



Audit commission report

'For better, for worse : Value for money in strategic partnerships'

This briefing provides details of the Audit Commission report 'For better, for worse: Value for money in strategic service delivery partnerships' which examines the use of strategic service-delivery partnerships as a means to deliver efficiency gains. There is evidence that SSPs have failed to deliver on anticipated efficiencies. This briefing is provided to local authority chief executives, councils leaders and all APSE contacts

Key issues

1. The Audit Commission has studied the impact of strategic service-delivery partnerships (SSPs) and the effectiveness of this route in producing efficiency gains for local authorities to inform its report 'For better, for worse; Value for money in strategic service-delivery partnerships'
2. The report has highlighted a number of failings in SSPs whereby the anticipated benefits of economies of scale, innovation and risk sharing have yet to be realised
3. The report also highlights that such partnerships can be high risk for the public sector as the complexity of the arrangements coupled with a need for expertise can lead to councils signing up to SSPs without the right level of knowledge or expertise.

1. Introduction

In 2004/2005 councils spent around £50 billion procuring goods and services. Councils have been encouraged to use innovative procurement mechanisms in recent years to respond to the need to make efficiency gains.

Strategic service-delivery partnerships (SSPs) in theory were launched as a means to offer cost-effective service delivery. APSE was represented on the Strategic Partnering Taskforce set up by the DETR (now DCLG) in 2001 and raised concerns that there was no long term evidence of the benefits of SSPs often quoted by suppliers such as better value for money and indirect economic benefits, such as regeneration and local

employment, there was little evidence to support these factors and in fact a growing bank of evidence suggested that in fact employment figures cited in some of the SSPs did not relate to new jobs but to job transfers from other areas.

Whilst most available commentary on SSPs has centred on their potential to deliver perceived benefits the Audit Commission study has assessed the extent to which benefits are delivered. It also examines the 'management challenges' that need to be considered in looking at whether the perceived benefits can be properly realised.

The Audit Commission research objectives were to assess whether and how SSPs provide value for money, and how the principles of good procurement practice are applied in SSPs. No individual councils or contractors are identified in the case studies supporting the report.

The report will be of particular interest to local authority elected members and senior council officers considering or already engaged in an SSP process.

2. Summary of Audit Commission findings

Strategic service-delivery partnerships (SSPs) are one model that councils have used to improve value for money in service delivery. The Audit Commission study found that:

- SSPs are long-term public private partnerships (PPPs) through which contractors deliver a service or range of services for councils.
- They are designed to improve value for money without some of the drawbacks associated with traditional contracting.
- They are also designed to deliver additional benefits beyond those that a traditional contract could offer.
- Over half of councils say that they are engaged in, or considering, a service partnership of some kind.
- SSPs represent significant sums for councils. The 14 SSPs examined by the Audit Commission in detail are worth more than £2.6 billion, with individual contract values ranging from £50 million to £425 million.
- The councils expected cost savings of between 1 and 15 per cent for services delivered through SSPs.

Councils surveyed believe that they have secured many of the benefits they expected from their SSPs.

- Most councils believe that they have got value for money from their SSPs, though this is hard to assess objectively.
- Performance targets have often been met or surpassed, and councils are positive about their experiences.
- The councils reviewed have benefited from over £100 million investment in local infrastructure.

Some councils have jeopardised the benefits by not managing the contracts that underpin SSPs effectively.

- There are examples of inadequate investment in client-side contract management, inappropriate risk allocation and poor performance management.

- Some councils have relied unduly on the language or spirit of partnership, believing erroneously that contractors would pursue shared goals without incentives to do so.
- Few councils have mastered the additional complexities of SSPs in a way that has unlocked additional benefits.

There are clear drawbacks for councils when SSPs do not succeed.

- Private sector experience suggests that 60 to 70 per cent of strategic partnership arrangements between companies fail, and few meet expectations.
- Three of the earliest councils to adopt SSPs have terminated their agreements before their term, incurring additional costs.
- Even in continuing SSPs, purported benefits from economies of scale and transferred learning between sites have been slow to emerge.
- Some SSPs have proved inflexible, hindering councils' ability to respond to changing external circumstances.

Councils should only deliver services through SSPs if they are prepared to manage them effectively.

- Councils must be able to demonstrate at the outset and over the whole life of the contract that SSPs represent better value for money than other options.
- Councils must be willing and able to manage large-scale complex contractual arrangements.
- Councils must structure SSPs to adapt to changing circumstances.
- Councils must be willing to invest in client-side management capability and to develop trust in working relationships.

3. Performance management and improved value for money

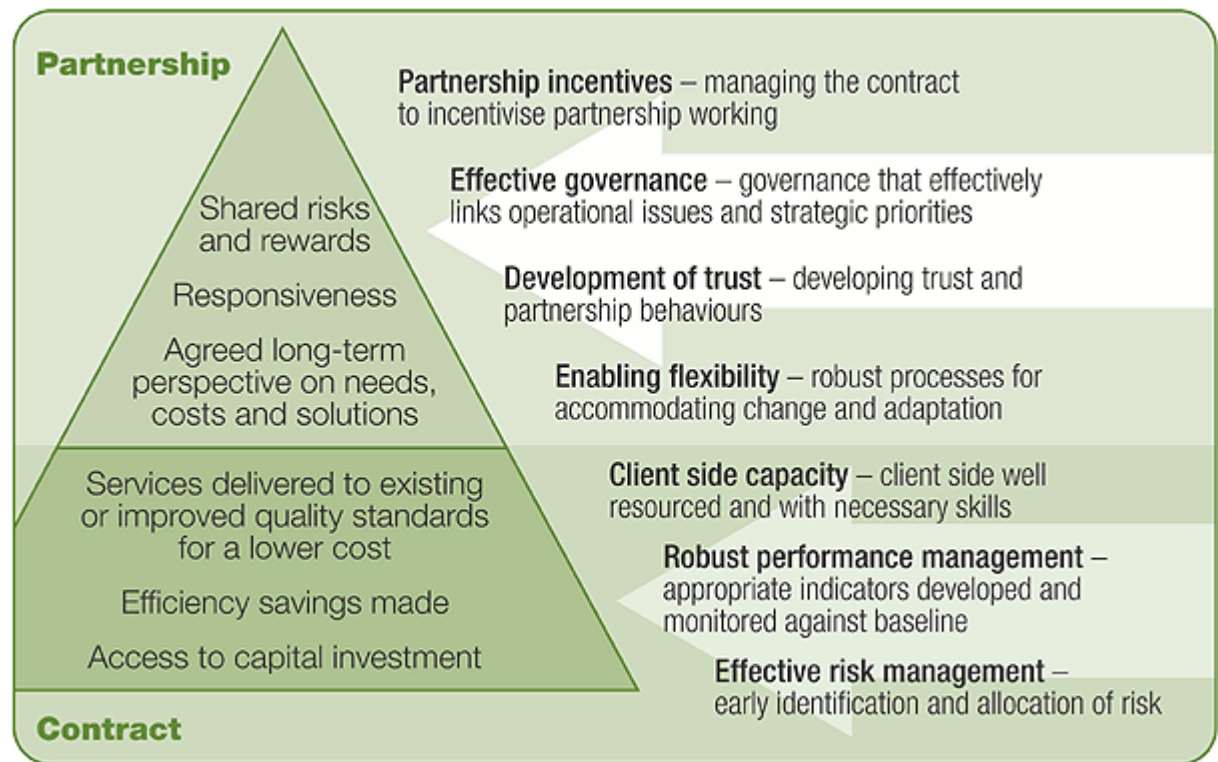
The Audit Commission study found that in most SSPs the council and its contractor use a combination of statutory indicators and a complementary set of local indicators to monitor and measure the performance of the contract. If an SSP commences with limited information on performance it can make the management of the contract a difficult process. Councils would need consistent and robust performance indicators both before and after the contract has commenced in order to monitor effectively any changes in performance.

The report also identifies that the bundling of services can lead to its own set of problems. This is a view shared by APSE. Bundling of services, whilst potentially creating efficiencies can also make performance monitoring difficult, particularly in areas where performance information is limited or performance management weak, as this would create inconsistencies, between different service areas, when monitoring the contract.

Recognising the difficulties in capturing variables, such as service quality, as opposed to quantifiable outputs, through performance indicators, can create situations where targets are met on paper but nevertheless the perception of the quality of the service is called into question. The example used in the study is the number of calls handled by a call centre might in theory meet performance targets, but not reflect the quality of the information passed on to the service user or reflect any customer satisfaction ratings.

4. Traditional contracts v the SSP approach

In a research report commissioned for the study RSe Consulting found that the 'degree of investment in the relationship will be much higher for a partnership than in traditional outsourcing'. The study also found that the nature and complexity of an SSP led to increased identifiable partnership challenges illustrated by the following diagram.



The study highlights that whilst the language of 'partnership' is used seductively to engage councils in long term and often complex SSPs, the variable risks that arise may not, on balance, provide the most appropriate approach to service delivery. This is an issue that APSE has identified for some considerable time and is now confirmed by the research evidence. The study finds that the investment in partnerships may not produce the anticipated outcomes as some elements of the partnership had not been considered. For example the time needed to develop robust performance information, the client side capacity for on-going management of the contract and building the relationships between the partners and contractors.

Moreover, the report highlights that the early SSPs were driven by access to capital investment. Therefore the longer the contract term of the SSP the more affordable the pay back arrangements. However, this does not necessarily provide value for money or flexibility for the council involved if it is locked into an SSP without a suitable 'break clause' to enable freedom from the contractual arrangements, without financial or other penalties being incurred.

5. Looking ahead and APSE conclusions

The report provides a welcome reassessment of the benefits provided by SSPs. APSE has always advocated that local authorities need to be clear about their objectives before entering into an SSP and to use the procurement process as a means of evaluating the extent to which partnership proposals meet those objectives. The Audit Commission findings whilst looking at both the successes and failures of SSPs state that it “will not be an appropriate option for all councils”. There may be other forms of partnership working that stop short of whole sale outsourcing which can still deliver a council’s aspirations.

The report states that other options that can be employed to transform service delivery. These include:

- Reforming in-house provision
- Collaborative shared services arrangements between public bodies
- Traditionally specified short term contractual arrangements
- Delivery by community and voluntary organisations.

The report concludes that councils should therefore only choose an SSP as a service delivery model if they can clearly demonstrate that it is more cost effective than other options and that they are well equipped to manage the large scale, long term contractual components of SSPs, and the additional complexities.

APSE has produced a range of research and briefings that have highlighted the many tools available to councils to deliver service improvements through in-house service delivery mechanisms, using robust performance management systems and techniques, customer focus, business process re-engineering and a commitment to continuous improvement.

Against this background some helpful changes to local government finance have addressed some of the early drivers towards SSPs. The prudential borrowing framework has created some headroom for council to borrow to invest in services. The encouraging legislative changes to rules on Trading and Charging for services has also provided councils with the ability to develop shared services on a collaborative basis or provide services to other local authorities, potentially creating economies of scale from within local government as well as new sources of revenue. The Power of Community Well Being under S 2 of the Local Government Act 2000 also complements the toolbox of powers available to local councils to innovatively provide services.

The report conclusions provide an opportunity for local authorities to assess the full range of options open to them to meet the challenges of innovative and effective service delivery. Whilst it may not create a level playing field for in-house service delivery it does at least provide the means for assessing the true risk of outsourcing service delivery through an SSP route.

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