

The Impact of Outsourcing on Finance Models and Practice

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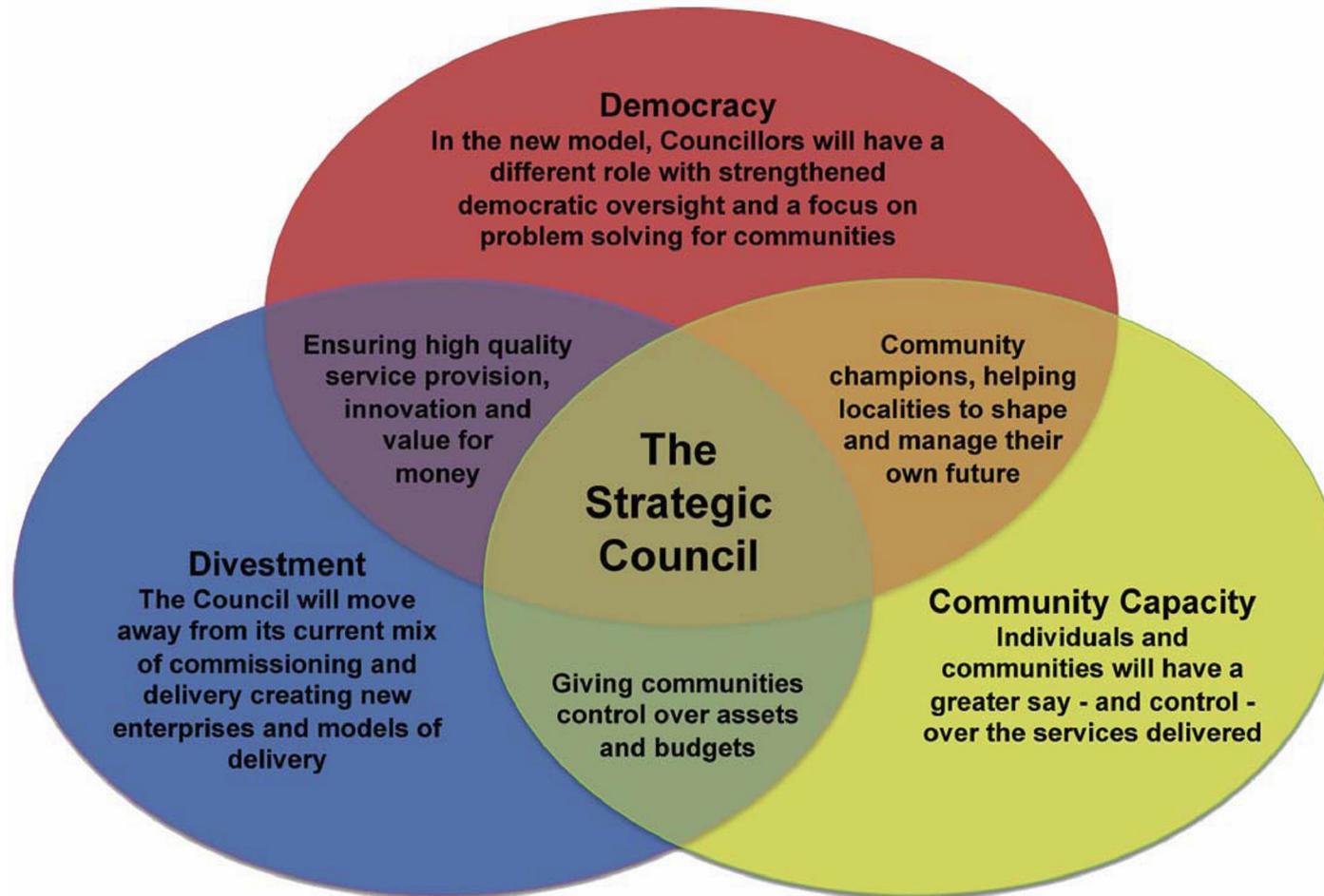


Suffolk's Financial Position

- Expecting about a 28% reduction in government grants over 4 years
- Lost £37m of grants in 2011-12 (17%)
- Demand/Demography plus other costs added £17m
- Savings of £43m (8.4% of net budget) required after Council Tax Freeze Grant and tax base changes
- Forecast savings of £80m required between 2012-13 and 2014-15

How are we Tackling our Predicament?

Through our New Strategic Direction (NSD)



Coalition Government's Stance (1)

“we've got to get rid of the centralised bureaucracy that wastes money and undermines morale and its place we've got to ... open up public services to new providers So we get more innovation, diversity and responsiveness to public need. We need to create communities with oomph – neighbourhoods who are in charge of their own destiny, who feel if they club together and get involved they can shape the world around them.”

Prime Minister, Liverpool, 19 July 2010

Coalition Government's Stance (2)

- Subsequently this view embodied in the Localism Bill in particular through the:
 - Community right to challenge;
 - Community right to buy; and
 - Community right to build.
- Other linked policies include:
 - Rights to provide
 - Supporting the creation and expansion of mutuals, co-operatives, charities and social enterprises, and enable these groups to have much greater involvement in the running of public services (Modernising Commissioning Green Paper)

Divestment and Finance Models

- Several possible models available and the financial implications will depend on how they are set up
- Examples include:
 - Authority exits itself from providing services and commissions from third party;
 - Services provided by third party are grant funded by the Council;
 - Council enters into partnership with a third party/parties to share costs of providing a service;

This could be:

- Separate legal entity – the partners form a limited company, partnership, joint board/committee or trust with its own legal personality
- Single lead body – is tasked with delivering a service and receives funding from other partners
- Multiple delivery – partners pool resources but each partner is tasked with delivery of specific reserves
- Transferring property to a third party to enable them to supply services that may be self funding; and
- Creation of special purpose vehicle to deliver services.

Divestment Vehicles

Social Enterprises



- Local Authority Trading Companies
- Partnerships
- Limited Liability Partnerships
- Limited Companies
- Community Interest Companies
- Charities
- Industrial and Provident Societies/Co-operatives/
Unincorporated Associations

Issues to be Considered

- Tax Regimes
- Options for property transfers
- Procurement rules
- State Aid
- TUPE ('2 tier code' and 'Fair Deal' may become non issues)
- Pay and Performance Mechanisms e.g. Payment by results/
outcomes
- Social Finance and developing Social Enterprises
- Culture change and attitude to risk

Conclusions

- Not sure you can say whether there are best practice finance models about.
- There are standard models for the more traditional ways of outsourcing that are perfectly adequate.
- We are now in more interesting and challenging times where we need to experiment with new models for delivering services. Some will work some will not.
- We need to learn and share but we need to do and be less risk adverse.
- Good luck.