

Local government

Summary

January 2008



For better, for worse

Value for money in strategic service-delivery partnerships

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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.

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:

- 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:

- incorporate the above recommendations within audit and inspection work.

i Copies of the full report are available at: www.audit-commission.gov.uk or to order a printed copy telephone: **0800 502030** quoting stock code: **LNR3418**

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