

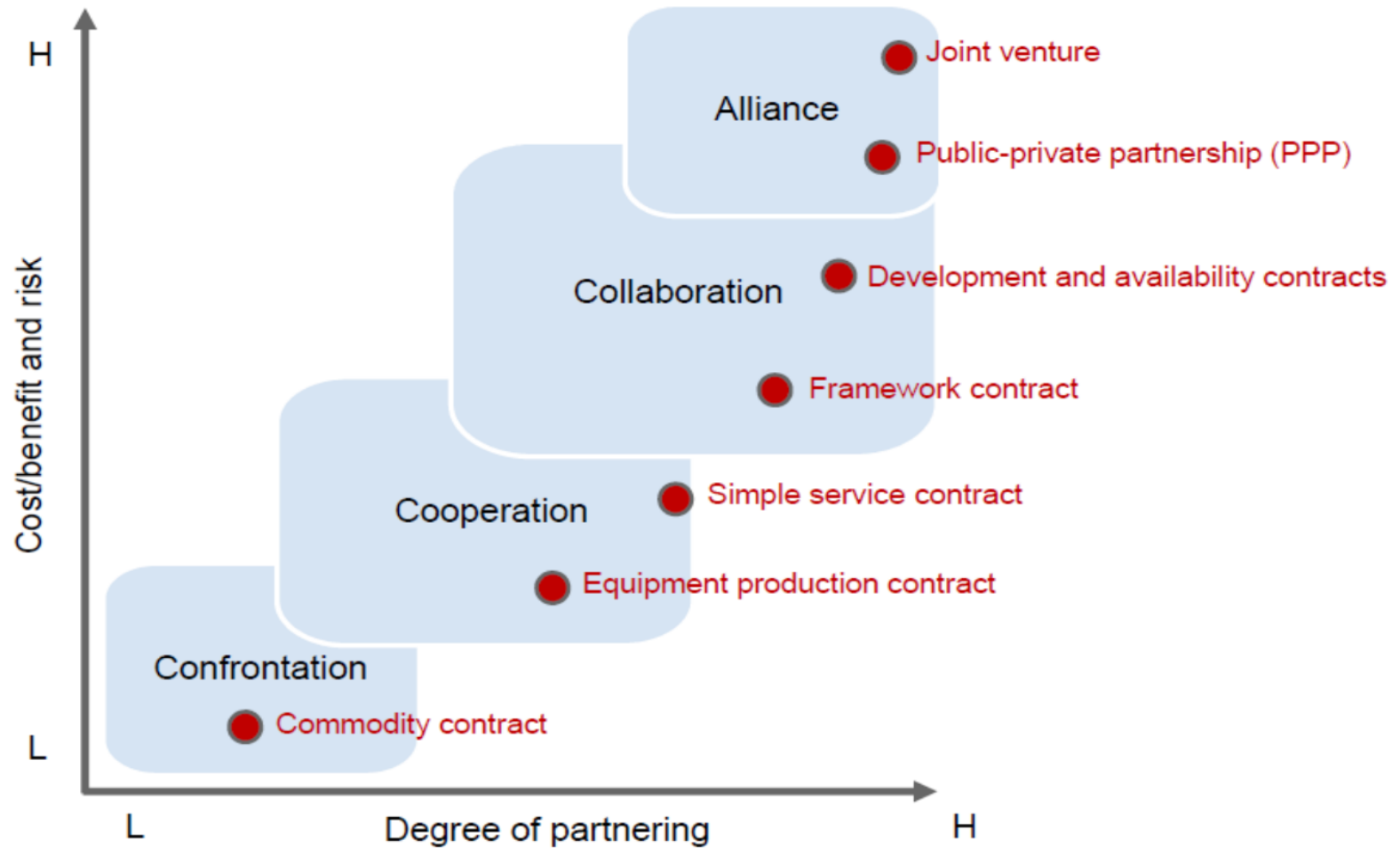


CIPFA SOUTH EAST SPRING CONFERENCE – 27 MARCH 2019

FUTURE OF OUTSOURCING

Mark Williams – CIPFA Government Board, CIPFA SE Council and PA Consulting

Supply chain relationships - Partnering and cost/benefit/risk



Choice of Integrated DBFOM/DBOM/DBM vs. “Towers”

What are the benefits of combining / integration issues?

Input, output and outcomes contracts

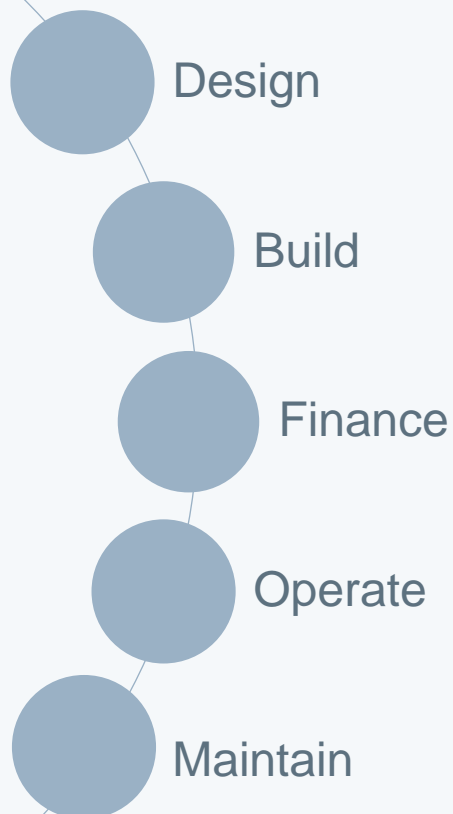
What are the risks?

- Construction
- Demand (operating/political environmental)
- Third party revenue
- Performance & availability
- Change in relevant costs
- Change in law
- Obsolescence
- Residual value

Value of risk transfer?

Value of innovation?

DBFOM



Scale of Outsourcing/Business Services

Government Spending:

Around £250bn per annum on suppliers

Of which £100bn per annum is on procurement of services

BSA material around the scale of outsourcing/business services:

10% of UK workforce;

With 70% of outsourcing being B2B; and 30% being government

Currently not a “happy” place! BSA work on “re-set”. Which means there will be “disruption”

Re-set

More resilience through a diverse supply base

More investment through new partnership models

Meaningful measurement of social value and an understanding of how it can be pursued through the procurement process

A new narrative to re-establish in people’s minds why private companies have a vital role to play in delivering public services

Scale of other “Public Services” and of “Disruption”

Regulated utilities – Gas and Electricity:

Domestic and non-domestic consumers spend around £50 billion on gas and electricity each year.

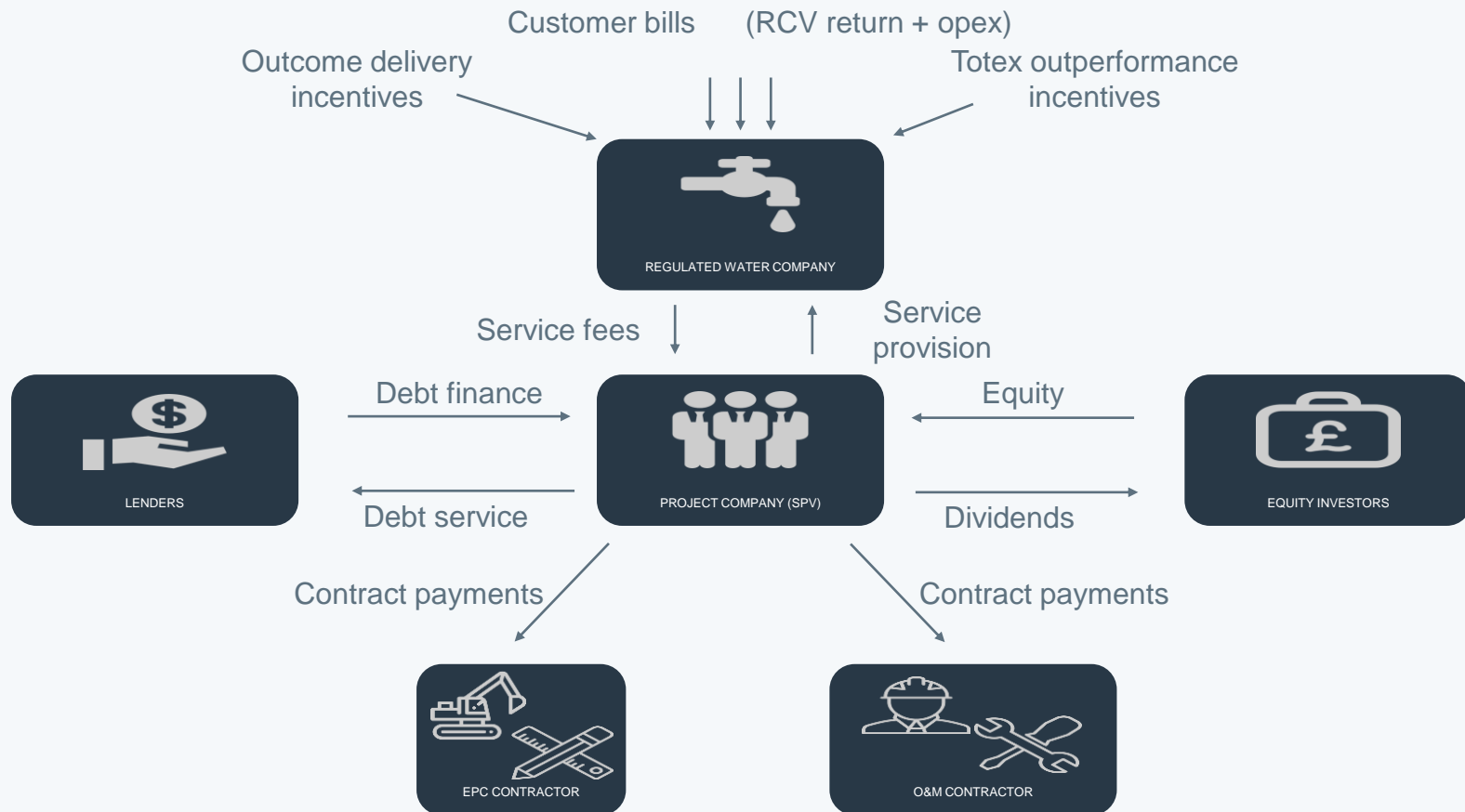
Number of active domestic suppliers (gas & electricity) = 72

Regulated utilities - Water:

£12 billion in companies charges to customers

Number of companies in England and Wales = 32

Water Industry – “Direct Procurement for Customers” DBFOM



Typical DPC delivery model

Scale of other “Public Services” and of “Disruption”

Rail Network:

£18bn of income in 2015-16

Number of rail operators currently 33 (+ 7 freight rail companies)

Role of Network Rail and of the rolling stock leasing cost

Private Finance Initiative (PFI):

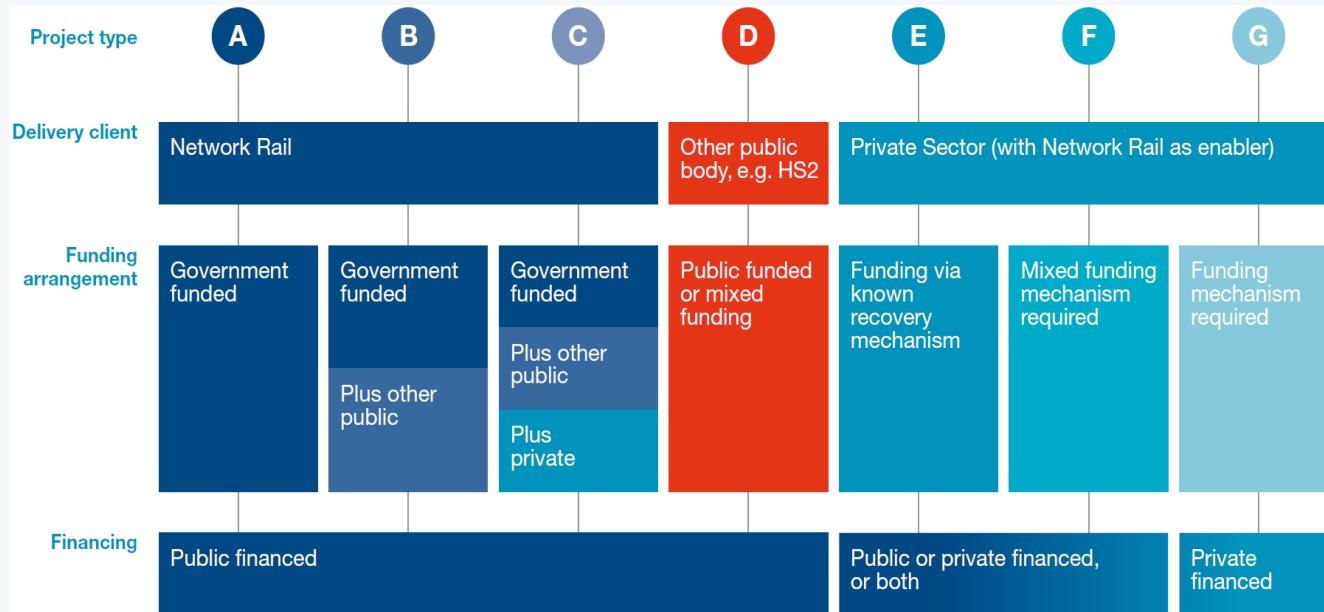
£10bn of 2018/19 annual unitary charge

£59bn of assets constructed under PFI

£33bn reconciling debt number in WGA 2016/17

715 PFIs = 715 SPVs

Hansford proposed a range of rail sector models. Considered in MLPs



Investment options diagram taken from the Hansford Review (*Figure 2 – Investment Landscape*)

PF1/PF2 disruption

Private Finance Initiative Update:

The government has considered the Private Finance Initiative (PFI) and its successor PF2, in light of experience since 2012, and found the model to be inflexible and overly complex. The OBR's FRR also identified private finance initiatives as a source of significant fiscal risk to government. PF2 has not been used since 2016. The Budget announces government will no longer use PF2 for new projects. A new centre of best practice in the Department of Health and Social Care (DHSC) will improve the management of existing PFI contracts.

- Operational efficiencies
- Code of conduct
- Checklist includes early exit
- On early exit - pay-out of debt/bonds, SWAP breakage costs and pay-out of future profit
- Certain buy-outs would be acquisition of a financial asset – therefore an in and out for national debt purposes
- Wider PPPs

Role of the Finance Professional - “New” Delivery Models

Done before Delivery Model

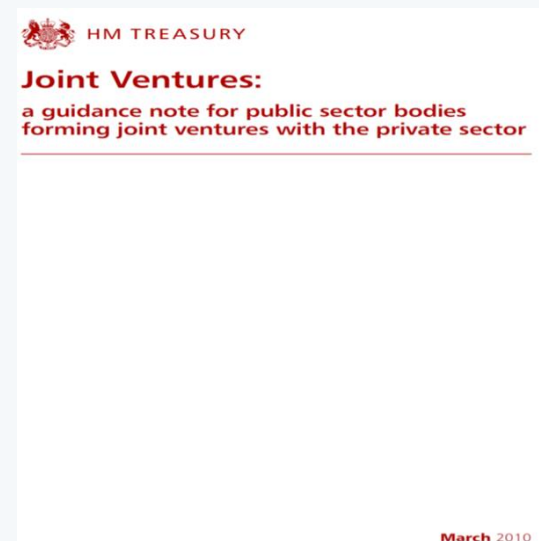
- Plenty of bringing ‘back in-house’ – particularly in local government
- Examples include: Southwark – street cleaning; Three Rivers – waste; Severn Crossing – operations/tolls; East Coast TOC; Justice – FM.
- Some based on decision making / some forced.
- Benefits of resetting arrangements periodically
- Having to define requirements / set KPIs / measure
- Opportunities to revisit / reset
- CIPFA guidance on

New Delivery Models – “Mechanics”

Excellent “toolkit” on moving public services into a new/alternate delivery model (broader than ‘Joint Ventures’)

Chapter topics include:

- Ownership, control, governance
- Assets (including IPR) and resource
- People - TUPE
- Fees and charges
- Classification & state aid
- Accounting & tax
- Reporting



Role of the Finance Professional - Government Outsourcing Playbook Published – February 2019

Who is the Playbook for?

The Outsourcing Playbook aims to provide Commercial, Finance and Project Delivery professionals with guidelines, rules and principles that will help them to avoid the most common errors observed in outsourcing projects.

Key Principles of Playbook:

1. Publication of Commercial Pipelines
2. Market Health and Capability Assessments
3. Project Validation Reviews (PVR)
4. Make versus Buy assessment
5. Should-cost modelling
6. Requirement for Pilots
7. Key Performance Indicators (KPIs)
8. Risk Allocation
9. Pricing and payment mechanisms
10. Assessing the Economic and Financial Standing of Suppliers
11. Resolution Planning

‘Government outsourcing is under intense scrutiny. The collapse of Carillion in January 2018 and the ongoing difficulties of some companies in the outsourcing sector, has put both our decision making processes and the contracts we award, firmly under the microscope’ **John Manzoni**
Chief Exec Civil Service

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