

Local services

in need of transformational change



“Savings from 2014/15 onwards are beyond the capacity of local government to make without some change in Government’s policy priorities for the sector. Outsourcing can contribute, but the traditional outsource model has run its course and is not fit for purpose. Given the scale of the savings required we need transformational change that delivers the same of better quality at 30% less cost - not the marginal improvements usually on offer. There needs to be offers that reduce demand for local government services rather than manage the current levels.”

Chief executive, Metropolitan Council

Executive Summary

Local authorities plan to outsource 32 per cent of all services by 2014/15, according to the latest research undertaken by YouGov for Interserve.

Outsourcing currently accounts for a quarter (26 per cent) of all council services and has grown six percentage points, from 20 per cent, in the last twelve months, as councils seek efficiencies.

Authorities report savings of 16 per cent to date but need to achieve another 18 per cent by 2014/15. However, with 31 per cent of councils not expecting to achieve their target cuts in this timeframe, splits are emerging as to the best way forward.

Those councils who need to make greater than average savings (over 25 per cent efficiency savings) or have larger budgets (over £100 million) plan to outsource up to 60 per cent of all their services. Yet other councils aim to keep resources in house or share with other public sector providers, planning to outsource just a fifth of services by 2014/15.

- 38 per cent said no service was unsuitable for outsourcing, including previously sacrosanct areas such as children's services and public protection.
- 44 per cent of councils state local political concerns as a serious barrier to outsourcing.
- 44 per cent of councils still haven't implemented a strategy to deal with their budgetary challenges to 2014/15, down from 79 per cent this time last year.
- 81 per cent said outsourcing to a commercial partner had been successful, and 82 per cent believe that outsourcing has a role to play in achieving their targets.
- Councils expect only 20 per cent of outsourced council services to be provided by the third sector by 2015; and half to be provided by commercial providers by 2015.
- 16 per cent fewer councils believe that the voice of the community will affect future measurements compared with 2011's results.
- 57 per cent believe that Community Budgets will have no effect (41 per cent) or even reduce (16 per cent) councils' ability to meet their targets.
- Councils expect a 15 per cent reduction in the size of their built estate.

Background

Interserve commissioned YouGov to carry out research amongst chief executives and top executives in 100 local authorities across Great Britain in regards to; council budgets, role of outsourcing, and attitudes to outsourcing. This is the third year running that Interserve and YouGov have undertaken this research.

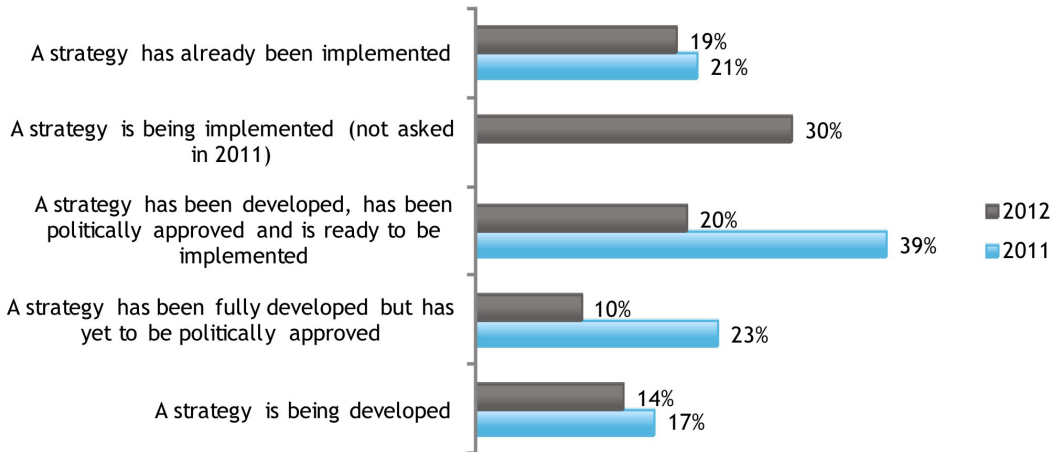
The survey took place between February 29th and April 13th April 2012. It covers 1 in 4 UK councils.

The respondents included 15 chief executives, 3 deputy chief executives, 26 finance directors / heads and a wide variety of other directors and senior representatives.

- Costs, partnership and capability rank as the most important factors for outsourcing.
- Value, customer satisfaction and quality from outsourced partners are on balance growing.
- Revenue and benefits and IT continue to be the most likely departments to share outsourced services.

Confidence in meeting targets.

Q. How clearly defined is your council's strategy to deal with the 2014/2015 budgetary challenge?

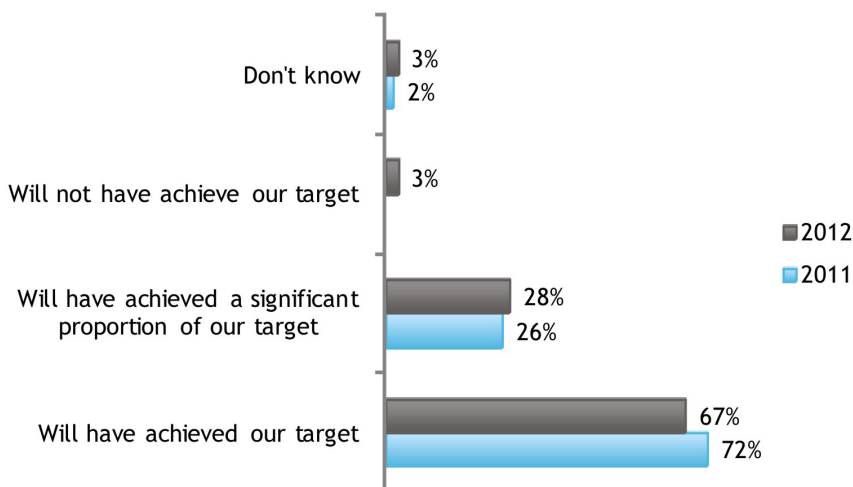


Almost half (44%) of councils have not yet begun implementing a strategy.

In 2011 two in five councils had developed a strategy and were ready to implement, whilst 39 per cent still didn't have a politically approved strategy.

This year this figure is down to only 24 per cent of councils who haven't agreed or even developed a strategy, 20 per cent are yet to implement their strategy and 55 per cent of councils are implementing or have implemented their strategy. Overall, however, there has only been a slight shift in councils' strategic positions.

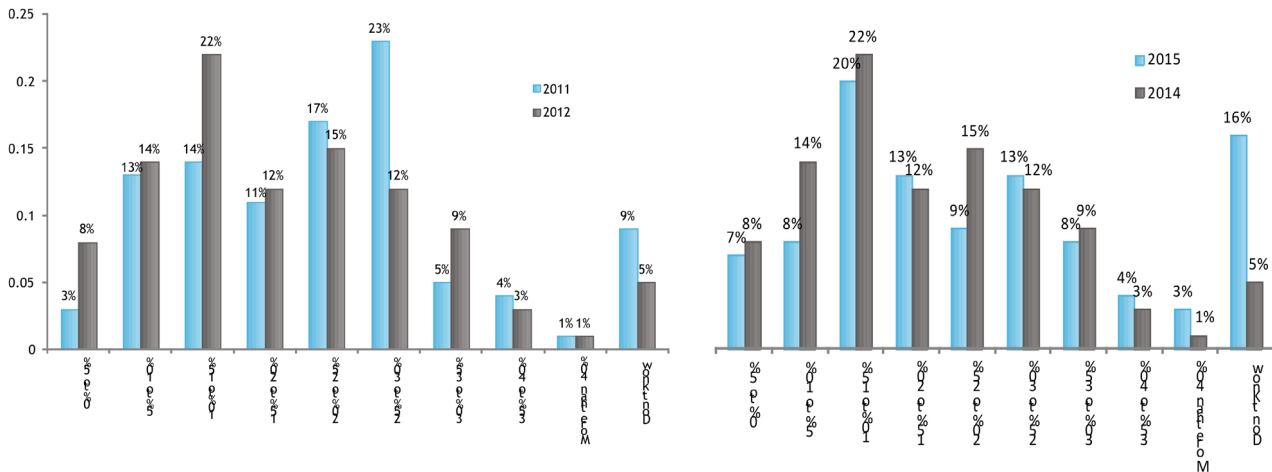
Q. Do you think your council will have achieved its budgetary targets by 2014/2015?



Expectations around achievement are **UNCHANGED** from 2011.

67 per cent of councils continue to believe they will have achieved their 2014 targets, whilst one if four councils remain certain that they will only achieve a significant proportion of the required savings. These figures, as above show that local government strategy hasn't vastly changed in the last 12 months.

Q. What percentage in efficiencies will you have to deliver across the whole council by 2014/2015?



Councils have achieved efficiencies of 16 per cent since 2010. But still need to cut by a further 18 per cent by 2014.

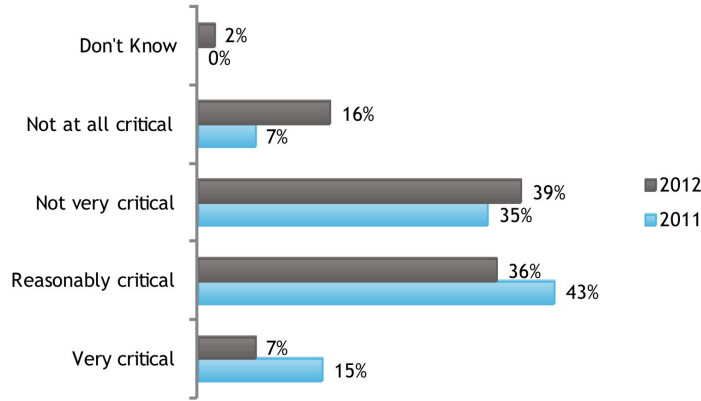
In the last year the mean rate of efficiency savings expected by 2014 has dropped from 20 per cent to 18 per cent. This lower rate is most likely due to the efficiencies already achieved. In 2011 the majority of respondents were expecting to make between 25 and 30 per cent savings, now the majority are expecting to make between 10 and 15 per cent savings. By 2015 the mean rate is expected to be 19 per cent. The one concerning figure raising this year is that 16 per cent of councils don't know their efficiency targets for 2015.

“Current funding levels are now extremely tight but have forced councillors to take some tough decisions that many of them have previously shied away from.”

Head of finance, District Council

Outsourcing levels set to rise.

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

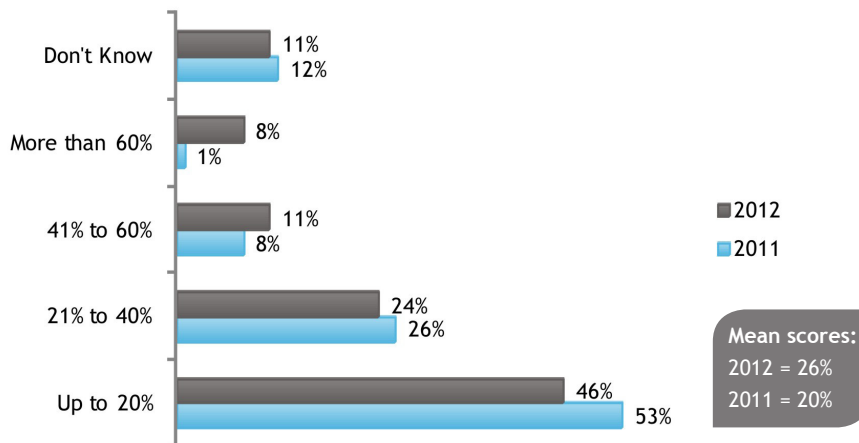


82 per cent of councils believe outsourcing has a role to play in achieving their targets.

43 per cent of councils still feel outsourcing is reasonably or very critical to achieving their targets, but this figure has fallen from 58 per cent in 2011. However this figure is still 12 percentage points higher than local governments' position in 2010.

The response rate for 'not at all critical' rises to 23 per cent for those councils with less than £100 million budget; while 'very' or 'reasonably critical' rises to 49 per cent for Conservative councils.

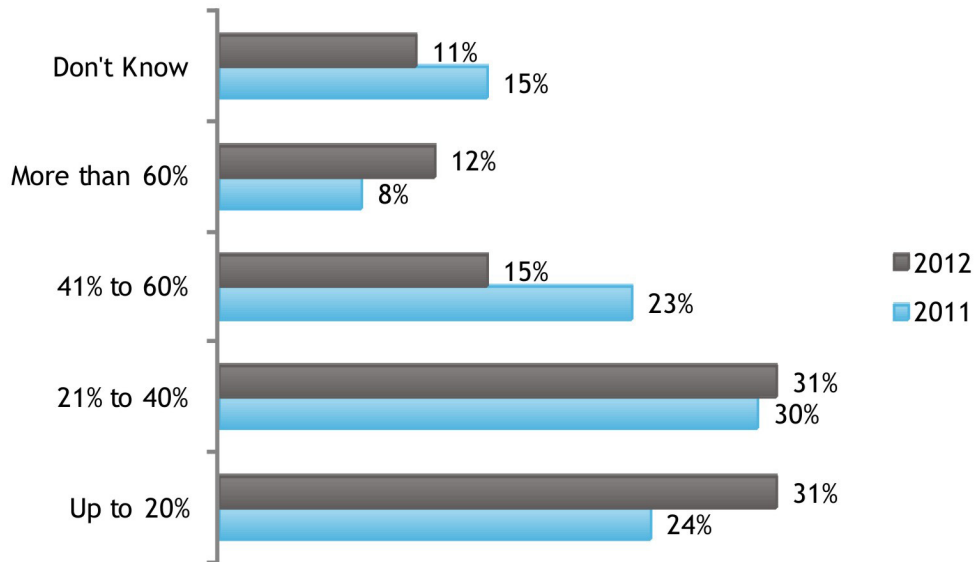
Q. What proportion of your council's services are currently being provided by external organisations?



Outsourcing levels rise from 20 per cent to 26 per cent in the last year.

8 per cent of councils are now outsourcing more than 60 per cent of services, a 7 percentage point increase from 2011, and 3 per cent more councils are outsourcing between 41 and 60 per cent. Conversely the number of councils outsourcing up to 20 per cent of services has dropped by 7 per cent. This is a significant shift in the levels of large-scale outsourcing seen in the sector. Overall this has seen the mean outsourcing level rise from 20 per cent in 2011 to 26 per cent this year, meaning over a quarter of council services are now outsourced. Conversely the number of councils outsourcing up to 20 per cent of services has dropped by 7 per cent.

Q. What proportion of council services do you expect to be outsourced by 2014/2015?



Over one in five councils believe more than 60 per cent of services will be outsourced by 2015.

Although the mean score for outsourcing levels has held steady at just over 30 per cent for the last two years, the size of these contracts is diversifying. This year 4 per cent more councils expect to outsource over 60 per cent and 7 per cent more councils expect to outsource up to 20 per cent. The only bracket where councils expect to see less outsourcing by 2015 is between 41 and 60 per cent.

Council details	Mean
All councils surveyed	32%
District councils	29%
Unitary Authorities	26%
County/London/Met	45%
<£100m budget	28%
Conservative led	36%
Labour led	26%
>25% savings needed by 2015	41%
So far achieved cuts of <10%	25%

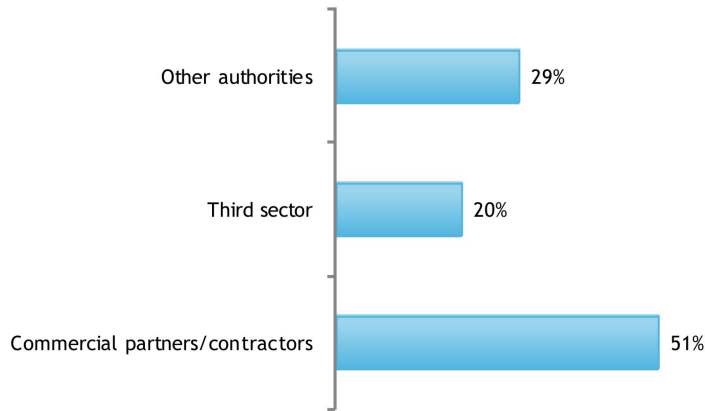
There are enormous uncertainties for 2014-15 and beyond for local government finance which makes forward planning very risk averse.

Chief executive
District Council

Outsourcing is considered more important for county councils, London boroughs and metropolitan councils, as well as for those who are Conservative led and expect to make savings of over 25 per cent by 2015. However even those who have only made small cuts to their portfolio's also intend to increase their outsourcing significantly over the coming years.

Agreeing the service partner mix.

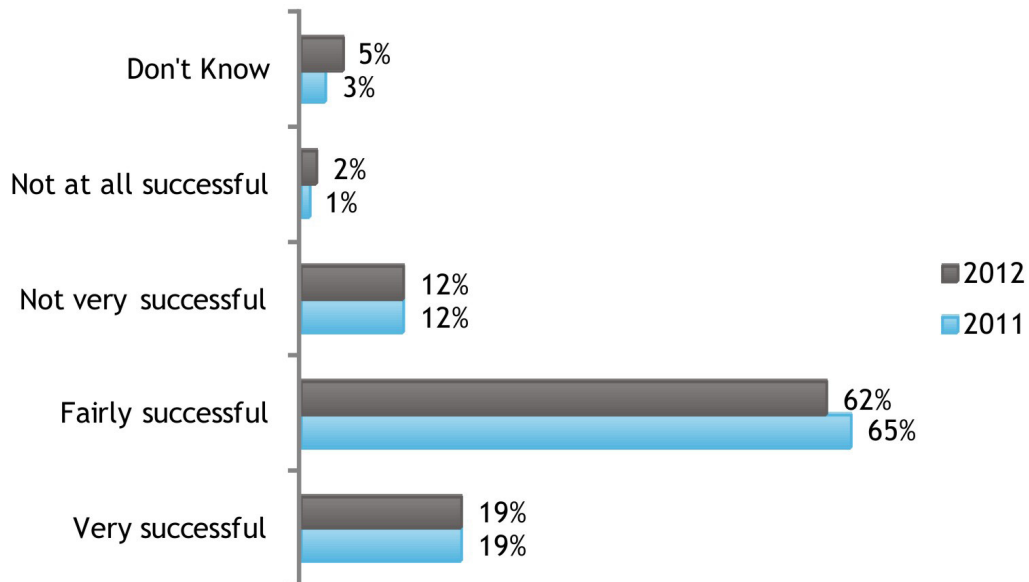
Q. What proportion of outsourced council services will be provided by these organisation types by 2015?



Councils expect to only 20 per cent of services to be outsourced to the third sector by 2015.

Councils expect 51 per cent of outsourced services to commercial partners by 2015, with 29 per cent being outsourced to other authorities. 'Other authorities' score far higher for those with annual budgets under £100 million achieving a 38 per cent response. Councils expect to only 20 per cent of outsourced services to go to the third sector by 2015. 50 per cent of respondents were unable to answer this question.

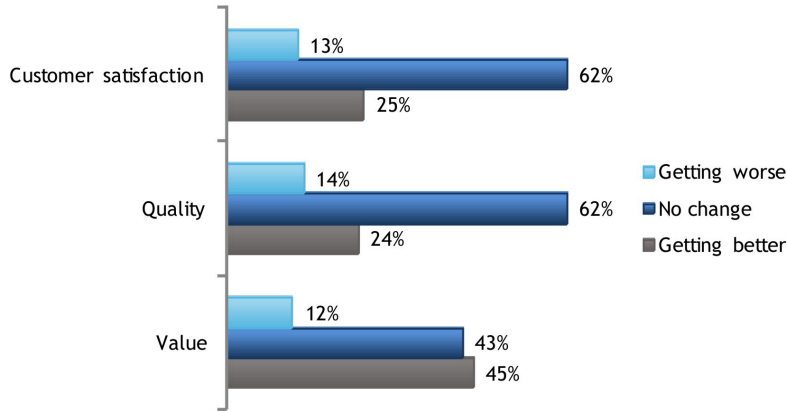
Q. Where you have used private sector partners to deliver services, how effective has this been?



81 per cent of councils have found outsourcing to commercial partners to be successful.

There is no discernible difference between the success of outsourcing in 2011 and 2012. This year 19 per cent have found it 'very successful' and 62 per cent 'fairly successful'. Of those who have found it to be successful overall, 88 per cent of those in Conservative led councils agree versus 67 per cent in Labour led councils.

Q. Are services you receive from outsourcing providers getting better or worse in terms of...



Value, customer satisfaction and quality are not being hindered by outsourcing.

There is a strong improvement in perceptions around the value being delivered by outsourcing providers, along with there being net improvements in the quality and customer satisfaction levels. These results show that councils do not perceive there to be any detriment to service delivery through outsourcing.

Q. To what extent do you anticipate your built assets to change in size by 2014/2015?

Council details	Mean
All councils surveyed	-15%
District councils	-10%
Unitary Authorities	-20%
<£100m budget	-9%
>£500m budget	-24%
>25% savings needed by 2015	-20%

Councils expect a 15 per cent reduction in the size of their built estate.

Two thirds of councils are expecting a reduction in the size of their built assets. These reductions are expected to be much greater in larger councils, there is a 15 per cent difference between those with less than £100 million budget and those with a budget over £500 million.

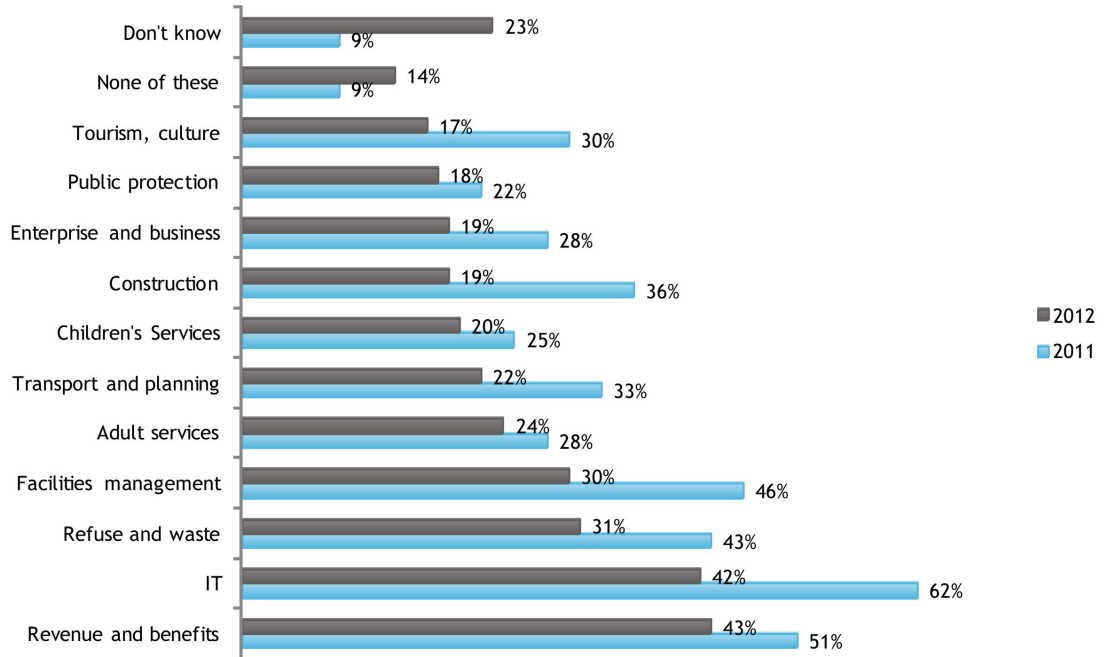
“The longer term issue is that the impact of some government policy threatens to drive up demand for local authority services at this time of limited resources.”

Chief executive
London Borough

Partnership models of the future.

Q. Which of the following departments are likely to combine or share outsourced services?

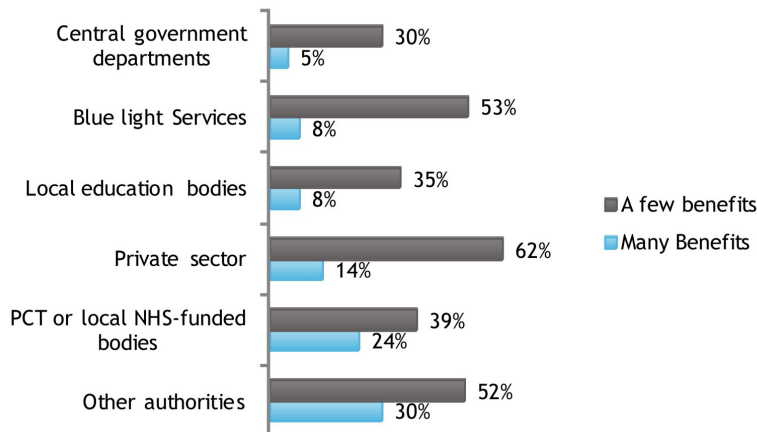
In 2011 the question was phrased to read "departments best suited to share outsourced services"



Revenue and benefits and IT continue to be the most likely departments to be outsourced.

The most notable differences between 2011 and 2012 is a more even balance between the most likely department and least likely departments to share outsourcing with only 16 percentage points difference compared to 34 percentage points in 2011. Larger councils selected on average 3.6 departments to be outsourced, whilst smaller councils only selected two.

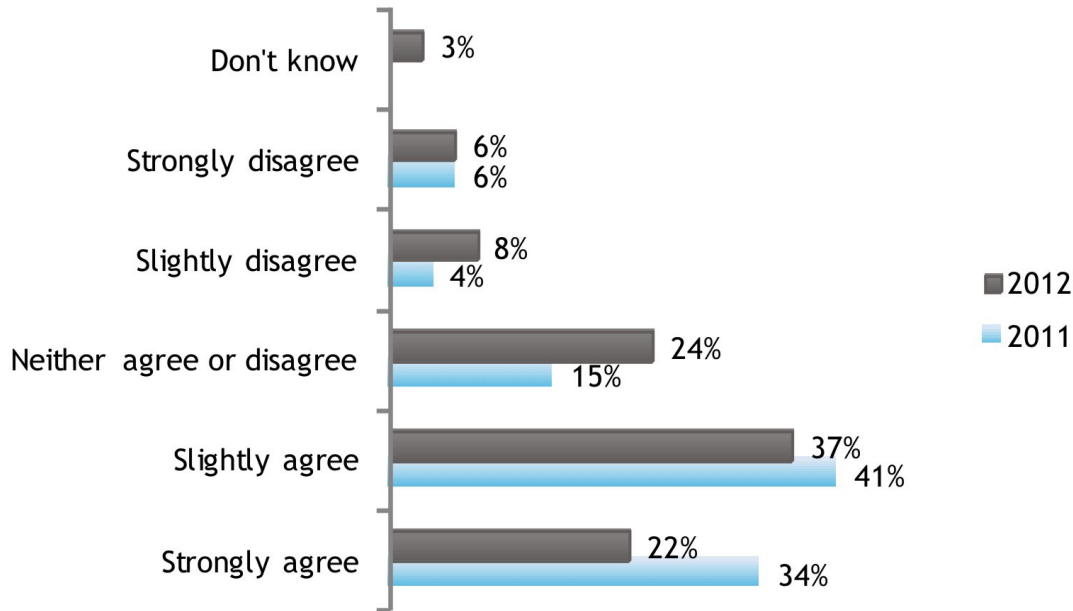
Q. What is the potential to work with and share services with the following:



Private sector and other authorities are equal targets for sharing services.

'Other authorities' are perceived to have the most benefits for sharing services with, but healthcare bodies and the private sector are also potentials - far above local education bodies and blue light services. Local government perceives there to be far fewer benefits to share with central government than any other partner.

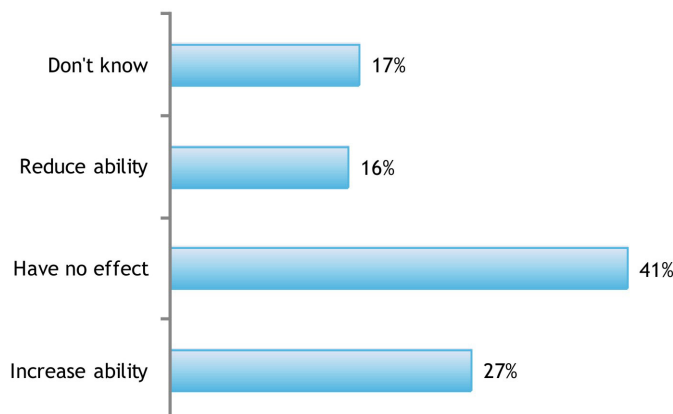
Q. Will the voice of the community be important in defining and measuring private sector partnerships?



59 per cent of respondents believe the voice of community will effect future measurements.

Although there is still a strong consensus that the voice of the community will be important in measuring private sector partnerships, total agreement is down from 75 per cent in 2011 to 59 per cent in 2012. Councils are also far more on the fence with 24 per cent neither agreeing nor disagreeing as to whether the voice of the community will shape future decision making.

Q. How will the introduction of Community Budgets effect your ability to meet targets?

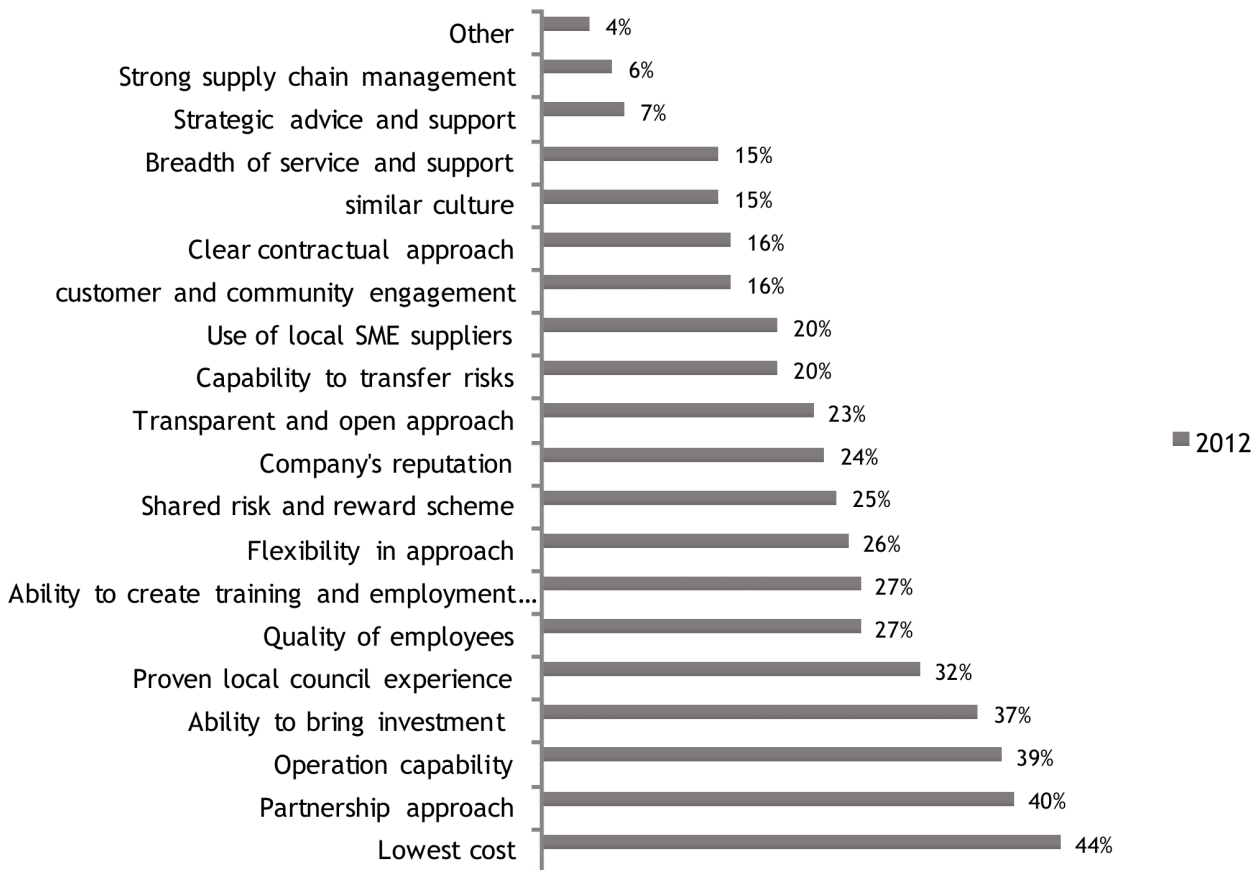


57 per cent believe community budgets will have no benefit.

Only 27 per cent of respondents believe that community budgets will increase their ability to meet their targets. The larger the council the more likely they are to think that Community Budgets will increase their ability to meet their targets, whilst 38 per cent with greater than £500 million budgets believe it will be increased. However overall 41 per cent believe it will have no effect.

Drivers and challenges for outsourcing.

Q. What are your top five factors of importance when selecting a private sector partner?



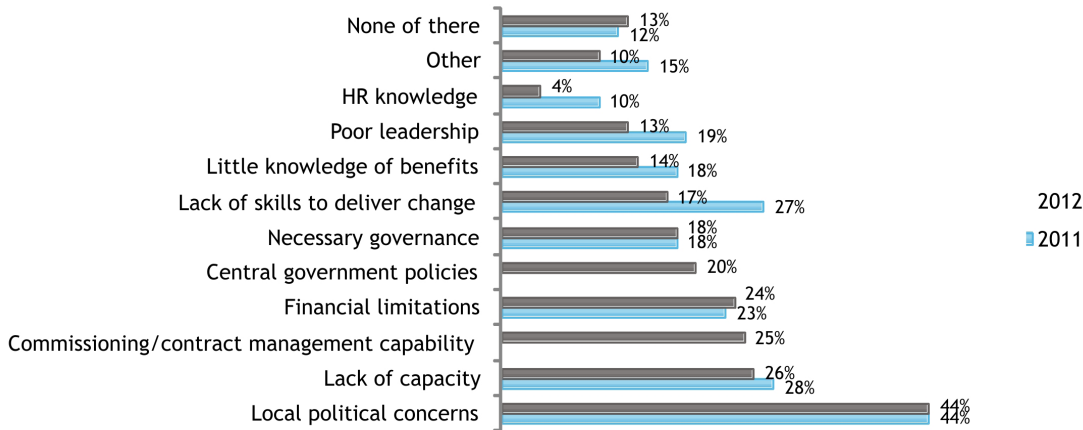
Costs, partnership and capability rank as the most important factors for outsourcing.

In 2011 partnership, flexibility and experience were the top three factors in selecting a partner, however this year councils have returned to a much more commoditized view of services with lowest cost being the leading driver at 44 per cent, followed by partnership at 40 per cent and operational capability at 39 per cent. Factors such as proven local experience, quality of employees and a flexible and transparent approach have dropped in importance. New selection criteria were added, and are ranked in order of importance; ability to create investment, ability to create training and employment opportunities, customer and community engagement, breadth of service and supply chain management.

“Three key things: strategic commissioning to be clear about priorities and how to deliver them; empowerment and entrepreneurialism in the organisation to free up energy and flexibility; leadership to deliver change.”

Chief executive, District Council

Q. What do you consider are the serious barriers to outsourcing in your council?



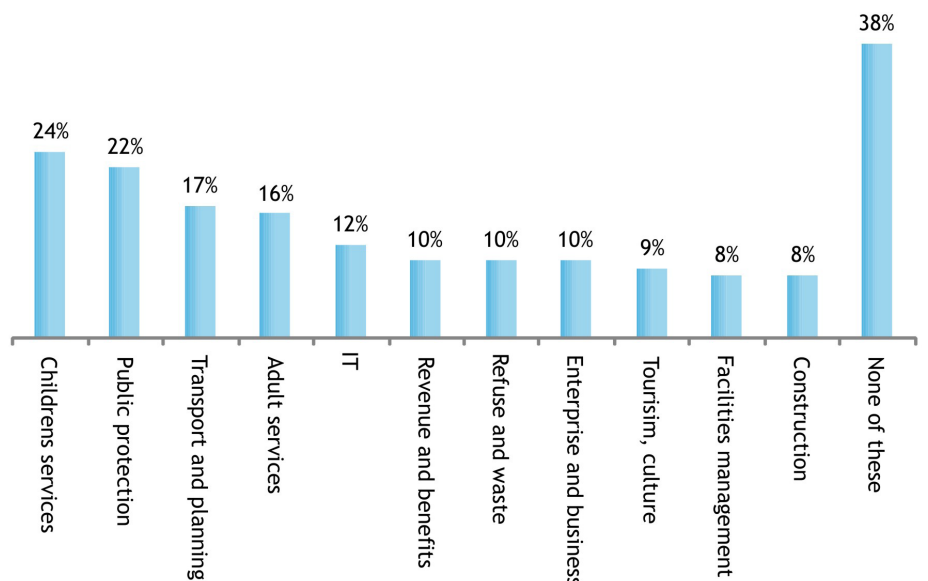
Two in five councils still consider **LOCAL POLITICAL CONCERNS** to be a serious barrier to outsourcing.

The results for this question remain broadly similar to 2011’s results. Local political concerns remain the key resistance point - picked by 11 of the 19 Labour controlled councils versus only 15 of the 53 Conservative controlled councils and 17 of the 26 councils not controlled by any of the three main parties. Further to this factors such as HR knowledge, poor leadership and lack of skills to deliver change also dropped in importance, highlighting more internal capability to support large-scale outsourcing programmes.

Q. Are there any areas you would consider not suitable for outsourcing?

Overall 38 per cent of respondents considered no department to be unsuitable for outsourcing.

Only children’s services and public protection stand out as being unsuitable for outsourcing, whilst construction and facilities management are considered the most suitable departments for outsourcing.



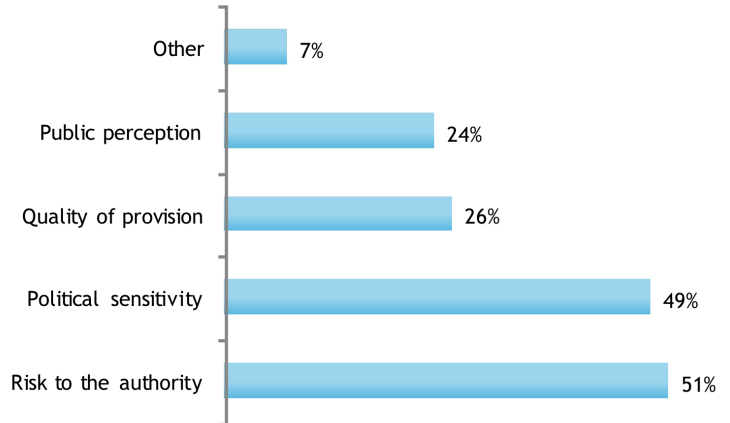
Factors affecting future outsourcing.

Q. Why are the departments selected considered unsuitable for outsourcing?

Base: all who think at least one council department / service is unsuitable for outsourcing (52 per cent)

51 per cent of respondents are concerned that outsourcing will cause risk to the authority.

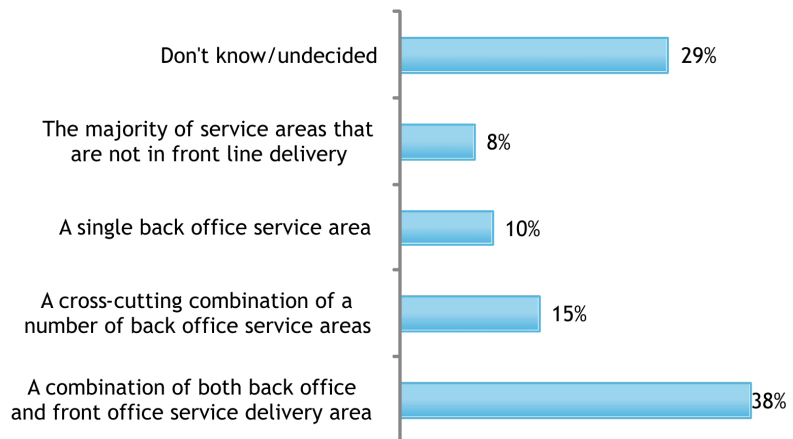
Half of councils consider risk and political sensitivity to be the main areas of concern, when undertaking an outsourcing programme.



Q. What blend of services would you look to combine within an outsourcing tender package?

33 per cent wouldn't consider outsourcing front of house services.

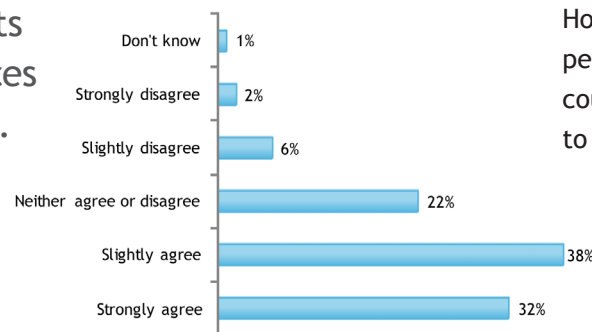
38 per cent of councils are willing to combine front office and back office services in an outsourcing package. Whereas only 33 per cent of councils see only back office outsourcing as an option.



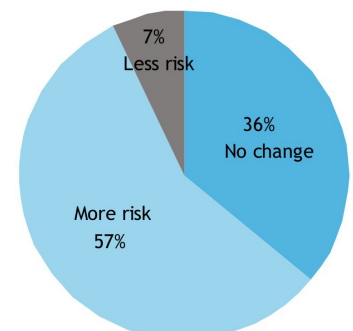
Q. Does outsourcing result in less control and increased risk?

70 per cent of respondents believe outsourcing reduces control and increases risk.

Losing control due to outsourcing is clearly a worry for many council executives as only 8 per cent disagree.



However over the next few years 57 per cent of respondents believe their council is willing to take on more risk to deliver the required savings.



“Formula grants need to be sensitive to regional opportunities and enable local government to deliver local services as each local authority requires, funding with autonomy and less control from central government.”

Chief executive, District Council

In summary.

Progress is being made by UK councils towards their budget targets and most expect they will reach them on schedule, which will be good news for central government. Unfortunately, comments from councils show their concern that the public may not be ready for the impact of these cuts. Difficult decisions will have to be made, and are being made, on how to prioritise local services and how to work with greater risk. By contrast this is the inherent risk or bad news for central government.

Many councils also welcome the introduction of Community Budgets which on balance are seen as a positive step in helping deliver necessary cuts; the success of pilot schemes will be watched closely. Another possible good news moment for central government.

Outsourcing clearly has a role for councils in the budgeting process with four out of five saying it has been successful. However the majority do not actually see it as critical to achieving their cuts although it is encouraging to see that value delivered by partners is thought to be increasing.

The landscape of delivery for council services is going through a rapid change, from a fifth outsourced last year to a third in 2014/15. Half this will be delivered by commercial partners but resource pooling with other authorities also seems popular, as well as using third sector organisations. Local political concerns remain the biggest barrier to delivering cuts through outsourcing - or more specifically the level of risk associated with it.

Over three quarters agree that outsourcing can result in less control and increased risk. What providers must be careful of is that under such circumstances outsourcing councils will be looking for suppliers they can trust.



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