

# VALUE FOR MONEY IN STRATEGIC SERVICE-DELIVERY PARTNERSHIPS: FOR BETTER, FOR WORSE



**C**ouncils spent approximately £50 billion procuring goods and services in 2004-05. 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.

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.

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 the report *Healthy Competition, Hearts and Minds* and a forthcoming study examining the efficiency of back-office functions in local government. In this report, other forms of Public Private Partnership (PPP) are not examined, although some of the findings and recommendations will be of interest to those considering different long-term contractual arrangements.

## THE USE OF SSPS

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
- defined as partnerships because they offer benefits additional to traditional contracting and are also designed to overcome some of the problems of those arrangements

SSPs are said to offer two types of potential benefit. 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.

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 other's needs
- refusal of contractors to cooperate in problem solving when new circumstances arose
- rigidity of design and implementation
- opportunities to exploit variations in the contract

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
- flexibility and responsiveness to changing circumstances



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.

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.”*

In 2001, the Office of the Deputy Prime Minister established the Strategic Partnering Taskforce 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.

## THE NATIONAL PICTURE

Although the UK is relatively advanced in terms of its experience of PPPs generally, there is limited financial and performance data on SSPs. This is because of the difficulty in differentiating SSPs from other forms of outsourcing.

Recent survey data provides insight into the extent to which councils use SSPs. The 2006 National Procurement Strategy survey included questions about councils’ involvement in SSPs, their confidence that they will deliver benefits compared with other procurement options, and benefits realisation.

The scope of SSPs varies. Some bundle a range of different services together. These include back-office services such as IT, human resources or financial administration alongside frontline 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.

## WHY COUNCILS CHOOSE SSPs

### Value for money

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.

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.

For some councils, access to capital investment to improve their infrastructure was a powerful motivation before the introduction of the Prudential Code in 2004.

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. In other SSPs, councils have sought financial benefits from using the SSP to generate new business.

### Other motivations

Explicit financial and service improvement considerations are not the only drivers for councils engaging in SSPs; in some councils there have been other motivations. Some councils have been motivated by regeneration benefits associated with new capital infrastructure. Some have also sought local economic benefits such as job protection or creation within the local area.

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

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 also had other non-financial objectives.

More information on SSPs, including the benefits of using SSPs and how to manage them, can be found at [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)

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