluralistic approach than to put all our eggs in one basket - some outsourcing, some shared services with a variety of public sector partners, some disposal via Big Society type initiatives, driving efficiencies in our own processes, reducing or stopping services as a last resort."

Divisional Managing Director, metropolitan borough council

"The current cuts are unmanageable within the service delivery envelope in which we operate at the moment. There will have to be some fairly dramatic cuts to services, including essential services to accommodate the cuts. Government will have to get used to this concept - we have been cutting back over the years and it is impossible to keep cutting back and deliver the same level of service, however much our masters jump up and down criticising us."

Chief Executive, borough council



Review of 2010's results:

The challenge

- 91% were expecting a reduction in government-allocated budgets
- 84% thought the £5.5 billion of saving in the three years up to 2011 was unrealistic

Efficiency

- One-quarter felt that local authorities had not been very successful in increasing efficiency

Outsourcing

- 72% thought outsourcing would increase in the downturn
- 25% were not likely to outsource services
- On average respondents expected to make savings of approximately 10 per cent over the next two years
- 40% thought that outsourcing would play no part in their own savings
- Flexibility and risk management were seen as the areas where outsourcing could help most in increasing efficiency
- 36% thought combining IT and facilities management would reduce costs
- 31% thought combining construction and facilities management would reduce costs



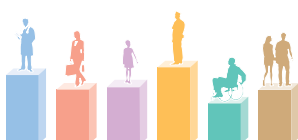
The challenge facing local authorities

With £6 billion of efficiency savings announced in the public sector **The Spending Review 2010** is underpinned by a radical programme of public service reform, changing the way services are delivered by redistributing power away from central government and enabling sustainable, long-term improvements in services. This programme is built on the coalition principles of increasing freedom and sharing responsibility, by:

- localising power and funding, including by removing ring fencing around resources allocated to local authorities and extending the use of personal budgets for service users;
- cutting burdens and regulations on frontline staff, including policing, education and procurement;
- increasing diversity of provision in public services through further use of payment by results, removing barriers to greater independent provision and supporting communities, citizens and volunteers to play a bigger role in shaping and providing services; and
- improving the transparency, efficiency and accountability of public services.

The **localism and de-centralisation bill** will introduce new freedoms and flexibilities for local government. For instance it will:

- give local authorities the formal legal ability and greater confidence to get on with the job of responding to what local people want;
- cut red tape to enable councillors to play a full and active part in local life without fear of legal challenge;
- encourage a new generation of powerful leaders with the potential to raise the profile of English cities, strengthen local democracy and boost economic growth; and
- reform the governance of London so that more power lies in the hands of elected representatives who are democratically accountable to London's citizens.



In May 2010 the **Audit Commission** reported that although collaborative procurement has the potential to improve value for money, the public sector procurement landscape is fragmented, with no overall governance. Consequently public bodies are incurring unnecessary administration costs by duplicating procurement activity, and they are paying a wide range of prices for the same commodities, even within existing collaborative arrangements.

“For 20 years, public services have been drilled to improve. That pressure will not go away. But to meet the demands it faces, and to maintain its legitimacy, the public sector is going to need more than improvement. It will need to rethink, reinvent and re-imagine how public services help people and communities create public good and higher quality of life. That means working with people and helping them to do things by themselves, as much as doing things for and to people,” commented **Charles Leadbeater** (12th April) a NESTA fellow and adviser to the Public Service Innovation Lab.

In June 2010 the **Local Government Association** stated in *Place-based budgets, the future governance of local public services*, “Public services will have to become more transparent, more effective and cheaper. This simply will not happen without a significant change to the way funding is allocated and decisions are made. We nevertheless enter the next decade with a public service architecture created on this flawed and over-centralised model, with a public budget and bureaucracy for every issue, and an inspection and control regime for each one. That means only radical reform can make possible the necessary savings in public expenditure, if frontline services are to be protected. If the current model is not deliberately reshaped, it risks catastrophic collapse under the pressures it now faces. The way public services are funded, delivered and regulated will have to change. A lot.”

Whilst on 16th March 2011 **John Cridland** from the CBI said, “The second challenge is the one we’re concerned with today. This is how we can deliver good public services and improve outcomes in a time of constrained spending. I believe we can deliver more with less, but this won’t be easy. An ageing population is putting huge pressure on health, social care and welfare. Some reforms are vital to this response. These include: reducing discretionary cash spend; driving out waste; achieving greater productivity; sharing services; having better procurement; and ensuring full and fair competition between different providers. These should all be a given. They should be an integral, instinctive part of how public services are delivered, and in some places they already are. But that’s far from always the case.”

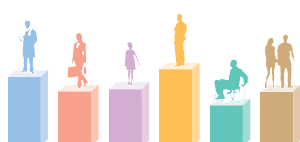


Further to this local authorities are facing property estate issues as highlighted in a recent report supported by the **Westminster Business Sustainable Forum** and introduced by **Eric Pickles** which investigated how the public sector could improve the sustainability of its estate management. The inquiry's recommendations suggest that if local authorities streamline office space use and share it with other service providers and local authorities, they can reduce their space requirements by up to 30 per cent and save £7 billion a year in running costs. Moreover, for the space that remains in use, local government can save a further £190 per square metre per year by following a suite of sustainability measures.

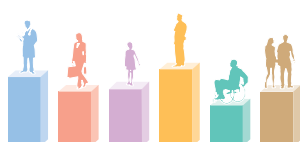
Communities and Local Government states, "Local authorities also have a crucial role to play in ensuring that day-to-day services to their communities are efficient and effective, offer good value for money and deliver what people actually want. To achieve this, local government will be more transparent and accountable to its citizens. It will also promote the Big Society by working closely with community groups and the voluntary sector."

According to **Simon Parker, director of the New Local Government Network** (April 2011), "Some chief executives privately express a certain amount of frustration with the big incumbent companies, questioning their ability to deliver the levels of innovation necessary to cope with 28 per cent budget cuts. If you always contract with the same old people, goes the logic, then you'll always get the same old service. Councils want economies of scale, but they are suspicious of inflexible, long-term contracts. If they do contract, they want more of their money to stay in the local area. And if they can't save public sector jobs, they definitely want to see their buying power benefiting small local businesses."

Whilst according to the **Council Budgets, Spending and Saving Survey 2011 by the Local Government Group**, "Central services was, by some distance, the service most often targeted for proportionally greater savings in 2011/12 (by 58 per cent of authorities). The next most commonly targeted service was 'services for young people' (22 per cent), with targeting of the remaining services varying between 16 per cent and zero. The two services which authorities said their councilors had most often sought to proportionally protect in 2011/12 were children's social care (63 per cent) and adult social care (57 per cent). The next most common was refuse and recycling (21 per cent), with the remaining services varying between 14 per cent and zero. The most common organisational changes already made were reducing senior-officer costs (90 per cent of respondent authorities), reducing middle-management costs (72 per cent), setting up shared services with another local authority (71 per cent) and outsourcing services (67 per cent)."



Finally in 2011 Interserve with the MJ investigated this topic further in the February 2011 *Better for less roundtable* where a county chief suggested, “We’ve got to tear up the concept of the 3000-page specification. You need one side of A4 that tasks the provider to create a new model.” Another chief set out her three-point agenda for working with the private sector: “We need a different model of how to do business and that certainly includes not over-specifying,” she said, but added, “There is the issue of risk to reputation which stays with us if we outsource. We need to discuss how we get that process shared.” Her third point was how in partnership with the private sector the concern for social capital was built in. This was not merely taking account of current but previous and transferred staff all of whom were customers and public servants: “Where do we see the impact and outcomes affecting this social capital?”



Background

Interserve, the support services and construction company, commissioned YouGovStone to carry out research amongst chief executives and top teams at 101 local authorities across Great Britain in regards to:

- Council budgets
- Role of outsourcing
- Attitudes towards outsourcing
- Knowledge of Interserve



Verbatim comments from 2011 survey:

- “Outsourcing is not always an efficient tool if the objective is solely to make cost savings. The greater benefits lie in a combination of cost savings, risk transfer from the public sector to the external provider, and budget certainty / budget stabilisation within the framework provided by a contract. This combination is what best rewards and protects public services provided by private or voluntary sector providers. Unfortunately, while voluntary sector organisations might be able to do things "cheaper", they are not always able to accept the transfer of risk that returns the wider benefits of outsourcing to the public sector client - nor indeed are all private sector organisations able to do so.”
- “The current cuts are unmanageable within the service delivery envelope in which we operate at the moment. There will have to be some fairly dramatic cuts to services, including essential services to accommodate the cuts. Government will have to get used to this concept - we have been cutting back over the years and it is impossible to keep cutting back and deliver the same level of service, however much our masters jump up and down criticising us.”
- “The shared services agenda is gaining momentum, but there are considerable hurdles, not least the harmonisation of systems and processes, which will mean initial upfront investment in most cases with a return only yielding real results in years three onwards, which tends to militate against the budgetary demands of the here and now i.e. to find savings in year. A more realistic programme, nationally, would ensure better support for these initiatives, which could deliver real savings of a considerable nature over time.”
- “We are approaching in a mixed way so we are open to explore any idea that save money and improve customer experience, it could be outsourcing, it could be partnership or it could be in-house.”

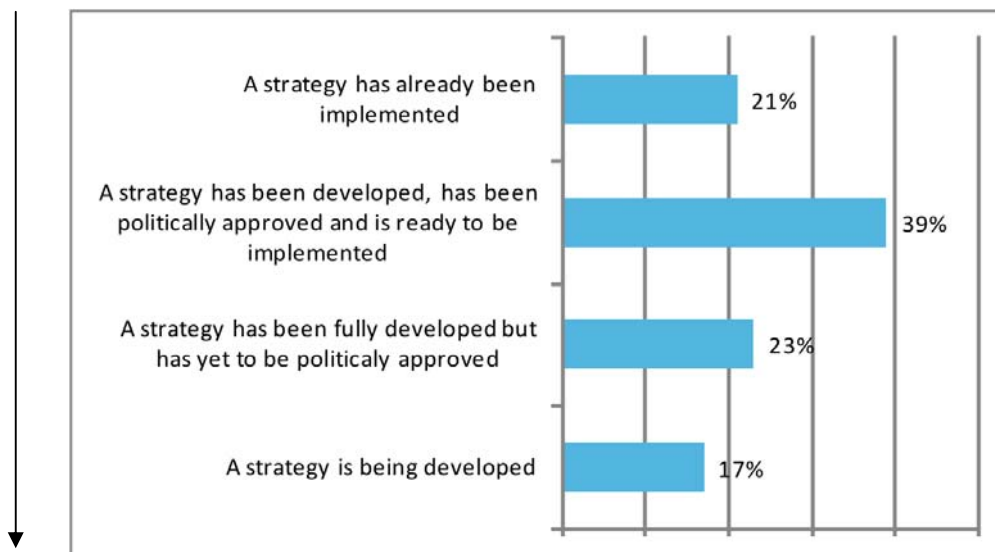


Survey results

The budgetary challenge

A defined strategy

Q. How clearly defined is your council's strategy to deal with the budgetary challenge leading up to 2014?



Government has been talking about budget cuts for over 18 months now, but only 21 per cent of councils have implemented their strategies to deal with this challenge. Two in five councils (39 per cent) have developed their strategy and are ready to implement it, yet 40 per cent of councils still do not have a politically approved strategy to deal with the financial deficit.

Further interrogation of the results shows that smaller councils are further down the line with their strategy development, whilst a strategy has been implemented for only:

- 26% of those with less than £100 million budget
- 21% of those with a budget between £100 million - £500 million
- And 12% of those with a budget greater than £500 million

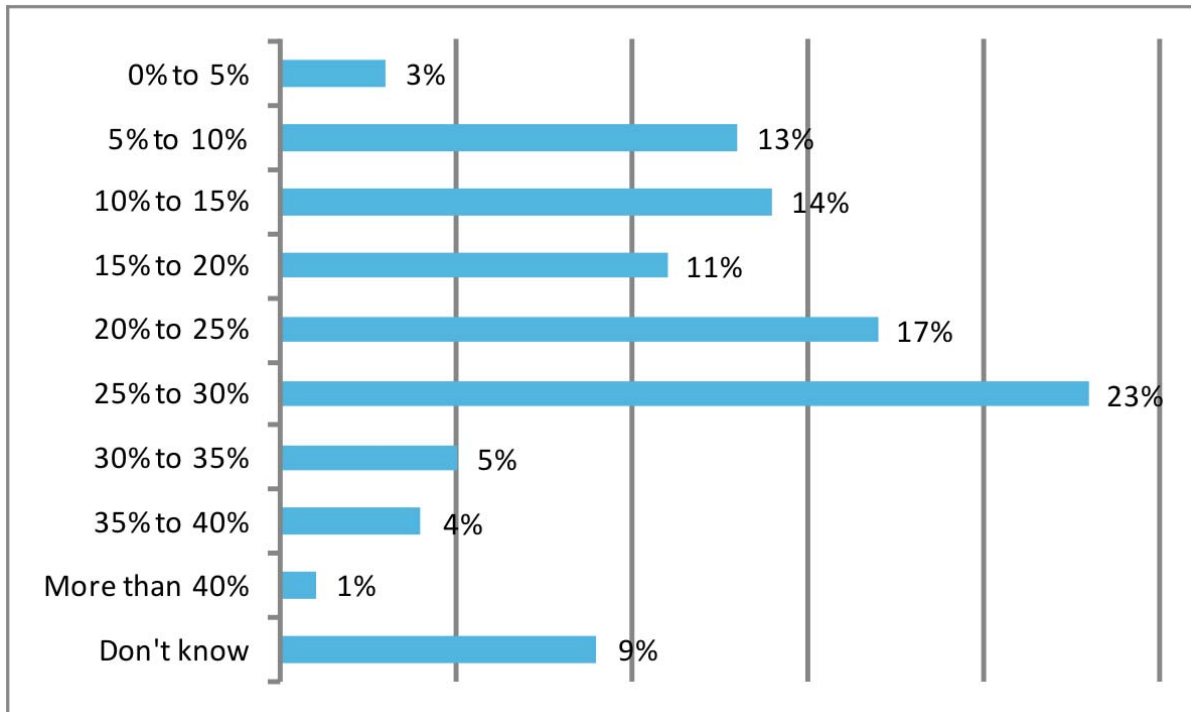
Is this difference in strategy development due to larger councils having a significantly larger challenge, or just because they don't know how to cut their growing overhead? These councils are lagging behind in their search for cuts, and are only making tentative steps to achieve their goals. It appears that they are still looking for ideas and delivery methods to achieve these targets.

Although strategies are now clearly defined, compared to 84 per cent of councils believing that the savings challenge was unrealistic when asked in 2010, there is still a significant challenge ahead.



Meeting the 2014 efficiency challenge

Q. What percentage in efficiencies will you have to deliver across the whole council by 2014?



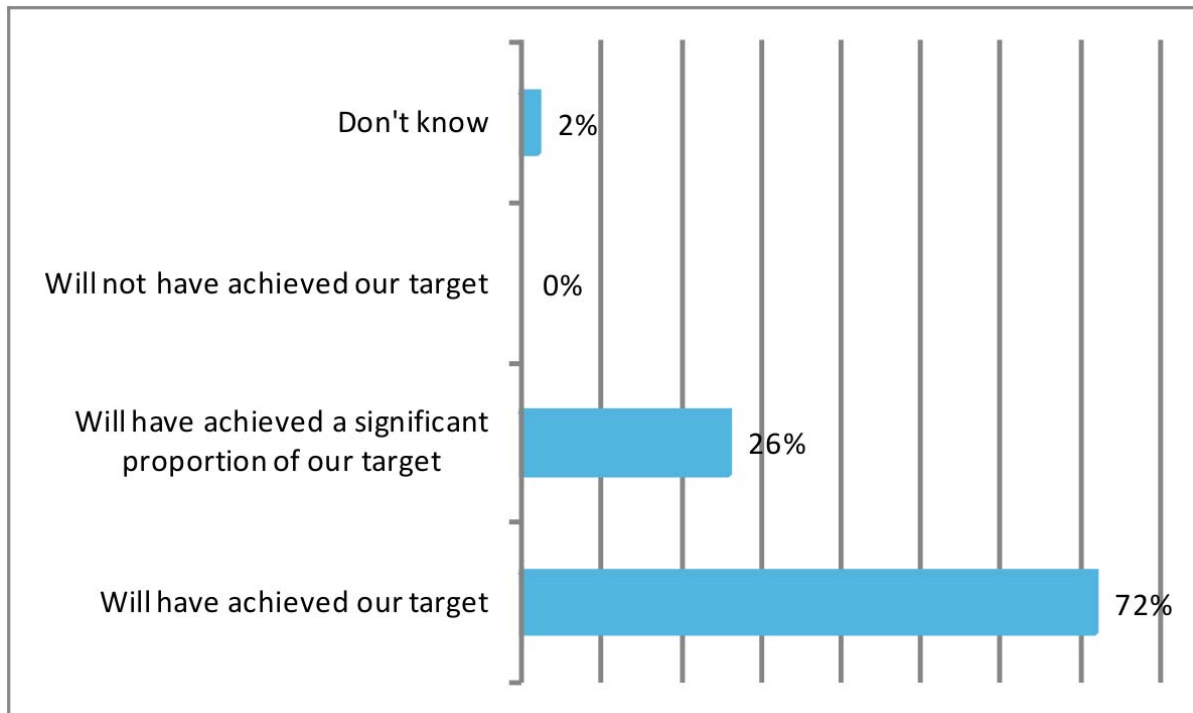
On average councils are expecting to make a 20 per cent reduction in their costs; there is no real difference in the saving figure in relation to council type or size. However 41 per cent of councils expect to make less than 15 per cent of savings whilst only 10 per cent of councils expect to make over 35 per cent of efficiency savings.

In 2010 local authorities were expecting to make approximately 10 per cent of savings by 2011, although the levels of savings are now expected to double. This matches the government savings targets but not exceeds it, as savings level significantly drop off after 30 per cent.

Councils may be challenged, and they may be facing cuts, but they're definitely still erring on the side of caution. Whether this is due to an ingrained belief system that says they can't achieve more than one-third cut in their budget, or they are just targeting the cuts required in relation to government guidelines and not all potential savings available is difficult to confirm from this data.



Q. Do you think you will have achieved your budgetary targets by 2014?



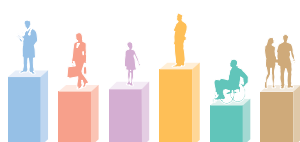
It's all very good talking about cuts, but do councils think they can actually achieve these savings?

72 per cent of councils think they will have achieved these savings by 2014, whilst one council in four believes they will only have achieved a significant proportion.

Councils making smaller savings are more confident of reaching their targets: certainly levels for those saying 'will achieve our target' rises to almost 80 per cent for those making under 25 per cent savings, against 62 per cent for those making over 25 per cent savings.

No council is prepared to admit that they will not have achieved their target.

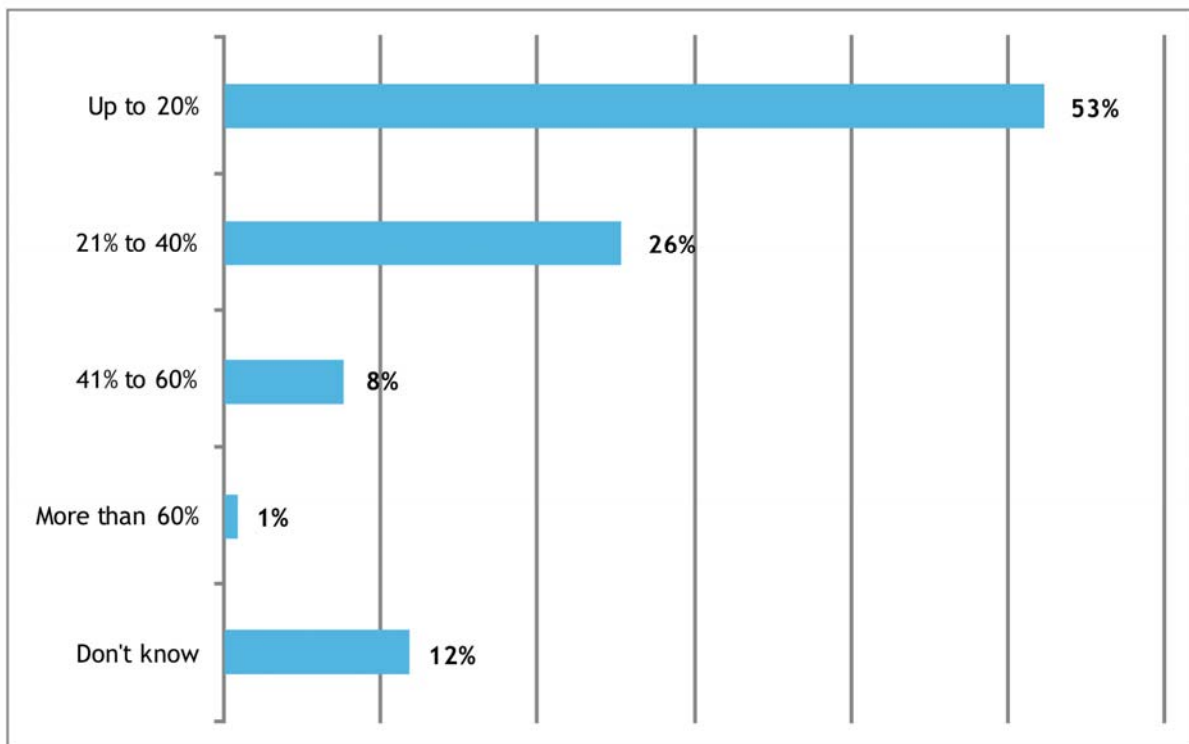
In 2010, one-quarter of councils felt that local authorities in general had not been very successful in increasing efficiency, which begs the question why are they so confident they're going to achieve these savings now. Perhaps they are more confident in their own council's ability to deliver savings than they are in the abilities of other councils.



The role of outsourcing

Current and future approach to outsourcing

Q. To your knowledge, what proportion of your council's services are currently being provided by external organisations?

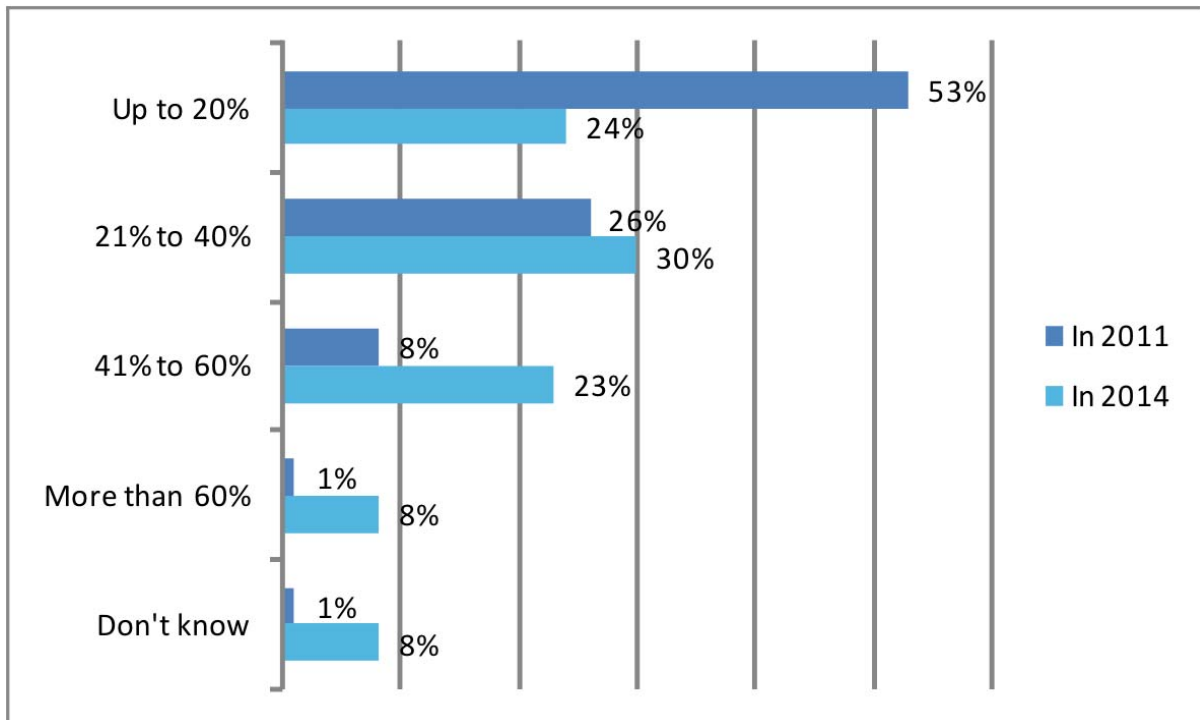


Over half of councils currently only outsource up to 20 per cent of services. District councils on average outsource just over 20 per cent whilst unitary authorities outsource 14 per cent of their council services. This 6 per cent difference is likely to be due to the differing service mix of authority types, the size of budget and increased levels of staff.

This figure has risen significantly since 2010 when 6 per cent less of councils were outsourcing up to 20 per cent of their services, and only 21 per cent were outsourcing up to 40 per cent. There has however been a 10 per cent drop in those outsourcing more than 60 per cent since 2010. The prediction in 2010 was that only 28 per cent of councils expected there to be more outsourcing. By 2014, however, the local government outsourcing market is set to look radically different.



Q. To your knowledge, what proportion of your council's services are currently being provided by external organisations and what proportion do you expect to be provided in 2014?



The proportion of councils expecting to outsource over 20 per cent is predicted to rise by 26 per cent. This increase in outsourcing levels appears to be due to both the savings challenge and the councils' realisation that they cannot meet this challenge alone.

Councils which are Conservative led, have larger budgets, and need to make more than 25 per cent savings are likely to rely more heavily on outsourcing. Of those expecting to make more than 25 per cent savings, 37 per cent of services will be delivered via outsourcing. But even for those currently outsourcing less than 20 per cent of services expect levels to almost double.

On average councils expect 34 per cent of their services to be provided by external organisations in the future compared to the current 20 per cent mean. Conservative led councils expect on average 39 per cent of their services to be provided by external organisations, whilst those with no overall control or are coalition led only expect to outsource on average 26 per cent.



There is a very strong growth for outsourcing predicted in councils

- Achieving over 25% of savings
- Conservative led authorities
- And Unitaries

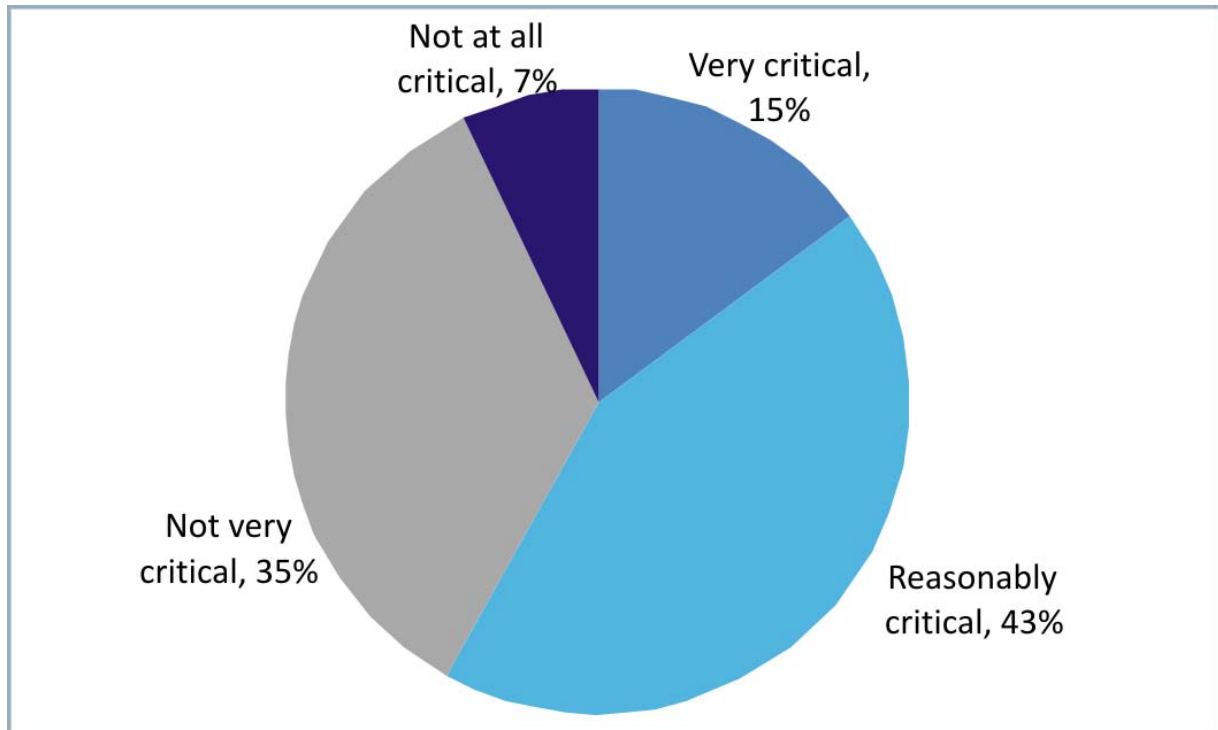
Those outsourcing less than 20 per cent, who have no overall control or are coalition-led, are less likely to see as significant an increase in outsourcing.

There is also a large increase in those councils expecting to outsource between 61 per cent to 80 per cent of their services.



How critical is outsourcing to achieving the required efficiencies

Q. How critical do you feel outsourcing is to achieving the required efficiencies?



In 2010, only 31 per cent of councils expected outsourcing to support in making any savings, with only 8 per cent of these believing outsourcing could achieve over 20 per cent of savings. This year we see outsourcing having a greater impact on the how governments expect to achieve their targets. 58 per cent believe that outsourcing will be critical, and again we see outsourcing having more importance amongst larger councils and those needing to achieve higher levels of savings.

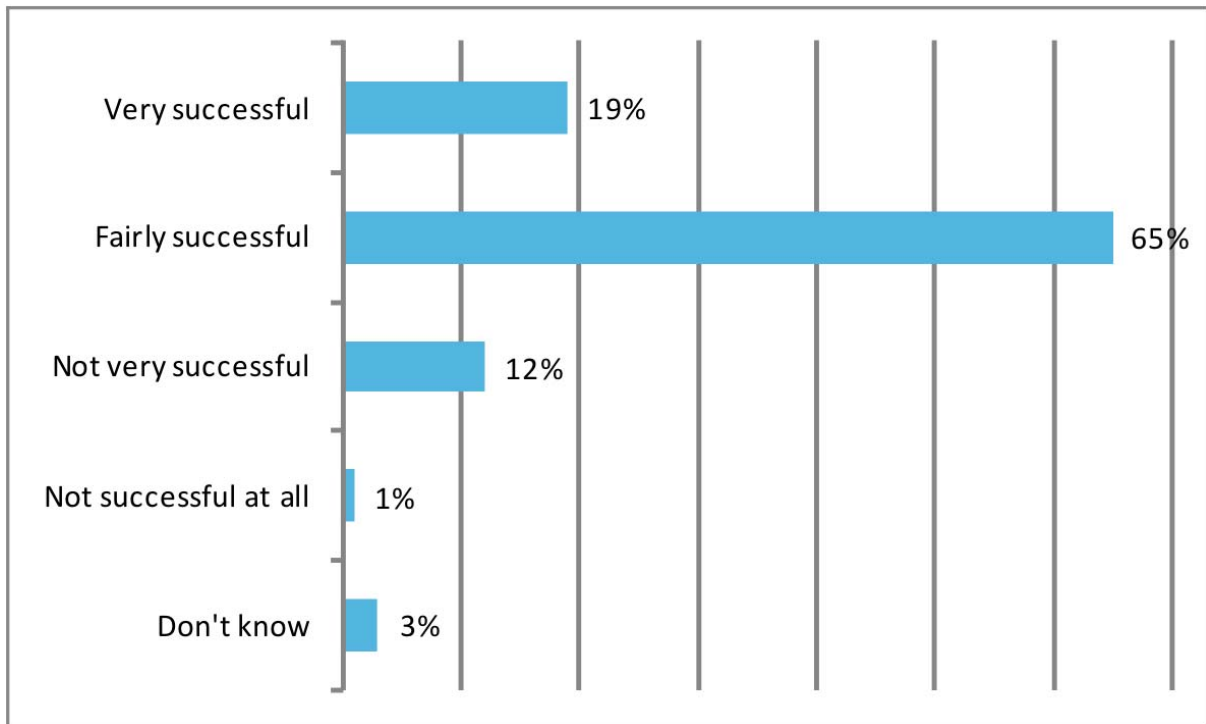
Only 7 per cent of councils think outsourcing isn't critical to making these savings, making it clear that local authorities see outsourcing as one of the ways that they can achieve these financial challenges.

However this could be a leading question, as respondents may only consider those service where outsourcing is fairly common when framing their response. Councils needs to consider other service areas where there is a potential for outsourcing exists (almost all in reality) not just existing 'mature' segments.



How successful do councils perceive outsourcing to have been to date

Q. Where you have implemented and used private sector partners to deliver services via outsourcing, generally how effective has your council perceived this to be?



Not only is outsourcing a potential solution but 84 per cent of councils believe that outsourcing has been successful in delivering to the council’s requirements.

The smaller the council the more likely it is to perceive outsourcing to have been very successful. 22 per cent of councils with under £100m budget believe this, whilst 18 per cent of medium sized councils agree and only 15 per cent of large councils (over £500m) concur. This is confirmed by the fact that only 9 per cent of Unitary authorities say that outsourcing is ‘very successful’.

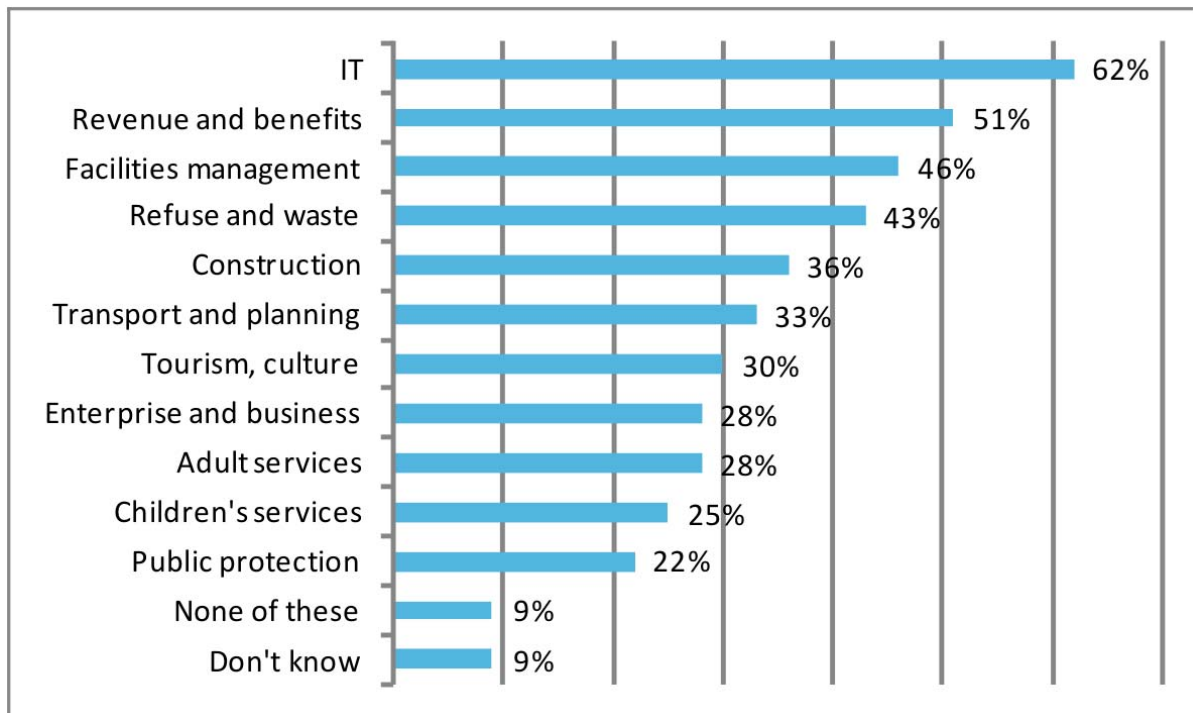
However it appears the chief executives and directors’ opinions about outsourcing are also proportionate to their confidence in its success.



Future of outsourcing

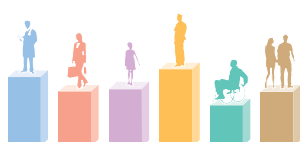
Department's best suited to share outsourced services

Q. Sometimes different departments within a local authority may share outsourced services in order to reduce costs and/or risks. Which of the following departments do you think could be combined to reduce costs and/or risks if they shared outsourced services? Please tick all that might apply.

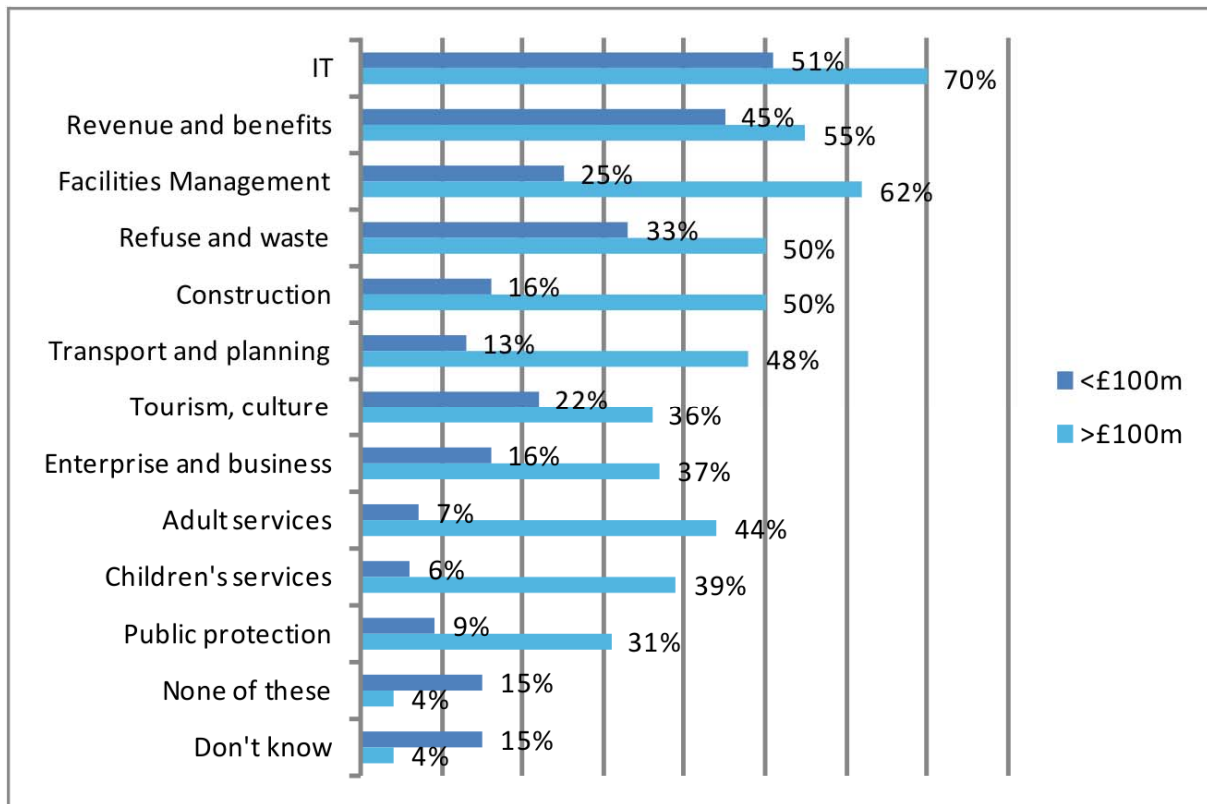


Councils struggle to see how many departments could benefit from shared outsourced services, with only IT and Revenue and Benefits being picked by over 50 per cent of respondents. Areas that are higher profile or where there is a greater risk to the public are much lower on the councils' radar for outsourcing - for instance adult and child services and public protection.

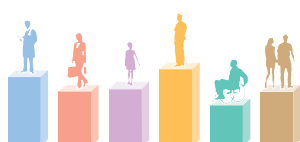
What is interesting is this question wasn't about outsourcing the department, but about sharing services across departments. Yet the results mirror what would be expected of the services which councils should outsource. Reinforcing the belief that councils are outsourcing what they know can deliver savings, and not looking at the wider estate.



Q. Suitability of departments to share outsourced services, split by council budget size

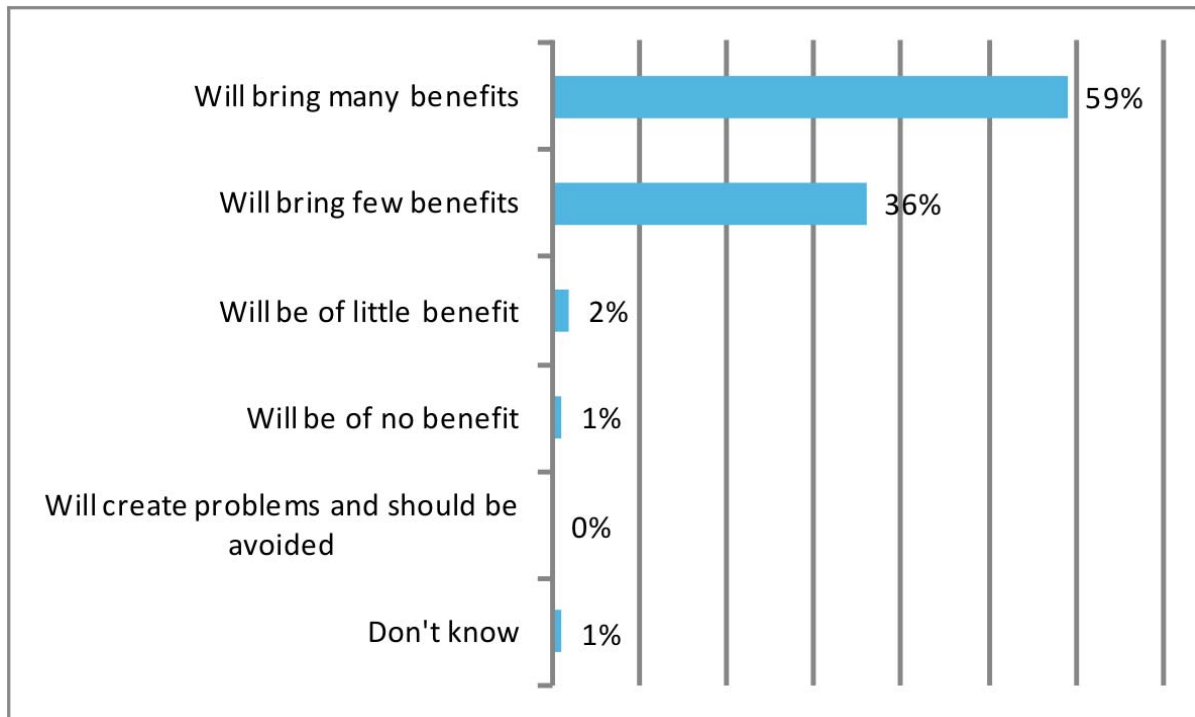


Larger councils (>£100m annual budget) on average select many more departments to outsource: councils with budgets under £100m choose on average 2.5 areas, whilst councils with budgets over £100m choose on average five areas. Again this analysis has to consider the different service mix of council types and that a wider range of services enables councils to be more flexible in achieving the same or greater levels of savings without touching on the services they believe are core to their role.



Views about sharing services with adjacent councils or other public bodies

Q. What is your view with regard to the potential to work with and share services with adjacent authorities and other public sector organisations (for example back office support services)?



59 per cent of councils believe that sharing services with other councils and other public sector bodies is a very positive move and will bring many benefits; on the whole district councils are slightly more positive about this. Only 3 per cent of councils believe there is little or no benefit to sharing services.

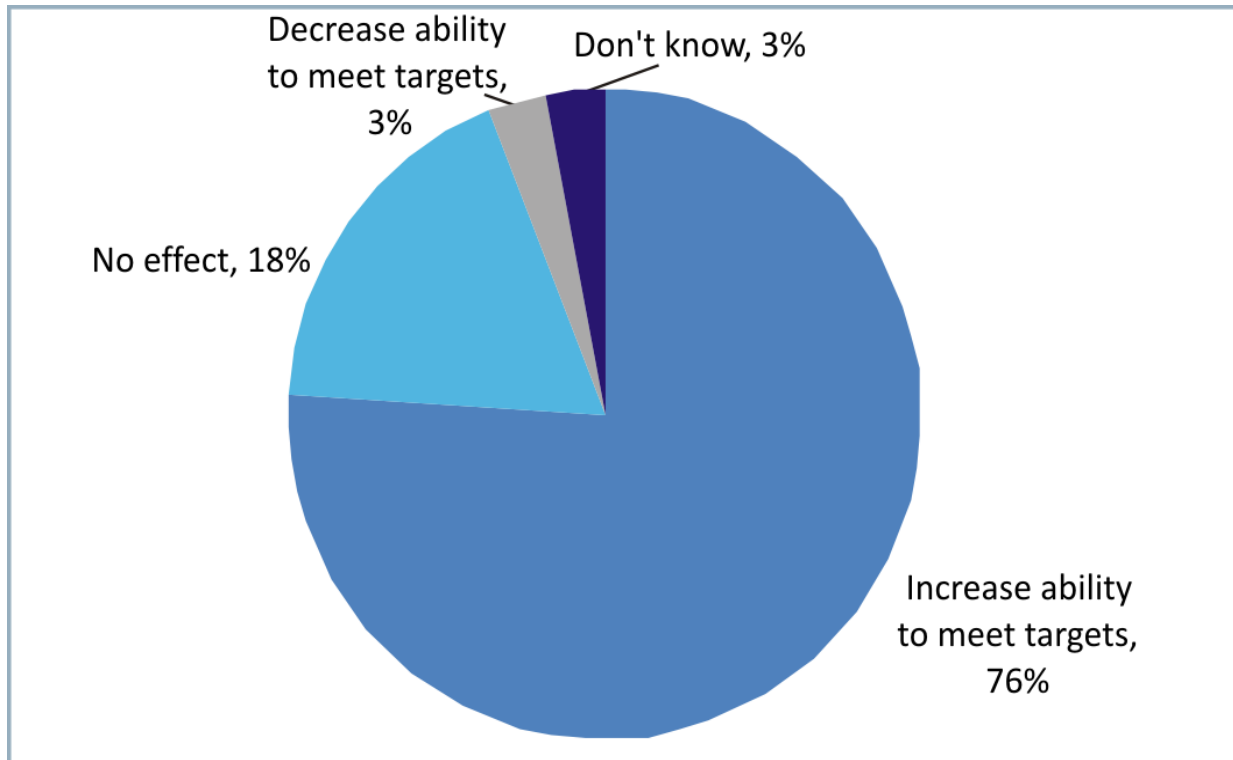
With councils apparently so comfortable with this shared services agenda, it would seem only natural that there would be more deals of this nature coming to market. As this is not the case, it may be that although this appears to be a potential avenue for councils to explore, they have yet to understand or quantify how this approach would work.

Unless these new partnerships enhance the ability to invest, generate economies of scale, enable rationalisation of staff and services, then merely aggregating services may not produce the benefits required and may simply compound any existing problems or weaknesses. In some cases a poor performer linking with a high performer, for example, may bring benefits but also risks and costs to the high performer. However in our opinion, the benefits accrued between a public / public partnership may be limited compared to those achievable through a public / public / private partnership, but this new type of partnership is yet to be fully explored in practice.



Expected effect of gaining greater local control on ability to meet targets

Q. Do you believe having more local control will increase or reduce your ability to meet your targets?



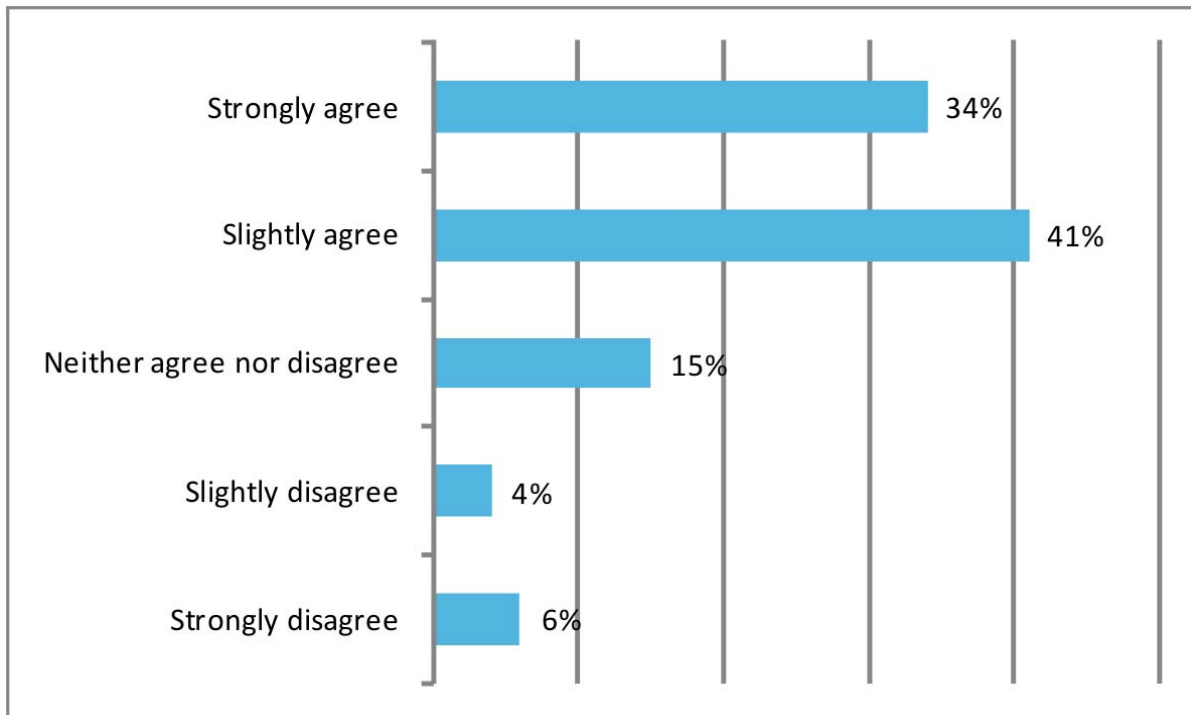
On the whole councils believe that more local control will increase their ability to meet targets. Larger councils are especially unanimous that greater local control will increase their ability to meet targets, with 95 per cent of those with over a £500m budget agreeing. Unlike the positive approach to sharing services, 24 per cent either believe it will have no effect, don't know, or believe that it may even decrease their ability to meet targets.

The concept behind localism is still being defined politically and in practice. Local councils will obviously be in favour of local control, but this control also has to come with financial control. Until this point is achieved it is difficult for councils to know the true impact of such an agenda. Localism will indeed change the behaviour of procurement in councils but needs to be measured by governance and accountability.



The voice of the community

Q. "When it comes to procurement in the future, the voice of the community will be important in defining and measuring the success of our private sector partnerships."

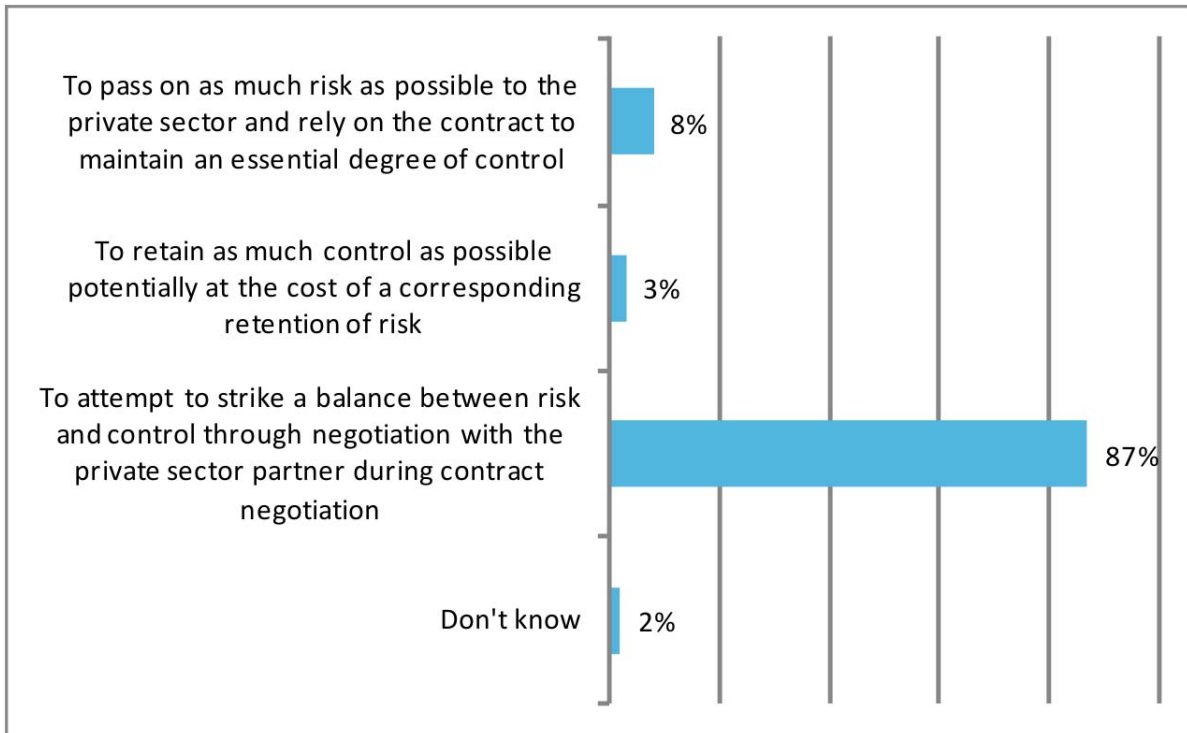


The changing shape of the future of local government was further investigated here: 75 per cent of councils think that the community' voice is going to be important, with over half (55 per cent) of the unitary authorities strongly agreeing with this statement compared to only one in four (27 per cent) of district councils. The low levels of disagreement show how critical the communities engagement will be going forward, which could have a significant effect on the procurement models of the future.



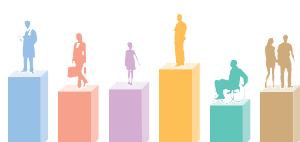
Where should the balance be in outsourcing partnerships?

Q. To attempt to strike a balance between risk and control through negotiation with the private sector partner during contract negotiation



There has been a significant shift in the councils approach to risk and control. Councils now believe that partnerships should strike a balance between risk and control when negotiating contracts. It appears they are now prepared to managed expectations and have mature relationships with private sector partners.

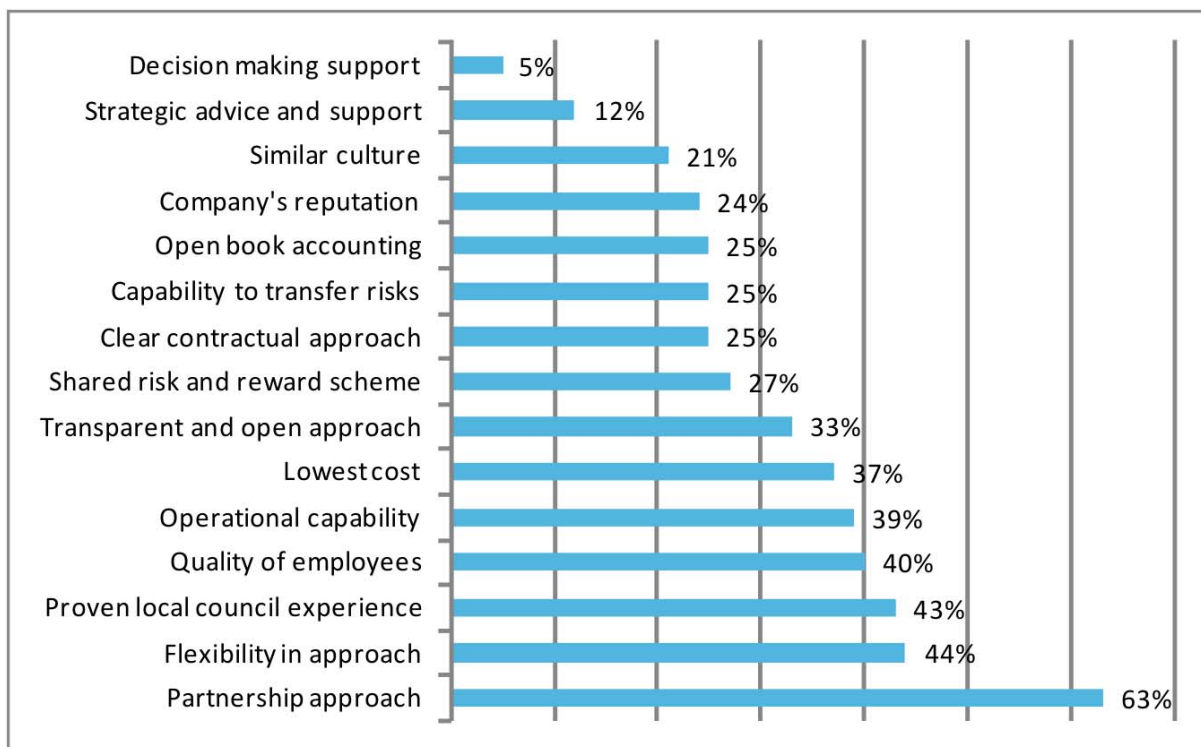
The balance of risk and control will become especially important with the localism agenda, especially as most not-for-profits are unable to take on this level of risk. Therefore the shape and models of procurement will need to be reviewed if councils want the benefit of a private sector procurement model and that of a third-sector approach.



Outsourcing decision making

Top five factors in partners

Q. In selecting a private sector partner, please choose your top five factors in order of their importance to the Council.



Partnership is by far the most important factor in a private-public relationship. In this age of austerity however, the fact that lowest cost is sixth on the list, is surprising. Local councils are also significantly biased to providers who have operated within a local authority context before.

The quality of employees ranks higher than operational capability, albeit by a fraction.

Governance, open book accounting, risk management and financial benefits all score less than 30 per cent. This lack of focus on the ongoing management and financing of partnerships is one of the core differences between public and private procurement. This is due to the different factors effecting local authorities drive for best value. This also reflects the changing models and growing importance of flexibility and innovation being brought to the table by partners rather than a reliance on a structured, inflexible and strictly formal framework.

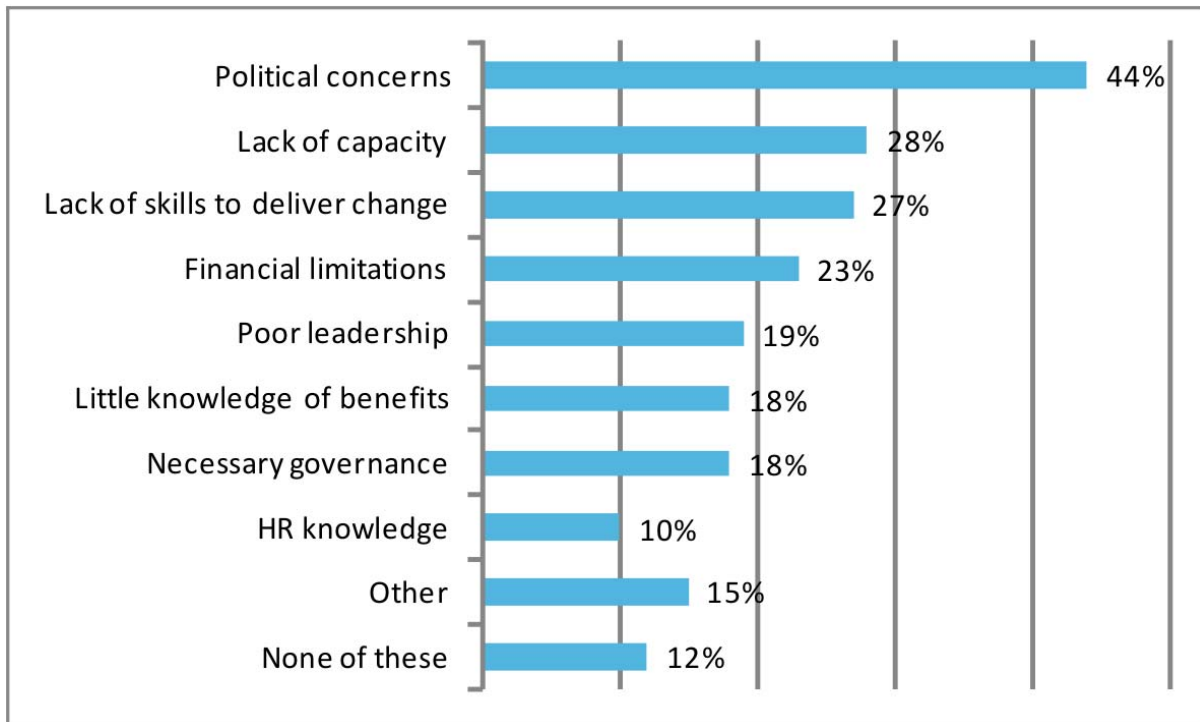


When you break these results down according to size of council, two surprising facts appear: 'capability to transfer risk' and 'open book accounting' were selected by around half the 21 councils with over £500m budget - much more than small councils, whilst 'lowest cost' comes second for smaller councils with half (49 per cent) picking this option. It seems local councils are more prepared to watch their pennies, whilst larger councils are mitigating risk and taking control at the expense of cost.



Perceived barriers to outsourcing

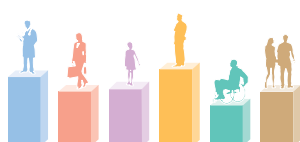
Q. Please select any of the following that you believe are a serious barrier to outsourcing in your department or across your council.



'Political concerns' leads the way by some margin, when it comes to barriers to outsourcing. This barrier seems to be more of an issue in Labour led councils, those with no overall control and larger councils. It appears that the private sector should be doing more to educate around the benefits of outsourcing.

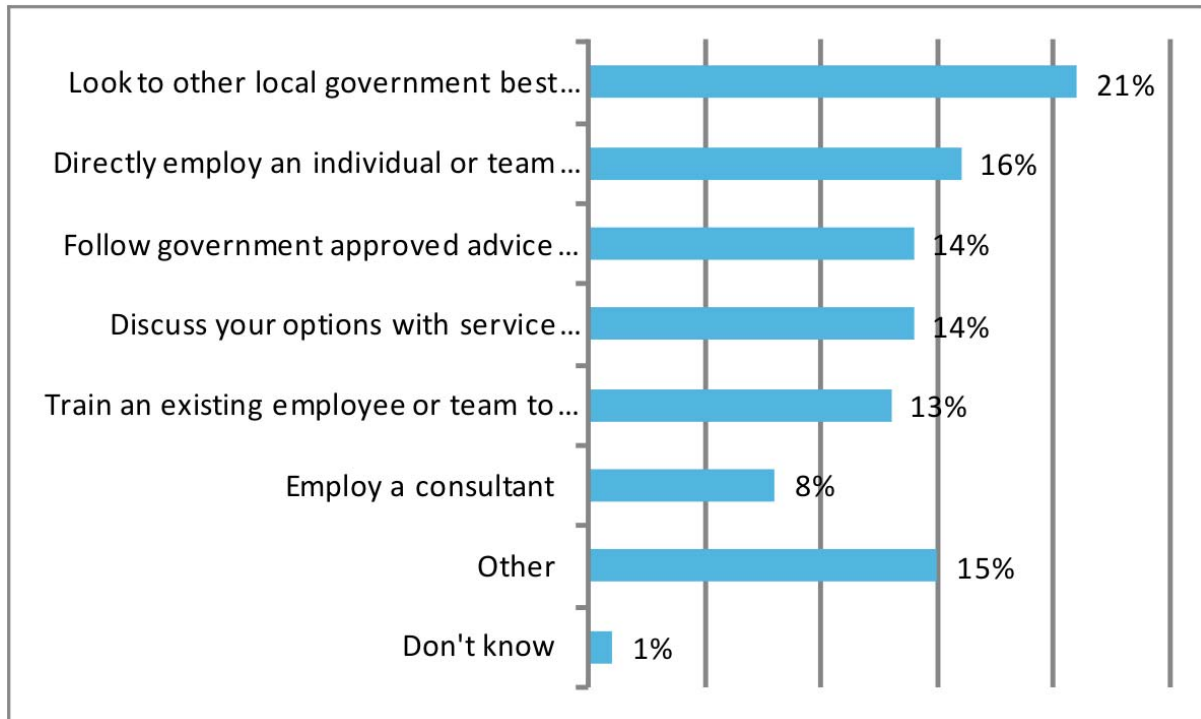
However skills and capacity are also significant barriers. 'Lack of skills' claimed to be far more of a barrier amongst large councils (58 per cent) than small ones (25 per cent). It appears that local councils need to do some working in educating and training their staff to deliver change and look for improvements, whether outsourcing related or not.

Although knowledge, governance and leaderships aren't such significant barriers to outsourcing, they are by no means easily ignored as they are still a challenge for one in five councils.



Starting the tender process

Q. How would you start the process of preparing a tender document for outsourced services?



21 per cent of councils believe local government best practice is the best way to start the procurement process, whilst 29 per cent would either employ or train an individual or team to deliver this change. Only 14 per cent of councils would start the process by following government advice and only 14 per cent would discuss their options with service experts.

Councils may be turning their back on expertise from within the service or government, but they are even less convinced that employing a consultant is the best starting approach, with only 8 per cent starting the procurement process this way. This could be due to the budgetary challenge forcing councils to keep their costs down and looking to partners that can identify and facilitate these savings or that they already believe they understand the overall challenge and objectives and then engage with the consultant.

This preference for an insular approach can negate the savings that may be achieved through innovative procurement, brought to the table by service experts. This is highlighted by the fact that the most common approach to beginning the process is looking to best practice within local government.

When looking at these results broken down by council size, it appears that smaller councils (27 per cent) are more likely to look to other local government best practice initiatives, whilst larger council (24 per cent) are more likely to simply use someone or a team with the skills.



It is therefore apparent that for partners and providers, evidencing capability and showcasing success in the industry is important, but also that local authorities need to start looking to other sectors and environments for best practice.



Summary

Historically, local authorities have tended to view the private sector as being inflexible and focused on contractual terms rather than on the relationship. There's been a feeling of 'getting a raw deal' where private companies make money from large, short-term contracts and walk away without introducing any real innovation or returning anything to the community.

Local authorities have known that they are inefficient. Increasing efficiency has been a goal for some time and they have made meaningful progress. However, the cuts required under the coalition government's funding arrangements have changed the dynamic and the degree of urgency needed to achieve the challenging levels of savings set centrally: it is not possible to continue with the old approach - improving efficiency and seeking different and more effective ways of delivering services to communities and citizens are no longer just goals - they are necessities for survival.

Authorities acknowledge that outsourcing on a fragmented basis, which is how it has often been done in the past, will not create the efficiencies needed. They are also trying to look to the longer term as well as addressing immediate imperatives.

There is a growing recognition that local government can achieve a far wider range and deeper level of benefits by striking a strategic partnership with a service provider rather than using a consultant-based model. It is the practitioner's experience that is key: instead of the authority employing a consultancy to advise on what to do, then appointing a series of outsourcing companies to undertake the specific tasks designated by the consultant, it can make significantly greater advances by exploiting an outsourcing company's direct knowledge of the issues involved in delivering services in these environments. Together they can design a sustainable approach that addresses the specific requirements of the local community.

In this environment there is no established delivery model and the market is open to companies who address it with new ideas and a spirit of partnership.



Methodology

The 101 councils interviewed within Great Britain are representative of all GB's 407 councils. Field work was carried out between 24th January and 9th March 2011. This survey has been conducted using a combination of online and telephone interviews administered to senior executives with 101 completed interviews, all from different councils.

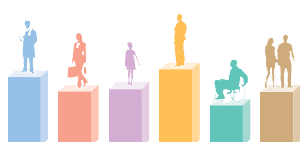
YouGovStone initially emailed around 2,000 respondents across all 407 councils asking them to take part in the survey; the 101 respondents were then all drawn from different councils. The sample definition is "GB council top executive teams".

A small weighting has been applied to the sample based on the type of council interviewed. This ensures the final sample is representative of GB councils based on geographical region, political control and council type.

Even though the survey covers one in four GB councils, percentage scores are accurate to around +/- 8 per cent at 95 per cent the confidence level.

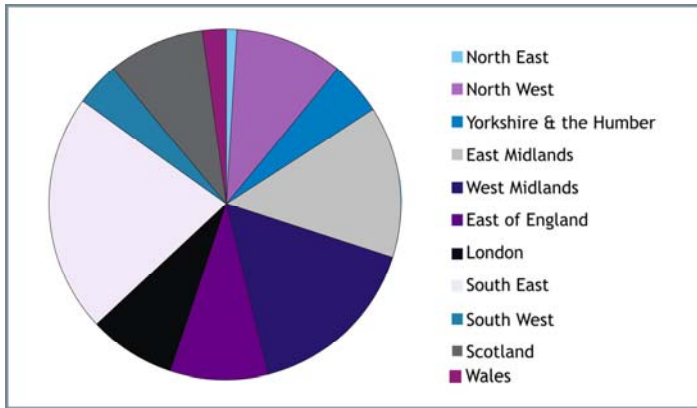
The sample included 16 Chief Executives, 11 Deputy Chief Executives, 16 Finance Directors, 16 Strategy Directors and 42 other top level respondents.

If you wish to use any of the information herein please reference Interserve and the data source: www.local-government.interserve.com

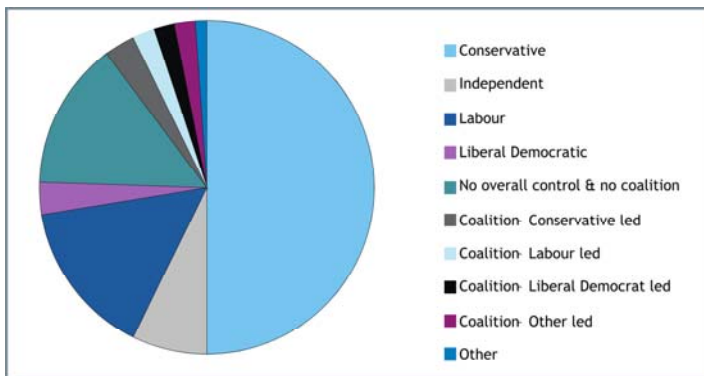


Respondents are split as follows:

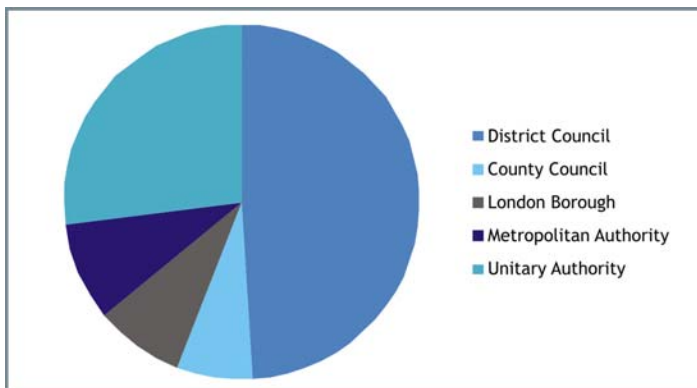
Geographic location:



Political leadership:



Council type:



Figures and methodology from the 2010 report cited in this report were collect between 8th and 11th December 2009, by YouGov Plc using an online interview technique. A sample of 152 decision makers spread among local authority types were surveyed. The full report can be downloaded from www.local-government.interserve.com





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