

Local government

National report

January 2008

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commission



# For better, for worse

Value for money in strategic service-delivery partnerships

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Photographs: Getty Images

Printed in the UK for the Audit Commission by Belmont Press

Design and production by the Audit Commission Publishing Team

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First published in January 2008 by the Audit Commission for local authorities and the National Health Service in England, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ

ISBN 1 86240 538 7

# Summary

**Strategic service-delivery partnerships (SSPs) are one model that councils have used to improve value for money in service delivery.**

- 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 we looked at in detail are worth more than £2.6 billion, with individual contract values ranging from £50 million to £425 million.
- These councils expect cost savings of between 1 and 15 per cent for services delivered through SSPs.

**Councils 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 we reviewed have benefited from over £100 million investment in local infrastructure.

**...but some 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.

**The Audit Commission has developed a framework to help councils manage and assess the performance of SSPs. This is linked to existing technical guidance on particular challenges and will be taken into account in use of resources assessments.**

# Introduction

- 1 Councils spent approximately £50 billion procuring goods and services in 2004/05 (**Ref. 1**). They have used innovative procurement mechanisms in recent years to respond to a public policy framework emphasising increasing efficiency gains. Strategic service-delivery partnerships (SSPs) are one such mechanism. In theory, SSPs offer cost-effective service delivery and a series of additional benefits that develop from partnership working. Councils create SSPs in pursuit of better value for money and indirect economic benefits, such as regeneration and local employment.
- 2 Most of the commentary on SSPs to date has centred on their potential to deliver these benefits. This study provides an assessment of the extent to which benefits are delivered, and the management challenges involved in realising them. The first councils to enter SSPs were innovative and took risks. They broke new ground in devising long-term specifications and negotiating and managing unfamiliar contractual arrangements. SSPs are now becoming more common. There are examples of success and failure, including early termination. All councils can learn from this experience.
- 3 The 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. The study methodology is described in **Appendix 1**. Due to the generally commercially confidential nature of SSPs, this report does not contain identifiable case studies. No councils or contractors are identified.
- 4 SSPs are one of a number of mechanisms that councils may use to secure greater efficiency and service transformation. The Audit Commission is undertaking studies on other aspects of commissioning that are relevant to securing these objectives. These include *Healthy Competition* (**Ref. 2**), *Hearts and Minds* (**Ref. 3**) and a forthcoming study examining the efficiency of back office functions in local government. This report does not examine other forms of public private partnership (PPP), although some of the findings and recommendations will be of interest to those considering different long-term contractual arrangements.

- 5 The report is primarily intended for members and senior officers in councils considering or engaged in SSPs. There are four sections:
- Chapter 1 defines SSPs and describes the nature and extent of their use;
  - Chapter 2 assesses the extent to which the benefits of SSPs have been realised;
  - Chapter 3 describes how councils can manage SSPs in order to optimise these benefits; and
  - Chapter 4 considers the implications of the study's findings given the recent Comprehensive Spending Review.

# 1

## The use of strategic service-delivery partnerships

### Background

- 6 Although the term partnership is widely used across the public sector, the term SSP refers to a specific form of procurement in which long-term PPPs are established to deliver services. SSPs are:
  - **strategic** because they are based on delivering councils' long-term objectives, and frequently involve transformational rather than incremental change;
  - focused on **service delivery** and are therefore distinct from partnerships that are designed to set objectives and agree priorities, such as local strategic partnerships; and
  - defined as **partnerships** because they offer benefits additional to traditional contracting and are also designed to overcome some of the problems of those arrangements.
- 7 Although SSPs vary considerably in terms of scale, scope and duration, this study excludes other forms of PPP. We have not considered the use of the private finance initiative (PFI), nor Building Schools for the Future and Local Improvement Finance Trust projects. There are important differences between SSPs and the PFI in the length of contracts, and the process and funding involved in establishing them. But there are also similarities between some aspects of SSPs and other forms of PPP. Therefore some of the findings and recommendations in this report will be of interest to those considering other forms of procurement.
- 8 SSPs are said to offer two types of potential benefits. Firstly, they can provide value for money benefits that may also arise from traditional outsourcing; services can be delivered at a lower cost to existing or improved quality standards if councils manage competitive pressures and procure effectively. Providers may be appointed in their particular area of competence, which is especially important in service areas that require technological expertise (**Ref. 4**).

- 9 A second potential advantage of SSPs is that they offer benefits additional to those that can be realised through traditional outsourcing. This has historically been undertaken through tightly specified, arm's length contracts with penalty clauses for non-compliance. These traditional arrangements created incentives that worked against fulfilling the intended objectives, such as:
- clients and contractors both withholding information for tactical advantage, or through ignorance of each others' needs;
  - refusal of contractors to cooperate in problem solving when new circumstances arise;
  - rigidity of design and implementation; and
  - opportunities to exploit variations in the contract.
- 10 In contrast SSPs are based on the principle of mutually aligned incentives throughout the course of a long-term relationship. They imply shared approaches to:
- an agreed long-term perspective on needs, costs and solutions;
  - the allocation and management of risks and rewards;
  - governance arrangements, including dispute resolution; and
  - flexibility and responsiveness to changing circumstances (Ref. 5).
- 11 There are however potential drawbacks of SSPs where they do not work as anticipated. Councils and their contractors will be unable to predict how the political and financial environment will change over the duration of the SSP, and in some circumstances SSPs may reduce the flexibility of the council in responding to these changes. There are financial risks for both parties and service performance will not necessarily improve.
- 12 Expectations of SSPs have been high and councils have been encouraged to consider SSPs as a procurement model. In 2004 the Minister for Local and Regional Government stated that:
- 'strategic partnerships can bring about radical improvements in service delivery...we want to see more authorities adopting a partnership approach' (Ref. 6).**
- 13 The then Office of the Deputy Prime Minister established the Strategic Partnering Taskforce in 2001 to advise and support councils entering into SSPs. The Taskforce published its final report on 24 pathfinder projects in 2004, and synthesised its existing guidance in 2006 (Ref. 7).

## The national picture

- 14 Although the UK is relatively advanced in terms of its experience of PPPs generally (**Ref. 8**), there are limited financial and performance data on SSPs. This is because of the difficulty in differentiating SSPs from other forms of outsourcing.
- 15 Recent survey data provide insight into the extent to which councils use SSPs. The 2006 National Procurement Strategy survey (**Ref. 9**) included questions about councils' involvement in SSPs; their confidence that they will deliver benefits compared with other procurement options; and benefits realisation. Although it is likely that different councils have defined SSPs in different ways, **Table 1** suggests that over half of the councils that responded are involved in, or are considering, arrangements which they define as SSPs. The sample of councils is broadly representative of different authority types. The survey data on benefits and managing SSPs are presented in Chapters 2 and 3 respectively.

**Table 1**

**Over half of councils are involved in, or considering, arrangements which they define as SSPs**

	Involved in	Considering	Neither	Don't know / Not provided	Total
Councils	58	21	23	34	136
Percentage	43	15	17	25	100

**Source:** Audit Commission/Communities and Local Government

## Our research

- 16 SSPs vary substantially in their duration, scale and scope. Within our sample of 14 councils, two SSPs have contractual terms of less than 10 years, while the remaining 12 all have durations of 10 to 15 years. Five councils had minimum contractual periods that could be extended within the terms of the original specification. Most SSPs are still at a relatively early stage. Half have commenced since 2004, and none has yet reached the end of its original contracted period. Three SSPs have terminated prematurely. All of these were wound up between their second and fourth year in operation.

- 17 For each SSP, data were collected on the length of the contract; its overall value; the anticipated savings (calculated by the council); and the level of investment provided by the contractor within the contract. The sample is not representative of all SSPs. It does, however, represent the variety of SSPs that the Audit Commission is aware of. **Table 2** gives a sense of the size and duration of SSP contracts, and the levels of savings and investment expected. The total value of the contracts reviewed was more than £2.6 billion.

**Table 2**

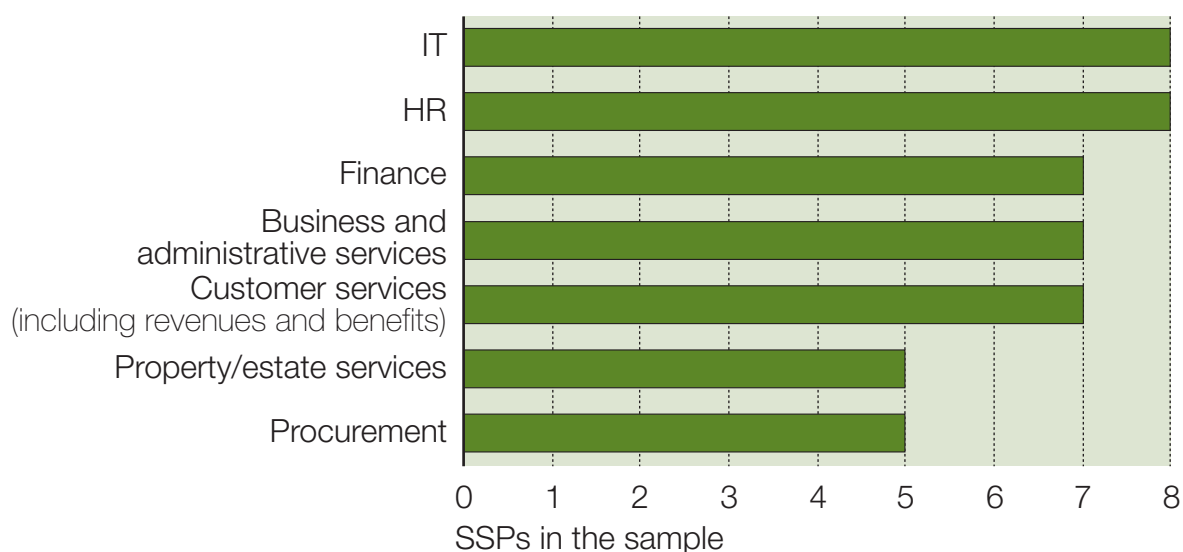
**There is variation in the duration, scale and anticipated benefits of SSPs**

	Range	Mean
Length of contract (years)	5-15	11
Overall value	£50m-£425m	£189m
Anticipated savings (£)	£2.1m-£47m	£16.6m
Anticipated savings (% of contract value)	1.0%-15.4%	8.3%
Capital investment provided by contractor (£)	£4.8m-£30m	£13.0m
Capital investment provided by contractor (% of contract value)	2.3%-15.0%	7.0%

**Source:** Audit Commission

- 18 The scope of SSPs varies. Some bundle a range of different services together. These include back-office services such as IT, human resources (HR), or financial administration alongside front line services such as revenues and benefits or other customer services. Other SSPs focus on a single service area. SSPs can relate to very specialist support services such as highways maintenance, building and design services, catering and schools support. **Figure 1, overleaf**, shows the frequency of different services included in SSPs from our sample of 14 councils.

**Figure 1**  
Some services appear more frequently within SSPs



Source: Audit Commission

## Why councils choose strategic service-delivery partnerships

### Value for money

- 19 Councils are motivated primarily by value for money when deciding to enter into an SSP. However, different councils define value for money in different ways. Many councils express value for money principally as financial savings relative to the cost of existing service provision. Business cases are constructed on this basis. The implications of this in assessing value for money are described in Chapter 2.
- 20 But other councils seek a broader range of value for money improvements. Some enter into an SSP as a stimulus for service transformation and improvement.

**‘The administration was looking primarily for service improvement and, in particular, service improvement in those services that were struggling along in [the] bottom quartile.’**

Council Assistant Chief Executive

**‘It wasn’t actually a financial motivation as such. The motivation’s more around service improvement and transformation.’**

Council Finance Director

- 21 Interviewees told us that, for some councils, access to capital investment to improve their infrastructure was a powerful motivation before the introduction of the Prudential Code in 2004 (Ref. 10).

**‘At the time the council was running a relatively small capital programme and was short of capital resources and it was certainly before the period when prudential borrowing came in... So I think one of the drivers was certainly about how the private sector could bring in some of that type of investment.’**

Council Finance Director

**‘We’re paying for the [software] implementation and [the new customer service centre]... At the time we wouldn’t have been able to afford those investments.’**

Council Partnership Manager

- 22 There are examples of SSPs established since 2004 where capital financing, associated with the services covered by the SSP, has been raised by the council separately from the SSP contract, which only covers the services delivered.
- 23 In other SSPs councils have sought financial benefits from using the SSP to generate new business.

**‘They’ll be looking outward as well [at] what opportunities [the contractor] could drive locally... if we brought [the] PCT into the deal, fire authority etc... We’ve always said that we want [the council] to be a centre of excellence [and] that they [should] expand their base from, and bring jobs into, the area.’**

Council Partnership Manager

## Other motivations

- 24 Explicit financial and service improvement considerations are not the only drivers for councils engaging in SSPs. In some councils there have been other motivations.
- 25 Some councils have been motivated by regeneration benefits associated with new capital infrastructure.

**'I think what swung it...was the external benefits to be gained by creating the business centre which is now under construction. The regeneration benefit of the influx of new jobs... Irrespective of the direct savings to the authority, it was that discussion that determined that we were in favour of it and...persisted with the process.'**

Councillor

- 26 Some have also sought local economic benefits such as job protection or creation within the local area.

**'We are trying to attract jobs, more than just average council jobs... these are quality jobs and this town desperately needs those.'**

Council Partnership Manager

- 27 There are also political motivations, in particular administrations that commit to a programme of outsourcing or partnership, although it should be noted that SSPs are found in all political groups.

**'The council...had a policy of seeking, where it was legitimate and sensible, to look to externalisation or partnerships, so we've got a number of those over the years...so I think there is a political imperative there.'**

Council Director of Resources

- 28 Finally, councils referred to the perceived status benefits of being viewed as an innovative and forward thinking council.

**'At this time and era there was a lot of political talk about partnership as well... it was seen to be the political in-word.'**

Council Finance Director

- 29 Almost all councils looked for value for money improvements, either through financial efficiency or service transformation. Many also saw the potential benefits of access to capital, and most had other non-financial objectives too.

# 2

## The benefits of strategic service-delivery partnerships

- 30 In most of the cases we have investigated, SSPs have delivered the core value for money benefits of performance improvement at the price agreed in the contract. Smaller-scale SSPs for single services, for example, construction or highways maintenance services, have achieved these benefits to a greater extent. These SSPs are based on specific projects where outputs and outcomes are relatively easy to specify. It is more difficult to achieve benefits, or to know whether benefits are achieved, in multi-functional SSPs that encompass a range of services that are more difficult to specify. And many of the additional partnership benefits that are expected to materialise from SSPs have also been more difficult to realise, or to measure.

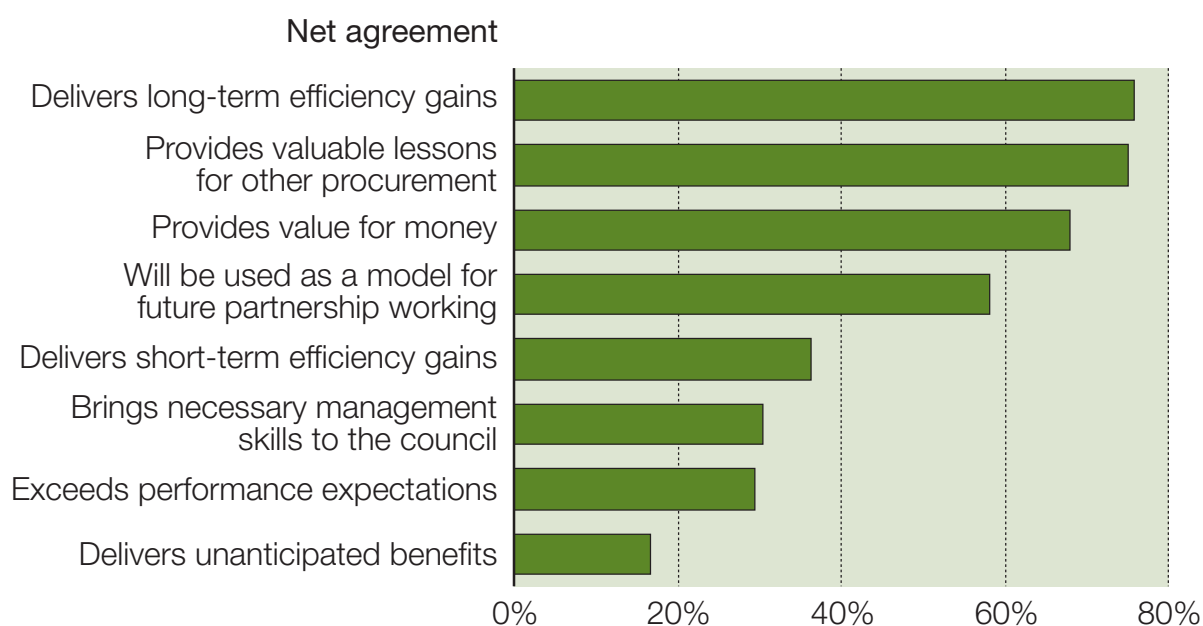
### Evidence on benefits realisation

- 31 Survey data from 58 councils engaged in SSPs demonstrate that councils are generally positive about their experiences of them (**Ref. 9**). Councils were asked to indicate their strength of agreement with 15 statements relating to the benefits of SSPs, their performance, governance arrangements and other aspects such as set-up. The results on benefits are presented as **Figure 2, overleaf**, and the results for other aspects are presented later in the report, in Chapter 3.
- 32 This evidence is more positive than the findings from our detailed research, which demonstrate greater variation of experience. Among respondents there may be differing interpretations of what constitutes an SSP. As SSPs are long term, but a relatively new procurement mechanism, the survey has been completed by those in the early stages of an SSP. It is likely that councils will be more optimistic in their assessments at that stage in the life cycle. This is because most SSPs are structured so that many of the most visible, high-profile and clearly articulated benefits for the council, for example, those arising from new investment, are delivered early in the life of the partnership. The contractor will recover this early investment and ensure profitability through the life of the contract.

**Figure 2**

**Councils agree that their SSPs deliver a range of benefits**

From your authority’s experience of working in a long-term SSP, how strongly do you agree or disagree that the partnership...?

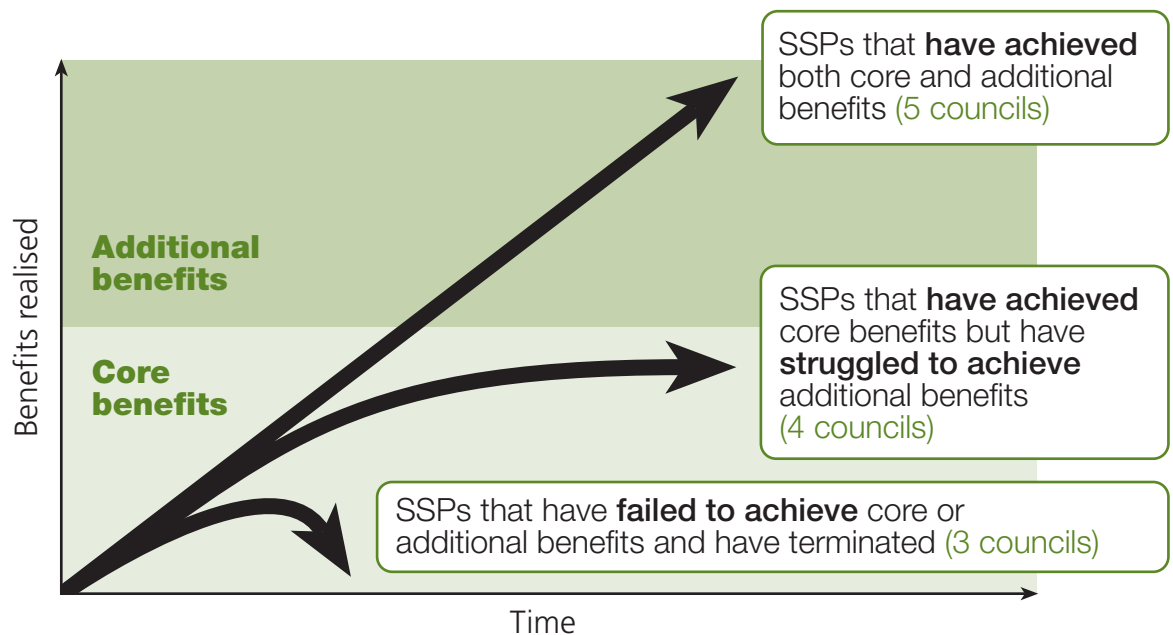


**Source:** Audit Commission/Communities and Local Government

**33** While the core value for money benefits, as set out in the contract, are normally achieved, the purported additional benefits of partnership have been more difficult to realise. The councils that were studied in depth can be broadly categorised in three groups (**Figure 3**). Those in the first group have failed to realise either core benefits or additional partnership benefits, and these SSPs have terminated. Councils in the second group have realised core value for money benefits, but have been unable, as yet, to realise additional partnership benefits to the extent that they expected. And those in the third group have achieved both core benefits and a series of additional benefits that they could not have realised from other procurement models. For two councils in our research it is too early to make an assessment of the extent to which they have realised the different types of benefits.

**Figure 3**

Most councils have realised core value for money benefits but most councils have also struggled to realise additional partnership benefits

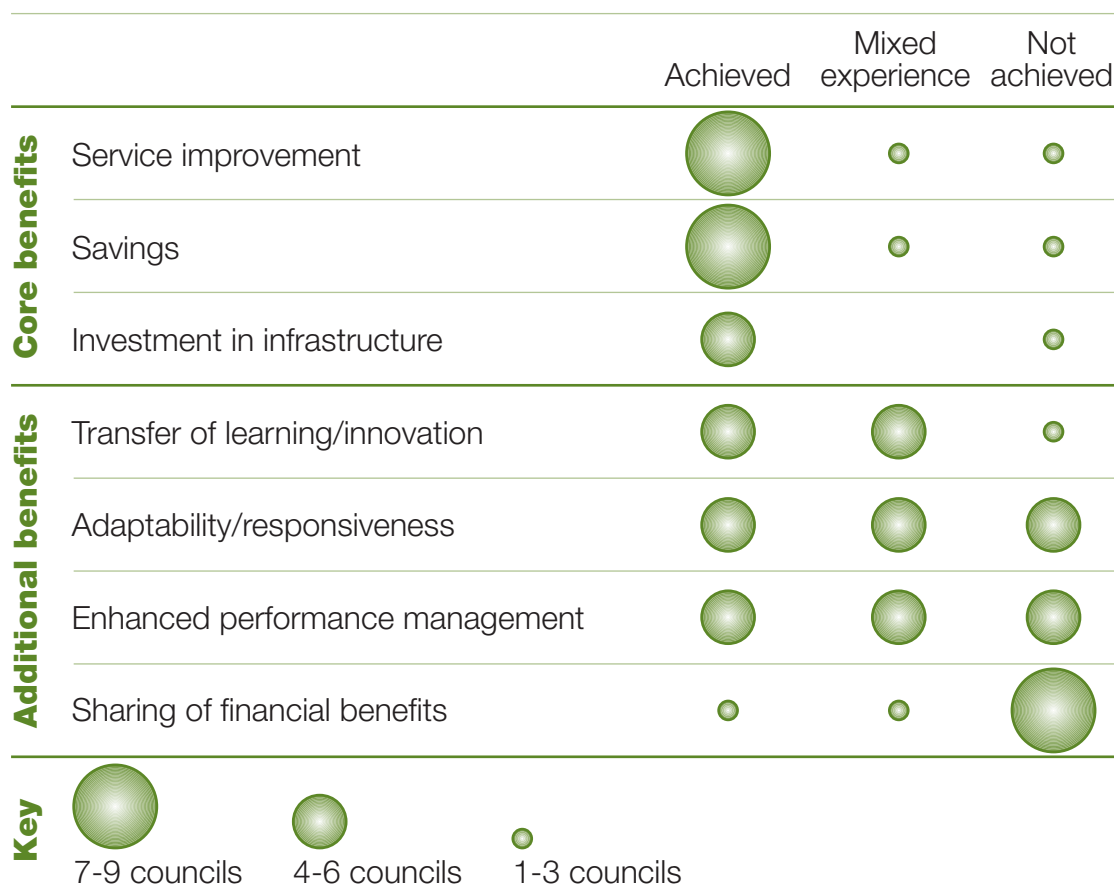


Source: Audit Commission

- 34 Not all SSPs will achieve the benefits sought. Similar collaborative arrangements in the private sector have a failure rate estimated to be as high as 60 to 70 per cent (Ref. 11). Even where they continue, Doz and Hamel believe that the ‘majority of alliances fall woefully short of original objectives’. However, this may reflect a greater tolerance of risk in the private sector, and therefore more ambitious objectives from collaborative working. Also, conflicts between partners are common and usually unavoidable, particularly in the early years of a strategic partnership (Ref. 12). Whatever the sector, successful partnerships require investment in a distinct set of skills and capabilities to overcome these tensions and manage an unfamiliar relationship.
- 35 **Figure 4, overleaf**, illustrates the extent to which councils in our sample have realised both core value for money benefits and those that are additional to the benefits available through traditional contracting.

**Figure 4**

**Councils have achieved core value for money benefits but have struggled to realise the additional benefits claimed to result from partnership**



Source: Audit Commission

## Core benefits

- 36 Overall, service performance has been good in most councils in the sample, although performance has varied between services within the same SSP. Quantitative performance data were not available from all research sites, including the three SSPs that have terminated and two sites where it is too early to assess performance. However, for the

sites where data were available, the most recent indicators showed that, in three councils, over 90 per cent of their performance targets were achieved and the four remaining councils achieved between 74 and 90 per cent of their performance targets. As each SSP develops a set of indicators unique to each arrangement, it is not possible to compare these data with other service delivery models.

- 37** Although these data on core benefits appear positive, many of the performance indicators have limitations. The challenges associated with performance management are discussed more fully in Chapter 3, but in some cases contractors' achievement of inappropriate performance targets has masked what councils have perceived as poor actual performance. As a result, councils that have been dissatisfied with the outputs and outcomes being delivered have not necessarily been able to demonstrate this using available performance data.
- 38** Councils have also realised financial savings, although they have used different approaches to calculate the level of savings achieved. Many have compared the annual charge paid to the contractor to the previous cost of providing the same service. However, this approach does not account for additional efficiencies that may have been achieved from in-house provision, or the change in outcome specification that the contractors are tasked with delivering. Data on whether and how any further savings have been realised are less comprehensive. It is simpler to assess savings for certain services, such as procurement, than for others.
- 39** Many councils have therefore found it difficult to quantify the benefits to service delivery arising from the SSP. However, one council has reported £3.6 million in procurement savings in the first two years of its SSP. Another has recently announced a total of £9.5 million in savings delivered in the first two years. These savings include £2.5 million in housing repairs; £2 million from consolidated IT integration; and £1.1 million delivered by an e-benefits system. All of these are measured against the prior cost of the service.
- 40** Councils have also received the benefits from investment in infrastructure, such as a new business centre; refurbished accommodation; or an upgraded IT infrastructure. SSPs have also aimed to create new jobs in the local area, although there is variation in the extent to which targets for job creation have been reached.
- 41** Not all SSPs have delivered the core value for money benefits. In some councils contractors have been unable to make the savings stipulated in the contract, because the

contractor had overestimated the scope for savings. In one council, the contractor anticipated £1 million in savings each year in procurement, but realised only £200,000 in the first three years. The business model of other SSPs depended on selling services to other local public bodies, but these sales did not materialise. The expectation of these sales may be unrealistic if a principal motivation on entering SSPs is to create local economic benefits and protect local jobs. Three of the councils in our sample, that were among the first of those to enter an SSP, have terminated their contracts because anticipated benefits had not materialised and there was little confidence that they would.

## Additional benefits

- 42 Most councils expect that partnership working will deliver benefits on top of the value for money benefits, which could have been secured through traditional contracting. However, there are differences of experience and opinion on whether these benefits materialise. This section describes some of the additional benefits that councils are having difficulty in realising. Findings explaining why this is challenging can be found in Chapter 3.

### Transfer of learning and good practice between contractor sites

- 43 One cited benefit of SSPs is that contractors will spread innovation and good practice from their experiences with a range of clients. Councils expect that they will draw on learning from other SSPs and also that management practices within transferred services can also be applied to other retained councils services. But this has often not happened to the extent that councils anticipated.

**‘The innovation actually has really come from the council side and actually it’s the council that has come up with some ideas. We might use the partner to...give us the resource to act out a project...but actually most of the bright ideas are generated within the council.’**

Council Partnership Manager

- 44 However, councils accept that this is partly because of their unwillingness to adopt proposals; the pace at which they are introduced; or misunderstandings over the ownership of new ideas.

**‘One of the real benefits should be...about bringing in learning from their other clients. That should be one of the benefits but it’s relatively slow to materialise and I think sometimes...there’s fault in both camps... They should be able to bring in**

**learning from other people and sometimes that happens and sometimes it doesn't. I think sometimes they bring in good ideas on the assumption that if we take up that idea, we'll then give it to them, and we haven't done so that then shuts the door on future good ideas flowing through.'**

Council Assistant Chief Executive

### **Adaptability and responsiveness to new circumstances**

- 45 SSPs are claimed to offer flexibility in adapting and responding to new circumstances more effectively than under traditional contracting arrangements. There was variation in the extent to which these benefits were realised within the SSPs in our research. Some councils cited positive examples of flexible responses to changing circumstances.

**'It's a continual improvement and that's the key to it. It's joint initiatives from people on both sides who've got the expertise to deal with the problems that we may face, so we might go to [the contractor] with a specific problem or they might come to us with something that's not working too well, and they say right, okay, and it's a joint approach; how are we going to sort this problem out?'**

Council Procurement Manager

- 46 Other councils' contractors viewed such changes as variations in the contract, for which they tried to negotiate a price increase. As a result, the council either picks up the new work itself or pays an additional amount to the contractor.

**'Legislation changes, for example, and quite often you find that a change might happen; central government tells local government you've now got to do x, y and z; a good example would be the licensing laws change, but [limited] funding comes with that. So whereas councils will try and manage with what they've got, the partner most definitely will not. They will turn around and say, you're asking us to do extra work; that's a contract change, and that is a real difficulty in this type of partnership because I've lost count now of how many times the legislation has changed in different areas and extra work comes the way of the local authority and I think that's a big issue.'**

Council Partnership Manager

## Enhanced approaches to performance management

- 47 Early guidance on SSPs stated that they would bring improved approaches to performance management. The expectation was that SSPs would move beyond the traditional contractual approach of close monitoring against tight criteria, and that the focus would move towards measuring outputs and outcomes.
- 48 In most SSPs, councils and their contractors jointly managed the performance of transferred services through a combination of statutory indicators and a set of complementary, locally-developed indicators. Councils have however encountered challenges. Variables like service quality are hard to measure and there have been occasions when performance targets have been met on paper, but the council has had concerns about the quality of service delivery that cannot be evidenced through their performance management processes.

**‘My feeling is that [the performance indicators] don’t actually measure what the HR service is delivering.’**

Contractor Service Manager

**‘The contract itself was... was showing signs it might implode. So you know it’s all this lovely activity in terms of monitoring PIs and such like, whereas on the other side we were just trying to keep the whole thing afloat.’**

Council Head of Service

- 49 Contractors have not always brought a more robust approach to performance management. Again, this should not necessarily be surprising based on experience in the private sector, where one study noted that only 31 per cent of strategic partnerships had developed and implemented formal performance measures, and that only one in five executives considered that the measures used were reliable indicators of the partnership’s success (Ref. 13).

## Sharing of financial rewards

- 50 A further claimed benefit of SSPs is that they enable both parties to share in financial rewards, as well as risks. These might occur in theory through revenue sharing; profit sharing; or the on-selling of services developed within the SSP to other public bodies. This requires transparency of financial information, and the principal mechanism by which this may be realised is open-book accounting. However, open-book accounting has generally not been successful in the SSPs we reviewed. In eight of the twelve SSPs that have been

established for more than a year, the benefits of open-book accounting have either not been realised or not been sought. Some of these councils were unable to articulate how open-book accounting should work. Two councils have had mixed experiences of open-book accounting, and two have operated open-book accounting successfully.

- 51 There is no standard definition of open-book accounting, nor of the measures which might be of interest. Both parties in an SSP should be clearer at the procurement stage about what they mean by open-book accounting and how it will be undertaken. In many cases, the council is as much at fault as the contractor in failing to provide this clarity.

**‘[Open-book accounting] appears in every [tender] but what does it really mean? It is rarely applied in practice and councils are not clear about what they want from open-book accounting.’**

Contractor Director

- 52 As a result, there has been uncertainty regarding the level of detail of the financial information the council can access. Therefore, the anticipated transparency of open-book accounting has not materialised in most councils.

**‘Everybody’s got a different definition of what open-book accounting means. It doesn’t seem to be anything laid down anywhere that says open-book accounting means this, this, this and this. To me, you have to negotiate what open-book accounting means and yes, we did struggle; we struggled to get information out of the partner.’**

Council Partnership Manager

- 53 Even where councils and contractors establish a clear process for open-book accounting, there are challenges. In its report on arrangements similar to SSPs in the private sector, RSe Consulting noted that firms may have incentives to withhold information from their partners if it has created value that they would not wish to share (Ref. 13).

- 54 Councils often accept that, by entering an SSP on the basis of an appropriately priced annual charge, they then focus on ensuring delivery of the output specification, rather than seeking additional financial gains. Also, in open-book accounting arrangements designed to share profits, most councils recognise that the contractor is unlikely to produce an annual profit above the profit-share threshold early in the life of an SSP contract, as there will normally be investment and other upfront costs, which will then be recouped at a later stage.

55 Open-book accounting has been more effective in two of the single-service SSPs, where inputs are ascribed to specific projects. These projects are relatively easy to specify, and those undertaking client-side management for the council have experience in understanding and agreeing costs, for example in highways maintenance or construction SSPs.

**‘We’re looking obviously at the project level... We can see what we’ve paid for everything... We get all of the discounts.’**

Council Head of Service

56 In those councils where open-book accounting has operated successfully, it has been resource intensive. Interviewees noted that they had not anticipated the magnitude of the work involved.

## Assessing value for money

57 To assess whether SSPs deliver services as economically, efficiently and effectively as possible, it is important to assess the costs and benefits associated with this model of service delivery. Such an assessment is challenging as SSPs are multi-functional, long-term arrangements. It is not possible to make definitive statements about the value for money of all SSPs. This is because each SSP is unique, and an overall statement on value for money would not account for the variation in experience between those SSPs with successful outcomes and those that have terminated. However, councils can, and should, consider value for money when monitoring their own SSPs.

58 The Audit Commission aims to support councils in making this assessment through the framework presented in the pull-out in the centre of this report, which highlights the issues that need to be considered at different stages and provides references to further technical guidance where relevant. From this research it is clear that the extent to which councils have secured an appropriate level of benefits from their SSPs has varied.

59 As long-term arrangements, SSPs have four phases within their life cycle. Councils’ understanding of, and their ability to assess, the value for money they derive from their SSP will change depending on these phases:

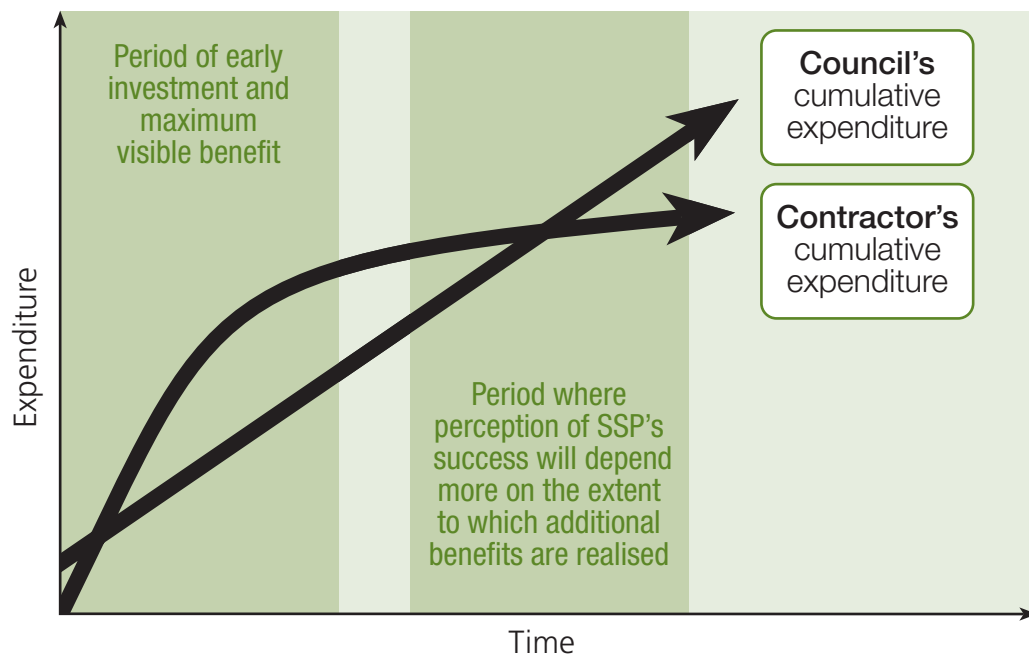
- initiation (definition of service need, appraisal of options and development of the business case);

- procurement and contract award (tendering and negotiation);
- contract management (service transfer and ongoing management); and
- closure or termination.

60 Councils' perceptions of value for money change according to the phasing of the benefits received. In the early stages, tangible improvements and investment are delivered and councils will often feel that the SSP represents good value for money. But once these initial benefits are realised, councils tend to view the longer period of further payments as dispiriting unless further benefits are realised. Once the core financial benefits have been realised, councils will begin to judge the success of the SSP on the extent to which it delivers additional benefits (**Figure 5**).

**Figure 5**

**Perceptions of value for money change over time based on the relative levels of expenditure on the SSP by the council and the contractor**



**Source:** Audit Commission

- 61 Although most SSPs are still at a relatively early stage, a number of interviewees commented on this phasing of benefits, and the potential difficulty it poses for councils in managing SSPs once early gains have been delivered.

**‘Having achieved the implementation of [new software] and the [customer service centre], we’re now thinking, well what do we do next? Because the contract doesn’t say but we’ve got another eight years to go and clearly we don’t want to be doing what we’re doing for the next eight years.’**

Council Partnership Delivery Manager

**‘I think one of the issues with this kind of partnership is that the added value is delivered on day one.’**

Council Assistant Chief Executive

- 62 Several councils reported undertaking either formal or informal reviews during the course of their SSPs as a way of refreshing the aims of the partnerships and ensuring that they continue to benefit from them. It was felt that this may need to be undertaken as early as three years into the life of an SSP.

## Initiation

- 63 The business case is the starting point for an assessment of the extent to which SSPs may deliver value for money. Councils should use the business case to understand their cost base; compare what the SSP can offer against alternative procurement options; and agree what level of benefits they expect for the price of the contract.
- 64 All of the costs and benefits of SSPs, including procurement and management costs, must be analysed and articulated to support a decision on the most appropriate mechanism for service transfer. There are examples of councils that have entered into SSPs with either no formal business case, or one that is inadequate in considering value for money. For example, a number of councils have compared the annual charge, which is the fee payable to the contractor, to the existing cost of providing the same services. This is a flawed approach because it:
- assumes that no additional efficiencies could have been obtained from in-house provision;
  - does not take account of the different outcome specification against which the contractor must deliver; and

- does not include the costs associated with procuring and managing the SSP.
- 65 But there were also examples of good practice in comparing SSPs with other available options. Several councils have developed a public sector comparator which calculates the cost to the council of delivering the future outcome specification. Some councils have contracted external consultants to develop a public sector comparator on their behalf. The best comparators consider efficiency improvements that the council is likely to be able to make independently (Refs. 14 and 15) (Box A).

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### Box A

#### Good practice in developing a public sector comparator

In one council each service head developed a public sector comparator. They designed cost models, detailing staff and other costs over a ten-year period, based on the assumption that in-house provision would deliver the same transformational improvements as were being expected of contractors. Costs were also calculated for physical assets such as a new customer contact centre and one-stop shop, a new records management system and new HR and payroll systems.

The projections accounted for the impact of EU procurement rules on delaying the timescales for in-house delivery of transformational change. To account for any further delays or cost overruns, 5 per cent of the total cost was added as contingency.

The resulting public sector comparator shows the estimated running costs for ten services over a ten-year period, and changes to staff numbers and costs. It was used as the basis on which to evaluate and challenge proposals from contractors.

**Source:** Audit Commission

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### Procurement and contract award

- 66 Councils should manage the procurement and contract award processes to enhance their ability to assess and obtain value for money.
- 67 In some cases, councils have updated their public sector comparators throughout the procurement exercise and post-award negotiation to ensure that they continue to take account of how in-house provision would have been undertaken against an updated outcome specification. In one site the cost of delivering the improvements that were agreed with the contractor during negotiation was added to the existing costs calculated

for services to be transferred. Adjustments were added to these costs to reflect the absence of the contractor's buying power and to take account of consultancy support that the council would have required to initiate the agreed improvements.

- 68 Councils have taken steps to ensure that the selected contractor offers value for money rather than simply the lowest price. In some cases tender evaluation considered overall value for money by assigning different weightings to selection criteria, for example, 30 per cent to price and 70 per cent to quality. Councils also sought evidence in the tendering process that contractors shared their values and objectives. In one case contractors were asked how they would respond to hypothetical project scenarios. The council assessed whether the contractor was mindful of strategic priorities, such as environmental policies and liaison with the public.

## Contract management

- 69 There are different challenges in assessing value for money once services have been transferred. Even where the business case and procurement exercises have been robust, councils have normally been unable, during contract management, to measure precisely the costs and benefits of SSPs over time. However, one council with a design and construction SSP has undertaken an economic evaluation of the relative benefits of its model and has assigned financial values to the improvements achieved. Some examples of how such attributions have been calculated are set out in **Table 3**, although the assumptions behind these calculations have not been independently verified.
- 70 Although the above example illustrates how councils can calculate the financial benefits attributable to an SSP, there are numerous challenges in undertaking a full technical assessment. Once the option of an SSP is chosen, no comprehensive tracking information on the alternatives (including in-house provision, traditional outsourcing, or public-public shared services) will be available again. This is because SSPs normally consist of a complex bundle of services, and it is therefore difficult to retain awareness of the costs of alternative delivery models. It is inherently difficult to track benefits against a baseline of no partnership, particularly where the partnership offers a unique opportunity to do something that otherwise would not have been done. Once the contract has been signed, councils quite naturally expend more energy ensuring that it works well, rather than attempting to compare it to alternative options.

**Table 3****Examples of financial savings attributed to a design and construction SSP**

Performance improvement	Estimated financial value of improvement	Total estimated saving
Reduction of pre-construction briefing stage from 80 to 40 weeks	For a £1m project, estimated savings of £2,125 of officer time per week for 40 weeks. Approximately 50 £1m projects are carried out per year	£2,125 x 40 weeks x 50 projects = £4.25m per annum
Increase in volume of projects delivered from £70m to £100m worth of work (43% increase), with no additional budget costs	A 43% increase in turnover from a budget of £12m equates to an efficiency saving of £5.16m per annum	£5.16m per annum
Allocation of work on a single supplier basis eliminated tendering costs for approximately 50 projects per annum	Average contract value is £1m. The tendering cost for a project is approximately £70,000 (7% of contract value)	£70,000 x 50 projects = £3.5m per annum

**Source:** Fieldwork site

- 71 Exclusivity clauses, giving the contractor sole rights to supply goods and services over the life of the contract, may prevent councils from market testing, and diminish their market awareness of price and quality. Some councils have identified poor value for money in these situations. In one case a council threatened a contractor with removal of its exclusivity after discovering that a local purchasing consortium organisation could have negotiated a better deal for the placement of temporary staff. The council negotiated with the contractor to ensure it received a similar deal, but it obtained this benefit through active management rather than because of any inherent benefit of the SSP.
- 72 Some councils with SSPs delivering project-based services have placed an upper limit on the value of new projects automatically awarded to the contractor. In one highways maintenance SSP, projects valued above £100,000 are openly tendered, enabling the council to test its contractor against other providers in the market.

- 73 Councils must continue to optimise value for money where the purchasing of goods is outsourced as part of an SSP. This may be difficult to assess if there are exclusivity provisions, or where the procurement function itself is externalised. Councils therefore need to undertake enough monitoring to be confident that they are getting the best deal from purchasing decisions.
- 74 Benchmarking compares service-based performance. The high degree of complexity in multi-functional arrangements like SSPs means value for money, however assessed, will vary between services and over time, often quite markedly. One council agreed a protocol for benchmarking that involved identifying the competitiveness of each service and the extent to which Best Value was achieved. It also identified areas and options for service improvement.
- 75 There are a number of data sources that can be used to benchmark different service areas. The Audit Commission, along with its partner public sector audit agencies, has published value for money indicator sets for HR; finance; IT; procurement; and estates functions (**Ref. 16**). The Society of Information Technology Management runs a benchmarking service used by over 30 per cent of all councils. Comparisons can be made for finance and HR using Chartered Institute of Public Finance and Accountancy (CIPFA) data, for example on pensions benefit administration; debtors; creditors; treasury management; and payroll. However there are also some limitations with these exercises. Data provided to benchmarking clubs do not cover many elements of services transferred in an SSP and may be out of date by the time they are published and available for comparison.
- 76 The scope of SSPs and what councils need from them are likely to change over time and in unpredictable ways. This uncertainty makes evaluation difficult. The definition of what is core and non-core in the original contract will change as the services develop and the external environment changes. Over time, the volume of aggregated changes requested by both parties means that the original specification of services becomes blurred, and therefore original assessments of costs and benefits may lose their validity. This is particularly true when radical service redesign is needed, but also for core, transactional services over time. For example, in one council the original annual charge was for £17 million. This increased to £22 million by the time the contract was let, and the aggregate impact of additional work not included within the original specification now amounts to a further £15 million expenditure. In this example the council has found it difficult to assess the value for money that it obtains from this additional expenditure.

- 77 Once services have been transferred to the contractor, councils lose the ability to obtain detailed information on costs and performance. There are few councils where information about the cost base was available on a completely transparent or understandable basis through open-book accounting. And many SSPs use inappropriate, locally-developed performance indicators, which measure the wrong things, or emphasise processes rather than outputs or outcomes. Councils and their contractors have jointly struggled to design performance indicators that are fit for purpose for SSPs.

### Closure or termination

- 78 As SSPs are long-term arrangements and none have yet reached the end of their planned contractual term, there is no evidence yet available on the costs and benefits of reappraising options at the end of the contract. However there have been examples of SSPs that have terminated or have been scaled down, resulting in significant unanticipated costs. These include legal advice; the balance of any capital investments; and the costs of staff transfer, but there are no data available on the scale of these costs.

### Value for money assessment in the private sector

- 79 Experience in the private sector does not offer an easy solution to the difficulties of demonstrating the value or benefits that are realised from strategic partnerships. This is partly due to similar challenges to those noted above, and also because companies tend to focus solely on the impact of a partnership on market-based measures of success. They seldom have the multiple objectives which characterise councils' use of SSPs (Ref. 13).

# 3

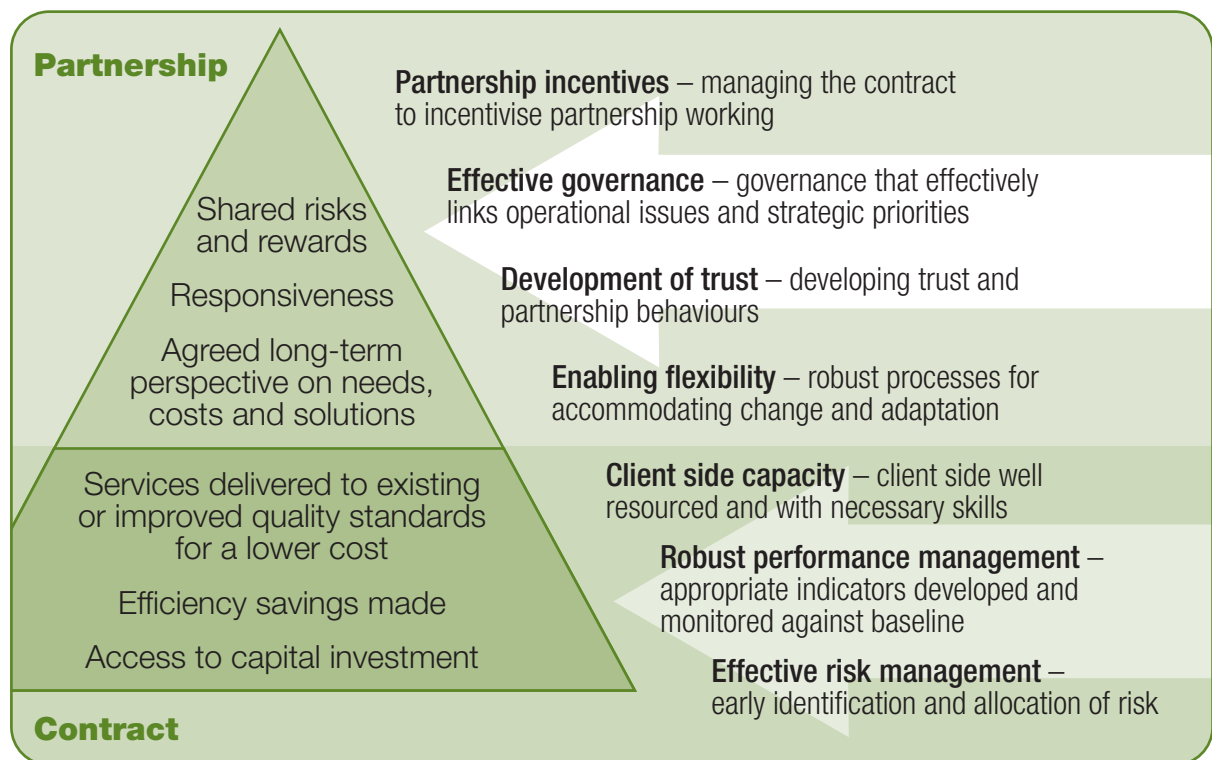
## Managing strategic service-delivery partnerships

- 80 Chapter 2 demonstrates that, while councils have realised some benefits from SSPs, those benefits have not been achieved consistently. Many of the additional partnership benefits that were expected to materialise have been difficult to realise. SSPs are complex arrangements, and councils need to commit resources and apply appropriate skills. Many councils did not have experience of managing contracts of this scale or type before, and the first councils to adopt SSP arrangements operated in an environment with little guidance to draw on.
- 81 These challenges are not unique to public bodies. Experience from the private sector suggests that any large-scale outsourcing represents serious organisational change that must be properly managed, and most firms under-estimate what is involved. The challenges of managing partnerships have been likened by one commentator to ‘stirring concrete with eyelashes’ (Ref. 17). In a research report commissioned for this study RSe Consulting noted that ‘the degree of integration and investment in the relationship will be much higher for a partnership than in traditional outsourcing’ (Ref. 13).
- 82 There are seven elements of effective management of SSPs which make it more likely that benefits will be realised. This chapter describes each of the seven elements and why they are important to SSPs; the challenges that councils face; and recommendations on how they should respond. They can be categorised into two groups, as illustrated in **Figure 6**. The first group includes factors associated with traditional contract management regardless of the outsourcing model used:
- client-side management capacity;
  - performance management; and
  - risk management.
- 83 Where councils meet these challenges they can expect to secure value for money benefits. However, while SSPs are based on contracts, they are more than that. The aspiration for additional benefits creates additional complexity in the design and conduct of the relationship. In order to manage this additional complexity, councils need to:

- create incentives for partnership working through the structure of contracts;
- develop and operate effective governance arrangements;
- encourage mutual trust and partnership behaviours; and
- enable the flexibility that long-term arrangements require.

**Figure 6**

**To realise all the benefits of SSPs councils must undertake effective traditional contract management and meet additional partnership challenges**



**Source:** Audit Commission

84 This chapter describes each of the seven elements and why they are important to SSPs, the challenges that councils face and recommendations on how they should respond.

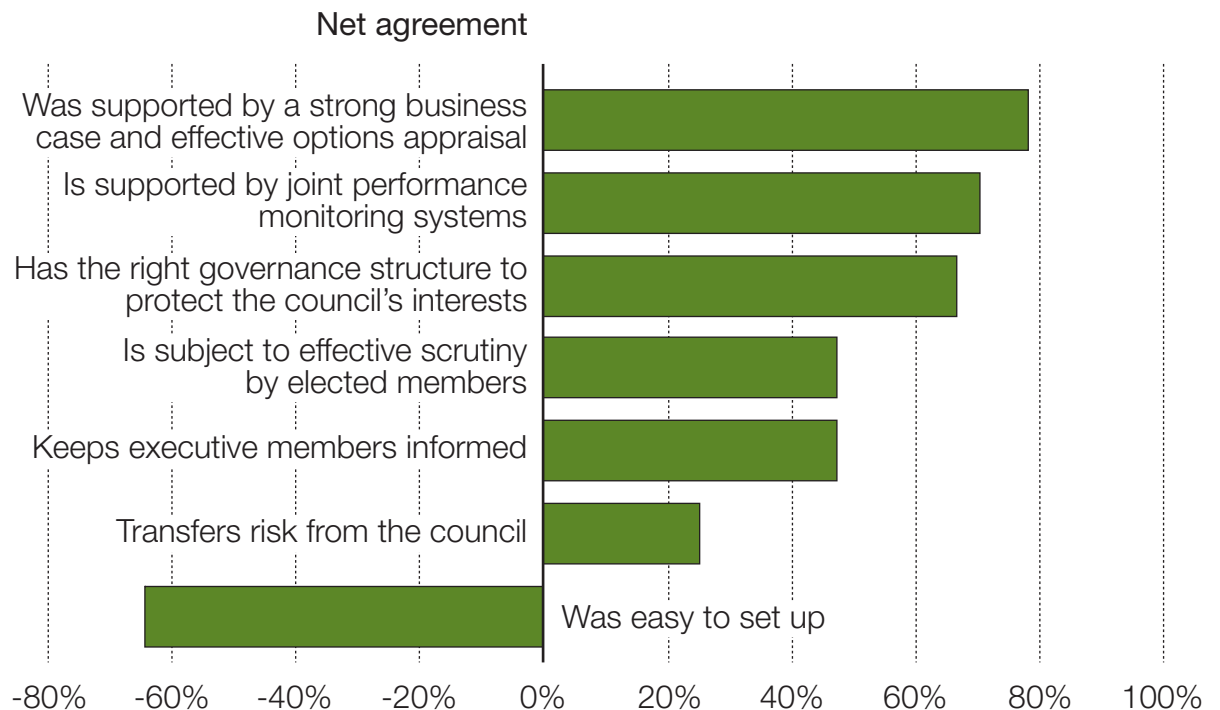
## Managing the contractual elements of strategic service-delivery partnerships

85 All SSPs are underpinned by a contract. They need effective contract design and management, with appropriate supporting structures and processes. Survey data suggest that councils are positive about the strength of management processes in SSPs, but our detailed research found more variation in the extent to which traditional contract management was carried out effectively (Figure 7).

**Figure 7**

### Councils agree that their SSPs are supported by effective management processes

From your authority’s experience of working in a long-term SSP, how strongly do you agree or disagree that the partnership...?



Source: Audit Commission/Communities and Local Government

- 86 The only statement that received a net negative response was that SSPs were easy to set up, indicating that the initiation and procurement phases are still complicated and problematic for many councils.

### Client-side management capacity

- 87 The Strategic Partnering Taskforce's early guidance on managing SSPs recognised that 'working in partnership requires significant investment in time and resources' (Ref. 5). Some councils recognised this, although there were also examples of weak client-side management.

**'...it's very important that before you enter into a big partnership arrangement like this, that you've got the strength...in terms of the client intelligence, in terms of skilled players who can handle an arrangement of this sort.'**

Council Director of Finance

- 88 In some cases, staff in strategic roles were transferred to the contractor. This left councils lacking in the strategic capacity needed to ensure long-term delivery of services in the partnership. Councils that recreated a strategic client function then had additional costs to balance against the benefits of the partnership.

**'I think some of the difficulties...do relate back to the original establishment of the contract when, perhaps idealistically, the majority of the client function and resource was transferred over at the same time, and in effect, [we] lost the resource to be an intelligent client.'**

Council Head of Service

**'It is essential to have a good, robust, informed client function which retains the service expertise as well as the management and commercial skills to oversee this type of work. Sometimes, local authorities have insufficient capacity and skills invested in the client function to manage the relationship.'**

Contractor Director

- 89 This problem of transferring the wrong staff may be exacerbated when they are the people who drew up the service specifications and contract arrangements. Staff can either have incentives to ensure that service specifications are not stretching, or the specifications drawn up may entrench existing custom and practice, rather than support innovation.

**‘The one...big issue that I had at the time and still have, the people who were responsible...for coming up with the performance indicators were the people who were transferring work to the corporate company... From a performance point of view, the people operationally who were going out had a lot more knowledge about what they could produce and what they didn’t want to produce.’**

Council Head of Service

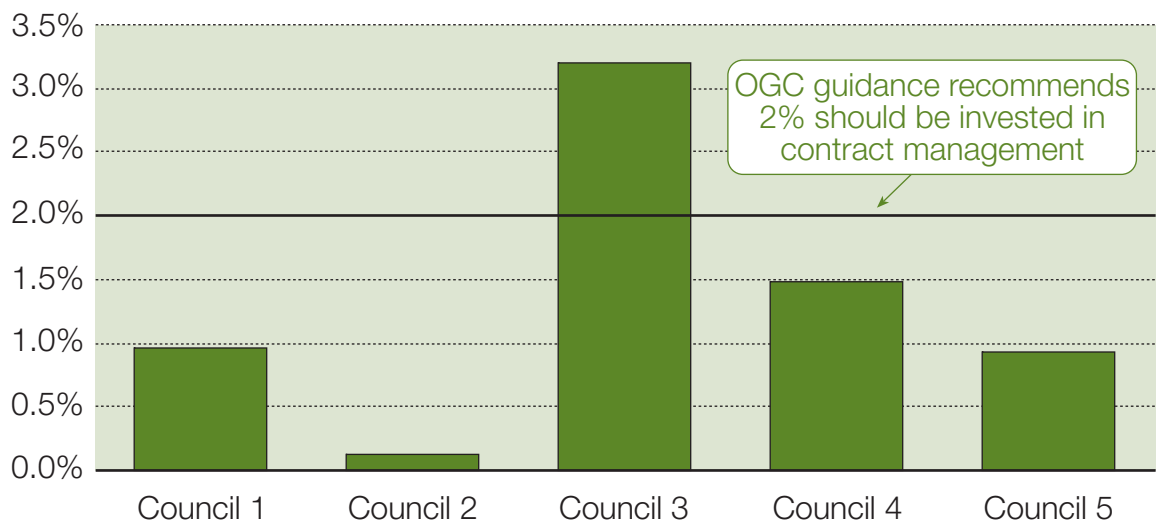
**‘Part of the problem was, a lot of the design of the SLAs was undertaken by service managers who were transferring over.’**

Council Partnership Manager

- 90 Client-side management also includes communicating effectively the aims and implications of the SSP to stakeholders within and outside the council. When this does not happen, staff in both transferred and retained services can be uncertain about changes to operational processes and day-to-day interactions.
- 91 Although many of the services included within SSPs may not have a direct interface with customers, councils have taken proactive approaches to engage with service users where relevant. In one council a communities panel representing user groups; housing tenants; and voluntary and community sector organisations, was established to advise on the design of a Customer Services one-stop shop that was to be transferred to the contractor’s management. During the tendering process, bidders engaged with the panel to gain a better understanding of users’ needs and expectations.
- 92 Councils provided data on the management costs that they incur in running their SSPs. Although councils’ financial systems do not capture this data as a matter of course, five councils were able to estimate these costs. **Figure 8** shows these recurring costs as a proportion of the annual charge paid to the contractor.
- 93 With the exception of one council, the level of resource is low relative to comparable data on the cost of managing external contracts. Office of Government Commerce guidance suggests that 2 per cent of the contract value is typical of all government procurement, including goods and services (**Ref. 18**). Experts on PFI contracts put the figure at approximately 3 per cent, and unpublished research undertaken by Compass Consulting suggests that the optimum figure for managing IT service contracts should be as high as 7 per cent. These figures suggest that increased complexity in contractual arrangements requires higher contract management costs.

**Figure 8****Councils are under-investing in client-side management capacity for their SSPs**

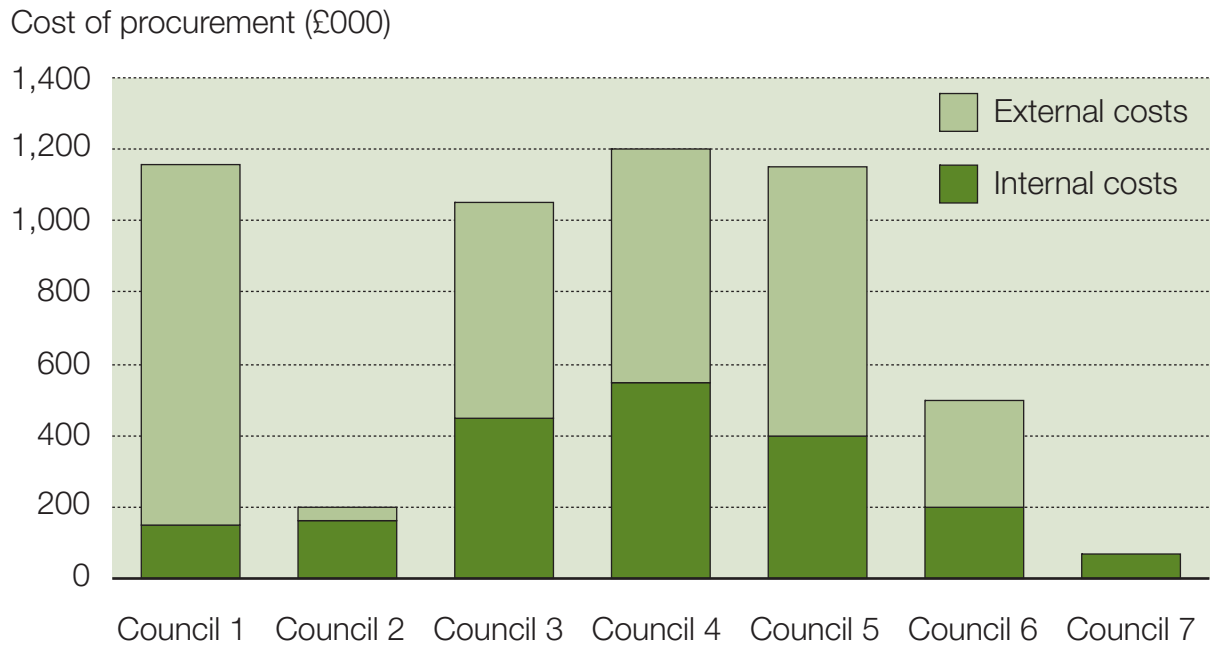
Ongoing management costs as % of annual charge (£000s)

**Source:** Audit Commission

- 94 Councils with SSPs appear to be spending less on contract management than might be expected, based on the above guidance. There was a distinction between those councils managing multi-functional arrangements and those relating to a single service (councils 2 and 5). We would anticipate that, at least for large or multi-functional SSPs, councils should expect to invest at least 3 per cent of the contract value to resource client-side management. This should be considered when undertaking appraisals of different options for service delivery.
- 95 Councils that have recently entered into SSPs have allocated greater resources than some of the pioneers, in recognition of the complexity involved in managing SSPs. One council that commenced its SSP in 2007 recruited a team of seven to manage both its procurement and delivery. The team includes people with experience of complex PPPs and strategic partnering in the private sector, and experts in finance and communications.

- 96 The procurement costs for councils entering SSPs are shown in **Figure 9**. Again, these reflect differences in the types of SSP. Councils 1, 3, 4, 5 and 6 have entered into multi-functional arrangements, incorporating a wide range of services and the transfer of employees to the contractor. In these cases, contracts will be complicated and procurement costs for all but one of these councils are just over £1 million. The majority of the procurement costs for these SSPs are fees paid to external advisers and consultants. This scale of costs, and the proportion paid to external advisers, is comparable to that collected in CIPFA's survey of PFI and PPP costs (**Ref. 19**).
- 97 By contrast, councils 2 and 7 have entered into smaller-scale SSPs that relate principally to a specific service. One of these was the renewal of an existing outsourcing contract established as a more traditional specified arrangement, which subsequently evolved into an SSP. In these cases, procurement costs are low and there is less reliance, and expenditure, on external advisers.

**Figure 9**  
**Procurement costs of SSPs are variable**



**Source:** Audit Commission

- 98 Given the additional costs that multi-service SSPs appear to entail, councils should consider the extent to which bundling services together may provide value for money compared with separate contracting for each. They should ensure that if multiple services are transferred within a single contract, there are clear benefits that can be articulated and tracked as a result.
- 99 However, client-side management capacity is not only about the level of resources applied. Those charged with managing these arrangements must have the right balance of skills and experience. The most recent Local Government Pay and Workforce Strategy survey found that half of respondent councils in England reported a skills gap in procurement and client-side management (**Ref. 20**). The Audit Commission's recently published study, *Healthy Competition*, refers to the procurement and management skills required to manage competition and contestability effectively (**Ref. 2**).
- 100 As with any transfer of services through an external contract, councils should invest appropriately in their client-side management capacity, recognising that both adequate resources and the right mix of skills are required. This is important both during procurement and in ongoing contract management. When council employees are due to be transferred to contractors within an SSP, councils should consider carefully whether certain key individuals may be best placed undertaking a client-side management role.

## Performance management

- 101 For councils to secure improvement and value for money, they must use appropriate performance management mechanisms. In most SSPs the council and its contractor use a combination of statutory indicators and a set of complementary locally developed indicators to measure and manage performance. Councils have however encountered some challenges.
- 102 There is variation in the extent to which different services incorporated within SSPs have robust baseline performance and cost data. Councils require consistent measures of performance to monitor any changes in performance that result from the service transfer. But, as we have noted, most SSPs develop customised indicators which need to be agreed and defined. Councils and contractors also need to agree a baseline performance position. This is a time-consuming process and can mean that there is a period at the beginning of a contract when performance is difficult to monitor effectively.

**103** Developing and using meaningful performance indicators are further challenges. Many of the measures used have focused on processes and inputs, measuring the extent to which contractors have carried out tasks or met deadlines. Examples include the percentage of agendas distributed to governors by the school governors' support team seven working days before a meeting, or the percentage of customer complaints entered into a database within one working day of receipt. Neither measure reveals much about the quality of work or its impact on service outcomes.

**'If both partners are to maximise the benefits of these relationships the PIs need to be extremely well designed and focused on the key deliverables and outcomes.'**

Contractor Director

**104** Because it is more difficult to capture variables like service quality than quantifiable outputs through performance indicators, there have been occasions when performance targets have been met on paper, but the council has had concerns about the quality of service delivery that cannot be evidenced through their performance management processes.

**'I think one of the issues that has arisen is that there has been a number of KPIs and a large number of KPI measures of the performance of the contract which [don't] necessarily match the experience and perception of the people receiving the service.'**

Council Head of Service

**105** But there are also examples of positive approaches to performance management, where councils and their contractors have developed indicators that reflect the customer experience. One council's performance indicators for its customer services telephone line include a score for the quality of information provided, assessed by mystery callers against a percentage score based on a model response. In another council, one performance target is ensuring that IT access is always available to users within normal working hours, as opposed to measures reflecting the process by which this may occur.

**106** There are also good examples of how information can be shared transparently. In one SSP both the council and its contractor share access to the same real time performance management system, and either party can create performance reports at any time. This removes the problem of information asymmetry, where one party has more or better information than the other party, and in turn supports an honest and open culture between the two organisations.

- 107** One approach councils have adapted from the private sector is the use of balanced scorecards (**Ref. 21**). Although they do not solve the difficulties of quantitative value measurement, they do allow an effective strategic assessment of partnerships. Balanced scorecards combine financial; customer; and internal process data, in addition to information on staff learning and growth.
- 108** Councils should manage performance using a range of indicators. This is challenging, but councils can use different types of measures to monitor the realisation of different types of benefits. Where possible they should develop indicators for core service benefits that focus on outcomes rather than processes. Councils have also introduced non-technical performance indicators that relate to partnership behaviours to get a more rounded picture of how the SSP operates. These are described in the section on trust.

## Managing risk

- 109** Councils need to identify, allocate and manage risk in developing SSPs, as in all contracts. SSPs can deliver good value for money where councils allocate significant project risks to a contractor who is better placed than a client to manage them. Allocating risk has cost implications. Risks that need to be considered in this context are described in Box B. All of these risks exist with all forms of contracting but are heightened by the long-term nature of SSPs.

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### Box B

#### Common risks in SSPs

**Environmental:** Over the long-term duration of arrangements such as an SSP there will be elements of the contract that will need to change and respond to new circumstances. This may be due to local factors, such as a change in the council's political composition, or external pressures such as legislative change or a new performance monitoring regime from central government. The service and outcome specifications in the original contract are unlikely to survive the duration of the contractual term.

**Ownership:** Corporate ownership risks result from contracting with private sector firms. All companies, either listed or privately owned, are potential targets for acquisition, or they might seek to merge with other firms. There are examples of this in the support services sector that have impacted on local government contracts. It is important to note the risk and consider its potential implications within individual SSPs.

**Corporate failure:** Although some risks may be transferred contractually to private sector companies, when corporate failure occurs the public body with statutory responsibility for service provision will become the service provider of last resort, assuming management responsibility and incurring additional costs. The council should ensure that the public is protected from any potential service impact should the partnership be terminated early, or change significantly.

**Financial:** These risks occur if contractors underbid for work, and therefore councils accept a cheaper bid than can be sustained. In all of the research sites where councils terminated their SSPs this was the key issue. Councils must find an appropriate balance between economy (lowest price), efficiency (maintaining the optimum balance between inputs and outputs) and effectiveness (achieving results) in agreeing a contract price that is sustainable for the contractor over the life of the SSP. Doing so implies a clear understanding of the likely costs to the contractor of delivering the service.

**Source:** Audit Commission

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- 110** Councils' awareness of risk appears to have improved with experience. Many of the first councils to enter into SSPs, and all of those that have now terminated their SSPs, acknowledge that they did not understand and anticipate risks sufficiently, or manage them appropriately.

**'Once the contract had been let, I don't think that we had a risk register [where] we were constantly looking at the risks. I don't think that was something that we actually did to be quite fair.'**

Council Partnership Manager

- 111** However, councils that have recently entered into SSPs have a greater awareness of risk and have ensured that processes for identifying and managing risk are more robust. For example, councils now tend to include a full schedule of identified risks in their Invitations to Negotiate. Some examples are provided in **Box C**. This exercise forms the basis for a full discussion of risk during the procurement stage.

**Box C****An example of risk identification and allocation for IT services**

Risk	Example	Provisional allocation
Transferred assets	Quality, condition, capacity and performance of assets that transfer to be managed by the contractor	Contractor
Specification	Incomplete or incorrect statement of the council's requirements	Council
Implementation	Existing data falling below standard, for example because it is corrupted or incomplete	Contractor
Environmental	Changes to the services required as a result of general changes in law or policy	Shared
Legal	The possibility of the SSP being void due to vires issues	Council

**Source:** Fieldwork site

**112** Systems and processes have also improved during contract management, with the regular use of risk matrices within formal governance processes. Among early SSPs, many councils erroneously considered a high proportion of risks as being fully transferred to the contractor. These councils either transferred too many risks, or considered that risks had been transferred when they had not. In recent SSPs, risks now tend to be better allocated to the party that will manage them most effectively.

**'We sit down very early on, look at all the potential risks of the job and decide who's going to manage those risks, whether it's the contractor or whether it's the client taking some monetary provision for those risks, so we sit down early on and decide who's best placed to manage that particular risk.'**

Council Partnership Officer

**113** Councils should identify the potential impact and likelihood of all potential risks as early as possible in their consideration of an SSP as an option for service delivery. They should then allocate each risk to the party best placed to manage it, and ensure that risk management is regularly reviewed using appropriate reporting and monitoring throughout the life of an SSP (**Ref. 22**).

**‘There needs to be a risk and reward balance and the key is having a sensible, mature and informed conversation.’**

Contractor Director

## Managing the partnership elements of strategic service-delivery partnerships

**114** All SSPs are founded on a contract, and the previous section showed how councils need to apply the disciplines of good contract management, and consider how they relate to the particular circumstances of SSPs. But SSPs are designed to be more than just contractual arrangements. Indeed, one of the reasons councils enter into partnership arrangements is to avoid some of the drawbacks of contractual relationships and instead to capture the additional benefits available through partnership.

**115** To create partnership and secure those benefits, the contractual relationship needs to be more complex than in conventional procurement, and is generally for a longer term. There are therefore features which are peculiar to such partnership arrangements. Some relate to the contract itself, others to the way in which the relationship operates. Councils need to manage them effectively, if they are to achieve the additional benefits that partnerships can bring. These features are:

- creating incentives for partnership working through the structure of the contract;
- developing and operating effective governance arrangements;
- encouraging trust and partnership behaviour; and
- enabling the flexibility that long-term arrangements require.

**116** Councils have been confused about the meaning of a partnership arrangement. For many, the language of partnership had obscured the need for sound contract management. In some cases it was unclear what the term meant, and therefore how they should approach the relationship.

**‘I think that one of the most confusing areas from the outset has been the understanding of what a partnership is as opposed to a contract. I have a feeling that quite a lot of the initial misunderstandings and confusions would not have arisen if it had just been seen in terms of a contract as opposed to a strategic partner.’**

Council Head of Service

- 117** In other situations, officers had assumed, rightly, that because the relationship was called a partnership, it was qualitatively different from a traditional contract. However, they also assumed that this implied less contract management rather than more. In practice, councils’ experience has shown that the opposite is true.

**‘There’s no substitute for a proper contractual relationship with a provider, no matter...how you dress it up, the basis of any arrangement with an external supplier...there has to be a clear contractual relationship with them.’**

Council Director of Finance

- 118** Many councils found it difficult to articulate what the partnership had achieved that a traditional contract could not, while others were disappointed that their SSPs did not differ from a more traditional contracting arrangement. In two councils where SSPs have been terminated, they have noted that defining the nature and purpose of a contractual partnership had been challenging.

**‘Is it really a partnership? And I think if I had to be honest, I would probably say no it wasn’t, because I don’t think there was a single mutual objective which could only be achieved by the two sides coming together. I don’t think that you could say there was one thing that only the two sides coming together could achieve.’**

Council Partnership Manager

**‘I think what [we] managed to do was, [we] fell between two stools. One was partnering where both sides share a mutual agreement, both sides have a good reason to come together and they share in the profit that comes from that. Or there’s outsourcing where the council contracts and this tried to be a half-way house between the two, and with hindsight... there was not adequate control over what was going on.’**

Council Member

## Managing partnership incentives

- 119** This confusion has often resulted in poor contract management practices. In some cases, there was an insufficient emphasis on performance management, as there appeared to be a tension between measuring performance closely when the relationship was presented as a partnership.

**‘...if you’re talking about performance and you actually say, well we want reports on project performance, how many are hitting deadlines, how many aren’t hitting deadlines and why they’re not, so you can actually learn the lessons, we’ve actually got the response of ‘Why do you need that? In the spirit of partnership you shouldn’t need that’.’**

Council Head of Service

- 120** Similar tensions exist for pricing mechanisms. These mechanisms are an important feature of SSPs as they create particular incentives depending on how they are structured and the frequency with which they are considered. The type of pricing mechanism used will depend on the types of services included within the SSP, and the council’s intentions about the nature of its relationship with the contractor. In practice, SSPs are normally multi-functional and are therefore likely to use a combination of the different pricing mechanisms available. The most commonly used mechanisms are illustrated in **Box D**, along with the potential advantages and disadvantages of each. The use of a particular pricing mechanism will therefore depend on the individual circumstances of the SSP.
- 121** While penalty clauses are common, councils do not generally have comparable systems to reward over-performance. Therefore contractors have incentives not to drop below a defined standard, but they do not have contractual incentives to perform above this level. The frequency at which penalties may be incurred also determines the nature of incentives. For example, if a price-performance mechanism is applied quarterly and a penalty is applied, the contractor will have a strong incentive to improve in the following quarter. However, if the review is undertaken annually and a contractor is aware early in the year that it is unlikely to achieve the required level of performance, it will not have an immediate incentive to improve performance for that particular service.

**Box D**

**Councils use different pricing mechanisms within SSPs**

Pricing mechanism	Description	Advantages	Disadvantages
Fixed price	The traditional model in which the supplier quotes a fixed price for a defined programme of work.	Certainty of cost for the purchaser and an efficiency incentive for the contractor.	Can create adversarial relationship. Suppliers competing on price may quote an artificially low price, and then seek to either charge for variations, or cut costs/quality.
Cost plus	Contract based on quoted costs for types of activity with no margin included, plus an agreed, fixed, overall margin.	Common in construction and engineering, greater transparency as profits for suppliers are guaranteed and there is no incentive to hide costs. Allows flexibility as circumstances change.	Needs a reliable system of open-book accounting to operate effectively. No incentive for contractors to realise efficiencies beyond the agreed price.
Outcome based	Payment based on achieving outcomes, rather than for undertaking a given amount of activity – this can work with either a fixed-price or cost-plus model.	Ensures that the focus is on outputs and outcomes, rather than activity. Efficiency incentive for the contractor.	Requires robust measurement of outcomes, which is very challenging in many service areas.

**Source:** Audit Commission

122 It is important to find an appropriate balance between maintaining the incentives of the contractor to perform at or beyond a performance threshold, while not being overly punitive.

**‘If you approach these partnerships or contracts too slavishly around the price performance mechanism, you might be applying penalties for relatively small performance issues... I took the view..., particularly when we were going through a period of transition... that I would be fairly measured in the way that I applied penalties and particularly because if there was a problem... I wanted them to sort it out quickly rather than applying a penalty.’**

Council Finance Director

- 123** Ultimately this comes down to judgement. SSPs are normally multi-functional, and it is likely that over time resources may be committed to resolving issues that move the focus away from other areas that may suffer short-term under-performance as a consequence. It also emphasises some of the inherent tensions referred to above. In order to operate a successful SSP it is necessary to develop both formal governance and operational processes, and less formal partnership behaviours.
- 124** Councils should manage SSPs first and foremost as contractual relationships. They should ensure that the responsibilities of each party are clear and enforceable, and that contract management is undertaken effectively. If the council is seeking the additional benefits of partnership, such as greater flexibility; innovation; and the sharing of rewards, these should be actively managed. They also depend on developing partnership behaviours and trust, as described in the next section.

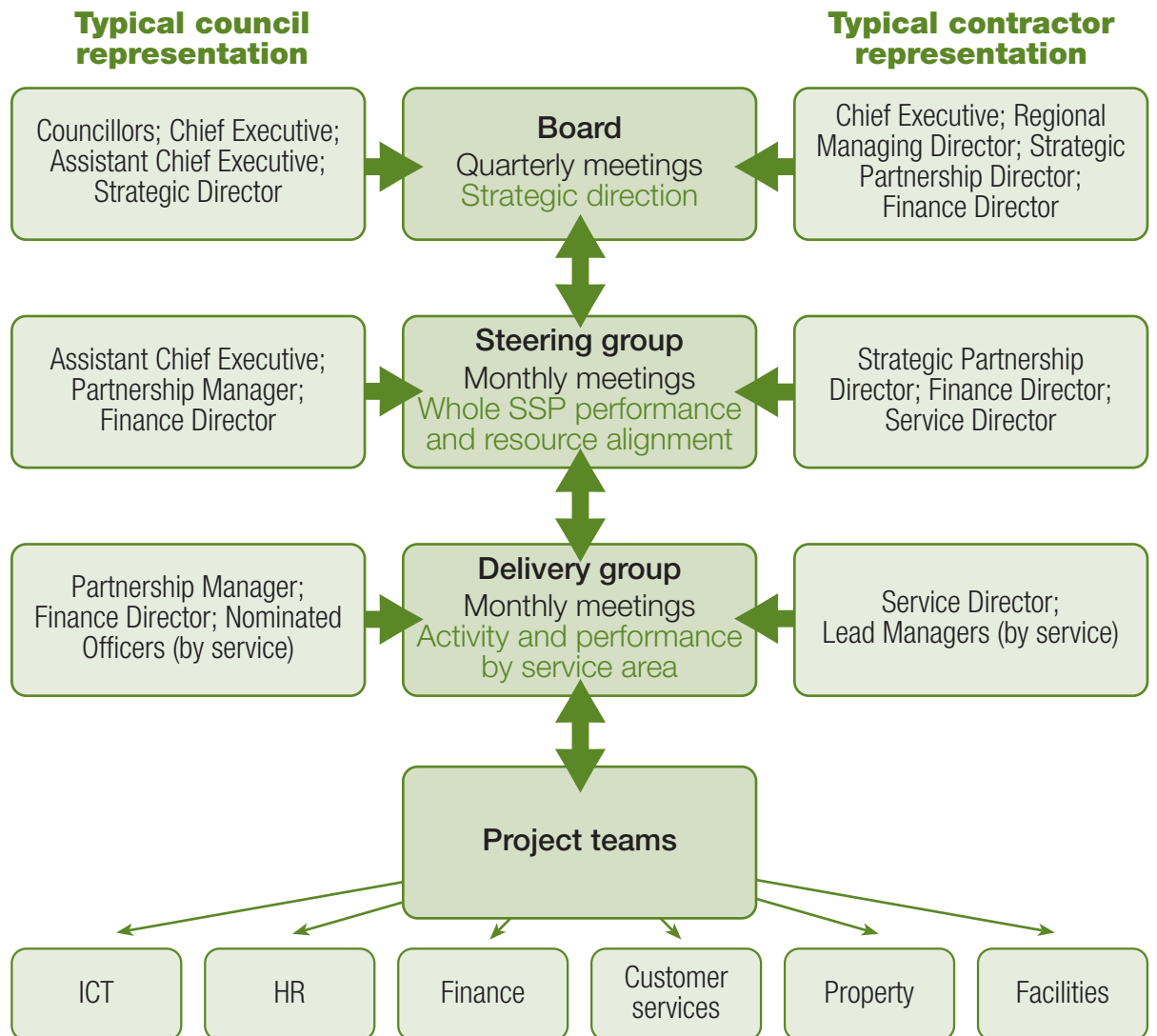
## Governing SSPs

- 125** The complex nature of most SSPs also has implications for their governance. Governance arrangements need to be found which encourage partnership behaviour while protecting the interests of both parties.
- 126** The most common governance model among existing SSPs has three levels, as illustrated in **Figure 10**. The partnership board typically meets quarterly and sets the tone and strategic direction for the SSP. It also considers the impact of external factors on the SSP. A steering group normally meets monthly to review performance across the SSP and the alignment of resources to priorities. The delivery group monitors activity and performance by service area.
- 127** Although SSPs generally had sound governance structures, these alone do not guarantee successful partnerships. Formal governance structures have not mitigated issues such as poor communication and inadequate reporting mechanisms, within or between organisations. Nor have they dealt with strained relationships. This demonstrates the importance of investing time and resources in the development of partnership behaviours, described in the section on trust.
- 128** This can also mean that those at the top lose touch with the day-to-day realities of the SSP. This creates a particular risk where the partnership may be effective at the strategic level but less effective at the operational level.

‘I think [I would] describe [the partnership board] as kind of an Emperor’s New Clothes type environment, everybody thought it was fantastic at that level.’

Council Head of Service

**Figure 10**  
Councils have tended to adopt a standard governance model for their SSPs



Source: Audit Commission

- 129** There are alternative governance models, which may be more appropriate for some SSPs. One alternative is the joint venture company (JVC). Experience from the private sector suggests that a JVC has some advantages for partners in managing risks because both parties jointly govern a separate legal entity.
- 130** Such an arrangement may provide greater clarity than standard SSP governance arrangements and more options for responding to market developments. There are, however, additional risks that need to be closely managed. For example, one council had to take legal advice on whether it was appropriate for its executive officers to sit on the board of the JVC, as this represented a dual role with a potential conflict of interest. The council appointed a non-executive councillor to the JVC board, removing the leader and chief executive.
- 131** Councils should follow established governance principles (**Ref. 23**), that apply regardless of the governance structures in place. Applied properly, these principles will help to ensure effective strategic and operational decision making. In particular, leaders need to communicate their objectives clearly, creating motivation and accountability for their achievement.

## Trust

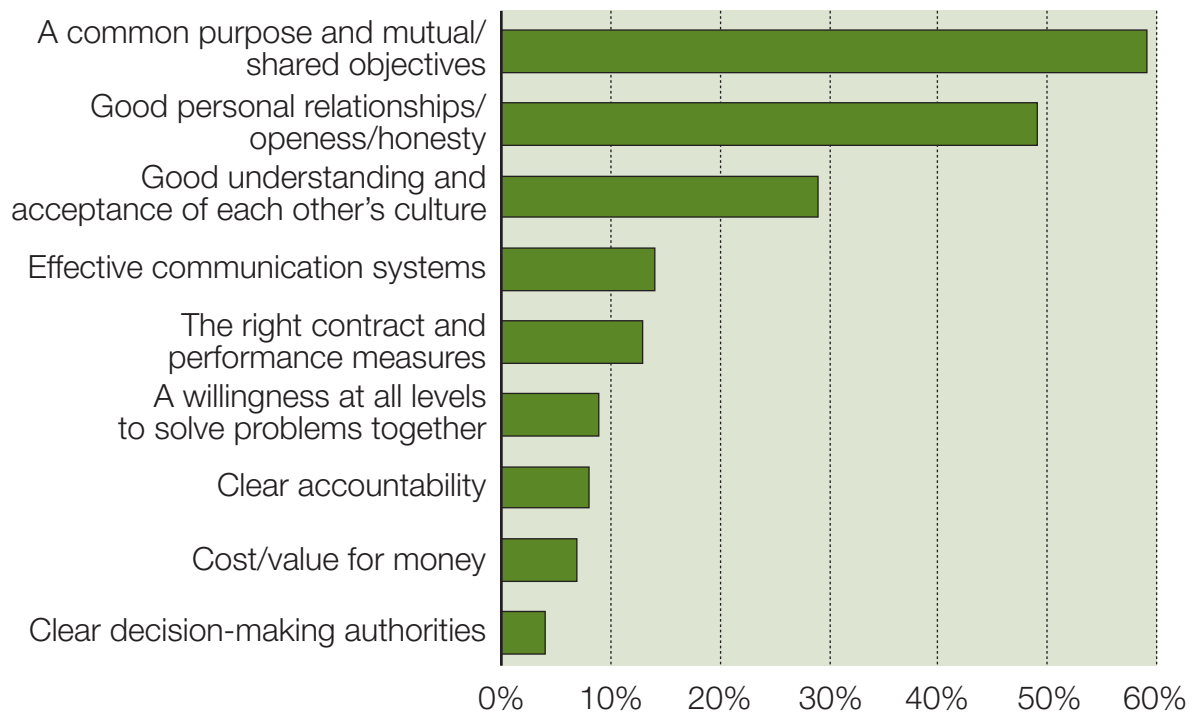
- 132** Even where appropriate contractual and governance mechanisms are in place, the additional benefits of partnership are unlikely to be achieved if personal relationships characterised by trust cannot be developed among those involved in the partnership. Trust should ensure that neither party reverts to an adversarial relationship in the short term, where interaction is based on getting the best for their own organisation from a market exchange.
- 133** A recent survey of leaders in the public and private sectors asked respondents to identify the most important elements in successful PPPs. Respondents considered relationships and behaviours to be of greater importance than governance or operational processes.
- 134** The survey also asked respondents to state the amount of effort they focus on each of three types of activities: governance; operations; and behaviours. Despite the views on the relative importance of the three elements, this survey found that the greatest focus of effort is on governance and operations and the least on behaviours. The report therefore notes that 'much of the groundwork has been done to establish and measure

governance and operational processes for partnerships. Senior executives now believe that the greatest value would come from developing better partnering behaviours'. The relevant survey results are illustrated in **Figures 11 and 12, overleaf (Ref. 24)**.

**Figure 11**

**Councils and contractors state that shared objectives and positive relationships are key success factors in PPPs**

What would you say are the most important factors in building successful partnerships between two organisations?

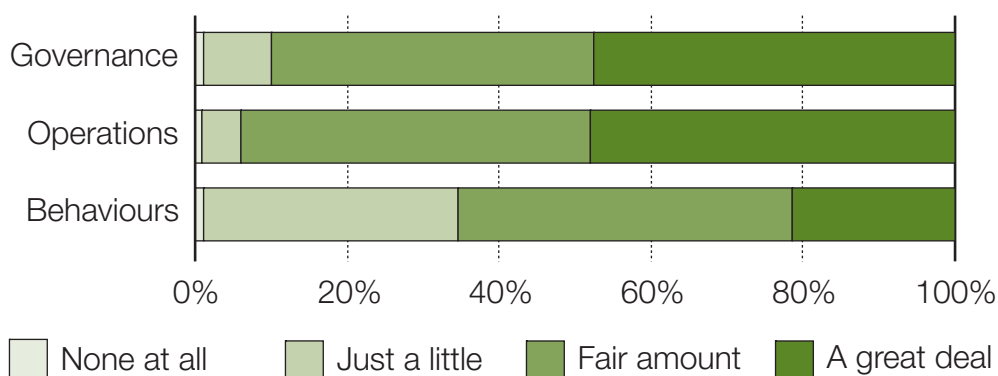


**Source:** Socia

**Figure 12**

**Councils and contractors have spent more time on governance and operating the partnership than on developing trust and partnership behaviours**

Thinking about the partnership you have been involved in, typically how much effort has been focused on each of the following general areas?



Source: Socia

135 Trust develops between people rather than organisations. Although we noted earlier that there can be disadvantages associated with staff transfer, many interviewees in our research sites noted that relationships were positive because the contractor’s staff had been transferred in from the council.

**‘[We] have a pretty stable relationship. The personnel haven’t changed a great deal. As the partnership has grown, people trust each other.’**

Contractor Partnership Director

**‘They were...council people, and they were TUPE transferred, and so they know, they’re local people, they live [here], they work [here] and you know, I think that’s a big benefit as well.’**

Council Head of Service

136 It was also notable that one of the successful partnerships in our sample had evolved from a prior contracting relationship, in which there had already been an opportunity to build trust between the two parties.

- 137** But there are also instances where developing trust and appropriate behaviours can be challenging. Contractors' bidding and negotiation teams are normally composed of different staff from those charged with delivering the transfer and operation of services. It is also inevitable that there will be staff turnover in both organisations through the life of SSPs. As long-term arrangements they will often outlast staff appointments.
- 138** There is often a difference in the tone of the relationship at different levels of each organisation, with senior managers viewing the relationship as a partnership while operational managers consider it to be more contractual. The Audit Commission's recent study on councils' management of competition and contestability, *Healthy Competition (Ref. 2)*, also notes a more positive attitude towards outsourcing among corporate managers, while there is a less positive attitude among operational managers.
- 139** In some cases it appears that, by describing an arrangement as a partnership, outcomes such as collaborative approaches to problem solving, trust and innovation have been expected to arise as a matter of course. But these outcomes will not necessarily occur without specific incentives and activities to encourage them. For example, a number of councils have held joint away days with their partners at the early stages of the partnership, or drawn up 'partnership charters' outlining the mutual benefit of the partnership. One council measures a set of non-technical partnership performance indicators, such as working as an integrated team; quality and continuous improvement; communication; and innovation.
- 140** A good indicator of trust is the extent to which there is transparency and sharing of financial data, through open-book accounting. We noted in Chapter 2 that the sharing of financial rewards is one of the additional benefits of SSPs that has been difficult to realise. Open-book accounting should enable councils to access part or all of the contractor's financial records for a project. Councils can therefore ensure that they realise financial benefits from revenue or profit share, or the on-selling of services.
- 141** The additional benefits of partnership will not be realised as a matter of course. Senior managers within public bodies and firms involved in PPPs suggest that trust and partnership behaviours are critical success factors, but they have not received sufficient management attention. Councils and their contractors should continue to undertake specific activities and initiatives to encourage these behaviours, while ensuring that there are appropriate operational protocols in place for those additional benefits that require clarity, such as sharing financial data.

## Flexibility

**142** One of the key purported benefits of SSPs is their responsiveness to change. They are said to incorporate a degree of flexibility that is lacking in tightly specified traditional contracts. It is inevitable in a long-term contractual arrangement that changes occur in the external political and economic environment. New management practices and technological development also change the way in which services are delivered over time.

**143** SSPs need to be adaptable and responsive to these changes. Interviewees noted that the original specifications for services included within SSPs are open-ended.

**‘That was a balancing act...because the specification is fixed at a moment in time in the tender process, particularly given it’s 15 years with no break...because in 15 years of course it will be a very different council, area, set of services.’**

Council Head of Service

**144** The challenge of providing a clear specification of future requirements varies depending on the type of service being outsourced. Back office functions such as HR and finance, and technically complex services such as IT, are less amenable to long-term specification due to the pace of technological change, compared with project-based services such as highways maintenance or construction.

**‘This is an authority that...has got a lot of private sector contracts. And it works fine for waste collection and it works fine for highways maintenance, where you’ve got clearly specified things that you want to do, clear sort of measures and so on. What you’ve got with many of these services is a strategic input which is extremely difficult to quantify in terms of any inputs and is quite difficult to quantify in terms of any outputs and changes all the time.’**

Council Chief Executive

**145** Councils also need to consider the optimal contract length and the degree of flexibility to build into it. The duration of many early SSPs, which incorporated some capital investment, was influenced by the need for the contractor to recover the investment through a service charge that was affordable to the council. The longer the contractual term, the more affordable the annual charge. But since the introduction of the Prudential Code and the ability of councils to raise finance through other means, councils have fewer

incentives to enter into SSPs as a means of accessing capital investment. The incentive to have long contractual terms may therefore also be weaker. Nevertheless, councils continue to enter into SSPs with long contractual terms, for example 15 years. Councils should be clear about the benefits that they anticipate from a particular contractual term.

- 146** Given the long-term duration of SSPs, it is important that councils regularly assess the costs and benefits of service delivery in an SSP to ensure that it remains the most appropriate mechanism to deliver services, and continues to deliver value for money.
- 147** One mechanism by which this type of review may be formalised is a break clause. This enables the council either to renegotiate or exit the SSP at a given point. Break clauses may be more appropriate in SSPs where there is limited capital investment by the contractor that needs to be recovered in the longer term. The inclusion of break clauses may be resisted by contractors during negotiation, as it reduces the security of their future revenue streams, but they should be considered, as they provide a greater level of control and a stronger negotiating position to councils in SSPs. The cost of a break clause can be tested during procurement, by asking contractors to submit bids for different options with or without break clauses. If contractors are not prepared to submit a bid that includes a break clause, or if the price of a break clause is prohibitive, this may be seen as a warning sign for councils.
- 148** In one council where a break clause was not included in the contract, the partnership manager recommended one to other councils.

**‘I would want to see some kind of break clause, I would recommend that... Because unless you’re sure that you’re going to derive some further benefit out of going forward, and probably it’s not going to be of much interest to councils to just get more of the same for another four years, they would want to know that they’re going to derive further value for money, and further efficiencies and further service improvement.’**

Council Partnership Manager

- 149** Service specifications in SSPs are inherently open-ended and will require some degree of adaptation once they are under management. Flexibility incurs costs, but there are different ways of thinking about flexibility and the need to respond to changing circumstances. SSPs can be designed to respond to change by building in agreed change control processes, whereby variations are agreed as and when they occur, and through more formalised reviews that consider the configuration of the SSP as a whole. Both of these require resource commitment and may have an effect on the price. But if neither of these mechanisms is built in, or if they fail to operate successfully, there are also likely to be costs incurred in managing the consequences.
- 150** There are a number of elements that councils need to consider. First, outcome specifications will be incomplete for the later stages of a long-term contract, but councils should consider environmental risks and how they may impact on the optimal contract duration. Second, the stated benefits of SSPs include adaptability and responsiveness, but depending on the structure of the contract, contractors may have an incentive to seek to use variations to increase their revenue. Third, once contracts have been adapted to new circumstances, councils should formally review both the core and additional elements of the contract in order to ensure that they continue to provide value for money.

# 4

## Looking ahead

- 151** Councils face a challenging financial environment. The Comprehensive Spending Review outlines an ambitious value for money programme for local government. English councils need to realise £4.9 billion of cashable efficiency savings by 2011/12 (**Ref. 25**).
- 152** Councils should consider SSPs as one of a number of potential options to meet this challenge. Of the SSPs we reviewed in this study, most have obtained value for money benefits, including anticipated cost savings of between 1 and 15 per cent, along with performance improvement and investment in infrastructure.
- 153** However, SSPs will not be an appropriate option for all councils. They are complex arrangements and require additional resource and appropriate skills to be managed effectively. And there are clear potential downsides. Three councils have terminated their SSPs and reverted to in-house provision, incurring additional termination costs. In those that continue, it has been difficult to realise all of the additional claimed benefits.
- 154** There are other options that can be employed to transform service delivery, including:
- reforming in-house provision;
  - collaborative shared services arrangements between public bodies;
  - traditionally specified, short-term contractual arrangements; and
  - delivery by voluntary and community sector organisations.
- 155** 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 of partnership.
- 156** This report has identified many of these complexities and recognises that there are different challenges for councils at different stages of the SSP life cycle, particularly in the extent to which they can measure value for money and ensure that the SSP offers, or continues to offer, an economic, efficient and effective service delivery model.

- 157** Councils considering SSPs should be clear about precisely what they are seeking to achieve in terms of service redesign, and then undertake an appraisal of the different options available to secure these objectives. This should include an assessment of the appropriate duration of any contractual arrangement and the appropriate bundle of services if more than one are to be included in the exercise. The Audit Commission has recently published *Healthy Competition*, which reports on how councils can use competition and contestability effectively (**Ref. 2**).
- 158** Councils already in SSPs should seek to maximise value for money of their service-delivery model, and regularly review the relative costs and benefits of their SSP compared with other options. Assessing value for money at this stage is challenging but councils have used a range of methods to compare the outcomes of this model of service-delivery.
- 159** To support councils in considering and assessing value for money and the other management challenges relating to SSPs, the Audit Commission has developed a summary chart outlining the issues that councils need to consider at the initiation, procurement and contract award, and contract management stages, with links to supporting documentation where appropriate.
- 160** The Audit Commission will continue to consider the extent to which SSPs enable councils to deliver public services that represent good value for money.

# Recommendations

## Councils considering an SSP as a service-delivery model should:

- be clear about the service improvement, efficiency or other benefits they are seeking to achieve to establish whether an SSP is the appropriate mechanism to fulfil those objectives;
- follow existing guidance from the Strategic Partnering Taskforce, 4ps and other improvement organisations when constructing appropriate business cases, ensuring the costs and benefits of different delivery options are analysed and articulated; and
- invest in sufficient client-side management capacity, recognising that both adequate resources and the right mix of skills are required.

## Councils procuring an SSP should:

- identify all potential risks as early as possible in their consideration of an SSP as an option for service delivery;
- allocate each risk to the party best placed to manage it, and ensure that risk management is regularly reviewed using appropriate reporting and monitoring throughout the life of an SSP;
- engage with short-listed bidders to ensure that both parties have a detailed knowledge of the scope for efficiencies in service delivery;
- update their business cases during negotiation, to reflect any proposed changes to the scope of the contract;
- consider the cost-effectiveness of bundling multiple services together; and
- ensure that the contract includes sufficient flexibility to respond to changing circumstances, with formal review points for this purpose.

### **Councils managing an SSP should:**

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- manage SSPs first and foremost as contractual relationships, ensuring that the responsibilities of each party are clear and enforced, and that contract management is undertaken effectively;
- improve the prospects of achieving additional partnership benefits, such as greater flexibility, innovation and shared rewards, by undertaking specific activities with their contractors to develop trust and partnership behaviours;
- ensure that there are appropriate operational protocols in place, for example, in sharing financial data through open-book accounting; and
- conduct regular formal reviews with their contractors to ensure that the SSPs remain the most appropriate model to deliver services, and are appropriately configured, bearing in mind any environmental changes.

### **The Audit Commission will:**

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- incorporate the above recommendations within audit and inspection work.

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# Appendix 1

## Methodology

- 1 The study was conducted under Section 33 of the Audit Commission Act 1998. Section 33 places a duty on the Commission to undertake studies to support recommendations for improving economy, efficiency and effectiveness in the provision of local authority services.
- 2 We conducted a literature review to inform our initial thinking, and invited 14 English councils to participate in the fieldwork for this study. These councils were purposively sampled to reflect a range of experiences of councils that have entered into SSPs. We have not tried to identify differences between different types of local authority, given the small sample.
- 3 Within these research sites, we carried out 70 semi-structured interviews with:
  - council officers at various levels engaged with their SSP, including chief executives, directors of finance, contract managers and heads of transferred services;
  - elected members; and
  - contractors, where appropriate.
- 4 We also undertook a review of councils' documentation relating to their SSPs and collected financial and performance data.
- 5 In order to collect data from both councils and contractors, we conducted a series of semi-structured interviews with major private sector contractors, reflecting on their experiences across a range of SSPs.
- 6 We added a series of questions to the annual National Procurement Strategy survey commissioned by Communities and Local Government. These questions explored strategic partnering in more depth, including the extent to which particular benefits are realised, performance outcomes, governance arrangements and other aspects such as set-up.

- 7 RSe Consulting was commissioned to undertake a review of strategic partnering between firms in the private sector. Their work examined how arrangements similar to SSPs differ to other contractual arrangements in the private sector, and what lessons local public bodies can learn from these experiences in the private sector. RSe Consulting has produced its own report of this work, which is available on the Audit Commission website at [www.audit-commission.gov.uk/strategicpartnering](http://www.audit-commission.gov.uk/strategicpartnering).
- 8 Due to the generally commercially confidential nature of SSPs this report does not contain identifiable case studies. No councils or contractors are identified.
- 9 Mark Wardman, Nigel Terrington and Hannah Roscoe undertook the research for this study. John Kirkpatrick was the Project Director.

# Appendix 2

## Advisory group

An external advisory group assisted with developing the research framework and the findings. The Audit Commission thanks all those that have contributed to the study, particularly the participating councils. However, the views expressed in the report are those of the Audit Commission alone.

### Advisory group

Keith Beaumont – Local Government Association (LGA)

Peter Bishop – Regional Centres of Excellence

Glynis Davies – Office of Government Commerce (OGC)

Kevin Davies – Communities and Local Government (CLG)

Lee Digings – Improvement and Development Agency (IDeA)

Mohamed Hans – Chartered Institute of Public Finance and Accountancy (CIPFA)

Mark Holder – Communities and Local Government (CLG)

Steve Holland – Regional Centres of Excellence

Patricia Leahy – National Audit Office (NAO)

Amanda McIntyre – Accord plc

Ellie Southwood – Confederation of British Industry (CBI)

Brian Standen – 4ps

Ian Williams – Department for Business, Enterprise and Regulatory Reform

# Appendix 3

## Glossary

**Benchmarking** – The process by which either costs or service outcomes are compared with those of others providing similar services.

**Break clause** – A clause enabling the client the automatic right to terminate a contract at one or more specified dates.

**Business case** – Information presented to enable and support a decision about the future delivery of services.

**Client-side management** – Contractual management undertaken by councils, as clients in SSP arrangements.

**Comprehensive Area Assessment (CAA)** – A new performance framework that the Audit Commission is developing in response to the Local Government and Public Involvement in Health Bill, to commence in 2009.

**Exclusivity** – Contractual arrangement in which one party grants another party the sole rights with regard to a particular business function.

**Information asymmetry** – This occurs when one party to a transaction has more or better information than the other party.

**Local strategic partnership (LSP)** – A non-statutory multi-agency partnership based on local authority boundaries, bringing together members from the public, private and voluntary and community sectors.

**National Procurement Strategy (NPS)** – An initiative led by Communities and Local Government (CLG) to support councils to improve the quality, delivery and cost-effectiveness of local services through better procurement practices.

**Open-book accounting** – Arrangements whereby part or all of the contractor's financial records for a project can be seen by the commissioning authority.

**Pricing mechanism** – The basis on which a service provider is paid, including the method of payment and any links to performance.

**Private finance initiative (PFI)** – A funding mechanism for major capital investments where private sector firms or consortia are contracted to build, design and in some cases manage new projects. During the contractual term, buildings are leased by a public body.

**Prudential Code** – The framework for capital investment in local government, developed by the Chartered Institute of Public Finance and Accountancy in 2004.

**Public private partnership (PPP)** – Collaboration between public bodies and private sector companies to build and maintain assets or deliver services.

**Public sector comparator** – A benchmark against which the value for money of PPP arrangements are assessed, based on the forecast cost to a public body if the PPP is not used.

**Strategic service-delivery partnership (SSP)** – A long-term public-private partnership where contractors undertake service-delivery for councils, and there are purported additional benefits to those that can be realised in a traditional outsourcing arrangement.

**Transfer of Undertakings, Protection of Employment Regulations (TUPE)** – Staff who transfer between different employers (such as to contractors, or back to the local authority) have certain rights safeguarded according to these employment regulations.

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