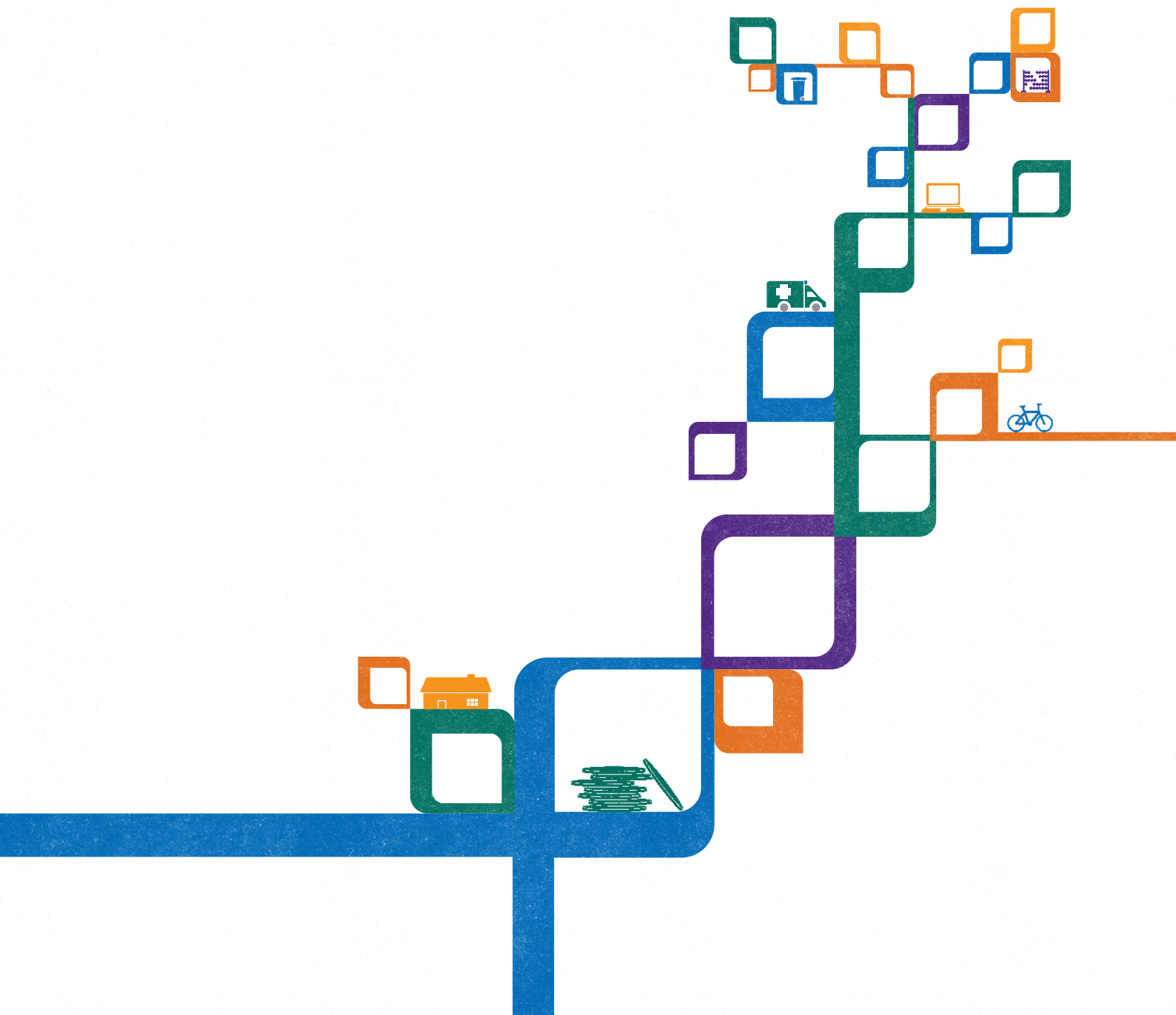


# Responding to the challenge: alternative delivery models in local government

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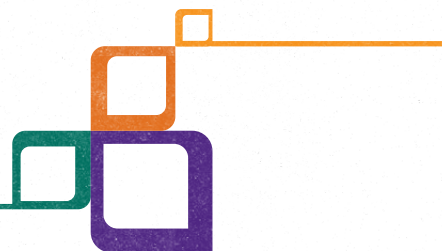
January 2014





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# Executive summary

Local government is showing it can respond to the financial challenges it faces. In this review of councils' responses to these challenges, Grant Thornton analyses the different alternative delivery models they are using.

Our research, knowledge and insight gained from working with councils, leads us to be cautiously optimistic about the ability of local government to implement effective options to address the Coalition Government's policies on public service delivery.

Three years ago, our previous report 'Migration of public services' also showed a positive outlook in this area. Since then, the UK's economy has continued to struggle and national funding settlements for local government have continued to fall.

Local government has raised concerns over the impact of funding changes. But it has also responded positively to the reduction in national funding through improved efficiency, innovation and alternative delivery models to protect public services.

Due to the scale of funding reductions, local government has not always protected services successfully, but the action it has taken indicates it

is capable of finding solutions to the service-related and financial challenges it faces. With financial austerity set to continue, it is important that local authorities keep innovating and changing if they are to remain financially resilient, and commission better quality services at reduced cost.

This report discusses the main alternative delivery models available to local government. These are based on our recent client survey and work with local government clients. It aims to assist others as they develop their options and implement innovation strategies.

## Alternative delivery models

Local government has increased the variety and number of alternative delivery models it uses since 2010. This shows how much vitality and innovation there is in the local government sector.

## Contracts and partnerships with other public bodies

Contracts and partnerships with other public bodies have increased significantly since our last report. Common examples include: shared management teams; joint service provision; joint commissioning of social care with the NHS; community budgets; joint transport and economic regeneration strategies; and more joint ventures with the Government through 'accountable body' status.

These arrangements are being encouraged by the Government, for example, through mechanisms such as the Integration Transformation Fund/Better Care Fund (which supports health and social care service integration).

We consider that further partnership working and joint arrangements will play a significant role in helping local government move towards achieving financial security.

## Common shared arrangements and services

- Management teams
- ICT
- Legal services
- Revenues and benefits
- Payroll
- Finance
- Internal audit
- Waste services

## New shared arrangements and services

- Highways
- Housing management
- Children's services

## Common joint commissioning

- Adult social care
- Economic regeneration
- Joint transport structures

Source: Grant Thornton survey

### **Contracts, partnerships and joint venture vehicles with the private sector**

For many years, councils have contracted with the private sector for the supply of services and goods. Over the last few years, we have seen some increase in the level of outsourcing, particularly around back office services. The more ambitious councils are also outsourcing front line services such as leisure services and housing maintenance. However, this is not universal and many councils continue to maintain in-house provision.

We have also seen some increase in the number of joint ventures with the private sector. High profile cases include the joint venture company established by London Borough of Barnet and Capita. Robust governance and contractual arrangements need to be in place for this type of joint venture from the beginning of the arrangement and maintained to the same quality throughout the duration of the venture.

Other partnership examples include the public private partnerships created by the local enterprise partnership (LEPs), which support regeneration across the country. Local government is likely to become increasingly reliant on its partnerships with the private sector as available public funding reduces.

However, we have seen a marked decrease in the use of private finance initiatives as more questions are asked with regard to the value for money and flexibility offered by these schemes.

### **New public sector and non-public sector entities**

Most new public sector bodies are created by statute and there has been limited activity in the local government arena in the last two years. There is little sign that the Government will create further unitary authorities or merge second tier authorities unless there is clear support for such a reorganisation locally. However, as outlined in our recent financial resilience report, '2016 tipping point? Challenging the current', some commentators harbour serious doubts about the sustainability of the current model of local government beyond 2016.

One change we have seen is the establishment of care partnership trusts. These bodies provide a single point of adult health and social care delivery. They take on the service delivery responsibilities of the local government and the NHS. Examples include the



#### **Common outsourced services**

- Financial services
- Leisure
- ICT
- Waste
- Housing maintenance
- Highways maintenance

#### **Common types of partnerships/joint ventures with the private sector**

- Financial services
- Leisure
- Economic regeneration
- Joint regeneration schemes
- Housing repair

Source: Grant Thornton survey

Wye Valley Partnership NHS Trust and the Stoke and Staffordshire Partnership NHS Trust. Hounslow and Richmond London Borough councils have also explored a joint community healthcare trust for adult care services. It is too early to comment on the success of these organisations, but they are an indicator of future delivery models.

Another significant change we have seen in the last two years is the creation of new local authority companies, social enterprises and trusts. The new entities have arisen for two main reasons. The first is to create trading entities outside of council – particularly where the services are not considered to be an essential part of service provision or where commercial freedom is needed. The second is to create trusts for leisure or arts services that can benefit from setting a different business strategy.

These structures are increasingly common, but do not come without risk. For example, while most companies are limited by guarantee, councils are not always willing to let the companies fail resulting in an increased risk for tax payers. Similarly, the transfer of services to trusts brings a loss of control that many authorities are not comfortable with. It is also important that local government is clear about the levels of subsidy and service before transfer as it is difficult to make these changes afterwards.

A very recent innovation has been the establishment of companies to deliver statutory services. While accountability continues to rest with the council, service delivery is transferred to the company allowing a greater ability to innovate. An example of this is Buckinghamshire County Council which is creating an adult social care limited company and developing a safeguarding hub with police, fire and NHS authorities.

### Responses from single and second tier authorities

Our recent survey of local government revealed clear trends with different types of bodies. District councils showed a tendency to look at partnerships with other local authorities as ways of reducing cost. Larger county, unitary and metropolitan councils are more likely to consider more innovative models such as local authority companies, outsourcing and joint ventures. This is likely to reflect the different responsibilities, activities and services carried out by the different types of authority, and reflect where they are on the change and restructuring journey.

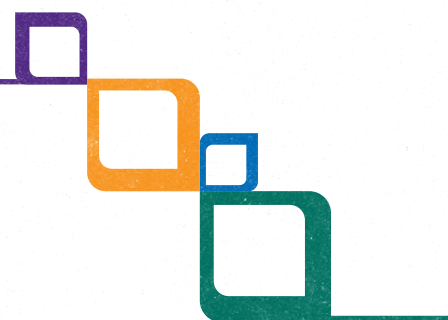


#### Most common services transferred to company structures

- ICT
- Human resources
- Finance
- Economic regeneration
- Building control
- Housing development

#### Most common types of trusts

- Museum trusts
- Leisure trusts
- Theatres trusts



## Motivation and risk

The motivation for looking at new models of delivery is (and has on many occasions been) led by the assumed financial benefits rather than the need for greater community engagement and user-led services. As outlined in our financial resilience report, while local authorities have overcome the financial challenges to date, further significant service and financial challenges remain. It is unlikely that this can be achieved without greater innovation and further use of alternative delivery models. In short, there is still more to do.

The service and financial challenges faced by local government and the health sector, such as an ageing population, cannot be addressed in isolation. While there are some good examples of joint local government and health services, they are not found everywhere. Similarly, the take-up and application of the different approaches and delivery models varies significantly from council to council. Further innovation and change are still needed to ensure services are joined up for the public.

The movement to alternative models for service delivery is not all one way. We are aware of a number of services being brought back in-house. These are where a contract has come to an end and the council does not wish to extend or retender it; there has been poor performance; or where the services are no longer a priority and provision may be stopped completely.

These new delivery models do not always provide the right, or simple, answer to the challenges local government face. Councils need to:

- take care over contract and governance arrangements
- conduct proper due diligence and thorough planning to ensure success
- back up their decision to provide services in any new delivery model with a thorough options appraisal and business case
- ensure appropriate break clauses throughout the contract and an option to re-negotiate as the circumstances change.

Once approved, it will be critical for local government bodies to commission and manage contracts efficiently if they are to realise the benefits fully. This focus must be maintained through the lifetime of a contract.

The risks should not stop local government from innovating. There is little option other than to adjust and change to the new environment. In our experience, councils can manage the risks if they think changes through properly and establish appropriate structures.

We anticipate that the number of services outsourced, provided in partnership or through joint ventures, and transferred into trusts will increase over the next few years as local government seeks a solution to its financial challenges. A checklist to support innovation is provided in Appendix 1.

# National policy

The financial crises, demographic changes and national policy changes are impacting significantly on the services delivered by local government, and the methods by which they are delivered. They will continue to do so for the foreseeable future. The reduction in funding available and other government policy changes are leading to a fundamental change in the methods of commissioning and the delivery of local government services.

## Three main factors impacting on the finances of local government

### The national funding gap

The funding available to local government has continued to reduce over the last three years and is forecast to reduce further in the next three years. Whether looking at the so-called 'Barnet graph of doom' or other similar forecasts, it is clear the current methods of commissioning and delivery are no longer affordable. Local government bodies are aware of this challenge and have already begun to innovate.



### Greater funding flexibility

While reductions in direct grant funding are impacting negatively on councils, greater flexibility in the funding regime does offer opportunities. These include: more flexibility in the use of local services support grant; greater retention of business rates; and a move towards community budgets, which allow providers of local services to contribute to a shared fund. This flexibility allows local government to think differently about its finances, what services it wishes to commission and where.



### The government is demanding more

Areas of national focus include efficiency, economic growth, localism, partnership working and innovation.



The Government expects local government to do more by itself in the following areas:

**Efficiency** – the Government has recognised the efforts of councils to save money through partnership working, by merging front line and back office services and through joint commissioning. However, in a Local Government Association (LGA) speech in July 2013, Secretary of State Eric Pickles summed up the prevailing view that: “there is scope for us to go much further – a challenge we must meet”.

**Economic growth** – the Government has set out clear expectations that local government should influence and support economic growth. In a series of policy statements – such as Lord Heseltine’s report ‘No stone unturned’ – and policy actions such as the development of LEPs and City Deal, the Government has emphasised the role of local government, working jointly with the private sector, in generating economic growth.

**Localism** – the Government’s stated aim is to decentralise power to local government. To this end, it has scrapped top-down targets such as local area agreements, reduced central government data reporting, removed the ring fencing of funding, allowed the local retention of business rates, and removed national planning restrictions. It is actively encouraging councils to take local action on services and growth.

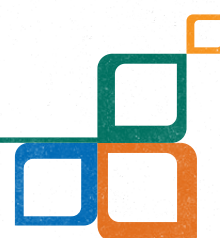
**Partnerships** – the Government also wants more. It often highlights the success of the Early Years Partnership in Greater Manchester which targets £145 million of savings over the next 25 years. Also, the Public Transformation Network has been established to ensure community budgets are implemented across the country. Further partnerships are expected as local government looks for solutions to its financial concerns.

**Innovation** – the Government wants local government to try new ways of working. Expectations vary from greater openness by allowing the filming of council meetings, to new ways of working with troubled families, and to the integration of health and social care services. The message is clear: change, and change quickly.

In his speech to the LGA conference, Eric Pickles stated: “We need to go back to the drawing board and redesign services from scratch, see real transformation, and we’ve given local authorities carte-blanc to do just that”. The messages are strong:

- Focus on the issues
- Work together
- Transform services

Driven by the reductions in finance, alongside the policy framework and rhetoric from the Government, there is clear evidence that local government has heeded these messages. The commissioning and provision of services is changing and this will continue for the foreseeable future. As always, this represents both a risk and an opportunity to local government.



# Alternative delivery models

A range of alternative service delivery models sit alongside the core approaches of efficiency, systems remodelling and changes to service delivery. Our recent survey identified an impressively wide range of services being delivered, or at least being considered for delivery, under some form of alternative delivery model.

From the 70 local authorities surveyed, we identified nearly 40 different services they had externalised and provided under an alternative delivery model. The services ranged from the expected internal, back office and management support functions – such as IT, payroll and human resources – to more front line services, such as benefits administration, housing repairs and sports and leisure management. Our survey also identified increased integration with the NHS and other public sector bodies.

The wide spectrum of services considered for alternative delivery models suggests councils are open to innovation and change in these areas. Given the increasingly innovative models being explored, we have summarised in the next section the potential alternative delivery models and the criteria authorities may wish to use in choosing the right model.

## Diversity of new delivery models

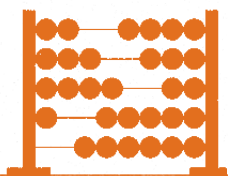
There is not a single, dominant model. Each council is approaching the development of its new delivery models case by case, taking into account local ambitions, aims and requirements. For some councils, a wholly-owned trading company gives the freedom and flexibility required. For others, a complete divestment in the form of outsourcing is the better option.

Our survey revealed an interesting distinction between one- and two-tier authorities. District councils showed a tendency to look at shared services models as ways of reducing cost and activity overlap, whereas single-tier councils are more likely to consider more innovative models such as wholly-owned companies, outsourcing and joint ventures. This is likely to reflect the different responsibilities, activities and services carried out by the different types of council; and reflect where they are on the change and restructuring journey.

The movement in the delivery of services is not all one way. We are aware of at least four examples where services are being brought back in-house. These are where: a contract has come to an end and the local authority does not wish to extend or retender it; there has been poor performance; or services are no longer a priority and provision may be stopped completely.

## The new delivery models and their risks and rewards

The models and modes of future service delivery remain fluid. Similarly, the durability of these new models of delivery in some instances are untested. Despite this, the pace of change is impressive with 20% of councils surveyed expecting their new models of delivery to be operational over the next year. We expect this pace of change to continue, and perhaps accelerate, as the effectiveness of salami slicing and right sizing exercises fails to meet tightening budgetary constraints.



# Contracts and partnerships with other public sector bodies

Local government has a history of working with other public sector bodies to deliver services. The level of co-operation has varied from area to area. Over the last two years, as the funding of local government has reduced, we have seen a greater willingness to look at other ways of working.

## **Joint commissioning with other public bodies**

This is now a common model for the commissioning of services. There is little to hinder its implementation across the sector, although take up is less than we would expect given the benefits of joint working.

## **Examples in social care**

A significant number of councils with social services responsibilities are now commissioning under joint contracts with the NHS. The introduction of clinical commissioning groups has not impacted significantly where contracts were already in place. The joint commissioning has resulted in significant savings across both sectors in areas such as learning disabilities, support to ensure users can stay in their own home, and beds commissioned from care homes. Recently, we have seen a move to community based budgets but this area remains untested. The Integration Transformation Fund/ Better Care Fund offers another opportunity for further joint commissioning.

## **Examples in transport and the economy**

Some councils such as the Greater Manchester councils and the West Midlands councils have long standing agreements for co-operating on transport and the economy. Recently, we have seen a move by other councils towards joint commissioning of transport and economic regeneration services. For example, in 2013 councils in Merseyside released their proposal for a new authority to boost economic development and take over the transport functions of the existing Mersey travel agency. The South Yorkshire councils also agreed to establish a combined authority which will have responsibility for transport, economic development and regeneration.

The benefits of combined commissioning are: an increase in spending power; a common strategic, business and financial plan across all commissioners; single contracts with providers; and reduced costs. The concerns associated with such arrangements continue to focus on the clarity of statutory duties and associated costs, risk share agreements and cost overruns.



## Case study

### Economic regeneration and transport in the Greater Manchester Area

The ten Greater Manchester (GM) district councils have a long history of collaboration. Following the abolition of the Greater Manchester Council in the 1980s, the district councils established the Association of Greater Manchester Authorities, a non-statutory body, with the aim of securing collaboration and joint working on pan-GM issues. In April 2011, the Greater Manchester Combined Authority (GMCA) was established to provide strong and effective governance, with responsibilities and powers covering the transport-related functions previously administered by the Greater Manchester Integrated Transport Authority and a remit in relation to economic development and regeneration.

The combined authority's membership comprises the leaders of the ten district councils, with each responsible for a particular policy portfolio. Other leading local politicians sit on various committees, ensuring greater buy-in and influence locally. The Local Enterprise Partnership is a key component of Greater Manchester's governance arrangements, ensuring that business leaders are empowered to help determine local economic priorities to drive growth and job creation within the city region.

The GMCA and LEP recently published the 'Greater Manchester strategy: stronger together', which has been developed around the twin themes of growth and reform. Building on the robust evidence base established through the Manchester Independent Economic Review and updated through the GM Integrated Assessment, the strategy sets out a series of strategic priorities to secure the sustainable economic growth of the conurbation and to enable the residents of Greater Manchester to access the opportunities that such growth presents to access and progress through work. The aim is for Greater Manchester to become a financially self-sustaining city, closing the gap between the tax that is generated through growth and the cost delivering public services.

Last year the combined authority secured a City Deal with government, the first deal of its kind in the country. The deal sets out a range of bespoke agreements between the government and the GMCA relating to skills and local economy, a low carbon hub, business transport, trade and investment, housing and transport.

Of particular note is the Earnback model, the first tax-increment finance-style scheme seen outside of London, which allows for up to £1.2 billion invested up front in infrastructure improvements to be 'paid back' to the GMCA from the economic growth generated as a result of that investment. Earnback is part of a broader investment strategy to create a 'fund of funds', bringing together resources from Evergreen, ERDF, Growing Places, Regional Growth Fund, the GM Loan Fund and the GM Growth Hub to build a flexible investment capability that also maximises leverage of other resources. The fund of funds is not a single capital pot. Rather, funds are blended as they come through to allow the impact of funding to be maximised whilst retaining the flexibility to accommodate national government, European and other requirements attached to specific funding streams.

### Joint management teams

The number of joint management teams has increased over the last few years with a number of district and borough councils moving to this arrangement to save costs. The Government has supported these joint management teams often citing the need for closer working between neighbouring authorities.

There are a number of well embedded joint management teams across the country. Examples include Three Rivers and Watford (which share a S151 officer), Warwickshire and West Mercia Police, and High Peak and Staffordshire Moorlands.

As well as reducing costs, the benefits of working this way include joined up policies covering a wider area. The concerns are a perceived loss of control over policy, and that the arrangement does not always work well where the political administrations are not aligned.

Our work indicates that, despite the benefit of these changes, many believe that the move to a joint management will disempower councils and they will lose control over management. This view, whether right or wrong, has restricted the number of joint management teams we have seen. We note that there are no joint management teams covering a whole county area.

### Case study

#### Strategic alliance between Staffordshire Moorlands District Council and High Peak Borough Council

The strategic alliance between Staffordshire Moorlands District Council and High Peak Borough Council began with the two councils agreeing a concordat which set out their joint vision.

With a shared chief executive, the two councils came together recognising that many of the functions in the two councils have similar objectives, work in the same legislative framework and each of the council's communities have a similar demographic profile.

Since then the councils have moved to three executive director roles across both councils and shared heads of service, progressing to full shared services with initial savings generated from a large scale voluntary redundancy programme.

At the initial stages, a joint member committee had a monitoring, deliberative and advisory role for the two councils. This then became a joint alliance scrutiny panel to provide non-executive scrutiny of the alliance. This was up until 2011 when the two councils agreed that their own scrutiny and executive functions were sufficient.

The councils developed a transformation programme from 2008. This identified the enabling activities – the joint strategies and alignment of processes and procedures – and then the specific projects, in various tranches for delivery. As part of this, the council established the alliance improvement management system (AIMS) – a review process to evaluate the best solution for delivery of shared services and to create actions plans for implementation.

The transformation programme included schemes across the broad categories of trading activities, improving efficiency, divesting, commissioning and contracting arrangements. This is in addition to those specifically focused on the efficiencies from joint working and savings through sharing activities. The cumulative savings attributed to the strategic alliance and the joint working arrangements are reported to be £1.9 million for High Peak and £2.33 million for Staffordshire Moorlands.

The strategic alliance also poses challenges. The large scale voluntary redundancy programme placed pressures on organisational capacity. This left a mismatch between service needs and staff in post and requiring staff redeployment. The impact of this is still being worked through.

Bringing joint teams into the same location has required some staff to change their place of work, and others to travel between the different sites and this has associated cost implications. Officers have to service the members of two councils and represent the councils in different geographic regions and this brings inevitable pressures, particularly on senior management time and capacity.



### Joint provision with other councils

Joint provision of services has increased over the last few years, although there still appears to be some reluctance by many authorities to outsource to neighbouring authorities.

Where joint services are in place they can include both front and back office services. The exact arrangements vary from place to place but have the core aim of merging groups of staff from different bodies to allow more joined up provision. Given the potential cost reductions available in services, it is surprising there is not more joint provision particularly at a district level.

Examples include joint provision of back office services by district and borough councils, for example, the Watford and Three Rivers Shared Services Joint Committee, and joint provision under Community Budget schemes.

The concerns about joint provision are similar to joint management teams. These include a perceived loss of control over policy and a perceived loss of management control over the quality of service delivery. It does not always work well where the political administrations are not aligned, and there are worries over different staff terms and conditions. In general, local government continues to guard its independence closely despite the cost savings that might be available.

## Case study

### Joint service provision across Worcestershire

There are six districts within Worcester: Bromsgrove; Redditch; Wyre Forest; Worcester; Wychavon; and Malvern Hills. The district councils, together with Worcestershire County Council, have been involved for several years in joint commissioning and sharing of services.

The main arrangements include the Worcestershire regulatory shared service joint committee which provides licensing, registration, street trading and trading standards. This service is hosted by Bromsgrove District Council and covers all six districts together with the county council. Bromsgrove also hosts the North Worcestershire building control shared service, offering professional advice to people carrying out building work. These are both ten year contracts.

Wyre Forest District Council hosts the North Worcestershire economic development and regeneration shared service, the North Worcestershire water management shared service and the North Worcestershire emergency planning and business continuity service.

In addition to the above, Wyre Forest Community Housing Group delivers the homelessness advice service under contract for Wyre Forest District Council and is located at the hub in order to provide a joined up service to customers.

Significant levels of savings are anticipated for all councils from these arrangements.

### Joint ventures with the public sector

There are also a number of good examples of joint ventures within the public sector. Often central government funding is linked to these ventures and local authorities take on 'accountable body' status, but this is not always the case. Each of these ventures has a particular focus, most commonly efficiency savings or economic growth.

The benefits are that it allows the pooling of funding and provides a common strategy for the area. The concerns are that the risk profile of these ventures varies significantly and needs to be considered carefully before any agreement is reached.

Examples include major infrastructure projects such as the re-build of New Street Station in Birmingham between Network Rail and Birmingham City Council, or re-development of areas as part of City Deal projects. Through 'accountable body' status, the Government has also directed significant funds such as the Regional Growth Fund and advanced manufacturing chain initiative to local government.

### Case study

#### Advanced manufacturing chain initiative

The Government's advanced manufacturing chain initiative (AMSCI) has associated grant funding of £245 million aimed at creating or safeguarding a total of 9,000 jobs. The aim of the fund is to help existing, advanced manufacturing supply chains grow and achieve world-class standards while encouraging major new suppliers to set up and manufacture in England. The initiative provides loans and grants that support:

- the purchase of capital equipment
- research and development activity that improves manufacturing equipment, systems or processes
- specific training and skills development to support the project.

Birmingham City Council was appointed to act as accountable body for the scheme, and to have overall financial responsibility for the scheme nationally and regionally. Management of the fund involves Finance Birmingham as overall managers of the fund on behalf of the council (Finance Birmingham is a wholly owned subsidiary of the council), the Technology Strategy Board (a UK public body operating at arm's length from the Government and reporting to BIS) and the AMSCI investment boards.

A total of 74 applications requesting funding totalling £245 million have been received. 21 applications totalling £90 million have reached the minimum threshold in the assessment process. Of these approved applications several have now begun to draw down funds.

The scheme is complex and has required the co-operation of a number of public and private sector partners. The work has drawn on the skills of public sector bodies to develop and implement the scheme, and private firms to provide the due diligence assessments of the bids.

The financial risks of the scheme are significant. The council has therefore brought in strict governance arrangements to ensure its position is safeguarded. These include the use of Finance Birmingham, the AMSCI investment boards and final approval by cabinet.

The initiative has already begun to show signs of success with the decision of Jaguar Land Rover to develop its production capacity in the West Midlands.



# Partnerships and contracts with the private sector

For a long time, councils have contracted with the private sector for the supply of services and goods. Over the last few years, we have seen some increase in the level of outsourcing, but this is by no means universal and many councils continue to maintain in-house services.

We have seen an increase in the number of joint ventures with the private sector. Joint venture vehicles are becoming more common especially with regard to back office services and economic regeneration (where a council is willing to use its assets to leverage private sector funding).

We expect more outsourcing and joint ventures as the financial pressures on local government increase.

## Outsourcing service provision to the private sector

Outsourcing involves the transfer of services to the private sector via a contract. Many local authorities have been able to reduce costs through outsourcing services and have done so for some time. Areas commonly, but not consistently, outsourced are housing repairs, waste collection, leisure services, and back office functions.

The main concerns surrounding outsourcing are loss of control, reduced terms and conditions for staff and price increases on re-tender.

Despite the financial pressures on local government, there has not been a notable increase in the outsourcing of services in recent years. Given the potential cost reductions available in services such as waste collection or payroll services, it is surprising that councils have not undertaken further outsourcing to the private sector.

## Partnerships and joint ventures with the private sector

Partnerships with the private sector vary from areas of joint work, such as LEPs, to joint venture agreements for the transfer of staff and services to the private sector (which are often backed by contractual arrangements).

LEPs are a good example of effective partnerships, enabling local government to link effectively across regions and areas with the private sector. The benefits of such partnerships are that private and public sector aims are aligned along with the resources needed to deliver changes to the environment or services.

Joint venture vehicles fall into two key categories: companies set up to provide either front line or back office services where there is an element of profit share with the private sector, and companies established to secure some form of economic regeneration. A common factor in regeneration schemes is the need for the public sector to be the instigator of the development by facilitating joint working. This also often reduces the level of risk to the private sector by providing some funding to support the scheme.

One example is Service Birmingham, a joint venture between Birmingham City Council and Capita to provide back office services.

Economic regeneration vehicles are more varied and often include other public sector partners. Examples of these include city centre regeneration schemes, broadband rollout schemes, and Green Deal initiatives.



The benefits of joint ventures are that they use commercial resources as well as public sector resources, and commercial and public sector expertise are combined. Concerns focus on whether there is a clear understanding of the commercial risks, profit share and cost structures. It is also important that councils hold a right to renegotiate contracts where 'excess profits' are made or circumstances change.

The private finance initiative is often commented on as a public private partnership. In our experience this is not the case, with the PFI 'partner' often being unwilling to renegotiate terms and requiring local authorities to meet contract conditions such as contingent fee increases, or to meet contract payments even where circumstances have changed, for example the establishment of academy schools. We have seen a reduction in the number of new PFI schemes in the last few years and an increased willingness from local government to enforce contract delivery, and require contractors to revisit the original contract. Their success in achieving any change is variable according to reports issued by the NAO and other regulators over the years.

## Case study

### Barnet London Borough Council – outsourcing and joint ventures with the private sector

Barnet LBC has set out a clear model for its 'Commissioning Council'. The council has recently signed contracts in excess of £360 million. The council estimates that the contracts will generate savings of £165 million over ten years.

By setting up one of the contracts as a joint venture, the council has more control over business development allowing it to ensure that a growing service is based in Barnet.

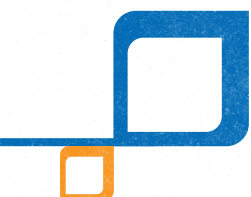
The first contract is a support and customer services organisation contract with Capita. The new organisation provides back office services including customer services, human resources, finance and payroll, IT, revenues and benefits, estates, corporate procurement and commercial services. It involves a significant transfer of staff to Capita and also secures investment in back office technology.

The second contract establishes the joint venture between the council and Capita to provide development and regulatory services (DRS) in the borough. These services include: building control; land charges; planning (development management); strategic planning and regeneration; highways services; environmental health; trading standards and licensing; and cemetery and crematorium services.

The contracts provide a clear route for other councils. They establish that:

- councils need to analyse carefully what can be outsourced in terms of public services before starting to outsource service provision
- they need to develop appropriate benchmarking and outputs to ensure that they can present the value for money case to the public, and monitor it during the contract
- councils need to articulate savings in terms of cashable benefits from the outsourced service, and minimum income guarantees from joint venture companies
- similar contracts need to include clear governance arrangements to ensure conflicts of interest do not arise
- clear step-in rights need to be built into contracts for councils.

In a commitment to transparency, Barnet has published both contracts online.



# New public sector and non-public sector entities

Most new public sector bodies are created by statute, for example the recent changes in the NHS with the establishment of clinical commissioning groups. There has been limited activity in the local government arena in the last two years, and there is little sign that the Government will create further unitary authorities or merge second tier.

One change we have seen in recent years is the establishment of care partnership trusts at the request of councils and NHS commissioners. These trusts aim to create a single point of delivery for those in need and are responsible for the delivery of social care and medical care. Commissioning and statutory responsibility remains with the NHS and local government.

Examples of established trusts include Torbay and South Devon NHS Health and Care Trust, Bexley Care Trust, Wye Valley NHS Partnership Trust and Stoke and Staffordshire Partnership Trust. Hounslow and Richmond London borough councils are also exploring a joint community healthcare trust for adult care services.

The benefits of such structures are that they combine service delivery and service management. However, many councils remain concerned about the loss of management accountability to members, the loss of financial control, and risks to service quality.

## Case study

### Staffordshire and Stoke-on-Trent Partnership NHS Trust

#### Delivery of integrated adult social care and health services

Staffordshire and Stoke-on-Trent Partnership NHS Trust was established in September 2011. It serves a population of 1.1 million people and employs around 6,000 staff. It is located in the geographical boundaries of Staffordshire County Council and Stoke-on-Trent City Council.

From 1 April 2012 it took on responsibility for delivery of adult social care services from Staffordshire County Council and is now responsible for the provision of health and social care across Staffordshire (outside Stoke-on-Trent). It is the largest provider of integrated health and social care in the UK and employs around 6,050 staff, with an annual turnover of around £350 million.

Since taking on responsibility for adult social care services from Staffordshire County Council from 1 April 2012, the trust is still working towards full integration of health and social care services. In the first 12 months since taking on adult social care its focus was on:

- refining its vision, values and goals
- establishing clear and robust risk, performance and financial management arrangements
- establishing clear and robust arrangements for overseeing service quality and safety.

Particular challenges in these first 12 months have been around the provision of reliable activity, performance, financial and quality information covering adult social care services. In particular, the trust has need to resolve differences in approaches to performance and financial management and reporting.

It is now focusing on establishing new models of care and transforming adult services as it moves to full integration of its teams and services. It has established a formal transformation project, called 'Better together', to drive this integration of teams and services. Phase one included a formal launch of new integrated teams from late June/early July 2013.

One of the most significant changes we have seen in the last two years is the creation of local authority companies, social enterprises and trusts.

The new entities have arisen for two main reasons. The first is to create trading entities outside of the council, particularly where the services are not considered to be essential parts of the council's service provision or where commercial freedom is needed. The second is to create trusts for leisure or arts services which can benefit from setting a different business strategy.

The most common form of these new entities are company structures, often limited by guarantee.

Examples include: companies set up to support economic regeneration, including the provision of financial support to SMEs such as Finance Birmingham; or companies to support growth in particular areas such as technology or tourism, such as Marketing Birmingham or Birmingham Technology.

Some councils have also begun to look at the outsourcing of statutory services. For example, Oldham Borough Council is establishing a wholly owned company to deliver adult social care statutory services (Company A). On completion of Company A (and by 2014/15) the council plans to set up another company (Company B) to provide other non-statutory services in personal care to potentially generate income in future years.

Buckinghamshire County Council is also creating an adult social care limited company and developing a safeguarding hub with police, fire and NHS authorities.

Other examples include companies and social enterprises established to allow services no longer essential to councils to be traded; or trusts that provide a vehicle for museums and libraries to seek sponsorship from the private sector. As separate entities, the companies and trusts can act in a commercial manner setting appropriate strategies, business plans, and terms and conditions for staff to achieve their objectives.

Examples include:

- **Shropshire Council** setting up a wholly owned company to provide services to the council and other private/public sector bodies
- **Cheshire East Council** establishing a development company for managing surplus council assets
- **Cornwall Council** has a number of companies and most recently established a company with British Telecom to deliver IT, purchase transactions and payroll/ HR services
- **Swindon Council** setting up two trading companies, delivering council services such as street cleaning and transport services.

Some councils have a longer-term ambition of turning these limited companies and joint ventures into stand alone commercial enterprises.

These structures do not come without risk. For example, while most companies are limited by guarantee, local government is not always willing to let the companies fail, resulting in an increased risk for tax payers. Also, the need for stewardship and oversight of these entities does not always sit well with the need for the entities to innovate, take risks and be competitive. The risks of financial failure are real with some local authorities reporting significant losses on their group companies. Local government will need to find a way to balance these risks. A checklist of areas to consider when setting up a company is provided in Appendix 1.



## Case study

### Acivico (Birmingham City Council)

In 2012, Birmingham City Council approved the transfer of urban design and building and consultancy services into a special purpose vehicle called Acivico. This was established as a wholly owned company of the council. As well as providing on-going services to the council, Acivico was structured so that it could provide services to other councils and to allow other councils to transfer services into the company structure as subsidiaries.

The council's aim was to: identify alternative proposals for innovative service delivery that would transform the business; protect the public sector ethos; and respond to the fiscal challenges facing the city council. The establishment of a wholly-owned company model was seen as the best mechanism to achieve these aims.

The council identified a number of financial advantages including cost reduction and the generation of 'target surpluses' to be returned to the council from the company's profits. One of the main objectives of the wholly-owned company was to grow its business and maximise income. Achievement of this objective is based on a five-year exclusivity agreement for council work and expanding service provision to other public sector organisations.

Acivico has now been running successfully for a year. Its management team have begun to engage with other councils regarding the benefits of transferring services into the Acivico structure and to take part ownership of the enterprise.

Key risk management factors in setting up Acivico included:

- ensuring compliance with legislation and statutory guidance on local government trading
- ensuring compliance with EU procurement rules
- addressing possible conflicts of interest for members/officers acting as board members or directors of the company
- compliance with corporation tax and VAT rules
- planning against failure of the company to be competitive, and adverse impacts on the general fund.

Many councils have successfully managed the transfer of services to either a leisure trust, museum trust or theatre trust. This can be an excellent model in terms of reducing the overall cost to councils through reductions in subsidy. In our experience this is usually generated by additional income generation and changed terms and conditions for staff. There are also benefits in allowing the management team to innovate around service development.

There remain risks to these types of organisations. As with companies, the governance of the trust rests with the trust board. While the council may put members on the board their responsibility will be to the trust and not to the council. It is therefore important that any contract between the council and the trust provides appropriate measures of control, and potentially intervention. It is also important that local government is clear about the levels of subsidy and service before transfer as it is difficult to make these changes afterwards. Clarity is also required before transfer over business plans, future service provision, income assumptions, asset transfer and costs, and tax arrangements.

# Managing the risk

The options, approaches and alternative delivery models outlined in our report are open to all local authorities. While it is important local government continues to innovate, it should be fully aware of the risks it is taking, whether these are service based or financial.

As we have outlined, the options and approaches taken by local government to delivering efficiency solutions, remodelling systems or changing service delivery are varied. The alternative delivery models used to support change are also varied and each model comes with a number of benefits and concerns. For example, not all joint service provisioning arrangements are successful. Cases such as Solihull Care Partnership NHS Trust highlight the potential for cultural clashes between local government and the NHS with significant cost implications for all parties.

Similarly, not all local authorities can establish companies with the same ambitions for cross border selling and growth into neighbouring markets. For example, the recently established partnership between Staffordshire County Council and Capita states that its ambition is to “create an education support services business at a national and potentially global level”. Any neighbouring local authorities looking to restructure their school support services to take advantage of the

increasing independence of schools as purchasers of these services would be competing against the weight of this private sector player. If Staffordshire and Capita achieve their ambition, this goes for any local authority nationally.

There are other pitfalls. Private companies take risks with their shareholders’ capital, not with the public purse. There are numerous examples of local government owned companies that have moved into deficit resulting in the local tax payer picking up the costs. Where new companies are established, they also need to overcome the hurdles of staff consultations and terms and conditions, and the identification of hidden costs such as contributions to council overheads.

As the above suggests, there is a clear need for proper due diligence and thorough planning before councils embark on these projects. They need to support any decision to change the way services are delivered or to use a new delivery model with a thorough options appraisal and business case. Councils need to establish reporting, accountability and control mechanisms

at the start of any new project so they are aware of the risk profile of each delivery model, and the actions being taken to mitigate the risks. Time and money need to be invested to make sure the taxpayer gets the best value for money.

Despite the risks, our experience shows it is rare that all of the delivery options are fully considered and a thorough business case produced. Where business cases are produced these can be weak, particularly with regard to the service risk and financial risk assessments. This is most commonly due to time and resource pressures on councils, and the need to make savings and changes quickly.

Our experience also shows that reporting, accountability and control arrangements are often poor with members only having a limited understanding of the risks associated with group companies or accountable body status. In Appendix 1 we set out key questions that members should ask officers before entering into these arrangements.

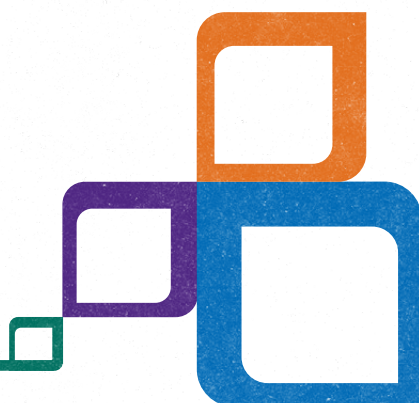


Not having the appropriate controls in place and not undertaking an initial assessment of the new delivery model has resulted in the accumulation of issues which undermine the implementation, delivery and monitoring of the new delivery model.

In our experience, the following difficulties often arise:

- On implementation – if the expected benefits and routes to achieving these benefits have not been well understood then the delivery of the benefits is almost impossible. The credibility of the new model is also quickly challenged as it is impossible to meet the varying expectations of stakeholders, or capture sufficient evidence to demonstrate progress.
- On delivery and monitoring – a lack of clear outcomes results in a focus on project inputs, and a lack of clarity over responsibilities and expected service practices. From a contract management viewpoint it is not possible to drive out the quality of service or efficiency.
- On reporting, control and accountability – a lack of appropriate mechanisms often results in insufficient understanding of the contracts and risks taken by wholly owned companies, or associated trusts. As the owner of the company, or main sponsor of the trust, the cost of poor decision making will rest with the council.

The risks should not stop local government from innovating. There is little option for local government than to adjust and change to the new environment. In our experience, the risks are manageable if local government bodies think them through properly and establish appropriate structures.



# Appendix

A checklist to support innovation in service delivery	✓	X
<b>Past experience</b> – what has been successful, and what has not, from current and previous delivery models? What lessons could feed into future plans and prevent any predetermined views constraining innovation?		
<b>Shared management and shared services</b> – have you explored shared management and services options with neighbouring authorities?		
<b>Joint commissioning</b> – have you agreed joint commissioning strategies with the NHS?		
<b>Joint strategies and delivery with the public sector</b> – have you looked at areas where you can combine strategies with other public sector bodies such as transport and regeneration?		
<b>Joint strategies and delivery with the private sector</b> – are you working with the LEP to deliver a combined regeneration strategy?		
<b>Private sector partnerships</b> – are you using local government assets to support private sector activity in strategic areas such as economic growth or house building?		
<b>Market testing and outsourcing</b> – have you considered whether savings could be generated by outsourcing services?		
<b>Joint ventures with the private sector</b> – have you considered whether the transfer of services to a private sector joint venture could help deliver savings plans and service improvement?		
<b>Trusts</b> – have you considered whether there are advantages in establishing trusts for arts or leisure services?		
<b>Local authority companies</b> – have you considered whether the commercial freedom of a local authority company would be beneficial for non-statutory services?		

Checklist for setting up a company	✓	X
Does the trading arrangement comply with legislation?		
Does the trading arrangement follow the statutory guidance on the trading power issued by the DCLG?		
Is the trading arrangement without legal authority?		
Does any agreement between the council and the trading organisation comply with EU procurement rules?		
Is there a possibility of conflicts of interest for members or officers acting as board members or directors of the company?		
Does the council have adequate insurance cover for the trading organisation's liabilities and assets?		
What are the tax implications?		
What will be the impact on the council's reputation and public perception if the trading company fails?		
What are the exit plans if the company fails to be competitive?		
How will the council mitigate the impact of failure on the general fund?		
As the company expands, how will any conflict of interest over workload priorities between the council and other company projects be managed?		
What will the impact be on the council's debt?		
What are the group accounting implications?		
How will contractual disputes be managed?		
What are the pension arrangements going forwards?		
Does the management team have sufficient commercial experiences?		
What governance arrangements will be operated to ensure that the company remains financially resilient?		
What controls will the council maintain on the outsourcing of work to other countries?		
What will be the impact on staff?		

Questions that members should ask officers when considering the development of a new delivery model	✓	✗
Have we considered all of the options?		
What are the expected benefits of the new delivery model and how will we measure success?		
Is the new delivery model supported by a robust and comprehensive business plan?		
Has the business plan been subject to appropriate due diligence?		
What are the service and financial risks?		
Does the transferring team have all of the right skills and expertise to run the new organisation?		
Are the right support structures in place to ease transition and ensure service continuity?		
How will services be commissioned from the new entity?		
What happens if the new model fails?		
What arrangements does the council have in place to assess the impact on the management, governance and risk appetite of the delivery model?		
What service and financial reporting mechanisms does the council have in place for each entity?		
Is there a summary report combining the risk profile of the council, its companies, its partnerships and joint ventures?		



# About us

Dynamic organisations know they need to apply both reason and instinct to decision making. At Grant Thornton, this is how we advise our clients every day. We combine award-winning technical expertise with the intuition, insight and confidence gained from our extensive sector experience and a deep understanding of our clients.

Grant Thornton UK LLP is a leading business and financial adviser with client-facing offices in 25 locations nationwide. While we understand regional differences and can respond to needs of local authorities, our clients can also have confidence that our team of local government specialists is part of a firm led by more than 200 partners and employing over 4,400 professionals, providing personalised audit, tax and specialist advisory services to over 40,000 clients.

Grant Thornton has a well-established market in the public sector, and has been working with local authorities for over 30 years. We are the largest employer of CIPFA members and students and our national team of experienced local government specialists, including those who have held senior positions within the sector, provide the growing range of assurance, tax and advisory services that our clients require.

We are the leading firm in the local government audit market, and are the largest supplier of audit and related services to the Audit Commission, and count 40% of local authorities in England as external audit clients.

We also audit local authorities in Wales and Scotland via framework contracts with Audit Scotland and the Wales Audit Office. We have over 180 local government and related body audit clients in the UK and over 75 local authority advisory clients. This includes London boroughs, county councils, district councils, city councils, unitary councils and metropolitan authorities, as well as fire and police authorities.

This depth of experience ensures that our solutions are grounded in reality and draw on best practice. Through proactive, client-focused relationships, our teams deliver solutions in a distinctive and personal way, not pre-packaged products and services.

Our approach combines a deep knowledge of local government, supported by an understanding of wider public sector issues, drawn from working with associated delivery bodies, relevant central government departments and with private-sector organisations working in the sector.

We take an active role in influencing and interpreting policy developments affecting local government and responding to government consultation documents and their agencies. We regularly produce sector-related thought leadership reports, typically based on national studies, and client briefings on key issues. We also run seminars and events to share our thinking on local government and, more importantly, understand the challenges and issues facing our clients.



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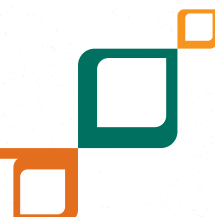
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