

In-house report 115

LOCAL AUTHORITY EXPERIENCE IN OUTSOURCING HOUSING AND COUNCIL TAX BENEFITS

Local Authority Experience in Outsourcing Housing And Council Tax Benefits

**A study carried out on behalf of the Department for
Work and Pensions**

By

**John Harvey, Robin Gray, Geoff Fimister, Ken MacNeill
IRIS CONSULTING WITH IRRV SOLUTIONS**

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EXECUTIVE SUMMARY

Study Objectives

i. This report sets out the findings of a research project into the impact and effects of outsourcing Housing Benefit (HB) and Council Tax Benefit (CTB) administration carried out by IRIS Consulting and IRRV Solutions on behalf of the Department for Work & Pensions (DWP). The main objectives of the study were to see what lessons could be derived from local authority experience to date, to draw out the policy messages and to produce a good practice guide.

Study method

ii. The research involved:

- Interviews with key stakeholder organisations
- A review of existing research and data sources
- A national survey of local authorities with experience of HB/CTB outsourcing (as part of the DWP LA Omnibus Survey)
- In-depth case studies in eight local authority areas
- Workshops with local authority and private sector representatives.

Key Findings

iii. The key findings were:

- There has been a mixed range of experience amongst the relatively few local authorities (less than 40) that have at any time out-sourced all, or part, of their HB or CTB administration to external contractors
- For some local authorities outsourcing has worked well from the beginning; in some the process encountered initial difficulties which have now been largely resolved; and in other areas it did not work with the result that the service has been brought back in-house
- Where it has worked well there are examples of genuine collaboration, good working relationships and good practice
- The differences in experience are complex relating to, for example, the reasons for outsourcing, previous performance levels, the local industrial relations context, the extent to which 'partnership' approaches have been adopted and the range of services included in the outsourcing package
- After a somewhat unsophisticated start in the early years by both sides, the outsourcing market is far more mature now: both sides understand each other better and are prepared to collaborate to make the process work

- Good procurement is key to the success or failure of outsourcing. The procurement process, the nature of the contract and the way it is written and operated day-by-day are critical factors
- Continuity of staffing at the commencement of the contract, and as far as possible throughout its currency, is also essential to success
- The Benefits regime is subject to significant and frequent change which poses major risk management issues for both contracted parties
- The needs of claimants should be kept in mind in preparing the contract and in the day-to-day exchanges about the operation of the service.

Factors Associated With Successful Contracting

iv. Where outsourcing is working effectively the key ingredients include:

- A clear commitment by all parties to maintain agreed service levels
- Well-planned and executed contract planning
- An open process for awarding the contract
- Well-managed handover designed to ensure a 'seamless transition'
- Contracts that provide for liaison and customer care
- An approach by the local authority based on a culture of collaboration and partnering rather than confrontation
- Pro-active contract management and monitoring which involves having a well-managed and properly resourced client side
- The setting up of good liaison and communication arrangements designed to identify and resolve difficulties at an early stage and effective arrangements for dispute resolution.

v. Where outsourcing had not worked effectively the reasons could be attributed to an absence of the above factors as well as to the following:

- The service was already failing or had serious performance problems
- The existing service was under-funded and under-resourced compounded by a desire to cut costs
- The complexity and frequent changes to the HB rules which undermined the stability of the outsourced service leading to unbudgeted costs and the need to renegotiate contracts
- Poor quality/unstable workforce, resulting in the need to supplement with agency staff that caused disruption and lack of continuity
- Poor quality referrals to the Rent Service
- Unclear lines of accountability
- Contractors unable to deliver cost savings either because they had themselves under-estimated volumes or the real costs of operation or because, in some cases, they claimed they had been given misleading information by local authorities.

vi. Stakeholders observed that the successful examples of outsourcing had been overshadowed by the adverse publicity given to the failures in some high profile urban authorities. This had deterred many authorities from considering outsourcing as a viable option. There was a view that some of the misconceptions about outsourcing needed to be redressed.

vii. Local authorities in the major urban areas were generally acknowledged as having bigger and more difficult HB caseloads. London was a special case because of high labour mobility giving rise to frequent recalculation of Benefits entitlement accompanied by high turnover of Benefits staff.

viii. The outsourcing market place has developed greatly during the last ten years; some contractors had withdrawn from the market while others that remained active were looking to bundle more services together into larger 'partnership' style arrangements. External providers tend to regard HB/CTB administration as high risk and low return and are looking to find synergies with other services. The procurement process is less likely to be successful where Benefits are to be let as a single contract.

ix. Some local authorities were now looking to involve the private sector across a broader range of corporate services and IT systems. Recent changes and reforms to the HB system were encouraging local authorities to look again at the options for delivering the Benefits service. In addition to the HB reform measures the factors driving many authorities to reconsider the options include:

- The push towards 'e-government' and the encouragement from central government for local authorities to enable their citizens to conduct transactions with them electronically
- The desire of local authorities to acquire the benefits of new ICT but lacking the capital to make investments of the order required
- New business models developed by suppliers involving 'hubs' to service many nearby or remote users offering economies of scale.

x. Historically many authorities opted to out-source their Benefits service as a response to compulsory competitive tendering. Hence the early days of outsourcing tended to be typified by a drive to cut costs and antagonistic attitudes between in-house teams and external bidders. Despite the replacement of CCT with the Best Value framework in 1997 the attitudes engendered under the CCT regime continued in many places.

xi. For some authorities the motivation for adopting the outsourcing option was to enhance service levels. In some instances they decided to include HB and CTB along with some other services (often corporate IT,

payroll etc) in order to offer external providers more attractive packages containing more scope for economies of scale and IT investment.

xii. The main reasons for outsourcing (not mutually exclusive) cited by local authorities in response to the DWP LA Omnibus Survey Wave 7 were:

- To make financial savings (71%)
- To improve service delivery (68%)
- To obtain significant investment (43%).

The Procurement Process

xiii. The research has revealed a wide variation in the approaches adopted by local authorities in procuring services and in market testing. Some authorities have devoted a lot of time and resources to it; others have not. Those authorities that have devoted sufficient resources to scoping the services to be tendered, evaluating the bids and into subsequent monitoring and management of the contract have had the best results.

The Contract

xiv. Contracts varied between 5-10 years in duration with an option to extend by agreement. Most contracts are penalty based with few having financial incentives for achievement above agreed targets. In only a minority of cases was there formal provision for review.

xv. The research found that amongst local authorities with current out-sourced arrangements 75% had packaged HB along with other services. The most common of these packaged services were:

- Council Tax Benefits (87%)
- IT (57%)
- Financial/Cashier Services (33%)
- NNDR and Property Services (20%).

Other unspecified services were included in 53% of contracts.

Managing and Monitoring the Contract

xvi. The research found some evidence of 'confrontational' approaches still lingering, but with more recent trends towards partnership and collaborative working. Examples of partnering in practice include:

- Co-locating the client and provider teams
- Providing detailed regular (fortnightly) monitoring reports
- Regular meetings at senior level between client and contractor

- Regular (monthly) reports to the lead Member responsible for performance and to senior management
- Periodic reports to a Members' Panel.

Performance and Quality of Service

xvii. As is apparent from DWP performance statistics published in January 2003 some outsourced HB authorities are now achieving some of the best performance levels. This has not always been the case and the reasons for the improvements are attributed to:

- The pay-back from investments in new technology (such as Document Imaging Processing) which led initially to a dip in performance and back-logs which have now mostly been cleared
- A culture of performance management taking hold
- Investments in one-stop customer service points that provide prompt service for telephone enquiries
- Improved partnerships and closer working arrangements with RSLs, the Rent Service and DWP.

Savings

xviii. Some case study authorities have delivered impressive cost reductions as a result of outsourcing whereas others said that there had been no savings. In those cases where substantial savings were reported this was often because the size of the contract was big enough to make economies of scale achievable or because the contractor was also running other back-office functions for other authorities from the same site. In these circumstances it has been possible to engage in some business process re-engineering, to share staff to meet short-term needs and to invest in new infrastructure and equipment on the basis that a long-term return will be available.

Staff Issues

ix. Key issues here relate mainly to the need to ensure continuity of staffing – especially to ensure a smooth handover of the service. Staff also need to be consulted and involved in the outsourcing process. We found best practice examples where they were consulted throughout the process culminating in a staff vote to help make the final choice between short-listed contractors.

Advice Services/Claimant Issues

xx. The research team contacted advice services in each of the case study areas and at national level. There is an issue of 'disentanglement' with

regard to claimant issues: clarifying how far problems are common (to one degree or another) to a wide range of authorities or are attributable directly to outsourcing. It is the reported pattern before and after outsourcing that is of particular interest for the purposes of this project. In all but one of the case studies where the service had been out-sourced, advisers reported that performance had declined following outsourcing. Nobody considered that the previous service had been trouble free, but to varying degrees matters had taken a turn for the worse after it had been out-sourced. There had then been a process of recovery to varying degrees and not necessarily to the original level.

Developments Affecting the Outsourcing Market

xxi. The HB service is becoming a higher profile activity within local authorities. The Comprehensive Performance Assessment (CPA) regime has focussed their attention on key services. The inclusion of HB in the specifically measured services has promoted its status.

xxii. The introduction of performance standards linked to CPA has prompted a growing number of local authorities to use 'transformation' services from the private sector. The technology that drives service centres and call centres is improving and becoming more sophisticated all the time. Increasingly local authorities are looking to use such services to deal with peak loads and to ease the pressure on their directly employed staff.

xxiii. Incentive based arrangements are being pioneered in some areas; examples in the HB area include arrangements for the recovery of over-payments. The central impetus behind anti-fraud measures and the Verification Framework is leading some authorities to review contractual arrangements and to incorporate opportunities for implementation of these initiatives.

Change Management

xxiv. Outsourcing is a complex process that calls for intensive change management resources if it is to succeed. Both sides need to address culture change issues as well as opportunities for business process re-engineering. A communication plan will need to be developed in relation to all key stakeholders (staff, claimants, landlord organisations etc) and pro-actively managed.

SECTION 1 - INTRODUCTION

1. In June 2002, IRIS Consulting and IRRV Solutions were commissioned by the Department for Work & Pensions (DWP) to conduct a research study into the impact and effects of outsourcing on the efficiency of Housing Benefit (HB) and Council Tax Benefit (CTB) administration. The research was conducted in the second half of 2002 and completed in the early part of 2003. The main objectives of the study were to see what lessons could be learned from experience to date, to draw out the policy messages and to produce a good practice guide.

Study Methods Overview

2. The research team:

- conducted a series of stakeholder interviews (see Section 2)
- carried out a data audit to establish the extent of local authorities' experience of outsourcing and what research already existed (see Annex B)
- carried out eight in-depth case studies (see Section 3)
- conducted a number of workshops with benefit practitioners/managers and one which involved stakeholders (including contractors)
- designed a module for inclusion in Wave 7 of the DWP's LA Omnibus Survey of local authorities that sought information about the extent and nature of outsourcing experiences amongst those covered by the survey.

3. We briefly summarise below the key elements of each of the study methods used in the research.

The Stakeholder Interviews

4. Members of the research team carried out interviews with people in some twenty organisations that have specific knowledge of benefits administration. The full list is at Annex A. The main findings from this element of the research are summarised in Section 2 below.

The Data Audit

5. The data audit identified a variety of research documents and comparisons of authorities' performance against authority characteristics, by caseload and so on, but little about outsourcing per se. The information from the data audit was reviewed alongside the output from Wave 7 of the DWP LA Omnibus Survey. It backed up the information we obtained from the case studies and the workshops and the key findings from Wave 7 are included in Section 3 of this report.

The Case Studies

6. Eight in-depth case studies were carried out: four in local authorities that are still outsourcing the administration of the Benefits service; two that outsourced the service but have since brought it back in-house; one about to bring the outsourced service back in-house and one which has never outsourced Benefits. Three of the case studies were in London, two in other large urban areas and three in shire districts in England. The case study authorities were selected because of the varied experience they brought to the research project. The criteria for the selection of the case studies are set out in Annex C.

7. For each case study a series of structured interviews was held with Elected Members and/or officers of the local authority concerned, with the contractor, with registered social landlords (RSLs) and with representatives of private sector landlords where appropriate. Follow-up interviews were conducted over the telephone. The views and experiences of welfare rights workers and advisers were sought in each area - by means of focus groups in two case studies and by telephone interviews in the other six.

Workshops

8. The research team conducted workshops at two main stages of the project. The first workshop was held at the IRRV Conference in Brighton in October 2002 and was with local authority managers and contractor representatives who had experience of outsourcing. During the same month emerging issues and themes were also discussed with Benefits practitioners in three regional forums, also organised by the IRRV. A final workshop was held in London in March 2003 with representatives drawn from the case study organisations and from stakeholders, including local authorities, contractors and Government bodies.

9. The initial workshops were designed to obtain further background for the case studies, elicit views from relevant parties and check out emerging findings. The final workshop was intended to test the team's findings on a cross section of those involved in the project.

SECTION 2 - THE VIEWS OF STAKEHOLDERS

10. In this section of our report we bring together the views and information provided by various parties whom we interviewed as part of the research project. The research methodology included carrying out a series of interviews with individuals and organisations involved directly in, or that have particular knowledge of, the way housing and council tax benefits are administered and of the ways in which local authorities have approached the issue of outsourcing such services. It was intended that these 'stakeholder' interviews should take place at an early stage in the research so as to help flag up key issues with the research team and to help inform the design of the subsequent stages of the research.

11. As part of this element of the project members of the research team conducted interviews with representatives from twenty organisations. These are listed at Annex A. In summary they included:

- Local authority associations
- The Audit Commission
- The Local Government Ombudsman
- UNISON
- Professional bodies
- The Rent Service
- NACAB (now Citizens' Advice)
- Companies that have experience of outsourced contracts.

12. It is important to point out that what is contained in this section of our report is a reflection of the perceptions, views and attitudes of the people we interviewed during the period July 2002 - January 2003. We are reporting their views based on their particular experience or that of their organisation. It may be that their views are dated, or based on misconceptions or prejudices, because actual practice in outsourcing has moved on considerably in recent times. Nevertheless these are their views as expressed to the researchers and, as with so many things, perception is taken as the reality unless confronted with new contrary evidence which can then slowly begin to change attitudes and general perceptions.

Can Outsourcing Work?

13. The short answer is that outsourcing can and has worked. There are examples of outsourcing of Benefits services that have worked well. However the general view amongst those we interviewed in the local authority, governmental and professional bodies, is that, so far, outsourcing has failed overall to deliver. Their perception is that high expectations have generally not been met; savings have not been delivered and performance

levels have not been maintained or improved, but have got worse when the Benefits service has been outsourced.

14. There were many differences of view about the reasons for the perceived poor track-record of outsourcing. Most stakeholders agreed that where outsourcing contracts had failed the reasons were complex. They acknowledged that many in-house operations were also performing badly and suffered from very similar problems, but problems were felt to have become more apparent and acute where services were contracted-out. Also such problems tended to be well reported in the press which reinforced the perception of problems associated with outsourcing.

15. Some stakeholders took the view that the Benefits service was fundamentally unsuited to outsourcing notwithstanding Best Value principles. There were two main reasons for that view. First there was a belief that the service was under-funded and hence offered little opportunity for a commercial return to private companies even if they ran it more cost-effectively. Second the frequent changes to the Benefits regime made it difficult for the private sector to plan and bid on a rational basis. It was also high risk for both parties because the only constant as far as HB and CTB administration was concerned was immense change. The exceptionally high degree of regulation and financial risk also meant, for example, that the authority could face a big subsidy penalty if the contractor got it badly wrong.

16. The views of most public sector players were coloured by the 'bad press' that outsourcing had received; in particular the very high profile 'failures' in some London Boroughs. The majority acknowledged that there had been special reasons leading to the high-profile failures in London and that they were more to do with the problems of an already failing service. There was recognition that London was a special case because high labour mobility required constant recalculation of benefits with a concomitant high turnover of Benefits staff. The general view amongst stakeholders was that authorities in major urban areas were likely to have bigger and more difficult social problems and caseloads. It was mentioned by some stakeholders that those local authorities that had a bad experience with outsourcing and then sought to take back the service in-house, have often encountered even more problems (such as difficulties in recruiting and retaining staff and in introducing new IT systems) and have ended up devoting even more resources in attempts to overcome the problems.

17. Some stakeholders (not just representatives of the private sector) were aware of cases where outsourcing had gone reasonably well. They felt the successes amongst the relatively few local authorities (37) that had contracted-out Benefits, had been overshadowed by the adverse publicity given to the high profile failures. They had been eclipsed by the massive

publicity given to the mainly London contract failures. It was acknowledged that the policy line taken in many of the articles and editorials in various industry and trade journals is coloured by employees' fears and concerns about outsourcing which is fuelled by the general impression that it does not work and leads to a deterioration in service for claimants. There was a tendency for the press to highlight bad news: good news and things working well was not newsworthy.

18. Many stakeholders felt that outsourcing would only work if local authorities recognised that the Benefits service had to be properly resourced whether in-house or contracted out. As Benefits administration was now gaining a higher profile, some stakeholders said that local authorities were now beginning to give it the higher priority and resources it deserved.

Factors leading to unsuccessful outsourcing

19. Stakeholders cited the following main reasons as working against the success of outsourcing:

- local authorities were seeking to outsource an already failing service, or one facing serious problems
- outsourcing was seen as a way of saving money, of getting rid of a loss making service which was damaging the image of the authority. The perception was that some local authorities had failed to devote adequate resources to supporting the service – in or out-house – and that was the real cause of its problems
- under-funding by DWP which authorities attempt to pass on to contractors
- constant changes in the rules/tax regime (such as the forthcoming changes in tax credits) which undermine the stability of the operation, help to create backlogs, affect staff morale and lead to unbudgeted costs and the need to renegotiate contracts
- the complexity of administration and the HB claim form in particular
- abdication of responsibility by the client side once the work was contracted-out which manifests itself, for example, in a failure to manage the contract or to run the Service Level Agreement (SLA) with the Rent Service
- the quality of referrals to the Rent Service by the contractor were perceived as poor and determinations were rarely challenged
- lines of accountability were unclear
- contractor and client did not work together and blamed each other for problems
- contractors were unable to deliver at the contracted price because of the failure of the local authority properly to estimate volumes or the real costs of their own operation before tendering

- contractors failed to achieve cost savings because they had, in a competitive bidding situation, under-estimated the costs of delivering the service (some contractors also pointed to the 'misleading' advice which some consultancy firms had given to authorities encouraging them to drive down prices below what was economic)
- deliberate misinformation provided by authorities about the extent of back-logs (including claims of malicious misfiling of claims within the LA by some contractors)
- poor quality staff being transferred to contractors under TUPE provisions which held back the efficiency of out-sourced operations (some contractors believing that in some cases local authorities had "dumped" their most problematic staff into the Benefits sections in the period leading up to the transfer).

Factors aiding successful outsourcing

20. Stakeholders said that where there had been successes they believed that these had tended to occur in less difficult situations or where there was a greater commitment by the authority to maintain service levels. They believed that outsourcing worked better where:

- there was a clear local authority commitment to service levels
- contract planning had been done well and there had been a transparent and open process for awarding the contract
- handover had been managed well – 'seamless transition'
- contracts took into account the need for liaison and customer care
- the culture in the local authority was one of collaboration and partnering rather than confrontation
- it was not seen primarily as a cost cutting exercise
- there were good SLAs in place including with the Rent Service
- there was an effective and well managed client side, including pro-active contract management/monitoring
- the contractor set up good liaison/communication with all parties.

Past Experience

21. Many stakeholders were agreed that contractors had learned many lessons since the first moves to outsource Benefits services had taken place some ten years ago. They had changed their approach and performance in a number of outsourced authorities had improved considerably. It was widely perceived that in the early days of outsourcing contractors had seen it as a "process" with the key issue being to reduce it to a series of tasks which just meant having a good IT system in place. Stakeholders often considered that contractors had failed to take claimants and customer service into account: they had not understood the level or frequency of change nor allowed for the

interpersonal relationships and judgements involved. There were differences of view as to whether this was to do with a failure on the part of the contractor to appreciate what was required or whether the local authority had not explained the requirement sufficiently clearly during the bidding process or had not incorporated customer service requirements in the contract. Most of the contractors to whom we spoke, including some of those involved in the case studies, were very clear that it was for the latter reason in a number of cases where the Benefits service had been out-sourced.

22. Some stakeholders pointed to evidence of higher levels of omission of information on referral forms in contracted-out authorities and more lost forms than before. There was a perception that, as a result, customers (claimants) had experienced a deterioration in service following outsourcing.

23. Where contractors had performed badly stakeholders said they believed it had usually been because of the following factors:

- the driving down of costs by the authority affecting service levels
- poor quality management by the contractor's team
- over-reliance on agency staff and high turnover of staff
- badly drafted contracts
- poor relationship/liaison arrangements with client and other parties
- lack of understanding of real needs of service
- paying lip service to 'take-up' campaigns and anti-poverty strategies
- failures by some contractors to invest in infrastructure and property and to deliver what they promised.

Prospects for the future

24. Since the early 1990s the attitudes and performance of contractors were perceived as having changed considerably. Some had learned important lessons and had developed their 'product' and approach, partly through experience and partly through working closely with client authorities. However, contractors often now saw the administration of Benefits as high risk, low return work and were rethinking their willingness to bid for it, especially in respect of small authorities. They were looking for a bigger, more strategic role which would enable them to engage in real Business Process Re-engineering (BPR) and thus to factor in all the issues. Some had withdrawn from the market altogether and others were saying that they would no longer bid for work that was let in a traditional manner or where HB was being tendered as a single service.

25. Contractors were looking to get synergies from bundling more services together into a larger 'partnership' style arrangement.

26. These messages are still not getting through to all stakeholders and local authorities. Many do not see outsourcing as having delivered significant benefits such as an overall reduction in costs (but see paragraph 112 on savings) or faster turn round of caseload and those perceptions, together with the well-publicised 'disasters', had discouraged other local authorities from pursuing contracting out as an option. There was a feeling that, for whatever reason, the 'promised land' offered by contractors had not materialised. Some stakeholders recognised that more needed to be done to put the record straight, to redress the balance. Some suggested that national bodies and government departments needed to get more involved and to promote best practice etc and welcomed this study as a step in that direction. They also recognised that some change in attitudes might come about with the new freedoms being given to local authorities and as they sought to involve the private sector more across a broader range of corporate services and IT systems, or in areas like post opening, document image processing, work flow and BPR.

27. But there was also acceptance that there are other powerful drivers now at work which are leading many local authorities to reconsider the options. These include:

- the push towards 'e-government' and the support coming from central government for local authorities to enable their citizens to conduct transactions with them electronically
- the desire of local government to acquire the benefits of new ICT but who lack sufficient financial capital to make investments of the order required
- new business models developed by service suppliers involving 'hubs' which can service many nearby, or remote, users offering substantial economies of scale.

28. Many of the factors and issues identified by the stakeholders were explored in greater depth during the case study phase of the research which we set out in the next section of this report.

SECTION 3 – THE RESEARCH: THE FINDINGS FROM THE OMNIBUS SURVEY, CASE STUDIES AND WORKSHOPS

Overview

29. In this section of our report we bring together the output from the various other elements of our research - the case studies, the practitioner workshops, Wave 7 of DWP's LA Omnibus Survey and the other research and surveys we looked at – and draw out lessons to be learnt and pointers for the future.

30. The stakeholder interviews, dealt with in the previous section, informed our approach to the case studies and what we learned from those interviewed at that initial stage was generally reinforced by what we found during the detailed research phase, both from practitioners and from those involved directly in the case studies.

31. 306 local authorities (out of a possible total of 408) took part in Wave 7 of the DWP LA Omnibus Survey of benefit administration issues. Detailed questions were asked of those that have experience of outsourcing. This section of the report includes some of the key results from the survey.

32. From the information gathered during the research, we found that thirty-seven local authorities have contracted out all, or some part, of their Benefits administration at one time or another over the last 10 years (see Annex B). Eleven have taken Benefits services back in-house. Only 28 of those 37 authorities took part in Wave 7 of DWP's Omnibus Survey: 20 who were still outsourcing and eight who had taken the Benefits service back in-house.

33. Analysis of the DWP Survey shows contracting out to be more common in London and the south (71% of the 28 authorities with experience of outsourcing). Elsewhere in the country many of those that have outsourced are unitary authorities rather than districts. This appears to be a reflection of the fact that for HB/CTB contracts to be viable, unless part of a bigger package of services, a large caseload is advantageous. Almost 50% of the 28 authorities with outsourcing experience had caseloads described as large, while only 29% of the 306 authorities surveyed did so. In the case studies themselves, caseloads varied from around 4,500 at one end to over 38,000 at the other. The former was in a shire district and the latter in a large metropolitan authority with a multiplicity of social problems.

Why Local Authorities Outsourced

34. The case studies and our other discussions revealed a complex set of reasons why authorities decided to outsource. The original driver in some cases was compulsory competitive tendering (CCT) - the need to meet targets - and some subsequent developments have just been an extension of that. In other cases, however, the motives have either been related to very specific objectives or part of a much bigger plan for strategic partnerships across a wide range of services.

35. In one case study we found that the local authority was already developing and improving its service provision incrementally even before it decided to outsource. Its original push to outsource was in response to its CCT obligations, but it also had a clear objective of delivering step changes in the way services were provided. In looking to outsourcing, the authority and contractor had to overcome a number of organisational issues including relatively inflexible working arrangements and high costs. It took time to get the contract working satisfactorily. It was a difficult period for the authority and required the buy-in of both officers and members. However, over time, the improvements needed have been delivered across a range of services, not just within Benefits administration.

36. In a second case study the local authority sought to solve its growing financial problems through major savings in service delivery costs. Savings were the key driver when the authority decided to contract out its financial business and IT services. Although the market analysis conducted on its behalf by a consultant identified interest from suppliers for the inclusion of Benefits administration within the contract, there was no political support to do so. That delayed the process and, consequently, the Benefits service remained in-house initially. This lack of 'common purpose' played a key part in protracting the procurement process and upsetting employee relations to the point of a strike. We were told that there had been a history of strong trade union, elected member and employee support for the in-house team. Consequently, when the in-house bid subsequently failed, the opposition to external providers added greatly to the service delivery problems already present when the authority eventually decided to tender the Benefits service.

37. For one case study authority the key driver was to deliver service improvements, primarily through investment in ICT. It involved introducing:

- desktop computers
- a document management system
- the Verification Framework (VF)
- the development of a call centre.

In addition changes in work processes and systems were required to develop a consistent standard of service. Cost savings were not at first the main objective despite the financial difficulties the authority was experiencing. However, its financial problems often made it difficult, if not impossible, for the authority itself to deliver the investment required to improve the service and it was looking to the contractor for that. As a result the strategic objectives for outsourcing the service were not entirely clear.

38. Another local authority also outsourced HB and CTB and a range of other services because they did not want to wait until they were forced to do so under CCT. In addition, they were short of cash and were looking for ways of cutting costs generally across all services. Benefits statutory spending assessments were particularly tight at the time and outsourcing was seen as a way of making savings. To maximise the opportunity as many services as possible were included in the contract. The authority saw IT as the obvious service to outsource, because the technology was fast changing and the private sector had the expertise. IT-related services, such as revenues and benefits, were an obvious addition to the package. Other services heavily dependent on IT were also obvious candidates e.g. accounts. In the end, the contract took in a wide range of services. Another local authority had very similar experience.

39. One of the most successful of the case study outsourcing arrangements was where the authority embarked on a major review of its role and of the way it delivered its services. All of the authority's operations and services were reviewed to determine those that, of necessity, were required to be undertaken by the authority itself and those that could be undertaken by external providers. The review included a re-organisation of the entire authority and the transfer of responsibility for the Benefits service from the finance to the housing directorate. It also identified a range of functions considered appropriate for contracting out: they were primarily related to services delivered directly to the public, including benefits and back-office support tasks.

40. This was regarded as a positive move for the Benefits service and enabled a new approach to management. At that time key changes were made to work processes to coincide with the introduction of new ICT systems. That authority had long had a focused performance management culture and this included Benefits. At the time the Benefits service was considered to be serving the needs of its clients well and was achieving what would now be termed 'upper quartile performance'.

41. Nevertheless the implementation of new systems and procedures allowed a reduction of some 10% of staff and further streamlined effective work processes. The service was, therefore, already on an incremental

improvement track prior to being outsourced. In fact, although none of the services contracted out were failing, the Benefits service was considered within the authority to have stood out from the others that were eventually outsourced for its good performance.

42. Best Value Reviews have also been instrumental in identifying weaknesses leading to outsourcing. In one case study the service was in the bottom half of the performance tables for cost and efficiency of processing. The review identified a number of failings, including weaknesses in management control, inconsistency of performance and absence of a strong customer service ethos. Industrial relations were very poor and there had been a series of strikes. Other services had shown marked improvement but not the Benefits service. It generated bad publicity and a heavy caseload for Members. Leading Councillors lost confidence in it and recognised the need for change. Their solution was to outsource a failing service.

43. Although the case studies suggest that political attitudes have occasionally got in the way of developing outsourcing in a coherent way, for the most part such factors do not seem to have been a major issue or a driver either towards or against outsourcing. There has, however, been a degree of political involvement in the process (as might be expected where services are perceived as 'failing' or where major financial issues are at stake). Some officers also expressed the view to us that their authority had not considered outsourcing because "it was morally wrong to contract out a service which was supporting the vulnerable and less privileged members of society".

44. Wave 7 of DWP's LA Omnibus Survey also asked questions about why authorities outsourced. The main reasons given by the 28 authorities with outsourcing experience were as follows:

- to make savings or to meet financial objectives (71%)
- to improve service delivery (68%)
- because significant investment, which the authority did not have at its disposal, was required in order to improve performance (often in the belief that once investment had been made, significant cost savings would arise from the delivery of those services) (43%)
- in the belief that the private sector could do it better (32%)
- to do something about a failing/poor performing service (14%)

(The figures in brackets do not add up to 100% because authorities were allowed to give more than one reason.)

45. This information from the Omnibus survey is very similar to what we were told during the stakeholder interviews and by those we interviewed in

the case studies. Two case study authorities also said that serious industrial relations problems were a contributory factor in their decision to outsource.

Why Local Authorities Re-Insourced

46. We found that the three case study authorities that have re-insourced their Benefits service, or were about to, seem to have done so partly because of concerns over performance. Principally, but not entirely, these concerns were to do with processing delays and backlogs (and the effect, therefore, on claimants), but also because of a poor, or uneasy, relationship between the parties. In two case studies the contracts were limited in terms of the contractor's ability to get economies of scale and there were few, if any, significant crossovers or synergies with other services. The reasons for this were not always easy to ascertain, but, as explained in paragraphs 49-50 below, that may have played a part in colouring the contractor's attitude to the contract.

47. In three cases there was also a necessity for strong client intervention and support to ensure that service levels were met and a lack of confidence that the situation would get better. There were some improvements in performance in one, but not the step change desired by the authority, and worsening performance in the other two. In all of them we concluded that the contractor seemed unable or unwilling to sort things out in a satisfactory manner. We return to the possible reasons for that below.

48. In one case there was no real understanding between the parties and contracts had not been developed in line with the authority's corporate objectives. It was not entirely clear who was to blame for that. There is some indication that it was partly because of different perceptions about what the contract meant or possibly because of a lack of experience or expertise in the authority in handling such contracts.

49. In all cases they were very 'contractual' relationships. We believe that in at least one case the adversarial way in which the client set up the contract did not help. (Some stakeholders actually said that they believed that certain contracts had been set up to fail.) In another it was because the contractor had misjudged the market and its ability to break into it and was not prepared to put time and effort into getting the relationship right when it was intending to withdraw from the market altogether. It also appears that as a result, and for the reasons set out in the next paragraph, expected/promised investment failed to materialise.

50. They were complex situations because there were also other factors at play. All the providers thought that their first or early contracts would be a springboard for other work, either for the same authority or for neighbouring authorities. When that did not materialise they were left with loss-leaders or low margin work. In one case even when the authority re-tendered they did not get a bid that they thought was either cost-effective or reflected their idea of a true partnership. This may be partly to do with the scope and size of the contract, but we cannot be totally certain about that. In the end the three contracts were either terminated, not renewed or re-tendered. Two of those local authorities are now looking instead at partnerships with neighbouring authorities to a greater or lesser extent.

51. Whereas none of the officers in the 20 authorities that continue to outsource (as indicated by their responses in Wave 7 of the DWP Omnibus Survey) thought that outsourcing was a failure, 88% of those in the eight local authorities that had re-insourced thought that it had failed. The survey showed that elected members' views were very similar, but the 'client' view was less clear cut. The view of clients was much the same in the case of re-insourced authorities, but far fewer thought that it had been a success in those authorities continuing to outsource.

Why Local Authorities Have Not Outsourced

52. It became clear during the project - both from the stakeholder interviews and the workshops - that many local authorities had been deterred from outsourcing Benefits administration by a variety of factors, but particularly by the adverse publicity surrounding the problems encountered by some London Boroughs. Some authorities had also taken the view that public sector benefits were better provided in-house unless there were very strong incentives to do otherwise, such as unacceptably poor performance from the internal team or demonstrably overwhelming cost advantages of outsourcing.

53. As mentioned in paragraph 43 above, the workshops and the case studies provided evidence that some authorities would not consider outsourcing their Benefits service on the grounds that it was 'morally wrong'. This was sometimes linked to a belief that there was a danger that claimants' interests would be lost sight of in the day-to-day interaction between client and provider about the operation of the contract.

54. We were told during the stakeholder interviews, and it was confirmed by several of the case studies, that local authorities have used Best Value Reviews (BVR) to review their options. The case studies also revealed that during the consultations carried out as part of BVR, some registered social landlords (RSLs) have expressed worries about the risks of outsourcing for

their clients. There were concerns, too, about a perceived loss of control over service quality if the Benefits service was contracted out. Some authorities also had doubts about their ability to draw up contracts in such a way as to enforce contract performance effectively. That, together with the then split between the assessment and determination functions, led many to the view that pursuing the outsourcing option would lead to unacceptable difficulties in providing an efficient and customer focussed service.

55. As a result some authorities sought solutions to improve performance in other ways. For example the case study authority that decided against outsourcing investigated an alliance, or partnership, with an IT supplier to develop ITC solutions to deal with high volume processing functions.

The Services Outsourced

56. One issue that became apparent at an early stage in the research was not just the different reasons why authorities had outsourced, but the wide variation in what they had outsourced. In the case study authorities that had outsourced, services covered varied from HB and CTB assessments and processing, but excluding all 'front office' contacts, at one end, to a large-scale public-private sector partnership covering all public facing and support services at the other. In between there was a wide range of approaches. In outsourcing their Benefits service, one authority excluded private sector tenants from the contract but put IT and National Non-Domestic Rates (NNDR) into the package. Another bundled together all Revenue and Benefits matters, accounting, creditors, audit, printing, post services and the running of the electoral register. One awarded a finance and business services contract to its 'partner' contractor.

57. From our research (and the other sources we have been able to consult) it is clear that there has been no common approach or pattern amongst local authorities: the decision on what to outsource has depended entirely on the local view and the motives for outsourcing.

58. For example, as mentioned above, CCT had sometimes been the original reason for going down the outsourcing route. As a result one authority entered into a series of contracts that meant residual community charge, NNDR and council tax collection, as well as ICT and housing benefits, were provided by a variety of different external providers. Partly, but not entirely, because of problems between the providers, these contracts were brought together over time into a single 'package' with one contractor. In another case there was also friction between two different external providers. The rationale for putting any particular contractual package together was not always clear. We return to these issues later.

59. In reviewing the experiences of the case study authorities we concluded that the procurement process is less likely to be successful where Benefit services administration is let as a single service contract. This is especially true in the case of smaller authorities with a small caseload. Several market suppliers told us that they are now far less interested in bidding for such work on its own because they see it as high risk and low return. They are looking for synergies across services to make it worthwhile. More and more local authorities are now appreciating the value in enabling contractors to spread risk over a number of services. Our research suggests that there is now a much clearer view that this 'cross-service' approach is important in ensuring the viability of the contract.

60. This was an area covered by Wave 7 of the DWP Omnibus Survey. Wave 7 confirmed that 75% of the 20 authorities still outsourcing had, in fact, put a package of services together and had not solely contracted-out housing Benefits. The other services included were (the figures are not mutually exclusive):

- council tax benefit (87%)
- IT (53%)
- financial services, cashier services and human resources (33%)
- NNDR and property services (20%)
- other unspecified services (53%).

The Procurement Strategy and Process

61. The case studies also illustrated the different approaches adopted by local authorities to procurement strategy and to market testing. They varied greatly. Some authorities have taken a lot of time preparing; others have not. Some of them freely admit that they did not consider the issues as fully as they should have at the outset. There were local factors that pushed them into taking action quickly which militated against allowing sufficient time for a thorough review of the options or of 'proper' market testing (in one case there was only a few months between the decision to outsource and the final contract negotiations).

62. As several authorities now realise the result was that they did not always offer a contractual package of sufficiently wide interest to the market: a package that would give providers the opportunity to show what they could do and would give clients greater confidence that their objectives would be met. Nor did they necessarily get the 'best fit' contractor or one who had been given the opportunity to understand fully the authority's aims and objectives. The case studies showed that these were more likely to fail unless there was a will on both sides to rethink the approach and contractual arrangement. It became clear that outsourcing by itself should not be viewed

as simply a solution for rectifying a poor service and that in considering options the focus should not be limited only on services that are considered to be failing in order to drive improvements.

63. On the other hand where case study authorities spent time setting clear objectives and worked with potential providers to develop the approach and to ensure an attractive package of services was offered for tender, outsourcing worked much better. This enabled an essential understanding of the services being offered in the tender exercise to be explored and understood by both parties. 'Buyers' spent time with 'sellers' so that both parties understood each other and the perspectives from which they were each negotiating. We consider that the case studies show that sufficient resources need to be committed to:

- the process
- scoping the services to be tendered
- evaluating the bids
- monitoring and managing the contract and in keeping the contractual arrangements under review.

64. The procurement process and the way in which the contract is written are key to the success or failure of outsourcing. A robust risk analysis also needs to be undertaken, including an assessment of the change proposed on the deliverability of the service. This was clearly demonstrated by one of the case studies in particular as summarised below.

65. Following a review of services the authority developed a procurement strategy that others might use as a model (adapting it as necessary to their own circumstances). The authority's approach was underpinned by key drivers and strategic objectives. Objectives will, obviously, vary according to local priorities but their key ones were:

- recognition that significant investment was required in public services in order to improve performance and that the authority did not have such resources at its disposal
- acknowledgement that once that investment had been made, significant cost savings would arise from the delivery of those services
- a desire to ensure the protection of local employment
- a desire to improve service delivery.

66. The local authority then advertised widely its desire to seek partners with whom their objectives could be explored. Expressions of interest were received from over 60 organisations and four were ultimately short-listed as prospective partners. Each of them was granted open-access for 12 weeks prior to submitting a final bid. This period was key to ensuring that potential

bidders engaged with the authority and developed a proper understanding about the motivations and requirements of the client.

67. In order to assist them in evaluating the bids the authority adopted the Business Excellence Model to assess the potential of each prospective partner. A substantial amount of management resource was expended in ensuring that a clearly understood set of evaluation criteria were developed prior to the bids being submitted. The construction of those criteria was undertaken at the highest level within the authority involving chief officers and members in developing mutually understood and communicated assessment criteria. The emphasis from the chief executive, senior officers and lead members of partnership as a means to deliver better services was vital. That approach ensured that prospective partners were clear about the objectives and motivations of the authority as well as the desired outcomes.

68. The authority ensured that the procurement exercise was undertaken in a professional manner and in a way that allowed prospective external partners to be clear about the process. It was, in some ways, a brave step because such a significant change inevitably involves relinquishing long held views and opinions, and, to some extent, control.

69. The authority organised the evaluation process into three distinct phases:

1. Assessment of the bidders using the Business Excellence Model to evaluate the organisational performance of the prospective partner
2. An assessment of the bidders' proposals, method statements and a comparison to the performance evidenced in Phase One
3. An evaluation of the financial proposals and the response to the Council's strategic objectives.

70. The authority made considerable use of external support, such as legal and financial advisers, to support the internal evaluation and project management resources during the procurement phase. Some other authorities did likewise because they did not have the specialist expertise in-house. They were clear that such major procurement needed to be given priority and adequate resources for the duration of the process. The resources needed to be considered especially carefully. In this case, key staff from individual services were seconded to the procurement team at the outset. However, in many cases their positions were not backfilled because the service area was still responsible for their salary without receiving any additional resources to fund replacements. There was a widely held view amongst those we consulted that the tender specification and procurement process is probably best delivered centrally/corporately, sourcing staff for the

knowledge of the service in addition to contract negotiation and contract management skills.

71. From the outset the local authority were clear they were seeking a strategic partner capable of undertaking a wide range of services, not just those relating to HB and CTB. The short-listed firms were keen to win the contract and establish themselves in this market-place since, at the time, it was apparent that other authorities were likely to pursue similar approaches to service delivery and would be seeking to establish large-scale public-private partnerships. Potential providers were very keen to engage with the authority during the initial phases. In short the contract and potential to develop a partnership with such a forward thinking authority was attractive to the private sector. This contract is now going very well and did so pretty well from the start because of this.

72. The evidence from the case studies, and from what stakeholders told us, strongly suggests that real and empathetic understanding of both the market's motivations and buyer needs is an essential pre-requisite to effective procurement and successful service delivery. The case studies identified the following procurement issues as being amongst the most important when considering outsourcing:

- procurement strategies and procedures should be built on clear decision-making around objectives and desired outcomes and on a clear understanding of the market place
- scoping the authority's business areas and developing the right package of services to be tendered is critical. Political support can be crucial to ensuring that the right package of services is tendered. Having to repeat tender processes is resource intensive for the authority and may reduce the commercial viability of the contract to be negotiated.
- the organisational and management fit and structure of the contracting company needs to be considered during the procurement process preferably as part of the tender assessment process
- mutual understanding of the preferred partner's position and motivations needs to be developed all the way through the process and during the delivery period so that neither party attempts to 'nail the other to the floor' during negotiations
- all internal stakeholders need to buy into the procurement process including members, senior officers and staff with clear leadership and decision making from the top during the tendering process
- well-constructed contract models that include in-built bonus systems that share improvements should be developed; for example, sharing of the improvements related to subsidy and overpayments

- clearly agreed 'future maps' that deal with improved effectiveness of the processes and management should be provided, including comprehensible plans that set out how the 'partner' contractor will deploy all its resources
- there is a necessity to consider the development of improved auditing and reconciliation procedures that have assessed areas of risk and allow for the delivery of better quality assurance processes
- contract management arrangements should provide for comprehensive monthly monitoring reporting on all the individual services in an agreed standard format, backed up with a regular monthly meeting
- contractors should be given freedom to provide the service without undue interference from the client – subject to local agreement about what can be done without consultation
- authorities need to understand that failing services do not make better prospects for outsourcing than those being run well
- contracting a service out requires a considerable amount of organisational change. Preparing the service prior to being tendered can alleviate some potential problems. Preparations can include: measuring performance information and volumes; standardising work processes; introducing performance management frameworks etc
- outsourcing requires intensive change management resources, these may need to be shared between the contractor and the authority, even after the contract has been initiated
- outsourcing a Benefits service is unlikely to be successful where the client and contractor do not work together to resolve problems and take the service forward at all levels. Such an approach is bolstered by effective contract documentation.

The contract itself

73. We found that case study authority contracts were of varying duration from 5–10 years, but with an option in every case to extend the period by agreement. One or two of the contracts in place in those authorities were originally let in the early/mid 1990s but most were let within the last five or six years.

74. All but one of the authorities (which just beat the deadline when the rules changed) advertised through the Official Journal of the EC (OJEC) because of the nature and scale of the services involved. However, the amount of time and effort they then put in to getting it right and making it work varied greatly.

75. In retrospect a number of those to whom we spoke now take the view that some authorities used contract arrangements that were more relevant

and appropriate to the 'conflict-led' days of CCT – even some of those let in recent years. Since some contracts were drawn up at the time when CCT was being imposed on local government that is perhaps not altogether surprising. Only later did the parties begin to appreciate more the benefits of a “partnership” approach, one that sought jointly to resolve difficulties and which was more likely to deliver the desired outcomes. In such cases the parties saw it as a shared venture where problems were resolved without direct recourse to the exact terms of the contract. Some learned from their mistakes and tried to move forward by renegotiating the contract and did so successfully. Others did not.

76. According to Wave 7 of the DWP LA Omnibus Survey, 80% (16) of the 20 authorities currently outsourced are still operating their initial contract. The remaining four have all re-tendered. The survey also sought to find out if contracts had to be renegotiated every time there was a change in the benefits regime. Of the 20 authorities where outsourcing continues, 25% said that in-built flexibilities avoided the need to do so. Conversely, 25% said that all changes led to re-negotiation, while a further 40% said that some changes required re-negotiation and others did not. The other 10% expressed no view.

77. Of the eight authorities where outsourcing had come to an end, only 25% (two) said that their contract had been flexible enough to avoid re-negotiation, whereas 25% said that all changes had meant re-negotiation and 38% that some changes did and some did not. The other 12% offered no view.

78. The figures suggest that there is no real difference between those still outsourced and those that have been terminated. However, some contracts are now acknowledged by some of the local authority staff involved in the case studies as being overly prescriptive. Though, conversely, some still regard them as strong contracts and consider that without having a detailed and 'strong' contract to back up the partnership it might not have survived.

79. Most case study contracts are currently penalty based with few, if any, financial incentives for achievement beyond agreed targets. Contracts are often typified by numerous key performance indicators and this too is an area that is subject to mutual review. Some appeared willing to review the contract, others not. Only in one case did there seem to be any formal mechanism in place for a mutual review of the contract and the way it was working. However, all were aware of the need to review their contracts.

80. Of the eight authorities in the Omnibus Survey where outsourcing had ended, 25% thought that the contract had been effective but performance might have been better if the authority had sought to enforce penalties.

However, 50% of the 28 authorities with outsourcing experience - both those still outsourced and those where contracts had been terminated – did not offer any specific suggestion as to what might have been done to improve contracts, or about how contracts might have been drawn up to make them more effective, even with hindsight.

81. Many of those to whom we spoke, some in hindsight, were clear that calculating service volumes accurately at the outset and ensuring that these are accurately reflected in the associated SLAs is also very important to the success of any contract.

82. Those involved in the more successful case study exemplars said that an output driven specification was essential. They also saw it helping to ensure that the client is not tempted to interfere in too much operational detail. Timeframes need to be realistic but not fixed in stone and must reflect the needs of each organisation. Nor should the outputs be defined in an over prescriptive or complicated way. For example it may not be a good idea to specify Best Value Performance Indicators (BVPIs) in the contract itself – although of course actual performance should be aiming to deliver or exceed BVPI standards. There can be drawbacks in seeking to make a contract too specific as regards some BVPI outputs as it can lead to not enough attention being given to other aspects of customer care and quality services. While it is essential that contractors should provide information about BVPIs so that there is a common national framework for assessment and benchmarking, it is equally important for local contracts to reflect local circumstances and priorities.

83. In one case the first year of the contract incorporated a 3-month bedding-in period followed by a focus on reconfiguration and system changes. The contract enabled a sensible consolidation of the process.

84. In some case studies we found that the contract allows for the authority and provider to share equipment and accommodation. In others the provider has made that investment as part of the deal.

Contract Start-Up

85. The most successful contract start-ups appear to have been where there was no obvious change on the day that the contractor took over and where the company made few changes to the way the Benefits service was delivered when it did so. There was a desire by both parties to ensure that the customer saw no discernible difference: it was very much a case of the Benefits administration office ceasing to be run by the council Benefits manager on Friday afternoon and the same office being run by the contractor's Benefits manager on Monday morning. In other words there was a seamless transition.

86. A key factor in that was continuity of staffing. In a case that worked really well, the former council Benefits manager became the authority's client unit manager, monitoring the outsourced Benefits operation and the contractor appointed as their manager a former authority employee who had worked in the Benefits office up to the point of handover.

Managing and Monitoring The Contract

87. In some instances case study authorities did not develop their client capacity in a way that encouraged a flexible and consultative approach. On the contrary, the way they approached it has tended to reinforce a confrontational approach. For example client unit managers insisted unfairly and unrealistically on every minor aspect of the contract being enforced. They focused on the minutiae, threatening the contractor with legal sanctions unless every minor condition was adhered to. Often they did not make sufficient attempts to develop the kind of contractual relationships that typify sensible working relationships between any two parties – in-house or out-house – let alone true “partnership” working. It is clear from the evidence of the case studies that developing contract management skills within the authority to manage better the client function is essential for the success of public/private partnerships long term. As one client manager who did understand this put it: *“the best contracts are the ones that stay in the cupboard and both sides do their best to find a solution when things go wrong. The contract is only referred to as a last resort.”*

88. Where that was not so, there has often been a period of ‘conflict’ between client and contractor that was unproductive and which led to a serious deterioration rather than an improvement to the service. When faced with such a situation, some authorities brought in a different external contractor to undertake ‘backlog busting’. In one case this was done in a genuine attempt to help out and work with the contractor. In another it was because the client had no faith in the contractor's intention or ability to sort it out. As we reported in paragraph 50 above, that contract was terminated.

89. Looking back to the experience of the 1990s, it now seems clear that all of the major external providers of Benefits services experienced some performance problems. They were unlikely to want to take over contracts where authorities that had already got into difficulties with their existing provider and had decided to try and find another external partner.

90. In one case the local authority had concluded that there was little attraction either in seeking another provider or in re-insourcing its service despite problems with the existing contractor. Similarly the contractor was keen to prevent a further deterioration in its standing in the market. In short

both parties had sound, mutually compatible, reasons for engaging in meaningful dialogue and for reaching agreement. After some hard negotiation at senior level they 'started again' with the intention on both sides of making it work. It was not easy, but they have worked through their problems and the contract is now operating successfully.

91. One or two case study authorities also realised that some of the difficulties being experienced in running the contract were due to the physical separation of the contract management and determination teams: it was creating an 'us and them' approach. Bringing the two teams together helped with day-to-day management of the contract. Confrontation was also reduced by co-locating client and provider teams so that they felt that they were part of one team with one objective – to deliver a quality service for claimants, not to engage in trench warfare with one another. We were told that putting the two teams together is key to good working relationships between the partners. The focus of the client unit then shifts to ensuring processing accuracy in a non-confrontational way. They stressed, however, that when they are co-located the client should not be tempted to interfere in the day-to-day delivery of service. Success is then judged on the achievement of high rates of accuracy, not on looking for mistakes.

92. For example one case study authority developed a new approach to contract monitoring and reporting that includes:

- a detailed fortnightly monitoring report with data on outstanding claims and documents, cancellations, customer service contacts and complaints
- regular meetings at a senior level between contractor and client relating to performance
- periodic reports to a Members' Panel on Benefits and to the Scrutiny Board
- a monthly report to the Cabinet Member responsible for performance and senior management.

93. In this particular case the Benefits determination and contract management teams were then able to monitor performance on a quality basis, removed from the high level contractual issues. The focus of this particular determination team has since shifted even more to quality control since the legislation change enabling contractors to determine claims.

94. There was another case study example that showed how partnership can work. When a new Document Management System (DMS) was introduced technical errors during its introduction caused the system to go down for several weeks, resulting in a big backlog. The issue was raised

immediately with the authority and a recovery plan agreed and actioned. The plan contained lessons of general application as follows:

- (i) all stakeholders and affected customers were notified of the delays in processing times and progress in resolving the backlog through a newsletter. The newsletters were produced on a monthly basis for the 5 month duration of the backlog
- (ii) a fast track system where the area offices could nominate 5 priority cases each day was agreed with the housing service
- (iii) resolution of the problem was shared between the parties. For example the authority agreed to apply the contract penalty at a 50% discount and the client unit team were brought in to process claims in the last few weeks of the backlog
- (iv) a weekly update report was submitted to the Director of Finance and client manager
- (v) in addition to the use of over-time, targets were set for the processing team which incorporated financial incentives. The provider offered a maximum bonus of £15,000 to the team should they clear the backlog within a certain timeframe (the contractor would otherwise have faced financial penalties under the contract)
- (vi) resources were shifted from call handling to back office processes
- (vii) information was shared with staff regularly
- (viii) a block was put on the use of staff flexi-time.

95. Although the outsourcing experience for some case study authorities was initially very poor, through concerted and agreed actions by both parties a number of outsourced services are now working effectively. But even in those cases where both parties have tried to foster the partnering approach, the road to success has not always been an easy one for either the authority or the provider. It has involved both parties shifting from previously agreed, and sometimes entrenched, positions in order to overcome the conditions of a contract that was agreed when circumstances and the environment were different.

Making the Contract Work - Contract Renegotiation

96. We found in some case study areas that relationships were characterised by an unwillingness to consider renegotiation of the contract. Where it worked best was when the parties realised that it was in their interests to find a way though, to engage with one another in some 'blunt talking' at the highest level if necessary. However many of those to whom we spoke often referred to the need for trust and mutual understanding so as to ensure that discussions were conducted openly and honestly, not with the aim of pushing the partner to the point where it was easier to walk away.

97. In one such instance the two parties formed a Joint Working Party which quickly identified a number of issues that required to be resolved if the contract was not to break down totally. The key was the positive attitude of both parties to its establishment and operation. Consequently the outcome was also positive: they were better able to understand each other's position and to agree a sensible course of action.

98. In those case studies where the parties did try to work together in a spirit of co-operation we found that they took positive steps to make it work. The result was more likely to be a contractual arrangement firmly based on mutual understanding and, delivering a high performing service. Those steps include things like:

- a revised contractual arrangement that better reflects the need to work in open partnership – the resolution of problems is shared between the parties
- open dialogue about the level of resources required to achieve improvements in the delivery of the service
- a clear understanding about the quality of the resources to be provided to the authority in terms of contract and operational management
- agreement on control over the deployment of local contract managers and the use of experienced staff only who understand the context of the service being delivered with some criteria agreed over the degree to which those resources are pulled off onto other work during the life of the contract
- recognition that, although the provision of an effective Benefits service inherently ought not to be that problematical, the environment and the context of the service was often difficult; consequently effective steps need to be taken to manage client and stakeholder expectations during periods of transition
- a clear agreement about the necessity to ensure effective decision making on the part of the contractor at local level rather than the need

to refer issues to the “centre” when a genuine partnership exists and a backlog occurs, both parties consult and agree a recovery plan and action it

- a clear definition of the scope and scale of decisions that can be taken at local level and the agreement of appropriate escalation procedures that can be invoked in the instance of a dispute
- the need for open dialogue about performance, the accurate reporting of day-to-day service delivery and the development of effective communication processes between authority and provider
- the need to size accurately the scale of investment required in order to bring the service up to upper quartile performance levels.

99. In one case following renegotiation the contractor adopted a new approach focused on improved deployment of people and technology. Immediate actions included:

- a staffing reorganisation to deal with current work load
- an increased focus on the exploitation of technology
- greater focus on performance management
- a skills audit of all staff
- central training provided by the contractor, sharing responsibility and development opportunities between all staff – the authority’s and the contractor’s.

100. In this example staff were positive about the manner in which they and trades unions had been engaged and about the linking of improved performance to the rewards system (in particular recovery of overpayments and subsidy). This ‘joint’ approach impacted very positively on performance.

101. Even those authorities represented in the case studies where outsourcing has gone pretty well from the start, or is now going well after initial problems, are looking at a more comprehensive approach to the procurement process when contracts come up for renewal. In future they will be carrying out extensive option testing of different packages of services in a variety of different ways. They will be looking for genuine partnerships and consider that the changes to the contracting out provisions have increased the range of options open to them. Some are even looking at a mix of in-house and out-house arrangements which may include a three-way contract with other local authorities as well as an external contractor.

Performance and Quality of Service

102. In their report, '*Housing Benefit – the National Perspective*', the Audit Commission tried to show whether outsourced authorities showed any systematic movement between 1997 and 2001 in terms of cost and quality. There was at that time no evidence to suggest that they were reducing delays in processing but there was a tendency to reduce relative costs. However, as is apparent from more recently published (January 2003) DWP performance statistics, some outsourced HB/CTB authorities are now achieving some of the best performance levels. This has not always been the case. The case study authorities would agree that their performance varied greatly at the time they were outsourced. Some were in the lower quartile of UK authorities in performance terms; others were doing quite well. In most cases there was some decline during the initial stages of the outsourcing contract. Indeed there were periods in some when service suffered badly as a result of a lack of coherent performance and co-operation by the external provider. At the lowest point, especially in the case of some authorities that decided to take the service back in-house, performance indicators deteriorated greatly to the detriment of claimants.

103. In one case study the number of outstanding documents (already in five figures) rose by over 100% inside six months. In another the average processing time for initial claims almost doubled to over 150 days and the level of outstanding documents also rose sharply. In a third case study the time frame for dealing with new cases trebled. In the first case after attempts to rectify the situation failed the authority decided to re-insource the Benefits service. The other two contracts are still in operation; after some initial hiccups performance improved and is now very much better and still improving.

104. There were many reasons why performance suffered in this way. It has to be said that in some cases the contractor took over an ailing, or under-funded, service and was expected to turn it round quickly. As providers invested in the service, but struggled at times to do so (for example to centralise Benefits processing, to implement VF (see also paragraph 114) and to introduce new Document Image Processing (DIP) systems) backlogs built up and it took time to clear them.

105. However in some outsourced authorities performance is now very good indeed and in others it is improving rapidly as Best Value or CPA inspections have recognised. They have shown a high level of commitment to partnership working and the elimination of backlogs in the Benefits service and a record of introducing change effectively. Strategic partnerships have introduced a culture of performance management to the service. This is

often provided through DIP daily reports produced both for individual and for team throughout. To address quality issues in some case study authorities, quality teams also get good training and guidance and there are on-line guidance manuals and calculation tools for complex claims.

106. The case studies showed clear signs that many lessons have been learned. The partnership approach is now beginning to work effectively. There are some situations where contractual 'confrontation' still takes place but there is evidence of progressive improvement. There are fewer occasions when one side or the other (or both) bring in the lawyers at the first sign of a problem. Where there have been improvements in the level and quality of service it has often been because of features such as:

- a modern and accessible one-stop Customer Service Point and a Call Centre that provides a prompt service for telephone enquiries
- a modern IT infrastructure enhanced by the introduction of a new integrated revenues and Benefits IT system
- claims processing performance showing year on year improvement
- up-to-date case work where work throughput is closely monitored and controlled
- the level of management and quality checking undertaken exceeds minimum DWP Performance Standards requirements
- the introduction of a performance management culture
- implementation of the Verification Framework (but see also paragraph 114)
- secure internal arrangements for cheque storage and dispatch
- appropriate use of prosecutions, administrative penalties and cautions in its counter fraud work
- effective partnerships and close working arrangements (these include partnerships with the landlord community and DWP).

107. The case studies revealed other ways in which outsourcing can have key impacts or spin-offs for performance and service delivery, for example:

- the site may be developed as a centre of excellence and used for providing remote processing and backlog busting services to other authorities
- the provider can bring in resources from elsewhere in the company to help cope with short-term problems, sickness, holidays etc
- the establishment of a single group to manage all welfare benefit calculations (if in the contract) that can offer considerable flexibility. All assessment staff are then graded at the same level, irrespective of whether they are assessing housing benefit, school meals, clothing

allowances etc. Staff can be trained to become fully generic in each of these functions with the final aim of training them to become cross-functional allowing resources to be interchanged during peak periods.

108. As mentioned above, case study authorities have used incentives to encourage providers to exceed the agreed performance targets e.g. one includes cash flow incentives whereby interest on any excess is retained by the contractor if cash collection (part of the outsourced contract) exceeds a given target. Many of those we interviewed as part of the case studies saw the need for effective 'carrots and sticks' within contracts that would encourage higher performance using direct incentives but would also discourage poor performance by some form of financial claw-back mechanism.

109. The impact of change on the culture of the authority is considerable. Where a strong performance management culture does not already exist the impact of private sector business practices will be that much stronger.

110. As well as drawing out these lessons from the case studies we also looked at local authority responses to Wave 7 of DWP's LA Omnibus Survey about Benefits performance. Of the 20 authorities with continuing outsourced contracts, 20% (4 out of 20) claimed that there had been either no effect on performance or they were undecided about the effect. Of the remainder where performance had changed, over two-thirds (69%) thought performance had improved, 13% thought performance had worsened, 6% thought performance was characterised by increased backlog, while 38% thought performance had changed in other unspecified respects (these figures are not mutually exclusive). Additionally 65% of the twenty outsourced authorities said that their Benefits service was performing well before the start of outsourcing, while 30% thought prior performance was poor, with 5% undecided.

111. Of the eight authorities covered by the survey where outsourcing had ended, half (4) thought the Benefits service was performing well before the start of outsourcing, while the other half (4) thought the service had been performing poorly. In the same eight authorities, only one claimed that there was no effect on performance during the contract. Of the remaining seven where performance had been affected, six thought it had been adversely affected whilst one thought it had benefited. (One authority thought it had been characterised by increased backlog, two authorities thought it had been characterised by lack of training and one thought it had been affected in other unspecified ways.)

112. Wave 7 of the DWP LA Omnibus Survey also attempted to get at the reasons why authorities had terminated their contracts and re-insourced them. It asked whether outsourcing had been seen as a success or failure by officers of the authority, Members and clients. Only eight local authorities were able to provide responses to these questions. In three of these

Members and clients thought that it was to do with poor performance whereas in six authorities officers thought it was to do with poor performance.

113. There was a slightly different pattern amongst those same groups in authorities with ongoing contracts. Over half of clients (57%) and nearly a third of Members (29%) thought that failing contracts were caused by poor performance and 43% of clients also thought that processing delays were to blame. Officers did not see any of these problems in ongoing contracts.

The Verification Framework

114. Several of the case study authorities, including one or two that are still outsourced, are Verification Framework (VF) compliant. There are different views amongst the practitioners we consulted during the research about the benefit of VF in performance terms. Most agree that it has improved security, but some would then argue that it has impacted adversely on other aspects of performance, notably speed of processing. This view is not peculiar to authorities that have outsourced.

115. There is also an issue about paying for VF. Contributors to both the workshops and the case studies said that an authority that had outsourced its Benefits service would have to re-negotiate its contract and pay the true cost of VF. As there was a general view that VF compliance is significantly underfunded, there was a view that they were, therefore, less likely to pursue it.

116. Findings from Wave 7 of the LA Omnibus Survey indicate that local authorities that have outsourced are less likely to have introduced VF. 46% of the 28 authorities with outsourcing experience were either partially or totally VF compliant, whereas 78% of all survey authorities (306) were partially or completely VF compliant. The survey suggested that many authorities feel it would create too many problems to try and implement VF whilst running an outsourcing contract, possibly for the reasons outlined above.

Savings

117. We found that case study experience varied with regard to savings after outsourcing. Some of the case study authorities were clear there were no savings, but others have delivered impressive cost reductions as a result of outsourcing and have continued to work in partnership with their providers to find additional ways of saving money. One authority set out to achieve a cost reduction of 10% in running its Benefits service and did so. Moreover, on contract renegotiation, it achieved a further reduction in contract price and all IT equipment was renewed at the contractor's expense. The contractor

also provided a further sum for the authority to spend on assets related services covered by the contract. Another authority achieved some savings and yet another delivered around £2m savings in the first year on a range of services covered by the contract, including HB/CTB services.

118. In most cases savings have been achieved where the contractor has been able to offer economies of scale because the package has been big enough to make it possible or because they have been running back office functions for other authorities from the same site. That has made it easier to engage in business process re-engineering, to share staff to meet short-term needs and to invest in infrastructure and equipment in the secure knowledge that there will be a long-term return for their shareholders.

Staff Issues

119. Experience from the case studies suggests there is unlikely to be a smooth transition without continuity of staffing. It appears that, due to a variety of circumstances prevailing in the market place in the early days of outsourcing, many contractors were not, for a time, able to provide the number, quality and continuity of management or delivery resources required by authorities. Because there was a high demand for managers in this sector, providers were forced to bring in a number of interim managers who were not always up to the task. There was often a high turnover of managers and staff and they only 'got by' with a large number of inexperienced casual and temporary staff. This was a particularly acute problem in London. Whilst this was going on, performance was going down and backlogs building up. Transferring existing staff to the contractor is therefore seen as vitally important.

120. In one case study area where outsourcing has worked very well, the client unit manager has continued to work in the same post in the 10 years since outsourcing and there have only been three contractor's business unit managers over the same period. The relatively smooth handover in this case also benefited from the minimal changes to personnel.

121. The case studies also raised issues about the way staff were treated during the procurement process. We have concluded that best practice is where staff are widely consulted throughout the outsourcing process, sometimes culminating in a staff vote to help in making the final choice between the short-listed contractors. In such cases staff are much more likely to stay and join the contractor where they had been consulted and engaged in the process and consequently felt valued.

122. Some argued that it was important to ensure that 'TUPE'd' staff were not made to feel like second-class citizens after transfer to the contractor. There was a danger that they would otherwise feel that they did not quite

belong in either camp. They were sometimes seen as 'ex-local government' employees by the private sector but, as employees of the contractor, were also liable to feel as if they had been 'excommunicated' by former local authority colleagues with whom they were still working closely.

123. One of the case study authorities was particularly concerned about terms and conditions where the Benefits service was re-insourced and former local authority staff were taken back with private sector benefits (e.g. health insurance). The question of re-admittance to the Local Government Pension Scheme (in terms of transfer values) had also proved a big problem for them and they believed it warranted further examination by the relevant government departments.

ICT and Software

124. Wave 7 of the LA Omnibus Survey provided some very limited information about the use of software by outsourced authorities. Seven of the twenty authorities that were still outsourced changed their software as a result of outsourcing. All seven thought that it was beneficial and an improvement.

125. The case studies suggest that where new ICT systems are planned, it is essential that the local authority and the provider work closely together in order to allow for service continuity during the transitional period. This can be a real test of 'partnership' as there will inevitably be some deterioration in performance during the transition. The key is to ensure that the authority and the contractor work positively together to avoid this being anything more than short-term.

RSLs' Views

126. We consulted a number of Registered Social Landlords (RSLs) in each of the case study areas. Although RSLs do not appear to have been given an opportunity to offer views on the procurement strategy or process, we found that where authorities and providers were really working 'in partnership' there was also a better relationship with all the other local stakeholders. Contractors regarded RSLs, for example, as important partners to be consulted on day-to-day problems, proposed changes and so on. They attended RSL user forums and followed up problems encountered by the RSLs' tenants.

127. In some cases there was concern about the inability of clients to access the right people or obtain information to enable them to get benefit, especially, in some instances, through the failings of call centres. RSLs acknowledged that some providers were trying hard to improve the service

provided on line and that much progress had been made in improving consultation and co-operation. These views were often shared by the advice services.

128. In one case the RSL had an excellent relationship with the authority and there had been regular liaison during periods when performance was not good. For example a series of meetings had been set up to tell them about performance problems and the action being taken to resolve them. Given the RSL's particular experiences elsewhere they regarded it as working well.

129. Two RSLs reported that the service provided by one outsourced authority ranked amongst the best in their experience, both before and after the transfer of the service. Whilst voicing disquiet about deterioration in service during the implementation of new ICT systems, they praised the authority for the positive communication that had been maintained during that time. They were kept in the picture about what was going on.

The Contractors' Perspective

130. There is a very clear view amongst contractors that contracts should be output based. They believe the contractor should have freedom to vary the way the service is delivered, to try new approaches to see if better service can be achieved and/or savings made, even if, sometimes, it is not successful. For example bringing in extra staff from their wider pool to cover high demand periods, using dedicated staff on other contracts; taking elements of the service away from the local site where there was the potential for making savings or providing an enhanced service. They accepted that significant changes to service delivery should be discussed with the authority beforehand despite the contract formally being output based. However this raises an issue of democratic accountability. What may seem like a minor operational detail to a contractor may be a big issue to a local councillor when dealing with constituents. It is a question of striking the right balance.

131. We found that contractors have similar views to local authorities about why contracts go well. They agree with many of the issues set out in paragraph 104 above. They drew attention particularly to the following:

- Effective problem resolution: everyone on both sides of the contract should work to sort problems out as soon as they were identified. They should meet and agree the way forward. There was no immediate resort to poring over the words in the contract
- Regular monitoring: the provider produced a brief weekly report on basic items such as applications received and processed. There was a comprehensive monthly monitoring report on all the individual

services in an agreed standard format, backed up with a monthly meeting at which attendance was sacrosanct

- Training: there was awareness that experienced Benefits staff were hard to find and to attract them required premium salary payments. They felt that staff should therefore be recruited locally and trained thoroughly. The provider should also set aside adequate time for training. It might mean a significant period during which the trainee was non-productive but it was the most effective way of acquiring staff with the right skills
- Sharing staff: besides the provider's staff dedicated to the site, they had a further pool of staff who could work on their various contracts throughout the country, who could be brought in to cover any problems (e.g. sickness, leave) on local contracts
- Choice of ways of dealing with the service: there should normally be a variety of ways benefit applicants can contact the service, by letter, phoning, e-mail, and over Benefits counters across the authority.

The Advice Services/Claimant Perspective

132. We also consulted the main advice services in each of the case study areas to get their perspective on service quality and performance. In considering the experiences of customers of advice services, it is important to remember that these are not proportionate to those of the general claiming population. Advice services, by definition, deal in problems. They show the pattern of things that are going wrong, for whatever reason. It follows, therefore, that the views and experiences of advice staff will be different from those of other players. They get involved in the worst cases, where for example there had been undue delay in processing claims, documents have been lost, or where a claimant is evicted or threatened with eviction as a consequence of delays in payment or generally poor HB administration. There is an issue of 'disentanglement' here: how far are such problems similar to those found (in one degree or another) in a wide range of authorities and how far are they attributable to outsourcing? It is the reported pattern before and after outsourcing, therefore, that is of particular interest for the purposes of this project.

133. In all but one of the case studies where the service had been outsourced, advisers reported that performance had declined following outsourcing. Nobody considered that the previous service had been trouble free, but to varying degrees matters had taken a turn for the worse after it had been outsourced. There had then been a process of recovery, although not necessarily to the original level. Both the degree of decline and the degree of recovery varied. This general pattern also came through in the stakeholder interview with NACAB. In the two authorities which had already re-insourced, recovery was not seen as having started until the service was

brought back in-house. The degree of decline was described as severe in five cases. The authority with the fewest initial difficulties also staged the best recovery, but otherwise there was no obvious relationship between degrees of decline and restoration. Advisers drew attention to a range of issues, many of which are not peculiar to outsourced authorities, but which they say, in most cases, all got worse after the Benefits service was contracted out before getting better to varying degrees. These are summarised below:

- Quality of service and performance: it is possible that this effect arises from the growing emphasis on performance indicators (this is not peculiar to outsourced authorities). There are signs that services which are seeking to improve tend to focus on areas which will score well, possibly at the expense of less straightforward cases. Several respondents commented that the more difficult cases were more vulnerable to delay and error. This phenomenon is not confined to outsourced services, nor, indeed, to Benefits, but it is possible that commercial imperatives drive it more strongly. This could explain why services can show markedly improved levels of performance overall while the customers of advice services remain dissatisfied.
- Administrative/staffing problems: the knowledge and skill levels of Benefits staff were seen as significantly problematic in five of the case study areas. This was variously attributed to the use of temporary staff; inexperienced staff; call centres; high turnover; local shortages of skilled and experienced practitioners; and lack of attention to training. Low levels of technical knowledge and skill will be especially problematic where cases are not straightforward. Staff numbers were also an issue. Inadequate staffing levels, currently and/or in the past, were reported in four authorities.
- Delays: the time taken for claims to be processed was a prominent feature of administrative malfunctioning. This was reported in seven of the case studies, including the non-outsourced one. It was even a problem in the relatively trouble-free authority (although this was largely to do with the ONE project – an initiative requiring new patterns of interaction between LA and DWP Benefits administration - and has since improved). There were also issues to do with lost claim forms and other documentation, with the associated problem of repeated requests to claimants for information already provided, arbitrary discontinuation of claims in payment and/or irregularity of payments. Delays in processing changes of circumstances were a big issue in five and to a lesser extent in two of the authorities. Accuracy of assessments was not generally seen as a major issue, although there

were exceptions and claims with frequent changes (notably from low-paid workers) were mentioned several times as vulnerable to error.

- Poor communications: this was seen to be a factor especially between benefit administrators and their housing and council tax counterparts, (including legal proceedings taken against claimants in respect of arrears caused by benefit delays) and figured as an issue in five of the case study areas. One of the focus groups and several interviewees referred to the influence, for better or worse (sometimes very positive) of key individual managers and liaison staff.
- Accessibility and attitudes of benefit staff: problems with claimants' accessibility to staff could arise because of restricted or unreliable telephone access and/or because visitors to offices did not receive a prompt service and/or because of centralisation of offices. One or more of these problems was reported in five authorities. Accessibility of staff to advisers varied considerably: some advisers had similar problems to those mentioned above while others had streamlined channels of communication. This sometimes varied between advice agencies in the same area. Once contacted, attitudes of staff were generally satisfactory (although the same could not be said of the knowledge and skills required to deal with the enquiry - see bullet point on Administrative/Staffing above). Defensiveness was more common than rudeness. The latter did not seem a major problem. Lack of effort in seeking to solve problems was a complaint in two authorities.
- The right benefit to the right person: take-up, overpayments and fraud: Take-up activities involving the Benefits service varied. Relatively sophisticated initiatives were referred to in two authorities. Elsewhere, small-scale or non-existent activity mostly prevailed. Take-up activities are known to vary greatly across local government, but there was a suggestion in one of our case studies that a very low level of interest had been associated with outsourcing and that re-insourcing had brought about a marked change. Over-zealous anti-fraud procedures were reported in two authorities, apparently linked both to the introduction of the Verification Framework and the attitudes of particular managers. Changes of personnel had since improved matters in both cases. Inappropriate recovery, and/or dubious calculation, of overpayments was reported in five authorities.
- Liaison machinery: Some sort of formal liaison machinery between the Benefits service and advice agencies was usually, but not always, in place, although it varied a good deal in scope and effectiveness.

- Anti-poverty and social inclusion strategies: These varied in their existence, vigour and the degree to which the Benefits service was involved. Close involvement of the service in a flourishing strategy was not detected anywhere, before or after outsourcing.

134. Some advisers also said that they thought that contractors had not appreciated there was a major difference between collecting money and paying out Benefits like HB and CTB: the latter was much more administratively challenging because of the frequent changes, both in the rules and also in an individual's entitlement. They thought that even those contractors experienced in collecting revenues had initially underestimated what was entailed in running a Benefits service. This echoes some of the issues raised by others in being clear about what is involved in criteria and contract specification and about how the contract will operate in practice and about the nature of the arrangement with the contractor.

135. Advisers also said that authorities should address the issue of providing access to the service for claimants and advisers. Much thought needed to be given to access: both face to face and by telephone. There should also be different arrangements for claimants who may not know the system and for advisers who will be familiar with it. Their experience was that a distant call-centre, for example, did not always work. Access needed to be tailored to local circumstances and there could be particular difficulties in a dispersed rural area. They were aware that some of these issues applied equally to authorities that had not out-sourced Benefits.

Complaints

136. Some of those to whom we spoke also drew attention to potential problems about complaints by claimants in out-sourced authorities because of the split of responsibilities. Unless the local arrangement was 'seamless' (by which we mean it was impossible for claimants to tell which staff were employed by the local authority and which by the contractor) they were more likely to go to the local authority with whom they would tend to see they had a relationship, especially with the housing department. As a result it was important that there were good communications systems in place for monitoring complaints, for sharing the information between all the parties and for agreeing on appropriate action.

137. There was agreement that complaints are indicative of problems and should be reacted to positively by all the parties. Client and contractor should analyse them together to see what they are saying about the day-to-day operation of the Benefits service and how they can be used to provide early warning of problems. By taking action early on complaints performance

levels can be maintained or even improved. However there was also concern to ensure that the local authority, advisers and clients did not immediately jump to the wrong conclusion when complaints levels went up. Care needed to be taken to ensure that one-off changes leading to an increase in complaints (such as the introduction of VF, a new computer system or a new DIP system) and which would inevitably have a temporary effect on performance, were not blamed on the contractor. Much of this applies equally to authorities running an in-house service.

SECTION FOUR – DEVELOPMENTS AFFECTING THE OUTSOURCING MARKET

138. As part of our research we also examined the effects of changes in the law, changes in the rules and of innovative approaches, both by firms in the outsourcing market and by local authorities themselves. This section sets out some of those changes, the impact they are having on the market place and their potential for the future (see also Annex D).

Legislative Changes and Administrative Processes

139. We believe recent changes in the legislation affecting local authorities' ability to provide services both generally, and for Benefits specifically, is likely to influence attitudes to outsourcing. Indeed there are signs that this is already the case.

140. For example amendments introduced in 2002 to the Deregulation and Contracting Out Act 1994 (by The Contracting Out (Functions of Local Authorities: Income Related Benefits) Order 2002) enable the removal or reduction of certain burdens in the regulatory process. The Order provides for the delegation of functions that have hitherto been reserved to local authorities, including the determination of HB and CTB claims. The requirement for local authority staff to make determinations has now been removed. This has improved working arrangements between client and contractor and could lead to more sensible approaches to outsourcing. The relaxing of the requirement has also created the opportunity for the client side to cut staff, re-allocate resources and make savings by reducing duplication of work.

141. This change was meant specifically to deal with situations where a local authority had contracted out its Benefits service. However, in today's environment, it has had far wider application, particularly with the growing deployment of agency staff. Factors like constant changes to the Benefits regime and the VF have increased pressure on Benefits services staff. This, in turn, has increased demand for agency staff and for firms providing specialist 'backlog busting' services. But the requirement for local authority staff to determine claims prevented contractors from being as effective as they might. The removal of that requirement has not only helped such situations, but has also made it easier for authorities wishing to share staff or develop other innovative arrangements for the provision of Benefits services.

142. The introduction of Comprehensive Performance Assessment (CPA) has focused the attention of local authorities on key services. The inclusion of housing benefit in the specifically measured services appears to have promoted its status: Elected Members are now taking a much keener interest

in housing benefit performance and a growing number of authorities are giving responsibility for the housing benefit portfolio to a senior councillor (for example a cabinet member).

New Ways of Working

143. During the last two years innovative ways of working have increasingly been introduced. The conventional client/contractor approach, typical of CCT contracts, persists in some places, but new relationships of the kind referred to earlier in this report (see paragraphs 63-72) have been developed. These public/private sector partnerships have given both parties the opportunity to engage in 'real partnership' which encourages innovation, investment in infrastructure, improvements in administration and reductions in costs.

144. Long-term service contracts encompassing a wide range of services are also beginning to revolutionise the relationship between local government and service providers. Recent developments in Middlesbrough, Liverpool and Milton Keynes, for example, indicate fresh and challenging approaches to service delivery. These contracts include Benefits administration but are much wider in their overall scope. More detail relating to this form of partnership can be found in Annex D.

145. Innovative partnerships are not only the province of the private sector. In recent months local authorities have started to research and deliver new ways of working. Examples of this new approach are joint training, the joint purchasing of software, shared operational arrangements such as a 'regional based manager' who carries management responsibility for more than one authority and pooling of staff resources to create a localised crisis team.

Training

146. Another encouraging sign of changing attitudes has been the development of a National Training Strategy by the DWP: it came about through a public/private sector partnership. Most of the material was based upon products from the partners. Although the ultimate success of this project will be measured by the extent to which those in the field use the training modules, it can be argued that the project is itself an example of innovative joint working and sharing of resources.

147. Training is a particular issue for smaller local authorities who may struggle to meet the training needs of staff. Some are now considering joint training arrangements with their neighbours (see also paragraph 145 above).

Performance Standards

148. The introduction of performance standards combined with the emphasis on Benefits administration in the CPA has prompted more and more authorities to utilise private sector 'transformation' services. These offer a partnership based on new technology and workflow analysis. An important element of such services is the development of process management skills amongst local authority staff. These are skill sets that have often been missing. Their introduction enables authorities to amend processes more effectively to meet changing requirements and circumstances.

Service Centres

149. New services that take advantage of the economies of scale offered by bulk processing and centralised customer handling have developed from the creation of service centres (see Annex D). They have been further enhanced by the more effective use of technology and have the potential to improve service standards substantially. Examples are the 'overflow' assessment service and document management. The former is a simple concept that allows local authorities to 'plug in' to a remote service, which assesses claims from locally provided data. (Attention has to be paid though, to the capacity to locate a claim and to deal promptly and effectively with enquiries relating to it. Remote processing does not always do this well.) The latter is a full document management service that delivers data into the DIP and workflow systems.

Call Centres

150. A number of firms have also set up regional call centres to manage telephone enquiries. These centres use the latest call handling techniques and benefit from economies of scale. Authorities have been using these services to ease the pressure on directly employed staff. A further development has seen the introduction of long-term call handling contracts based upon locally specified menus. Where such arrangements work well they provide helpful back-up for hard-pressed Benefits staff. However much does appear to depend on how such arrangements are set up. Some advice service staff have complained that call centre staff lack the local knowledge (and often access to case records) to deal effectively with enquiries. (This was the experience of one of the outsourced case study authorities.)

Home-Working

151. Many local authorities are developing home-working projects that are based upon private sector models. They utilise new technology and new ideas about the remote management of staff. This is not something which is peculiar to outsourcing but is a trend affecting the pattern of work across the public and private sectors.

Incentive Based Services

152. Several private sector firms have introduced incentive-based services in particular areas of benefit administration. One such service has been developed around a profit related contract for the recovery of overpayments. This arrangement allows the private sector partner to assist in the identification of the overpayment, the categorisation of that overpayment for subsidy purposes and its eventual recovery. The contractual arrangement is performance related and linked to subsidy rewards and cash collected. The service has a series of 'safeguards' which ensure, for example, that the local authorities' social inclusion policies and the legal requirements relating to overpayments are observed.

The Modified Funding Regime

153. The announcement of the Government's spending plans for the next three years includes significant spending on housing and council tax benefit. The funding includes:

- £200 million over three years invested in helping local authorities to achieve national performance standards launched last April
- a 50% increase in funding for anti-fraud work for all local authorities currently complying with the Verification Framework
- the set-up and ongoing costs for local authorities to implement changes needed to bring in new tax credits and pension credit.

154. When announcing the new funding the Minister issued the following challenge to local authorities:

"If we are to deserve the extra investment of taxpayers' money we must show that we are serious about working with councils to cut the waste of fraud and error in housing benefit. That is why we have set ourselves a demanding target of cutting fraud and error in housing benefit by 25% by 2006. The public has every right to expect good administration and effective counter-fraud measures."

155. These funding opportunities have enabled local authorities to develop further innovative, performance-linked service improvements. A number of the first year projects under performance standards funding have involved outsourcing firms. Each of these projects is expected to deliver at least 10% improvement in service performance.

The Verification Framework

156. Increased funding for the VF and the opportunity for modular implementation has enabled a further number of outsourced and partnership authorities to consider incorporating the framework into their contractual arrangements. However authorities are concerned that the introduction of the VF will have a short-term adverse effect on performance which in turn will affect their CPA score.

RSL Verification Pilots

157. Early indications are that the RSL verification pilots have been successful in many respects though clear evidence as to the financial benefits is less clear. This new approach will give outsourced authorities the opportunity to reconsider current contractual arrangements. There is an encouraging enthusiasm in housing associations to enter into the new scheme particularly because evidence from the pilots suggests there are definite gains from improved rent collection and cash flow. The participation of the social landlord in the HB assessment process will be a critical factor if direct payment to social landlords is, in due course, reduced in the aftermath of the current 'pathfinder' projects in the private rented sector.

Jobcentre Plus

158. The introduction of Jobcentre Plus should have a positive effect on benefit administration generally, particularly from the claimants' perspective. The opportunity to have a comprehensive one-stop application service should simplify that critical first contact. However it is key that the new processes recognise the different arrangements in outsourced and partnership authorities.

A Private Sector Forum

159. We consider it important that out-sourced and partnership authorities should be actively involved in the pathfinder process and not just through a series of feedback sessions. The LGA is representing the interests of local authorities but perhaps there is a need to create a forum for the private sector similar to the Software Suppliers Groups hosted by the Institute of Revenues, Rating and Valuation.

SECTION FIVE - KEY FINDINGS

160. In this section of the report we summarise our main findings drawing together from the evidence presented in the previous sections.

Outsourcing In General

161. Outsourcing of housing benefit and council tax benefit has worked well in some authorities and there are successful relationships involving packages of services. Overall, however, it has had a poor reputation because of some high profile 'failures' in recent years, especially in London. That has deterred many authorities from considering outsourcing as an option. There are still problems, but it is quite clear that outsourcing has moved on a long way since then.

162. Authorities have re-insourced because of concerns over loss of control, contractor performance and a failure on the latter's part either to provide expected investment or their perception that they had failed to meet corporate objectives.

163. Successful schemes are generally those where authorities put time and resources into the pre-tender stage, have not given up when difficulties have arisen, have been prepared to renegotiate and where both parties work together to find a solution to problems. Partnership is not just a concept: there has been a genuine desire to get the contract to work and, sometimes, for the authority to accept that it needs to put in more money.

The HB/CTB Market

164. In the early days there was naivety on both sides:

- Some firms entered the HB/CTB outsourcing field without fully understanding the nature of Benefits administration and the political dimension of the service. They had a naïve view about the market, the likely margins etc. Some then lost interest and withdrew.
- Authorities, too, were sometimes naïve in believing that they could offload their benefit service problems onto contractors without giving them full information or adequate resources. They did not understand that external providers needed to spread their risk and how that impacted on the nature of the services covered by the contract and how it was managed and monitored.
- The situation has changed and is still changing with a greater awareness of the benefits of strategic partnerships.

165. Now there is greater appreciation by local authorities of the reasons why firms are reluctant to bid for Benefits work on its own.

Procurement

166. One thing is quite clear above all others: ***the procurement process, the nature of the contract and way in which it is written and operated day-by-day are key to the success or failure of outsourcing.*** Sufficient resources need to be committed to the process, to scoping the services to be tendered, evaluating the bids and then into monitoring and managing the contract and in keeping the arrangement under review.

167. The bullet points below set out the key findings from the research:

Underpinning Philosophy and Approach

- Even before the tender process has begun, agreement needs to be reached on why the service is being contracted out. The reasons need to be agreed by Members and senior management. They should be related to the authority's overall corporate objectives. They may be related to cost savings or service improvement but whatever they are they should be clearly identified and agreed as the drivers.
- The CEO and Lead Member must be involved from the outset, giving a lead on the policy and philosophy and selling the concept as a partnership to deliver better services
- Outsourcing should not be seen as a purely commercial relationship in which the contractor is "under the cosh" from day one. It should be based on "partnership" and "team working"
- Outsourcing should become a shared venture with problems being resolved without direct recourse to the precise terms of the contract. Outsourcing a Benefits service is unlikely to be successful where the client and contractor do not work together to resolve problems and take the service forward at all levels
- An authority's approach to externalising services must be based on a desire to work with the provider on the basis of openness and trust

Procurement Strategy

- Much thought should be given at the highest level about the package of services to be offered to the market, both in terms of the authority's

corporate objectives and what is likely to enable the contractor to provide a high quality of service. For example, if all revenues and benefits services, all services involving welfare benefit calculations or all customer facing services are bundled together would it give the contractor greater flexibility and allow resources to be interchanged during peak periods and provide better value for money?

- Scoping the authority's business areas and developing the right package of services to be tendered is critical. Repeating tender processes is resource intensive for an authority and may reduce the commercial viability of the contract to be negotiated (the response from the market may then be poor and unacceptable)
- Political involvement and support can be critical to ensuring that the right package of services is tendered
- Authorities should be clear exactly what it is that they are offering for tender and be able to explain and quantify it to bidders.
- There is a need to communicate clearly to bidders what the authority's objectives and motives are for outsourcing
- Understanding the commercial viability of the service is key to ensuring effective procurement
- The "partners" should sit down together from time to time to review how it's all working and whether the authority's original objectives are still relevant and being met.

Procurement Practice

- The procurement process needs to be given top priority and adequate resources provided for the duration of the process, buying-in external help as necessary. Resources should be considered carefully: second key staff from individual services to the procurement team at the outset. The tender specification and procurement process is probably best delivered centrally/corporately, sourcing staff for the knowledge of the service in addition to contract negotiation and contract management skills
- Outsourcing should not be seen as a solution for solving a problem of a poor service per se
- Failing services do not make better prospects for outsourcing than successful ones. Contracting a service out requires organisational change. That can be alleviated by preparing the service prior to being tendered, including: measuring performance information and volumes;

introducing performance management frameworks; standardising work processes etc

- Calculating service volumes and costs accurately at the outset, discussing them thoroughly with bidders during the pre-tender process and ensuring that they are accurately reflected in SLAs is vital
- The organisational and management fit and structure of the contracting company needs to be considered during the procurement process preferably as part of the tender assessment process
- The procurement process and bids should be evaluated using some formal approach like the Business Excellence Model.
- The risks to both sides need to be assessed and discussed openly, including an assessment of the effects of outsourcing on the deliverability of the service
- Project management techniques could be used to good effect in running outsourced services, including the use of change management controls

The contract

- The contract may benefit from the incorporation of a formal bedding-in period (somewhere between 3-6 months) followed by a review and any tweaking which needs to be done, including system changes
- Effective contract documentation is important including the SLAs incorporated in it, but needs to embody adequate flexibility
- Care should be taken to ensure that the contract is tight but not too prescriptive so as to avoid claims and counterclaims from both sides
- Timeframes need to be realistic but not set in concrete
- The contract should not be wholly penalty driven, but should contain financial incentives to encourage the contractor to be innovative and to exceed the prescribed performance measures
- There should be open dialogue about problems as soon as they appear in a 'no blame' environment where both parties sit down to resolve them without immediate recourse to the contract.
- Authorities must be prepared to review the contract and how it is working as the relationship develops and to invest in the service

through the contractor. They cannot abdicate responsibility once it has been outsourced

- On the other hand the contractor should not seize on every tiny change as a variation warranting more money

168. Some of our other specific findings about claimants, staffing issues, change management and performance are set out below:

Claimants

- All the parties should have regard to the basic *raison d'être* for the Benefits service which is to provide support for the less privileged in society
- Welfare rights groups and claimants have a positive part to play in improving the Benefits service. They should be regularly consulted and involved in discussions with providers. In that way they will see for themselves what steps are being taken to rectify problems and to improve things and are more likely to be convinced that outsourcing can deliver better performance.

Staffing Issues

- It is essential to ensure continuity of staff on both sides at the commencement of the contract and during its currency. Existing local authority staff should be transferred to the contractor
- The creation of a 'them' and 'us' situation should be avoided by placing the client and contractor teams alongside one another to create a non-confrontational atmosphere of working together for the benefit of the service
- Authorities should develop contract/project management skills within the authority better to manage the client function in a fair and non adversarial way for the success of outsourcing long-term
- Contractors should ensure that there is continuity of site management
- Authorities should be constantly benchmarking to see how they can improve performance in partnership with the contractor

Adopting a Change Management Approach

- Outsourcing requires intensive change management resources; the contractor should be allowed to get on and run the contract, but resources may need to be shared between the parties

- The impact of change on an authority's culture will be considerable. Where a strong performance management culture does not already exist the impact of private sector business practices will be stronger. Even where only a small number of contractor's staff are brought in to the new operation, the change in culture is likely to be great and allowance needs to be made accordingly on both sides.
- Balancing the need for confidentiality of commercial interest and promoting inclusion of staff requires a great deal of care. A communication plan is essential but will take a lot of managing.

Performance and quality of service

- The most recent performance statistics are testament to the fact that outsourcing contracts can and do work
- Things will go wrong. The key is to ensure that when they do the parties put supportive arrangements in place and find a solution
- Success will come where client and provider take an inclusive approach in a true partnership spirit and involve all those with an interest i.e. the authority, the contractor **and** RSLs, tenants organisations, advice agencies and other stakeholders

SECTION SIX – CONCLUSIONS AND RECOMMENDATIONS

169. As the experience of some local authorities that have out-sourced their Benefits administration shows, there is no doubt that outsourcing can work well if those involved go about it the right way.

170. It is also clear that in the early years the mind sets of the two parties to outsourcing – local authorities and private sector suppliers alike – did little to help the cause of contracting-out and has been partly to blame for some of the things that went wrong. A very confrontational environment existed then and undoubtedly affected the way in which the parties dealt with one another day-by-day. Relationships were very ‘contractual’: both sides argued over the fine print and resorted all too frequently to formal sanctions and penalties. From the research we have carried out it is apparent that, historically, there was a fundamental lack of trust and empathy between the parties.

171. Many local government staff now share our view that market and operating conditions have changed significantly since the first contracts were signed. Local authorities are also clearer today about what they want and how the private sector can help them achieve their objectives. The market in turn has become more flexible and is offering ‘products’ which add value by matching them to an individual authority’s needs. In effect it is a more mature market. There has been a change in attitude on both sides: they are prepared to collaborate to make the process work.

172. Fortunately the adversarial approach has generally been replaced today with a much more partnership-based one. However like all ‘partnerships’ the ingredients for a successful and long-lasting contractual relationship must include a desire by both parties to make it work and for the arrangement to be seen to deliver benefits to both sides rather than to appear one-sided.

173. The key to future success is to ensure that local government and private sector providers both learn the lessons from the limited experience to date. In that respect it has to be said that only some 37 authorities across the country have had experience of entering into arrangements with external contractors to provide all, or part, of their HB/CTB administration and so there is no large ‘databank’ of experience to be drawn on.

174. Despite that, both sides need to examine the evidence that is available. They need to understand why different authorities have had different experiences of outsourcing – some good and some not - and learn from it. This report, for example, makes it clear that the reasons for success or failure are complex and will depend on a range of issues like the reasons for outsourcing, previous performance levels, the local industrial relations

context, the extent to which “partnering” approaches have been adopted and the range of services included in the outsourcing package. There are success stories to learn from and there is good practice to be shared.

175. In that context there is perhaps a need for national bodies and government departments to take a lead in the dissemination of good practice. In our view they have a part to play not just in that but also in setting up workshops and forums to enable policy makers and practitioners from both sides of the market place to share experience and learn from one another. The good practice guide we have prepared to sit alongside this report will provide some help in that. However the Benefits rules and regime are subject to constant and immense change and so there is a need to ensure that mechanisms are in place to provide ongoing support for those involved.

176. Currently, for example, there are changes being introduced by government to reform the HB and tax credit systems and there are also developments in the market place to which we refer in section four of this report. In combination we consider that these changes are likely to provide a new climate and framework that will open up new possibilities for local authorities to work more effectively and collaboratively in future. We believe that it would be helpful to provide opportunities to talk about and share views about these developments and ongoing good practice in a changing environment.

177. Clearly the sort of partnership approach advocated in this report does not take hold overnight. It often requires months, if not years, of thorough preparation, planning and joint working for the necessary trust and understanding to be developed and acted upon. Above all, we are clear that good procurement is key to the success or failure of outsourcing. The procurement process, the nature of the contract and the way it is written and operated day-by-day are critical factors. Time spent in preparation, in getting the strategy right, in developing the package of services to be out-sourced with contractors etc. will reap dividends for both parties.

178. Such an approach also applies to day-to-day operations. Where problems are acknowledged early, information is shared, informal discussions are held promptly, solutions are agreed between contractor and client and are reviewed subsequently to ensure lessons were learned and that the problem had actually been resolved, it should be possible to prevent them from becoming major issues.

179. We acknowledge that individual authorities have differing needs and that their local circumstances are very different. Nevertheless we think there is scope for a considerable shift in approach and attitudes that can bring about significant improvements in performance amongst many of the players

in this particular area of activity. Providing a quality service for claimants should be the paramount concern whether the service is provided in or out-house. The accompanying publication "Outsourcing The Administration of Housing and Council Tax Benefits: A Good Practice Guide " makes clear that providing what the clients need should be at the heart of any contractual arrangement.

180. The procurement process, and indeed outsourcing itself, is about partnership. For local authorities that means accepting that external providers have to be able to make a profit to stay in business and should be given reasonable freedom to 'do it their way': if providers feel the risk is tilted too far in one direction, they will not even bid. The authority has, therefore, to be quite clear about what it wants before it goes out to tender and has to be able to specify that properly. On the other hand, the contractor in making a fair profit, has in turn to deliver what the terms of the contract require. As in any partnership, it is about recognising the need to balance the interests of the two partners equitably.

181. To sum up many of our findings and recommendations will apply equally to in-house Benefits service provision or to in-house formal or informal partnerships. Good practice applies across the board but some lessons have a particular resonance when applied to an out-sourced service and the partnership between external provider and local authority client. The accompanying Good Practice Guide is directed at those who are considering the option of involving partners in delivering a high quality and cost-effective benefits service.

IRIS Consulting and IRRV Solutions
May 2003

ANNEX A

LIST OF STAKEHOLDERS INTERVIEWED

Audit Commission

Association of London Government

Benefit Fraud Inspectorate

Chartered Institute of Housing

Chartered Institute of Public Finance

DWP officials

Institute of Revenues, Rating and Valuation

Local Government Association

Local Government Ombudsman

National Association of Citizens Advice Bureaux (now called Citizens' Advice)

National Housing Federation

Private sector providers: sample of some still in the market, some who have withdrawn from it:

- Capita
- ITNet
- Hyder
- Liberata
- Siemens
- Vertex

Rent Service

Residential Landlords Association

UNISON

ANNEX B

FINDINGS FROM THE DATA AUDIT AND THE OTHER RESEARCH

Authorities that have outsourced

1. The research identified 37 local authorities who have 'contracted out' (either now or at some time previously) all, or part, of their benefits administration. This is based on information compiled from IRRV records and checked against the responses to the DWP Omnibus Survey Wave 7 from authorities with experience of outsourcing. The 37 authorities are:

Barrow in Furness BC	Newham LB
Bexley LB	North Somerset DC
Blackburn with Darwen BC	Redcar and Cleveland BC
Brent LB	Rother DC
Bromley LB	Rutland CC
Broxbourne DC	Sheffield City Council
Croydon LB	South Bucks DC
Ealing LB	South Oxfordshire
East Cambridgeshire DC	Southwark LB
Hackney LB	Swindon BC
Havant BC	Taunton Deane DC
Horsham DC	Waltham Forest LB
Hounslow LB	Wandsworth LB
Islington LB	West Berks DC
Kingston LB	West Devon DC
Lambeth LB	West Lindsey DC
Liverpool City Council	Westminster LB
Mendip DC	Wokingham DC
Middlesbrough BC	

2. Of these 37 local authorities:

- 8 are Inner London Boroughs
- 7 are Outer London Boroughs
- 3 are Metropolitan authorities
- 19 are Non-metropolitan authorities.

3. The 37 contracted services out to the following private sector companies:

- 12 to Capita
- 10 to Liberata (formerly CSL)
- 5 to ITNET
- 10 to others

4. 11 of the local authorities on the list above have subsequently brought the service back in-house. They are:

Brent LB
Hackney LB
Horsham DC
Kingston LB
Lambeth LB
Newham LB
Rutland CC
Taunton Deane DC
Waltham Forest LB
Wandsworth LB
Wokingham DC
(West Lindsey DC was also about to be re-insourced just after the research was carried out.)

Questions about outsourcing benefits administration in DWP LA Omnibus Survey Wave 7

5. 306 local authorities took part in the DWP LA Omnibus Survey Wave 7. Detailed questions were asked of those that have experience of outsourcing. Section 3 of the report includes some of the key results from that survey.

Previous DWP LA Omnibus Wave Surveys

6. DWP have produced a series of research papers that summarise findings from previous waves of the LA Omnibus Survey. The following is a brief summary of the material each Wave has covered:

Omnibus Survey Wave 1

- HB and Supported Accommodation
- Claims processing: duration for dealing with defective claims
- LA progress with Data Image Processing
- LA progress with Remote Access Terminals
- LA progress with SLAs with local Benefit Agency offices
- Fraud Issues, sanctions and prosecutions
- Progress with LA appointed fraud inspectors
- Royal Mail – Do Not Redirect Service

Omnibus Survey Wave 2

- HB/CTB claims processing and duplication – LAs' use of separate teams to administer HB/CTB.
- Usage and experience with Automatic Credit Transfer
- Section 19, claimant provision of NI numbers
- Access for Benefits staff to Internet and e-mail
- LAs' implementation of Best Value in respect of HB/CTB services – Use of PIs in Best Value Performance Plans
- Discretionary Disregarding of War Pensions
- Benefit Fraud Inspectorate inspections of LAs and contractors
- Fraud Issues, sanctions and prosecutions
- Overpayments Recoveries
- Verification Framework practices and procedures – comparison of checks made by VF and non-VF authorities

Omnibus Survey Wave 3

- Progress on BV Performance Indicator 180, claimant satisfaction surveys
- HB/CTB Management Information System (MIS) data collection – recent changes highlighted problems in developing software to extract the data
- Identifying expenditure by client group – pensioners/working age claimants
- HB/CTB administration improvement programme – improvements in working arrangements between LAs and DSS office
- LA progress with Remote Access Terminals and Electronic Transfer of Data
- LA progress with SLAs with local Benefit Agency offices
- Supporting People – preparing system for collecting data for SP, and exploring problems in obtaining Community Care Assessments
- LAs management of Benefits appeals, including transfer of appeals from Review Boards to the Appeals Service

Omnibus Wave Survey 4

- Measuring and defining outstanding work and claim backlog
- Service delivery to pensioners including advice on other Benefits
- Measuring Benefits staff workload
- Efficiency of LA to Benefits Agency information flows
- Section 19, claimant provision of NI numbers
- Availability of Claim Forms on the Internet
- Verification Framework compliance, running costs and adequacy of funding

- Royal Mail – Do Not Redirect Service
- Weekly Benefits Saving Scheme and new anti-fraud incentive scheme
- Fraud investigation - characteristics of LAs which help/hinder counter fraud performance
- Overpayment Recoveries

Omnibus Wave Survey 5

- Questions concerning Discretionary Housing Payments
- Verification Framework: RSL Pilots
- Verification Framework, a comparison with VF evidence requirements compared to those of the Benefits Agency, the problems the different systems cause and how LAs would like them standardised
- Fraud Sanctions and Prosecutions
- Claimants from Abroad and requirement to provide NI Numbers
- Benefit Fraud Inspectorate HB/CTB Model Claim Forms
- Staffing Issues in Benefits Administration: concerning the motivation and recruitment problems of key staff in Benefits administration, especially assessors, front line staff and fraud investigators
- Training Issues: there is also a section on training issues, the effectiveness of training courses and the need for standardisation of training and how much DWP should be involved with this
- Housing Benefits Review – rolling measurement of fraud and error in HB
- IT Issues - how happy are LAs with their software and backup service. (There is some information on the products of individual suppliers and some analysis of whether LAs want to change and the problems that stand in their way.)

Omnibus Survey Wave 6

- Discretionary Housing Payments
- Management Information Statistics and Workload
- Implementation of Transitional Housing Benefit Scheme and Supporting People
- Overpayment Recovery
- Fraud: staffing arrangements, detection activities, prosecutions
- Benefit Fraud Inspectorate (BFI) website and Performance Framework
- Performance Standards for Housing Benefit Administration
- Respondents were also asked about the status of their local authority in terms of de-centralisation and contracting out.

7. There was direct questioning of authorities about whether they had outsourced benefits in Waves 4,5 and 6. This asked:

- Whether it was just HB or HB and CTB administration that was outsourced?
- When did the contract start and the name of the contractor?
- The position of the respondent: manager employed by the contractor, or manager employed by the LA
- Whether the authority or contractor was responsible for the following key areas:
 - Rent Rebate
 - Rent Allowance
 - Council Tax Benefit
 - Overpayment recovery
 - Benefit Fraud.

BVPIs And The Performance Of Outsourced Authorities

8. The DWP has defined and collected Best Value Performance Indicator (BVPI) data in recent years, and this helps to draw tentative conclusions about the comparative performance of outsourcing authorities. The current research has undertaken a limited analysis in this respect of which the analysis in paragraphs 9-17 below provides a summary.

9. There were five performance indicators applicable to the service quality of local authorities' housing benefit administration in 2001-02. They can be summarised as follows:

- 78a average time to process new claims (294 LA observations)
- 78b average time to process change of circumstances (292)
- 78c % of claims processed in reasonable time (290)
- 79a accuracy of processing expressed as % (266)
- 79b % of recoverable overpayments recovered (227)

10. It has been suggested that the reliability of each of the BVPI measures as collected, referring to measurement and definitional problems, generally descends down the order as listed – the processing of new cases is the most reliable down to estimates of recoveries which is the least reliable. This is reflected in the number of authority returns completed at the end of 2001-02 for each data item: from 294 down to 227 (see figures in brackets above).

11. For 2002-03 the list of indicators has been modified to six, as follows:

- average time to process new claims (unchanged)
- average time to process change of circumstances (unchanged)

- % of renewal claims processed on time
- % of accurate cases
- % of new claims decided in 14 days
- % of new claims paid on time.

(At the time of writing only two quarters of the 2002-03 PI data is available for analysis.)

12. There are also some comparative performance results for authorities with experience of outsourcing. A comparison of the median scores of all authorities compared to those for the 37 outsourced authorities for each BVPI reveals that the outsourced authorities have done less well. However such comparisons are not particularly informative because the 37 authorities with outsourcing experience are not a typical cross-section of local authorities. London authorities and unitary authorities are over-represented (demonstrating that outsourcing has therefore tended to apply more in larger authorities) and there is also a much higher proportion of outsourced authorities in the southern half of England compared to other regions.

13. This mismatch can be corrected to an extent by making comparisons of performance between subsets of authorities with similar characteristics. Thus the performance of all districts can be compared with performance in districts that have outsourced. The performance of all unitaries can be compared with that for unitaries that have outsourced, and the comparative performance in larger urban authorities can be attempted by comparing London and metropolitan authorities' performance with the performance of London and met outsourced authorities.

14. Such comparisons are undertaken in the following tables:

2001-02 audited performance indicators: median scores

	78a	78b	78c	79a	79b
All London & Mets	53 days	14 days	72%	97%	44%
Outsourced London & Mets	88 days	26 days	58%	97%	34%
All Unitaries	53 days	16 days	60%	97%	60%
Outsourced Unitaries	44 days	15 days	58%	99%	60%
All Districts	46 days	12 days	72%	97%	56%
Outsourced Districts	38 days	12 days	76%	99%	60%

2002-03 performance so far (2 quarters un-audited): median scores

	78a	78b	% claims processed on time	% of accurate cases	% of new claims decided in 14 days	% of new claims paid on time
All London & Mets	57 days	19 days	63%	97%	65%	56%
Outsourced London & Mets	81 days	24 days	58%	96%	57%	40%
All Unitaries	57 days	17 days	62%	97%	59%	59%
Outsourced Unitaries	59 days	17 days	49%	96%	50%	52%
All Districts	44 days	11 days	74%	98%	74%	69%
Outsourced Districts	35 days	9 days	81%	99%	88%	72%

15. The figures suggest that, in general terms, outsourced authorities perform less well in London and the Mets than is generally the case with such authorities; that the performance of outsourced authorities is better in district authorities than is generally the case with such authorities, and that the performance of outsourced unitary authorities is very similar (sometimes marginally better, sometimes marginally worse) than the performance of all unitary authorities.

16. There are important caveats to these results. By stratifying the comparisons we have allowed for the different characteristics of outsourced as compared with the normal range of authorities, but eliminating the whole effect of these differences is very difficult. For instance if the comparison needs to allow for the fact that outsourced London and Met authorities are concentrated in the centres of highly urbanised conurbations with all the attendant problems of deprivation and their effects on the housing benefit service, then the poorer performance of such authorities might be explained more fully. The overall conclusion from the analysis might then be that differences in performance are much more related to size and urbanisation of authorities whether outsourced or not, and the fact of outsourcing is insignificant.

17. It should also be borne in mind that PIs can never reduce to a set of indices the whole range of an authority's performance in delivering a complex service such as benefits, and this necessarily limits the conclusions to be drawn from comparisons such as these. This analysis represents only a stage towards more comprehensive comparisons that will be able to be made when more audited data becomes available in future years.

Past Research Into Benefits Administration

18. There are a number of previous reports about Benefits management performance that have informed the background to present research.

IRRV Benefits Inquiry Report

19. This was a comprehensive review of the Benefits system. It also looked critically at performance and PIs, highlighting the complexity of PIs, the tendency for definitions to change over time which frustrates long-term comparisons, and their inability to make the distinction between authorities using and not using the Verification Framework.

20. The report also contains a substantial list of evidence on benefits administration, including both published and unpublished material.

Housing Benefit – the National Perspective: the Audit Commission

21. This looked at performance over the last five years and concluded that times to process new and existing claims have deteriorated even though the number of claims submitted has declined.

DWP in-house report series

22. In addition there are over 100 past DWP in-house reports (some are unpublished) which were made available to the research team, but which contain little information specifically about outsourcing.

ANNEX C

THE RESEARCH METHODOLOGY

This annex provides a description of the various study methods adopted in this research project and their inter-relationships.

The research was designed to be carried out in four stages:

Stage One:	Project Set-up and Initial Stakeholder Interviews
Stage Two:	Data Audit & Research Design
Stage Three:	Conduct Fieldwork and Process Workshops
Stage Four:	Final Analysis and Reports.

Stage One was designed to clarify the current context and flag up issues for investigation during the main research programme and to inform the selection of the case study authorities. Stage Two explored the full range of data sources and collection methods. Stage Three involved fieldwork consisting of detailed case studies of benefits administration in a sample of local authorities and workshops with benefits managers, contractors and other key players. Stage Four brought all the strands of the research together, analysed the results, and validated the findings in order to produce a main report, research summary and good practice guide. Each stage is described in more detail below.

Stage One – Project Set-up and Stakeholder Interviews

At this stage meetings were held with DWP officials to agree on the detailed modus operandi for the research and to establish the current policy context. Another major element of this stage was to conduct initial interviews with key stakeholders.

Initial Stakeholder Interviews

Interviews were held with some 20 main stakeholders involved in or with an interest in Benefits administration (see Annex B). These included:

- local authority associations
- the Local Government Ombudsman
- a range of private contractors (some still in the market and others who had withdrawn from it)
- professional bodies
- advisory bodies concerned with the administration of benefits
- a private sector landlord organisation
- policy advisers at DWP and the BFI

- Unison.

The interviews provided qualitative information about areas of concern and significance to key stakeholders. Their responses to the main issues informed the detailed research design during Stage Two. Information was already available to the research team through the involvement of IRRV Solutions in the project with their in-depth knowledge of benefits administration and earlier investigations into related matters. The association with IRRV also ensured that the research team contacted key players and organisations in the benefits field.

Stage Two - Data Audit and Research Design

In order to avoid repeating research and collecting data that was already available from past research, a data audit was carried out during Stage Two. There was also a need to confirm the actual number of local authorities in each of the following categories:

- Those who have kept HB and/or CTB administration in-house
- Those who have outsourced one or both services or elements of the service at some time
- Those who have brought the service back in-house following experience with external contractors
- Those who are still outsourcing HB and/or CTB administration.

DWP assisted the data audit by making available the information collected from earlier omnibus surveys commissioned by them and the performance indicator returns received by them.

It was necessary at this stage to identify areas where we needed to collect additional information besides that from the case studies, i.e. to establish a means of collecting data from **all** the authorities with outsourcing experience.

Research Design: The Surveys

The detailed design of the main data collection phase and other principal sources of data collection was undertaken at this stage:

1 Local authority survey to gather information about outsourcing experience

DWP facilitated this survey of local authorities by inserting an additional module into wave 7 of their regular LA Omnibus Survey (undertaken by NOP). This was designed to obtain information about the experiences and views of local authorities whose benefits administration is either currently

outsourced or has been outsourced in the past. The fieldwork for this survey took place in October and November 2002. The results provided material for the analysis stage of the research and some of the findings of this survey are incorporated in Section 3 of this report.

2 Case studies in local authorities

See next section for the detailed design of the case studies.

3 The views of Benefits practitioners

Benefit managers' views were obtained at a special workshop convened at the annual IRRV conference in October 2002. Emerging themes and findings were also discussed with benefits practitioners in three regional forums organised by the IRRV during October (and held in Bristol, Doncaster and London). 29 authorities were represented in total, of varying size, type and experience (or otherwise) of outsourcing. Notes from these sessions were fed back to the team to inform work on the project.

4 The views of service providers

The views of contractors from across the industry were obtained during the stakeholder phase of the research. Their views were also obtained as part of the local authority case studies by including interviews with staff of the service providers.

5 The views of private landlords

The views of private landlords from across the industry were obtained by adding interviews with them to the series of stakeholder interviews conducted during stage one. A further source of the views of private landlords was obtained as part of the local authority case studies by the inclusion of some of the local private landlords in the case study programme of interviews.

5 The views of welfare rights advisers

As a complement to the local authority case studies, in order to sample the views of claimants and their welfare advisers, focus groups were organised in two of the case study areas. In the other six, telephone interviews were held with representatives of the main advice agencies.

Research Design: The Case Studies

Eight local authority case studies were selected to obtain more in-depth information about the local experience in administering benefits from a number of different perspectives including:

- The local authority commissioners of the service
- The providers of the service (both external and in-house)
- The users of the service (claimants and landlords)
- The quality of the service from these differing perspectives
- Socio-economic and demographic profile
- The cost estimates and resourcing for the contracts
- The expected outputs and service deliverables
- Process issues and design of contracts.

The information collected through the case studies was primarily qualitative. The views of claimants and their advisers in case study authorities were obtained, as noted above, by means of focus groups in two authorities and by telephone in the other six.

The eight case studies were made up as follows:

- 1 where CTB/HB administration has always been in-house
- 4 where CTB/HB has been and is still outsourced
- 2 where CTB/HB has been brought back in-house after experiencing outsourcing
- 1 which was in the process of re-insourcing.

Criteria for the Selection of Case Studies

The case studies were not just mixed in terms of location: they were very different in population, in the nature of the problems they face and in the size and complexity of their benefits caseload. Some of them include areas with major socio-economic problems - amongst the most deprived in the country - with many households relying on income benefits and where unemployment is generally high. Several also contain a rich variety of cultures and ethnic minority groups. Others include a mixture of poorer and very affluent areas. We took into account:

a) geographical spread: a reasonable regional representation was important. A mix of shire, urban and inner city locations was also desirable. However the mix would, to a certain extent, be constrained by the incidence of outsourcing amongst different types of authority.

b) the likely learning experience from the case study: the choice of case studies had to enable useful comparisons and assessments to be made.

The important themes of the research (such as key issues identified from the stakeholder interviews) should be a feature of the selected case studies.

c) varied approaches to the contract and the package of services covered by the outsourcing arrangements:

d) differences in size and complexity of case load

e) the willingness of authorities to participate: selected authorities had to be willing to co-operate in detailed case studies. They had to be prepared to be open and honest about what had happened.

The selection was therefore “purposeful” rather than a random cross-section. Pragmatic considerations, such as those outlined above, were used to determine the final choice.

Stage Three - Data Collection Through Fieldwork Interviews, Surveys and Case Studies

The main fieldwork surveys and information sources can be summarised as follows:

- interviews with key stakeholders involved in Benefits administration
- survey of LAs through DWP Omnibus survey, Wave 7
- case studies with seven local authorities with outsourcing experience and one authority where Benefits have remained administered in-house
- workshop for Benefits managers at the annual IRRV Conference
- views of claimants’ advisers through focus groups and telephone interviews.

Process Workshop

A further workshop was held towards the end of Stage Three, with representatives from the key stakeholders and from case study authorities participating. The purpose of this workshop was to

- tease out further key issues to be addressed at the analysis and report writing stage
- enable feedback to be given to those contributing information to the study (such as the case study representatives)
- provide information about the emerging findings and lessons of the research.
- assist practitioners to avoid some of the pitfalls of the benefits contracting out process

- provide the opportunity to test and refine emerging findings against the participants' perceptions and experience
- consider the impact so far of the amendments to the HB regulations permitting contractors to make determinations.

Therefore the design of the workshop sought to focus on process rather than policy issues.

Stage Four - Final Analysis and Reports

This stage involved the production of three main outputs.

1) Main Report

The analyses from the various surveys and case studies were brought together and the overall picture formulated. These formed the basis for the main report (this document) including a summary and the development of key findings and conclusions.

2) Good Practice Guide

The second key output at Stage Four is the production of a good practice guide. The guide builds on the information gathered during the study and on the key conclusions arrived at and includes:

- learning points associated with benefits administration in general and outsourcing in particular, including contract design, partnership working and other key issues
- ways of adapting the administration process to enhance the quality and durability of outcomes
- ways of reducing and/or simplifying the demands which the procurement process places on all parties.

3) Research Summary

The third output is the preparation of a research summary for publication.

ANNEX D

OUTSOURCING – MARKET DEVELOPMENTS

Background

1. Outsourcing of benefits in the UK has been a much changing market over the past few years. The surge in contracts awarded to the private sector during the mid-nineties ground to a halt towards the end of the decade as a significant number of contracts hit difficulties. The private sector was reluctant to take on further risky, low return, contracts, particularly in the very difficult London environment. Local authorities were equally wary of the perceived poor performance of the private sector.

2. The position in terms of in-house performance has not been without its problems. However, whereas, in the past, the remedy sought was to outsource, authorities now use traditional means to try and address their problems with Benefits administration. Typically this involves the use of temporary processing staff and interim managers and, occasionally, consultancy assistance. There is also investment in ICT, though not always with total success.

3. Since about the turn of the millennium in particular there has been movement towards using the private sector in different ways. Partnerships are being developed that use the skills of the private sector in more innovative ways than has been the case. The range of solutions available to the Benefits market is considerably wider than it has been in the past. In the following paragraphs we set out the principal approaches that have been taken.

Remote Back Office Processing

4. The provision of remote back office processing support is a fast growing area. This involves the private sector in providing part of the benefits administration service from a remote site. The contractor will, typically, “dial in” to an authority’s systems to process Benefits applications. That service is used usually for only part of the service and for two main reasons:

- to provide resilience in times of heavy workload so that authorities can avoid the build up of potentially very damaging backlogs; and/or
- to address staffing or skill shortages that the authority may be suffering freeing up existing on-site staff to undertake other duties.

A number of authorities see the availability of such services as a key way in which to ensure that they can provide a robust Benefits service without committing to extra permanent resource. It is seen as a service that can be turned on and off at short notice without too much difficulty.

5. This kind of support is almost all provided from the north of the country where pay is lower than it is in the heavily pressurised South East. This makes the service potentially very cost effective. It provides additional business to the Business Centres set up by the various contractors. The contractors also use the services internally, supporting their other contracts from their main Business Centre.

Provision Of Call Centres

6. Some authorities are outsourcing their call centre activities in relation to benefits to the private sector. This is intended to take the pressure of telephone calls away from the authority, enabling them to concentrate on processing activities. It is not yet clear how successful these initiatives are in terms of standard of service provision. Additionally, many authorities are now seeing that they should be taking a holistic approach to public contact and not segmenting provision by service. This means that the drive in this particular area will normally be corporate rather than Benefits specific. However this type of service remains one weapon in the armoury of several authorities.

Strategic Partnerships

7. Where it is possible to do so Benefits administration will tend to be included in the major strategic partnerships entered into by local authorities. In these circumstances the driver for these arrangements is not the need to address Benefits performance. Motivation tends to be wider and corporate in nature. It is not, consequently, a route that would be used simply for improving Benefits services. However it has provided some advantages over the other more limited contracts that have been let in the past. It enables the risk to be spread over a greater number of service areas making the contractor less exposed to the considerable vagaries of the Benefits world. Bigger contracts also offer access to economies of scale. On the negative side an authority may, on occasions, find it difficult to get the required focus on Benefits.

Change Management and ICT Projects

8. A further approach has been to engage in partnerships where authorities bring in management and technical resources, often, along with the provision of ICT services. For instance there are authorities that have engaged the private sector to provide change management, business process reengineering and IT systems without transferring staff. There are instances of these partnerships where they are accompanied by some staff

transfer. However the principle is that the private sector partner is used only to the extent to which they provide added value.

9. Many authorities regard this type of arrangement as being an excellent way of bringing much needed large-scale change without enduring the vicissitudes of a straightforward outsource. The approach provides the authority with high degrees of control and considerable potential flexibility. The private sector is moving to provide these types of service though a number of suppliers have been slow to accept the principles. The reluctance on the part of these suppliers appears to be caused by fears that they could be exposed to risk as a consequence of not having overall control. There is, nevertheless, a big enough provider market to make this approach entirely feasible for a great number of authorities.

The Supplier Market

10. The supplier market has been fluid for some time. A number of major suppliers have left the market and are not prospecting for new business with local authorities. Additionally companies in the market tend to be much more selective about what they bid for. More and more companies are considering leads and invitations to tender most carefully and are opting out where they are not comfortable with the approach being adopted.

11. To counter these trends new suppliers of a different nature and size are entering the market. Clearly the move away from the “one size fits all” approach has made the market accessible to different types of supplier. Also the market for large-scale multi-service strategic partnerships has brought in new players who might not otherwise have been interested in the Benefits market in isolation. A list of some of the bigger players currently in the market is set out below, but it is not complete or definitive because the market is continually changing and the attitude of the firms in it will change too:

Amey	ITNet
BT	Liberata
Capita	Vertex
HBS	WS Atkins

Summary

12. There is now a market for private sector provision to the Benefits service that is much more flexible than hitherto. There is a trend towards mixed economy solutions that combine the strengths of both private and public sectors. There will, without doubt, be a continuing role for straightforward outsourcing. However the developing approaches provide local authorities

with the opportunity to mix and match the services on offer to meet individual and very specific needs.

Glossary

BFI – Benefits Fraud Inspectorate

BPR- Business process re-engineering

BVPI – Best Value Performance Indicators

BVR – Best value review

CCT – Compulsory competitive tendering

CPA – Comprehensive performance assessment

CTB – Council tax benefit

DIP – Document image processing

DMS – Document management system

DWP – Department for Work and Pensions

HB – Housing benefit

IRRV – Institute of Revenues, Rating and Valuation

IT – Information technology

ITC – Information and communication technology

LA – Local authority

LGA – Local Government Association

NDDR – National non-domestic rates

OJEC – Official Journal of the European Community

PI – Performance indicators

RSL – Registered social landlords

SLA – Service level agreement

TUPE – Transfer of Undertakings Protection of Employment [Regulations]

VF – Verification framework