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Outsourcing Local Authority Services: What Makes for Success or Failure?

This article by John Harvey, Managing Director of IRIS Consulting, summarises the findings from research carried out by IRIS that investigated the factors that explain success or failure in outsourcing public services.

There is renewed interest in outsourcing public sector services - for example the article by Libby Purves in the 27 September 2010 edition of "The Times" newspaper. While many of the commentators are right to remind us all about the risks involved in local authorities outsourcing their services, not many seem to be aware that a great deal of objective research has been published pointing out the lessons from local authority experience in outsourcing and how to avoid the pitfalls.

In both the local and central government sectors there are many successful examples and some truly awful ones. IRIS Consulting has carried out a number of research projects that have sought to identify the range of factors that make for success or failure.

The Department for Work & Pensions (DWP) published research in 2003 that identified the factors that make for success or failure in outsourcing council tax and housing benefit services. DWP also published a "Good Practice Guide"¹ stating that our independent research had demonstrated:

"the lack of success of some early outsourcing contracts was due to a fundamental lack of trust and empathy between the parties involved.the ingredients for a successful and long-lasting contractual relationship include the need for both sides wanting to make it work and for the arrangement to deliver benefits for both sides rather than it all being seen as too one-sided".

Perhaps the most successful example of outsourcing in the UK has been the transfer of former council-owned housing into the ownership and management of independent not-for-profit housing associations. Under this programme over two million council-owned homes have been transferred. In the beginning this

¹ "Outsourcing Housing and Council Tax Benefits: A Good Practice Guide" DWP June 2003

outsourcing or “privatisation” as some people saw it was controversial. The first local authority transfer took place in 1989 (Chiltern District council covering the outer Metroland areas of Amersham and Chesham).

This came to be called in the jargon the large-scale voluntary transfer programme and it was seen by many as another example of Thatcher privatisation. However the new owners were not in it for profit and had social objectives akin to those of the public sector. One of the key factors that has underpinned the success and sustainability of this outsourcing was that the new housing association owners have been able to get access to private sector funding to pay for the backlog of repairs, maintenance and new building which the former local authorities could not do without it scoring as public expenditure.

There were concerns, however, (as voiced by UNISON and other unions representing local authority employees) that the terms and conditions that they had fought for over the years were being eroded by the new housing association employment arrangements. Independent research (conducted by MORI in conjunction with IRIS) found that terms and conditions for the people employed previously by the local authorities had indeed evolved over time since the transfers took place. In summary what the research found was that approximately about one-third of employees had gained better terms (ie higher pay and better conditions), about a third had ended up with worse conditions and about a third had remained about the same. There was some justification in the unions’ concern in that it was the lower paid employees whose terms and conditions had got worse, while those in the middle had stayed the same and those in the top third had improved.

Other examples of where outsourcing has been tried with less clear-cut success are in the NHS and criminal justice areas. In 2009 the Ministry of Justice year-commissioned independent research into good practice on devolved commissioning. Our research looked at current best practice across the whole of the public sector in the UK and also at some overseas experience. Our findings underlined the need for expertise on the part of the commissioners. The skill-sets required for managing contracts effectively are often quite different to those needed for providing and doing. This is something the private sector learnt a long time ago and which both local and central government are increasingly beginning to appreciate.

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