

# Transformation risks

Recent budget cuts, with the prospect of more to come, are compelling local authorities to consider how more can be provided for less. As a result of continuing austerity, local authorities are significantly transforming, using a variety of strategies while at the same time ensuring that they meet their statutory obligations. The result is new opportunities – but also new risks.

Some local authorities may find that continuous improvement of in-house services is achievable, particularly where the availability of external suppliers is low, the cost of outsourcing high and there are sufficient funds to invest in improvements. In such cases, there can be significant advantages in retaining control of key activities, such as using existing skills.

Balanced against this is the need to ensure that this strategy provides a good return on the funds invested and that the desired improvements materialise. Restructuring may be necessary, potentially involving workforce reductions, with the aim of increasing efficiency. Another option may be reducing the level of service and cutting some discretionary activities, although this can present risks to reputation arising from dissatisfaction within the local community and the pro rata increase in the cost of the overheads of services still provided.

However, many local authorities have chosen to outsource provision of some services, acting as enablers rather than direct providers. This may involve re-awarding contracts to existing suppliers who have proved their worth or entering into new relationships. Some local authorities are also looking to develop new income streams, for example building hotels, as well as embracing greater community engagement.

## What the research tells us

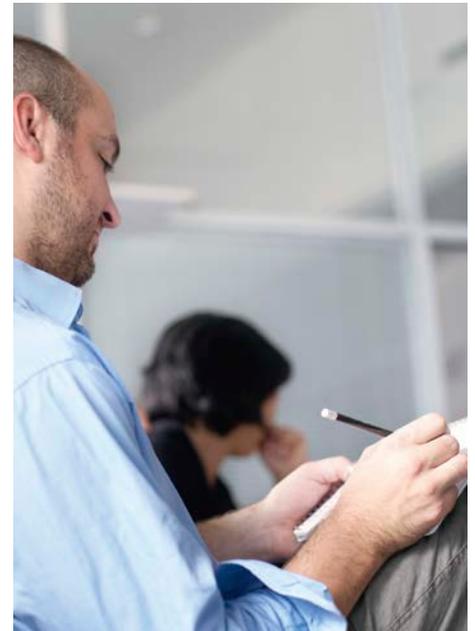
Research conducted by IPSOS Mori on behalf of Zurich Municipal last year shows that issues associated with business and organisational transformation are at the forefront of risk professionals' minds.

Concerns focus specifically on how to strategically manage the effects of budget cuts and minimise any subsequent impacts on service users. There was a sense of uneasiness or uncertainty about how this process is managed and what it means for the future of local authorities in terms of resilience and continuity. However, some risk management professionals saw organisational transformation as a good opportunity to reassess their working practices and to find new, more efficient ways of doing things.

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**It's making people think; that's the best thing. It's making people think 'do we have to deliver services the way we've always delivered them'... Some of them haven't thought about how they deliver a service for years. It's making people more innovative and more commercially minded.”**

Local government risk manager's comments



## New service delivery options

- **Public/voluntary sector partnerships:** These may be valuable in generating economies of scale provided no great IT or financial investment is required
- **Public/private sector partnerships:** Maintaining a strong local authority involvement should ensure that risk management criteria and statutory responsibilities are met
- **Supporting creation of a social enterprise:** Businesses whose aim is to tackle social problems and improve local people's opportunities as well as the environment offer, among other things, the opportunity to involve the local community
- **Delegation to town and parish councils or community groups:** Local authorities taking this route can have less control but it can work very effectively where they have good relationships with the delegated organisations, freeing local authorities to focus on their key services
- **Joint commissioning:** Working with similar service providers could produce economies of scale and more effective targeted and sustainable outcomes
- **Joint ventures:** Having a service provision contractual agreement with two or more like-minded organisations can present new opportunities in terms of increased capacity, scope and skills
- **Shared services:** Co-operating in developing and delivering services not only increases purchasing power but also provides greater resilience for those involved.

## Risk consequences

New risks are implicit in any change of strategy and transformation is no exception. Ensuring any changes provide value for money, manage expectations, and maintain sustainability, continuity and quality of services is key. Failure to achieve any of these could present serious risks.

In addition, local authorities' risk managers have some specific considerations:

- Entrusting provision of services to an outside supplier or partnering organisation inevitably means loss of direct control. Local authorities need to be confident that those they work with have appropriate skills and capabilities, as well as systems to ensure resilience and service continuity should problems occur
- Externalising services either wholly by outsourcing or partially by joint ventures may mean dealing with organisations with different cultures from that of the local authority concerned. Understanding the cultures involved is really important for a good working relationship
- Managing transformation and new service delivery models requires different skills from those traditionally involved in local authority services provision
- There can be significant impacts on staff morale where changes require reductions in workforce or existing employees are asked to provide 'more for less'.

Failing to manage any of these can lead to reputational damage with impact on the local authority's relationships with all its stakeholders such as employees, partners, suppliers and the community where it operates.

## How well do you manage outsourced services?

### Key questions to ask

- Do we have robust systems for assessing and monitoring the stability, capabilities and governance of our partners/suppliers?
- Do our people have the necessary skills in:
  - Programme and project management?
  - Commissioning and contract management?
  - Managing new and existing relationships?
- Are our elected council and appointed officers 'bought in' to transformation/change, and is there strong local leadership?
- How will our current system of governance accommodate changes in structure and/or service provision?
- Do we understand our risk appetite, particularly when faced with changes in our risk profile resulting from transformation?



## Zurich Municipal's view

We believe that local authorities should take a holistic approach across multiple services centred around customer needs. This is a move away from the traditional silo driven, service by service view. Risk managers need to clearly identify their aims and objectives, to identify the optimum solution. A strategy that works well for one activity may be inappropriate for another. Understanding dependencies, ensuring resilience and being aware of the potential cost of exiting are also key.

In addition, fulfilling local authorities' statutory responsibilities is essential. With any outsourcing or joint arrangements, local authorities must ensure that these requirements continue to be met.

## Potential strategies

- Ensure that appropriate partnership and governance arrangements are in place when establishing public/voluntary sector/private sector partnerships
- Involve us at an early stage in discussions on transformation strategies to identify potential risk issues and avoid future problems
- Stringently check the stability, service quality and resilience of potential partners, ensuring that they have appropriate business continuity plans and risk management strategies
- Work closely with chosen partners, for example, co-designing service delivery models, so all those involved understand priorities and objectives
- Keep the local community aware of changes. Redesigning services and budgets only goes so far. Local people are the ultimate customers and need to know if and how they will be affected
- Having designed and introduced new operational strategies, keep the momentum going, ensuring value for money.

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We actually used that as the catalyst for some of our money saving activities... looking at business re-engineering and finding better ways to do the same with less.”

Local government risk manager's comments

## Contact us

If you have any questions or if you would like to talk to one of our team please contact us at [info@zurichmunicipal.com](mailto:info@zurichmunicipal.com)  
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## Further reading

<http://newsandviews.zurich.co.uk/wp-content/uploads/2014/12/New-world-of-risk-change-for-good.pdf>

Responding to the challenge: alternative delivery models in local government, Grant Thornton, January 2014, <http://www.grant-thornton.co.uk/Documents/Alternative-Delivery-Models-LG.pdf>

Delivering Differently, a joint programme between the Cabinet Office, the Department for Communities and Local Government, the Local Government Association (LGA) and the Society of Local Authority Chief Executives (SOLACE), January 2014, <https://www.gov.uk/government/news/central-and-local-government-team-up-to-improve-local-service-delivery>

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