

Public services and the future of outsourcing.



“The report highlights not only the fiscal constraints public services find themselves operating under but also with growing demand for services – the need to do more for less. Budget cuts, which in previous years have focused on back office services, are now anticipated to affect more and more frontline services, and that affect will be noticeable.

In the face of budgetary constraints, we believe there are alternatives to cutting services, and outsourcing can help. The industry needs to continue to work together with public and third sector organisations to redesign service delivery so that it meets the needs of the community. Through intelligent design, we believe it will be possible to maintain and improve critical frontline services.

Outsourcing can benefit communities through business investing in skills development and sustainability initiatives that the public sector is currently unable to fund. For instance, through the inclusion of apprenticeships and local supply chain targets in government contracts, public services can have a wider positive social impact. This is something we feel strongly about and are actively engaged in at Interserve.”

Adrian Ringrose, Chief Executive | Interserve

The current state of affairs.

Interserve commissioned YouGov to survey 384 senior decision makers for public services in local authorities, healthcare, social housing and universities. It reveals that many are experiencing, or expect, reductions in both available funding and the quality and range of frontline services. The report builds on research Interserve has undertaken with local authorities for the last three years.

The results highlight the impact of austerity on frontline services. 42% of health and local government organisations surveyed expect an outright removal of frontline services by 2016, and to make budget cuts of 11% or more by 2016 and 58% believe outsourcing will be important to maintaining services in this challenging economic climate.

Significantly, 42% of health and local government organisations anticipate funding cuts of 11% or more by 2016. Of those expecting budgetary cuts (74%), 38% expect them to lead to the outright removal of certain frontline services. Furthermore, specifically in health, 34% believe they will not have achieved their budgetary targets by 2016.

In the same vein, 27% of all those polled in health and local government expect headcount reductions of greater than 11% by 2016 and 65% anticipate a fall in available funding for training and skills development. 51% believe that spending on environmental and sustainability initiatives will fall, with the trend being even more noticeable in local authority respondents, of whom 63% think a reduction is inevitable. Many respondents (34%) note that a strategy for dealing with budget cuts is yet to be developed; however, 58% believe that outsourcing to the private sector will be at least slightly important in meeting budgets and maintaining service levels. Whilst recognition of the importance of the private sector is fairly high, a number of public sector decision makers note there are significant barriers to outsourcing, with a lack of trust (31%) and political concerns (38%) listed as some of the main obstacles.

Research background

YouGov interviewed 384 senior managers across four separate groups, between May 29th and June 17th 2013. The number of interviews completed with each group were as follows:

- Local councils: 126 (representative of all councils by size, region, political control and type)
- Healthcare: 122 (representative of Trusts, CCGs and care homes)
- Universities: 85 (representative of all universities by region and size of student body)
- Housing associations: 51 (all with at least 250 units, and with a broad range of associations across the UK)

Interviews were completed online and anonymously, using YouGov's secure survey system. The sample included:

- Chairmen/Deputy, Chief Exec/Deputy, or Chancellor/Vice: 55
- Other Board members: 72
- Heads of department/other senior managers: 255

Building on previous research

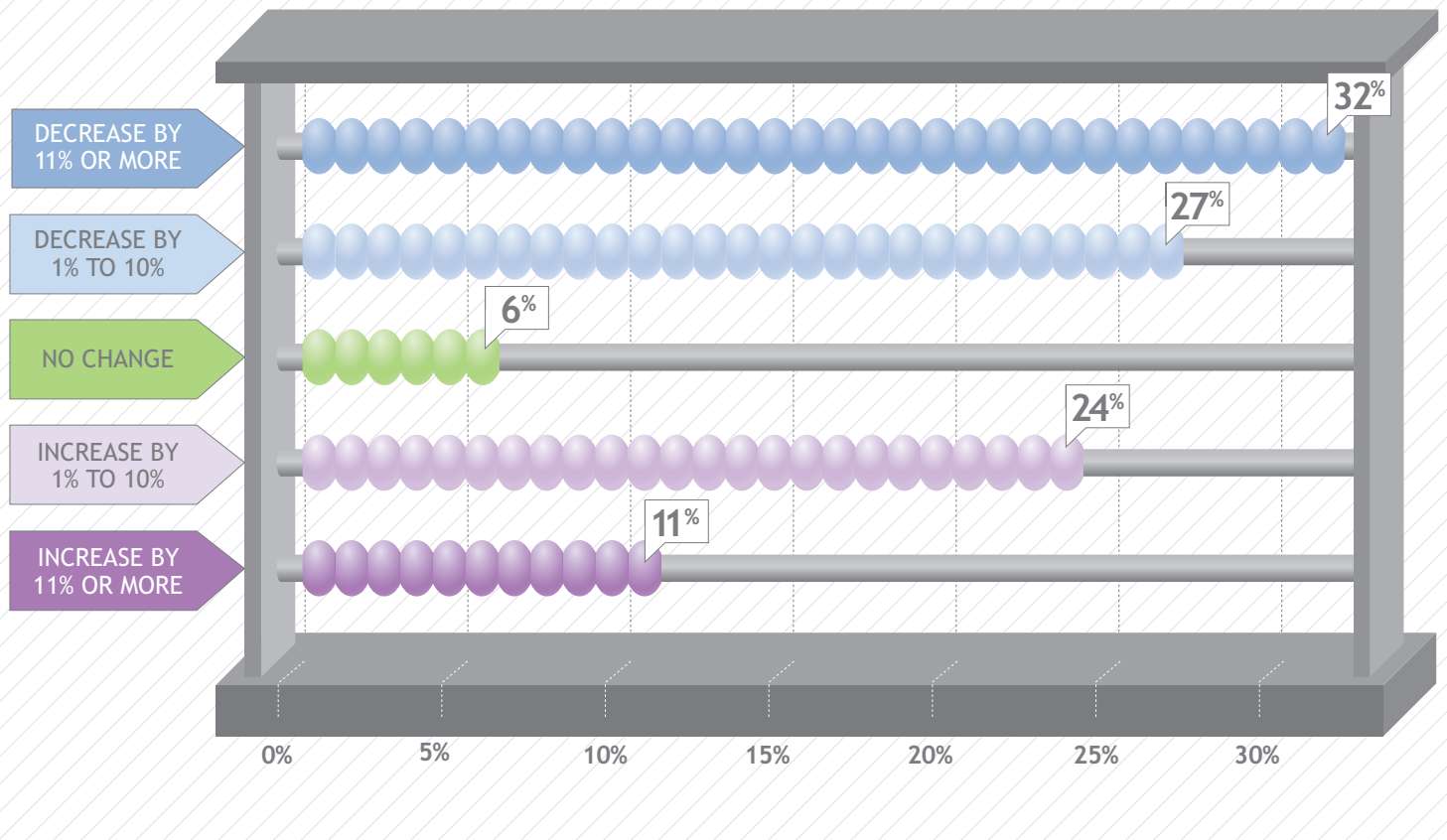
In this report we have taken the opportunity to compare the findings from this year's research with Interserve and YouGov's 2012 Local Council Research.

For the past three year's, Interserve has conducted research with YouGov into the changing shape of local government procurement. This research has identified trends in the market and can be viewed at: www.local-government.interserve.com.

The budgetary challenge.

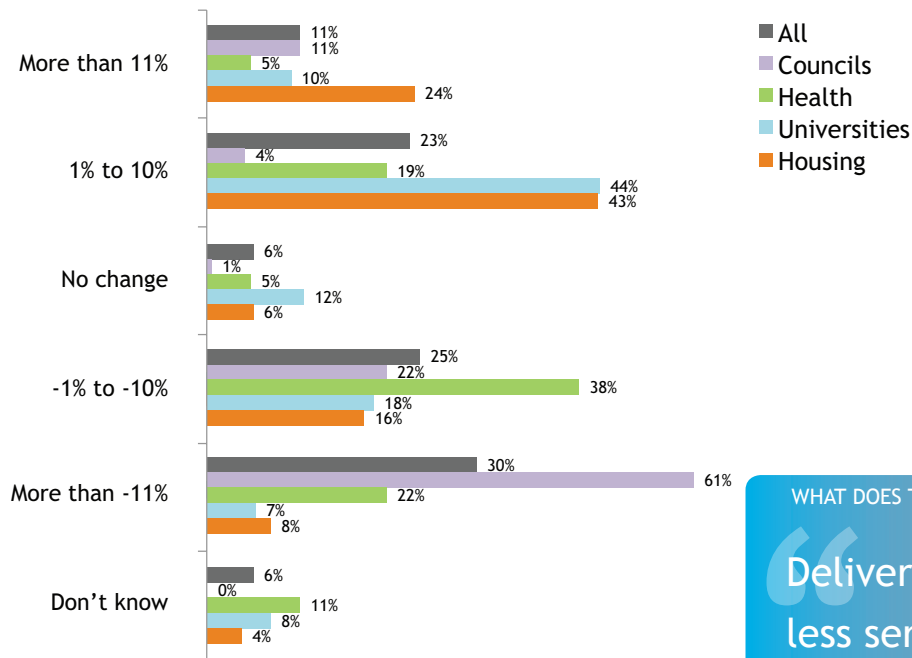
Q1. IN PERCENTAGE TERMS, BY HOW MUCH DO YOU EXPECT YOUR BUDGET TO CHANGE BY 2016?

59% of public service organisations expect to make cuts by 2016, of which 32% expect to make savings of more than 11%. Only 11% expect their budgets to rise by more than 11%.



Sector focus:

Of the sectors research councils face the steepest cuts, with 61% needing to make cuts of more than 11%. 22% of health authorities need to make similar levels of cuts. Less than 10% of both housing and universities need to make more than 11% of cuts.



- All
- Councils
- Health
- Universities
- Housing

Median

Councils	-13%
Health	-2.5%
Universities	+2.5%
Housing	+2.5%

WHAT DOES THE FUTURE LOOK LIKE?

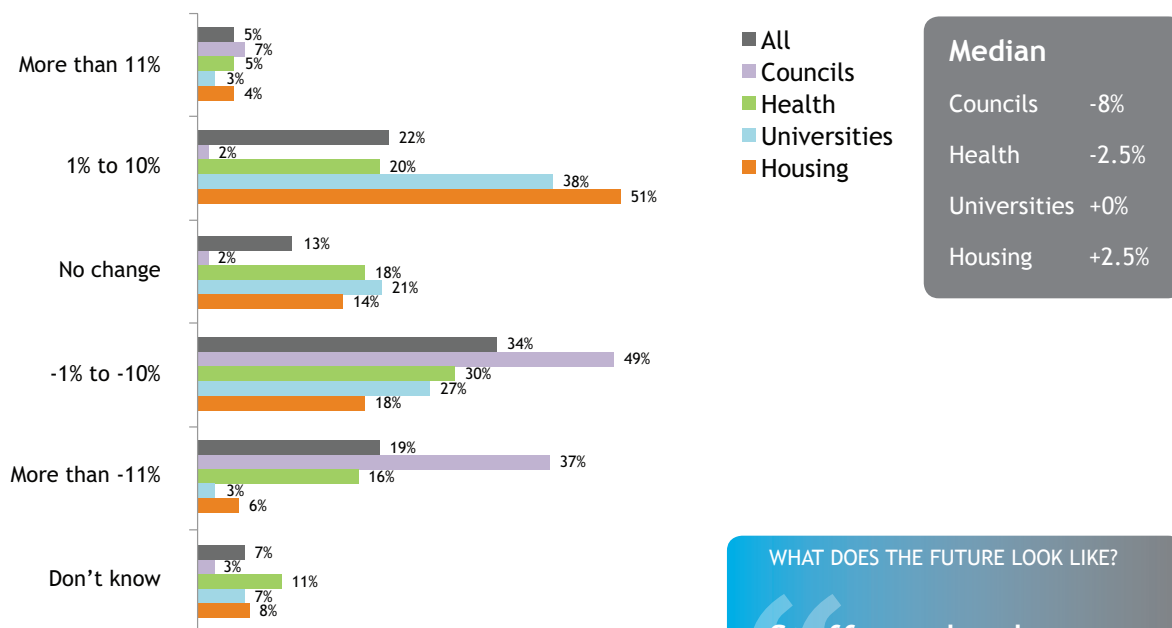
“Delivering a lot less services, more partnership working and the cessation of services.”

Local Authority Senior decision maker

The strategy to support the challenge.

Q2. IN PERCENTAGE TERMS, BY HOW MUCH DO YOU EXPECT YOUR HEADCOUNT TO CHANGE BY 2016?

Headcount reductions largely mirror budgetary reductions, with councils expecting an average 8% reduction. 30% of health authorities expect cuts up to 10%.



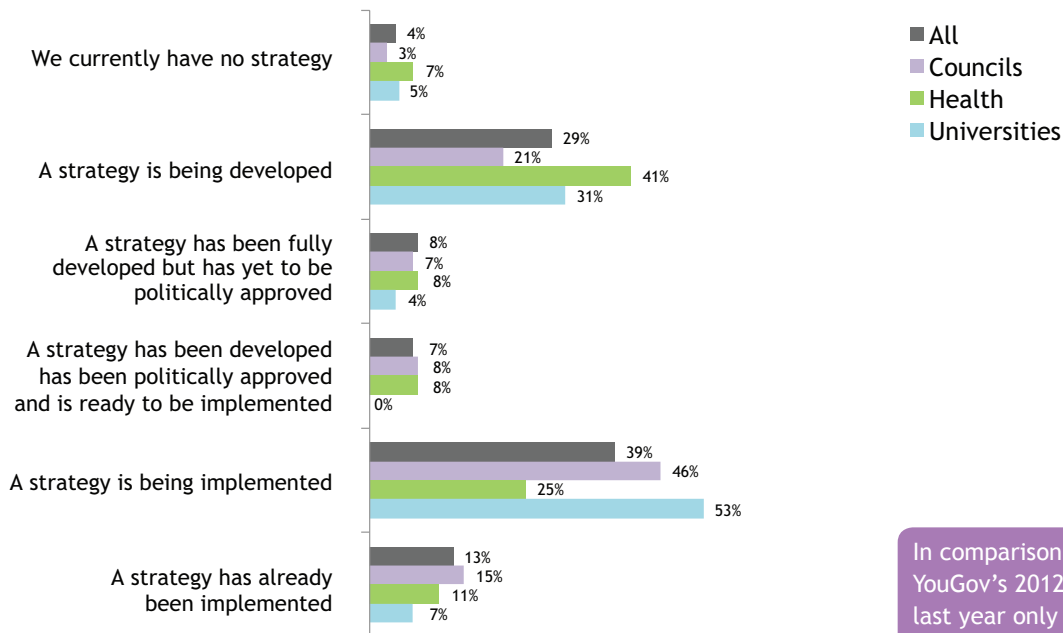
WHAT DOES THE FUTURE LOOK LIKE?

“Staff caseloads are too high, affecting quality of service and stress for staff.”

Health
Senior decision maker

Q3. HOW CLEARLY DEFINED IS YOUR STRATEGY TO DEAL WITH THE CURRENT BUDGETARY CHALLENGE?

On average 33% of respondents don't have a strategy developed to deal with the budgetary challenge, compared to 13% who have implemented a strategy. Of those facing cuts, health organisations are the least prepared with almost half (48%) still to develop a strategy.



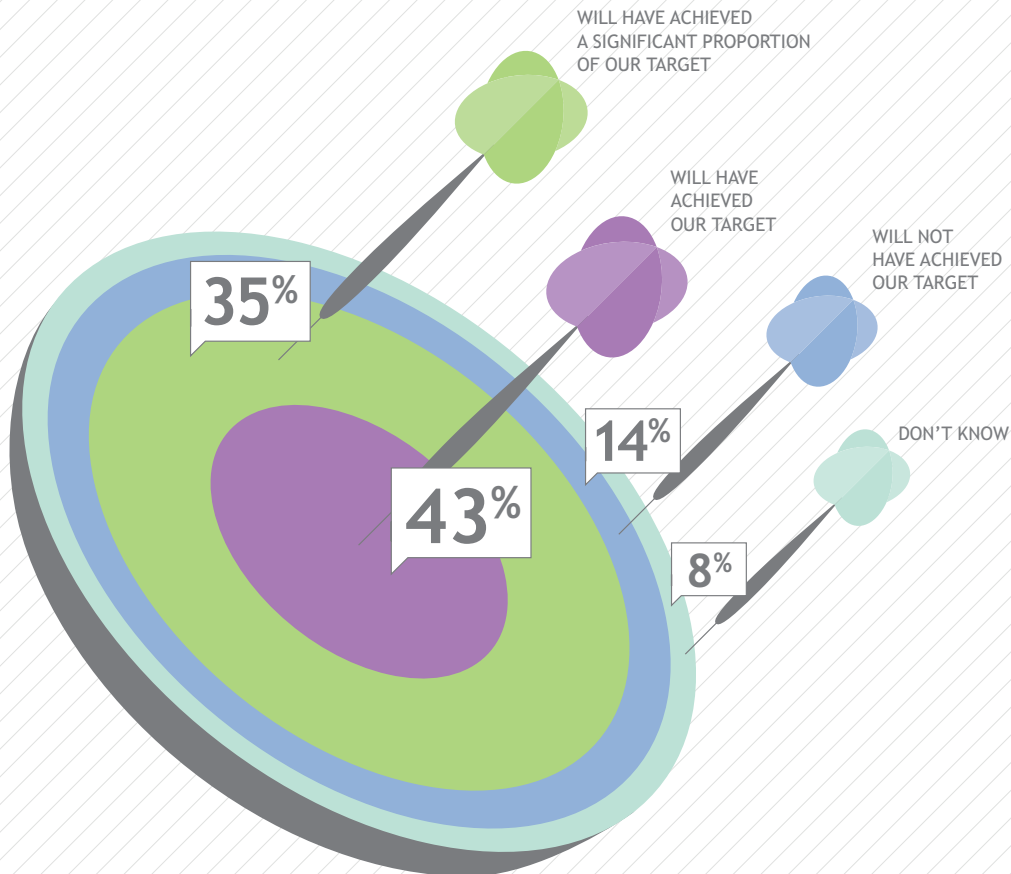
In comparison to Interserve and YouGov's 2012 Local Council Research: last year only 30% had implemented a strategy, compared to 46% this year. However many council's have gone back to the drawing board with 10% more councils still to develop a strategy this year.

Base: 55% facing cuts (housing base too small to show). Small base size for universities.

Ability to achieve targets.

Q4. DO YOU THINK YOU WILL HAVE ACHIEVED YOUR BUDGETARY TARGETS BY 2016?

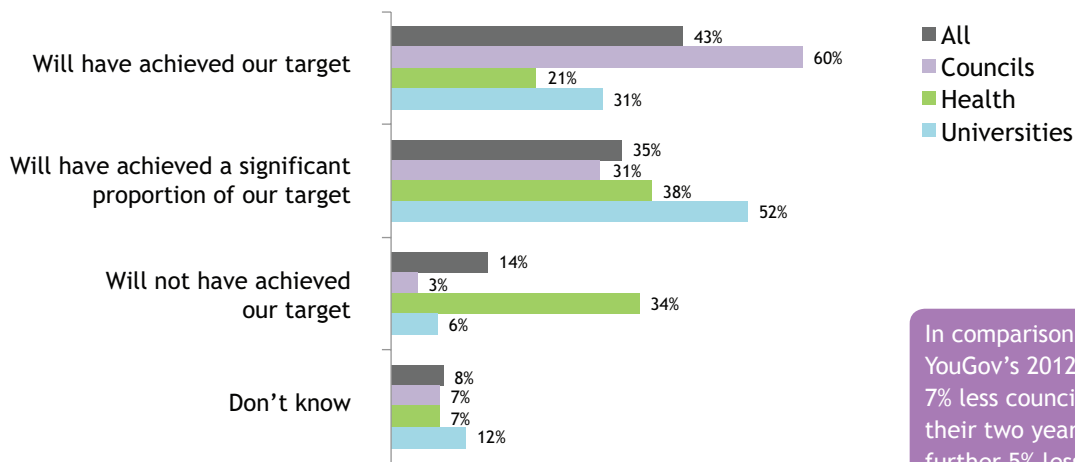
78% of those facing cuts will have achieved all, or a significant proportion of, their targets by 2016. However only 43% will have fully achieved this, and 14% are already predicting failure.



Base: 55% facing cuts

Sector focus:

60% of councils facing cuts expect to reach their 2016 target but a third of the health organisations do not believe they will meet theirs.



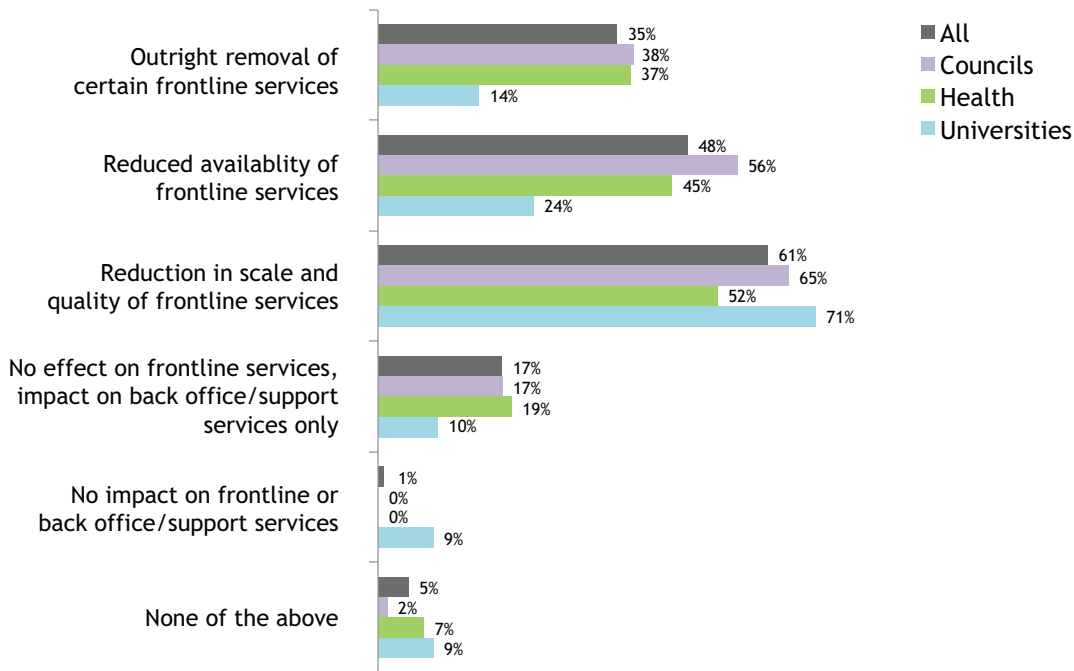
In comparison to Interserve and YouGov's 2012 Local Council Research: 7% less councils will have achieved their two year targets, which is a further 5% less than in 2011.

Base: 55% facing cuts (housing base too small to show). Small base size for universities.

Impact of frontline service delivery.

Q5. WHICH OF THESE IMPACTS WILL BE FELT BY YOUR ORGANISATION AS A RESULT OF BUDGET CUTS?

A third, of those experiencing cuts, expect the cuts to result in removal of frontline services rising to two thirds expecting reduced scale and quality of frontline services. Councils (84%) and health (82%) expect the outright removal or reduced availability of frontline services. Only 17% overall expect no effect on frontline services.

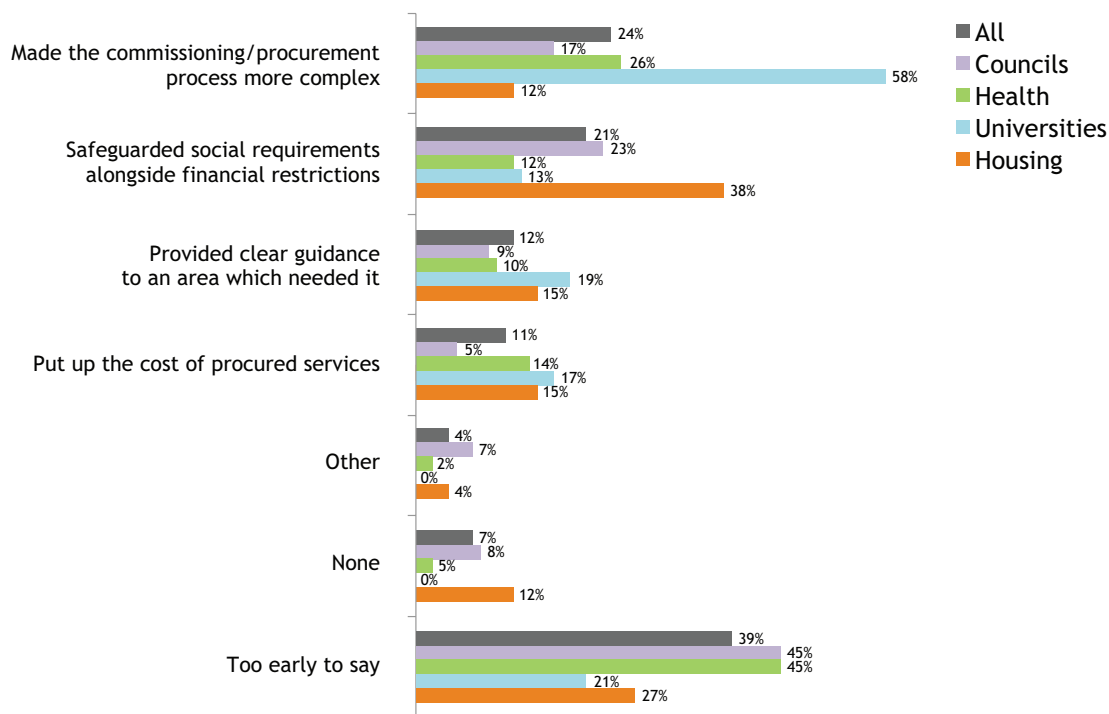


Base: 55% facing cuts (housing base too small to show). Small base size for universities.

Impact of the Social Value Act.

Q7. WHAT EFFECT HAS THE INTRODUCTION OF THE SOCIAL VALUE ACT HAD ON YOUR COMMISSIONING STRATEGY?

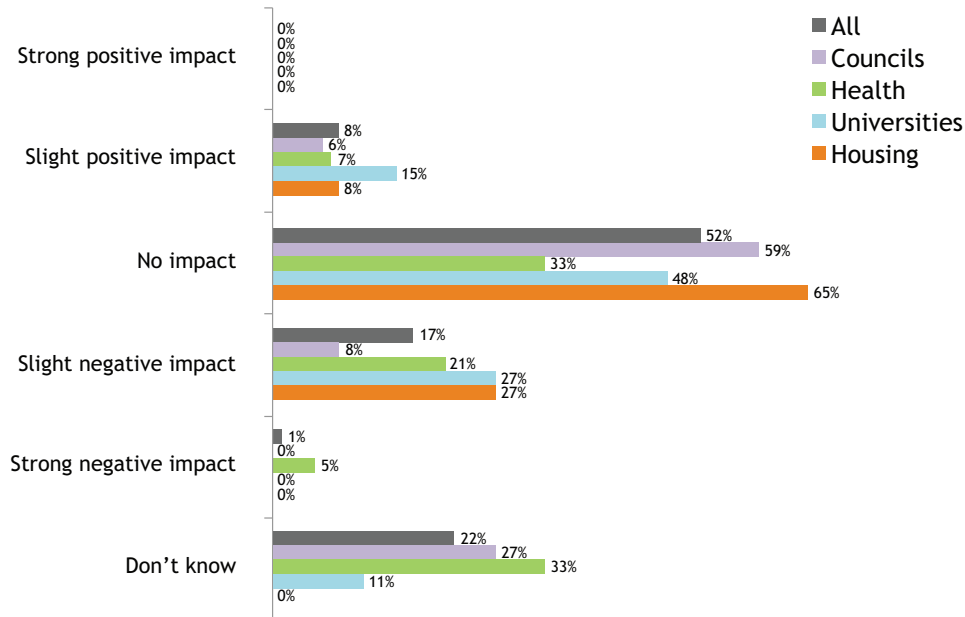
39% of all respondents believe it is too early to say what effect the Social Value Act will have. 58% of universities think it will make procurement more complex, but 38% of housing respondents think it will safeguard social requirements alongside financial restrictions.



Base: 41% who know the Social Value Act affects them. Small base sizes for universities and housing.

Q8. HOW, IF AT ALL, HAS THE SOCIAL VALUE ACT IMPACTED ON YOUR BUDGETING?

Overall 52% think it will have no impact on their budgeting. Over a quarter from universities, health and housing authorities are worried about a negative impact on budgeting from the Social Value Act.

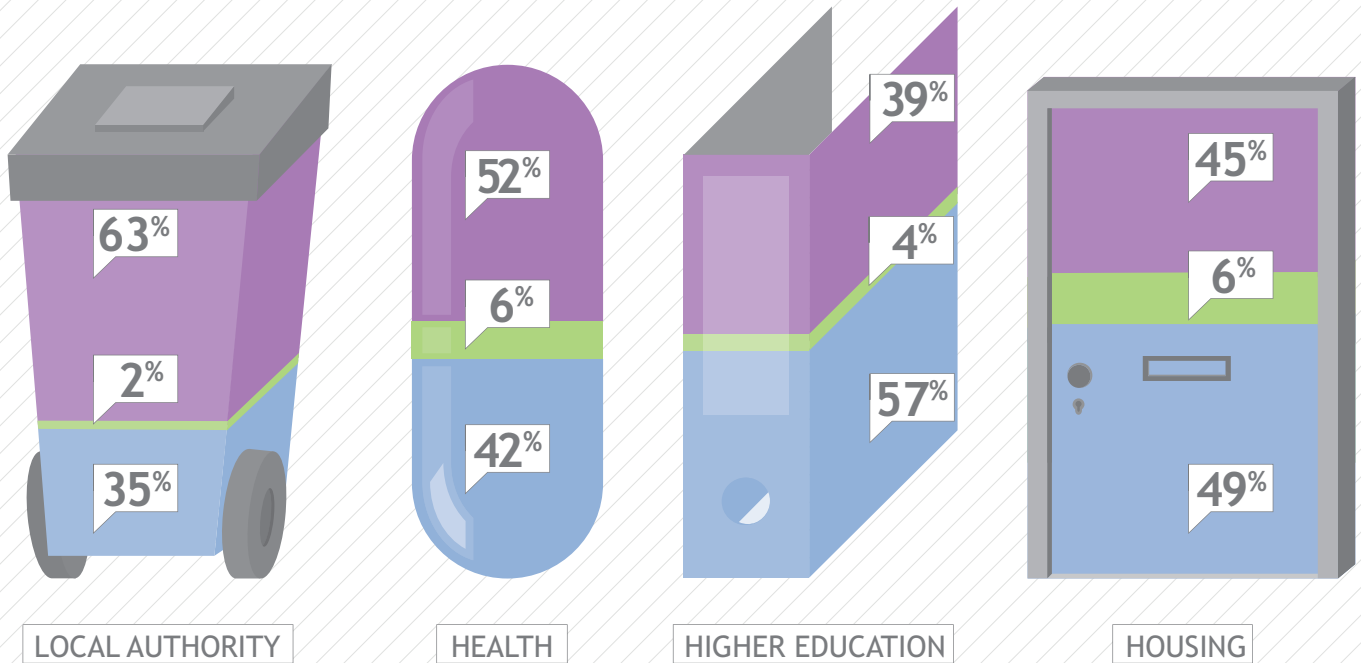
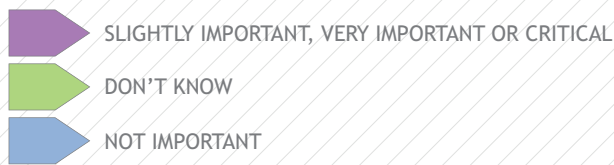


Base: 41% who know the Social Value Act affects them. Small base sizes for universities and housing.

The role of outsourcing.

Q9. HOW IMPORTANT IS OUTSOURCING IN HELPING YOU MEET BUDGETARY CHALLENGES AND MAINTAIN SERVICE LEVELS?

Of the 70% of respondents who currently use outsourcing providers, it is perceived to have an important role to play in meeting budgetary challenges and maintaining service levels. 63% of councils and 52% of health authorities perceive outsourcing to be critical.



WHAT DOES THE FUTURE LOOK LIKE?

“The challenge is working out how to manage the opportunity presented by fewer resources to join up public services more effectively (e.g Health and Social Care; Health and Criminal Justice system; Welfare and Skills) and to re-define the relationship between citizen and the state (in all its forms) through prevention, promoting independence and personalisation. If we can't switch off demand then all services will suffer.”

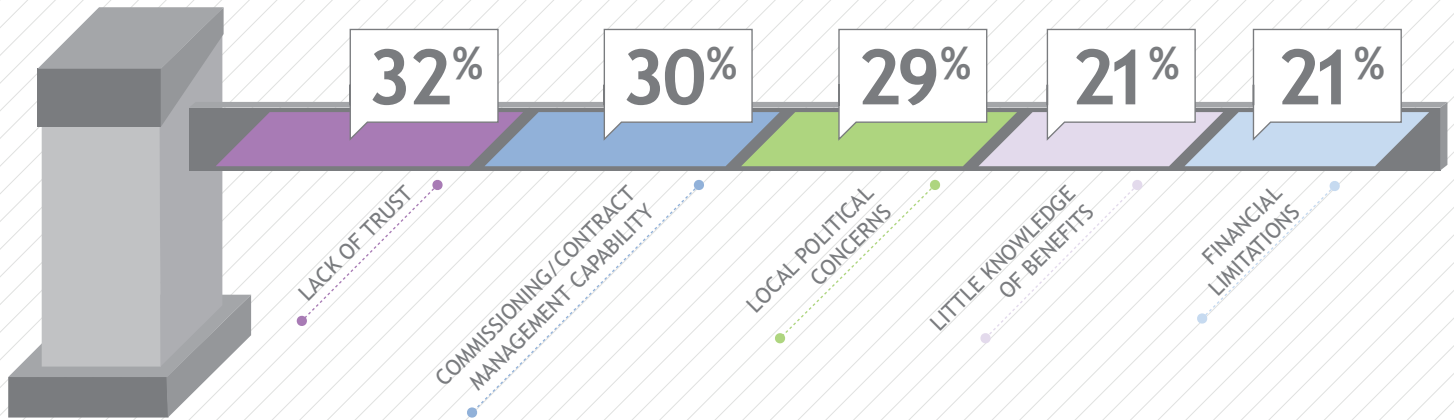
*Local Authority
Senior decision maker*

In comparison to Interserve and YouGov's 2012 Local Council Research: 58% of councils saw outsourcing to be critical, compared to 7% who thought it was 'not at all critical'.

Perceptions of outsourcing.

Q10. WHAT FORMS A SERIOUS BARRIER TO OUTSOURCING SERVICES IN YOUR ORGANISATION?

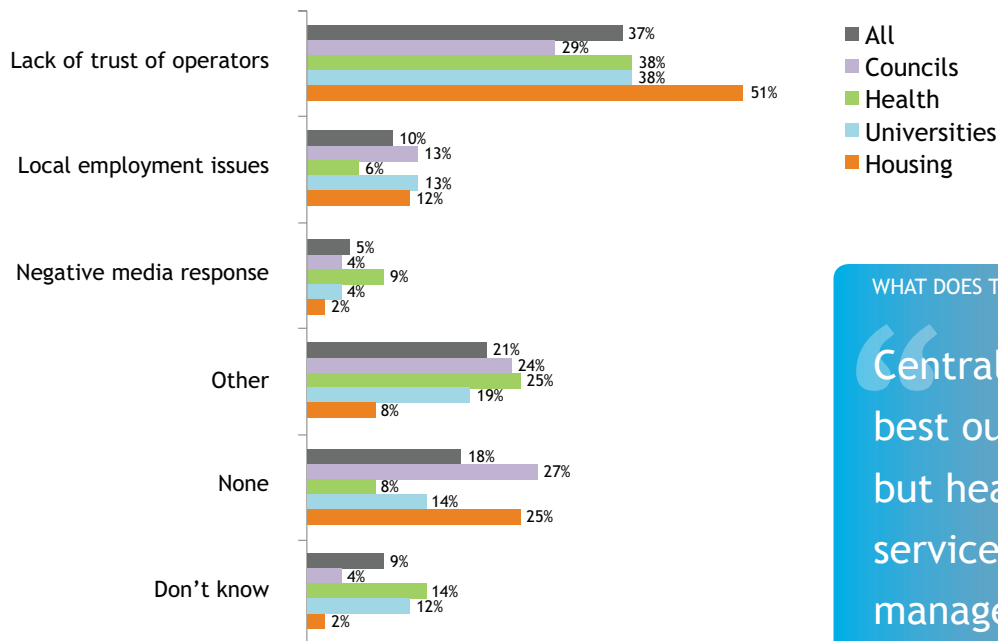
Lack of trust is considered the most significant barrier to outsourcing by one in three respondents. Commissioning and local political concerns are also in the top three barriers to outsourcing.



In comparison to Interserve and YouGov's 2012 Local Council Research: exactly 44% thought local political concerns to be the biggest barrier in 2011, 2012 and 2013.

Q11. WHICH OF THE FOLLOWING THREE FACTORS IS THE MOST SERIOUS BARRIER TO OUTSOURCING?

A lack of trust of operators tops this list, with 37% of all respondents agreeing. Health authorities are more concerned by negative media responses, than the other groups, and councils and universities are both more concerned by local employment issues.



WHAT DOES THE FUTURE LOOK LIKE?

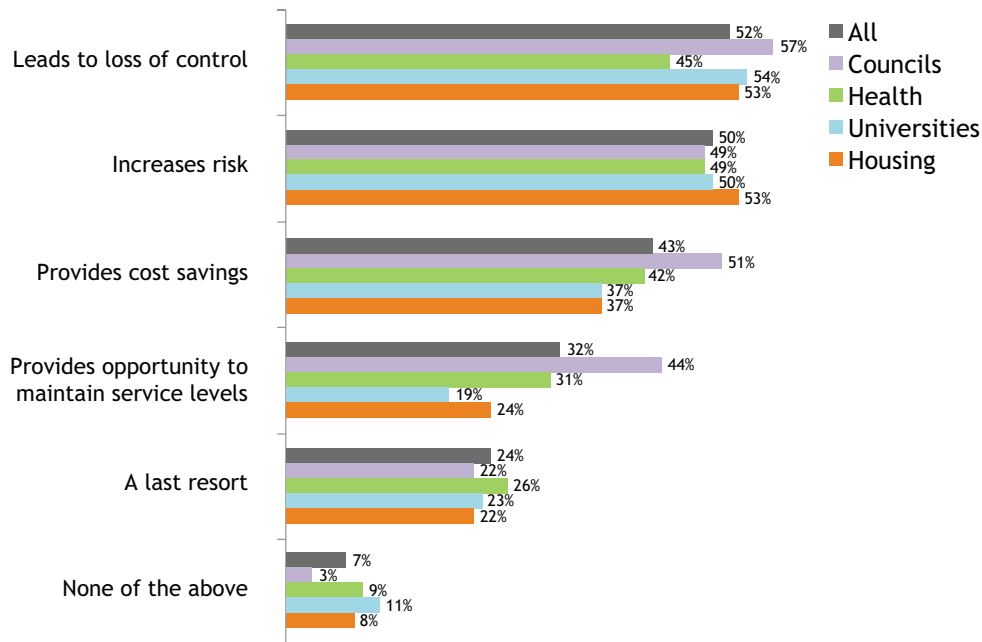
“Central services are best outsourced but heads of these services sit on senior management teams.”

*University
Senior decision maker*

Finding the right balance.

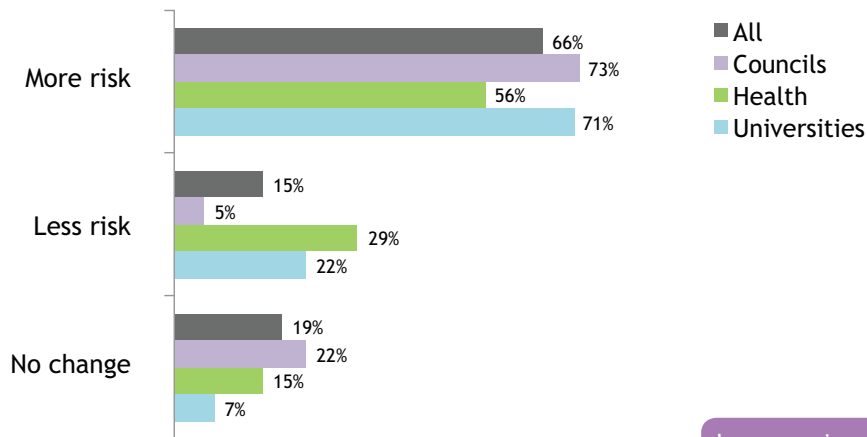
Q12 WHICH OF THE FOLLOWING DESCRIBES HOW YOUR ORGANISATION SEES OUTSOURCING?

52% of respondents see outsourcing as leading to a loss of control and 50% believe it increases risk. However 43% say it provides cost savings and 32% believe it provides an opportunity to maintain service levels. A quarter of each group see it as a last resort.



Q13. WILL YOUR ORGANISATION ACCEPT MORE OR LESS RISK TO DELIVER THE REQUIRED SAVINGS?

Of those who have made budget cuts, all groups say their organisation will be willing to take on more risk, although health is the least likely at 56%.



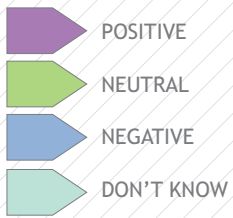
In comparison to Interserve and YouGov's 2012 Local Council Research: 57% were willing to take on more risk compared to 73% this year.

Base: 55% facing cuts (housing base too small to show). Small base size for universities.

Future delivery of services.

Q14. HOW DOES YOUR ORGANISATION FEEL ABOUT OUTSOURCING FRONTLINE AND BACK OFFICE SERVICES?

Organisations are generally more positive about outsourcing back office services than frontline services.



Q15. WHAT IS YOUR VIEW WITH REGARD TO THE POTENTIAL TO WORK WITH AND SHARE SERVICES WITH OTHER BODIES?

Councils are more likely to share with other councils, local NHS funded bodies and the third sector. Health will share with other NHS bodies and local authorities. Universities with public education bodies and the private sector. Whilst housing is quite positive about sharing with other bodies. However central government is the least preferred partner to share with.

Type	Councils	Health	Universities	Housing
Private sector	57%	25%	13%	65%
Local NHS funded body	60%	84%		
Local education bodies	23%	2%		
Blue light services	39%	45%		
Central government departments	-24%	-15%	-24%	-24%
Third sector	68%	48%	11%	73%
Social enterprises	58%	42%	6%	76%
The local authority		54%	-21%	37%
Other authorities	81%			
Other public education bodies			46%	
Other housing bodies				92%

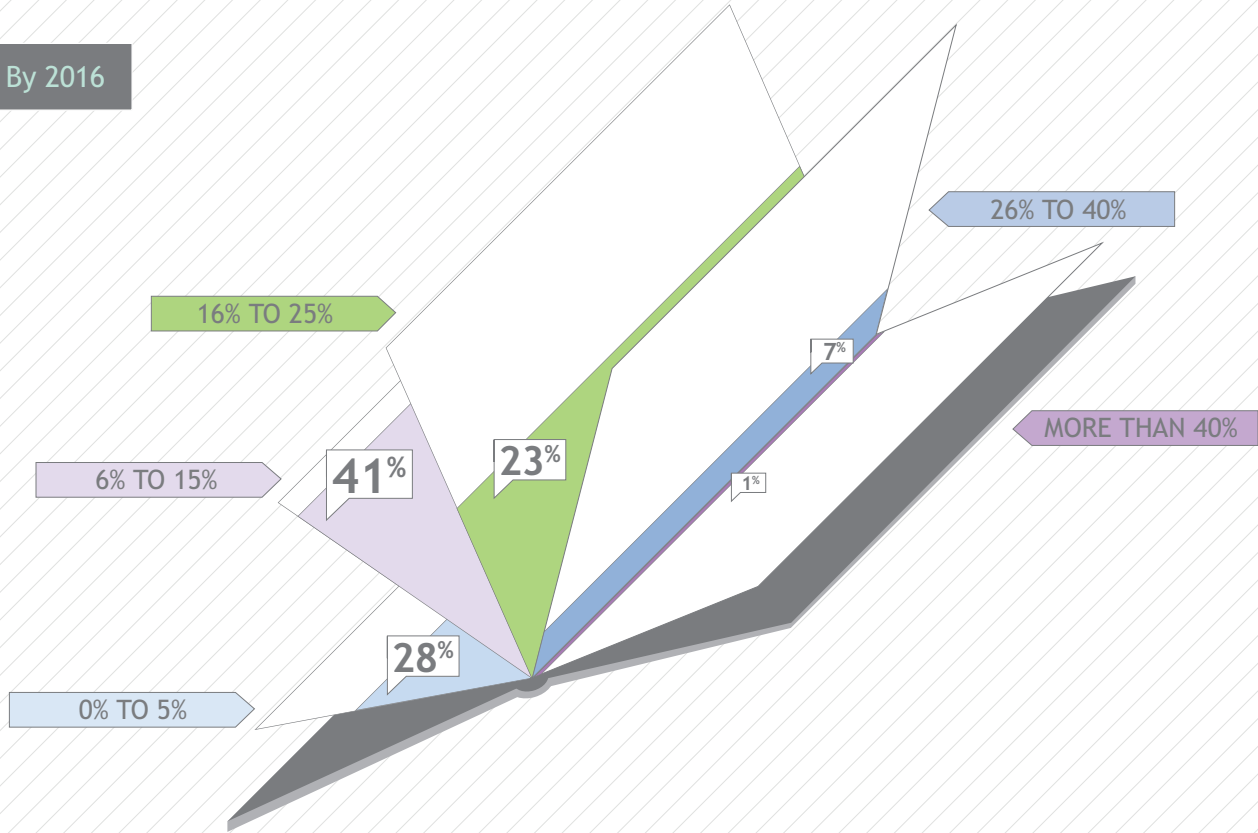
In comparison to Interserve and YouGov's 2012 Local Council Research: 20% expected to outsource to the third sector, 29% to other authorities and 51% to private sector partners.

Property and facilities efficiencies.

Q16. BY 2016 WHAT EFFICIENCIES WILL YOU HAVE TO DELIVER IN YOUR FACILITIES AND PROPERTY PORTFOLIO?

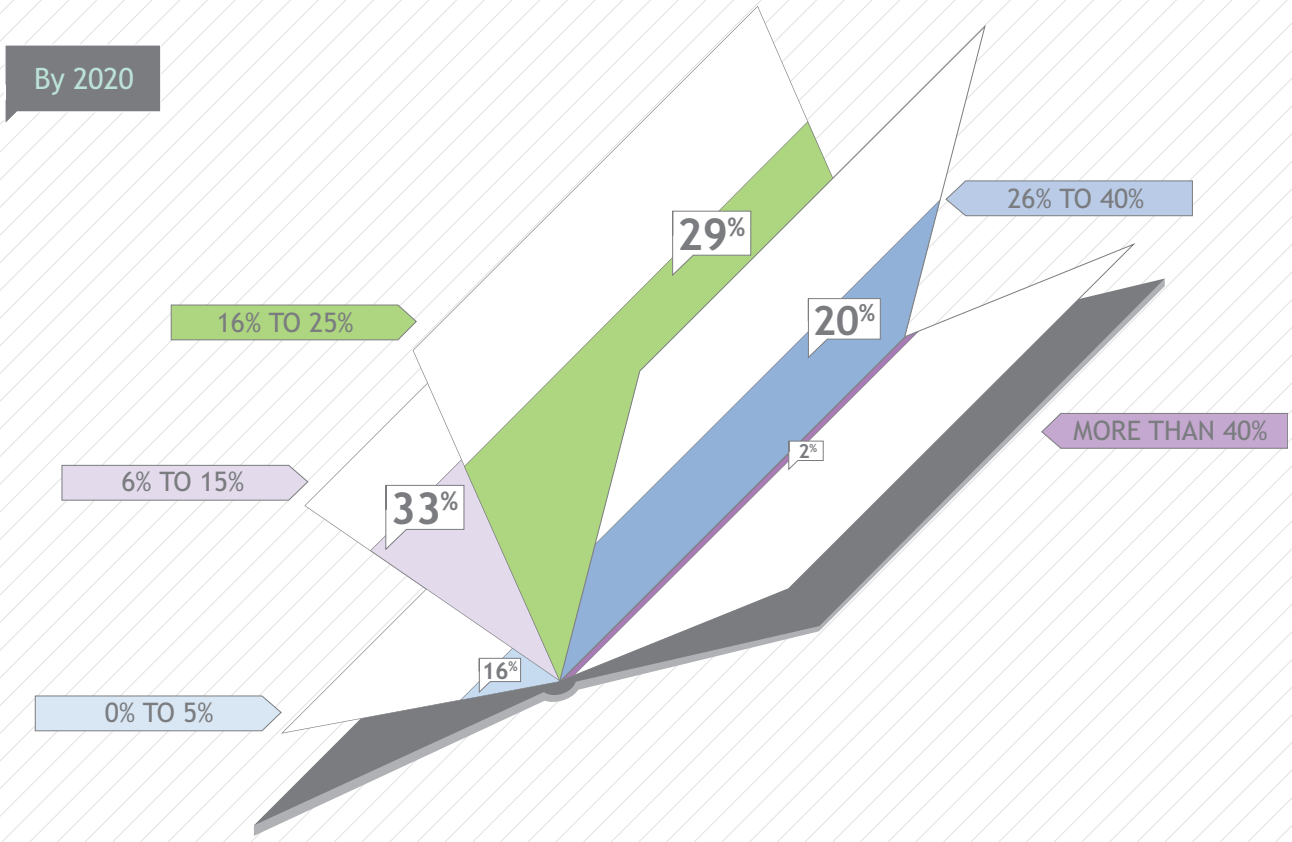
In 2016 41% expect to make savings of between 6% and 15%, equating to an average of 8% savings. Only a handful expect to make savings of over 25%.

By 2016



Q17. BY 2020 WHAT EFFICIENCIES WILL YOU HAVE TO DELIVER IN YOUR FACILITIES AND PROPERTY PORTFOLIO?

By 2020 there is a 13% increase in those anticipating savings between 26% and 40%, bringing the medium savings level to 18%.



Outsourcing property and facilities.

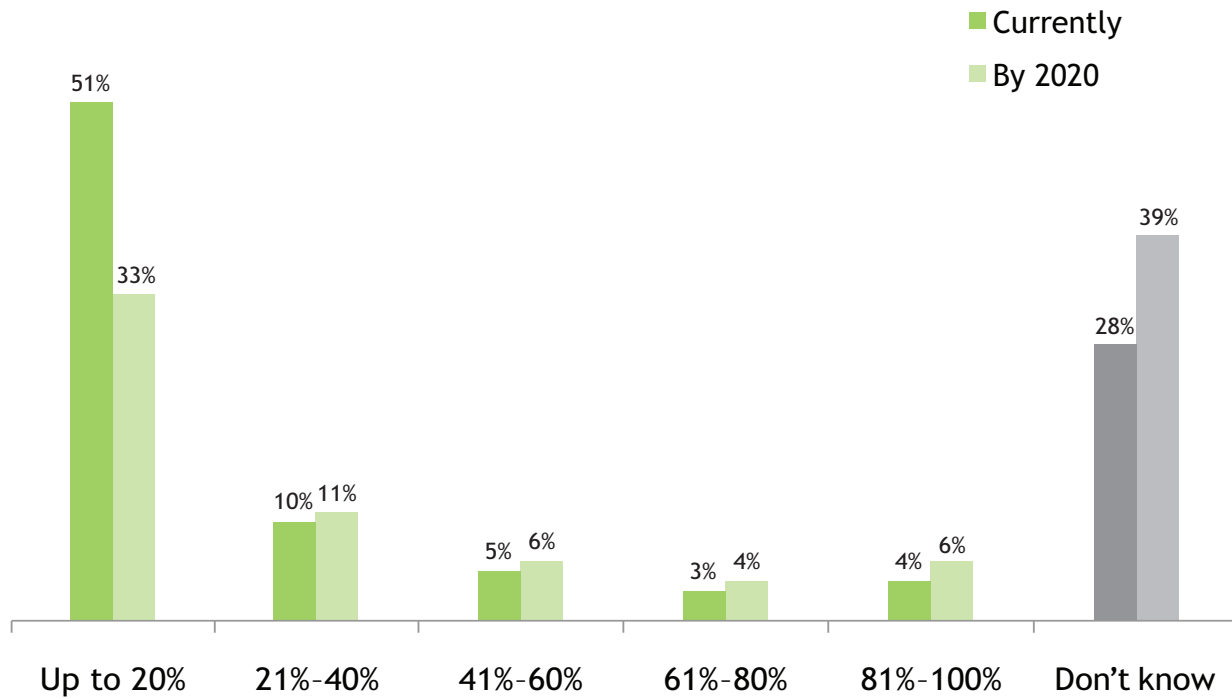
Q18. BETWEEN 2010 AND 2020 WHAT EFFICIENCIES WILL YOU HAVE TO ACHIEVE IN YOUR PROPERTY PORTFOLIO?

Councils expect to find efficiencies of almost 20% over the next three years, compared to housing associations who only expect to find efficiencies of 2.5%. All sectors have seen the levels of efficiencies rise significantly since 2010, and project to at least double these efficiencies by 2020.

Median decrease	2016	2020	Efficiencies already achieved since 2010
Councils	-18%	-23%	-8%
Health	-8%	-16%	-8%
Universities	-8%	-13%	-2.5%
Housing	-2.5%	-8%	-2.5%

Q19. WHAT PROPORTION OF YOUR PROPERTY AND FACILITIES SERVICES ARE PROVIDED BY PRIVATE PARTNERS?

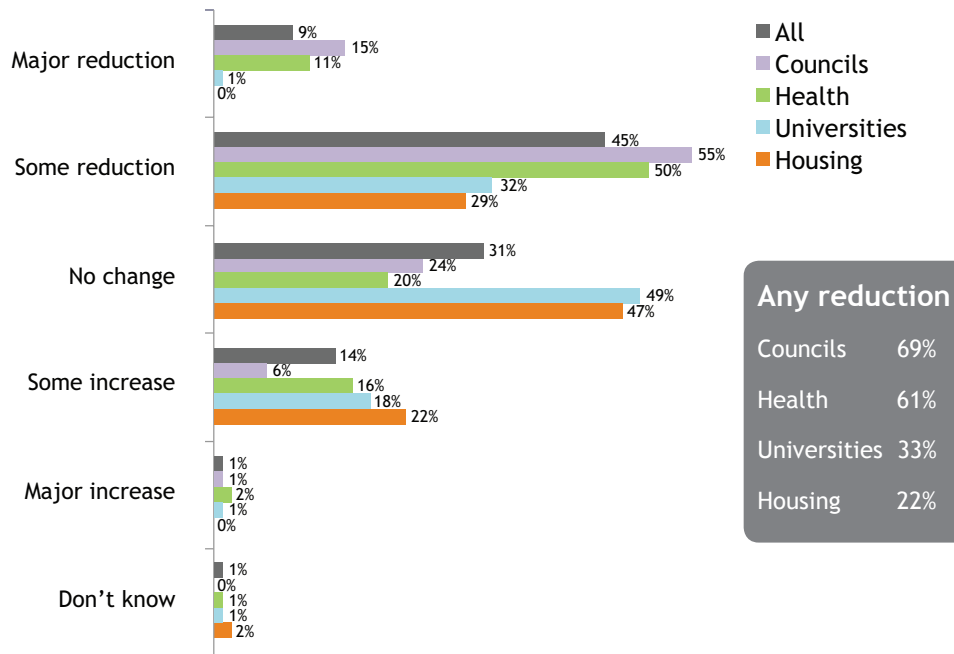
Amongst those able to answer, the expectation is for external provision to grow.



Investment in social outcomes.

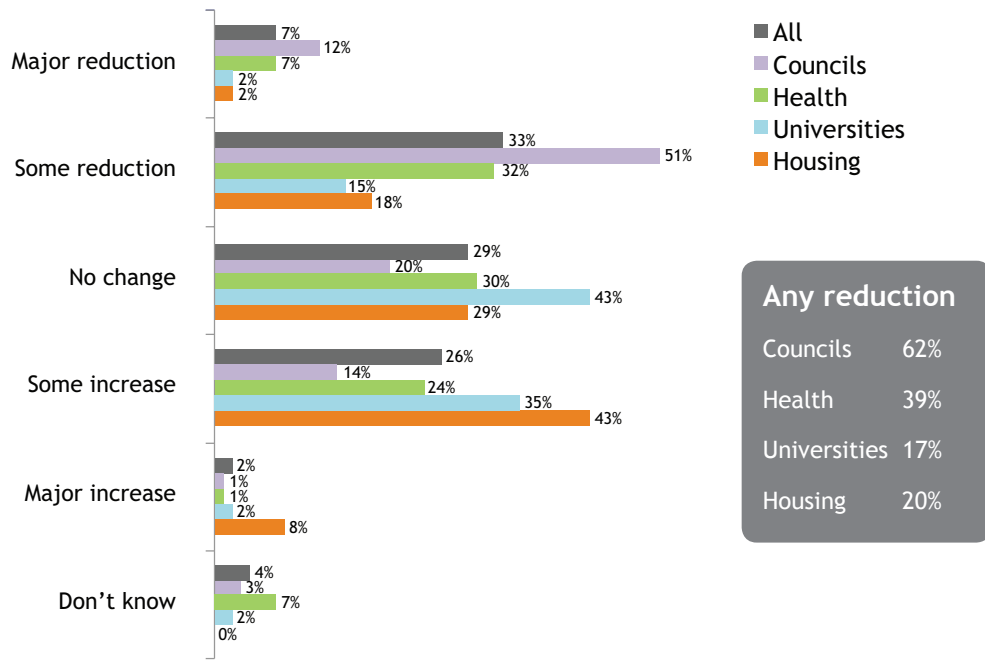
Q20. HOW DO YOU EXPECT YOUR EXPENDITURE ON TRAINING AND DEVELOPMENT TO CHANGE IN THE NEAR FUTURE?

Overall 54% of respondents expect cuts to be made to their training and development budgets. 69% of councils expect cuts, as do 61% of health organisations.



Q21. HOW DO YOU EXPECT YOUR EXPENDITURE ON SUSTAINABILITY INITIATIVES TO CHANGE IN THE NEAR FUTURE?

40% expect a reduction in expenditure on environmental and sustainability initiatives, whereas only 28% anticipate an increase. Over 60% of councils expect reductions in expenditure on sustainability initiatives.

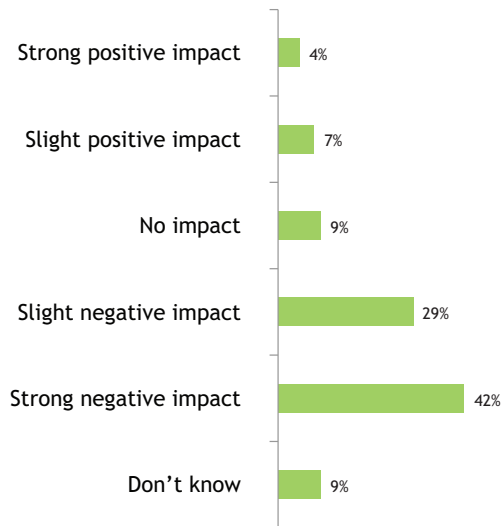


Future procurement in health.

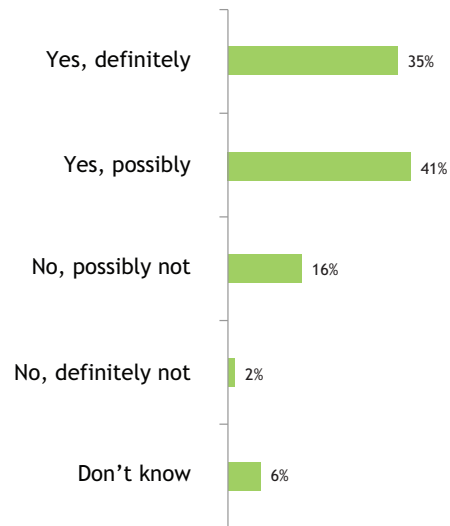
Q22. WILL CHANGES IN NHS FUNDING AND STRUCTURE TO IMPACT THE WAY YOU PROCURE AND DELIVER SERVICES?

Health authorities are anticipating a detrimental impact on future services. 71% see a negative impact on procurement of services, and three quarters (76%) see a negative impact on service delivery.

Impact on service procurement



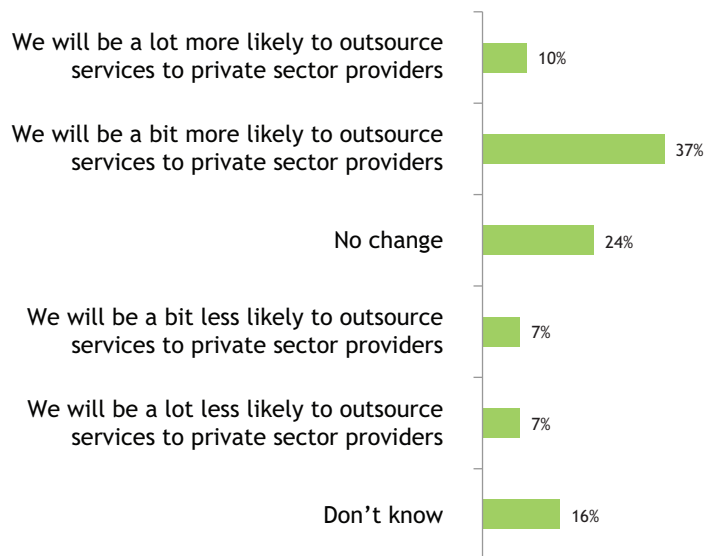
Detrimental impact on services



Base: all those in health

Q23. HOW WILL THESE CHANGES AFFECT YOUR ORGANISATION'S LIKELIHOOD TO OUTSOURCE TO THE PRIVATE SECTOR?

47% say it is more likely these changes will lead to them outsourcing, whilst only 14% believe it is less likely and 24% expect no change in future levels of outsourcing.



WHAT DOES THE FUTURE LOOK LIKE?

“Complete change in how services are delivered, more partnership working, more shared back office functions, more accountability and ownership of the whole service.”

Health
Senior decision maker

Base: all those in health

What does this mean by sector.

Local Authorities

- Local authorities, on average, have achieved a 10% improvement in efficiencies in their property and facilities portfolio since 2010. They anticipate making 17% savings by 2016 and 22% by 2020.
- Respondents anticipate making budget cuts of up to 13% right across their council by 2016, and 34% feel they would be unable to meet these targets in their entirety.
- Many local authorities expect to see a significant reduction in services with adult social care and recreational and cultural facilities, such as galleries, parks and playgrounds, among those commonly mentioned as most likely to be cut. Finally, respondents within local authorities expected, on average, a reduction in headcount of 8%.
- 90% of respondents believe that working and sharing services with other local authorities was likely to bring benefits.
- The top 5 barriers to outsourcing are local political concerns (44%), commissioning and / or contract management capability (34%), lack of trust (31%), lack of capacity (24%), and financial limitations (17%).
- Of those aware that the Social Value Act impacts their organisation (56%), 23% think it will safeguard social requirements, 17% it will make the commissioning process more complex, 9% it will provide clear and much needed guidance, whilst 5% believe it will put up procurement costs.

Social Housing

- Respondents from social housing report budgetary increases with, on average, increase of 2.5%. This translates through to headcount expectations which are believed to be on average also 2.5% higher by 2016.
- For those respondents facing cuts many believe that care and support for vulnerable tenants would most likely deteriorate as a result.
- Perhaps as a result of the more positive budgetary environment, 51% of respondents from the social housing sector expect an increase in expenditure on environmental and sustainability initiatives over the next 1-2 years.

Healthcare

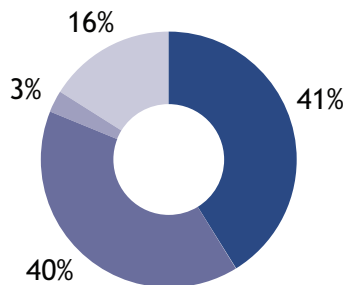
- Despite ring-fencing, those polled under the survey report they expect a 2.5% decline in overall budgets by 2016, although a quarter (24%) of respondents report an expected increase.
- In response to lower budgets, 48% of those respondents facing cuts say they are still developing a strategy to deal with these reductions.
- 76% of healthcare respondents facing cuts believe changes in funding will have a negative impact on the delivery of services, citing the increasing complexity of funding structures and overall budgetary reductions as the principle drivers behind this. Acute care was mentioned by many of the respondents as the area they expected to suffer most from reduced budgets. Community care and mental health services were also believed to face reductions in the availability and quality of delivery.

Higher Education

- Budgets across higher education look to rise by an average of 2.5% by 2016 and this increase in budget is reflected in the general maintenance of staff headcount levels. In line with their respective expectations for budgets, higher education expected headcount to remain flat.
- For those higher education establishments facing cuts, student experience was expected to suffer as the breadth of courses on offer and the quality of student accommodation are believed to be under threat.

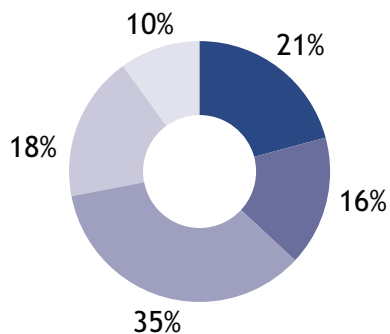
Research demographics.

D1. TYPE OF ORGANISATION



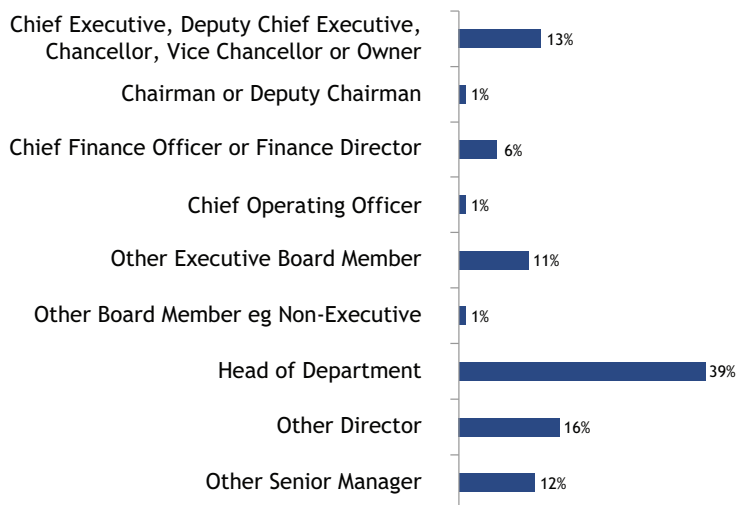
- Local Authority
- Health
- Universities
- Housing

D2. REGION OF ORGANISATION

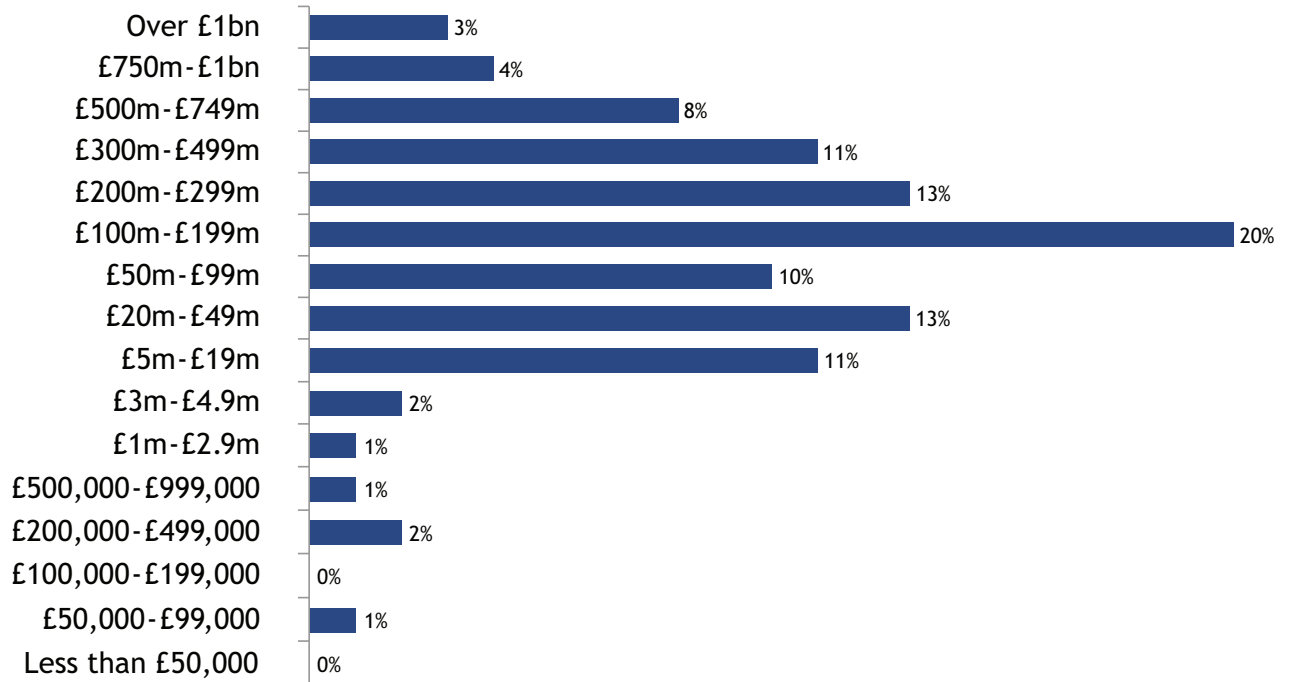


- North East, North West, Yorkshire & the Humber
- East Midlands, West Midlands
- South East, South West, East of England
- London
- Scotland, Wales

D3. JOB LEVEL



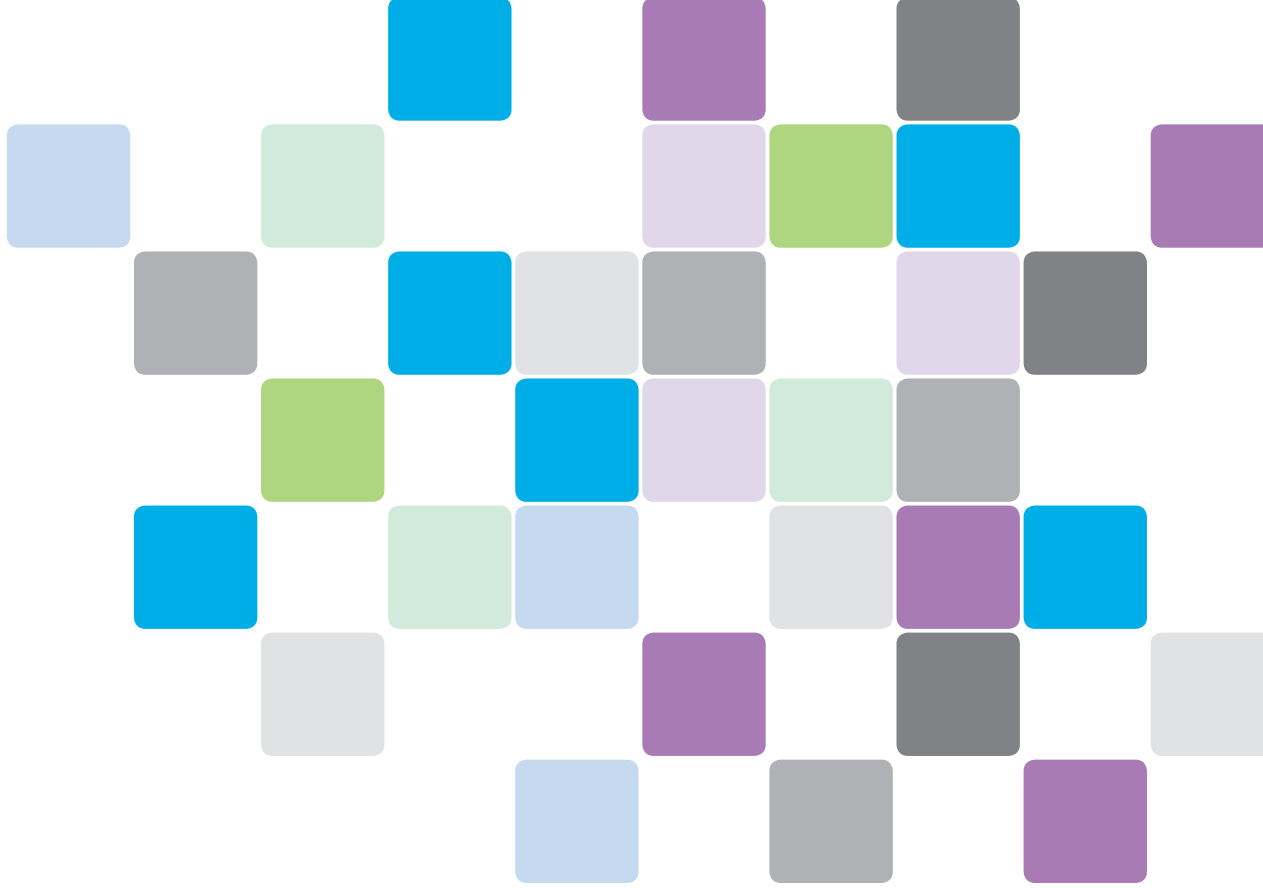
D4. ANNUAL EXPENDITURE



Ingenuity at work

Interserve's vision is to redefine the future for people and places. We are one of the world's foremost support services and construction companies, operating in the public and private sectors in the UK and internationally. We offer advice, design, construction, equipment, facilities management and frontline public services. Interserve is based in the UK and is listed in the FTSE 250 index. We have gross revenue of £2.3 billion and a workforce of over 50,000 people worldwide.

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