

CABINET	AGENDA ITEM No. 6.4
14 th DECEMBER 2009	PUBLIC REPORT

Cabinet Member(s) responsible:	Cllr David Seaton, Cabinet Member for Resources.	
Contact Officer(s):	Ben Ticehurst, Deputy Chief Executive	452303

REFRESHING THE LOCAL STRATEGIC PLAN

RECOMMENDATIONS	
FROM : Cabinet Member for Resources	Deadline date : 14 th December 2009
Cabinet is asked to:	
1	Endorse the strategy of collaborating with other public services in Peterborough to reduce costs through the three workstreams set out in 4.3.3 below.
2	Delegate to the Chief Executive in consultation with the Executive Director of Strategic Resources, the Leader and the Cabinet Member for Resources the authority to implement a collaborative procurement exercise with other public services to procure the capability required effectively to implement the three workstreams

1. ORIGIN OF REPORT

- 1.1 This report is submitted to Cabinet following a referral from Cllr David Seaton, Cabinet Member for Resources.

2. PURPOSE AND REASON FOR REPORT

- 2.1 The purpose of this report is for Cabinet to endorse and approve the recommendations above.

This report is for Cabinet to consider under its Terms of Reference No. 3.2.1 To take collective responsibility for the delivery of all strategic Executive functions within the Council's Major Policy and Budget Framework and lead the Council's overall improvement programmes to deliver excellent services.

3. TIMESCALE

Is this a Major Policy Item/Statutory Plan?	NO	If Yes, date for relevant Cabinet Meeting	
---	-----------	---	--

4. PROPOSED CHANGES

4.1 Context

- 4.1.1 Public sector budgets face significant reductions from 2011 onwards. For the council, this might involve a five percent or even a ten percent reduction in grant. If the various public services in Peterborough combine our overheads by sharing front- and back-office activities and by working together better to manage our supply networks we can at least partially adapt to this reduction in income by removing unnecessary costs.

- 4.1.2 There are other areas of unnecessary cost arising out of the ways public services are presently organised, which can be summarised by the observation that a range of agencies have been established separately to focus on discrete problem sets. If, instead, public services worked as though we belonged to a single entity and acted on the information we

possess about the cost, timeliness and effectiveness of various interventions, we could achieve better outcomes at a significantly reduced cost. Such a change would also make the experience of dealing with public services much more straightforward for our customers.

4.2 Efficiency achievements

- 4.2.1 Peterborough City Council has delivered £24m in cash savings through Business Transformation since autumn 2006. During the last year or so an effective programme has also been launched within NHS Peterborough. Naturally, during this period much of what could be considered to be “low hanging fruit” has been harvested.
- 4.2.2 The council’s effectiveness in this area has been recognised with a series of awards, the most significant of which, the Local Government Chronicle Efficiency Award, has just been won.

4.3 “Total Place”

- 4.3.1 The government is sponsoring a number of projects under the “Total Place” banner. The idea is that the total amount of taxpayer-funded activity in an area is counted and the services that spend the money then find ways to collaborate so as to achieve the same or better outcomes at a lower input cost.
- 4.3.2 Peterborough City Council declined to be a “Total Place” pilot, having seen the onerous supervisory regime attached. Instead, just as we did in 2006 by getting going with business transformation before most councils, we have commenced discussions with the other local public services about taking action to collaborate in order to reduce costs.
- 4.3.3 We envisage three broad programmes:
1. A public services alliance – shared business units
 2. Demand transformation – switch to prevention instead of cure
 3. Better supplier and contract management

4.4 What needs to be done

- 4.4.1 The background paper *Green Shoots: better public services* rehearses the arguments more fully, but in essence, we need to take the following steps:
1. Reach agreement with our public sector partners on the need for change and on the sorts of changes required
 2. With them, define the (technical and financial) capability required to bring about this change
 3. Procure that capability
 4. In the meantime, take costs out wherever possible by aggregating activity and reducing overheads

5. CONSULTATION

- 5.1 The proposals have been discussed extensively with senior officers within the Council, and early engagement has taken place with key partners within Peterborough.

6 ANTICIPATED OUTCOMES

- 6.1 The creation of a public service alliance will enable public sector bodies in Peterborough to reduce costs and improve efficiency through shared back office business units that eliminate existing duplication wherever possible.
- 6.2 An increasing focus on prevention instead of cure will not only reduce costs in the medium to long term across public organisations, but will also raise service standards as people receive interventions and responses earlier and more specifically targeted to their needs.

7 REASONS FOR RECOMMENDATIONS

7.1 The reasons for the recommendations are outlined in section 4 above, and in more detail within Annex 1. In outline, however, the main reasons are below:

- Core funding is likely to be reduced across public sector bodies, with obvious potential impact on services if nothing is done
- The opportunities presented by exploiting efficiencies and economies of scale *across* public sector bodies in Peterborough has the potential to generate substantially greater cost savings than by examining each in isolation
- The skills, capabilities and investment necessary to realise such savings and improvements across public bodies will be impractical to achieve without a strong, highly capable private sector partner

8 ALTERNATIVE OPTIONS CONSIDERED

8.1 The options of continuing 'as is' with a largely internal Council transformation programme was considered, but leaves the Council with a situation of increasingly diminishing returns; in short, the success of the business transformation initiative in improving efficiency means the opportunities for improvement that remain are generally fewer and smaller in scale. They are therefore unlikely to realise the efficiencies necessary to offset potential funding reductions and overhead increases.

9 IMPLICATIONS

9.1 The implementation of the work programme outlined in the report is crucial to the delivery of savings that will be needed to deal with the financial challenges in the medium term financial plan from 2011/12. A capacity bid is included within the 2010/11 draft budget to support this work.

9.2 The Council will implement a collaborative procurement exercise with other public services to procure the capability required effectively to implement the three workstreams mentioned in 4.3.3 above.

10 BACKGROUND DOCUMENTS

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985)

Annex 1: Refreshing the LSP: a focus on delivery and improvement

Peterborough's local strategic partnership (LSP), the Greater Peterborough Partnership (GPP), has provided very effective mechanisms for bringing local organisations together to improve outcomes for the city's communities, and has successfully brought about the adoption of a single set of strategic objectives for the city's public services, key businesses and third sector organisations.

It recognises the need now to build on these achievements by further strengthening its improvement capability and introducing more effective delivery interventions to address some of the issues on which Peterborough continues to lag behind its peers.

The GPP executive committee is receiving a report and presentation roughly simultaneously with this paper coming to the council's Cabinet which proposes a refresh of its operational arrangements. These are shaped by three principal considerations:

1. The way Peterborough's public services run *business as usual* needs to change if there are to be step changes in performance in a climate of sharply reducing public funding – we need to move much further along the silo-single entity spectrum towards a virtual *Peterborough Public Services Alliance* with shared overheads and integrated service commissioning based on customer preferences not historical organisational divisions
2. This will require technical and financial business change capability not currently available
3. A fresh GPP architecture focused solely on improvement activity should be created with a much leaner attitude towards the use of resources (expensive public servant time, principally) currently expended in hundreds of briefing/networking meetings

The GPP refresh has been designed in conjunction with this paper and the Green Shoots agenda.

To protect and hopefully enhance public services in a time of spending reductions the *Peterborough Public Services Alliance* will need to create three new entities or capabilities: a shared front office, a shared back office and a shared service commissioning and supplier management function.

These will be the vehicles to deliver the four workstreams proposed in the original *Green Shoots* paper, which on reflection can be reduced to three:

1. A public services alliance – shared business units
2. Demand transformation – switch to prevention instead of cure
3. Better supplier and contract management

The debate about public spending

We won't know until next summer exactly what scale of reduction is to be applied to public spending from 2011 onwards, but £75bn a year is considered plausible, resulting in ten percent cuts for a local authority like Peterborough City Council. Other public services will face similar challenges. It is worth noting that the Government's room for manoeuvre is more limited than in previous recessions because of the massive revenue obligations already accepted through Private Finance Initiative (PFI) and other public-private partnership (PPP) schemes; because of the sheer scale of the shortfall in revenues; and because of the heightened sensitivity of the productive parts of the economy to reductions in publicly funded activity.

Efficiency: what is to be gained?

Firstly, consider the alternative: in the absence of urgent collective action by the city's public sector organisations, each will face its own spending reductions in the coming years with its inherited

structure of fixed costs. Efforts to protect frontline services from the impact of funding reductions will be aggravated by the maintenance of separate clusters of overhead: separate back and front office costs. The costs of customer service will be kept artificially high by the continued separation of demand for outcomes into organisationally-segregated flows. The ability for the city's public services to benefit from scale economies and long-term planning of investment will be minimised by keeping financial and operational boundaries intact.

The approach outlined in the Green Shoots paper, by contrast, will maximise the opportunity to protect front-line services and, if skilfully managed over a sustained period of time, actually enhance customer experience in many areas. We will have delivered a changed culture in which outcomes are the key focus, but where there is a robust appreciation of and ability to control the costs and quality of inputs. Instead of separate silos we will have achieved scale or scope economies where these bring financial benefits without risking delivery. Instead of our communities getting less for less we will have found a way to keep what matters most in our current portfolio and to have achieved more for less in some areas. Perhaps most importantly for the city's long term, the council will have been able to keep its head above water financially, in spite of horrendous pressures, so as to keep driving the city's growth agenda, delivering the city's university, more homes, more jobs and a green infrastructure.

Is Peterborough going it alone?

Officers have declined to step forward and engage in the government's *Total Place* pilots because the evidence to date is that these will engage enormous amounts of resource in gathering information but release relatively little resource for actually adjusting models of service delivery.

Officers' view has been that there is a pressing need to secure a mandate to implement a pragmatic action plan that creates the capability needed to respond to the combined challenge of reduced funding, continuously rising public expectations and the pressure on service delivery models brought about through comprehensive area assessment (CAA).

However, the sorts of arrangements envisaged by this paper and the wider framework to be presented to the GPP in November (deliberately) have some of the characteristics of delivery partnerships that have been established by high performing and well-regarded local authorities such as Westminster, Kent, Hampshire and Hertfordshire, who have embraced a mixed-sector culture, challenging the previous inertia and driving where appropriate private sector commercial skills through their organisations allowing them to deliver excellence in performance, value and customer service. We have done these things too, as is reflected in the number of awards PCC has and is receiving currently (Customer Services, Finance, Business Transformation, Waste and Environment, Procurement etc..) but mainly in the areas where change programmes have focused. The authorities mentioned embarked on their own Green Shoots programme a couple of years ago and we need to drive this programme hard to stay at the forefront of good practice in local government.

Efficiency: delivery issues, risks and phasing

Peterborough City Council has delivered £24m in cash savings through Business Transformation since autumn 2006. During the last year or so an effective programme has also been launched within NHS Peterborough. Naturally, during this period much of what could be considered to be "low hanging fruit" has been harvested.

As a consequence, the transformation workstreams proposed in the *Green Shoots* paper are ambitious and will require significant technical expertise as well as financial investment if they are to succeed. The public sector partners will not be able to provide all the technical expertise from in-house teams, but a mechanism may be able to be found to fund some or all of the investment from existing public sector balance sheets.

Shared partner consideration needs to be given to the design of appropriate commercial and governance architecture, a procurement strategy and project management arrangements. This body of work is in effect a project in its own right, and one of its outputs will be the production of a risk log for the subsequent delivery activity.

At this stage, therefore, consent is sought simply for the establishment of a project in collaboration with public sector partners to settle the design issues set out above together with a delegation to the Executive Director of Strategic Resources to launch a procurement exercise through the council's Professional Services Partnership in order to secure the private sector partner(s) once the design, a supporting financial model and a project plan is agreed.

We also intend to progress promising discussions with our public sector partners and neighbouring authorities about shared services and other collaborative opportunities. Practical initiatives to combine overheads and reduce costs are needed during the next eighteen months as we assemble the architecture for the city's public services alliance.

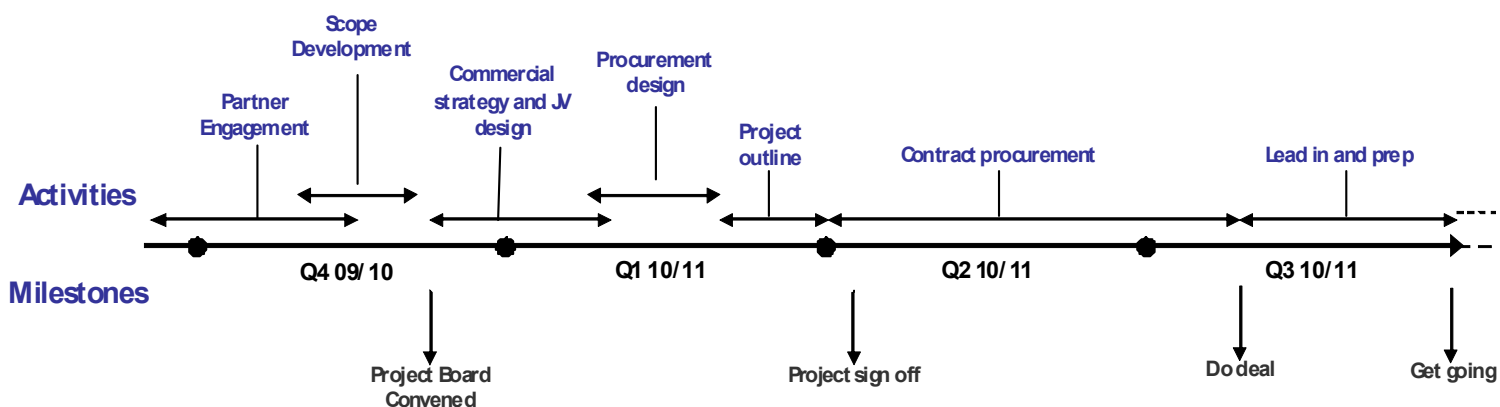
Capability required

A full requirement specification describing the characteristics required of the private sector partner will be one of the outputs of the design project discussed above, and will be used to structure the sourcing process. Obvious candidate factors are:

- Technical competence across a significant percentage of the probable skills requirements
- Financial strength
- Extensive and varied public sector experience with significant exposure to local government and health service consulting and managed service provision
- A strong track record of delivery
- Commercial flexibility and a willingness to accept risk
- An appetite for local engagement rather than a business model that simply delivers from an HQ elsewhere

Next steps

Implementing a limited pilot



Appendix 2: market engagement

“Consultants” and “privatisation”: a rational decision framework

There has been political and officer debate throughout the period of the business transformation programme about the way “consultants” have been used to drive programme outcomes, and more recently about the use of third parties to manage previously in-house services. Peterborough’s programme has been characterised by a preference for in-house solutions and a refusal to hand problems, and easy margin, over to the private sector. When an options appraisal shows that it is right to source a service from a third party, we take cost out before entering into a contract, so that only those benefits that genuinely flow from the partner’s resources, scale or skill sets are being paid for - we don’t pay private sector firms to fix the problems we can fix our-selves.

The council’s Cabinet reaffirmed its commitment to neutrality about service sourcing at its budget Policy Forum recently, stating that what matters is what works best when all factors are taken into consideration.

However, given that we have stated consistently that the workstreams which comprise the green shoots programme will require third party support, it seems sensible to put this debate on a robust and rational footing and set out clear business and ethical principles governing the decisions to be taken over the next few years. There is too much at stake for the city’s communities for us to allow correct leadership decisions to be hostage to an immature debate about “privatisation” or “consultants”.

There are in fact eight different reasons why and ways in which Peterborough City Council makes use of third party suppliers in its service delivery arrangements. Most of these have been used in the right way at the right time using sensible commercial frameworks for as long as people can remember. All are likely also to feature in the delivery arrangements we establish with our public sector partners to deliver the green shoots programme in the coming years.

It is worth noting that each of the following sections also describes a generic market opportunity for the council’s own increasingly significant trading activities.

1 Economies of scale and scope

Information and communications technology (ICT) is a service area which benefits from economies of scale. Unit costs reduce when provision is aggregated; less headcount is needed to deliver matching service levels when additional desktops are available to support; the benefits of automation and remote configuration and support increment in line with growth in volume; suppliers can profitably employ people with specialist skills when they have multiple clients to support. Peterborough City Council could not hope to compete financially nor in terms of competency with large, multi-client serving firms. For these reasons, it was correct to opt for a man-aged service provision for the council’s ICT services. ICT is used here as an example to illustrate the scale and scope rationale for engaging with a commercial partner; it is not the only area of activity to which these considerations apply.

2 Labour market risk

Some service areas require specialist skills and have the characteristic of there being wide variations in competence/productivity. For example, although there is (of course) a normal distribution of skills across the set of housing and council tax benefit assessors, the best decile are many times more accurate and productive than the average (in other words, the distribution has a kink at the right-hand edge).

Other labour markets have a similar character - social work specialisms, supply teachers, planners are all examples. (Professional sports also work this way!) These markets are also characterised by shortages and significant competition amongst buyers - which typically generates salary inflation and high levels of staffing churn.

Often, the best performers recognise the value they generate through the application of their skills and many choose to work as freelancers in agency or interim placements.

Councils faced with the effects that these labour markets have on their workforce and pay bill often contract with agencies to establish call-off supply frameworks so that when turnover levels are such that throughput and/or quality standards are threatened high quality temporary staff can affordably be procured (with discounts rewarding exclusivity or first-tier supplier status).

3 Long-term requirements for retained specialist skills

There are service areas which require the constant availability of specialist technical or advisory skills, but not at volumes which would enable the client/employer to offer attractive employment/career packages to capable practitioners. Specific engineering skills required by highways teams are an obvious example. Peterborough City Council has a nil volume call-off contract with WS Atkins for precisely these reasons: it is likely to be the case every year that we need advice and technical input from people who know a lot about bridges, and it is very helpful if the people we speak to are already familiar with our bridges and road system - but we don't need to have people who are very knowledgeable about bridges sitting inside the Town Hall every day waiting for someone to need their help, and we cannot predict with great confidence how many days input we will need each year, nor how this requirement will ebb and flow over the years.

4 Peaks and troughs in demand

Some services experience seasonal peaks and troughs of demand - outdoor leisure activities, school admissions and council tax billing enquiries are obvious examples. In these cases, many councils have arrangements such as zero-hours employment contracts, in-house temporary staffing agencies (these can be shared across organisational boundaries: this will almost certainly be a green shoots project) or preferred supplier arrangements with temporary staffing agencies to provide additional labour to help deal with peak volumes.

5 Short-term single position skill sets

Mature agency and interim markets exist for technical and management skills in local government, and they persist because there is constant demand from clients. All councils use agency staff and interim managers, just as all households occasionally hire specific skill sets to get jobs done that require specific capabilities. Peterborough City Council's use of interims tends to be characterised by a strong focus on change and deliverable outcomes, which is the correct way to work with this form of supply.

One of the reasons why there is sometimes debate about "consultants" connected to the council's business transformation programme is that people mistakenly believe the council is procuring third party support under this heading. In fact the third party support to the business transformation programme is quite different, as explained in the next section.

6 Variety of requirements but a disciplined approach to procurement

Peterborough's Professional Services Partnership (PSP) was established to introduce commercial consistency and discipline to the third party contributions to its business transformation programme. The programme grew incrementally having delivered on its initial mandates, and paired a team of in-house project managers with specialist suppliers (type 1) and interims (type 5) to deliver a large number of projects, controlling delivery through the benefits realisation processes now embodied in the council's project management software Verto. The range of technical skills required on the programme is highly eclectic and beyond the reach of any single resourcing supplier.

Before the PSP was procured, suppliers working on projects negotiated individual contracts using various terms and conditions; invoicing and payment terms and processes varied; accountability arrangements were unique to each supplier; and margin varied depending on the skill of the client negotiating the deal. There was a great deal of duplication of and unnecessary variation in administrative activity, and although every project was cash-positive, costs were higher than necessary as a consequence of every commercial package being bespoke. Equally, there were significant and uncontrolled compliance risks and consequential legal and financial exposure for the council concerning consultants' authorisations to work in the UK, compliance with money-laundering regulations and requirements for the provision of Professional Indemnity and other insurances.

The PSP has imposed onto this landscape a uniform set of commercial expectations and business processes. Suppliers who were not prepared to trim margin chose to cease trading with the council; suppliers who failed to comply with disciplines surrounding accounting for progress and invoicing did not get paid. All the compliance issues require evidenced and auditable resolution before suppliers are admitted into the arrangement. The PSP has worked smoothly from its first month, paying suppliers promptly against accurate invoices for correctly ordered work packages based on approved business cases. It presents a coherent face of the council to the marketplace, and effortlessly qualifies out shoddy, flabby or poorly organised suppliers.

The PSP is a managed service procured by the council from Amtec using compliant processes under which the council has full control over the content and pace of the programme, with real-time visibility of deliverables delivered through Verto. Mandating officers to use the PSP when it is the appropriate vehicle ensures that commercial terms reflect the council's preferences and that margin creep cannot take place, and enables through Verto the assurance of programme delivery.

7 Risk and reward

Some challenges fall into the "too difficult for us" category, for every organisation. Often this is because fixing the problem requires disturbing an inviolable unwritten rule that governs the organisation or some people within it. In local government, for example, it is quite often the case that councils outsource services quite unnecessarily because they cannot face directly taking a decision to reduce headcount. Sometimes there is simply a lack of capability, insufficiently focused accountability and insufficient importance being attached to the outcome for it to have become intolerable to the organisation.

Energy management has been a good example of this for Peterborough City Council. If I run a council service, I rent my rooms from the council's property services team - but actually, it makes no difference to me what the rent is, since the people who own the property services team also fund my rent. Someone else pays my electricity bills - or, more accurately, I don't have to deal with the matter of paying my electricity bills - and since it makes no difference to me financially whether these are expensive or cheap, consistent or varied, I don't pay any attention to the matter. Elsewhere, the council employs people to care about reducing energy use, but they aren't personally incentivised by achieving reductions in my energy use, so they only seek to educate and persuade, and I can choose to attend to their messages or ignore them depending on my personal perspectives on the issue.

The outcome of this dynamic is a local authority that doesn't know the quantum nor cost of the energy it consumes and has no non-ideological drivers in place to do anything about this fact. The simple device of putting someone in charge of reducing energy use and only paying them well if they demonstrate sustainable success would fix this problem if it is susceptible of fixing.

The risk-reward approach (almost a form of special purpose vehicle [SPV]) should be considered for challenges matching the characteristics set out above - when a problem is not effectively owned by a single person with sufficient incentive and a clear mandate to tackle it, risk-reward may provide the path to a solution (often an interim solution that can be replaced by a fresh business as usual, in-house if appropriate, arrangement in time).

8 Balance sheet risk

Finally, third party involvement is often mandated by government in cases where significant private finance is required to deliver an outcome. The transfer of the council's housing stock to Cross Keys Homes triggered the creation of a line of credit in excess of £100m to the new SPV for it to draw on in refurbishing the properties - secured against a rental income stream modelled over 30 years. Our Private Finance Initiative (PFI) and Building Schools for the Future (BSF) schools are basically variations on this theme.

The rationale for this approach contains a number of strands which it useful to disentangle, since this type of engagement with third party suppliers will certainly form part of the delivery plan for green shoots as well as for the city's growth programme.

There are five factors involved in decisions to use third parties in SPVs over and above the considerations about scale and expertise already discussed, one of which has yet to be absorbed

by government officials with the consequence that taxpayers contribute more than they should be required to to many deals.

Balance sheet strength - having a partner with a very substantial balance sheet as part of a public-private SPV is attractive because it brings a number of financial benefits: funding can be acquired more cheaply, for longer periods of time and using a much wider range of instruments (in other words, not just debt, project finance or equity) than is the case when weaker balance sheets are brought together. The whole PPP benefits from the smoother and more efficient financing made possible.

Risk allocation - in all collaborations between two or more parties there is a tacit or explicit allocation of risks. What makes sense (and is often not permitted by government packaged schemes such as Large Scale Voluntary Transfer of council homes [LSVT] or PFI schemes) is for the party with the best understanding and capability to own a risk. (For example, it can be argued that head teachers would be better equipped to own caretaking risks than sub-contracted facilities management suppliers in the schools PFI setting.) Councils sensibly look for third party suppliers to take ownership of risks when their size or capability equips them to respond to instances of that risk more effectively than the council can itself.

Management focus - local authorities face an extraordinarily difficult management task as a consequence of the huge number of services they are required to provide or commission. Investors being asked to put their cash at risk in connection with just one set of these services, such as the management of people's homes or the provision of a school, understandably demand the creation of a ring-fenced entity that focuses solely on that enterprise.

Visibility - linked to the previous point, the establishment of an SPV can assure investors and other partners in an enterprise that all its activities and risks are visible to management and therefore capable of being controlled.

Money management - finally, if the clear financial and management boundaries of an SPV are coupled with a management capability that understands how risk varies over time and according to environmental factors, then money can be treated in just the same way as any other input factor procured from a supplier marketplace. For example, a privately financed school has a series of risk profiles: pre-planning, procurement phase, construction, commissioning, initial operation, business as usual. Since risk is different in each of these phases, it follows that there is choice over the supplier of money to take on exposure to that risk. Using the principle expressed earlier ("What makes sense is for the party with the best understanding and capability to own a risk"), a project should at least explore alternative sources of finance as its risk profile changes, because the probability is that a supplier of money that is more comfortable with a specific risk profile will charge a lower rent for that money. This is the dynamic that created the profitable after-market in PFI deals a few years ago - PFI overprices risk by insisting on its aggregation and allocation to one partner.