

Audit Commission

Presentation



Outsourcing Public Services

Mike Allen, Senior Technical Manager

Outsourcing public services

- The United Kingdom experience
- Common outsourcing methods
- Audit challenges in outsourcing
- Examples in real life
- Case study

The United Kingdom Experience

- Service outsourcing
- Private finance initiative
- The future of outsourcing in the UK

Service outsourcing

- Often management buy outs
- Ex public servants
- Big companies now involved
- Mixed success
- Good track record
 - Finance services
 - Building and maintenance services
- Poor track record
 - IT
 - General management

Private Finance Initiative

Definition

“ A contract which involved the provision of services and significant investment in assets/infrastructure. The contract will be long term, typically 25 years and will be for a fixed fee, indexed annually. Service risk is transferred to the private sector”

Private Finance Initiative

Fair track record

- Schools
- Hospitals
- Prisons

Poor track record

- IT and communications
- Transport
- Central Government

The future of outsourcing in the UK

- Impact of IFRS
- Mixed economy of options
- Political impact – Policy impacts market
- Market reaction
- Understanding who is the expert
 - Learning when best to outsource
- Need for less volatility in public entities
 - Change = additional expense

Auditing challenges in outsourcing

- Understanding the deal
- Engaging with clients – “why are you interested?”
- Making an impact
- Commercial confidentiality
- Private sector not understanding the private sector
- Political challenges

Case study - West of England Waste Disposal

The deal

- €2.0 billion
- 30 years
- 300,000 tonnes of waste per year
- Investment in:
 - Incineration
 - Recycling services
 - Public access waste facilities
 - Landfill

Case study - West of England Waste Disposal

The audit challenge

- Understanding the sector
- Political dimension
- Complex financial modelling
- Accounting issues
- Affordability

Case study - West of England Waste Disposal

Understanding the sector

- Complex engineering – costs and risk
- Understanding the technology

Political dimension

- Impact of public opposition, costs etc
- Ensuring political support, largest ever contract

Case study - West of England Waste Disposal

Complex financial modelling

- 50 pages of spreadsheets
- Small error = huge change in cost
- Were assumptions on volumes reasonable?

Accounting issues

- Is the asset base (€200m) off balance sheet
- How can you model risk?

Affordability

- Will this break the Council?

Case study - West of England Waste Disposal

The audit story

- Involved for 6 years
- Contract in operation
- Continuing issues re:
 - Assets
 - Performance monitoring
 - Risk transfer
 - Affordability
 - Contract termination

Auditing - conclusions

- Get involved early, too late = low impact
- Understand the sector = ability to impact decisions
- Understand the procurement process
- Focus on key issues
- Understand the audit client's expertise
- Engage with the procurement team
- Keep under surveillance in contract period
- Justify your fees!!