

Published this month, SOLACE's guide to sourcing, *Make, buy or share?* sets out to answer the question – are the benefits of sourcing matching the promises. Given that the local government outsourced market is £5bn, and growing, and given that shared services are multiplying fast, it is all the more urgent that we learn how to get the most from our partnerships.

Sourcing is most simply defined as 'identifying, evaluating and implementing the most effective delivery models for securing strategic objectives'. It can describe a wide range of practices, including supply chain management, outsourcing, shared services, joint ventures and 'insourcing'.

Sourcing is not just about getting more for less – although savings made by sourcing programmes are central to their viability. Seen as part of the strategic commissioning process, sourcing asks more searching and complex questions. Indeed, our research demonstrates that authorities engaging in large-scale strategic sourcing initiatives are thinking big.

Some authorities were hungry for improvement. Their efforts were designed to tackle transformation, poor performance, customer service and rising expectations. On the other hand, four-star authorities which had reached the 'top' wanted to know 'where next?'

Another driver is organisational development. In part, Birmingham's ICT joint venture with Capita was informed by a determination to bring in external capacity and expertise. With a £17bn regeneration programme over the next five to 10 years, chief executive Stephen Hughes expects the transfer to 'free up managerial capacity to focus on strategic issues'.

There is also evidence of a growing interest in using sourcing initiatives to transform the economic prospects and resilience of the local area. Of East Riding's deal with arvato, chief executive Nigel Pearson stresses the objective of securing wider community benefits. He says: 'We wanted more jobs, directed at those parts of East Riding suffering high levels of unemployment and deprivation.'

It is against these broader, more sophisticated objectives that the success of sourcing initiatives needs to be judged.

In that context, the shared service movement will inevitably have a more limited impact, often reflecting the small-scale, bottom-up nature of many initiatives.

There is considerable frustration with the slow progress in developing and implementing shared services, but this picture is now changing rapidly, thanks to the investment of resources to the regional improvement and efficiency partnerships in cross-county initiatives and two-tier pathfinder programmes.

While it is too early to assess the impact of these larger programmes, there are some examples of impressive results being achieved by fully-integrated shared services. One notable example is the Anglia Revenues Partnership. Established in 2003, it provides a shared service for revenues and benefits involving Breckland, Forest Heath and East Cambridgeshire DCs.

With an annual turnover of £3.5m and with 105 staff handling £45m of payments, the results are impressive. Service performance is excellent, with new claim processing times as low as 14 days. Equally impressive are the annual savings of £1m for the three authorities.

Shared services on this scale remain unusual. As Steve Knights, the partnership's strategic manager, says: 'There must be a real desire for change from members, senior officers and people working within the service to make it happen.'

In contrast with shared services, outsourcing has a longer and broader track record. And despite the examples of contract failures and the Audit Commission's criticism of some strategic service-delivery partnerships in its January 2008 report, the number and range of outsourced contracts continue to grow as authorities develop ever-greater confidence, and as private sector providers adapt to the market.

Just as ideas about what can be outsourced are changing, so are the choices about how to structure such a deal, with authorities using a range of techniques from single sourcing, multi-sourcing, 'big bang' deals, co-sourcing to 'operate and return'. There is also more interest in joint ventures.

Liverpool Direct Limited, the first such large-scale joint venture, was created in 2001 and provides back-office and customer services to Liverpool City Council. The contract was designed to tackle under-performance in many services, such as benefits – which has achieved a CPA

Sourcing - are the benefits matching the promises?

Put out more flags! Each month, a new shared service, outsourcing or joint venture deal is announced, accompanied by loud fanfares. Grand promises are made, but just what is really being achieved? **Eric Bohl** explains



service score rating of four – and deliver £10m in annual revenue savings. There was also a strong focus on job creation, and Liverpool Direct has now secured 20 other clients, such as DEFRA's helplines. As a result, it has increased its annual turnover from £30m in 2001 to £82m by 2008. Despite improved efficiency, 1,200 staff are now employed compared with 850 at the outset.

Wider social benefits are also a feature of more traditional outsourced contracts such as Pendle BC's and Liberata's beacon 15-year, £100m contract to provide back-office and customer services. 'The prime objective was a step change in regeneration opportunities,' reports Stephen Barnes, chief executive at Pendle.

In 2007, a new, 500-seat business centre opened, housing council services and space for private sector businesses. It is also home to Liberata's national scanning and indexing function, providing services to other councils, such as Bromley LBC. Significantly, permanent cost sav-

Outside Birmingham Council House, deputy leader, Paul Tilslet; leader, Mike Whitby; and chief executive, Stephen Hughes, after the announcement of annual star rating for local authorities

ings of £447,000 – equivalent to 12% of the controllable service budgets – were achieved at the outset of the contract.

While the destination may be attractive, the journey can be daunting. For many authorities, the cost of embarking on such sourcing programmes can be a significant barrier. Fujitsu's framework contract with the Cabinet Office, public sector Flex, allows a rapid procurement route to a complete suite of ICT services. The framework contract approach also underpins Southwest One, the joint venture between Somerset CC, Taunton Deane BC, Avon and Somerset Constabulary and IBM supported by Mouchel Parkman.

Authorities are also becoming more sophisticated in their procurement and relationships with the private sector. Greater use is being made of 'competitive dialogue' during tendering processes to encourage more innovation. At Surrey CC, the recruitment of Julie Fisher from Nokia to head up a fully-centralised procurement function reflects a determinedly commercial approach, with results from a market-shaping exercise for domiciliary care expected to improve service quality and achieve savings of 15% in the first year alone.

Unrealistic expectations can rapidly sour relationships and undermine a partnership. One provider complained of some clients: 'Once they become gatekeepers, they develop unrealistic demands, asking for something in 20 minutes which hadn't been achieved in 20 years.'

A more positive approach to contract management is emerging. Of course, the fundamentals of good governance and performance management need to be maintained. However, from our research among local authorities and our experience in supporting clients, a more sophisticated approach will help build a lasting partnership which is more than just a contract.

To do this, clients must 'legislate for success', by, for example:

- investing early in the client side. Creating a team with the skills needed to manage complex, strategic service developments. Putting it in place early and keeping it in place
- focusing on the big picture. Prioritising the critical factors. Managing the future as well as current performance, focusing partners on the broad policy outcomes that the services contribute to
- developing a shared purpose. Engaging the provider in the authority's mission, embedding the authority's strategic planning at the heart of the partnership, and placing a premium on a culture of collaboration
- incentivising innovation. Establishing a culture in which new ideas are the currency of the partnership, leading to gain-sharing or profit-sharing in which both sides benefit from a constant search for efficiencies
- leveraging the relationship. Using the success of the relationship to transfer learning or increase the scope of services, with each partner benefiting from the success of the other
- maximising flexibility. Constantly revisiting expectations and ensuring that the contract does not prevent or slow down change, reviewing targets to reflect successes in delivering change.

Local government in the UK has led the way in creating new models of delivery. Working with our partners, we will need to keep learning and innovating if we are to be successful in achieving ambitious outcomes, let alone preserving service quality against a severe tightening in public finances. ■

Eric Bohl is director of EightyTwenty Insight and author of the SOLACE Guide to Sourcing. eric.bohl@8020i.co.uk