

Contract Capital of the North?

The future of council services in Middlesbrough

Middlesbrough UNISON

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The Centre is an independent, non-profit organisation. It is committed to the provision of good quality public services by democratically accountable public bodies implementing best practice management, employment and equal opportunities policies.

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Summary and recommendations

High risk strategy

The case for outsourcing such a large range of services will make the council very vulnerable and is a high risk strategy. The case for such a strategy is unproven and is not in the interests of the people of Middlesbrough. Once this work is outsourced and privatised the council will largely run by a series of contracts. 'Virtual local government' will require far fewer Elected Members.

Poor Track record

The information and communications technology industry has a very poor track record in providing local and national public services. We highlight major problems in 14 local authorities where housing benefit and revenue contracts have caused havoc for service users, Elected Members and managers. They come on top of major contract failures in ICT contracts in government departments recently identified by the House of Commons Public Accounts Committee.

Tenants and socially excluded will suffer

Middlesbrough has three wards in the top ten of the poorest wards in Britain. High levels of poverty mean that many people are very dependent on the quality and consistency of council services. **They will bear the brunt of failures, delays and lower quality services.**

Lack of real consultation

The Council has failed to fully consult Elected Members, tenants and community organisations, staff and trade unions. It has merely informed them of its decision. **This is a flagrant disregard for the Government's democratic renewal and the principles of consultation and involvement in decision making.**

Failing Government requirements

The proposals have been 'sold' to the Cabinet on the basis that this is what the government wants. This is not the case. The Government has put in place a **process** by which local authorities must achieve Best Value, it has not pre-determined the Council's decisions. However, senior officers have rail-roaded the Council into by-passing these processes in order to approve a highly dubious project designed by a private contractor with a poor track record delivering services to tenants and the socially excluded. **It is a private sector view of modernisation imposed on council services by those with vested interests.**

Details of examples concealed

Of the three examples constantly referred to in the Middlesbrough 'strategic partnership'

reports, one has major problems, one only started on the 1 April 2000 and the other only began in August 1999 so the reported savings are unsubstantiated claims. Interestingly the major problems in the Sheffield contract were known at the time the Middlesbrough reports were written but they failed to inform Elected Members about these problems.

It is not Best Value

The proposals have nothing to do with Best Value because none of the services have been subjected to a Best Value service review, nor has the consultation been carried out under Best value principles or practice.

Other services will be privatised

If this proposal is allowed to proceed, **it is almost inevitable that other services will be outsourced or privatised**. For example, the DSO, home and residential care services and other technical services which, when combined with the possible transfer of housing and leisure services, will leave few directly provided services or activities within the Council.

Claims for call/business centres exaggerated

The case for call/business centres is exaggerated because their costs are mainly labour and IT related and therefore it will support few additional jobs in the local economy; the construction phase will provide very limited short term employment because the buildings are essentially shells with minimal facilities and are relatively quick and cheap to construct; they employ relatively few people; they are unlikely to provide a spur for economic development and additional employment; they can readily be closed and the assets transferred elsewhere; they have limited long term prospects because of the rapid expansion of the internet; and the quality of jobs and working conditions in many centres have been the subject of several trade union campaigns and investigations.

The 'virtual' private council

The Council is effectively accepting the 'virtual authority' model for the future of local government which could have dire consequences for the people of Middlesbrough. It amounts to replacing the council with the private sector.

Not so much a 'strategic partnership', more locked into a vested interest

The scope of the contract means that the council will be locked into a relationship with a private contractor, whatever the quality of service. It is not the same as a single service CCT contract which could be terminated quite readily. **Instead the contractor will be interwoven with council services which will be extremely difficult and costly to unravel.** This is not in the interests of services users, Elected Members, staff, nor council taxpayers.

It is not a race

Middlesbrough claims to be first to embark of this high risk and potentially high cost course of action. However, a mere handful of other councils are trying the same approach, so the Council cannot claim a 'first'.

Senior management failure

‘Strategic partnership’ is being masqueraded to conceal the inability and failure of senior management to design, plan and implement the management of change within the authority. These same managers now claim to be able to be tough and extract all kinds of concessions and good quality service provision from sharp, large firms with a chequered track record.

Recommendations

The Government is planning to reform the capital finance regime and abolish or relax credit approvals. This could enable Middlesbrough to finance investment in IT and avoid outsourcing services. Our approach is a viable, practical and cost effective method of improving quality and access, maintaining continuity of service and minimising disruption and insecurity.

- 1. The Council acquires new ICT equipment, software and the required level of expertise and training from the private sector.**
- 2. A phased qualitative introduction of ICT to services should be planned learning the lessons from each phase and permitting genuine consultation with trade unions, user and community organisations.**
- 3. Staff remain employees of Middlesbrough Council and the transition to new systems negotiated with the trade unions and service users.**
- 4. This approach has the advantage that it:**
 - affords maximum protection for the quality of service whilst new systems are introduced and to maximise the potential for service innovation;
 - maximises Council control, coordination and ability to respond flexibly;
 - maximises responsiveness to community needs;
 - maximises the opportunity for the Council to implement its corporate policies;
 - gives staff greater security and enables the Council to be a quality employer;
 - provides for trade union cooperation to make changes required to improve services to the community;
 - maximises potential for continuous improvement both in the quality of services and the quality of staff providing services.
- 5. Establish a joint venture company with the ICT equipment and software provider to develop the wider application of information and communications technology and economic development in the town. This could include the provision of ICT equipment, software and training to other public bodies, community and voluntary organisations in the town and region.**
- 6. Revise the Best value service review timetable to ensure this is in line with the phased implementation programme.**
- 7. A comprehensive consultation exercise is carried out, involving service users and staff, before any final decision is made.**

Introduction: Privatisation or partnership?

Facts about partnership and privatisation

To claim that partnership is not privatisation is total denial of theory and practice. In fact, the scope and size of externalisation and privatisation is escalating under the banner of partnership.

The Creating a Strategic Partnership report (para 81, December 1999) states that "Councils do not have the statutory power to privatise services". Some local authorities have been contracting out or outsourcing, transferring housing assets and services, externalising or selling DSOs and technical services, transferring leisure services to trusts for many years. To claim that this is not privatisation is playing with words. The motives behind this approach are unclear but it would appear that it is intended to play down the scope and scale of the planned privatisation to Elected Members and the public.

Partnership is privatisation because:

1. Work previously carried out by the public sector is outsourced to private firms on long term contracts.
2. Public sector staff transfer to employment by a private firm.
3. Assets are transferred to or are acquired through new investment by the private sector.

Some councils have outsourced their IT service but many have not. Middlesbrough is out of step with local government in terms of the range and scope of services being outsourced and the lack of rationale for what is included in the planned contract.

UNISON's position

UNISON's agenda is not limited to protecting jobs, pay and conditions of service. It is also very concerned about the quality of service and the future of democratic local government in the town. We are equally concerned about the future function and role of the Council and the quality of services it provides for the people of Middlesbrough.

The 'strategic partnership' is not essentially about a one-off contract or partnership. If this current proposal goes ahead, others are likely to follow.

What's best for Middlesbrough

The partnership is presented as what's best for Middlesbrough now and in the longer term. It sounds straight forward, but it is over-simplistic to say the least. A partnership with the private sector means that it will also be what is best for the private contractor and to imply that all the decisions will solely reflect the best interests of the Council is naive. The Council and the contractor will share some interests but they will have different vested interests on many occasions. Most decisions will inevitably be compromises reached after conflict resolution.

We are also concerned that certain senior officers believe that they will have a degree of power over the private sector which is overstated.

Table 1 The scoping exercise carried out by Capita

Activity	Staffing (Full time Equivalent)	Cost (£)
Service access points		
Administrative buildings, cashiers and leisure activities	143.6	2,369,400
Relationship between Corporate Services and SRUs		
Financial monitoring, human relations and ICT	275.52	7,055,194
Business processes		
Local taxation, Housing Benefits, pensions administration insurance, payroll, debtors, creditors and rent administration	236.71	4,366,337
Service Administration		
Service administration, mail room and registry	210.78	2,986,344
Total	857.61	£16,777,275

Pre-emptive of Best value

The programme of Best Value service reviews agreed by the Council is as follows:

Year 1: ICT, leisure centres and housing benefit

Year 2: Payroll, taxation collection, personnel services and business support

Year 3: Financial services,

Year 4: Internal audit, pensions management, insurance services, complaints and appeals,

Year 5: Procurement

Lack of consultation

Local authorities have a duty to consult a wide range of community and local interests in securing Best Value. The Council frequently uses selective quotes from the Government's White Paper Modernising Local Government but it fails to quote the very clear requirements for democratic renewal:

“* **Seeking the views of the citizen:** These initiatives enable councils to introduce lay experience and views to their decision making.

* **Recognising communities by increasing their involvement in direct decision making:** Local authorities need to recognise both communities of place and communities of interest. The latter can be far more wide ranging, and more difficult to identify.

* **Enabling the electorate to determine or influence policy on a specific issue.** Handing over a decision or influence to those affected.

* **Watchdog or scrutiny role for the citizen:** Seeking the direct involvement of the citizen to keep the services secured by the authority up to the mark.

* **Opening up the authority:** Changing the the role of individual citizens in the existing structures of the authority.”
(DETR, Modernising Local Government: Local Democracy and Community Leadership, 1998).

The Council has failed to fully consult with Elected Members and the community on the planned outsourcing. Its approach has simply been one of giving information about decisions it has already made.

The Council has similarly informed the trade unions of its plans but this has been basically information sharing but there has been no genuine attempt or even desire to fully consult let alone involve the staff and trade unions. The Council appears to believe that a 'strategic partnership' is simply between it and a contractor. They appear to have forgotten the staff and trade unions. Unless the staff are genuinely involved there will only limited or no continuous improvement.

The lack of consultation is not new. The Council attempted to abolish the network of Community Councils which were to be replaced by four area partnership boards. Following widespread opposition to the proposals, the Community Councils were retained but stripped of officer support.

Part 1

Flawed proposals

Assessment of partnership proposal

We have examined the proposals for a 'strategic partnership' and the rationale underpinning the application of the concept in Middlesbrough Council.

"The purpose of the initiative was to consider the capacity of the Council to respond to the demands of the modernising agenda, including Best Value and to gain an understanding of the potential for a 'strategic partnership' with the independent sector in meeting these demands."
(Creating a Strategic Partnership p2)

This statement is virtually admitting that senior management does not have the ability and/or is unable to cope with the demands of managing change within the council. The rolling of a wide range of services into one large contract prior to Best Value is not justified. It would appear that the main motive is connected to joining the 'modernisation agenda' but given the limited justification for this massive outsourcing of services, it would appear to have more to do with furthering the personal careers of senior managers than the interests Middlesbrough service users and staff.

Reference is made to the 'independent sector' in the reports - this demonstrates an ideological confusion and/or an attempt to confuse Elected Members and council taxpayers. The 'strategic partnership' will be with a private commercial firm, possibly a multinational company. The use of the term 'independent sector' was conceived by the Thatcher Government which applied this term for similar purposes in the social services and community care sector. However, few people in this sector are fooled by such language and people use the full term of 'private firms and voluntary organisations'. There will be no voluntary organisations shortlisted for the current contract!

"...the national and local context in which a strategic partnership has been considered.....remain fundamental to the Council's determination as to how it should progress."
(Creating a Strategic Partnership p2)

However, the sections in the report merely quote parts a few selected bits of the White Paper, which of course do not require local authorities to outsource.

Other reasons for the partnership appear in para 48:

- realise the potential for investment in Council services
- realise the potential for investment in the local economy
- improving services to the public and
- freeing up resources

but all of these can be achieved by the Council without privatising the service. It would undoubtedly have to strategically source ICT but this does not require outsourcing service provision.

Failed objectives

The objectives of the Scoping Process were stated as:

- ** keeping an open mind, not prejudging the outcome.
- * a commitment to involving the key stakeholders
- * the desire to seek agreement with stakeholders

* communication with stakeholders”

The report refers to meetings with heads of service, trade unions and staff which is a very narrow concept of stakeholding. It does not appear to include service users or Elected Members. In terms of ‘keeping an open mind’ we find this a vacuous statement in the circumstances.

The findings of the Scoping Report

An assessment of the report concluded that:

- * The reasons are not substantive to justify outsourcing.
- * It would be surprising in any multi-service organisation, public or private, not to find some degree of overlap or duplication.
- * The report contains no evidence of the current performance of the services. It appears to have been solely concerned with scoping a potential contract.
- * The statement that the ‘level of resources appears high’ but no evidence is supplied to justify this claim.
- * The identification of “cross boundary synergies” appears to identify a number of activities carried out across a number of service areas. They include consultation, procurement, marketing, performance and quality, research, transport and facilities management. The clear implication is that these should be centralised. But there is no evidence that this is feasible or desirable.

There is very little evidence of what actually constitutes a partnership and hence what Elected Members are being asked to sign up to.

If it so different from previous contracts in other local authorities and it requires the council to be a ‘partner’, which presumably means more than paying and monitoring the contractor, then claiming that Middlesbrough will achieve similar levels of savings is false. A partnership will surely mean that the Council will have additional costs because it will be required to participate with the contractor. If the Council insists that similar levels of savings are achievable then this must call into question the nature of the partnership or that the services in Middlesbrough are inferior to those provided in other authorities hence giving rise to relatively larger savings. However, the Best Value Performance Plan does not support this position. In this situation, the partnership is more likely to be another name for a large contract. It is certainly not a ‘strategic partnership’.

The Council is playing with words and figures.

Strategic Advantage and Partnership strategy criteria

Strategic Advantage are staff cost, staff quality, ICT cost, technology advantage and scale advantage.

Partnership strategy criteria are specification, market, legal/statutory, cost savings, political sensitivity, organisational changes, corporate impact, quality and management view.

In conclusion, we consider that the Council has failed to justify why it needs a ‘strategic partnership’.

The examples used from other local authorities

The Creating a Strategic Partnership report states that “examples detailed within the body of this paper show that other councils have been able to secure efficiencies on the net cost of existing services” (para 132). There is no evidence to support this assertion, particularly since one contract had not even started and another had been operating for only a few months when the report was written.

The Middlesbrough report provided minimum information and no reference to the quality of service. This is not surprising

Lincolnshire: The contract only started on the 1 April 2000!

Norfolk: This contract only started in August 1999 when 150 staff in IT and Exchequer services transferred to Capita.

Sheffield - The CSL financial services contract commenced in April 1998 followed by the Housing and Council Tax Benefit in June 1999. CSL were already established in Sheffield when they took over the benefits contract yet they failed to achieve their own implementation plan by December 1999.

The savings figures from all authorities are those reported from the evaluation of tenders. They do not relate to actual experience. The evidence we provide in this report shows that Cabinet have been grossly misled.

Other statements in the ‘Creating a Strategic Partnership’ report raise more questions:

“The clear strategic benefits of moving towards a mixed economy of service providers”

- what are these strategic benefits because they have not been identified?
- the council already provides services through a mixture of in house, private and voluntary providers so a mixed economy is nothing new.

“Wider remit over the course of a partnership to review the way other services are delivered”

- this statement in effect is an admission by the council that it is unable or unwilling to review its own services and has to call in a private contractor to assist it.
- this raises major issues of vested interests because the private firm will have a distinct advantage (and bias) in assessing council services. The council will also have some difficulty in attracting competition for services it decides to tender because other firms will rightly consider the existing partner will have a commercial advantage - unless of course the council bans the firm from bidding for other work. Experience elsewhere verifies this conclusion.

Assessment of Best Value

The District Auditors Management Letter (December 1999) reported that the “Council’s progress in developing its arrangements for Best value has been slower than many similar authorities. A number of important milestones were only recently achieved, but the lack of a performance culture in some areas could be a serious weakness.” (page 4) The report also states that the “perceived lack of a corporate framework appears to have left senior officers, and staff generally, unclear about the Council’s key objectives. The current culture within the authority, which seems to reflect low morale and poor communications, would not be conducive to effective implementation of Best

Value” (para 11).

This situation is not conducive to Best Value, it is certainly not an appropriate time nor a viable option to outsource a large section of council services and 1,000 jobs to a private contractor. The same corporate management team will be responsible for a large multi-million pound contract. We regard this as a recipe for disaster.

We assessed the Council’s approach to the ‘strategic partnership’ using the eight criteria from the DETR’s guidance on Best Value (DETR Circular 10/99). The Centre has extensive experience in Best Value and is well placed to carry out an assessment. Scorecard shows a very poor performance and is further evidence that the process towards ‘strategic partnership’ has been fundamentally flawed.

Best Value Scorecard

Government Best Value criteria	Middlesbrough Council score
Take a sufficiently long-term perspective	?
Involve Elected Members	Yes
Seek advice from outside the authority	Yes
Involve those currently delivering services	X
Question existing commitments	?
Engage with users and potential users of services	X
Address equity considerations	X
Give effect to the principle of sustainable development	X

Source: DETR Circular 10/99

Modernisation for whom?

Since the services have not been subjected to a Best Value review nor has there been any form of genuine consultation and involvement of service users-community organisations and staff-trade unions, the principles, purpose and form of modernisation adopted by Middlesbrough are highly questionable.

It appears that Elected Members are being pressurised into adopting a ‘strategic partnership’ without fully considering all the facts and options, nor fully assessing the motives for this plan.

The Council is a major service provider and employer in the local economy. It cannot afford to adopt half-baked high risk strategies which could put its key role in providing services and facilitating the regeneration of communities in jeopardy. People in Middlesbrough want modernisation, but modernisation in which is relevant to their needs and they ‘own’ because they have been fully involved in planning and designing it.

This report contains substantial evidence to show that the Council’s plan is an over-ambitious attempt to be at the forefront of a misconceived modernisation agenda. Failure of the proposed brand of modernisation will put at risk and discredit the town’s efforts to improve and regenerate the

local economy.

High cost

The Price Waterhouse review of the Council's management structure in 1997 cost an estimated £250,000. The recruitment of executive directors and further management reviews added to these costs.

Some £1.8m has been budgeted in the Economic, Development and Transportation Directorate alone for Industrial Tribunal claims as a result of making 350 staff redundant. The Council is appealing at a further cost of £75,000.

It is reported that Capita carried out the scoping exercise without fee, the Council will incur substantial costs in legal, financial and technical consultancy in proceeding with the planned outsourcing.

Much of this is expenditure could have been more effectively used to improve services.

Part 2

New technology hype but poor track record

The failure of private sector financial services and housing benefit contracts

At least 14 financial services and housing benefit contracts have experienced major problems within the last two years, three of which have been terminated and the work brought in-house. This track record of private firms which claim to be at the forefront of the information and communications technology revolution and the 'knowledge economy' is very disturbing. This evidence, and that recently exposed by the House of Commons Select Committee on Public Accounts, is directly at odds with the glowing account of the private sector in Middlesbrough Council reports. Elected Members have not been given the full facts.

We have drawn evidence from 14 local authority contracts operated by four companies which dominate the market. The evidence below highlights the high risks and consequences of outsourcing.

Table 1.1: **Failing housing benefit contracts**

Contractor	No. of authorities reporting poor performance	Contracts terminated
CSL	7	1
Capita	2	0
EDS	3	2
ITNET	2	0
Total	14	3

Sheffield: CSL partnership in crisis

CSL commenced a £135m ten year financial and IT services contract in April 1998 which involved the transfer of 475 staff. A year later the housing benefit contract was awarded to CSL. The firm has made a number of blunders including issuing 2,000 court summonses to council taxpayers instead of reminders. The housing benefit contract has a large backlog and soaring rent arrears. Complaints were still pouring in in March 2000. The council is reported to have imposed a £400,000 financial penalty for poor performance (it claimed it could not divulge the actual amount of deduction made and CSL managers reported to a Member Panel that they were instructed not to divulge the information).

A Council report in February 2000 summarised the crisis in housing benefits:

“* CSL were not contract compliant in processing new claims and reapplications.

* There was a significant backlog of claims to be processed.

* The call centre was not administering the volume of calls required by the plan.

* There were concerns about the scanning process with some documents being incorrectly indexed and therefore not allocated to the correct claimant reference in the document management system.”

(Report to Performance Review, 15 February 2000)

Management consultants hired to advise CSL!

CSL were required to produce a second rectification plan. The Council engaged PricewaterhouseCoopers (PwC) to “test the robustness of the plan and advise the Council on the measures to be taken to deliver the specified service.” The consultancy was financed by the Council withholding money from CSL. PwC advised the Council “to continue to work closely with CSL to develop an acceptable plan because to adopt an alternative strategy would place the service under an even greater risk of further deterioration of service levels.”

CSL were forced to hire additional staff at its centre in Barrow which were processing the reapplications.

Southwark: CSL

CSL was awarded five year £40m contract in April 1998 to run Southwark’s revenue and benefits service. 227 staff were transferred to CSL which was the only private sector company to bid and predicted to make savings of £10m over the life of the contract. The contractor had to engage 30 additional staff because it had under-resourced the bid.

Major problems arose with service delivery with a backlog of 40,000 items in spite of additional finance given by the council to clear the backlog. This included a backlog of 10,000 items pre mid-May 1998, CSL backlog of 26,000 items accumulated since then and a client unit backlog of 4,000 items. Publicity in the local press highlighted the massive backlog of benefit claims. CSL management told staff they had the biggest backlog in the country in late 1999. Complaints from tenants are to be investigated by the local government ombudsman.

In December 1999 CSL was assessing only 5.4% of new claims within 14 days and collecting only 93.6% of rent. The council has brought forward its Best Value review of housing benefit and council tax collection.

Industrial relations are poor; the company has attempted to change the way people work without consultation and some staff have left. The council wanted to appoint additional housing benefit determinators to the client side who are currently working for CSL! The intention was to recruit 16-25 ex-Southwark staff who currently work for CSL to work in the client unit in the evenings from 6-9pm Monday to Friday. The idea was that they work full-time for CSL and part-time for the council. This proposal was clearly fraught with legal problems, conflicts of interest and breaches the council’s corporate recruitment procedures. UNISON members decided not to take up the contracts.

The council is clearly concerned to deal with the failures of the contract, but without facing up to the real issues of under-resourcing. It is also clear that the staffing of the client side is too low.

Lambeth: Capita

Lambeth’s seven year revenues and benefits contract with Capita began in December 1997 but

early in 2000 the Council issued a highly critical report of Capita's performance citing 'poor' performance between July and December 1999 with missing files, and high levels of complaints. The report also stated that "Capita's promises could not be relied on". It reported that a considerable number of county court cases for possession are being adjourned as defendants cite outstanding benefit claims. Earlier in 1999, Capital were processing only 29% of claims with ten working days compared a London average of 79%.

In April 2000, the Council decided to monitor the contract monthly and to set up a housing benefit Management Board which will involve the Council and Capita working jointly to reduce the 40,000 unprocessed claims. The Board will comprise Councillors, officers and Capita managers. Some services will be brought in-house leaving Capita to concentrate on fewer duties. The new arrangements, including additional staff, will cost Lambeth £1.5m. A Capita statement admitted that "a different approach and working arrangement is needed to achieve a step change in service performance."

A report to Policy Committee on 3 April 2000 stated that "The Council is legally in a position to suspend the benefits service from the contract and to provide or procure the service from elsewhere at Capita's expense." It also stated that "Capita is believed to be losing about £1m a year on the contract and is likely to resist the possibility of additional losses." It also reported that "the service implications are massive" of such a move and "must bring into question the adequacy" of a £5m performance bond held by the Council.

Westminster City Council: Capita

In 1999 Capita failed to meet the target of processing 90% of housing benefit claims within 14 days in seven of the first nine months of its ten year £40m contract.

Islington LBC: ITNET

A long-running dispute between ITNET and the Council was finally resolved in 1999 when the Council agreed to pay ITNET £95,000 for 'defects' in the Council IT system when it started the contract in October 1998. ITNET originally claimed £221,000 which was negotiated down to £131,000. However, Islington retaliated by cancelling a £25,000 consultancy with the firm and penalised them £8,000 for poor telephone performance in 1999. The council expressed 'grave concern at their performance to date'. The company also failed to reduce the backlog of claims by a June deadline.

Hackney LBC: ITNET

In March 2000, thirty housing associations in Hackney, led by the New Islington and Hackney Housing Association, have demanded immediate and dramatic action by ITNET and Hackney Council in order to reduce the £3m delayed housing benefit payments. ITNET has a history of being reluctant to recognise trade unions. There are weekly reports in local newspapers of the impact on tenants. The contract is apparently under-resourced, some staff are on short-term contracts, staff morale is evidently very low, not assisted by report management's anti-union attitude, suspensions and reports of bullying. It is also claimed that the contractor has limited concept of the issues of poverty.

Brent: EDS

Major problems occurred four years into the revenues and benefits contract when EDS upgraded its IT system. A five month backlog in housing benefit claims in 1999 resulted in the company having to pay a six figure financial penalty, issue a public apology and send letters of apology to

30,000 residents. The backlog has been eradicated and EDS have taken on additional staff and strengthened its management team.

Newham: CSL

In December 1999-January 2000 Newham was providing only an emergency service for housing benefit claims because CSL was dealing with a large backlog. Tenants complaints over delays in benefits payments have been mounting.

North Somerset DC: CSL

The Council imposed financial penalties for poor performance in November 1999. The percentage of documents taking over 10 working days to process increased from 0.07% at the end of August to 51.8% by the end of October. CSL has been operating a £2m council tax collection contract since 1995 and were awarded the housing benefit contract in 1999.

Taunton Deane BC: CSL

A seven-ten week backlog in housing benefit claims led the council to threaten financial penalties in December 1999. CSL had commenced the contract a year earlier and had been forced to take on an extra 20 staff because it had under-resourced the bid. The council were also reported a £500,000 shortfall in council tax collection. However, in March 2000, the council announced that the £3.5m revenues and benefits contract has been terminated and the work brought in-house. The chair of the policy committee stated "The contract has been a most unhappy experience for all it has touched....I'm afraid all of us have had to acknowledge that the situation is unacceptable to all parties" (LGC, 31 March 2000).

Torridge DC: CSL

The Council imposed substantial penalties in 1999 after CSL failed to improve performance on the tax collection contract.

Croydon: CSL

In Croydon management was reorganised and additional staff had to take on work from other contracts (customer service staffing was increased by 50% to cope with the workload plus overtime working). Pay increases were determined by the company rather than by the local government pay award. In 1996 15 staff left due to voluntary redundancy. CSL introduced new contracts - new staff have inferior terms and conditions. The company did not allow staff to hold trade union meetings on premises, even in their own time.

Kingston upon Thames: EDS

In late 1999 the Council terminated its tax and benefits contract with EDS which had been operating for three years. The £1.5m a year contract has been plagued with performance problems, the council claimed that EDS employed too few staff. For example, EDS issued 1,400 letters to housing benefit claimants in July 1999 virtually accusing them of fraudulently cashing cheques. Some 40 staff will transfer to the council.

Wandsworth: EDS

The US based computer services group's track record in local government has been problematic. EDS took over Wandsworth's council tax and housing benefit contract in July 1996, promising

savings of £1m below the in-house bid, on a contract worth £3.2m a year. 140 staff were transferred under TUPE. Soon after EDS announced the need to reduce staffing levels and 30 people took voluntary severance or voluntary early retirement in July 1997.

The council told the contractor too many staff had gone. They were invited to return to work for the company, but none did because of the impact on their financial arrangements and pensions.

Defaults of £200,000 built up in a year as waiting lists went up and the service declined. In addition there were various ombudsmen complaints. One particular problem was that the capital investment in computer equipment had not worked as well as the company promised. In addition, claimants were endlessly passed around to different staff because no one person or team was responsible. The default money was used by the council to employ more client side staff, particularly needed in this service as all determinations have to be seen by the client side. It is also of note that the company employed a number of subcontractors for eg. telephones, printing, mailing and the document-imaging system.

In May 1998 EDS approached the council about the problems and admitted they were losing £1m per annum on the contract. *“Even with their current inadequate resourcing, the EDS director has claimed the company is losing about £1m a year on this contract, which is worth about £3.2m a year and has nearly three more years to run”.* (Wandsworth Borough Council, Housing Committee Report, 17th September, 1998).

The deputy leader stated that he was fed up apologising for a poor service. The council said EDS had failed to meet service targets in several areas, including time taken to answer enquiries and process claims. *“The current backlogs and quality problems are such that it would take several months following suspension to achieve a fully satisfactory service”* (Wandsworth Borough Council, Housing Committee Report, 17th September, 1998).

Examples of the poor service and inability to meet performance standards include:

* Benefits service: Check and validate application form within 3 working days.
Default threshold 95%; EDS performance 31/8/98 54%.

* Rent officer referral within 3 working days.
Default threshold 95%; EDS performance 14%.

* Implementation of changes prescribed by government and notified to claimant. 1st payment following changes.
Default threshold 100%; EDS performance 38%.

In October 1998, an agreement was reached between EDS and the council, to transfer the service back in-house with 100 staff.

Other Housing Benefit contracts

Ealing: VERTEX

Ealing’s housing benefit contract was awarded to Vertex in December 1999. The £2.6m contract was this was nearly £500,000 higher than the original estimate prepared by management consultants and in-house managers which was deemed unworkable by the trade unions. The Council decided to proceed with tendering without in in-house bid and achieved a mere £120,000 saving.

National ICT contracts

The House of Commons Select Committee on Public Accounts produced their first report report into the delivery of Government ICT projects. A number of projects carried out by major ICT providers such as Andersen Consulting, Siemens and EDS have caused a catalogue of major delays, processing backlogs, cost increases and service failures. The Committee made a number of conclusions and recommendations which are equally applicable for the procurement of ICT services in local government.

“Decisions about IT are crucial to the development and success of the business of public bodies and cannot be treated in isolation from other aspects of their work. Failure to deliver an IT system can have a profound effect on an organisation’s ability to provide services to its customers.”

“Departments should consider carefully whether projects are too ambitious to undertake in one go.”

“The implementation of an IT system is not an end in itself.....Training of staff can take up considerable resources, often a significant proportion of the overall cost of the project. Training must address the needs of users and of those operating and maintaining the system.”

“It is essential that organisations learn lessons from the projects undertaken.”

A National Audit Office report in January 2000 revealed further problems with IT projects. The Ministry of Defence had lost £29.7m after abandoning two IT projects which failed to deliver.

What do all these problems mean?

1. They are not just start-up problems, many have occurred several years after the start of the contract.
2. There is a substantial reality gap between the business and technology promotion and propaganda of the ITC industry, particularly the ability of companies, and the provision of good quality public services in local authorities.
3. The claims of the private sector must be seriously and continuously challenged. It is unwise to accept their claims or competence at face value.
4. ICT is not the panacea that it is made out to be. Technology is not always the answer.
5. Problems have occurred in a wide range of authorities, Unitaries, London Boroughs, Met Districts and District Councils.
6. The problems have occurred in contracts operated by the leading firms - EDS is the largest ICT services company in the world, Capita and CSL have a major share of the British market. They are not minnows. They claim to have high quality management and the latest information and communications technology at their disposal.
7. A ‘strategic partnership’ approach will not avoid these problems.

Reporting on Lambeth’s problems with Capita and other IT contracts, Computer Weekly concluded that Lambeth had a “powerful contractual weapon. And it is all but useless. The Council cannot dispense with Capita’s services. There are many reasons: the time and costs involved in finding a new supplier, and unravelling the control of processes that operate across departmental boundaries (Capita runs a range of council services). Disruption of the relationship means

disruption of the service. The council has found itself locked into a supplier whose activities are too closely interwoven with the council's services.

“Big strategic outsourcing contracts - like those at the Inland Revenue, National Savings, Lambeth Council and the Stock Exchange - may seem a good idea at the time, provided that you don't mind being locked into the supplier, whatever the quality of service.” (Computer Weekly, 13 April 2000)

This particularly applies to Middlesbrough. The Council has shortlisted five companies, two of which (Capita and ITNET) have poor track records, another (Hyder PLC) has very limited experience of type of work being outsourced by the Council because it has only just started a similar contract. Financially troubled Hyder has been acquired by Nomura International, the Japanese Investment Bank, which may dispose of 'non-core assets' such as Hyder Business Services. The two remaining shortlisted contractors (Amey FM and management consultants PricewaterhouseCoopers) have no experience of similar contracts.

Two firms, Capita and PricewaterhouseCoopers, have previously carried out management consultancy work for the Council.

Part 3

Impact on services users and social inclusion

Social exclusion a major problem

Middlesbrough has three wards, Thorntree, St Hilda's and Pallister, in the top ten of the poorest wards in Britain based on the Government's new Index of Deprivation. The index is based on a number of indicators including household income, unemployment, health, education and skills.

Heavy reliance on services

High levels of poverty mean that many people are very dependent on the quality and consistency of council services. It is the **continuing delivery of quality services** which is important, not their access to a call/business centre in order to complain. A call/business centre is often advantageous for general complaints but cannot provide the immediate back-up to deal with the complexity of many of those who are socially excluded. Such centres cannot be a replacement for local on-stop-shops.

Potential impact of service failures

Any failure of council services as experienced in other local authorities in the examples in Part 2 will severely impact on the socially excluded and the three wards which rank in the top ten wards in the Government's Index of Deprivation.

Evidence also shows that it is the Elected Members who feel the full brunt of complaints about delays and the quality of service.

Who bears the brunt of failure or poor quality service

- * Council taxpayers
- * Pensioners
- * Service users
- * Housing benefit claimants
- * Council tax benefit claimants
- * Councils tenants
- * Private tenants
- * Middlesbrough Council staff
- * Housing associations
- * Tenants and community organisations

The evidence from Part 2 clearly shows that failure in one service has a knock-on effect in other services and other organisations. The impact of housing benefit delays and backlogs on housing associations is just one example.

The Council cannot claim that the planned 'strategic partnership' will save money which will be channelled into the most deprived areas of Middlesbrough. The savings claims from other authorities are hypothetical and there is no evidence of 'real' money being saved.

Part 4

Who's next?

No service or job is safe from privatisation

The scoping exercise carried out by Capita is unlikely to be the end of the matter. The contractor will be in a very powerful position with unprecedented access to the rest of the Council to enable them to identify and recommend other services to come within the scope of the contract. This has occurred in other local authorities. This will create insecurity and uncertainty across the council and will almost certainly be reflected in the quality of services. This does not appear to have been considered a material factor.

Services next in line

Once services in the 'strategic partnership' are outsourced to the private sector and the Council clearly signals that it is modelling itself on the Tories enabling model, it is almost inevitable that other services will be subjected to privatisation. The services most at risk are:

	Approx number of staff
* Direct Services Organisation (including education)	2,500
* Residential and home care	1,000
* Technical services	500

The Centre for Public Services has carried out national research study on externalisation and outsourcing in addition to many local studies on specific services. The evidence clearly indicates that one externalisation leads to another (Externalisation by Privatisation, 1998).

In addition, it is rumoured that the Council is also considering the transfer of its council housing stock to a Registered Social Landlord and the formation of a Leisure Trust.

	Approx number of staff
* Transfer of council housing	425
* Leisure services trust	675

The combined effect of the 'strategic partnership' and the additional outsourcing/ privatisations could result in over 6,100 staff transferring from council employment to the private and third sectors. The council has a current workforce of 7,900 but would reduce to less than 1,500 if these transfers proceeded and the knock-effects are taken into account. It would also drastically reduce the need for a corporate management team.

Corporate consequences ignored

The potential impact of the 'strategic partnership' proposals on corporate services, structures and functioning of the council have not been fully considered. Furthermore, additional outsourcing and transfers, for example the transfer of council housing, will impact on the services included in the 'strategic partnership' because once they are externalised they will choose their own provider of support services.

The corporate impact of 867 FTE jobs combined with the possible transfer, outsourcing and privatisation of the service noted above will reduce the Council's directly employed workforce to a few hundred staff.

The scoping exercise should have been followed by a detailed analysis of the longer term effects on the Council including the knock-on effect on corporate and support services. The absence of this type of scenario planning and evaluation means that the Council could create a situation where it is in 'free fall'. The negative impact of one outsourcing leads to a spiral of further outsourcing and transfers and so on. This would have major consequences for the quality and cost of services and result in declining staff morale.

The scene would be set for conflicts and squabbles between private contractors and externalised organisations as each outsourcing or transfer had a knock-on effect on other contracts. The Council will be stuck in the middle. The Council may of course anticipate that it will award most of the contracts to one firm, such as Capita on Tees.

The 'Virtual' local authority

Officers preparing the proposals have clearly been influenced by the reports from Newchurch and Company who are undertaking a study on partnerships for the DETR. One report refers to the possible emergence of a 'Virtual Council' which concentrates on its core mission and sheds "everything that can be shed". Assets will be provided through funding partnerships and services provided by service partnerships. This is simply the Tories enabling model (copied from some small US 'contract cities') dressed up in new language. In this model of local government, services and activities are provided mainly by private contractors and the voluntary sector. Of course, this model is also structured on 'Virtual Elected Members' because there will be a much reduced role for democracy and Elected Members. The Council will only need the cabinet to award contracts and partnerships.

Impact on Councillors

The outsourcing contract is likely to have several effects on Elected Members:

- * They, and not the contractor, will take the brunt of any service failures.
- * It is likely to lead to further privatisation and transfers which will further devalue the role of local Councillors. Decisions regarding the scope and quality of services will increasingly be made by managers.
- * Elected members will have their options to take appropriate action curtailed by the complexity of contracts and the vested interests of the private contractor.

Corporate impact on the Council

The Council has failed to assess the corporate impact of the 'strategic partnership' particularly in terms of the power of the private partner within the authority to influence public policy and identifying further services for outsourcing and transfer. The firm will be in a key position and have a vested interest in determining the conditions for other contracts and services because they will impact on their own contract. The Council does not appear to have carried out a risk assessment of the consequences of service failures.

Setting precedents

The contract would not set a precedent in terms of partnership working because a few other local authorities are already operating similar projects. Middlesbrough would only set a precedent in terms of the mixture of services which it is outsourcing.

Part 5

Impact on staff

Job losses

The scoping exercise identified 867 Full Time Equivalent (FTE) jobs within the remit of the proposed contract although in practice this will encompass more actual jobs because a proportion are part-time jobs. The Council is assuming a 15% cost efficiency from strategic contracting (para 75, Creating a Strategic Partnership). Since labour costs are a high proportion of operational costs, a 15% cost saving will result in the reduction or loss of about 130 FTE council jobs.

TUPE protection limited

The evidence from transfers of staff is that employers have generally exploited TUPE regulations to achieve savings. Whilst existing pay and conditions of service would transfer to a new employer on day one, there is great uncertainty about the length of time TUPE would apply. Most private firms believe that they are legally entitled to harmonise terms and conditions of employment within months of a contract starting. Once a transfer takes place, the new employer, not the council has complete responsibility for jobs, pay and conditions.

Abolish vacant/temporary posts: A new employer is likely to abolish most vacant or temporary posts.

All new staff on reduced terms and conditions: Many private firms create a two tier pay structure from day one. New staff are not covered by TUPE.

Two tier wage structure: Virtually all private firms operate a two wage structure, one for transferred staff and another lower rate with inferior service conditions for new starters. Over time, staff turnover ensures that transferred staff are increasingly undermined by the increasing proportion of staff on different terms and conditions.

Career progression requires transfer to firm's contract: Some firms operate a system which requires staff being promoted to transfer to the firm's own employment contract.

Reduce and/or eliminate payments for weekend and unsocial hours: These payments are likely to be the main target of a new employer.

Sick Pay: Sick pay entitlements are likely to be reduced as part of changes to terms and conditions of employment.

Pensions: The TUPE regulations require a 'broadly comparable' pension to be provided by the new employer. Transferring staff can now remain in the local authority pension scheme. Employers often require new staff to be employed for a minimum period before they can join and often exclude part-time staff by imposing a minimum number of hours requirement.

DSS and MoD best practice

The Department of Social Security and Ministry of Defence have respectively drawn up a Personnel Outsourcing Framework and Code of Conduct for the application of TUPE. They cover the tendering process, evaluation criteria, consultation, monitoring and review of the contractor's

human relations performance. They provide a minimum standard for local government.

Beware of promises

Some private firms are making improved commitments to honour TUPE and making pledges on terms and conditions. This is solely connected with firms having identified a potential new market and have a corporate strategy to gain market share. This is unlikely to be sustainable. Unless the contract or partnership agreement contains specific commitments, then these 'promises' must be treated with scepticism.

Minimum requirements

The Branch will require any contract or partnership to be negotiated with the trade unions and the Council and contractor will be expected to sign a contract which guarantees the following:

- * TUPE for the length of the contract.
- * Payment of annual pay increases at least equivalent to NJC increases for the length of the contract.
- * Maintain conditions of service and local authority pensions throughout the contract.
- * Full recognition and facilities to trade unions within the existing branch structure.
- * Creates training and career development opportunities with no requirement to transfer to the contractors own terms and conditions as a condition of internal promotion.
- * New staff to be on at least equal pay and conditions as those transferring from the local authority.
- * The council to guarantee redeployment and retraining. These are just a few of the requirements which will be demanded if the contract proceeds which UNISON and the other unions will pursue rigorously. We expect Middlesbrough Council and a contractor to undertake legally binding commitments.

Health and safety

An increasing range of health and safety problems are being documented at call centres. They include stress, hearing damage, voice loss and aches and pains including headaches, eyestrain, repetitive strain injuries and back pain.

Staff are often required to work long periods without a break and since call centres operate on a 24 hour, 365 day basis, are often required to work unsocial hours. Shift working often makes a mockery of family friendly employment policies. The work is often tedious with little opportunity for skill or career development and call centres generally have a high staff turnover.

Part 6

The effect on the local and regional economy and employment

More job losses in Middlesbrough

Based on previous research and social and economic audits for the Equal Opportunities Commission and other local authorities, we estimate that the loss of 130 council FTE jobs will result in a further loss of 30 jobs in the local economy because of reduced spending. This makes a total job loss of 160 jobs.

These jobs are highly unlikely to be replaced by a call centre which is, as we describe below, is also unlikely to provide a spur for economic development. Furthermore, the partial replacement of local authority jobs by call centre jobs with inferior short term terms and conditions will result in an overall reduction in the quality of employment in Middlesbrough.

The limits of call centres

“Strategic contracting gives an opportunity for substantial Economic regeneration and investment in Middlesbrough” (para 75, Creating a Strategic Partnership).

The case for call centres is exaggerated both in terms of their contribution to improving Council services and their contribution to regenerating the local economy.

- call centre costs are mainly for labour and IT with limited chains of supplies to support their operation and will therefore support few additional jobs in the local economy.
- the construction phase will provide very limited short term employment because the buildings are essentially shells with minimal facilities and are thus are relatively quick and cheap to construct.
- they have few other related services within the centre and will thus support few jobs in the local economy.
- they employ relatively few people - the Norwich regional centre is expected to employ up to 50 people but this is entirely dependent on the contractor winning more contracts.
- they can readily be closed and the assets transferred elsewhere.
- they are unlikely to provide a spur for economic development and additional employment.
- the quality of jobs and working conditions have been the subject of many trade union campaigns and investigations, particularly over health and safety issues.
- private firms regularly ship work to other regional centres or contracts (for example, Sheffield

housing benefit work being carried out by CSL's Barrow office).

- the longer term prospects for call centres are limited because of the rapid expansion of the internet.

- the call centre is dependent on the contractor winning other contracts in the region.

In summary, the Council's strategy is fundamentally flawed. To expect a large outsourcing contract with substantial job loss combined with a call centre with a limited future providing a few low quality jobs to spur economic development, is frankly, a very inadequate and weak strategy.

Loss to the local economy

The Council has a policy of maximising the local resourcing of goods and services. However, private firms source their supplies nationally or internationally which could result in a loss to the local economy. Profits on the Middlesbrough contract will certainly be exported out of the town.

Regional perspective

The Council is rushing to be first in the region in the belief that the 'winner takes all' but it is not a race. Redcar and Cleveland is embarking on a similar course of action but is undertaking a Best Value review before making a decision.

The London Borough of Camden has several neighbouring councils which have outsourced financial services and/or housing benefit but this has not prevented the council from retaining the service in-house and developing a high quality service.

The idea that being first in the region will automatically bring benefits to Middlesbrough is not substantiated.

The threat to other local authorities

Once a contractor establishes an operational base in Middlesbrough, other local authorities will be subjected to pressure to outsource similar services. However, these will be largely operated by the Middlesbrough call centre resulting in job losses in other authorities.

Sustainability

The Council's strategy is very weak in terms of its sustainability. Further outsourcing and transfers of council services and assets will result in additional job losses. As noted above, call centres are expected to be a declining service because of the rapid growth in the internet. Whilst the growth of the internet is also subject to a certain amount of hype and exaggeration, it is expected to reduce the use and need for call centres.

Hence, the council's strategy will decrease employment in Middlesbrough and provide few sustainable jobs to offset these losses.

Contract Capital of the North?

If the 'strategic partnership' proceeds it is likely to be followed by other contracts and privatisation making the town the contract capital of the north. Past experience shows that this approach is likely to result in increased collusion between Council and contractors. It could only be a matter of time before the media are again reporting corrupt practices. This could inflict irreparable damage Middlesbrough's economy.

Part 7

The alternative approach for Middlesbrough

The outsourcing of work to a 'strategic partnership' is presented as the only alternative available to the Council. This is not the case.

The Government is planning to reform the capital finance regime and abolish or relax credit approvals. This will enable local authorities to borrow to finance investment without government approval. This could enable Middlesbrough to finance investment in IT and avoid outsourcing services.

The Council should have more confidence in the ability of the staff who coped very well with reorganisation. The Council needs more time to develop its own approach, drawing on best practice from Best Value, beacon status authorities, the work of the Improvement Development Agency and others.

The following is a viable, practical and cost effective method of improving quality and access, maintaining continuity of service and minimising disruption and insecurity.

We recommend the following approach:

1. The Council acquires new ICT equipment, software and the required level of expertise and training from the private sector.
2. A phased qualitative introduction of ICT to services should be planned, learning the lessons from each phase and permitting genuine consultation with trade unions, user and community organisations.
3. Staff remain employees of Middlesbrough Council and the transition to new systems negotiated with the trade unions and service user organisations.
4. This approach has the advantage that it:
 - affords maximum protection for the quality of service whilst new systems are introduced and to maximise the potential for service innovation;
 - maximises Council control, coordination and ability to respond flexibly;
 - maximises the opportunity for the Council to implement its corporate policies;
 - gives staff greater security and enables the Council to be a quality employer;
 - provides for trade union cooperation to make changes required to improve services to the community;
 - maximises potential for continuous improvement both in the quality of services and the quality of staff providing services.

5. Establish a joint venture company with the ICT equipment and software provider to develop the wider application of information and communications technology and economic development in the town. This could include the provision of ICT equipment, software and training to other public bodies, community and voluntary organisations in the town and region.
6. Revise the Best value service review timetable to ensure this is in line with the phased implementation programme.
7. A comprehensive consultation exercise is carried out, involving service users and staff, before any final decision is made.

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