

Better out than in?

With the public sector forced to make huge efficiency savings, outsourcing is one likely option. But the recession has taken its toll on private sector suppliers and some might not survive. So what can be done? *PF* convened a round table of experts to discuss this dilemma. Anat Arkin reports

As the UK lurches uncertainly into 2009, it leaves behind a year of unforeseen and unprecedented changes.

Who would have thought, for example, that big government and the teachings of John Maynard Keynes would ever come back into fashion? Yet they did, with Prime Minister Gordon Brown and Chancellor Alistair Darling not only nationalising large swathes of the UK's banking industry but launching a £20bn fiscal stimulus package to try to get the economy moving again. Across the Atlantic, the even more mind-boggling spectacle of a Republican president overseeing the biggest banking bail-out in US history will soon be eclipsed by a massive programme of public works intended to fulfil Barack Obama's promise to create or save 3 million jobs during his first two years in office.

The world has clearly changed. But has the financial

crash turned on its head the conventional wisdom of the past 30 years that the private sector always knows best? In particular, has it undermined the view that private and voluntary sector organisations can provide public services more effectively and efficiently than public agencies? Or will current economic conditions give new urgency to the drive to cut costs and so lead to more services being outsourced?

Public Finance, in association with the Aldridge Foundation, recently held the latest in a series of high-profile public policy debates to consider these questions. Chaired by Tony Travers, director of the Greater London Group at the London School of Economics, the event brought together leading academics, policy makers and experts on outsourcing, such as Steve Bundred, chief executive of the Audit Commission, Susan Anderson, director of public services at the CBI, and John Tizard, director of the Centre for Public Service Partnerships.

Other distinguished speakers at the event included John Barradell, deputy chief executive of Westminster City Council, Nick Bell, deputy chief executive of Essex County Council, Richard Stay, deputy leader of Bedfordshire County Council, and Keith Sonnet, deputy general secretary of Unison.

Travers kicked off the debate by commenting that outsourcing – often confused with its near relative, privatisation – is very much in the news and likely to stay there for the foreseeable future. 'As the recession bites, the potential to use outsourcing will be considered increasingly by authorities of different hues,' he said.

Just what these authorities' conclusions will be is hard to fathom, with recent events painting a slightly confusing picture. On the one hand, some of the shine has come off the outsourcing concept, thanks to a series of fiascos culminating last summer in the delayed marking of standard assessment tests for 11 and



Uncertain future: Steve Bundred has found 'a lot of anxiety about the viability of some of the contractors that people are talking to'





Participants

Tony Travers (chair)

Director, Greater London Group,
London School of Economics

Susan Anderson

Director of public services,
CBI

John Barradell

Deputy chief executive,
Westminster City Council

Nick Bell

Deputy chief executive,
Essex County Council

Steve Bundred

Chief executive,
Audit Commission

Steve Davies

Senior research fellow,
Cardiff School of Social Sciences

Al Geddes

Director of central government markets,
Mouchel

Martyn Hart

Chair,
National Outsourcing Association

Peter Kyle

Deputy chief executive officer,
Association of Chief Executives of
Voluntary Organisations

Mark Langdale

Head, public sector practice,
professional services, BT

Roger de Montfort

Partner,
PricewaterhouseCoopers

Paul O'Brien

Chief executive,
Association for Public Service Excellence

Duncan Shaw

Lecturer in information systems,
Nottingham University Business School

Keith Sonnet

Deputy general secretary,
Unison

Richard Stay

Deputy leader,
Bedfordshire County Council

Gary Sturgess

Executive director,
Serco Institute

John Tizard

Director,
Centre for Public Service Partnerships

PHOTOGRAPHS BY HUGH NUTT

PublicFinance





Time for a rethink: Unison's Keith Sonnet called for an overhaul of traditional models of outsourcing, including tighter rules to prevent transfers being used to cut employment standards

'As the recession bites, the potential to use outsourcing will be considered increasingly by authorities of different hues'

TONY TRAVERS
ROUND TABLE CHAIR

14-year-olds. That cost ETS Europe – a subsidiary of a US not-for-profit organisation – its five-year contract with the Qualifications and Curriculum Authority and led to the suspension of the authority's chief executive, Ken Boston. Not long after news of the ETS debacle broke, another outsourcing provider, Liberata, lost its contract to run the Education Maintenance Allowance



Force for good? Richard Stay said the economic downturn could 'act as a catalyst for partnership working and for doing things together in ways that wouldn't have been possible 12 months ago'

scheme after failing to pay grants in time for the beginning of the academic year.

While neither of these contractual failures can be linked directly to the economic crisis, they have the potential to undermine confidence in outsourcing at a time when its effectiveness is coming under scrutiny.

But, paradoxically, there have also been recent signs of renewed confidence in the ability of private and voluntary sector organisations to provide public services. Essex County Council has launched a tendering process that could result in 'any or all' of its services being contracted out to one or more private firms in an eight-year deal worth up to £5.4bn. This would make it by far the largest local authority contract of its kind.

In another groundbreaking development, the London Borough of Barnet announced that it was working on plans to reduce itself to a small strategic core and set up a joint venture company with a private firm to commission local services. These could include services traditionally provided by other public bodies, such as jobcentres and the NHS.

So against this background, how is public sector outsourcing likely to fare in the difficult times ahead? In the opening session of the debate, John Tizard highlighted its sheer volume and scope in the UK, which has become the world leader in this field.

Last summer's review of the sector, carried out by DeAnne Julius for the Department for Business, Enterprise and Regulatory Reform, concluded that its value had grown by 130% in the past 12 years. It is now worth £79bn – a significant proportion of total public expenditure on services.

The Julius review also found that services carried out by the private and third sectors provided good value for the taxpayer. But Tizard said there was a danger that in a prolonged recession, outsourcing would be seen as little more than a means to cut costs.

'It has a role in cost cutting, but how are you going to achieve those cost cuts?' he asked. 'How are you going to get improved productivity? Report after report from the Audit Commission and the National Audit Office tell us that simply procuring the cheapest leads to tears, not to success. We've got to have the emphasis on value, and value must be about the quality of service, the way the service interacts with its users and the value they see in it.'

But value in that sense could come under threat with the squeeze on spending after 2011, as the government attempts to restore the public finances once the economy recovers.

Keith Sonnet, deputy general secretary of Unison, said it would be 'difficult to provide a level and quality of services in what is going to be an increasingly difficult situation'. He also touched on the employment conditions of the 1.2 million people providing public services through the business and third sectors. Codes of practice designed to prevent the emergence of a two-tier workforce, which public authorities are meant to take into account before awarding contracts, are being largely ignored, he claimed.

Sonnet argued that current economic circumstances demanded a rethink of traditional models of outsourcing. He called for tighter regulations to



Public protection: the CBI's Susan Anderson admitted that 'those of our members who are dealing in the public services are probably a little bit more resilient than many others'

prevent this approach being used to cut employment standards.

That rethink might already be under way. John Baradell, deputy chief executive of Westminster City Council, which has outsourced around half of its revenue spend excluding the schools budget, spoke about new forms of collaboration between public bodies. 'The conversation across the public sector is now about how we jointly commission services, how we leverage the combined skills of procurement across the public sector, not simply local authorities but primary care trusts and other agencies. That for me is the next step,' he said.

It isn't just about internal or external suppliers. It's the public sector looking at the way we do business

together in an environment that's different from the one we were in six to eight months ago.'

This environment is also affecting providers. Al Geddes, director of central government markets at Mouchel, and Mark Langdale, head of BT's public sector professional services practice, both highlighted a trend towards more sophisticated, multi-faceted contracts furthering collaboration between suppliers. This reflected a growing awareness that no one company can do everything well.

Many of the collaborative arrangements involve third sector organisations, for which public sector contracts are providing a much-needed lifeline. Peter Kyle, deputy chief executive officer of the Association of Chief Executives of Voluntary Organisations, reported that charities contracted to provide public services were the most optimistic about their ability to survive the recession.

It's a similar story in the private sector, according to Susan Anderson, director of public services at the CBI. She said: 'Those of our members who are dealing in the public services are probably a little bit more resilient than many others because, to be frank, government and local authorities are still spending.' That, of course, won't last indefinitely. Looking ahead, Anderson predicted that efficient provision of services will become ever more important – whether those services are provided by public bodies, the third sector or what she described as 'our very effective public services industry'.

But as the continuing credit crunch makes access to capital difficult, will the industry be able to remain effective in the months and years ahead? Suppliers' representatives taking part in the *Public Finance* debate were understandably reluctant to talk about the possible contraction of their industry, although BT's Langdale conceded that some players were likely to struggle. There had been some consolidation in the industry



'While we might see some contraction in the short term, the market will still be there in the future'

NICK BELL
DEPUTY CHIEF,
EXECUTIVE, ESSEX
COUNTY COUNCIL



Mind the quality: Tony Travers (left) listens intently as John Tizard emphasises the importance of value in outsourced public services



Paul O'Brien warned of the dangers of a handful of major players holding the market in 'a vice-like grip' as the recession takes hold

already, with US giant HP taking over EDS last summer and a spate of other mergers and acquisitions.

Despite these developments, Nick Bell, one of the architects of Essex County Council's radical new approach to outsourcing, sounded a bullish note about the industry's long-term prospects. 'While we might see some contraction in the short term, the market will still be there in the future,' he said. 'Interestingly, we may see some new entrants into that market from the UK, and maybe from overseas as well.'

However, Paul O'Brien, chief executive of the Association for Public Service Excellence, said that barriers to entering the market were rising. He warned of the dangers of a handful of major players holding the market in 'a vice-like grip', and of the damaging effects of reduced competition as the recession takes hold.

Steve Bundred, chief executive of the Audit Commission, stressed the need to distinguish between the short, medium and long-term implications of the recession. 'In the short term, there is concern about the robustness of the market,' he said. 'There is a lot of anxiety out there about the viability of some of the contractors that people are talking to.'

Like other speakers, Bundred suggested that the economic crisis had exposed the much-touted transfer of risk from the public to the private sector as something of a mirage. He illustrated this point by referring to housing associations, which were 'fiercely protective' of their status as private sector bodies.

'But the reality is that the government is not going to allow any major housing provider to collapse, any more than it would allow a retail bank to collapse, so the risk transfer hasn't actually taken place,' he said. 'Because of that there is anxiety... about the possible collapse of strategically important suppliers on which public sector bodies are dependent.'



Closed doors: Mouchel's Al Geddes argued that buildings 'create an environment that enables them to change or creates barriers'



All together now: 'The conversation now across the public sector is about how we jointly commission services', said John Barradell

He cited waste management, where local authorities would be able to meet government targets only if procurements currently in negotiation were carried through and new plants were built. 'But several local authorities are finding that those procurements are now at risk because the partners they are talking to won't be able to raise the capital that's necessary,' Bundred said. 'So that is undoubtedly going to create real problems in the short term.'

But, he continued, public bodies also needed to think about the long term – beyond the next general election – and prepare for the day when reduced public expenditure and the impact of the present economic turbulence really hit home. When that happened, an increasing number of organisations would be likely to adopt the one-stop approach to public services, both as a means of achieving efficiencies and of meeting the changing expectations of the people they served.

However, as Al Geddes of Mouchel pointed out, the location and condition of buildings is often an obstacle to providing services in this way – a difficulty now prompting some organisations to outsource a range of property services, including disposal, refit and acquisitions. 'The buildings that our people use create an environment that enables them to change or creates barriers,' he said. 'That's an area that traditionally hasn't really been looked at and that we might see more of in the future.'

So the current economic climate could open up new opportunities for public sector organisations, as well as imposing challenges. 'It may act as a catalyst for partnership working and for doing things together in ways that wouldn't have been possible 12 months ago,' said Richard Stay, deputy leader of Bedfordshire County Council. 'So this is a good time to drive things forward. I think that at the end of this economic cycle we'll get a more fundamental change in behaviour in the sector than we've had in the past.' ●