

## Local authority experience in outsourcing Housing and Council Tax Benefits

### Research by IRIS Consulting and IRRV Solutions Identifies Lessons from Outsourcing

This report reviews the history of outsourcing of housing and council tax benefits services to date, examines the reasons for the differing local authority experiences with “successful” and “failed” contracts and identifies factors associated with success and good practice. There is a separate publication “*Outsourcing Housing and Council Tax Benefits: A Good Practice Guide*” which sets out the good practice lessons for local authorities and contractors derived from this research.

### Key findings

The research into the experiences of local authorities that have outsourced their housing and council tax benefits administration, revealed the following key findings:

- Relatively few local authorities (less than 40 in the country) have experience of entering into arrangements with external contractors to provide all, or part, of their HB administration
- There has been a mixed range of experience amongst those local authorities that have at any time outsourced their HB administration
- The reasons for the differences in experience are attributable to a number of factors relating to the local authority’s reasons for outsourcing, previous levels of performance, the local industrial relations context, the extent to which “partnering” approaches have been adopted and the range of services included in the outsourcing package

The research found that where outsourcing arrangements are working effectively the key features include:

- A clear commitment by all parties to maintaining agreed service levels
- Well-planned and executed contract planning
- An open process for awarding the contract
- Well-managed handover designed to achieve “seamless transition”
- Contractual arrangements that provide for liaison and customer care
- An approach by the local authority based on a culture of collaboration and partnering rather than confrontation
- Where the objectives were not just about cutting costs
- Having good service level agreements in place with key parties to the process
- 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.

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 was beset with 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 transferred workforce which resulted in the need to supplement with agency staff which resulted in lack of continuity and disruption
- Poor quality referrals to the Rent Service
- Unclear lines of accountability
- Contractors unable to deliver cost savings either because they had themselves underestimated volumes or the real costs of operation or because in some cases, as claimed by contractors, they had been given misleading information by local authorities.

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

Stakeholders interviewed by the research team 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 adverse publicity had deterred many authorities from considering outsourcing as a viable option.

The outsourcing market place has developed considerably during the last ten years; some contractors had withdrawn from the market while others that remained active were looking to obtain synergies from bundling more services together into larger “partnership” style arrangements.

Recent changes and reforms to the HB system were encouraging local authorities to look again at the options for delivering the service.

Some local authorities are now looking to involve the private sector across a broader range of corporate services and IT systems. In addition to the HB reform measures the factors driving many local 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 sufficient capital to make investments of the order required
- New business models developed by suppliers involving “hubs” which can service many nearby or remote users offering substantial economies of scale.

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.

## The Research

IRIS Consulting and IRRV Solutions were commissioned by the DWP in June 2002 to carry out a study into the impact and effects of outsourcing on the efficiency of Housing Benefit (HB) and Council Tax Benefit (CTB) administration. The main objectives 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.

The research involved:

- Interviews with key stakeholder organisations
- A review of existing research and data sources
- A national survey seeking additional information from local authorities with experience of HB 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.

In addition to the main report which sets out the research findings, conclusions and recommendations in full, good practice guidance has also been produced for all those considering the option of outsourcing Benefits administration. Information about how to obtain copies of this document “*Outsourcing Housing and Council Tax Benefits: A Good Practice Guide*” can be found at the back of this summary.

## Research Findings

### Reasons for Outsourcing

Historically for many local authorities the option of outsourcing their HB and CTB administration was part of their response to compulsory competitive tendering (CCT).

For some authorities the motivation for considering 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 with more attractive packages containing more scope for economies of scale and IT investment.

The three main reasons for outsourcing (not mutually exclusive) cited by local authorities in response to the LA Omnibus Survey were:

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

### The Procurement Process

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; 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.

From the evidence gathered during the research it appears that the procurement process is less likely to be successful where HB is to be let as a single contract. External providers are looking to find synergies with other services; they tend to regard HB administration on its own as high risk and low return.

## The Contract

Contracts varied between 5-10 years in duration with an option to extend by agreement. Given the size of contracts most authorities had advertised through the OJEC procedure.

Most contracts are penalty based with few having financial incentives for achievement above the agreed targets. In only a minority of cases was there formal provision for review.

### Managing and Monitoring the Contract

The research found some evidence of “confrontational” approaches still lingering, but with 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
- Periodic reports to a Members Panel
- Regular (monthly) reports to the lead Member responsible for performance and senior management.

### Performance and Quality of Service

As is apparent from recently published (January 2003) DWP Quarterly Performance Statistics some outsourced HB authorities are 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 been cleared
- A culture of performance management taking hold (for example manifested in things such as daily reports on individual and team throughput)
- 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

Experience in achieving financial savings has been varied. Some case study authorities have delivered impressive cost reductions as a result of outsourcing whereas some other authorities took the view that there had been no savings. In those cases where substantial savings had been reported this was 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.

## Staffing Issues

Key issues here relate to the need to ensure continuity of staffing – especially to ensure smooth handover of the service. In cases where outsourcing had worked well we found that the client unit team had worked together with the contractor team over the whole time of the contract.

Staff also need to be consulted and involved in the process of outsourcing. We found best practice examples of staff being consulted throughout the process culminating in a staff vote to help make the final choice between short-listed contractors.

## Advice Services Issues

The research team contacted advice services in each of the case study areas and at the national level. Bearing in mind that such agencies only tend to get involved when claimants have a problem (and hence they do not see the full range of caseload) they reported that they saw an increase in their caseloads after services had been outsourced. In particular they considered that the more difficult cases were subject to delay and error. Many of the same problems were reported in non-outsourced areas.

## Developments Affecting the Outsourcing Market

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

This has prompted a growing number of local authorities to use “transformation” services from the private sector which involve a critical review of business processes and an examination of the scope for applying new technology. 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.

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 work and the adoption of the Verification Framework is leading some authorities to review their contractual arrangements and to incorporate opportunities for implementation of these initiatives.

## Change Management

Outsourcing is a complex process that calls for intensive change management resources if it is to succeed. Both sides will 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, other landlord organisations etc) and pro-actively managed. The good practice guidance contains more detailed pointers on the issues that will need to be considered and strategies developed as part of an effective change management approach in implementing a successful outsourced project.

The full report *“Local Authority Experience in Outsourcing Housing and Council Tax Benefits”* is published as part of the Department for Work and Pensions in-house series. Copies are available from the Research Support Team on 020 7962 8981 or from: [www.dwp.gov.uk/asd/](http://www.dwp.gov.uk/asd/)

A good practice guide *“Outsourcing Housing and Council Tax Benefits: A Good Practice Guide”* is available free of charge from Corporate Document Services, 7 Eastgate, Leeds LS2 7LY.

Tel: 0113 399 4040. Fax: 0113 399 4205.

E-mail: [cds@corpdocs.co.uk](mailto:cds@corpdocs.co.uk)

The guide can also be downloaded from: [www.dwp.gov.uk/housingbenefit](http://www.dwp.gov.uk/housingbenefit)