



Policy Forum

Better outcomes for less

Balfour Beatty Living Places

Balfour Beatty

Introduction

The way we live our lives, where and how we live, work, travel, shop, relax and socialise, is changing. Rising expectations and changing demographics are creating demands that challenge the way the public sector has traditionally put out contracts to tender public sector¹, while the evolving nature of society means we need to shape our local environment to meet a complex array of individual and collective needs.

Local authorities have to rise to meet this challenge at the same time as seeing their funding decline. Government funding for local authorities has fallen by 28% in real terms over the 2010 spending review period, reaching 37% by 2015-16 - equal to a 25% fall in revenue spending power². Local government has worked to protect services and most local authorities have already delivered unprecedented reductions in their spending whilst managing the impact on their communities. However, funding reductions are predicted to continue over the foreseeable future.

In the context of tighter funding envelopes, there is a real risk that communities will suffer if new and innovative budgeting approaches are not adopted.

Similarly, traditional commissioning arrangements may be too rigid and inflexible to cope with the further cuts expected in future. Commissioning has changed considerably over the past three years, with the Open Public Services agenda making an impact and placing an emphasis on outcomes and value for money in particular. This paper sets out how local authorities can capitalise on this agenda, making decisions today to help deliver the savings needed in future, while delivering the local areas and high quality services that people and businesses need to thrive.

¹ Griffiths, S., Kippin, H. & Stoker, G., *Public Services: A new reform agenda*, London: Bloomsbury, 2013.

² NAO, *The impact of funding reductions on local authorities*, November 2014



Outcome based contracts

As the CBI³ and others have highlighted, meeting the social and fiscal challenges facing the UK requires a collaborative approach between government and business. To be successful, this must focus on the outcomes that Local Government wishes to achieve as opposed to the costs that need to be cut.

Moving to an outcome-based approach means shifting the focus away from short, process-based targets onto rewarding outcomes which make a real difference. Outcomes such as improving local economic growth; making streets and parks safer and more attractive; and reducing congestion. To achieve this, there has to be a clear plan relating to the outcomes that the local authority wants to achieve, be they economic or social, and long-term planning has to be included in the budget process. Our advice is to begin at the end: identify the desired outcome and then work out how to get there.

The main benefit of the approach is that local authorities and providers are judged on the tangible improvements they make in areas that matter to local communities. Successful schemes see long-term improvements in the area and in the lives of local people. A secondary benefit of the approach is that there is more flexibility when budgets are tightened.

³ [Competitive, Transparent Accountable, A Value Driven Public Services Sector](#), CBI

Innovation has a lot to contribute to achieving improved outcomes. While cost-constrained contracts may allow for incremental innovation within specific services, they rarely lead to the sort of radical innovation needed to solve complex problems and meet user needs. However, a more flexible approach actually provides space for innovation, high-value interventions and sharing ideas.

Though attractive in principle, focusing on outcomes has been a challenge for the public sector, which has traditionally managed service provision on the basis of inputs and outputs. For many local authorities, output-based contracts therefore remain the dominant commissioning model although they can act as a barrier to delivering better communities. We argue that those local authorities are missing an opportunity to ensure that they are getting the maximum benefit from limited financial resources; to drive accountability and hold providers to account for their performance; and to create space for the sort of risk-taking and innovation needed to achieve improved outcomes. Unlocking the unmet potential in outcome-based commissioning is crucial both to transforming local communities and improving efficiency.

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Case study: Focussing on outcomes and reducing costs

Herefordshire

In 2014, the local authority was looking for new ways to reduce costs by £2.5m, streamline operations and improve resilience. Our response was to encourage the local authority to become more flexible and to focus on the outcomes the community needed, rather than targets relating to how many times things were done in specific timeframes.

We started with highways maintenance. In the past our contracts had focused on agreed targets, such as the number of pot holes that were filled in per day, how long the grass verge was or how many trips the gritting truck needed to make. While this was easy to measure, the targets were not providing any tangible benefits to the local community such as: reducing journey times; increasing the use of public space; or ensuring that businesses could keep working. Inevitably, it also meant that when funding for the service had to be reduced, the conversations focused on cutting cost and what we could stop doing.

More recently, we have moved away from delivery targets to a clearer focus on outcomes, such as the number of jobs we can help create, reducing the number deaths and serious injuries on the roads and improving the environmental footprint. Where budgets are being tightened, instead of simply focusing on cost, we are considering how integrating services can literally deliver more for less.

Measuring outcomes

Commissioners face a challenge in ensuring that contracts are flexible enough to allow meaningful, personalised outcomes, while defining how they will be measured and monitored. Identifying the right outcomes, capturing progress, evidence and impact and assessing provider performance is a difficult mix to get right. It is essential for both parties that there is clarity around the outcomes to be delivered, as well as how these will be measured. This must involve consultation with

the community, as ultimately it is they that will decide if the service is a success.

The best approach is to invest time right at the beginning of the project in defining the desired outcomes that put users and communities at the heart of services. Start with what the customer needs.

The next step is to train commissioning staff to ensure the local authority has the capacity to translate complex outcomes into contract

specifications and realistic measurements – taking care to avoid perverse incentives and encourage innovation. Emphasis should be given to the clarity and systematic nature of monitoring and evaluation, which will ensure commissioning plans and processes are rigorous and transparent. This means building skills and capacity to cope with the commissioning process beyond procurement. In our experience of a number of such contracts, moving to outcome-based commissioning is a cultural shift for local authorities. Those that are open to the development of new skills and approaches are the ones that reap the most benefit.

Building trust and relationships

Local authorities and providers working in partnership can bring a range of benefits that contribute to achieving improved outcomes for local communities. The success of a scheme often relies on the quality of the relationship and communication between the partners. However, commissioners and providers are only now beginning to forge relationships that might result in the delivery of innovative projects in future. It takes time to build trust and true collaborative relationships and to create the policy conditions and governance models that support this. Recognising the need for collaboration and interdependency is key to turning ideas into practical improvements for communities, from sharing intelligence on user needs, identifying individual service outcomes and developing measures and monitoring arrangements.

As relationships and trust develop, ways of working can be agreed which enable savings and investment. For example, shorter contract terms lead to higher contract prices, because contractors price in recouping their investment and the cost of the initial bid over the term of the contract. Shifting from short annual and two-year contracts that are re-commissioned at the end of the term, to longer contracts – for example

seven to ten with up to ten year extensions, creates greater certainty and a longer period over which to recoup these costs. This enables providers to plan ahead and invest consistently in building capability and improving services. The result for the local authority is cost savings over the lifetime of a project.

“Start with what the customer needs”



Tips and recommendations

Although this is still relatively new territory and there is no single blueprint for 'what works', here are our tips and recommendations for moving to a successful outcome-based system:

1. An outcome-based contract should start with the outcomes to be delivered, so the scheme can be designed around them.
2. Once the outcomes have been decided, it is important to agree a robust way of tracking that they are being delivered.
3. Moving to an outcomes-based system means that councillors, officers and residents have to engage throughout the budgeting process so that outcomes are both robust and fully understood.
4. Strong relationships between local authorities and providers play an important role in identifying opportunities for more cost effective, innovative responses.
5. Shifting from short annual and two-year contracts to create greater certainty and scope for flexibility allows providers to plan ahead and invest in building capability and improving services. It can also lead to savings.
6. Commissioning staff need training to ensure they can translate complex outcomes into contract specifications and appropriate measurements.

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