

Privatising Salford?

An Alternative to the Market Testing of Council Services

Salford City UNISON

Researched and written by

CENTRE *for* **PUBLIC SERVICES**

Research • Strategy • Planning • Training

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An Alternative to the Outsourcing of Council Services

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Executive summary

Privatising council services in multi-service, multi-million pound contract

If market testing proceeds, the council will be privatising a wide range of services to a private contractor in a long term (usually ten years) multi-service, multi-million pound contract. This is called a provider strategic partnership which should not be confused with a Local Strategic Partnership (LSP) which coordinate regeneration. It would be completely different from the Salford Partnership. A provider strategic partnership will consist of partnership contract between the city council and one large private company to provide council services.

It is not a 'market test', once started it will be difficult to stop

It is misleading to refer to 'market testing' because the council will, if it commences the procurement process, almost certainly conclude the process by awarding a large contract to a private contractor. No council has yet started the tendering process then stopped mid-stream or concluded the process by keeping the work in-house.

High cost of procurement

The procurement process is very costly. Market testing corporate and personnel services will cost Salford nearly £1m. This is an up-front cost.

Threat to planned savings

The current implementation of modernisation will inevitably slow or grind to a halt during the procurement process and will threaten the planned efficiency savings.

Savings will be small

"...additional savings (over those included in the budget) may not be great as those achieved by other LAs as many of the changes likely to be made by private sector organisations are already in progress" (Future of Support Services, 12 September 2000)

Service quality will be affected

The cost of procurement and the diversion of officer time will inevitably affect the quality of service delivery and the implementation of the centralisation programme.

The partnership will be funded by the council's revenue budget

The strategic partnership will be funded almost entirely by the city council's revenue budget. Similar contracts in Middlesbrough and Bedfordshire have resulted in the private sector providing less than 5% of the total cost.

High risk of failure

A large scale long term contract with a single supplier will be a high risk for the city council. Risk assessment usually allocates responsibility for risk between the council and the contractor but it will be the people of Salford, the service users, frontline staff and Elected Members who will bear the effects and consequences of any delays, cost overruns and failure to provide services.

Frontline services will be affected

Services included in the contract could include frontline and core services such as legal and personnel services and housing benefits. The private sector will cherry pick services to be included in the contract - not based on community needs, public interest or service requirements but whether a particular private contractor has commercial reasons and whether they are can extract a profit.

Job losses

Assuming the strategic partnership covered 1,000 council staff we estimate that there will be an loss of 260 jobs as a result of a strategic partnership. This is based on previous detailed research for the Equal Opportunities Commission and local authorities. It will include the loss of 200 council jobs, the loss of an additional 50 jobs in private services in the local economy as a result of reduced spending power and a further loss of 10 jobs over five years due to the reduced earnings of new staff. Any additional jobs created by a regional centre must first replace the net loss of jobs in Salford.

ICT failures in Salford?

Fourteen local authorities have suffered major service failures, delays and backlogs from privately operated revenue and benefits contracts. Four contracts have been terminated. Tenants and housing associations have borne the brunt of these failures. At least eight large central government computer contracts have suffered from long delays and soaring costs, some even had to be abandoned.

Danger of combining market testing and Best Value

Best Value and procurement are distinct processes with specific legal obligations regarding consultation, disclosure of information and management requirements. UNISON considers that a procurement process and a Best Value review process cannot be carried out simultaneously whilst at the same time meeting the statutory requirements of the Local Government Act 1999 and DETR Circular 10/99. It could leave the council open to a legal challenge.

Future cuts will hit frontline services

The city council will in effect be ring fencing a multi-million pound contract for support services. Any further budget cuts will have to be concentrated in frontline services.

Limited protection for staff

The City Council's requirements on an 'approved' alternative employer do not provide any additional security because they merely reflect current legal entitlements. A TUPE transfer would provide some protection for existing staff but none for new staff. Virtually all private contractors operate a two-tier wage policy.

Virtual council and Elected Members

A strategic partnership contract is likely to have several effects on Elected Members. Democratic accountability will be severely weakened because the partnership will create a separate board to oversee the contract and will be governed by 'commercially confidentiality' - creating a government within government. It would be a significant step towards creating an enabling or virtual council in which services and activities are provided mainly by private contractors and the voluntary sector. This means 'Virtual Elected Members' because fewer Elected Members will be needed who will have a reduced role, less power and meet less frequently.

Difficulty in withdrawing from a contract

Once the council signs a contract it will be extremely difficult and costly to terminate it if the contractor fails to provide the required quality and level of service. Lambeth and Hackney councils have had great difficulty in trying to withdraw from revenue and benefits contracts.

There is a viable alternative

Officers have drawn up a series of proposals to continue to develop and improve services and achieve efficiency savings. There is considerable scope to prepare a Service Improvement Plan which will consolidate the improvements and savings already in progress and to extend the process to all corporate and personnel services.

10 reasons not to have a strategic partnership

- 1. Jeopardise the planned efficiency savings.**
- 2. Incur high cost of procurement.**
- 3. Few or no additional savings.**
- 4. High level of risk in outsourcing ICT to the private sector - remember the big problems in local authority and central government ICT contracts, the accelerating costs of projects, e-commerce failures and the collapse in technology share prices.**
- 5. Danger of being tied to one ICT provider for the next ten years.**
- 6. E-government targets can be met without large scale outsourcing.**
- 7. Job losses rather than new jobs.**
- 8. TUPE offers some protection for existing staff but not for new staff.**
- 9. Adverse impact on equalities and social inclusion.**
- 10. There is a viable alternative.**

Recommendations

- To immediately stop all further work on the market testing exercise and agree not to proceed with the issuing of a PIN (Prior Information Notice).
- Complete the implementation of the council's current modernisation projects and fully evaluate and assess their implementation.
- Draw up a Service Improvement Plan for all ICT related services which identifies further organisational and operational improvements and financial savings.
- Adopt the proposed public interest values and principles to underpin the council's ICT strategy.
- Draw a plan which identifies sourcing of specific ICT requirements, as and when required by the ICT strategy, and identify how they may be financed and implemented in conjunction with the private sector.
- Bring forward the Best Value review of corporate and personnel services in the council's service review programme.
- The council should make a commitment to carry out a Social and Economic Audit of all outsourcing and transfer proposals to assess the impact on the level and quality of employment, the local labour market, social inclusion and the effect on community strategies to improve the social, economic and environmental well-being of Salford..

Introduction

In January 2000 the city council considered the possible outsourcing of financial and legal services. However, the Cabinet concluded "that much of the potential savings from outsourcing financial services could be achieved over time by the reorganisation being implemented as part of the budget process" (Future of Support Services, 12 September 2000). It was agreed that the Director of Corporate Services 'seek exploratory discussions with outside providers' and that other services such as ICT, legal, administration, personal and property could also be considered for outsourcing.

The ICT and managed services companies have identified a multi-billion pound market and are responding equally to any council that advertises a large multi-service contract. Once established in an authority, the private sector hopes to take on more and more services.

This should not be taken as a reflection of the private sectors view of Salford's services but is an direct indication of the level of business interest in acquiring a foothold in the provision of local government services. We do not know who the Director of Corporate Services consulted nor the terms of the discussions on market testing but consultants and contractors will inevitably respond enthusiastically given the size of the potential contract.

Aims of this report

This report was commissioned by Salford City UNISON Branch from the Centre for Public Services. The Centre has extensive experience in outsourcing and privatisation having advised many large local authorities, the LGIU, APSE, the Equal Opportunities Commission and trade unions.

The aims of this report are to:

- assess the implications of a strategic partnership for corporate services;
- identify the costs and risks of such a strategy;
- inform Elected Members and staff of an alternative approach for Salford.

The Salford City Council faces financial difficulties for a number of reasons and has made strident representations to government. This study is limited to assessing the potential impact of market testing/strategic partnership on the city council and the community. It highlights the high risks and substantial costs and concludes that this approach is unlikely to help to solve the financial problems. Furthermore, it is likely to create a raft of new problems.

What is a strategic partnership?

A strategic partnership consists of a wide range of services outsourced to a private contractor in a long term (usually ten years) multi-service, multi-million pound contract. The contractor will be required to enter into a partnership agreement with the council

which will set out how they will operate and monitor the work. In theory, a strategic partnership involves the council and the contractor 'working closely together' and 'planning' future business strategy.

A provider strategic partnership should not be confused with a Local Strategic Partnership (LSP) which the DETR recently issued a consultation paper. LSPs are citywide or subregional broadly based partnerships comprising the city council, private and voluntary groups - Salford already has the Salford Partnership - and will be focused on coordinating regeneration.

Provider strategic partnerships are quite different. They consist a partnership contract between the city council and one large private company which has a long term contract to provide council services.

Market testing, outsourcing, privatisation or partnership?

Council documents refer to there being a difference between outsourcing ("one partner looking to make a profit and one looking to serve the public") and partnership (partners "have a common goal"). They refer to offering the Cabinet a choice between two options. This is not the case. It indicates a very naive and simplistic understanding of provider strategic partnerships. There is no option, because a partnership will involve the outsourcing of work to a private contractor. There is sometimes scope within a partnership agreement for staff to be seconded to a joint venture company established by the city council and the contractor. This is currently being negotiated in the Liverpool/BT partnership, however, the effect on jobs, terms and conditions remain unclear.

Power of the company

The private contractor will be in a very powerful position within the council. It will be able to cherry pick other services which it would like to bring within the scope of the contract. It will be providing a wide range of support services, including central and personnel services to all Directorates, so it will be able to identify new opportunities over the length of the contract.

Is it part of the modernisation agenda?

Modernisation of Salford City Council does not have to include a strategic partnership. The few local authorities which have privatised services in this way, such as Lincolnshire, Bedfordshire and Middlesbrough have not had a commitment to in-house services. These authorities have allowed private companies to dictate the scope of contracts, for example, Middlesbrough engaged Capita to do a scoping exercise, Bedfordshire started by deciding to outsource education support services but 'discussions' with private firms widened the range of services so extensively that the original services were less than 25% of the final contract. This is not modernisation but a business agenda.

The City Council's chief executive referred to 'traditional public sector funding' being unable to meet the demands of citizens for better and more efficient services. But

strategic partnerships are traditionally funded projects and require a long term commitment of the revenue budget. **The city council will in effect be ring fencing a multi-million pound contract for support services. Any further budget cuts will therefore have to be concentrated in frontline services.**

The handful of local authorities which have agreed deal have committed revenue expenditure of between £200m - £500m over ten years to contracts with private firms. The firms have promised to invest a few million pounds, a tiny percentage of the overall payments they will receive from the authority, in establishing a business/call centre which will have greater benefit for the firm than for the council. Contractors would hope to win additional contracts to achieve economies of scale, which in theory, result in lower costs. But none of these contracts have been tried and tested. There is nothing unique about achieving economies of scale - the city council could also achieve economies if it adopted a similar radical approach on the same package of services.

Which services will be affected?

Council officers are currently working on the basis that the following services could be included within the scope of a strategic partnership:

Corporate Services

Accountancy
Internal Audit
Council Tax and Benefits Administration
Cash Collection and Control
Financial Support Services
Registrars
Committee Services
Elections
Mayoralty and Member Services
Legal Services
Printing
Emergency Planning
Licensing
Strategy Development
Customer Services including call centres
ICT Development
ICT Operations

Personnel Services

Outstationed Teams
Personnel Policy Development & Implementation
Recruitment and Selection
Occupational Health/Health and Safety
Management Services
Training and Development
Support services

Property Management Services

Source: Market Testing Exercise report, November 2000.

A Market Testing Steering Group report boldly states that the scope and size of the contract **"are issues which the market will form a view on and express their own preferences. The form of service delivery and the services to be the subject of market testing should therefore not be drawn too narrowly at this stage, but be the subject of contract negotiation at a later stage"** (Market Testing Steering Group, November 2000, their emphasis).

In other words, let the private sector cherry pick services to be included in the contract. The criteria will not be social need, public interest or service requirements but whether a particular private contractor wants to provide them for commercial reasons, ie

whether it fits their business strategy and whether they are can extract a profit.

Explanation of other terms

It is important that there is a common understanding of the use and meaning of terms. Competitive tendering, procurement and market testing all mean the same thing ie subjecting a service to competition through the tendering process, with or without an in-house bid. Contracting out and outsourcing are simply different ways of describing the transfer of work to the private or voluntary sector. Both mean **privatisation**.

Just 'testing the market'

Some council officers will claim that they are just 'testing the market', that no decision has been made and the council reserves the right not to award a contract. These statements are often used to try to reassure staff and Elected Members that nothing 'final' has been decided.

But it is misleading to refer to 'market testing' because the council will, once it commences the procurement process, almost certainly conclude the process by awarding a large contract to a private contractor. No council has yet started the tendering process then stopped mid-stream or concluded it by keeping the work in-house.

These statements are standard phrases in the procurement process. In reality they are technically correct but in practice they are meaningless and dangerous. The further the council proceeds down the procurement process, the less relevance they have. Although the council could stop the tendering process or complete and still not award a contract, this is highly unlikely. The council would have to have a very substantial case to support this action and to counter the inevitable legal claims from the contractors submitting bids.

Part 1

Completing the centralisation and improvement strategy

The city council embarked on a three part major reorganisation of support services. The first part is the reorganisation of financial services including the centralisation of processing functions (creditors, payroll, purchasing and debtors and accountancy). A new financial service organisation (67 staff providing payroll, creditors, debtors, purchasing and systems) has only been established since 1 October 2000 with the objectives of:

- * making the most effective use of the new SAP financial system;
- * achieving the top quartile, and ultimately top decile, performance in the delivery of financial services;
- * securing the future of a fully committed in-house service;
- * assuring best value.

A report from the Head of Finance referred to "the CPU has settled down into a cohesive working unit. It is expected that this will be during 2002/03, ie about 12 months after full implementation of the SAP system" (Central Processing Unit - proposed Staffing Structure, April 2000). The first stage of the SAP system was implemented on 3 April 2000 with the final phase planned for April 2001. Some fifty posts were cut and savings are expected to be £2m over three years from 2000/01.

The second and third parts of the reorganisation are the centralisation of benefits and a new Call Centre incorporating environmental services and extending to council tax and benefits and subsequently to Customer Service Centres (One Stop Shops). Some sixty posts are to be cut. Savings are estimated to be £2.35m over a three year period from 2000/01.

"The potential for further repackaging/reorganisation for support services does not appear to be great although further savings may be made by developing home working and hot-desking and reducing accommodation and office expenses accordingly" (Future of Support Services, 12 September 2000).

The report goes on to state that any ***"additional savings (over those included in the budget) may not be great as those achieved by other LAs as many of the changes likely to be made by private sector organisations are already in progress"*** (para 4.5)

It should also be noted that the savings have not been "achieved" in other authorities, they are simply estimates of savings which may be obtained and added up over a ten year period.

The same report to Cabinet refers to the scope for repackaging services to "make them better at lower cost" (para 2.3) and also highlights that if the savings are not achieved then services "would need to be subjected to competition as part of the Best Value process" (para 3.1.9). The purpose of the Best Value legislation and review process is precisely to achieve continuous improvement and better cost effectiveness. This is what local authorities are doing across the country.

The report also refers to the performance of benefits administration is already good with revenues collection performance improving and is consistent with comparable other authorities. Similarly accountancy and audit services have been benchmarked and provide good value for money (para 4.2).

The threat to planned efficiency savings

Embarking on an expensive strategic partnership procurement process is likely to incur the council in substantial costs and put the planned efficiency savings at risk. There are likely to be few savings in the short term

High cost of the procurement process

The procurement process is very costly. Evidence from Middlesbrough and Bedfordshire, which have just completed a strategic partnership process, shows that consultants fees alone for legal, financial and management advice will be between £350,000 and £500,000. The cost of officer time must also be added to this total.

The Market Testing Steering Group have calculated that the first stage of the process (covering the review of services and data collection, packaging of documents to support the contract notice, evaluation of expressions of interest and project management) will absorb 810 person days at a cost of £130,000 (Market Testing Steering Group, November, 2000). The cost is limited to Corporate and Personnel Services and will be higher if services from other directorates are included within the scope of the contract.

But this is only and one third of the resources which will be needed to complete the procurement process which are labour intensive. This will include drawing up the specifications, contract documentation, issuing the invitation to tender, evaluating tenders, negotiating with a preferred partner and negotiating a partnership agreement (usually separate from the contract). This is estimated to be about a further 250 days of officer time. The Market Testing Steering Group is strongly recommending a communications strategy to inform and win the support of staff to the project which will be another additional cost.

The total cost of the procurement process for Salford City Council is likely to be:

| | £ |
|---|----------|
| Consultants and advisers fees | 500,000 |
| Cost of officer time: Stage 1 | 130,000 |
| Cost of officer time: completion of procurement | 250,000 |
| Cost of communications strategy | 40,000 |
| | <hr/> |
| Total | £920,000 |

Additional costs will include:

- * The cost of further reorganisation and restructuring. The transfer of a large number of services is bound to mean some reorganisation within other Directorates and there will be a need for new systems and procedures.
- * The cost of changes and alterations to systems already modernised.
- * The cost of establishing a client side with responsibility for managing the local authority responsibilities of the partnership and monitoring and assessing performance.

These costs will be substantial and are up front costs. They will be incurred prior to the contract commencing and hence before receipt of any savings. Privatisation, whether through outsourcing or the sale/transfer of assets, has high transaction costs. It will make the short term situation considerably worse. Furthermore, it is not a 'spend to save' strategy because there is little evidence that costs in the longer term will be substantially lower.

Impact on current service delivery

The financial expenditure and the diversion of officer time will inevitably affect the quality of service delivery. The Market Testing Steering Group recognise this in their November report. Work will have to be reprioritised in order to meet the contract timetable requirements. The impact on staff morale is another critical factor.

The Group report that recruitment to the Financial Support Group "has already suffered as a result of staff not wishing to apply for posts which could be the subject of an outsourcing or partnership arrangement in the future" (Market Testing Steering Group, November 2000).

Current implementation of modernisation will inevitably slow or grind to a halt during the procurement process because of officer time diverted to procurement, a loss of organisational motivation and initiative pending privatisation and a further decline in staff morale.

The effect on the rest of the council

Market testing will have a substantial impact on the rest of the council. There will

inevitably some loss of economies of scale which will result in increased unit costs for the remaining council services. Once a contractor is established it is likely that they will seek to extend the range of services they provide which will incur additional costs, uncertainty and insecurity for staff.

Business or public service agenda

It is imperative that the corporate services agenda is driven by the needs of the community and the local authority and not those of business. The Introduction of this report noted the predictable response from the private sector to a potential strategic partnership in Salford.

The city council should assume that the private sector will jump at the opportunity to bid for a strategic partnership in Salford. They are almost certain to also:

- * demand a long term contract, usually ten years;
- * make statements about savings which, because they will be spread over ten years, may initially sound attractive but are likely to be less significant when fully assessed;
- * argue that the authority should be flexible and should not unnecessarily restrict the scope of the services to be included in the contract. This gives the bidders an opportunity for a 'pick and mix' approach depending on the interests of each bidder. It bears little relation to community and service needs;
- * promote the concept of a regional business/call centre which will 'create jobs and boost the local economy'. The private sector will be making the same proposals to other local authorities in the region.

Further action

The council should fully implement the centralisation proposals in progress to enhance the quality of service and to ensure the planned efficiency savings are achieved.

We recommend that the city council prepares a Service Improvement Plan to identify further changes and reorganisation of services. UNISON is willing to cooperate with this approach and to be involved in drawing up a service improvement plan.

The Review of Financial Support Services established a number of core principles:

- * Collective ownership of and commitment to the developments and changes
- * The continuation of an in-house service provision for financial support services.
- * The deployment of appropriate resources through a combination of centrally based and out-stationed teams.
- * Ensuring directorates derive maximum service benefits from new systems.
- * Improved provision of financial management information allowing services to concentrate on their core functions more effectively.
- * The achievement and demonstration of Best Value.

- * Continuous Improvement with challenging and realistic output targets.
- * A planned and organised transition to the new arrangements through effective consultation and communication with appropriate support and training."

These principles should continue to underpin the city council's review of services.

We strongly recommend that the council immediately prepares a Code of Practice which restricts the basis on which officers or consultants acting on its behalf, have further contact with the private sector in relation to a strategic partnership. This Code should include the terms of reference for consultation with private firms, restrictions on the disclosure of council information and other necessary requirements.

Best Value

The authority should reassess the timetable for Best Value reviews to ensure that those which fall within the scope of corporate services are brought forward in the programme.

Danger of combining market testing and Best Value

Best Value and procurement are distinct processes with specific legal obligations regarding consultation, disclosure of information and management requirements. UNISON considers that a procurement process and a Best Value review process cannot be carried out simultaneously whilst at the same time meeting the statutory requirements of the Local Government Act 1999 and DETR Circular 10/99. It could leave the council open to a legal challenge.

Government targets for local government ICT

The government has set central government targets of 25% electronic (internet, telephone, fax) service delivery capability by 2002 and 100% by 2005. A target of 90% by value of low value procurement has been set for March 2001. However, each local authority is required to set its own electronic service delivery target, as far as practical, within this target. Salford has already made strides in the application of ICT and progressing to meet the targets. The Council cannot justify its ICT strategy on wholesale outsourcing.

Part 2

Selective sourcing of ICT skills and equipment, not privatisation of services

Meeting e-government targets, outsourcing or cost-cutting objectives

Local authorities are clearly not in a position to develop and apply information and communications technology alone and must draw on expertise from the private sector. The question is not whether there is a role for the private sector or not in ICT but the basis and terms on which this takes place. Below we make a number of important points which

- * An ICT contract does not have to include back-office support or facilities management services.
- * A clear distinction must be made between obtaining strategic technological advice and equipment and the delivery of support services irrespective of whether they have ICT content or not.
- * The quest for income generation through selling local government information to the private sector, promoting joint public/private portals, selling advertising on council web sites and third party use (private sector use of public facilities) in PFI/PPP projects can, superficially, 'sell' contracts and contractors now. But they have major long term ramifications for users and public services.
- * It is often claimed that a partnership will stimulate innovation and economic development in the local economy is unsubstantiated because it is wholly dependent on the private sector winning other major contracts. The track record of such 'promises' in authorities which privatised white collar services and DSOs in the 1990s is poor.

It is also vitally important to keep the ICT revolution in perspective. Whilst it is transforming communications and user access to council services and the way that local authorities collect income and pay invoices, ICT only facilitates the delivery of core services and the range of support services included in the contract. Many of these are dependent on highly skilled staff supported by training and ICT.

Technological lock-in

The council will be locked into a relationship with a private firm, whatever the quality of service. It is not the same as a single service CCT contract which could be terminated relatively easily. 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 or council taxpayers.

Capital investment

In the recent Green Paper, Modernising Local Government Finance, the government proposed the abolition of the current system of capital controls and its replacement with a prudential system which *"would allow local authorities to borrow freely for capital investment, subject to controls that would ensure borrowing was affordable and consistent with national economic policy."*

The Green Paper identified a number of issues which will need to be addressed in any new system such as replacement of the system of receipts taken into account and whether the 'set aside' arrangement for capital receipts.

These proposals will give Salford more flexibility in its approach to financing capital investment in ICT. Publicly financed investment is also cheaper than privately financed investment.

The claims made for private investment in strategic partnerships are often exaggerated. Hyder Business Services is the preferred partner in Bedfordshire. Hyder's proposals involve "significant investment in new technology" which turn out to be £8m to "implement world class business systems" and £8m "in property refurbishment and development". The contract will be approximately worth between £200m-£250m so the company's investment represents a mere 3% - 4% of the contract price. The property expenditure will be used to turn part of county hall into a business centre for Hyder so this can be discounted as it is Hyder's own investment so that it can try to win additional contracts. So 96% - 97% of the expenditure will be funded by Bedfordshire County Council.

The Middlesbrough deal requires Hyder to invest £25.5m in new technology and a regional business centre. However, part of this expenditure on a new centre for Hyder is dependent on winning additional contracts and will benefit Hyder. Again, the amount of private sector investment in the £260m contract is tiny. There is no evidence that the situation would be any different in Salford.

Government surplus increases

The government's financial surplus has increased beyond that forecast in public spending plans. A £28bn surplus was forecast but it is now expected to be £35.4bn by the end of the financial year. There are two reasons for this rise. Firstly, government spending has risen at only half the rate planned. Much of the underspend is connected with investment which has been at the same level this year as it was the same seven month period last year. Secondly, tax receipts have continued to grow thus boosting government income.

Public interest values and principles

The following values and principles should underpin the council's ICT strategy.

-
- * To improve democratic accountability of the organisation, management and operation of services and council activities.
 - * To improve the quality of service and meet the needs of users.
 - * To ensure the affordability of the ICT strategy.
 - * To develop the in-house capacity to implement the council's ICT strategy and to draw on private sector expertise when required in the implementation process.
 - * To maximise city council ownership and control in any partnerships with private firms.
 - * To facilitate better coordination and integration of service delivery.
 - * To ensure the application of the ICT strategy is used to reduce inequalities and social exclusion within council services and the community.
 - * To improve the cost effectiveness of central and support services.
 - * To enhance the availability of public information for use in education, training and life-long learning.
 - * To encourage ICT support for economic development and regeneration initiatives through employment and training.
 - * To ensure the council's corporate policies, particularly equal opportunities and sustainability are integrated into partnership agreements.
 - * To protect the interest of city council staff and promote best practice employment policies in all contracts and partnerships.

Part 3

Critique of strategic partnerships and 'testing the market'

Fallacy of back/front office division of services

Need to raise the issues about the false distinction made between:

- strategic and support/operational activities
- core and non-core
- purchaser and provider
- front and back-office operations
- client and contractor

There is not a definite boundary between these different functions. Furthermore, there is not a professional/manual split in which the core professional activities are protected or safe. Different interpretations are attributed to 'strategic' which can ultimately mean that the organisation deals only with finance and policy with everything else contracted out to the private sector. This applies equally to education, health, housing, regeneration, transport, environmental services and the core activities of central government.

Division is meant to be divisive, indicating that 'frontline' is more valuable than 'back-office' or 'support' services

What is used as the divider is not the division of the function or activity into operational units but the responsibility of the state ie to fund, determine overall policy and regulation of the market - ie it is the minimalist model of the state and allowing all other functions and activities to be marketised and privatised. In this scenario, teachers, doctors, social workers are not protected or treated any differently from other public service workers. This division is based on political ideology, not on social need or on the technical needs of services.

Innovation but chequered track record

There is little doubt that ICT will transform public services and local authorities. However, a sensible, realistic and viable strategy must be drawn up which avoids the hype, marketing and fantasy which surrounds so much of the ICT debate. Exaggeration and visions often appear to have no root in reality.

It is also vital to take account of what is happening to the implementation of ICT in the public sector here and now, particularly outsourced and PFI contracts in central and local government. In contrast to the hype, there is widespread evidence of service

failures, delays and spiralling cost overruns.

Below is a brief overview of recent ICT developments which are provided merely to argue for a careful, sequential and modular approach to the implementation of ICT in Salford as recommended by recent Cabinet Office guidance.

Revenue and housing benefit failures

Fourteen local authority outsourced revenues and benefits contracts have recently suffered major service delivery problems with four contracts being terminated. The contracts were operated by Capita, CSL, EDS and ITNET. The scale of the problems has led to major financial problems for housing associations, a flood of complaints to the Local Government Ombudsman (benefit complaints was the largest source of complaints in 1999/2000), large backlogs and delays in processing applications, the use of management consultants to design recovery plans and the imposition of financial deductions on contractors. The social and economic consequences for over half a million tenants have been widely reported in the media. Service failures have the greatest impact in the most deprived neighbourhoods where there is a high level of dependency on housing benefit.

Problems in the last year have included:

- Four revenue and benefits contracts (held by ITNET, EDS and CSL) terminated in Hackney, Taunton Deane, Wandsworth and Kingston.
- CSL failed to meet recovery plan targets in Sheffield after complaints and backlog soared. Management consultants brought in to assist with crisis.
- 40,000 claims backlog forced Lambeth to return some services in-house at a cost of £1.5m after multiple failures by Capita.
- Newham's revenue and benefits contract remains in crisis with housing associations and private landlords joining council tenants and trade unions in condemning the deterioration of the service.

Central e-government failures

Eight major ICT projects have suffered long delays, soaring costs, poor service with delays and incorrect payments and large backlogs in processing applications. This led the House of Commons Select Committee on Public Accounts to carry out a detailed investigation into outsourced ICT contracts. Their first report in January 2000 identified a number of fundamental problems and subsequent reports have investigated specific contracts such as the Passport Agency (Siemens), National Insurance (Andersen Consulting), Immigration and Nationality Directorate (Siemens), the Inland Revenue's strategic partnership with EDS, the Ministry of Defence projects (BT and GEC) and ICT strategies in the NHS.

The range of problems and failures investigated by the House of Commons Select Committee on Public Accounts have included:

- The Pensions Minister, Jeff Rooker, recently described the National Insurance computing system provided by Andersen Computing as "rubbish". The system has been plagued with delays and problems - the latest has meant that thousands of pensioners have lost £43m through underpayments.
- Delays and backlogs on Siemens Passport Agency IT system led to a 30% increase in the cost of passports.
- A 175,000 backlog in nationality and asylum cases caused directly by delays and failures in the £100m Siemens computer system.
- Computer systems operated by private companies for the Metropolitan Police, Student Loans Company, Benefits Agency, National Air Traffic Control and the Northern Ireland Vehicle Licensing Agency have either been abandoned or provided late with substantial cost increases.

Accelerating cost of projects

The cost of a number of contracts has risen substantially beyond the original contract price. For example, the Inland Revenue contract with EDS has increased 135% in just six years. 'Overspending' has been a constant occurrence on most of the other central government ICT contracts. For example, the cost of the Inland Revenue's partnership with EDS has soared from £1,033m to £2,426m, a 135% increase in just six years.

The increased costs were due to new work and projects (£533m), capital expenditure (£409m) and post contract verification adjustment (£203m) which represented additional workload between the invitation to tender and the transfer of staff and commencement of the contract (Twenty-Eighth Report, Select Committee on Public Accounts, July 2000).

The ICT sector also suffers from:

E-commerce failures: There have been a number of failures of retail e-commerce companies which have attempted to establish web-based marketing but have failed financially. A recent survey revealed that 38% of goods did not arrive at the specified time and 17% of purchasers never received their goods (Financial Times, 6 December 2000).

Collapse in technology share prices: Share prices in the technology sector have recently tumbled in global markets as a result of poor financial results from some leading companies, growing uncertainty about the future growth of the sector, high levels of investment required and technical problems with many of the new systems.

Putting ICT and the 'new economy' in perspective: There is an increasing awareness of the dangers of exaggerating the effects of information and communications technology.

The high levels of risk in a partnership contract

A large scale long term contract with a single supplier will have a high risk element for the city council. These fall into a number of risk categories:

- ▶ Risk of failing to achieve the short term efficiency savings already taken into account in the budget;
- ▶ Risk of service failures impacting most on the socially excluded;
- ▶ Risk of failing to meet the Best Value performance requirements;
- ▶ Risk of failing to achieve continuous improvement;
- ▶ Risk of failing to achieve longer term savings;
- ▶ Risk of the partnership requiring increased resources and financial investment;
- ▶ Risk of the contract absorbing resources at the expense of core frontline services;
- ▶ Risk of technological problems in the application of systems;
- ▶ Risk of the contractor failing to win any additional contracts to support the creation of a regional business centre;
- ▶ Risk of the contractor failing to create any additional jobs;
- ▶ Risk of the contractor providing only minimum quality employment;
- ▶ Risk of the client side management, organisation and performance monitoring of the contract requiring additional resources thus reducing efficiency savings;

The risk of failure is high.

And once the council signs a contract it will be extremely difficult and costly to terminate it if the contractor fails to provide the required quality and level of service. Lambeth and Hackney councils have had great difficulty in withdrawing from revenue and benefits contracts.

Who bears the consequences of these risks?

Risk assessment is a standard part of the procurement process and a partnership contract. However, it usually allocates responsibility for risk between the client and the contractor. Although the council and the contractor have ultimate responsibility for risk, it is the people of Salford, the service users, frontline staff and Elected Members who would bear the effects and consequences of any delays and failure to provide services.

Salford's Strategic Plan 1997-2007

The Plan is built on three core values of consultation and participations, customer care and a commitment to quality service and corporate working and partnerships. The City agreed three broad aims under which are grouped twenty corporate objectives. The latter include:

- ensuring service provision which is accessible, welcoming, caring, affordable, responsive and meets the need of the people of Salford;
- developing flexible integrated service delivery for effective achievement of the corporate mission;
- developing community and council services which strengthen community identity and the cohesion and promote self-help;
- ensuring excellent employment prospects and high quality job opportunities;
- exploiting new opportunities and innovative ideas for the benefit of the people of Salford;
- developing equal opportunity for all Salford people to satisfy their needs and aspirations for personal development and growth.

Outsourcing services will reduce the city council's capacity to fulfil these objectives

Capacity will be reduced:

- fragmentation of service delivery with a private contractor responsible for corporate services
- a contractor more committed to winning additional work to meet its business plan to create a regional business centre than providing community services in Salford.
- a contractor employing new staff with less favourable pay rates and conditions of service.
- a weakening of equal opportunities policies which has been the experience of previous privatisation of local government services.

Democratic accountability

Virtual councils and Elected Members

The outsourcing contract is likely to have several effects on Elected Members. Democratic accountability will be severely weakened because the partnership will create a separate board to oversee the contract and will be governed by 'commercially confidentiality' - creating a government within government.

A strategic partnership is a major step towards creating an enabling or virtual council in which services and activities are provided mainly by private contractors and the voluntary sector. This means 'Virtual Elected Members' because there will be a need for fewer Elected Members who will have a reduced role, less power and meet less frequently.

Democratic accountability and access reduced by 'partnership' between council and contractor

There is little or no track record of how ICT and strategic partnerships operate in practice because they are relatively new and untested. One result could be the potential loss of accountability as a partnership board becomes little more than a subcommittee of the cabinet and constrained by commercial confidentiality leaving user and community organisations and backbench Elected Members with limited involvement.

Over-reliance on and investment in ICT at the expense of basic services which rely on personal service and human labour

A focus on 'new' means of access to information and communications technology could result in an over-emphasis on a customer relations strategy and not enough attention paid to the provision of basic services.

Financial implications for users of ICT and accessibility in the community

The danger of an ICT and customer service strategy assuming wide ownership, access and capacity to use ICT equipment when in practice social exclusion remains deep seated. The digital divide is widening as computer ownership and internet use rapidly increases but leaves the elderly and the economically deprived even more socially excluded. What assumptions are made regarding social norms, access, skills and use of computers? The digital divide will also have a geographic divide within Newcastle and is likely to further isolate deprived communities.

Private contractor jointly involved in determining and implementing social policies regarding access to IT

A private company will be responsible for delivering a wide range of services. The theory is that they deliver these services according to city council policies. However, a strategic partnership is jointly run by the city council and the private contractor and the latter will inevitably have a more significant degree of control than in a 'standard contract'. The private sector will be influencing policy on the basis of whether particular policies are in their financial interest.

Part 4

The limits of regional business centres and job creation and impact on the local economy

Introduction

This section examines the potential employment impact of a strategic partnership both in terms of a TUPE transfer of staff and the job creation claims of regional business/call centres.

Impact on employment

Strategic partnerships have a substantial employment impact. Middlesbrough and Bedfordshire required the transfer of 1,050 and 750 staff respectively. A similar contract in Salford is likely to involve the transfer of 1,000 staff. Although staff will be transferred under TUPE, it is estimated that there will be a 20% job loss, 200 jobs.

The loss of local authority jobs will have a knock-on effect on the local economy, resulting in the loss of a further 50 jobs in private services. This is based on a employment multiplier calculated in previous research we have carried for the Equal Opportunities Commission and other local authorities.

Furthermore, based on evidence from other outsourcing contracts, new staff will be on different terms and conditions, usually 15% lower rates. Assuming a conservative labour turnover rate of 40% over five years, the loss of earnings will also have a knock-on effect with a further loss of 10 jobs over five years. The total job loss will thus be 260 jobs.

Job creation by regional business/call centres

Local authorities and private firms also claim to create new employment opportunities through the development of a regional business centre. The claim that a strategic partnership will create additional employment in the area must be questioned for the following reasons:

* There are no examples of this happening on the scale envisaged. A few firms have established 'centres' and have moved some to and from these centres if they have won other contracts. The shunting of work between business centres has led to small job increases and to job losses.

- * It is dependent on other local authorities following suit and the contractor winning additional work in the public and/or private sector.
- * The private sector strategic partner will create a call or business centre in the area but the more successful this, particularly if it wins contracts in other local authorities, public bodies and private firms, the greater the job loss will be in the neighbouring area. The firm will already have a core staff and economies of scale will ensure that it will require fewer additional staff every time it wins a new contract. Hence there will be compulsory redundancies elsewhere resulting in a net job loss in the Greater Manchester economy.
- * The call centre will increasingly be a generic business centre in which the council's work is of decreasing importance and priority. The strategic partnership is not creating a call centre dedicated to council work but the private firm is simply using the council as a cheap investment vehicle to establish a call centre from which it will use as a launch pad to try to win other work.
- * The contractor will reorganise staffing levels and working practices. Only a proportion of staff will be fully dedicated to services and it will therefore be difficult to determine whether the council's employment policies are being implemented, particularly in the later stages of the contract.
- * The firm retains the full provision of services from within the original local authority despite that fact it might win larger and/or more 'attractive' contracts and inducements from other local authorities in the region. Contractors are adept at transferring and shifting work between their centres depending on workloads and contracts won or lost.
- * It assumes that a regional call/business centre structure is sustainable, effective and efficient over the length of the contract in a sector which is undergoing rapid change. Is there sufficient demand for several centres in each region? And after a regional network of centres is established, how will further economies of scale be achieved?
- * Transferring jobs from the public to the private sector does not produce a net job gain for the regional economy. It merely reduces public sector employment and increases private sector employment.

Part 5

Social inclusion and impact on poverty

The privatisation of council services will have a significant effect on the following:

Community strategy to improve social, economic and environmental well-being of Salford: The initial loss of council jobs and the knock-on job losses in the local economy will cause further decline and social exclusion.

Impact most on low paid female staff: Lower paid women in corporate and personnel services are likely to take the brunt of the job losses. Most are full-time jobs.

Impact on the local labour market: Job losses will mean fewer opportunities for the unemployed and those currently on training schemes. The council has traditionally played a significant role setting employment standards in the local economy. Privatisation will weaken the council's influence.

Increase inequalities: Women, ethnic minorities and other equality groups will be adversely affected by the loss of jobs.

Increased social exclusion: The most deprived neighbourhoods will suffer both as a result of job losses and, because they are heavily dependent on council services, any failures in service delivery such as delays and backlogs in housing benefits.

Services based on commercial rather than social need: A large multi-service multi-million pound contract with a private contractor will inevitably mean that services are increasingly organised and operated on commercial criteria in conflict with social and community needs.

Contract will not be limited to so-called back-office support services: Once a private contractor is established providing corporate and personnel services within the council, the contractor will almost certainly want to expand to include other services. This is likely to result in a further net loss of jobs.

Diversion of resources: The city council has been very successful in obtaining funding for regeneration projects, however, these resources will be strained because they would have to be used to mitigate the impact of privatisation of council services.

Reduced training opportunities: The vast majority of private contractors have inferior training policies and programmes compared to the city council.

Further work is required to identify the full impact of privatisation in Salford but there is sufficient evidence to conclude that a decision to privatise council services should not be taken without a detailed assessment of the consequences for the community and local economy.

Part 6

The employment practices of contractors and limits of staff protection

Introduction

This section examines the implications for staff of a transfer to a private contractor. It highlights the limitations and loopholes in the TUPE regulations and the fact that new staff will not be afforded protection.

Council commitment

The City Council have produced an outline statement of intent which stated that an 'approved' alternative employer will be one which:

- * offers equivalent terms and conditions (including pensions);
- * recognises local government trade unions;
- * adheres to anti-discrimination legislation;
- * has strong equal opportunities policies;
- * provides satisfactory training for employees;
- * adheres to health and safety legislation;
- * provides a commitment to recruit local residents where possible;
- * has a commitment to continuous improvement of services."

But ALL employers are legally required to implement the vast majority of these requirements. Only a commitment to local recruitment and the reference to 'strong' equalities and 'satisfactory' training provide anything other than the absolute minimum requirements.

Staff and Elected Members should be under no illusion that these requirements provide any additional security because they merely reflect current legal ENTITLEMENTS.

TUPE protection is limited

The evidence from transfers to date reveals that employers have generally exploited TUPE regulations to achieve savings. Whilst existing pay and conditions of service are protected on transfer 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.

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.

The implications for new staff

The key issue is the pay and conditions of new staff who are not protected by TUPE. Virtually all private contractors operate a two tier wage policy which usually involves:

- * lower pay rates for new staff
- * no enhanced rates for unsocial hours
- * fewer holidays
- * only statutory sick pay
- * inferior pension scheme
- * casual/temporary employment status
- * flexible working hours

All staff being promoted with the company will normally be required to transfer to the contractor's terms and conditions of employment.

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.

New regulations will have limited impact

New regulations and guidance on workforce matters for procurement under Best Value are due to come into force early in 2001. The Government will amend the procurement provisions of Part II of the Local Government Act 1988 so that local authorities can have proper regard to workforce matters in relation to quality and Best Value. Currently, local authorities are unable to enquire about a contractor's workforce and management practices. In addition to TUPE, training and development, health and safety, the Social Partners agreed that local government should be able to take into account whether providers are complying with equalities legislation and accompanying Codes of Practice, as well as equalities requirements in relation to services. The planned changes should strengthen the protection of transferred staff but they are unlikely to have a significant impact for new staff.

Part 7

Recommendations

UNISON makes the following recommendations to the city council:

- To immediately stop all further work on the market testing exercise and agree not to proceed with the issuing of a PIN (Prior Information Notice).
- Complete the implementation of the council's current modernisation projects and fully evaluate and assess their implementation.
- Draw up a Service Improvement Plan for ICT related services which identifies a second stage organisational and operational improvements.
- Adopt the proposed public interest values and principles to underpin the council's ICT strategy.
- Draw a plan which identifies sourcing of specific ICT requirements, as and when required by the ICT strategy, and identify how they may be financed and implemented in conjunction with the private sector.
- Bring forward the Best Value review of corporate and personnel services in the council's service review programme.
- The council should make a commitment to carry out a Social and Economic Audit of all outsourcing and transfer proposals to assess the impact on the level and quality of employment, the local labour market, social inclusion and the effect on community strategies to improve the social, economic and environmental well-being of Salford..

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