

UNISON

Northern

North Tyneside – A Commissioning Council?

Evidence Base for the Alternative Plan



**European Services
Strategy Unit**

(Continuing the work of the Centre for Public Services)

Published by UNISON, GMB, UCATT, AMICUS, NUT, NASUWT, ATL and funded by UNISON's General Political Fund.

UNISON Northern
140-150 Pilgrim Street
Newcastle upon Tyne NE1 6TH
Tel. 0191 245 0800
FAX 0191 245 0899
Email: northern@unison.co.uk
www.unison-northern.org.uk
July 2005.

September 2006.



(Continuing the work of the Centre for Public Services)

Sustainable Cities Research Institute
Northumbria University
6 North Street East
Newcastle upon Tyne NE1 8ST
England
Tel +44 (0) 191 227 3500
FAX +44 (0) 191 227 3066
Email: dexter.whitfield@unn.ac.uk
Web: www.european-services-strategy.org.uk

The **European Services Strategy Unit** is committed to social justice, through the provision of good quality public services by democratically accountable public bodies, implementing best practice management, employment, equal opportunity and sustainable development policies. The Unit continues the work of the Centre for Public Services which began in 1973.

Contents

| | |
|---|----|
| Executive Summary | 4 |
| 1. Introduction and policy context | 10 |
| 2. The proposed efficiency savings | 12 |
| 3. A Transformation Plan or Blueprint for Business | 16 |
| 4. The consequences of the Council's plan | 21 |
| 5. Outsourcing and privatising Council services | 24 |
| 6. The impact on jobs | 42 |
| 7. Assessing the impact of transformation | 53 |
| 8. The Trust model | 57 |
| 9. Insourcing trend | 66 |
| 10. Why in-house bids are essential and the advantages of in-house provision | 72 |
| 11. Our Alternative Plan | 77 |
| 12. Recommendations | 80 |
| References | |

List of Tables

1. Outsourcing savings a fraction of what is claimed
2. Job losses from outsourcing
3. Service failures
4. Local authorities which retained in-house provision
5. Efficiency savings planned by North Tyneside
6. Planned savings from transformation 2006/07 to 2009/10
7. Comparison of national CCT costs and savings
8. Transaction costs in government department market testing
9. Client monitoring costs
10. Private sector failure in the delivery of public sector IT projects
11. Failed SSP partnerships
12. HBS Scorecard in Bedfordshire
13. Advantages and disadvantages of outsourcing
14. Estimated job losses in CCT contracts 1988-1992
15. Employment change in the case study authorities compared the DoE study findings
16. Comparison of In-house and outsourced employment change in Northern Ireland
17. Assessment framework
18. Summary of Best Value Inspections for Leisure Trusts
19. Admissions criteria in secondary schools
20. Local authorities which adopted in-house option instead of an SSP
21. Recent insourcing

Figures

1. North Tyneside's Strategy Map
2. North Tyneside's Potential Model

Executive Summary

In June 2006 North Tyneside Council published an edited version of a Business Transformation Plan prepared by management consultants KPMG in conjunction with Council officers.

The Council has a target of £50m efficiencies from the transformation plan over the next four years. However, the KPMG report identifies a much higher level of potential efficiencies. *“The bulk of these savings are in addition to the £46m target identified in the framework forecast. Only a small element (£2.6m each year over the four year period) will contribute to the £46m target”* (KPMG, 2006). So the potential list of efficiencies is £84.5m.

Local government trade unions in North Tyneside (including teacher unions) commissioned this report from the European Services Strategy Unit (continuing the work of the Centre for Public Services), Sustainable Cities Research Institute, Northumbria University, to assess the Council’s transformation plan and to provide an evidence base to support their opposition to this plan.

Council and KPMG fail to provide evidence

The Council and KPMG have comprehensively failed to provide evidence to demonstrate:

- 1) That service users and citizens of North Tyneside want to fundamentally adopt neoliberal marketisation policies which will radically reduce the role of the Council and let market forces determine the provision of services. One of the transformation diagrams refers to “Democratic Mandate” but no such mandate has been sought or given for these policies.
- 2) That the policies in their transformation plan are supported by evidence which shows that they are realistic, practicable and will achieve the objectives.
- 3) That they have carried out a full impact assessment of the effects of their policies on the community and local economy. The report gives the impression that the strategy will lead to ‘all gain and no pain’ which is false.
- 4) That they have taken account of all the transaction costs (client, procurement, contract management and other costs) of implementing their policies.

Trade unions in North Tyneside are committed to improving services, strengthening the local economy and the renewal of democratic accountability. We are not opposed to transformation but we are opposed to the particular policies which the Council has selected to try to improve services and increase effectiveness and efficiency.

Council embraces market forces

The Business Transformation Plan has a catalogue of shortcomings:

- The KPMG report is not a coherent strategy but merely a listing of ways in which savings may be obtained. There is a lack of vision of the future role of local government in North Tyneside (the claim to become a commissioning council is simplistic and naive).
- The Council Plan 2006-10 sets out objectives and milestones and is little more than a comprehensive ‘wish list’ with limited evidence of the strategy required to achieve them.
- The ‘Blueprint for Change’ diagrams are simplistic and merely present words in boxes.

- There is no clear organisational structure or indication of how the policies will combine to make for a more effective and efficient local authority.
- The focus on listing potential savings means that there is no vision of what the local authority would be like in 2025 if these policies were successfully implemented.
- No evidence is supplied to justify any of the policies. Assumptions appear to have been made about the level of savings and efficiencies which can be obtained from this commercial approach to transformation.
- No impact assessments appear to have been carried out to examine the effect on democratic accountability, the future capability of the Council, sustainable development, quality of service, employment, the local economy, equalities and social justice.
- There is no evidence that the policies have been designed to meet local needs and aspirations.
- The Council will be more exposed to market forces yet the transformation plan shows no understanding of this nor how the Council will deal with the adverse impacts.
- Whilst each local authority must ultimately decide its own policies and course of action, North Tyneside appears to give little consideration to the impact of its policies on City Region neighbours.

Outsourcing savings are a fraction of what is claimed

It is often claimed that outsourcing can achieve 20% - 25% budget savings. However, national research has shown this to be a myth – actual savings are a fraction of what is claimed – see Table 1).

Table 1: Outsourcing savings a fraction of what is claimed

| Savings Claim | Evidence Base |
|----------------------------|---|
| 20.0% – 25.0% | Tory Government 1979-97, OECD, business and management consultants* |
| Savings Evidence | |
| 6.5% | Local government: Department of the Environment, National Survey, 1992* |
| -16.0% | Local government: Equal Opportunities Commission, National Survey, 1995 |
| 8.1% | Local government: Department of the Environment, National Survey, 1996* |
| 12.0% | Civil Service, Cabinet Office Research Study, 1996* |
| 6.0% – 12.0% | International Survey, Hodge, 1999* |
| Average 3.3% - 4.5% | |

- Did not include all the transaction and public sector costs.

Threat of a 1,000 job losses and cuts in pensions

The transformation plan proposes a maximum spending cut of £41m in any one year (the remaining spending cuts are rolled over from year to year). Labour costs represent on average about 50% of total costs and assuming the average wage plus on-costs is £25,000, then some 820 councils jobs could be lost with a further loss of 200 jobs in the local economy giving a total loss of over 1,000 jobs.

Table 2: **Job losses from outsourcing**

| Job Losses from outsourcing | |
|------------------------------------|---|
| Job Losses (%) | Evidence Base |
| 12.2 | Local government, Department of the Environment, 1992 |
| 21.0 | Local government, Equal Opportunities Commission, 1995 |
| 15.3 | NHS |
| 13.3 | Civil Service, Cabinet Office Research Study, 1996 |
| 42.0 | Strategic Service-delivery Partnership, Middlesbrough MBC, 2001. |
| 37.0 | Strategic Service-delivery Partnership, Redcar & Cleveland MBC, 2003. |

Many private companies are closing final salary schemes and increasing employee contributions on a scale which far outweighs any changes to the local authority pension scheme.

Community impact

Local authorities have a responsibility to assess the impact of public and private sector policies and projects with regard to sustainable development, social justice and community well being.

North Tyneside has produced a Benefits Realisation Strategy for the Transformation Programme but there is no mention of citizens, service users or the staff! The impact of the Transformation Plan will only be measured in so far as it affects managers and elected members! It is merely a management plan about how to manage but is devoid of the criteria and methods to be used to measure costs and benefits. Cuts in services, outsourcing and privatisation means fewer services, higher charges, job losses, cut in terms and conditions and widening inequalities which all have a knock-on effect on the local economy.

Transaction and public costs

The Transformation Change Team is costing £500,000 annually. The Council has a £4m provision for 'workforce implications' of the Plan. But these costs are the tip of the iceberg. Council's traditionally under-estimate all the costs of procurement and outsourcing as government research discovered. Furthermore, they claim savings but often transfer other public costs onto the NHS and the benefits system.

Contract failures

There have been a series of high profile information technology system failures, soaring costs and long delays. The Private Finance Initiative (PFI) can no longer be used for IT contracts but this has not stopped the tide of cost increases and delays. In addition, four Strategic Service-delivery Partnership contracts have been terminated and nine local authorities, including Newcastle, opted for in-house provision.

Table 3: **Service failures**

| Number of local authorities | Type of contract |
|------------------------------------|---|
| 4 | Strategic Service-delivery Partnerships terminated or reduced worth over £ billion. |
| 9 | Local authorities stopped strategic partnership projects |
| 3 | Leisure Trusts liquidated |
| 20+ | Information technology projects terminated, delayed with soaring costs |
| Numerous | Local authority contracts with private sector terminated and many more with service failures. |

Trusts and arms length companies

The track record of transferring services to trusts and arms length companies is not good. Leisure Trusts have not performed better than local authorities and three have collapsed. Performance has declined in four out of 11 Academies and the number of pupils gaining GCSE A*-C grades increased by only 0.2%. More children in Academies are channelled into GNVQs – up to 52% in Academies compared to 13% in predecessor schools.

Voluntary-aided schools, similar to Trust schools, have a much higher use of pupil and parent interviews for schools admissions. Special educational needs and medical/social need are infrequently used compared to the high use of religion as admissions criteria.

Insourcing trend

There is a significant trend towards insourcing service delivery. Network Rail has taken back in-house over 16,000 staff previously outsourced to private contractors such as Carillion, Amey and Jarvis.

Sainsbury's, Prudential, Selfridges, Cable & Wireless and JP Morgan Bank are just some of the companies which have recently terminated multi-million pound information technology contracts and brought the work in-house.

Advantages of insourcing

- Retains in-house control and ownership.
- Increases capacity and intellectual knowledge through skills transfer
- Draw on best practice from public and private sectors
- Address council's priorities and needs
- Reduced risk because of procuring 'best in class' rather than reliance on one contractor.
- Directs support where it is most needed
- Transfer benefits to other services at low cost
- Flexibility to target and prioritise
- Avoids high procurement costs
- Support for sustainable development and supply chain policies
- Minimises cost

Table 4: **Local authorities which retained in-house provision**

| Local authorities | Services |
|---------------------------------|---------------------------------|
| Kent County Council | ICT and Related Services* |
| Northamptonshire County Council | ICT and Related Services |
| Newcastle City Council | ICT and Related Services |
| Barnsley MBC | ICT and Related Services |
| Salford City Council | ICT and Related Services |
| Walsall MBC | ICT, Related and other services |
| Wakefield MBC | ICT and Related Services |
| Dacorum District Council | ICT and Related Services |
| Isle of Wight Council | ICT and Related Services |

- Related Services includes Financial, Human Resources, Property, Revenues and Benefits.

Why in-house bids are essential

The Procurement Strategy must ensure that all procurement processes require the submission of an effective in-house bid. In-house bids are essential because:

- The Council would be failing to fully examine all the options and could fail to obtain value for money by excluding a bid from the in-house service.
- Ensures a full and proper comparison of the potential future public and private sector costs. Without an in-house bid evaluators are limited to an inadequate comparison of current public sector costs with future estimated private sector costs. Public Sector Comparators are not bids and are a wholly inadequate way of comparing public and private provision.
- Puts pressure on private contractors to bid at realistic prices and reduces opportunities to make exaggerated claims about savings.
- Reduces the risk of a loss leader bids which could have longer-term financial consequences for the Council.
- Provides the in-house service with an opportunity to develop service improvements and new ways of delivering services.
- Enables a comparison of method statements to ensure that outputs are based on realistic methods of delivery which are acceptable to service users.
- It indicates to staff that they are valued as a key asset and the Council wants to draw on their experience and knowledge. It also recognises their interests such as their commitment to public services values, job security, pensions, health and safety, terms and conditions of employment.

An Alternative Transformation Plan

An alternative transformation plan for North Tyneside Council. It consists of six key elements:

- The principles and values of public services in North Tyneside
- A New Transformation Plan
- Sub-regional Public Sector Shared Services Strategy
- A Sustainable Procurement Strategy
- Investment Strategy
- Democratic Renewal and Stakeholder Strategy

The North Tyneside equation

The reality is that commissioning = outsourcing and privatisation = bigger role for business and private contractors in decision making = less democratic accountability and transparency = increased potential for corruption.

Recommendations

North Tyneside local authority trade unions recommend that:

- A new transformation plan is prepared.
- The market testing and outsourcing programme is stopped immediately where the procurement process has not been commenced.
- Negotiations on the planned local authority-wide School Trust should be terminated.
- Proposals for other trusts and arms length companies must also be terminated.

- All procurement processes involving potential staff transfer must include an effective in-house bid.
- Discussions and negotiations are immediately commenced with other local authorities in Tyne and Wear and Northumbria/Durham on the potential for public sector shared services or joint public sector provision.
- Service users, community organisations, staff and trade unions are involved in the preparation of a new transformation plan.
- The Council publishes the evidence on which the current transformation plan is based.

Part 1

Introduction and policy context

Context

In June 2006 North Tyneside Council published an edited version of a Transformation Plan prepared by management consultants KPMG in conjunction with Council officers. North Tyneside is a Labour controlled Council with a Labour elected Mayor. The Council established a Transformation Programme Board consisting of the Mayor, Deputy Mayor and the Cabinet Member for Finance, the Chief Executive and four Directors of services.

Financial situation

The Council's net revenue budget for 2006/07 is £151.8m (excluding the £97m Dedicated Schools Grant (DSG) and a capital programme spend of £77.5m including £30m for housing investment. The revenue budget increased by £9m (6.3%) compared to 2005/06. The new DSG schools grant increased by £4.7m or 5% per pupil compared to a national average of 6.8%. The Council has agreed spending increases of £9m for Adult Services, concessionary travel for older people, increased contribution to the pension fund plus provision to meet Single Status.

The Council has a target of £50m efficiencies from the transformation plan over the next four years. However, the KPMG report identifies a much higher level of potential efficiencies.

Transformation secrecy

The Transformation Plan is surrounded in secrecy. The Council and KPMG have comprehensively failed to provide any evidence which show that:

- 5) Service users and citizens of North Tyneside want to fundamentally adopt neoliberal marketisation policies which will radically reduce the role of the Council and let market forces determine the provision of services. One of the transformation diagrams refers to "Democratic Mandate" but no such mandate has been sought or given for these policies.
- 6) The policies in their transformation plan are based on evidence that they will in fact achieve their objectives.
- 7) They have carried out a full impact assessment of the effects of their policies on the community and local economy. It has the appearance of a plan made by bean counters for bean counters!
- 8) They have taken account of all the transaction costs (client, procurement, contract management and other costs) of implementing their policies.

Trade unions in North Tyneside are committed to improving services, strengthening the local economy and the renewal of democratic accountability. We are not opposed to transformation but we are opposed to the particular policies which the Council has selected to try to improve services and increase effectiveness and efficiency.

Indicative of the Council's approach are the following comments in the minutes of the Transformation Programme Board meeting on 27 April 2006 which included:

- "A business case will not be required as the council has already agreed that the programme will go ahead.
-is to provide a controlled copy of the KPMG report to the Mayors office.

- Due to the political and commercial sensitivity of the KPMG report, "..... to contact legal to see what steps can be taken to protect the report against FOI" (Freedom Of Information).

Evidence base required

Local government trade unions in North Tyneside (including teacher unions) commissioned this report from the European Services Strategy Unit (continuing the work of the Centre for Public Services) to assess the Council's transformation plan and to provide an evidence base to support their opposition to this plan.

Objectives

Preparation of this Evidence Base has three objectives:

- To provide an evidence base which challenges the claims and assumptions made by KPMG and the Council.
- To expose the consequences for service users, parents and pupils, staff and council taxpayers of the Council's and KPMG transformation proposals.
- To propose a framework of an Alternative Transformation Plan.

Methodology

The research involved compiling evidence from a variety of databases and literature reviews in addition to drawing on the evidence database of the European Services Strategy Unit (continuing the work of the Centre for Public Services) which has over thirty years experience of transformation, procurement, marketisation and privatisation research for public sector bodies, trade unions and community organisations. A number of meetings were held with trade union representatives in North Tyneside to discuss the shortcomings of the Council's transformation plan.

Efficiency savings

The transformation plan focuses on efficiency in the production and delivery of services ie. focus on staffing levels, the cost of labour and working practices but there is little evidence of consideration of the efficiency of markets, in particular quasi-markets – the cost of creating spare capacity in order for a market to operate, the cost of state regulation and public subsidies, and the inefficiencies inherent in the run-down of in-house providers. The simultaneous drive of efficiency and competition is also characterised by a deliberate evasion of the social and environmental impacts and the full public sector costs.

Senior management's response is often to bypass efficiency studies and opt for outsourcing without an in-house bid because they believe that this will produce much greater efficiencies than having to negotiate review processes with staff and trade unions which will inevitably lead to concessions. Once a procurement process is commenced there is generally 'no turning back'.

The Gershon Review recommended £21.5bn efficiency savings by 2007/08 with three types of savings:

1. job cuts, 84,000 civil service jobs plus 20,000 jobs relocated from south east to other parts of Britain.
2. cashable (60%) from administrative and procurement cost savings.
3. non-cashable (40%) increasing productive time of frontline staff.

The Comprehensive Spending Review 2007 is expected to impose further efficiency requirements on local authorities and will encourage adoption of shared services strategies.

Part 2

The proposed efficiency savings

Introduction

The Council has identified that it needs to save £46m between 2006-2010. First it is important to identify that the total sum is an accumulated total over four financial years which gives an impression of a final situation being worse than it is. The maximum saving or financial reduction in any one year would be £18.75m in 2009/10 – see Table 6. Financial savings in earlier years are assumed to continue in the following year thus accumulating to the £46m total.

Table 5: **Efficiency savings planned by North Tyneside**

| Themes | 2006/07 | 2007/08 | 2008/09 | 2009/10 | Total |
|----------------------------|------------|------------|--------------|--------------|-------------|
| | £m | £m | £m | £m | £m |
| Transactional BPR | 0.5 | 0.75 | 1.0 | 1.0 | 3.25 |
| Back Office BPR | 1.0 | 2.0 | 2.0 | 2.0 | 7.0 |
| Asset Management | 0.5 | 1.0 | 1.5 | 2.0 | 5.0 |
| Trusts | | .25 | 0.75 | 0.75 | 1.75 |
| Market Testing/outsourcing | | | 7.0 | 7.0 | 14.0 |
| Care provision | | 1.0 | 1.0 | 1.0 | 3.0 |
| Customer Services | | 1.0 | 1.0 | 1.0 | 3.0 |
| ICT | | | 1.0 | 1.0 | 2.0 |
| Procurement | | 1.0 | 1.0 | 1.0 | 3.0 |
| Shared Services | | | 2.0 | 2.0 | 4.0 |
| Total | 2.0 | 7.0 | 18.25 | 18.75 | 46.0 |

Source: KPMG report.

KPMG's proposals

The observation about the accumulation of savings over the four year period applies to the proposals in Table 5. The highest level of cuts or savings in any one year is £22.24m in 2009/10. This means the total highest annual cut or savings would be £18.75 plus £22.24m = £41m.

List of 'opportunities'

Table 6 summarises the potential scope of the costs and savings arising from the master list of 51 high and medium value, quantifiable opportunities. The 51 opportunities are organised by theme. The largest savings are expected from market testing - £22m (£14m in the Council's Plan plus a further £8m in the KPMG list) – which are in addition to the £15m expected from procurement savings. Thus over a third of the total savings are expected to come through the procurement process.

£12.0m are projected to be from procurement, which if added to the £14m already identified from market testing/outsourcing in Table x, means that a quarter of the total savings are expected from procurement. Some of these savings will come from changes in the procuring of goods and equipment but if they were assumed to come largely from outsourcing services this would imply outsourcing services to the value of about £400m (based on net saving of 6%).

Other major sources of savings are increased income from charges and fees £8.3m or nearly seven million pounds in 2009/10, an eight-fold increase on previous years. Steep cuts are to be made in care provision where total annual savings of £3.85m are expected

from 2007/08.

Market testing, procurement, care provision and increased income from charges and fees account for 71% of KPMGs proposals.

Business Process Re-engineering of back office services is expected to produce four-year savings of £7m (a maximum of £2m annually) plus £4m from Shared Services.

In a separate Table, KPMG identify gross savings of £55.89m with implementation costs of £5.73m leaving a net saving of £50.16m.

“The bulk of these savings are in addition to the £46m target identified in the framework forecast. Only a small element (£2.6m each year over the four year period) will contribute to the £46m target” (KPMG, 2006)

Table 6: Planned savings from transformation 2006/07 to 2009/10

| Themes | Cost of implementing savings | Total proposed savings £m |
|--|------------------------------|---------------------------|
| Transactional Business Process Reengineering (BPR) | 0.00 | 0.20 |
| Back Office BPR | 0.00 | 0.00 |
| Asset Management | -0.07 | 2.20 |
| Trusts | -0.50 | 2.25 |
| Market testing | -1.01 | 8.07 |
| Care provision | -1.00 | 7.15 |
| Customer services | 0.00 | 0.00 |
| Information and communications technology | -0.14 | 1.56 |
| Procurement | -1.23 | 11.97 |
| Shared services | -0.33 | 1.09 |
| BPR Service improvement | -0.19 | 2.22 |
| Income, fees and charges | -1.17 | 8.31 |
| Headcount reduction (jobs) | -0.11 | 5.15 |
| Total | -5.73 | 50.16 |

Source: KPMG, 2006.

No information was included in the public version of the KPMG report which explained how the £5.73m costs were calculated. There is currently very little information available with regard to what the Council is planning under each of the headings in Table 6. However, the proposals include:

- Transferring all schools to an Educational Trust with subsidiary Trusts to manage schools in the four geographic areas. Local Education Authority services would also be included thus creating a £100m Trust.
- Transfer of Leisure Services to a Trust which may also include arts and culture facilities.
- Outsourcing Housing Repairs and Maintenance to a private contractor.
- Market testing of waste management, refuse collection, grounds maintenance and other services.

Risk assessment

KPMG’s risk assessment matrix identifies high, medium and low level of risk for each theme and identifies efficiency opportunities in terms of high, medium and non-quantifiable. Partnerships, procurement and Business Process Re-engineering have the highest level of risk relative to other themes. Only 19 of 76 risks were in the high category and 18 in the low category and the remainder in the medium category. Some themes with a high level of savings such as procurement and increased income from charges and fees were assumed to have a relatively low level of risk

Part 3

A Transformation Plan or Blueprint for Business?

Introduction

The Council has released a limited amount of information about its intentions. The public version of the KPMG report 'Business Transformation Review' is a listing of 'efficiency opportunities' and North Tyneside's Council Plan 2006/10 is a series of 'milestones'. We also have obtained two diagrams from a powerpoint presentation by the North Tyneside's Chief Executive which purport to present a structure for transformation (see below).

- The KPMG report is not a coherent strategy but merely a listing of ways in which savings may be obtained.
- The Council Plan 2006-10 sets out objectives and milestones and is in one sense a comprehensive 'wish list' with little evidence of the strategy required to achieve them.
- The 'Blueprint for Change' diagrams are simplistic and merely present words in boxes.
- There is no clear organisational structure and how the policies will combine to make for a more effective and efficient local authority.
- The focus on listing potential savings means that there is no vision of what the local authority would be like in 2025 if these policies were successfully implemented. Council taxpayers and staff have the right to have much more detail about the type of organisation, its role and functions and how it will relate to citizens, service users and employees.
- No evidence is supplied to justify any of the policies. Sweeping assumptions appear to have been made about the level of savings and efficiencies which can be obtained. KPMG and North Tyneside Council must publish the independently verified evidence on which they have based each policy initiative.
- No impact assessments appear to have been carried out in terms of the effect on democratic accountability, future capability of the Council, sustainable development, quality of service, employment, the local economy, equalities and social justice. Hence there is no understanding or acceptance that the policies adopted may have negative consequences.
- There is no evidence that the policies have been designed to meet local needs and aspirations. In its place there is a set of bog standard management consultancy recommendations coupled with a right wing interpretation of 'modernisation'.
- A lack of understanding that the process of outsourcing and privatising services will help to marketise public services in the sub-region, which in turn means that the Council will be more exposed to market forces.
- Whilst each local authority must ultimately decide its own policies and course of action, it does not bode well that North Tyneside appears to give little consideration to the subregional impact and its City Region neighbours.

The structure

The Council’s chief executive claims that the ‘Business Transformation Review’, produced by the multinational consultants KPMG, and the Council Plan 2006-2010, are a ‘blueprint for change’. Diagrams have been produced purporting to be a ‘strategy map’ and a potential model. But the Council is not a business in the traditional sense but a public body responsible for improving community well-being and meeting people’s needs and aspirations.

We have obtained two diagrams from a presentation by the Chief Executive which are intended to provide a structure for transformation.

Figure 1 is a Strategy Map which lists issues and aims alongside six headings.

Figure 1: North Tyneside’s Strategy Map

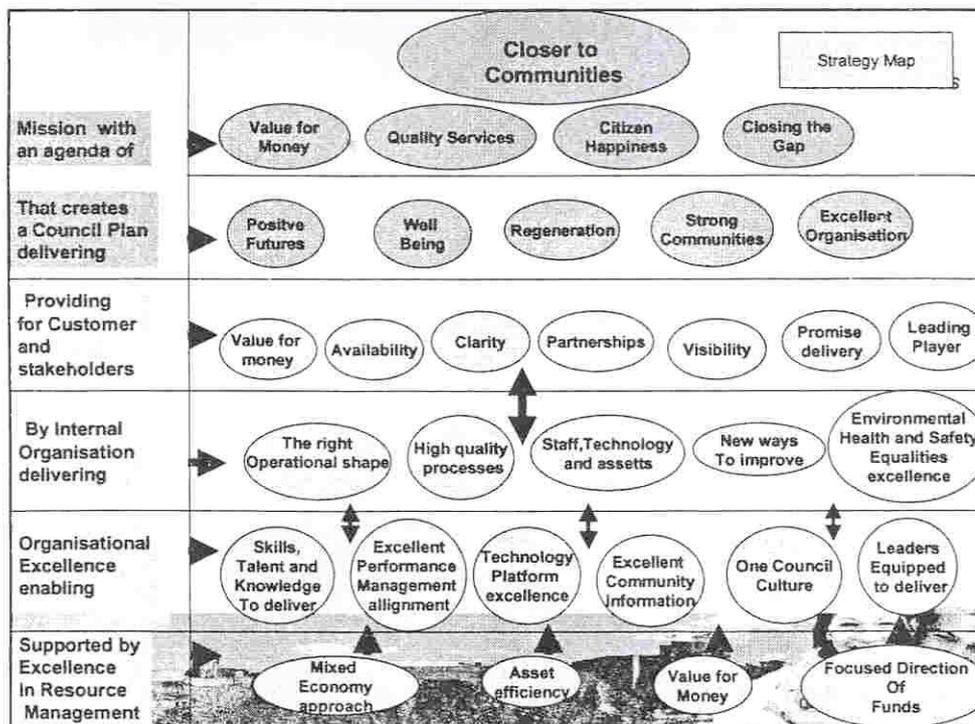
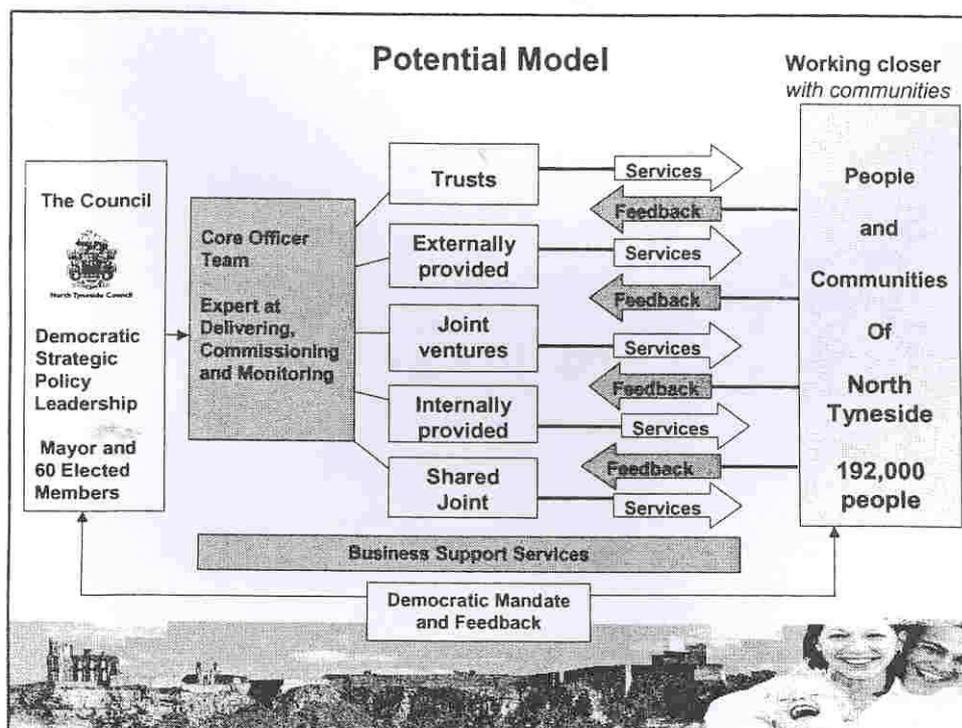


Figure 2 is a potential model consisting of trusts, externally provided services, joint ventures, internally provided and Shared Joint provision.

Figure 2: North Tyneside’s Potential Model



Client and contractor separation

The case for the separation of client and contractor (purchaser – provider or strategic policy – implementation split) underpinned the establishment of Next Steps Agencies beginning in 1988. Later, the government proposed a rigid separation for CCT in local authorities requiring separation not only between officers but elected members although these proposals were eventually watered down (Department of the Environment, 1992).

- Insufficient focus on the delivery of services (as distinct from policy and ministerial support);
- A shortage of management skills and experience of working in service delivery functions among senior civil servants;
- Greater diversity and complexity of work in many departments, together with demands from parliament, the media and the public for more information, have contributed to ministerial overload;
- Short-term political priorities tended to squeeze out long-term planning;
- Too much emphasis on spending money and not enough on getting results;
- Relatively few external pressures demanding improvement in performance. (Ibbs, 1988).

However, The Next Steps reforms were based on limited analysis (Jordan, 1994) and little examination of alternatives (Centre for Public Services, 1997).

Other advantages for client-contractor separation were claimed such as freeing policy-making from provider interests, to enable service delivery to be carried out on more business-like lines and to free management from political interference (Stewart, 1996). Equally, politicians were free to focus on strategic policies. Separation was also promoted as a means of improving and centralising management of previously disparate

service provision; achieving economies of scale and greater flexibility of labour by centralising services; clarifying responsibilities and providing common standards. Of course most of these advantages were not dependent on the separation functions.

The importance of client-contractor separation was reinforced by the Audit Commission which asserted that:

“The central obligation upon local authorities is to provide a cost-effective, quality service to the public, regardless of the status of the supply organisation. The client role is no different whether the work is carried out by an external contractor or the authority’s DSO” (Audit Commission, 1993).

A typology of client-contractor relationships identified a continuum ranging from ‘harmonious’ through ‘pragmatic’ and ‘variable’ to ‘conflictual’ (Shaw, Fenwick and Foreman, 1993). In the case of separate DSOs for services the relationship could range from any of these classifications within the same local authority, depending on personal relationships between DSO managers and client officers and previous working arrangements.

Disadvantages of separation

- Contracts and policy are never complete but this is not a problem if there is continuing interaction between policy-making and implementation.
- Uncertainty is a reality in the public sector yet the separation of policy-making and service delivery requires a degree of rigidity.
- It “cuts off the process of policy-making from the learning that comes from implementation. The purchaser no longer confronts the public through provision” Stewart, 1996).
- The frequent lack of clear boundaries between policy-making and service delivery raises important issues of democratic accountability (LGIU, 1994 and Stewart, 1996).
- The integration of service provision and delivery requires a high level of synthesis and interaction between policy making and service delivery.
- The planning of social needs requires continuing close collaboration between policy making, budgeting and service delivery functions within public organisations.
- The implementation of corporate policies on sustainability, equalities, employment and other policy issues are most effectively achieved when policy-making and service delivery are integrated.

The nature of the organisation which delivers public services and it’s employment, equalities and other corporate policies are also key issues – yet separation makes these the sole responsibility of the provider.

There were other practical problems:

- the potential of increased antagonistic and conflictual relationship between client and contractor, particularly when the client treats the DSO as if it was a private contractor.
- imposing commercial values and business practices in a stand-alone organisation;
- power struggles between officers and members and between service departments and the DSO. This is inevitable when new organisations are established resulting a substantial loss of staff, responsibilities and status for client managers in contrast to the increasing responsibilities of DSO managers;

- conflicts on some core objectives and priorities between a DSO which has to deliver the specified service and achieve the required rate of return and a service department responsible for planning, budgeting and overall service;
- conflicts over ownership of intellectual capital and participation and involvement of services users.

Part 4

The consequences of the Council's plan

What commissioning really means

North Tyneside Council claims that the local authority should become a 'commissioning council' but this is not new – the Tories tried to push local authorities to become 'contract cities' in the 1980-90s. In this period Westminster and Wandsworth became Tory flagship authorities. However, changes in these authorities took place over many years whereas North Tyneside appears to be seeking 'contract city UK' status within four years.

Commissioning means driving competition and contestability in all services. The council simply buys services from private contractors and consultants. Apart from a core of senior officers, most services will be delivered by contract.

The Council also intends to try shift responsibility for some services to voluntary and community organisations. This will be dressed up as localism and empowering communities but it is just another way of getting more for less. Reduced and restricted budgets are likely to be a poisoned chalice rather than an opportunity for voluntary organisations.

The Council's ability and capacity to fulfil its duties and responsibilities

What the Council plan means in practice:

- Contracting and procurement will be mainstreamed across the council – managers and key staff will be absorbed into the procurement process which means service delivery will suffer.
- A contract culture and 'working to contract' will become pervasive. Change will not occur unless contract variation orders are priced and issued. Disputes between contractors are inevitable.
- Constant efficiency and productivity reviews – more and more staff resources will be taken up trying to find ways of cutting costs and reducing services creating a culture of fear.
- Increased use of costly consultants – daily rates range between £1,000 and £2,500 per day.
- Elimination of 'inefficient' services – financial issues are likely to dominate decision making at the expense of addressing community needs and aspirations.
- Hiving off services and functions to arms length companies, trusts and private contractors – the Council will deliver fewer and fewer services as they transfer services, budgets and responsibility to quangos, companies and trusts.
- Responsibility for some services will be hived off to voluntary and community organisations – as noted above, this could be a poisoned chalice as the Council seeks to off-load services and responsibilities which it finds difficult to provide. Community organisations which become service providers are rarely very good at advocating community needs. They become dependent on contracts.

Education, parents and pupils

Schools and the LEA will be hived off to a Trust with four 'cluster trusts' which will manage schools. Trusts will own and manage school buildings and playing fields, employ staff and procure services. Over £100m of council services will transfer to these trusts. Each Trust will have limited parent and council representation and the emphasis will be business representation as schools are turned into businesses.

Service users

For service users

- Erosion of democratic accountability – Trusts, arms length companies and quangos are usually run by managers, having a few elected members, tenants and/or services users on the Board is tokenism. Their first legal responsibility is to the company or trust, not the community or Council.
- New and higher charges for services – new and increased charges for services inevitably follow where local authorities adopt a commercial approach to service delivery.
- Reduced quality of service – having a myriad of private contractors and consultants is likely to reduce quality of service and make the integration of services more difficult.
- Cuts in service provision – the range and level of Council services is almost certain to be reduced as efficiency considerations dominate decision making.
- Loss of community facilities – commercialisation and contracting usually lead to the provision of minimum facilities.
- More contractual disputes and buck-passing – a contracting system breeds a contract culture in which it is frequently in the financial interests of contractors to shift blame and responsibility on to others to avoid incurring contract penalties.

Staff and trade unions

What transformation will mean for staff:

- Job losses and redundancies – the scale of the efficiency cuts and market testing programme could lead to over 1,000 job losses in North Tyneside.
- Transfer to new employers – many staff will no longer be Council employees but will be forced to transfer to new employers such as private contractors, trusts and arms length companies.
- Cuts in terms and conditions – Although the TUPE legislation is meant to protect existing terms and conditions on transfer to a new employer there is much evidence to show that some employers use the 'economic, technical and organisational' clauses to change terms and conditions.
- Reduced pensions – many private companies are closing final salary schemes and increasing employee contributions on a scale which far outweighs the likely changes to the local authority pension scheme.
- Constant efficiency and productivity reviews – staff will be confronted with almost constant reviews which will affect their job satisfaction and ability to deliver services.
- Working in a contract culture – this usually means compromising public service principles and values with the interests of private employers and shareholder interests.

- Fragmented trade union representation – contracts and transfers to new employers will almost certainly weaken trade union organisation and representation.

The effect of the Council's blueprint will be to:

- Widen inequalities and increase social exclusion
- Less democratic accountability, more power to business interests
- Reduce opportunities for children
- Fewer jobs and less training
- Less caring and more selfish attitudes
- Contract culture and organisational chaos
- Reduced council capacity for regeneration
- Weakened and less sustainable local economy
- Council objectives will become a wish list

Fragmentation of the Council

Contracting and transferring services to quangos, trusts and arms length companies leads to:

- the loss of technical, legal and financial capacity to develop and negotiate increasingly complex PFI, PPP and strategic partnership contracts.
- the loss of expertise to manage contractors and to fulfil the role of an 'intelligent client'.
- the lack of capacity to effectively monitor contracts. This is partly due to inadequate funding of this function (it is often the first to be reduced in budget cuts) and partly due to the lack of trained and skilled monitoring staff in a climate in which 'self-monitoring' is becoming more commonplace.

This process also leads to increasing fragmentation of the local authority:

Institutional fragmentation occurs when an organisation is divided into a larger number of operational units which are then loosely centrally coordinated. Managing disparate, often narrowly focused, units of government raises additional management problems such as concentration on internal management, incentives and devolving power.

Organisational and managerial fragmentation: Internal fragmentation with the separation of client and contractor functions and the formation of business units. Control is exercised by contracting, franchising, partnership and regulation rather than traditional hierarchical structures.

Service fragmentation develops as more services are subjected to outsourcing and marketisation. It becomes more difficult to integrate and coordinate services and to adopt multi-disciplinary working.

Policy/project fragmentation is an inevitable consequence of zones, projects, arms length companies, trusts and business units.

Employer fragmentation - a multiplicity of employers causes difficulties for trade union bargaining and representation, performance monitoring and data collection.

Workplace fragmentation - decentralisation, although an important part of service delivery, has nevertheless resulted in staff working in smaller geographically dispersed units. Multi-site working, split shifts and the loss of enhanced payments for unsocial hours has also become more widespread (Whitfield, 2001).

Part 5

Outsourcing and privatising Council services

Introduction

Claims about the level of savings achieved by market testing and outsourcing have been made for the past two decades but extensive studies, particularly in the 1990s, showed that there is a very wide gap between rhetoric and reality. This section summarises the evidence of independent research studies carried out between 1990-2006:

- Savings myths and transaction costs
- Service failures
- Other studies and overseas experience
- Local economy
- SSP track record
- PPP/PPI track record

Savings myths and transaction costs

The scale and source of 'savings'

Cost savings are the main driver of outsourcing, outsourcing and offshoring despite the fact that they are often justified by a wide range of macro-economic policies. Cost savings dominated the CCT agenda. More recently CBI/MORI offshoring survey revealed that "the overarching reason for considering off-shoring shared by almost all organisations is to reduce costs. There are no major differences between different types of organisations in their reasons for offshoring, with one exception: small organisations are more likely to hope to increase revenue by offshoring" (MORI/CBI, 2004).

Savings and cost reductions are normally only assessed within the scope of a contract or project. Other departmental, organisational, government and public sector costs 'external' to the contract are rarely quantified. Savings are exaggerated for two main reasons.

Firstly, most savings figures are based on claims or forecasts and are not actual savings verified by research. Once savings claims are made they are recycled without much due care and attention because they serve a political purpose. Savings are popular because they can be rolled up into a single quantifiable figure which can be used to legitimate change and to counter the negative consequences of job losses.

Secondly, savings rarely take the full transaction costs into account.

The economic impact of savings

There are three key issues:

1. The level of savings, after taking account of transaction and other public costs.
2. The source of savings such reduced labour costs by employing fewer staff or cutting terms and conditions, cheaper goods obtained by bulk buying and/or changes to working methods.

3. The public/private economic benefit/costs derived from savings because outsourcing is not a win-win scenario.

There are differences in savings between:

- The types of public services because of the level (the relative percentage of labour costs in the overall costs of provision) and type of labour content (the skills profile) and the degree to which ICT can be applied in service delivery, plus the extent to which social objectives are an integral part of service delivery
- The provision of public services and the supply of goods and equipment to public bodies required in service delivery.
- The distribution of costs and savings between departmental or directorate budgets, the corporate budget and government/public sector expenditure.
- Countries because of different employment regulations. For example staff have the right to transfer when services are outsourced in Europe but not in the USA and most other countries.

Most studies investigate efficiency and costs savings from a very narrow perspective. Literature reviews do likewise (Jensen and Stonecash, 2004).

The Savings claims

In Britain the Conservative government claimed cost savings of 20%-25% from outsourcing in local and central government between 1979-97 (Cabinet Office, 1995a). The 1995 White Paper, *Civil Service: Taking Forward Continuity and Change*, was still making the claim of “...average cost savings of 20%” (ref). Cost savings had shrunk to “an average 20%” (Market Testing Bulletin, Special Report, Cabinet Office, January 1995). In fact the Cabinet Office were still issuing press releases on the 18 June 1996 claiming average 24% savings (Centre for Public Services, 1997).

The savings figures were distorted because they annualised one-off departmental and consultancy costs by spreading the costs over a ten-year period based on a real terms discount rate of 6% per annum in accordance with Treasury practice. This procedure had the effect of substantially reducing the relative cost of management consultants, departmental set-up and tendering costs and the cost of redundancy payments. The ten year period was used irrespective of the length of the contract and since the average contract was normally 4 years, the same exercise was repeated three times over a ten year period, assuming the work was retendered after four and eight years.

However, the claims of 20%-25% savings was never substantiated by research although they were widely quoted as fact. For example, the OECD stated boldly that “...the UK, for example, has obtained typical savings of 25 per cent from its market testing” (OECD, 1995). However, Competing for Quality programme forms which departments and agencies had to complete annually, contained no reference to costs (Cabinet Office, 1995).

Analysis of the public cost of outsourcing

The Department of the Environment funded a major study into CCT which was carried out by the Institute for Local Government Studies, University of Birmingham. Based on 40 case study local authorities, it concluded that cost savings were, on average, **6.5%** when the costs of the service after competition were compared with those before. This was accepted by the Government and detailed in the DOE's Annual Report on CCT for 1993 (*CCT and Local Government*, DOE, 1994).

Costs were examined over three tranches of competition between 1989/90 and 1991/92. The study also concluded that “...the figures show, on average, a reduction in cost

following competition, partly from productivity changes and partly from changes in staff pay and conditions.”

A previous study carried out by the Centre for Public Services for Manchester City Council had also identified **savings of the same order**. Both these studies did note that the full costs of preparing for CCT, such as officer time, had **not** been included in the cost analysis (Contractors Audit, Manchester City Council, 1989)

A further national study funded by the Department of the Environment covering 34 local authorities and revealed retendering savings of just over **8%** (DOE, 1996).

So the average actual savings are less than a quarter of those claimed.

Equalities studies

The national study commissioned by the Equal Opportunities Commission (England, Scotland and Wales) into the gender impact of outsourcing, was the only study based on detailed employment data and developed a model to assess the overall public costs of outsourcing (EOC, 1995). The research was based on data supplied by local authorities in the form of committee reports on contract decisions, tender evaluation reports and interviews with senior CCT officers and managers. Trade union branches were also consulted and several focus groups of contract staff were held. It took account of the effect on government income and expenditure from changes in unemployment and welfare benefits, taxes, the loss of non-wage social contributions, corporate taxes and the impact on the local economy.

Although ‘savings’ totalled £124m in 39 authorities, the full social and tendering costs totalled £250.1m, leaving a net cost of £126m per annum - **equivalent to a 16% cost**. The Government was, in effect, subsidising outsourcing since it was responsible for 97% of the costs. In other words, for every £1m of ‘savings’ claimed, it cost the Government and the public purse £2m.

The research was based primarily on Government data. It also made conservative estimates of the number of staff claiming benefits. For example, only 24% of those who lost their jobs claimed unemployment benefit, a third of part time workers suffered an average three hour cut in working hours and half the workforce had an average 5% in earnings.

It identified five important ways in which outsourcing has an impact on local and central government income and expenditure.

- 1) The additional cost of benefits paid to those who claim unemployment and housing benefit, council tax (property tax) rebates or receive low income support. There are other costs of unemployment which are identified and taken into account.
- 2) The loss of jobs, cuts in working hours and reductions in pay and conditions reduces earnings resulting in a loss of tax income and National Insurance payments (social security) to the Government.
- 3) The impact in local economy in terms of the private sector and labour market.
- 4) Increased income from Corporation Tax paid by private contractors. However, this had only a marginal impact on Government income, amounting to a mere \$0.66m in the case study authorities or \$6.9m nationally.
- 5) Lower costs should in theory reduce council tax. The transfer surpluses from some Direct Service Organisations to local authority general funds was treated as if authorities were drawing on their balances and did not affect the level of Government grant. It was not additional income for local authorities.

These were recurring costs. Table 7 summarises the costs and savings calculated in previous sections which reveals a net cost of £126.1m.

Table 7: **Comparison of national CCT costs and savings**

| Costs and savings | Female employment (£m) | Male employment (£m) | Total (£m) |
|--|------------------------|----------------------|---------------|
| Savings from CCT in the four services | 65.7 | 58.3 | 124.0 |
| Percentage share | 53% | 47% | |
| Indirect costs falling on central government | -192.6 | -57.5 | -250.1 |
| Percentage share | 77% | 23% | |
| Net cost of CCT per annum | -126.9 | 0.8 | -126.1 |

Source: Centre for Public Services, 1995.

Central government market testing

The central government Competing for Quality programme in Britain covered £5bn of departmental and agency activities between 1992-97. The 'efficiency savings' under this programme included the abolition of a service or activity, privatisation, strategic contracting out, market testing and internal restructuring. But efficiency was so broadly defined that it was impossible to determine the level of genuine improvements in managerial and service productivity. Outsourcing accounted for over 90% by value of this programme and was the continuing focus of the costs and savings debate (Centre for Public Services, 1997).

'Expected savings' were notified by departments at the start of each contract but a government study revealed that "...actual savings varied from expected savings in 37% of cases" mainly due to changing requirements and ".....the failure of the specification to reflect the actual work required." This "...highlights the highly theoretical nature of savings projections made at the time of evaluation." **Process costs for market testing were 11% annually of the original costs.** The cost of the Competing for Quality programme was estimated to be five times greater than the cost estimates made only a year previously. The value of work subjected to market testing in the 1992-95 period was £1,841m with annual tendering costs of £202m. The report concluded that "...any activity where potential savings are less than 10% is not likely to be worth putting to competition on cost grounds alone" (Cabinet Office, 1996 para 3.39)

The CPS study concluded that outsourcing was not 'saving' public money which could be invested in other services or used to reduce Government expenditure. Whilst public sector employment was reduced by contracting out and private sector employment increased, the latter was in effect being subsidised by the public purse. If there were substantial costs to CCT rather than savings, then there could have been few, if any, macro-economic benefits of this policy. There was also no evidence, at least in the four manual services examined, that CCT was providing highly profitable opportunities for the private sector which may lead to benefits for the economy as a whole. Far from increasing consumer spending, CCT reduced it through lower earnings.

NHS market testing in Northern Ireland

A study of NHS market testing in Northern Ireland combined the findings of the Northern Ireland Equal Opportunities Commission study (NIEOC, 1996) and a UNISON analysis of NHS contracts carried out by the Centre for Public Services. This was based on 30 out of

71 NHS contracts awarded in the 1988-93 and identified cuts in jobs and hours (Centre for Public Services, 1996). The study obtained evidence from the Secretary of State for Northern Ireland of the net savings from market testing NHS support services between 1990/91 and 1994/95. The claimed savings represented 14.8% and 15.3% savings on the total Northern Ireland domestic services expenditure in 1992-93 and 1993-94 respectively. The comparable figures for catering services were 11.8% and 12.4%.

The study concluded that the savings figures must be heavily qualified because they applied solely to NHS Trusts and took no account of other costs to the Government or loss of income. Furthermore, the savings achieved in the first year of a contract have been assumed to continue at the same level for each subsequent year of the contract. For example, the claimed saving of £9.4m in 1994/95 is built up of accumulated savings from contracts let in previous years. This takes no account of client variation orders, contractor's claims for additional or non-specified work over the length of the contract or the cost of compensation payments made to staff as a result of successful claims of unfair dismissal and failure to properly consult under the TUPE regulations.

The savings figures are claimed to be net of market testing process costs (staff and consultants), monitoring and contract management costs, redundancy and early retirement costs, avoidable overhead costs and National Insurance costs. However, none of these costs were supplied by the Northern Ireland Office so they cannot be independently verified.

NHS Hospital cleaning – savings turn into costs

The NHS market testing programme led to a series of contract failures and reduction in cleaning standards in the 1983-2000 period (Public Service Action, 1983-1997). Savings were primarily achieved by reducing staffing levels, both the number of jobs and the average weekly hours plus cuts in terms and conditions. This was not private sector innovation nor the application of more efficient working methods but economic exploitation of staff relying on a constant supply of labour including migrant workers.

By 2002 some 52% of domestic services contracts were outsourced with an estimated value of £94m according to an unpublished NHS outsourcing study. However, standards had declined to such an extent that the NHS Plan launched in 2000 included an additional £31m to improve the quality of cleaning combined with a Patient Environment Action Team (PEAT) to visit every hospital to inspect standards (Department of Health 2000).

In autumn 2000 only 20% of NHS Trusts had achieved a 'good standard of cleanliness', rising to nearly 80% by summer 2004. Additional investment specifically to improve cleaning had risen to £68m by 2004 and the DoH issued a revised specification, recommended minimum cleaning frequencies, a revised Healthcare Facilities Cleaning Manual and best practice guidance on evaluating and awarding contracts as part of a renewed campaign to control infection, particularly MRSA (Department of Health, 2004).

Overseas experience

A study of 203 international studies of public sector outsourcing by the Australian Industry Commission (1996) found that the level of savings varied widely. They also found examples of cost increases following outsourcing and concluded

“....that no useful ‘rule of thumb’ exists on the size of the probable impact of (outsourcing) on the costs of delivery. Rather, it appears each instance contains its own unique characteristics which influence its success or otherwise (in cost terms)”

Another international survey concluded that the overall level of savings was between **6% - 12%** (Hodge, 1999). Without a common framework which identifies all the costs and benefits such studies can only overstate the financial benefits and understate the economic, social and employment consequences.

An international literature review public sector outsourcing contracts by Jensen and Stonecash of the Melbourne Institute of Applied Economic and Social Research concluded:

“On balance, the theoretical and empirical evidence presented here suggests that outsourcing does generate reductions in government expenditure. But there are a couple of important caveats to this conclusion.

The first is that there is some evidence indicating that quality of service may suffer in certain circumstances as a result of outsourcing and that workers may be worse off (at least in terms of their real wage).

The second is that the savings may be transitory – although the empirical evidence is thin, there is some evidence to suggest that hold-up is a problem in outsourcing contracts.

The third caveat is that some public services may be less suited to outsourcing than others because the expectations that high-powered incentives generate improvements in productive efficiency may be flawed in instances where intrinsic motivation is important” (Jenson and Stonecash, 2004).

USA savings

The US National Performance Review (NPR) anticipated savings using the same crude roll-up of savings. By late 1996 some \$46.4bn had been saved by ‘streamlining the bureaucracy through reengineering’, \$12.3bn by ‘reinventing Federal procurement’ and \$14.4bn from ‘changes in individual agencies’. A second NPR review in September 1995 identified additional cost savings of \$69.4bn in the 1996-2000 period. Savings were crudely derived by multiplying the total number of job losses by the average annual cost of a federal employee.

The Office of Management and Budget (OMB) estimated savings of \$9.2bn in DoD operating costs between 1997 and 2005 and \$2.8bn in annual recurring savings after 2005 as a result of A-76 competition under the Clinton administration.

However, there are many problems in generalizing savings from defence contracting because of differences

- Usually includes a mixture of military and civilian staff and hence not directly comparable with local government.
- Evidence of best practice public management
- Focus on facilities management services and little evidence of studies carried out on social and other services provided by local government.
- Replacement of aged equipment (GAO-01-61)
- Different methods of calculating savings
- OMB A-76 Circular and the subsequent GAO studies are focused on Federal government programmes and services. They do not cover other sectors such as health and local government.

Offshoring and global sourcing

There is a dearth of hard information on the macro-economic and employment impact of offshoring. Kirkegaard (2005) estimates that 0.14% of the EU-15 services sector workforce of 56.7m had been moved offshore by mid-2004 and that about 2% or 1.1m jobs are at risk up to 2015. Britain will account for two thirds of the service jobs at risk.

One estimate of offshoring in the US suggests that it has lost 840,000 manufacturing jobs between 2001-04 with 300,000 jobs lost due to offshoring services (Atkinson, 2004). Forecasts for future job losses vary with a widely quoted estimate from ICT analysts

Forrester that 3.4m US jobs will be offshored between 2000 and 2015. Some 473,000 of these jobs will be in ICT occupations.

The risks of offshoring are substantial – concern over security, quality of service, viability of providers, the risk of consumer backlash, and difficulty of establishing high levels of dialogue with service users as a result of differences in accents, cultural attitudes and skills. Other risks include hidden costs, contractual disputes, and loss of organisational competencies (Ibid). Examples of US firm's offshoring work but returning work to the US after a few years (ibid).

The comparison of wage rates between Britain and India or China is simplistic and masks the full costs. In addition to the costs of procurement, the cost of transition which could include training, investment in software/hardware and testing systems; the cost of making some staff redundant in Britain; the cultural cost – differences in productivity, staff turnover and language difficulties; and the cost managing an offshore contract including invoicing and auditing should be taken into account (CIO.com).

Transaction costs

Transaction costs are incurred in the planning, design, procurement and delivery or implementation stages of a contract between a client and contractor. They encompass the costs incurred from the beginning of process of evaluating options to the monitoring and management throughout the contract period.

In the North Tyneside context, KPMG identifies the cost of various processes but no detail is supplied to verify whether all the likely costs have been taken into account. Transaction costs of outsourcing have been consistently under-estimated through the exclusion of many costs, rolling up savings over a number of years and narrowly based impact assessments.

There are three types of transaction costs:

Transitional costs – the cost of carrying out the procurement process including preparing specifications and contract documentation, advertising and evaluation costs together with consultant's fees.

Permanent costs – the cost of client/commissioning functions including monitoring and managing markets by assessing provision, market forces and designing regulatory frameworks.

Periodic costs – the cost of reviewing and implementing organisational change as contracts are won or lost or adapting to new regulations to control markets (Williamson, 1985).

Transaction costs are important because:

- 1) They are rarely fully taken into account in the decision to retain in-house provision or to outsource or the selection between suppliers. This is partly due to the difficulty in identifying transaction costs but primarily because they effectively reduce the claimed savings from procurement and outsourcing. Hence there is a strong political reluctance to identify and publish the actual costs incurred.
- 2) There are no UK, EU or WTO legislative or regulatory procurement requirements, which require transaction costs to be identified, quantified and published.
- 3) The private sector, and the public sector to a lesser degree, claim 'commercial confidentiality' to refuse to divulge the true extent of transaction costs. Whilst many PFI/PPP consortia have cited the high cost of tendering for PPP projects, there is no verifiable evidence of private sector costs. The private sector made much of high transaction costs immediately before and after Labour's election in 1997 but this was part of a campaign to try to get a new government to fund the

cost of PFI tendering. There is a strong case for the transaction costs of procurement to be taken into account at the options appraisal stage.

- 4) They are normally borne by client and contractor and by suppliers at different stages in the supply chain. The costs borne by contractors, which in the case of PFI projects are substantial, are absorbed by the company and recouped either by being incorporated in the pricing of the bid or they are indirectly included in the pricing of future contracts because they are treated a 'cost of doing business'. The public sector indirectly bears private sector transaction costs when these are treated as a business expense or when they are specifically included in the pricing of a contract.
- 5) They are usually defined very narrowly and therefore substantially under-reported. Most studies have focused on providing evidence that outsourcing produces savings rather than identifying the full costs and impact of procurement.
- 6) Activities connected with 'making markets' such as seeking the views of potential bidders, packaging contracts to meet private sector preferences, preparing regulatory frameworks may be regarded by officers as a general or economic development cost of government rather than as a procurement transaction cost.
- 7) They should embrace the costs arising from the economic, social, health, equality, environmental and sustainable development impacts of procurement decisions. An integrated impact assessment of procurement decisions can be used to identify costs and benefits.

The transparency of transaction costs is a key issue. PFI/PPP procurement requires that advisers fees are quantified in the OBC and FBC not other procurement costs but this is not the case for other procurement mechanisms. There is a public management and efficiency case for the full systematic assessment and disclosure of transaction costs. Public bodies should be required to build up a data bank of one-off and continuing transaction costs so that these costs can be taken into account in procurement decisions. Transaction cost of SSPs are substantial. Oldham MBC recently reported that:

"Setting up this type of arrangement is not cheap and in 2005/06 this cost us just short of £1 million pounds and negotiations will continue into 2006/07 when we hope to enter into a contract for the successful bidder to manage our services, such as Architects, Benefits and Customer Service." (Oldham MBC, 2006).

Public costs

There has been a dearth of analysis of the wider economic, social and environmental impact of outsourcing and outsourcing. The vast majority of studies have focused on the savings based on a very narrow perspective of the contract. Studies we have been able to identify are:

- Privatisation audit, Sheffield City Council in 1985 examining the potential impact of contracting out council services (Sheffield City Council, 1985).
- The Public Cost of Private Contracting: A Review of the Los Angeles County Proposition A 'Privatisation' Program, Service Employees International Union Local 660, Los Angeles, 1991.
- Social and Economic Audit, Royal Hospital, Belfast which examined the implications of the planned run down of services at the Royal and the transfer of services to the City hospital (UNISIN, 1993).
- Social and economic audit of contracting out, Lisburn (UNISON, 1995)
- Public costs of CCT for Equal Opportunities Commission investigation into the gender impact of outsourcing in local government (EOC, 1995).

- Outsourcing the Future: A Social and Economic Audit of Privatisation Proposals in Newcastle (Newcastle City UNISON, 2000).

All but one of the above were carried out by Centre for Public Services and the Los Angeles study was the result of exchange visits to and from the Centre. Common features of the audits were:

- Calculating the wider economic impact to identify potential job losses in the local economy resulting from reduced spending as a result of job losses and changes to terms and conditions.
- Assessing the equality impact on the workforce and community by analysing gender/racial composition of the workforce and the community.
- Identifying the social impact on communities by identifying where staff lived and assessing the potential knock-on effects.
- Calculating the impact on public costs to the government and local authority as a result of demands on welfare benefits, the cost of increased unemployment, training and other required measures in social services and economic development.

The EOC related public costs model was the most comprehensive study of the public cost of contracting out/outsourcing costs. The Conservative government at the time criticised and disputed the overall findings in Parliament following widespread press coverage but did not challenge the public costs model.

Cost of central government market testing

Central government departmental market testing costs and did not include the wider costs to the Government or to the economy (Efficiency Unit, 1996). Significantly, the study was based on ‘expected savings’ supplied by each department at the start of each contract.

However, “....actual savings varied from expected savings in 37% of cases” mainly due to changing requirements and “.....the failure of the specification to reflect the actual work required.” This evidently “....highlights the highly theoretical nature of savings projections made at the time of evaluation.”

So, despite a decade of market testing, the Government was unable to provide any evidence that ‘savings’ at the start of a contract are maintained over the contract period. Whilst specifications and the volume of work changes in some services, it was inconceivable that the required information was not available for at least a sample of contracts. The Competing for Quality program process costs are shown in Table 8:

Table 8: Transaction costs in government department market testing

| Transaction costs | Percentage (%) of contract value |
|--------------------------|---|
| One-off costs | |
| Central costs | 2.6 |
| Client side team | 12.0 |
| In-house bid team | 9.9 |
| On-going costs | |
| Contract management | 4.8 |

Source: Competing for Quality, Cabinet Office, 1996.

The process costs for market testing were 11% annually of the pre-test costs. With average annual contract management costs of 4.8%, the tendering costs spread over the length of the contract are equivalent to 6.2% of pre-test costs. The cost of the Competing

for Quality program is now estimated to be five times greater than the cost estimates only a year previously.

It is significant that the tendering costs have been spread over the length of the contract and the previous practice of calculating the present value of costs over a 10-year period, irrespective of the length of a contract, has been abandoned. However, this remains a requirement in the evaluation of tenders both in the civil service, National Health Service and local government. It has the effect of reducing client costs which would normally be added to external bids, thus making private contractor's prices more competitive. But more importantly, the so-called savings have also been calculated by the same method. It assumes that tender price differentials are, in fact, savings and are achievable annually over a 10-year period.

It also states that the average expected saving from market testing is 23%, which, after taking tendering costs into account, produces an expected saving of 12%. However, the study suddenly adds another figure "...to adjust for possible double counting" which more than halves the cost of tendering to produce a range of net savings of between 12% - 17%.

On this basis, savings in service budgets in the Civil Service, were almost twice the level achieved from outsourcing in local government which averaged 6.5%. The national analysis of the costs of CCT showed that this service budget 'saving' turned into an overall public sector cost of -16%. Comparisons are difficult because of the different structure of the respective workforces. There was a high proportion of part-time manual women low paid workers in the local government study. The Competing for Quality reviews, including market testing, covered a wider range of manual and white collar services, mainly full-time and better paid jobs. 32% were in office service, 11% in engineering and maintenance and a similar proportion in financial and legal services and estate management, and about 5% in a range of other services such as IT support services, training and personnel and technical services.

Unfortunately, employment data was not available to undertake a similar analysis in central government. However, there was no evidence to indicate that there was a significant difference in the relative public costs of tendering. On this basis, market testing did not produce savings of 12% as the Government claimed but net costs of about 10%.

Other findings from central government market testing research

- Nearly a fifth of market testing and strategic contracting out projects had expected savings of less than 10% (para 3.8).
- The savings figures "may conceal some hidden costs in addition to the process costs" (para 3.19).
- The main source of savings were new working practices. "We found remarkably little difference in the source of savings between private sector suppliers and in-house teams. This casts doubt on the widely held presumption that the private sector is able to bring about efficiencies in ways the public sector cannot" (para 3.18). It could, of course, also reflect the adoption of the commercialisation approach to tendering by in-house teams.
- The savings "...available immediately were significantly below the expected levels". One major department's review of its Competing for Quality program found that 30% of expected cost savings were not realisable in the short term.
- The average annual tendering costs of an in-house win was 9.2% compared with 12.3% for contracts won by private contractors.

- Projects with an annual cost below £250,000 should not be put out to competition and those between £250,000 and £500,000 should be looked at critically to see if an alternative approach can provide better value for money. Since 45% of the Competing for Quality program covered services valued at less than £500,000 this means that the program should never have been carried out. A number of recommendations referred to measures to reduce the cost of tendering.

Client monitoring costs

Client monitoring costs were an average of 6.2% of the contract value manual services covered by the Local Government Act 1988 (Walsh and Davis, 1993) – see Table 9.

Table 9: **Client monitoring costs**

| Client Monitoring costs as a proportion of contract value | |
|---|------------|
| Service | Percentage |
| Refuse collection (17 cases) | 4.7 |
| Street cleansing (15) | 6.9 |
| Building cleaning (21) | 5.4 |
| Catering (11) | 2.6 |
| Schools and welfare catering (12) | 3.5 |
| Vehicle maintenance (13) | 9.6 |
| Grounds maintenance (25) | 9.8 |
| Leisure management (14) | 5.9 |
| Total (128 cases) | 6.2 |

Source: Competition and Service, Walsh and Davis, HMSO, 1993.

Service failures

Quality of service and performance

The track record of private and voluntary sector service delivery is very varied. Service delivery problems have included:

- Failure to understand the complexity of the service and user requirements;
 - Technological failures arising from the inability of soft/hardware to meet the requirements of the service;
 - Inability to meet the required level of service improvements;
 - The failure of Key Performance Indicators to capture service quality and hence performance management system is not matched to quality systems;
 - Lack of contractor flexibility, innovation and creativity to respond to changing demand and circumstances;
 - Failure to fully monitor the contractor's performance;
 - Key contractor staff leaving;
 - Failure to meet the requirements of the planned investment programme;
- (Reilly and Tamkin, 1996)

Failed IT contracts

In July 2003 the government announced that the Private Finance Initiative could no longer be used for information technology and communications projects following a series of high profile system failures, soaring costs and long delays. But the problems have continued irrespective of PFI. Table 10 is a summary of some of the main contracts.

In June 2006 the Prime Minister was asked in the House of Commons to name “any major Government IT project that has been delivered on budget or on time or which works.” He replied – “There is one that is quite closely linked to the identity card idea, which, of course, is the passport system. It required a complicated computer project and it has worked extremely well.”

In fact, there had been a series of problems, delays and failures with the Siemens contract with the Passport Agency. At the time of the Prime Minister’s response the online EPA2 passport service was failing and by July 2006 there was a backlog of 5,000 applications!

Local government has not been spared service failures and contract terminations. A number of Revenue and Benefit contracts have been terminated because of poor performance and in others contractors have suffered financial deductions for service failures.

Table 10: Private sector failure in the delivery of public sector IT projects

| Private sector failure in public sector IT projects | | | |
|--|-----------------------------|----------------------------------|--|
| Government department or agency | Value of contract £m | Contractor | Failures |
| Department of Work and Pensions | 141 | IBM, Seibel and Curam | Cancelled August 2006 |
| Department of Constitutional Affairs | 487 | Fujitsu | Three times original cost and long delays (August 2006) |
| Child Support Agency | 456 | EDS | System failure |
| NHS | 12,500 | BT, EDS, I-soft Cable & Wireless | Spiralling costs - original cost £5bn – EDS email contract terminated, BT paid £159m extra for broadband |
| Passport Agency | 120 | Siemens | Soaring costs, delays and failures – online passport failure in 2006 |
| Inland Revenue | 2,500 | EDS | Cost increased 135% in six years |
| Immigration and Nationality | 100+ | Siemens | Soaring costs and delays |
| National Insurance | N/a | Accenture | Cost increases and delays |
| Court Service | 107 | EDS | Cost increases – 328% and delays |
| Court Service | 180 | Liberata | Cost increases and delays |

Strategic Service-delivery Partnerships track record

About 25 Strategic Service-delivery Partnerships (SSPs) have been negotiated since 2000 of which three have been terminated by local authorities and another is being substantially reduced in scope with many services reverting to in-house provision. These contracts are summarised in Table 11.

Table 11: Failed SSP partnerships

| Failed Strategic Service-Delivery partnerships in local government | |
|--|--|
| Bedfordshire County Council | Terminated £265m contract with HBS Business Services in 2005 after failure to achieve key deliverables and poor performance. |
| West Berkshire Council | Terminated £168m contract with Amey Group in 2005. |
| Redcar & Cleveland Council | Following a 'strategic review of services' HR and Payroll, Finance and Accounting, ICT, Public Access and Business support will be brought back in-house by September 2006 after only 3 years of the 10 year contract. |
| London Borough of Southwark | Education Services £100m contract with WS Atkins terminated because of poor performance. |

Source: European Services Strategy Unit, 2006

Bedfordshire County Council and HBS

The Strategic Service-delivery Partnership (SSP) between Bedfordshire County Council and HBS Business Services was terminated by the County Council in August 2005. Nearly 550 staff were transferred from HBS back to the County Council.

A review of contract performance in 2005, '*Strategic Partnership in Crisis*' prepared by the Centre for Public Services for Bedfordshire UNISON, produced a HBS Scorecard (see Table 12) which showed that several key deliverables had in fact not been delivered and quality had declined in some services.

Table 12: HBS Scorecard in Bedfordshire

| Key Deliverables | SCORE |
|--|---|
| Best Value | Performance is down on four Best Value Corporate Health indicators |
| Front line services first | Quality of service declined (BVPIs) |
| A new partnership | New partnership created but whether it works and is necessary is questionable. |
| A Regional Business Centre | No evidence of centre and no reporting of new contracts or jobs. |
| A customer contact centre | Opened and operational |
| Improved accommodation | Promised £7m investment only part spent on the Contact Centre and HBS offices on the 6 th floor. |
| Improved training provision | Maryland College closed |
| Financial savings | Council has incurred substantial additional costs for HBS partnership and unclear whether original savings target has been met. |
| Quality and competitive support services for schools | Quality of schools support services in decline. National Centre of Excellence delayed and may never be established. Failure of SAP pilot for schools. |
| Corporate issues | "The strategic partnership is not delivering improvement in services" Annual Audit and Inspection Letter, District Audit, January 2005. Failure to publish Council 2003/04 Accounts on time partly blamed on arrangements with HBS. "The Council has not yet been able to gain capacity from its strategic partnership" Comprehensive Performance Assessment, 2004, Audit Commission, |

Centre for Public Services 2005.

The council took over all HBS services, all the staff and assets involved in the delivery of those services. It paid HBS £6.75m to purchase assets such as IT, furniture and fittings

and to acquire goodwill, contracts and services provided by HBS, including to schools and other organisations. This document sets out the rationale for terminating the contract and the terms of the agreement.

West Berkshire Council terminates SSP contract with Amey Group plc

In June 2005 West Berkshire Council terminated a £168m Strategic Service-delivery Partnership with Amey plc. The contract, for IT and corporate services, had only completed three of the ten-year contract period. Amey plc agreed to pay £3m to the Council as part of the settlement agreement.

Redcar and Cleveland Council and Liberata

Following a 'strategic review of services' HR and Payroll, Finance and Accounting, ICT, Public Access and Business support will be brought back in-house by September 2006 after only 3 years of the 10 year Liberata contract. Only 120 of 650 staff will be retained by company to continue to provide Council Tax, Revenues, Housing Benefits and Consumer Direct (Government business).

The Main Overview and Scrutiny Committee decided to investigate Liberata's IT Refresh programme in 2005. However, the Committee discovered that there was no IT asset register and that Liberata had failed to deliver on its undertaking to complete the register in February 2005. The register was a precursor to the development of an effective IT refresh programme. The Committee referred the matter to the Joint Partnership Board for urgent action.

The Children's Services Overview and Scrutiny Committee investigated the performance of Education ICT in 2005 in response to a number of concerns expressed by Members, Head Teachers and officers. It focused on the technical support to schools. The Committee made a number of recommendations which are indicative of the problems encountered by schools as a result of a lack of strategy and poor ICT delivery.

The Committee demanded that a Children's Services Information System strategy be developed together with an Education ICT Strategy for Schools. It also recommended that an Education ICT group of head teachers be formed to develop partnership working with Liberata, that an Education ICT Officer is appointed, a review of Education ICT is undertaken and Liberata be required to draw up a timetable of work and an inventory of equipment. Urgent action was required to ensure every school had broadband access and every school should have an Education ICT Service Level Agreement which should "include information regarding the effects of considering other providers" (Redcar & Cleveland, 2006).

London Borough of Southwark terminates education contract with WS Atkins

The £100m education contract to operate the Local Education Authority (LEA) was terminated after two years of the five-year contract. Atkins failed to meet several key targets and claimed the contract was unprofitable. The contract termination cost Southwark Council £1.5m.

PPP/PPI track record

The PFI/PPP debate is limited to discussion about the relatively short-term effects of projects, partly because of concern about the immediate availability of finance for infrastructure projects and how particular projects will be procured. The longer-term consequences of an increasing part of the local and national infrastructure being managed and controlled by the private sector is rarely considered. The long-term impact of PFI/PPP include:

- Financial impact of off-balance sheet and affordability issues affecting other services.

- Further erosion of democratic accountability and transparency.
- Reduced capacity of public sector and knowledge transfer.
- Commercialising community use of schools.
- Decline of in-house public sector service delivery organisations and transfer to the private sector.
- Decline in public sector employment.
- Loss of benefit of local production and supply chains in the local/regional economy.
- Bigger private sector role in regeneration and management of public sector assets.
- Growth of a corporate welfare complex as a result of the expansion of a contracting culture and emergence of an owner/operator infrastructure industry (Whitfield, 2001 and 2006a).

There are four categories of failure and poor performance of PFI/PPP projects – project structure failure, the financial collapse of or crises in construction companies, poor design and poor facilities management services.

Structure of the project

Fundamental problems with the structure of a PFI/PPP project could give rise to its termination, renegotiation or refinancing.

- Skye Bridge, Scotland (contract terminated early to abolish tolls)
- National Physical Laboratory (contract terminated because of construction failure)
- Paddington Basin project (project abandoned before procurement commenced)
- Royal Armouries, Leeds (renegotiated contract because of financial crisis)
- National Air Traffic Services (had to be refinanced)

Failure of construction companies

Three PFI construction companies suffered financial crises in the last four years which led to the sale of PFI assets and bid teams (the Jarvis PFI bid team was sold to the German construction company Hochtief), the sale to a foreign company (Amey sold to Ferrovial, Spain) and one went into administration (Ballast collapsed in 2003 resulting in delays to the refurbishment of 6 secondary schools in East Lothian and renegotiation of a new project with Balfour Beatty).

Design failures

The design of many PFI schools have failed to match the hype. For example, a survey of 60 new and refurbished schools concluded that “some respondents are happy with the finished result particularly when it is well designed and spacious. Such comments are disappointingly rare.” The survey focused on the impact of teacher staff comments on the final school plans (only 27% believed their comments had made an impact) but also included community use of schools and the design and quality of services. (Educational Institute of Scotland (EIS) Survey of New and Refurbished Schools: Report of Findings, May 2004)

Poor facilities management

A study by Audit Scotland of 6 of the 12 operational PFI projects (covering 65 schools) in Scotland revealed:

- In 5 of the 6 cases the PFI construction costs were higher than for the Public Sector Comparator (PSC).
- In all 6 cases the operating costs of the PFI option were higher than the PSC.
- Financing costs made up one quarter of the total costs of the projects.
- The overall financing costs for the private sector were between 2.5% and 4% higher than a council would pay if it borrowed money itself for a similar project (Audit Scotland, 2002).

An Audit Commission study in England compared 17 PFI schools with 12 recently, traditionally funded schools and found:

- The quality of the PFI schools was not as good as schools built by more traditional means;
- The best examples of innovation came from traditional schools;
- The costs of cleaning and caretaking appeared to be higher in PFI schools;
- New-Build PFI schools were not even completed more quickly (Audit Commission, 2003).

Following operational surveys and reviews of PFI/PPP performance (for example, Partnerships UK, 2006 and 4ps, 2005) the government concluded that:

“.....the evidence on satisfaction with soft services does not demonstrate value for money as consistently as other elements of the framework, andthat while standards are no worse than in non-PFI structures, PFI has not led to a step change in soft service delivery. Therefore the Government is strengthening its value for money test so that the public authorities must rigorously prove the case for including soft services in PFI projects.” (HM Treasury, 2006).

Studies of operational PFI/PPP projects have also revealed that “the level of input required for contract monitoring by the public sector was substantially higher than had originally been anticipated. This was both in terms of the local authority team and also with users (eg in schools by school staff).and whether this was sustainable over the contract life of 25 years” (Partnerships UK, 2006).

The case against the use of PFI/PPP is substantive:

- It does not bring additional private sector investment because the cost of PFI/PPP is ultimately funded by the public sector.
- The fallacy of long-term partnerships when contractors and financial institutions may sell equity stakes and the public sector is powerless to stop new partners taking over with different interests.
- Higher cost of private sector borrowing – private finance adds between 1% - 3% to the cost of borrowing.
- High transaction costs including consultants and advisers, financial arrangement fees, project management and procurement costs.
- Escalating total project costs, the difference between the Outline and Final Business Case costs is very often substantial.
- Affordability and the financial impact on budgets, which may have to be cut to accommodate PFI/PPP payments, could have a negative knock-on effect on other services.
- Erosion of democratic accountability and transparency.
- Limited stakeholder involvement.

- Misallocation of risk - transfer of risk is overstated and over-priced.
- Justified on narrow value for money criteria.
- Future improved private sector performance is compared with historic public sector performance undertaken by the same or similar companies.
- Loss of flexibility in the ability to meet changing social needs because public bodies are tied into long term contracts.
- High cost of early termination of contracts.
- Off balance sheet finance could store up future problems and intergenerational liabilities.
- Access to private sector expertise can be obtained more cost effectively through other procurement methods.
- Contributes to the marketisation of public services and widens the role of the private sector in the public policy making process (Whitfield, 2006b).

Advantages and disadvantages of outsourcing

Table 13: Advantages and disadvantages of outsourcing

| Advantages | Disadvantages |
|---|---|
| <p>The advocates of outsourcing claim:</p> <ul style="list-style-type: none"> • It is more efficient (and reduces costs significantly) because: <ul style="list-style-type: none"> - It harnesses competition and brings the pressure of the marketplace to bear on the inefficient producers. - It permits better management control by freeing government managers of most of the distracting influences of overtly political organisations and civil service constraints. - Managers can see more directly the costs and benefits of their decisions. • Contractors invest in improving their technique and technology in order to stay competitive. • Allows a public organisation to concentrate on their core functions. • Enables government and private firms to use employees only when they are needed. • Outsourcing enables the government to take advantage of specialised skills, new technology, and innovation that are not available internally. | <p>The disadvantages of outsourcing are significant:</p> <ul style="list-style-type: none"> • Procurement process is both time-consuming and expensive with significant transaction costs which divert resources from front line services. • Savings claims are grossly exaggerated and are frequently negative when the full public sector costs are taken into account. • It has a negative impact on jobs, terms and conditions and pensions. • Creates a multi-tiered workforce with different terms and conditions. • It has a negative impact on equalities. • Separation of client and contractor responsibilities makes service integration more difficult. • Inhibits long-term planning for social needs. • Limits the flexibility of government to respond to rapid social change and to emergencies. • Contracting processes can be complex, time consuming, and costly if proper management and a standardized process are not provided. • Reduces the morale of staff by increasing job insecurity and threatens reduction in terms and conditions and pensions. • Fragments public service provision into separate organisations and contracts. • Reduces democratic accountability and transparency with policy decisions and matters of public interest taken behind closed doors. • A loss of public service values and principles. |

Part 6

The impact on jobs

Introduction

This chapter examines the micro-economic impact, in particular the employment impact of outsourcing and outsourcing. It provides evidence on:

- Employment models
- Changes in employment levels
- The wider impact on employment in the local economy
- Impact on terms and conditions
- Changes in workplace conditions such as health and safety
- Equalities impact on workforce
- Exclusion of support services from PFI projects
- Supply chains and regional economies
- Trade union organisation and representation

The KPMG report contains no analysis of the impact of the policies it recommends, except for making claims about savings and general figures about costs. It contains nothing about the impact on employment nor on the potential effect on terms and conditions, pensions and workforce development.

It is therefore very difficult to predict the impact on jobs. The impact falls into two categories:

Loss of jobs as a result of spending cuts: The transformation plan proposes a maximum spending cut of £41m in any one year (the remaining spending cuts are rolled over from year to year). Labour costs represent on average about 50% of total costs and assuming the average wage plus on-costs is £25,000, then some 820 councils jobs could be lost with a further loss of 200 jobs in the local economy giving a total loss of over 1,000 jobs.

Transfer of staff to another employer through outsourcing and transfers to arms length companies and trusts: It is impossible to identify the number of jobs in this category because it will depend on which services are included in the market testing and Trust programme. The Repairs and Maintenance service alone employs about 550 manual and 50 white collar staff and a procurement process has already started.

Employment models

There are basically three employment options or models:

- In-house – staff remain council employees.
- Secondment – staff remain council employees but are managed by a private or voluntary sector provider on a day-to-day basis.
- Outsourcing or contracting out – requires staff to be transferred to another employer.

A 'choice' employment model was adopted by Serco in the Bradford MBC contract and was the favoured option in Swansea City Council's ICT outsourcing contract although

staff were transferred after a last minute policy reversal. However, this model falls well short of being a secondment model and has many disadvantages for staff and the Council.

Changes in employment levels

Health warning

Much of the evidence concerns contracting in 1990s and the same level and source of savings cannot be assumed to be available in 2006 and beyond because:

- The level of effectiveness and efficiency of services has since improved.
- Performance management systems have been introduced which have also led to some increased effectiveness and efficiency.
- The first years of the Gershon efficiency savings already been achieved or assumed.
- Many services have already been market tested and in some cases have been outsourced and returned to in-house provision.
- The TUPE transfer regulations were still being disputed by many employers in the 1990s and the Code of Practice on Workforce Matters only became applicable in local government in March 2003 and the rest of the public sector in April 2006. The evidence of changes in jobs, terms and conditions would taken a significantly different profile had these regulations been fully applicable in the 1990s.

The employment impact evidence is primarily from the period when TUPE was being applied in different degrees but before the new Code of Practice came into effect. However, the Code has limitations and claims that it represents a new era making evidence of the employment impact of outsourcing irrelevant is incorrect. Firstly, the Code requires continued monitoring and evidence of its effectiveness will need to be researched. Secondly, contractors have to provide a broadly comparable package of terms and conditions and have the flexibility to adjust holidays, working hours and so on. Thirdly, the pension requirements do not compel private contractors to adopt the Local Government Pension Scheme but must provide 'broadly comparable' pensions. So the Code of Practice is an advance in protecting employment rights but it is not a guarantee.

Britain - Local government

The first Department of Environment funded study into the effects of CCT identified job losses in all services with an **average job loss of 12.2%**. The highest loss of jobs in building cleaning (16.0%) and the lowest in Leisure Management (-4.9%) – see Table 14.

Table 14: Estimated job losses in CCT contracts 1988-1992

| Service | No of contracts | % change in staffing levels after competition |
|------------------------------|-----------------|---|
| Refuse collection | 17 | -15.9 |
| Street cleansing | 12 | -11.6 |
| Building cleaning | 17 | -16.0 |
| Catering | 10 | -6.5 |
| Schools and welfare catering | 8 | -5.2 |
| Vehicle maintenance | 20 | -13.5 |
| Grounds maintenance | 56 | -14.2 |
| Leisure Management | 20 | -4.9 |
| Total | 160 | -12.2 |

Source: Walsh and Davis, 1993.

Compulsory Outsourcing resulted in 12,587 job losses in four services provided by 39 local authorities in the 1989-94 period, equivalent to 74,010 job losses nationally (Escott and Whitfield, 1995). Women accounted for 96 per cent of the net job loss in building cleaning, education catering, refuse collection and sports and leisure management.

The Equal Opportunities Commission study is a comprehensive study of the employment impact of outsourcing. It was based on more than 190 in depth interviews of senior managers in 39 case study local authorities in England, Wales and Scotland. Four private contractors were also interviewed. A detailed questionnaire was prepared for each of the four CCT services and completed by managers in each of the authorities. A series of 15 discussion groups involving women workers and trade union representatives were held in the case study authorities. In addition an analysis of the local labour market and economy was conducted in eight authorities. Finally, local government databases on CCT and community care, as well as published surveys and reports, were analysed to help provide the national context for the case study research. The main findings are summarised below:

Job losses: There was a loss of 12,587 jobs in four services in the case study authorities and an estimated 74,010 nationally – see Table 15. Female employment fell by 22 per cent and male employment by 12 per cent. Women accounted for 93 per cent of ‘pre-contract’ employment in these four services and for 96 per cent of the net job loss between 1988-89 and 1993-94. Since 91 per cent of employment in these services prior to the introduction of CCT was part-time, part-time workers accounted for most of the total decline in employment (95 per cent).

Table 15: Employment change in the case study authorities compared the DoE study findings

| Service | Pre-contract | Post-contract | Actual change | % change |
|------------------------------|---------------|---------------|----------------|------------|
| Building cleaning | 34,370 | 24,342 | -10,028 | -29 |
| Education catering | 19,925 | 17,889 | -2,045 | -10 |
| Refuse collection | 2,691 | 2,083 | -608 | -23 |
| Sport and Leisure Management | 2,041 | 2,135 | +94 | +5 |
| Total | 59,027 | 46,440 | -12,587 | -21 |

Source: EOC study, 1995 - 71 CCT contracts in 39 case study authorities

Loss of hours: Hours were reduced on average in building cleaning by 25 per cent and in education catering by 16 per cent with virtually all those affected being part-time workers. Some local authorities and most private contractors had a deliberate policy of employing part-time workers below the National Insurance minimum earnings threshold to avoid making both the employers and employees NI contributions.

Increased use of temporary workers: In building cleaning and education catering temporary workers accounted for 17 and 16 per cent respectively of employment on average, compared to 9 per cent in refuse collection.

Multiple jobs: The reduction in hours in catering and cleaning has meant that more women have had to take on several jobs of a few hours each in order to try to maintain income levels. Local authorities were unable to provide accurate information on the extent of multiple jobs but estimates by managers ranged up to 25 per cent of catering and cleaning staff having more than one job with the authority.

Loss of holiday retainer: Many school cleaners and school meals staff are no longer paid throughout the year or receive a holiday retainer. They are paid for only about 39 weeks of term-time which represents a salary reduction of up to 25 per cent.

Black and ethnic minority workers: The employment of black people was very low in all but three of the case study authorities and had remained static since 1988-89. In spite of ethnic record keeping in 60 per cent of authorities, black workers are under-represented compared to their share of the population in both male and female dominated services.

Pay: CCT appears to have resulted in a three-tier pay structure. Most authorities (78 per cent of contracts in the case studies) continue to pay National Joint Council rates, while some DSOs (13 per cent of case study contracts) have introduced a local rate. All nine privatised contracts, which represented 10 per cent of the case study contracts, paid lower than NJC rates.

Contracting out in Northern Ireland

A similar study of health and education service tendering in Northern Ireland identified an overall 14 per cent job loss for women compared to 6 per cent for men, with contracting out to private firms resulting in a 37 per cent job loss compared to 11 per cent of for contracts won by in-house services (NIEOC, 1996). Both studies also quantified cuts in working hours, increased use of temporary workers, loss of holiday pay, wage cuts, particularly in contracted out services, and a differential and adverse impact on women.

Table 16: Comparison of In-house and outsourced employment change in Northern Ireland

| | In-house (%) | Private (%) |
|---|--------------|-------------|
| Overall job loss | | |
| Female | -10.8 | -36.6 |
| Male | -2.9 | +1.7 |
| Loss of full-time employment | | |
| Female | -44.2 | -44.9 |
| Male | -20.2 | -7.9 |
| Reduction in average hours | | |
| Female | -7.9 | -20.5 |
| Male | -0.02 | -9.2 |
| Increase in proportion working under 16 hours per week | | |
| Female | +14.1 | +10.9 |
| Male | +0.1 | +10.0 |
| Change in weekly wages | | |
| Female | -2.8 | -16.8 |
| Male | +3.2 | -11.9 |
| Increase in proportion earning under National Insurance Lower Earnings Limit | | |
| Female | +10.4 | +16.0 |
| Male | +0.1 | +15.0 |

Source: NIEOC, 1996.

A study of NHS market testing in Northern Ireland combined the findings of the Northern Ireland Equal Opportunities Commission study (NIEOC, 1996) and a UNISON analysis of NHS contracts carried out by the Centre for Public Services. Based on NHS 30 out of 71 contracts awarded in the 1988-93 period the **average job loss was 15.3%** - 531 jobs in total (Centre for Public Services, 1996). Domestic services and catering suffered a 20.6% loss and 9.3% loss of hours in eleven UNISON case study contracts.

Exaggerating civil service job cuts

The emphasis on reducing staff numbers or ‘staff savings’ is illustrated by the Competing for Quality program under which the Government claimed that between 1 April 1992 and 31 March 1995 some 69,283 staff were covered by the program resulting in 20,186 staff “have now left the Civil Service”. The facts reveal that 8,262 staff left the Civil Service, not 20,186. The remaining 11,924 jobs were not abolished but transferred primarily to private contractors with the Civil Service still paying for these jobs through contracted services budgets rather than the directly employed staff wages budget. The job loss in 1995-96 compared to 11.9% in the preceding period.

Job change in SSP contracts

Most private firms bidding for strategic partnerships promise to create new employment opportunities through the development of Regional Business Centres. They usually propose to generate growth by winning work from other local authorities, public bodies and private companies in the region.

Most of the larger outsourcing contracts or strategic partnerships, for example, Lincolnshire (April 2000), Middlesbrough (June 2001), Bedfordshire (April 2001) and Liverpool (services transferred between April and November 2001) are recent. None have yet gained additional work. Firms make statements about creating jobs in one region by transferring work from contracts elsewhere. For example, Capita claims to have exceeded its job creation figures in Blackburn, but the posts are not new – they are transferred from other regional centres as part of the BBC TV licencing contract Capita won from the Post Office.

HBS Business Services Group is one of the market leaders with strategic partnership contracts in Bedfordshire, Middlesbrough, Lincolnshire, Bath and North Somerset and Milton Keynes. It claimed to have established a Regional Business Centre in Bedford site selling services to other local authorities and public sector agencies. They claim to have won “significant new work” from the Probation Service, The Police Authority, NHS and Social Services Partnerships, the London Borough of Barnet and Crawley District Council (revenues and benefits) although no information was provided on the size of these contracts or the number of people employed (HBS Annual Report 2001-2003). However, HBS’s annual report for 2003/04 did not even mention the Regional Business Centre.

When HBS bid for the Bedfordshire contract in 2000/01 it had a strategy of creating ten regional business centres in Britain. The number later fell to three as the firm created three operational regions – northern, central and southern. The regions reduced to two, northern and southern, following the April 2004 reorganisation of HBS (UNISON/Centre for Public Services, 2005).

The RBC model is based on using a strategic partnership with one authority to win contracts with neighbouring councils and public bodies to create a ‘business centre’ and ‘additional’ jobs. The theory is that local authorities and public bodies will get cheaper services, HBS will make bigger profits and the host authority will gain more jobs. The fact that this means job losses elsewhere is usually brushed aside. The model did not take account of the other changes such as wider use of the internet for transactions, automated telephone services and increased outsourcing (offshoring) to low wage economies in Asia and Africa.

Strategic partnerships result in a loss of jobs even though a contractor may transfer all staff at the commencement of the contract. For example, Middlesbrough – 42% job loss in four years, Redcar & Cleveland – 37% job loss over ten years (Sources: Middlesbrough - Best Value Inspection Service, Sept 2001; Redcar & Cleveland – Chief Executives Report to Mapping the Market Advisory Panel, June 2002). The normal turnover of staff, often coupled with a recruitment freeze or employment of only temporary staff, means that there is frequently a loss of jobs between the council’s decision to proceed with a strategic partnership and the completion of the procurement process, which takes a minimum of eighteen months. So Regional Business Centres have to create jobs just to retain employment at its original level, let alone create new jobs.

Housing stock transfers job impact

Research funded by the Office of the Deputy Prime Minister (ODPM) has showed that there are a number of staffing implications arising out of LSVTs. Though the researchers concluded that the terms and conditions implications of transfer were more complex than the term two-tier workforce suggests, they did find widespread evidence of similar practices to those associated with the two-tier or multi-tier workforce (ODPM, 2002):

Only an average 35% of staff in LSVT’s were on their former local authority terms and conditions.

The holiday and sick pay entitlement in LSVT RSLs was particularly ‘different’ to that in local authorities. Though the report of the research does not say it, the clear implication is that the entitlement in LSVT RSLs is less beneficial to the employees. This accords with other research into transferred employees.

The research concludes that one third of transferred LSVT employees regard their employment package as a whole better with the RSL than with the local authority, one third the same and one third worse. While on the surface this implies a balance views, closer inspection reveals a different story.

Firstly, the figures refer to transferred staff. The issue of the two-tier workforce applies in most cases where new staff are taken on with conditions different to those of TUPE protected employees.

Secondly, the third that regard their employment package as the same will most likely to be the same third that are still on their local authority terms and conditions. The third who see their employment conditions as better will be those staff who have accepted promotion since the transfer and are thus likely to have benefited from a pay rise in return for sacrificing their other terms and conditions. The question thus arises as to why a third of employees who transferred with TUPE protection (most LSVT transfers took place after the application of TUPE regulations) feel that their employment package is worse. Again, this would mirror our findings in other research projects on transferred workforces.

The research also revealed that transfer resulted in a decline in the recognition of trade unions and a reduction in national bargaining. It shows that while all but one LSVT local authorities had recognition agreements with one or more trade unions, only a third of LSVT RSLs had such agreements. Only 17% of LSVT RSLs adhered to nationally negotiated pay agreements for all staff and 47% of LSVT RSLs said that trade unions were not involved at all.

Our research in other transferred workforces reveals that:

- The term 'multi-tiered' is more useful description than 'two-tier' because there are usually more than two tiers.
- Transferred staff usually feel less satisfied with their job than they did prior to the transfer, and usually feel more negatively about the level of service they offer to the service user because of pressures on staffing levels, a lack of training coupled with high levels of staff turnover and the recruitment of inexperienced staff to replace long-serving staff who leave.

Impact on terms and conditions

Bus deregulation led to wage cuts

Tendering of London's bus services in the 1980s led to **wage cuts averaging 14 per cent** which accounted for £110m of the £135m cost savings (Kennedy, 1997). A decade after bus deregulation, passenger numbers had declined 36 per cent nationally and average earnings of bus and coach drivers had slumped from £5.70 per hour to £5.03 (a 12% reduction) in 1994. At the start of the same period they earned 98 per cent of the average manual wage but this fell to 80 per cent (House of Commons Library, 1995).

Wage cuts in commissioning community care

The rapid expansion of private care in the last two decades has exploited women workers. Two 1997 surveys covering 1,270 and 187 nursing and residential homes (39,000 and 7,440 staff) respectively, revealed low hourly pay rates (half of all employees in the UNISON survey earned under £3.50 an hour), increasing casualisation, reliance of untrained staff, between 15-17 days holiday and most employers did not provide a pension scheme for manual staff (UNISON, 1997 and Centre for Public Services/Fawcett Soc, 1997).

Changes in health and safety

The growth of 'precarious employment' or contingent work arrangements (casual/short term contract or temporary jobs, self-employment/subcontractors and the reemergence of home-based work) combined with downsizing and outsourcing by public and private sectors has increased insecurity and has had an adverse effect on occupational health and safety (Global Occupational Health Network, 2001/02).

Ninety three studies were identified which examined the health effects of various types of precarious employment between 1986 and 2000 in 11 countries plus the European Union. They covered a variety of services and industrial sectors in the public and private sectors and employed a range of methodologies. Of the 93 studies, 11 were found to be inconclusive because there was no baseline data or control group. 76 studies found that precarious employment were “associated with a measurable deterioration in occupational health and safety” and only six studies found either no relationship or a positive effect (ibid).

The same pattern was revealed in another review of 66 studies of the health effects of downsizing/restructuring and job insecurity published internationally between 1966 and 2001. Of the 66 studies 59 reported that job insecurity “was associated with a measurable deterioration in the health and well being of ‘surviving’ workers, with committed workers, older workers and those subject to ongoing insecurity suffering worst” (ibid).

Equalities impact on workforce

Despite equality legislation and varying obligations with regard to a public duty for different equality groups (in Northern Ireland, Scotland, Wales and London) there is a substantial gap between policy frameworks and implementation of equalities in the commissioning and procurement process and the translation of corporate policies and priorities into contract requirements. In addition, the mainstreaming of equalities in Best Value reviews in local government has been limited. The vast majority of PFI projects fail to adequately consider equality issues for service users and staff (ADLO, 1999).

Compulsory Outsourcing in local government had a differential impact on women and men (EOC, 1995). Female employment fell by 22% in the 39 case study authorities compared to 12% for men, and women in building cleaning and catering had a 25% and 16% cut in hours worked (ibid).

The formal investigation into outsourcing health and education services in Northern Ireland concluded that it had an adverse impact on female employment on two grounds. Firstly, the majority of services selected for tendering were female dominated. Secondly, “there was a gender differential in the reduction of employment, hours of work, and wages brought about by the process. Outsourcing resulted in a higher rate of job loss, a greater reduction in working hours, and a larger decrease in wages for women than for men” (NIEOC, 1996).

Exclusion of support services from PFI projects

Government policy states that support or soft services such as cleaning, catering, repairs and maintenance, grounds maintenance and security can be excluded from Private Finance Initiative (PFI) contracts before the procurement process commences (Centre for Public Services, 2004). However, a decision to exclude soft services must be based on strategic priorities, the authority’s procurement policy and a HM Treasury Value for Money and Quantitative Assessment (HM Treasury, 2004).

Value for money not at expense of workers

The Treasury has stated that value for money should not be achieved at the expense of workers’ terms and conditions (ibid). There is also substantive evidence which shows the importance of job satisfaction and employee participation in achieving productivity gains and service improvements (Centre for Public Services, 2004). The case for in-house provision rests on the strategic rationale, improved standards of service delivery, flexibility of public service provision, equity, efficiency and accountability criteria set by the Treasury.

The Treasury's quantitative assessment includes lifecycle costs, operating expenditure, third party income, transaction costs and a wide range of indirect value for money factors. A multi-criteria analysis performance matrix can be used to examine the externalities and non-market factors.

The Department of Health developed a Retention of Employment (ROE) model covering staff employed in NHS Trusts in England for planned PFI projects (DoH, 2003). Ancillary staff in cleaning, catering, laundry, portering and security services can remain NHS employees and do not have to transfer to the private sector. They are managed by the private sector. It is being implemented in about twelve PFI projects (UNISON, 2003).

“There is no doubt that the practical operation of ROE will present significant challenges for NHS Trusts and PSPs alike. It is, quite simply, a new way of working. It is likely, however, to encourage close cooperation between NHS Trusts and PSPs, and, inevitably the Retained Employees and their representatives with a positive emphasis upon ‘Partnership’.” (Davies, 2004)

Supply chains and regional economies

The importance of the public sector in the regional economy in terms of employment, linkages to manufacturing industry and supply chains for the production of goods, equipment, supplies and services, has been belatedly recognised (NWRA 2003, Government Office for Yorkshire and Humber et al 2003, NWDA 2003, East of Public Health Group 2004).

These studies emphasized the role of health and social care services in the regional economy, for example accounting for 14.8% of jobs in the region when direct, indirect and induced employment is taken into account (NWRA, 2003). Outsourcing can impact on the regional economy if supply chains are switched from regional to national or international sourcing (NWRA, 2005).

Trade union organisation and representation

Outsourcing has had a significant impact in many contracts:

- The TUPE regulations require contractors to continue to recognise trade unions but many refuse to recognise trade unions for bargaining purposes (for example Bedfordshire UNISON, 2005).
- Some private contractors have set up works councils (HBS, Middlesbrough) in place of joint consultative committees.
- There have been numerous examples of private contractors delaying the implementation of national awards (UNISON).
- The fragmentation of trade union organisation and representation has been a significant issue where arms length companies and trusts have been established. In addition, many contractors refuse to recognise branch officials who are not part of the contractors workforce (UNISON, 1998)
- Consultation with staff and trade unions has varied widely (Centre for Public Services, 2003).

Workforce development strategies

Many larger public sector organisations have developed comprehensive workforce development strategies, supported by the staff, trade unions and setting good practice standards. The NHS is a good example.

The NHS Knowledge and Skills Framework (KSF) is a joint development tool to promote equality and diversity of staff, effectiveness at work and learning and development of individuals and teams. It also contributes to pay progression. There are six core elements

to the KSF – communications, personal and people development, health, safety and security, service development and equality, diversity and rights. The process enables the organisation to audit the knowledge and skills within the organisation, deploy staff, identify skills and knowledge gaps, organise training and develop effective recruitment and selection processes.

However, there is a fundamental flaw because workforce development applies only to directly employed staff and not to contractors thus creating another form of two-tier workforce.

Overseas evidence

Employment impact of liberalisation

Substantial job losses have been incurred both before and after privatisation of nationalised industries and utilities (ILO, 1999). However, reliable workforce totals and employment change data are difficult to obtain because of the increasing practice of outsourcing by both public and private sectors. It is therefore difficult to distinguish job loss and job transfers. Job losses in Britain accounted for half of the jobs lost in the energy sector in Western Europe since 1990 (ILO, 1999). Some 156,346 jobs were lost in electricity and gas in Europe in the 1990-95 period alone. Britain's record includes a 60 per cent reduction (55,100 jobs) in gas between 1986-1997, a 33 per cent reduction (46,480 jobs) in electricity generating and distribution jobs between 1989 and 1995/96, and a 21.5 per cent (8,599 jobs) reduction in core employment in water services between 1990-99 (Hall and Lobina, 1999).

Australia

Local government employment in Victoria, Australia, fell 30 per cent from 46,200 to 32,400 in the 1993-98 period as a result of council amalgamations (reduced from 211 to 78), rate capping and the introduction of CCT in 1994. A study of 249 Local Area Workplace Agreements, negotiated between local councils and in-house service providers, concluded that although basic wage rates remained largely unchanged, over half the agreements increased working hours and two thirds altered the spread of working hours (Walsh and O'Flynn, 1999). Overall income levels were reduced because of the reduction or removal of overtime rates, premium rates for public holidays and special allowances. Another study of New South Wales government building cleaners transferred to private contractors revealed that the competitive environment had resulted in increased disharmony, tension and intolerance in the way cleaners related to each other and fear of job loss led to a dramatic increase in extra unpaid cleaning (Fraser, 1996).

Latin America

A review of the impact of privatisation in Argentina, Chile, Mexico, Malaysia, Turkey, Ghana and other mixed economies revealed minimal employment impact in competitive enterprises but very high job losses both before and after privatisation in heavily subsidised and uncompetitive enterprises (World Bank, 396, 1998). The privatisation of telecoms, electricity, gas, water and sanitation and energy in Argentina led to 111,000 job losses (50%) with similar losses revealed in a study of 218 privatised Mexican firms. In some cases, trade unions negotiated above average wage increases for remaining workers although with much revised labour contracts.

USA

Comparison of changes in terms and conditions in US competitive sourcing and outsourcing is difficult for the following reasons:

Firstly, there is no evidence that any of the General Accounting Office, RAND Corporation and other studies have used definitive information on the actual wages paid

by contractors. All these studies have details of Federal pay rates and use minimum contractor wage rates and benefits as required by the Service Contract Act (Gates and Robbert, 2000).

Secondly, some studies rely on anecdotal information on wage differentials (ibid).

Thirdly, there is frequently a substantial difference in the quality of benefits, and hence the cost to an employer, for workers employed by the Federal government and those employed by private contractors. Private contractor health benefits, holidays and pension provision are generally substantially less than those for Federal employees.

Fourthly, the bulk of what little hard information available on terms and conditions is concentrated in Department of Defence competitive outsourcing creating a narrow basis for public-private comparison.

In Chicago, outsourcing led to a 25 per cent - 49 per cent loss of wages and benefits (including health benefits, holiday entitlement and pensions) for entry level parking attendants, cashiers, security and custodial staff previously employed by the City of Chicago (Chicago Institute on Urban Poverty, 1997). There is no TUPE type protection for transferring staff in the USA. Eight out of ten senior level jobs also experienced wage and benefit cuts of between 9 per cent and 46 per cent. Wages were reduced for nine out of the ten entry level job descriptions to below the Federal poverty level thus entitling workers to Federal Earned Income Tax Credit, Food Stamps, heating assistance and free or subsidised school meals. Nine out ten senior staff were entitled to substantial Federal Earned Income Tax Credit.

Part 7

Assessing the impact of transformation

Introduction

This section has two objectives. Firstly, to examine the Council's plans to assess the impact of the Transformation Plan. Secondly, to propose an impact assessment framework which Overview and Scrutiny, the trade unions and community organisations can use to determine the effects of the Plan. The chapter is divided into four sections:

- The Council's Benefit Realisation Strategy
- Assessment Framework
- Scope of impact assessment
- Community Risk register
- Public costs

The Council's Benefit Realisation Strategy

North Tyneside has produced a Benefits Realisation Strategy for the Transformation Programme "to define how realisation of the Programme's projected benefits (service improvements, financial savings and efficiency gains) will be managed" (North Tyneside, 2006). The Strategy provides a Benefits Realisation overview, key features of the strategy (timetable, 'dual track' monitoring, a hierarchy of benefits, profiles), a Benefits Realisation Framework, Implementation Requirements and Implementation Planning.

We have three important criticisms of this strategy:

Firstly, it provides a list of stakeholders who are the Programme Board and Programme Manager, Directorate Accountants, the Transformation Team, service managers and the Cabinet and elected members. There is no mention whatsoever of citizens, service users or the staff! So the impact of the Transformation Plan will only be measured in so far as it affects managers and elected members.

Secondly, equally fundamental, the Benefits Realisation Strategy does not even identify one criteria, output or outcome which will be assessed to identify the benefits of the Plan. It is merely a management plan about how to manage but is devoid of any information about what they are going to assess and how they are going to measure costs and benefits.

Thirdly, the fact that there might be negative impacts and disadvantages as the Transformation Plan is implemented has obviously not been considered.

This is further evidence of the inadequate and poor public management underpinning the Transformation Plan.

Why comprehensive impact assessment is important

It is essential that a comprehensive framework be established as a matter of urgency to assess the impact of the Transformation Plan. The narrow scope of the Benefits Realisation Strategy reveals that public service principles and values will be eroded with the following effects:

- A focus solely on money and sources of efficiency savings.

- Commercial criteria will dominate decision making.
- Sustainable development, social justice and community well being will be increasingly marginalised.
- Narrow selection of options for appraisal.
- User needs and priorities will be subservient to contractors and consultants and business interests.
- Democratic accountability will be eroded.
- Increasing competition between ‘business units, departments and directorates in the Council.

Assessment Framework

Local authorities have a responsibility to assess the impact of public and private sector policies and projects with regard to sustainable development, social justice and community well being. The main criteria are summarised in Table 17.

Table 17: **Assessment framework**

| Assessment framework | | |
|---|--|--|
| Sustainable development | Social justice | Community well-being |
| <ul style="list-style-type: none"> * Achieving a sustainable economy. * Promoting good governance, * Living within environmental limits. * Ensuring a strong, healthy and just society, * Using sound science responsibly. | <ul style="list-style-type: none"> * Distribution of opportunities in the region. * Redistribution and improving life chances. * Reducing inequalities. * Eliminating discrimination. * Improving quality of life and community well being. * Participation, involvement and governance. | <p>As under sustainable development and social justice plus:</p> <ul style="list-style-type: none"> * Increasing employment, income & skills. * Developing capacity to invest & manage public infrastructure and services. * Enhancing education & learning. * Improving justice and community safety. |

Source: European Services Strategy Unit, 2006.

Impact assessment should be used at the following stages:

- Reviewing service performance
- Options appraisal
- Selection of bidders
- Evaluation of bids
- Contract management and monitoring
- Scrutiny

Impact assessment must not only embrace all stages of the procurement process but must also include the transfer of services and functions to arms length companies and trusts.

Scope of impact assessment

The social, economic and environmental impacts have been considered in studies which attempted to predict the consequences of outsourcing (Newcastle UNISON 2000 and Salford UNISON 2001) and also in case of the threatened transfer of specialities from one hospital to another (Northern Ireland UNISON, 1993). In all these examples detailed

information on the current workforce was obtained the local authority or NHS Trust which provided the basis of an assessment of the potential consequences of contracting out using data from other contracts.

- Quality of service and performance (including effect of changes in service level/quality).
- Local/regional economy impact (using multipliers to predict the knock-on impact of jobs losses in the local economy as a result of job losses, lower incomes and reduced public spending).
- Equalities and social inclusion (including access to services and the impact on different equalities groups such as gender, age, race, disability).
- Health (including effect of unemployment, increased stress)
- Sustainable development (including changes in production and supply chains in the regional economy).
- Social (including effect in areas of deprivation)
- Environmental (including impact in neighbourhoods, recycling, energy renewable strategies)
- Democratic accountability (including the effect participation, decision making processes and transparency).
- Quality of employment and the local labour market (including effect of job losses, reduced incomes, contracting culture, migrant labour).
- Council's capability (including skills base, knowledge retention, leadership, strategy and delivery capacity).
- Corporate impact on the Council as a whole (including effect on central services, unit costs and viability of services in other directorates).

Community Risk Register

The identification, costing and transfer of risk is a key part of major project management. However, it is frequently one-sided, being concerned with the risks which the public sector can transfer to the private sector (despite the fact that financial institutions are risk adverse, hence the high price paid for transferring risk). It also fails to recognise that many risks which have political consequences, cannot in practice, be transferred. Furthermore, risk registers are mainly narrow in scope and do not take into account the risks borne by service users, the community and staff.

The assessment of community well-being can be taken a stage further by introducing a risk assessment of each option. Risk assessment traditionally identifies and allocates responsibility for risk between the client and the contractor using a risk matrix to show which risks are retained, transferred to the private contractor or shared. This is a very limited and inadequate approach because it identifies only responsibility for risk rather than who suffers the consequences of failure and/or poor performance. For example, service quality will normally be the responsibility of the contractor and whilst failure may result in financial deductions, it is service users who suffer the brunt of the consequences of service failure. Consequently, it is necessary to examine the potential risk of failure, not as a responsibility, but who bears the effect or impact of the failure.

Similarly, staff who transfer to a private contractor bear the risk of changes to terms and conditions, pensions and workplace conditions. The Employment Risk Matrix devised by the European Services Strategy Unit comparing the risk borne by staff in the three employment models shows that 100% of the risks for the secondment model are in the none/low risk category compared to only 20% in the transfer model and 16% in the

'choice' model (ESSU, 2006a). The transfer model has 40% of the risk for employees in both the high and medium risk categories.

A Community Risk matrix could be divided into a number of categories such as service delivery, employment, public finance and local authority each with sub-headings identifying the types of potential risks, for example, housing benefit service failure.

Public costs

Strategies to reduce council spending and outsource the delivery of services have financial impact on other public sector bodies such as the NHS and central government.

The public costs of outsourcing and privatisation have been assessed in a number of pathfinding studies by the Centre for Public Services beginning with the Privatisation Audit for Sheffield City Council in 1985 and the model developed for the Equal Opportunities Commission study into the impact of Compulsory Competitive Tendering in 1995 and in subsequent studies. It will be essential to assess the full public sector costs of North Tyneside's policies.

Part 8

The Trust model

Introduction

This chapter examines the effect of the transfer of services and staff to arms length companies and trusts. It examines:

- Leisure Trusts
- Academies
- Foundation Hospitals
- ALMOs
- Care Trusts

Leisure Trust performance

This section compares the performance of leisure trusts with local authority directly provided sport and leisure services between 2000-06. To date 3 leisure trusts have collapsed.

The Audit Commission has carried out ten Best Value inspections of local authority leisure services where the Trust was established and operational at the time of inspection. 64% of the Trusts received only a fair one star service and one was rated poor which has since been returned in-house and the trust disbanded. Thus 73% of the Trusts had a poor or fair rating which suggests that there is a large credibility gap between the promotional rhetoric surrounding Trusts and operational reality. One trust, Derwentside, had a re-inspection in 2003 which led to an improved rating as a two star service with promising prospects of improvement. Any claims about trusts having just been established are irrelevant because the average time gap between the establishment of the Trust and the Audit Commission's inspection report was 3.7 years.

Table 18: Summary of Best Value Inspections for Leisure Trusts

| Local authority | Date Trust started | Date of Best Value inspection | Best value rating |
|-----------------|--|-------------------------------|---|
| Bexley | 1996 | May 2001 | Fair one star service that will improve |
| Bristol | 1997 (returned in-house) | September 2002 | Poor no start service with uncertain prospects |
| Derwentside | 1999 | September 2001 March 2003 | Fair one star service unlikely to improve Good two star service with promising prospects |
| Enfield | 1999 | September 2002 | Good two star service with promising prospects |
| Greenwich | 1993 | November 2001 | Good two star service which is probably going to improve |
| Islington | 1997 | June 2002 | Fair one star service that uncertain prospects |
| Merton | 2000 operated by Greenwich Leisure Trust | September 2002 | Fair one start service with uncertain prospects |
| Stockport | 2002 | August 2002 | Fair one star service with promising prospects |
| Tameside | 1999 | September | Fair one star service with promising |

| | | | |
|----------|------|---------------|--|
| | | 2002 | prospects |
| Thurrock | 2000 | October 2004 | Fair one star service with uncertain prospects |
| Wycombe | 1997 | November 2001 | Good two star service with uncertain prospects |

Source: Audit Commission Best Value Inspection Reports for each local authority and European Services Strategy Unit, 2006.

Bexley

Trust formed in 1996 but council concluded that the preferred option to obtain investment was a PPP (ITN issued in September 2000) to build three new swimming centres, close three existing centres and for the PPP contractor to takeover the current Trust contract in 2002 notwithstanding the current contract running to 2006.

Bristol trust collapse

Despite the fanfare surrounding the launch of the Bristol Community Sport (BCS) trust in 1997, the council's Best Value Review and the Audit Commission inspection in 2002 were a damning analysis of leisure services. Although BCS has invested about £1m since 1997 to improve facilities, "the investment has not been sufficient to make a significant difference to the overall quality" (Audit Commission, 2002). Leisure was described as a 'service of two halves' – poor quality facilities (managed by the trust) and innovative sports development (provided by the council). Leisure Services transferred to in-house provision in 2004 and BCS ceased to exist.

East Herts/Enfield Trusts collapse

Enfield Leisure Trust went into liquidation on 4 September 2006. Its subsidiary, East Herts Leisure Trust, trading as Aspire Leisure Trust, had a contract with East Hertfordshire DC which had a £500,000 deficit in the first year of a five-year contract. East Herts Council were forced to terminate the contract and transfer the service and jobs to Stevenage Leisure Trust.

East Herts Council decided to market test leisure services in 2003 and invited five organisations to bid but received two external bids, one from a private contractor and another from Enfield leisure Trust. An in-house bid was prepared and submitted but 'was withdrawn' and was not evaluated. The Enfield bid forecast increased income of £150,000 per annum and had reduced the staffing budget by £180,000, yet it was awarded the contract.

Aspire produced a Recovery Plan in June 2006 to address a shortfall now predicted to be £500,000, an increase of £221,525 in a five month period. The Plan included a management restructure, revised company structure, changes to services, reducing the pay of casual staff and changes to terms and conditions estimated to reduce costs by £363,000. But this still left further cuts of £137,000 to be identified.

From attempting to achieve a saving of £975,000 over five years the Council saved a little over £50,000 in the first year. It is now faced with an additional estimated cost of £903,560 over five years based on the 2005/06 budget (ESSU, 2006b).

Greenwich

The inspectors found shortcomings in the improvement plan – lack of customer focus, lack of challenge, few targets – but more comprehensive centre business plans and partnerships had been prepared which justified the 'probably improve' rating.

Hounslow

Hounslow established a combined leisure and library trust with no local authority, employee or service user representation on the Board. Instead it sought eleven 'independent' people from the voluntary and business sector in the borough.

In 2000 CIP in Hounslow produced a Consultation Document for Change which stated that the Trustees or Board of Directors wanted to develop partnerships with a wider range of public sector organisations, improve its independent identity by relocating all staff based in the Civic Centre and made major reorganisation and regrading proposals by introducing a CIP Unified Grading Scheme. After a long dispute in which the trade unions got backing for industrial action and ACAS was brought into the negotiation, CIP backed off. New staff bore the brunt of changes – for example, holiday entitlement was reduced from a maximum of 30 days to 23.

Islington

Trust established in 1997 and retendering started in 2000 with new contract awarded to Aquaterra Trust in March 2003. The original contract was £910,000 per annum to operate seven leisure centres but the new contract has been reduced to £750,000 per annum (an 18% reduction). The new contract commits the council to fund a £5m programme of major repairs and planned maintenance over ten years. The inspectors reported that the condition of some facilities was poor with considerable maintenance work required. The leisure improvement plan was still in draft form, resources were explored only in general terms and there was little corporate support for leisure services.

Merton

Leisure facilities are managed by Greenwich Leisure Trust on a seven-year contract which commenced in 2000 and received ‘a fair one star service with uncertain prospects’. The inspectors found that leisure was not a high priority, lacked political and financial commitment, had no written strategy, suffered from year on year budget reductions, had a £2.7m backlog of essential maintenance work, had poor performance management and there a lack of action plans.

Stockport

The 3-year capital programme for Community services (sports development, parks and recreation services) is declining from £1.1m in 2001/2002 to just £186,000 in 2003/2004. The leisure trust, established in 2002, has a five-year £3.4m investment programme. However, the original investment programme was equivalent to about £2.3m over five years leaving a gain of £1.1m. Information is not available concerning the circumstances of the capital programme reductions and whether these decisions were taken in the knowledge of the planned NNDR and VAT savings created by the formation of a trust. The council were heavily criticised by the inspectors for failing to carry out a rigorous challenge when setting up the trust and found no evidence of an options appraisal.

Tameside

The NNDR and VAT savings of £220,000 per annum have been ring-fenced to invest in leisure facilities since 1999. The inspection expressed concern that investment included improving or providing additional fitness suites in an already crowded market, yet found no evidence of community need or business plans. Sports development was excluded from the Trust leading to comments about the lack of a joined-up approach. Performance management in the council was found too strong but poor in the trust. The ‘promising prospects’ appears to have based on planned new facilities funded through the usual sources (ERDF, SRB and NOF) and a council commitment to carry out a comprehensive survey of indoor and outdoor sport and leisure provision.

Wycombe

The Best Value inspection concluded that although the Trust planned to invest £500,000 in leisure centres “the council needs to look creatively at ways the facilities could be better organised to attract interest for external investment” (Best Value Inspection Report, 2001). The Wycombe Sports Centre is over 25 years old and in need of capital investment. The improvement plans were considered to lack sufficient detail.

Audit Commission analysis of sports and leisure

An Audit Commission analysis of 84 inspection reports on sports and leisure services showed that 6% of directly delivered local authority services were excellent compared to 0% of trusts; the comparable figures for good services were 37% compared to 30% of trusts; 60% of trusts were judged to be 'fair' compared with 52% of directly provided services; and 0% of the latter were considered poor compared to 10% of trusts. On the basis of these samples Leisure Trusts are not performing as well as local authority in-house services.

Performance of Leisure Trusts in Scotland

The performance of five Leisure Trusts in Scotland in 2002 showed that in only three out of eighteen indicators was their performance better than the Scottish average (Newcastle UNISON, 2003).

Other comments from Best Value inspections of Leisure Trusts

The inspection reports of leisure trusts in England also made a number of other comments:

- quality and level of community consultation, particularly the involvement of users and clubs in the management and operation of facilities;
- the co-ordination of community and education based sport and leisure services;
- the provision of a joined up service where information about all facilities can be obtained from any one facility.
- the quality of improvement programmes and the ability of the local authority to implement them.
- facilities and services rooted in meeting local needs forming the basis of strategies and policies.

'Revenue headroom'

There has been much reference to creating 'revenue headroom' in leisure services, in effect gaining additional finance to ease the current financial burden. However, this has the effect of focusing on obtaining additional revenue income and since only a trust option can produce significant revenue savings through NNDR and VAT it has the effect of driving the trust agenda. This is a very narrow and short-term approach because it does not address capital investment or the issue of service integration and change management.

The claimed savings of Trusts rarely take account of:

- the legal and financial set-up costs of a Trust;
- the additional corporate costs incurred by a stand alone organisation;
- the knock-on effect on the Council's support services;

There is no guarantee that NNDR and VAT savings will continue in the longer term – this is dependent on the government not closing what are in effect tax evasion loopholes. Nor is there any guarantee that the savings will be ring-fenced by the council for the length of the contract. If the council is confronted by substantial budget cuts because of economic conditions and/or a change in government policy, then it is unlikely to continue to ring fence sport and leisure services when cuts are required in other services.

A trust will not be able to access increased capital, other than the NNDR and VAT savings, which cannot also be accessed by the council. It will be highly dependent on the council for capital funding. Furthermore, the value of savings are:

- unlikely to be sufficient to fund the backlog outstanding repair and improvements;
- it is assumed that the council grant to a leisure trust is not reduced by mainline departments taking advantage of the 'savings' generated by a trust in a non-statutory service. Any reduction would erode the benefits of establishing a trust;
- the value of the financial savings must therefore have another component or added value which is greater than the negative consequences of establishing a trust, namely the potential loss of an integrated service, loss of democratic accountability, the loss of support services, the potential longer term employment impact, and the potential dilution if the organisation seeks to bid for other leisure contracts on Tyneside.

Democratic accountability

Trusts are required to operate as stand alone organisations, independent from the democratic structures of the council. Elected members would have minimal influence over a trust's financial arrangements. If a trust has financial problems, elected members will have limited influence over the strategies to be adopted. These will almost inevitably affect service delivery and staff. A leisure trust would thus limit the ability of the council to carry out its policies and programmes for a comprehensive leisure service.

Transfer to a trust will mean:

- The running of leisure facilities will be externalised to a quasi-public organisation.
- Direct democratic control of the service will cease - elected member representation on a trust is limited to 20% of the board. Board members first priority is to the interests of the leisure trust, not the local authority.
- Service quality will be put at risk through the contract process
- Business values, reductions in costs and income generation become priorities over the quality of service.
- Loss of work for in-house services - employment and cost impact of a reduction in central services workload.
- No advantage in terms of access to additional external funding.
- Implementation of corporate policies and priorities become more difficult.
- Question over the longer-term availability of NNDR and VAT savings.

Key points

- Some Trust contracts have been reduced in length and retendered. The Audit Commission has expressed concern about the level of 'competition' in at least two cases when trusts have been awarded new contracts;
- Savings from NNDR and VAT have not been adequate to fund the required level of investment to stem the decline in the leisure infrastructure;
- Virtually all additional investment has come from government and public sector funding available to local authorities. Trusts status has not attracted additional investment of any consequence other than the savings claimed from NNDR and VAT.
- Local authorities are being forced to consider PFI/PPP and other forms of privatisation in order to obtain capital investment.
- Local authorities with trusts were heavily criticised for a lack of formal consultation with users and clubs, for example, Bristol, Merton, Stockport,
- Trusts have succeeded in rebranding leisure services in some authorities, for example noted by inspectors in Bristol, where their name appears on facilities and

credits which mask the reality of continued council and public funding of new and improved facilities and the retention of facilities in council ownership.

- The exclusion of education based sport and leisure facilities from the scope of trust contracts has led to fragmented service delivery and a loss of community benefit. This has been criticised in several inspections.

Academies

Academies operate in a very similar way to School Trusts hence their performance is equally relevant. Claims for a rapid and substantial improved performance of Academies over secondary schools has proved to be ill-founded. An Edinburgh University study found that the number of pupils getting GCSE A*-C grades had increased by only 0.2% in the first eleven academies. It also found that many children in academies were not taking GCSE's but were channeled into taking the vocational GNVQs – the proportion taking GNVQs has risen from 13% in the predecessor schools to about 52% in the academies.

The government's academy programme is also being evaluated annually by PriceWaterhouseCoopers. The third evaluation report concludes that *"there is considerable diversity in the achievements of Academies, depending on the time period, and the levels and specific indicators of performance being examined"* (DfES, 2006). There is still limited evidence about academy performance and the report comes with a health warning about drawing conclusions based on average Academy performance data.

The evaluation revealed that seven out of 11 Academies, pupil performance at GCSE level (Key Stage 4) improved between 2004 and 2005, but performance deteriorated in four academies.

The publication of new league tables on pupil performance in core subjects in national tests in March 2006 showed that seven of 13 academies were amongst the worst 200 state schools (Guardian, 30 March 2006). For example, the average points score in the Manchester Academy was 26.8 compared to the 34.5 average for all state schools in England. The Unity Academy in Middlesbrough was failed by OFSTED.

Many academies suffered from design faults such as the size of classrooms in some schools were too small, inadequate changing facilities, limited space for full service and extended school services and unfinished or poor quality work. Some academies experienced significant problems in the building process.

To date five out of 27 head teachers of academies had resigned because of pressure of work. The evaluation also found that "a number of alternative approaches to teaching and learning have not succeeded." (ibid)

"As with the figures on pupil performance, there is considerable diversity amongst Academies in relation to both absences and exclusions data, with some Academies being amongst the best in the country and others amongst the worst" (ibid).

The rate of exclusions from Academies is significantly greater than in comparison group schools and "are particularly high in four of the eleven Academies" (ibid). The situation in regard of authorised absences is improving in academies but deteriorating in relation to unauthorised absence.

The PwC report recognizes that the cost effectiveness of academies has not been addressed in the evaluation process so far. They will be assessing the total economic cost of the academies initiative in future years which will include the direct and opportunity costs. This will include the cost of rebuilding and refurbishment of academies plus the current costs such as the training specifically designed for academy sponsorship

and management. The opportunity costs are also expected to be substantial – “*central government departments have expended considerable time and effort in policy development, and implementing and managing the initiative.*” These resources could have been deployed in more effective ways of improving education.

Reduced accountability

“Academy Governing Bodies don’t represent parents and staff” is revealed in the following comparison of community school and academy representation:

- A Community School has a minimum of 3 and a maximum of 6 parents by right, all elected.
- A Community School Governing Body of 13 has a majority of parents and staff governors (7/13), all elected.
- An Academy has 1 parent elected by right.
- An Academy Governing Body of 13 has a majority of sponsor governors (7/13), a maximum of 1 elected parent, and no elected staff governors by right. The maximum number of parents it could have is 4, 3 of whom would be appointed (R. Hatcher, University of Central England).

A Trust School is not directly accountable – it can appoint the majority of the Governing Body including the parent governors because only one elected parent governor is required. Whilst a third of governors must be parents and a Trust must establish a Parents Council if it appoints the majority of governors this adds little to real accountability because power rests with the Governors appointed by the Trust.

School trusts

National Union of Teacher’s evidence to the House of Commons Education and Skills Select Committee concluded that:

“.....Trust and Foundation status are answers to problems which do not exist but the removal of community status will certainly create problems. There is long standing research, commissioned by the NUT from Warwick University, which showed that allocating a range of additional administrative responsibilities to schools, through the then GM status, diverted the attention of school leaderships away from pupil achievement. There is little evidence also that head teachers want these proposed additional responsibilities” (NUT, 2005).

The Education and Skills Select Committee investigation into school admissions revealed some stark differences between secondary schools and Voluntary-aided schools which are similar to the Trust School model. Evidence from Prof Anne, West, London School of Economics, identified some significant differences in admissions criteria:

- Special educational needs – 39% compared to only 11% and 20% in Voluntary aided schools.
- Medical/social need – 73% compared to 35% in Voluntary-aided schools.
- Religion and other faiths – 13% and 3% respectively compared to 92% and 23% in Voluntary-aided schools.
- Pupil and parent interviews – 2% and 2% respectively compared to 16% and 10% in Voluntary-aided schools.

See Table 19 for further details.

Table 19: Admissions criteria in secondary schools

| Criterion | England secondary schools N=2862 | Voluntary-aided N=401 |
|----------------------------------|-------------------------------------|--------------------------|
| Siblings | 96% | 85% |
| Distance | 86% | 51% |
| Medical/social need | 73% | 35% |
| Catchment area | 61% | 41% |
| First preference | 41% | 26% |
| Special educational needs | 39% | 11% |
| Feeder school_ | 28% | 37% |
| Religion | 13% | 92% |
| Children of employees | 9% | 13% |
| Difficult journey | 6% | 2% |
| Children of former pupils | 5% | 10% |
| Banding | 3% | 8% |
| 'Other faiths' | 3% | 23% |
| Ability/aptitude in subject area | 3% | 7% |
| Pupil interviews | 2% | 16% |
| Strong family connection | 2% | 5% |
| Parent interviews | 2% | 10% |

Source: Prof Anne West, LSE, in Education and Skills Select Committee Report, 2004.

North Tyneside is planning to transfer the roles and functions previously carried out by the Local Education Authority into a School Trust. This has not been attempted by any local authority.

Almost fifty LEAs have received OFSTED reports highlighting serious weaknesses. Of these ten have private sector partners delivering some or all of their services under contract: Bradford (Serco), Hackney (Learning Trust), Haringey (Capita), Islington (CEA), Leeds (Capita), Sandwell (Nord Anglia), Southwark (CEA), Swindon (Tribal), Walsall (SercoCAA), Waltham Forest (Nord Anglia/Amey).

“The vast majority of LEAs that received OFSTED reports highlighting serious weaknesses have now been categorised as satisfactory or above. LEAs have achieved dramatic improvements without intervention and have achieved higher standards than many of those with private sector partners” (NUT, 2005).

Arms Length Management Organisations (ALMOs)

Tenant satisfaction in 43 arms length management organisations increased to an average 77% in 2004/5, raising them marginally above housing association performance of 75% (compared to 65% in council housing generally) (*HouseMark*, 2005). However, this is hardly surprising since arms length management organisations are in the process of a multi-million pound improvement programme renewing kitchens, bathrooms, windows and so on.

There have been a number of problems with ALMOs:

- Some failed to achieve the two stars necessary to release government approval to borrow funds for investment, for example Bassetlaw.
- Financial crises have led to cuts and the merger of ALMOs, for example Leeds.
- Financial and management crises, for example Nottingham.
- Some arms length management organisations are bidding to run services in other ALMOs – Brent and Kensington and Chelsea submitted a joint bid to run housing

services in Westminster's arms length management organisation (*Inside Housing*, 30 September 2005).

- High cost of transfer to ALMO status, for example Ashfield.
- ALMOs selling of council housing stock, for example Westminster and Hillingdon.
- Establishing subsidiary companies to sell services to other organizations, for example Derby.

Many ALMOs are seeking to expand and are demanding increased freedom and flexibility to borrow to fund these additional activities. Takeovers and mergers with housing associations seem inevitable (Centre for Public Services, 2004).

Museum trusts

A Museum, Library and Archive Council commissioned study concluded that the establishment of museum trusts had several benefits but:"

- ***Rarely is there a substantial financial saving to the devolving local authority***, though most transfers take place from a low base, and better value for money is achieved.
- ***Most of the additional funding that has been gained is from public funds that are open to all***, and very little has been done to cultivate personal or corporate giving, and maximise the non-fiscal benefits of charitable status." (MLA, 2006)

The study also found that the process of change from local authority to trust control had re-energised museums, led to more stability and a sense of direction and to forge new partnerships.

Some trusts had experienced comparable bureaucracy operating a trust as they had experienced in the local authority. The study also noted that "*transfer to a museum trust is no guarantee that a museum will be better governed or managed than in a local authority*" (ibid).

Part 9

Insourcing trend gathers pace

Introduction

This section examines where local authorities have adopted an in-house approach to transformational change and the recent trend towards insourcing service delivery in both the public and private sectors.

In-house alternative to Strategic Service-Delivery Partnerships

A number of local authorities have considered the SSP options, and in some cases have reached the preferred bidder stage in the procurement process, before deciding to adopt an in-house approach (see Table 20). The number of authorities who have taken this course of action, plus the failed SSPs discussed in Part 5, constitute a significant body of opinion about the merits of SSPs.

Table 20: Local authorities which adopted in-house option instead of an SSP

| Local authorities which retained in-house provision | |
|---|--|
| Kent County Council | Terminated preferred bidder negotiations with HBS Business Services. Established in-house improvement strategy. |
| Northamptonshire County Council | Withdrew during procurement process from joint partnership with Milton Keynes Council. |
| Newcastle City Council | Awarded £200m to in-house service and rejected rival BT bid on grounds of value for money and quality of service improvements. |
| Barnsley MBC | Decided not to proceed with BT bid in May 2003 because first three year payments could not be guaranteed. Risk of frontline services being cut to meet contractually-binding investment requirements. |
| Salford City Council | Decided against SSP approach for corporate services and did not commence procurement. |
| Walsall MBC | £650m project requiring transfer of 1,500 staff to Fujitsu Services abandoned in January 2006 at the preferred bidder stage. Planned to create 750 new jobs. Council said "strong service improvements" achieved by the local authority in the past few years, felt that "it is now better placed to meet the needs of local people without the joint venture." |
| Wakefield MBC | Decided not to pursue a SSP after research of Liverpool, Newcastle and Middlesbrough. The former Chief Executive from Middlesbrough joined Wakefield and made the case that the market had moved on and that Middlesbrough was able to secure a 'golden deal' at the time but given Wakefield's healthy financial reserves a mixed economy approach would be more effective. |
| Dacorum District Council | Withdrew from preferred bidder negotiations. |
| Isle of Wight Council | Decided to adopt an internal strategic transformational approach drawing on private expertise instead of outsourcing to a strategic partner. |

Source: European Services Strategy Unit, 2006.

Advantages of the insourcing and public-public collaboration options

The case for in-house option and/or public sector consortia is organised under the benefits to the local authority, financial and employment:

Benefits to local authority

- Directly link investment to achievements and needs. In other words tie investment to the Council's specific needs as and when it is required rather than a pre-determined programme of work.
- Choose best in class - the Council will be able to acquire the best available hardware, software, training and business process re-engineering advice. This will enable the Council select the right partner for each issue or project, rather than being restricted to the input of one organisation.
- Take advantage of technological change, new software products.
- Build internal capacity, retain and attract new staff as the council will be developing and implementing projects rather than simply operating as a client monitoring the activities of a private contractor. It needs to retain and increase the council's 'intellectual capital'.
- Maximising choice and flexibility - the in-house bid avoids the constraints of relying on a single contractor for the next 15 years.
- Better value for money: Several local authorities have demonstrated that they can harness savings from business process reengineering more effectively than the private sector.
- Transferring benefits to other council services – the application of ICT, service improvements, new ways of working and the lessons learnt will be transferred to other council services faster and more effectively by the insourcing or public-public collaboration option.
- Allows the continued development and enhancement of a public service ethos in the planning, design and delivery of council services.
- There will be no requirement to negotiate with a board structure of a legally separate third party in order to implement Council policy. Significantly, the insourcing and public-public collaboration options will not be obliged to deliver or facilitate profit for shareholders.
- Maintenance of direct democratic accountability and a higher degree of transparency in the delivery of the service.
- Maintaining and building trust – an insourcing or public-public collaboration option is better placed to enhance service user trust in Council services and to meet community preferences.
- The involvement of other local authorities and public sector bodies is more likely through an insourcing or public-public option.

Financial benefits

- Link investment to affordability and timed to meet the resources of the council.
- The same investment at lower cost: The ability to fund the necessary investment without the overheads and restrictions of third-party processes is a key advantage.

- Investment can be financed through a variety of means including savings from service improvements, prudential borrowing, leasing, and new government projects likely to be launched over the next 15 years.
- Better exploit external sources of finance instead of being committed to regular large payments to a contractor.

Employment benefits

- Fewer job losses will be incurred by the insourcing and public-public collaboration options.
- There is likely to be greater cooperation of staff and trade unions.

Network Rail

Off the rails - Network Rail takes over outsourced rail maintenance

Railtrack originally split the rail network into 20 maintenance contract areas which were awarded to seven firms – Amey, Carillion Rail, First Engineering, Balfour Beatty, Amec, Jarvis and Serco. In October 2003 Network Rail made a strategic decision to terminate all contracts and to return all maintenance work in-house following the earlier agreement to takeover Amey's Reading contract in January 2003 (Network Rail, 2003). By July 2004 some 16,000 maintenance staff, over 5,000 road vehicles, 600 depots and a network of 11 training centres had been transferred to create a single rail maintenance operation. Network Rail achieved significant improvements in performance with the new in-house operation, for example reducing delays in Thames Valley, Wessex and East Midlands by 21%, 20% and 22% respectively (Network Rail, 2004).

A study of Railtrack's outsourcing strategy had previously concluded that Railtrack initially underestimated the degree of management effort required to supervise contractors and ensure quality of output (para 106, Booz-Allen & Hamilton, 1999). This had had a strong impact on the company's performance. The cost of outsourcing has been "relatively high both because of the need to provide internal resources to compensate for contractors' failures and because of high tender prices on the part of contractors' facing risks of which they have little experience in valuing and managing" (para 109, *ibid*). Railtrack did not directly supervise its contractors' work but rather concentrated on detecting significant non-compliance with contract objectives (para 50, *ibid*). (Quoted in Review of Railtrack Efficiency, Europe Economics, report for the Office of the Rail Regulator, 1999).

The insourcing of maintenance and the subsequent restructuring has resulted in a reduction of more than 1,000 indirect staff, managers and supervisors, and has delivered cost savings of around £100 million per annum.

"One of the key successes of the period was the conclusion of the process to bring rail maintenance in-house. In the space of one year some 16,000 maintenance workers, 5,000 road vehicles, 600 depots and a network of training centres transferred into Network Rail from contractors. In the maintenance areas that came in-house first, significant improvements in performance have already been witnessed. The insourcing of maintenance will play a key part in delivering our target to reduce annual maintenance expenditure by some 30 per cent by 2008/09." (Keith Armit, Chief Executive, Network Rail, December 2004)

"We intend to move from a culture of "find and fix" to one of "predict and prevent" incorporating controlled risk assessment and appropriate use of tried and tested technology. In particular, we are reversing the trend of outsourcing and taking greater control of work done on the network with improved local accountability through area managers, and an overall objective to ensure that the organisation is customer focused." (Network Rail Business Plan 2003).

Some 90% of maintenance labour force is now directly employed by Network Rail organized into 53 maintenance delivery unit teams. Network Rail inherited a workforce with over 50 separate sets of employment terms and conditions which have been systematically standardized.

In addition, they inherited multiple different procedures for every maintenance activity. They have had to establish a single, uniform suite of standard maintenance procedures.

Network Rail is insourcing other services such as:

- asset protection services for outside parties.
- the rail grinding fleet when contracts expire in 2006.
- professional services (Network Rail Business Plan 2006).

“Our National Delivery Service is now responsible for the supply of all bulk materials in support of maintenance activities, such as short lengths of rail and sleepers, and heavy rail plant, such as tampers and stoneblowers. The change to central purchasing is expected to reduce costs significantly. We have tendered a single, national procurement contract for the supply of other maintenance materials. This new approach will provide an all-inclusive stock control, logistics and procurement service optimized across the network” (Network Rail Business Plan 2005).

Comments on Network Rail’s strategy

“.....the operational business cycle, industry change and the quality of the relationship with customers are beginning to put question marks on the performance of outsourcing arrangements. The challenge for insourcing will be in managing the integration of people, process and technology back into the business without disruption.” says Alan Marsden, chief executive, Rossmore Group consultants which helped to put the business case together for Network Rail’s in-house strategy (Contact newsletter, Rossmore Group, Summer, 2005)

“We came to the conclusion this (outsourcing) was a flawed concept,” says David Carrier, Network Rail’s head of competence and training management, describing maintenance of the 21,000 miles of track as a ‘key enabler’ of effective running of the railway, in much the same way as clean hospitals are critical to the NHS. To outsource such an enabler to a “third party who doesn’t share your core business proposition” just didn’t make sense. (our emphasis, Training magazine, Personnel Today, 1 February, 2005).

Tower Hamlets LBC

Tower Hamlets outsourced its IT helpdesk to ITNET (now SERCO) in a two-year contract worth £3.5m with an option to extend to 2007. The Council had previously outsourced to three other suppliers before ITNET. The Council decided to bring the service in-house to ‘reduce costs and increase the number of calls received at the initial inquiry’. In 2004 the help desk received an average 650 calls per week but this has since increased to 1,000 per week. Kate Sandall, Tower Hamlets technical support team leader stated: “We were not getting the results we wanted, and we were fairly sure we could provide a better service ourselves.” The council resolved 25% more calls in the first few weeks of in-house operation compared to the last three months of the outsourced service. (Computer Weekly, 24 October 2005 and 28 February 2005).

Private sector insourcing

Sainsbury’s Supermarkets

Completed insourcing of 470 ICT staff in May 2006 from Accenture. The £1.7bn contract with Accenture was terminated in October 2005 with five years remaining. A Sainsbury

company statement: “Sainsbury’s will take an exceptional item of circa £65m as a result of the termination. As a result of future cost savings, the exit costs are expected to pay back in less than two years” (reported in Computer Weekly, 9 May 2006). Decision to insource followed an operational review which found that the company could improve logistics and other operations if it regained direct control of its IT systems and staff.

JP Morgan (US bank)

Terminated a £2.8bn seven-year contract with IBM resulting 4,000 staff returning to the company. Came as a result of the merger with Bank One. The original contract was with Pinnacle Alliance, a outsourcing consortium comprising CSC, Accenture, AT&T Solutions and Bell Atlantic which was hailed at in 1996 as the largest outsourcing deal of its kind. It included data centres, desktops, networks and some corporate applications in the US and Europe. (Computer Weekly, 24 September 2004)

Prudential

Prudential terminated early a five-year contract with Capgemini in 2005 following a benchmarking exercise to determine the level of service and value for money. Prudential had retained originally twenty percent of the datacentre work in-house. It decided to create a datacentre to insource the management of its mid-range systems and 90 staff returned to Prudential.

Richard Punt, head of strategy practice at consultant Deloitte, says more firms are considering their sourcing options. *‘Many companies are realising they should not have done deals in the first place, and we will see companies insourcing IT on a regular basis,’* he said (Computing, 7 July 2005).

Powergen terminates Indian call centres

In June 2006 Powergen announced that in future it will operate call centres solely in the UK following customer complaints. “...we believe that we can best achieve industry-leading customer service by operating solely in the UK” stated Powergen’s managing director Nick Horler (Channel Register, 16 June 2006)

Spirit Group

After the group acquired Scottish and Newcastle Retail in November 2003 it decided to use the retail IT system to replace their own mainframe system and to insource at the same time. The head of IT concluded that:

- “Having an in-house team ensures that high-quality, targeted development work can happen quickly.
- It allows the group to introduce customer offers quickly through fast analysis of trading patterns.
- It makes it possible to address the continual demands of flexible system enhancements more speedily and more cheaply.” Jane Kimberlin, IT manager, Spirit Group (Computer Weekly, 23 May 2006).

Cable and Wireless

Cable and Wireless terminated a £1.8 billion ten-year IT infrastructure and customer billing systems contract with IBM five years early in 2003 and returned to in-house provision (Computing, 12 May 2005).

Selfridges

Decided not to renew a contract for data centre services with Capgemini in 2005 and instead brought the work in-house (Computing, 12 May 2005).

Table 21: Recent insourcing

| Recent large insourcing | | |
|-------------------------|--|------------|
| Company/organisation | Value of contract terminated and returned to inhouse provision | No of jobs |
| Network Rail | N/a | 16,000 |
| Sainsbury's | £1.7 billion | 470 |
| J.P.Morgan Bank | £2.8 billion | 4,000 |
| Prudential | n/a | 90 |
| Spirit Group | n/a | n/a |
| Cable & Wireless | £1.8 billion | n/a |
| Selfridges | n/a | n/a |

Renegotiating outsourced contracts

A number of recent surveys and statements substantiate the case for insourcing:

- IT analysts Gartner report that **four out of five outsourcing contracts are renegotiated over the duration of the contract** (Computing).
- Some **64% of firms have already brought an outsourced service back in-house** according to Deloitte (Computing).
- Another survey of 188 firms by Gartner in 2006 revealed that **24% were considering bringing outsourced services back in-house** (Computing, 20 April 2006).
- A survey of over 300 organisations by PA Consulting (including IT service providers and legal advisers) found that **over half “struggled to realise the expected benefits from IT outsourcing.”** (IT Week, 23 May 2006)
- “In fact, **17% to 19% of all outsourcing contracts (change suppliers)**” Robert Morgan, Morgan Chambers, outsourcing consultancy (Computer Weekly, 24 September 2004).
- The problems with outsourcing are “caused by the immaturity of the organisation’s sourcing practices rather than being the fault of the service provider. **Organisations learn too late that managing external services requires vastly different competencies than managing the same, internally provided services**” (Linda Cohen, Vice President, Gartner quoted in Computer Weekly, 9 November 2005).
- A survey of ICT managers reported that **56% claimed that outsourced IT work was inferior to in-house provision** and 11% stated that outsourcing led to a setback in the firm’s production (Software Development Magazine, January 2004).

Requires having a clear strategy, continuity of funding and good project management skills and ability to engage with staff and trade unions.

Part 10

Why in-house bids are essential and the advantages of in-house provision

Introduction

This section explains why in-house bids must be submitted in all procurement. It also details the advantages of in-house provision.

Why in-house bids are essential

The Procurement Strategy must ensure that all procurement processes require the submission of an effective in-house bid. In-house bids are essential because:

- The Council would be failing to fully examine all the options and could fail to obtain value for money by excluding a bid from the in-house service.
- Ensures a full and proper comparison of the potential future public and private sector costs. Without an in-house bid evaluators are limited to an inadequate comparison of current public sector costs with future estimated private sector costs. Public Sector Comparators are not bids and are an inadequate way of comparing public and private provision.
- Puts pressure on private contractors to bid at realistic prices and reduces opportunities to make exaggerated claims about savings.
- Reduces the risk of a loss leader bids which have longer-term financial consequences for the Council.
- Provides the in-house service with an opportunity to develop service improvements and new ways of delivering services.
- Enables a comparison of method statements to ensure that outputs are based on realistic methods of delivery which are acceptable to service users.
- It indicates to staff that they are valued as a key asset and the Council wants to draw on their experience and knowledge. It also recognises their interests such as their commitment to public services values, job security, pensions, health and safety, terms and conditions of employment.

The advantages of in-house provision

Quality services

Quality

Properly resourced in-house services can provide a higher standard of service, and are more responsive and flexible to changing needs and circumstances.

Coordination and integration of services and functions

Service delivery, social inclusion, community well-being strategies, regeneration, and economic development increasingly require a multidisciplinary, coordinated approach. This requires integrated teams, the pooling of skills, experience and resources between directorates and organisations in networks, partnerships, alliances and coalitions with the public sector playing a central role. It requires joined-up government, not quasi joined-up

contracts. The objective is to achieve the vertical and horizontal integration of a democratically accountable and complex range of services.

Continuous service improvement

Recent research has demonstrated that improved performance and productivity requires five key elements – engaging and motivating staff, meeting service users needs, promoting creativity and innovation, keeping stakeholders involved and informed, and increasing shareholder value (improving community well being in public services) – being managed and coordinated. Contracts fragment service delivery, replicating the very ‘silos’ which modernisation is supposed to be eliminating.

Integration of strategic policy and service delivery

Identifying, assessing and prioritising social needs, as well as planning and allocating resources and operational management, are integral to the quality of service. Close working between client and contractor is essential to improve services and ensure that they address social needs.

Enhancing a public service ethos and values

In-house service delivery enables a public body to retain and enhance a public service ethos.

Ownership of assets

It should be the rule, not the exception, that public assets such as land, buildings, vehicles and equipment be retained within the public sector (unless there are compelling reasons based on community well-being criteria, or as a part of a strategy to secure the longer term future of public services, for their sale to the private or voluntary sector at full market value).

Eliminating service inequalities

In-house provision is more committed to improving access, participation in the planning and design of services, and to taking mitigating action to eliminate or reduce adverse impact.

Minimisation of risk

Continuity and security

Continuity of service and knowledge of local requirements and conditions are important parts of service delivery. In-house provision provides longer-term security of provision.

Customer responsiveness

Responding to change

In-house services are constrained by the legal and financial conditions in outsourcing contracts and are thus much better placed to respond to changing needs and circumstances.

Responding to user and community

There is much more scope to more fully respond to service users demands and comments through an in-house service than one outsourced to a private contractor. Everyone recognises that improving user access is important but it is also important get the balance right between delivering good quality core services and enhancing user access.

Cost effectiveness

Value for money

A full cost comparison, which takes account of all client and commissioning costs, contract management, the cost of variation orders over the length of the contract (for additional work or changes to the contract) and other costs borne by the public sector, plus comparable employment costs, will usually demonstrate that in-house services can provide services at lower or equal cost. Budget holders often claim a 'saving', but this is usually absorbed by transaction costs borne by other departments or parts of the public sector. Where there is a mixed economy of provision, in-house services serve to regulate market prices.

Efficiency and effectiveness

At its best, public provision is equal to, or more, efficient and effective than private or voluntary sector provision. Efficiency is a means to an end, it is not an end itself and must therefore always be discussed in connection with effectiveness.

Economies of scale

Support services are more effectively delivered by in-house central services with economies of scale more equally shared between directorates and departments.

Avoidance of transaction costs

In-house provision avoids all the transaction costs incurred in the procurement and contracting process, which are additional to the cost of the service. They include the cost of advertising, consultants and advisers, preparation of contract documentation and contract management, which usually add between 3% and 5% to the cost.

Cost transparency

The true cost of in-house services can be more readily assessed than those of private or voluntary providers, who use commercial confidentiality to avoid disclosure. The full costs are usually obscured by the frequent use of the contract variation order system.

Protecting the public interest

Minimising corruption

Procurement and commissioning (or the contracting system) can lead to 'collusion' between client officers and private firms who place the needs of the procurement system over social and community needs. Graft and corruption appear to have few boundaries, but the greater the involvement of private firms in the delivery of public services, the more likely there will be corruption and collusion, particularly as contracts get larger and longer-term.

Public Domain

Public provision has the advantage of taking a more holistic view by placing service delivery within a broader context and objectives. The intellectual knowledge accumulated by building the infrastructure, delivering local services, operating within social and political structures, and having an understanding of local needs, is retained within the public sector.

Supporting regional economy and sustainable development

Regional supply chains

The achievement of sustainability objectives requires the vertical and horizontal integration of local and regional economic development policies and their implementation. This includes maximising the direct and indirect benefits from building

and consolidating local and regional production and supply chains and minimising negative impacts on the environment. The alignment of strategic policy and implementation can only be fully achieved by direct provision. In-house providers are more committed to creating and maintaining local and regional supply chains which support the local economy.

Protection of the environment and natural resources

In-house services have a better track record in preventing environmental damage and in taking initiatives to safeguard and enhance natural resources.

Improving public health:

The health and safety record at work and in the community are central concerns of in-house services which operate to minimise pollution, improve standards of hygiene and cleanliness, control diseases, and improve community well-being.

Capacity and intellectual capital

Public sector intellectual capital

It is essential that public bodies retain ownership and control of the public sector's intellectual capital – the knowledge and information about the infrastructure, geography, and rationale of services and how they work. This vital information, built up over the years, is being freely transferred to the private sector through outsourcing of technical service and framework agreements.

Enhancing public sector capacity and skills

In-house provision helps to retain skills and experience which enables the authority to respond to changing demands and circumstances and to emergencies. It is also essential that public bodies retain the capacity to critically examine the potential impact of government, EU and business policies from a public service and local economy perspective.

Private sector ability overstated

Public relations hype coupled with an ideological belief in the 'superiority' of private over public provision often leads to the private sector overstating its ability to deliver quality public services. The public sector knows best the complexity of services and community needs which it delivers through in-house provision.

Quality employment

Quality service/employment relationship

The quality of service is best achieved when the quality of employment is also a key objective combining terms and conditions of service and pension scheme together with staff and trade union involvement in the planning and design of services, and an effective industrial relations framework. In-house services are less likely to use a high level of agency and temporary staff. A two-tier workforce is also much less likely to develop.

Training and workforce development

The vast bulk of training in core public services such as education, health and housing is provided by local and central government, the NHS and other public bodies. The level and quality of training and provision for staff education and learning is significantly better than that provided by private contractors.

Staff and trade union involvement

The public sector has a much better record than private contractors for continuing and sustainable involvement of frontline staff and trade unions in the planning, design and

operation of service delivery.

Industrial relations framework

Comprehensive structures between employers and staff and trade unions in the public sector for policy making, employment, health and safety, and grievance procedures provide a framework for service improvements and a qualitative working environment.

Trade union representation and organisation

Trade unions have an important role in working with management in workforce development

Family friendly policies

Public sector employers, whilst often not fully embracing the full scope of family friendly policies, have a much better track record of implementation than the private sector, which often pay lip service unless it is in their economic interest to do otherwise.

Promoting equalities and diversity

The commitment to, and implementation of, equality and diversity policies is more substantive in the public sector than with private contractors and consultants.

Corporate policies

Implementation of corporate policies and priorities

Policies on sustainable development, employment, social justice and community well-being are more effectively implemented directly through in-house services. The private sector's 'corporate social responsibility' falls well short of this and is more often in name only.

Coherence and fairness in support services

The range and quality of support services can be more fairly distributed between departments and services in a public authority compared with outsourcing scenarios.

Control and accountability

Direct democratic control and accountability of service delivery

Outsourcing imposes contractual relations between a public body and a private contractor, thus reducing democratic control and accountability.

Participation of staff and stakeholders

In-house service delivery provides the best circumstances by which stakeholders can be engaged to influence service delivery and longer term improvement. This is most effective when there is direct dialogue between the provider and stakeholders. Outsourcing makes this more complex with at least three participants (client, contractor and stakeholders) and often more with the wider use of consultants to mediate between client and contractor interests.

Part 11

Our Alternative Plan

Introduction

We are committed to social justice through the provision of good quality public services by democratically accountable public bodies. We believe that public services must address local needs; improve employment, the local economy and community well-being; reduce inequalities; provide value for money joined-up services and be sustainable.

Trade union position

The local authority trade unions in North Tyneside recognise the Council's difficult financial position and we are willing to cooperate with the Council to protect the quality of services and jobs in a new transformation plan to tackle the financial problems and apply new information technology to improve services.

This section describes an alternative transformation plan for North Tyneside Council. It consists of six key elements:

- The principles and values of public services in North Tyneside
- A New Transformation Plan
- Sub-regional Public Sector Shared Services Strategy
- A Sustainable Procurement Strategy
- Investment Strategy
- Democratic Renewal and Stakeholder Strategy

Principles of public service

The following principles should apply to all public services irrespective of whether they are delivered at local, regional or national level. These principles are vitally important because they reflect the key characteristics of public provision and service.

- **Selflessness** (motivated by service rather than by profit, commitment and degree of altruism and attraction to serve the public)
- **Integrity** (commitment to the organisation's values and objectives)
- **Objectivity** (impartial judgement and assessment and clarity in communication)
- **Accountability** (acceptance of legitimacy of the political institutions and processes, serving collective and community needs)
- **Participation and involvement** (a commitment to user, civil society and employee/trade union involvement in design, planning and policy making processes)
- **Openness and disclosure** (transparency and responsiveness)
- **Honesty** (highest standards of probity and conduct)
- **Leadership** (high standards and fiscal responsibility)
- **Equality** (respecting cultural diversity and a commitment to justice and fairness)

- **Competence** (using skills and experience for the public good with a commitment to training and service improvement)
- **Universalism** (unless specifically targeted, public and welfare services should be available for all)
- **Advocacy to eliminate victimisation and discrimination and to identify and mitigate adverse impacts.**
- **Quality employment** (good terms and conditions, representation and training and development)
- **Quality** service to users and potential users.

A New Transformation Plan

The plan would have several key components:

Involvement

It would be the drawing up of a joint plan to involve staff/trade unions and service users/community organisations in the planning, design and implementation of the transformation plan with officers and elected members. The benefits of this approach will be very significant, as demonstrated in other local authorities where this approach has been used. For example, this approach was used in the preparation of the in-house bid for information technology and related services in Newcastle and the subsequent successful implementation of the in-house strategy.

Rebuilding capability

The strategy would seek to rebuild the Council's capability and capacity to undertake transformation

Agenda for change

A new transformation plan should have a broad agenda to examine all services, front and back office at all levels.

In-house bids

Where it was considered necessary, following an options appraisal process, that a procurement process was required then an in-house bid should be submitted. It would be essential to ensure that bid preparation was fully resourced to ensure a full and effective bid was prepared.

Sub-regional Public Sector Shared Services Strategy

Maximise cooperation between Tyne and Wear local authorities and other public sector bodies in terms of:

- Extending the concept of the lead authority role in the provision of services.
- Develop public sector shared services projects
- More intensive intelligence and best practice sharing
- Joint investment

The Comprehensive Spending Review 2007 interim report clearly indicated the importance that the government attaches to further developing the shared services concept (HM Treasury, 2006). North Tyneside has already demonstrated that it can work jointly with other authorities such as Newcastle City Council with the PFI street lighting and NHS LIFT projects. However, this agenda must also focus on public sector provision and not simply be used for projects requiring private investment.

A Sustainable Procurement Strategy

The Council should first explore the potential for public sector consortia with other local authorities on Tyneside and in Northumbria. A public sector consortia option should be an integral and consistent part of the options appraisal process. The joint North Tyneside/Newcastle PFI street lighting contract and the joint NHS LIFT project demonstrate what can be achieved with political will. If a joint or shared projects can be developed in more complex situations involving private finance then there can be few obstacles to joint public sector projects.

Focus on production and supply chains and new protocols which would include maximising community benefits obtained from the procurement process. It would also include a strategy to minimise transaction costs incurred in the different stages of the procurement process by increasing the Council's internal ability for project management and technical and legal advice.

Investment Strategy

Resources can be released from investment in ICT and Business Process Reengineering as new information technology systems are implemented in transactional and related services. The investment strategy will seek to maximise public resources and to minimise reliance on the use of private finance.

Local authorities which rejected the Strategic Service-delivery Partnership approach and opted for an in-house strategy have used six main sources of finance:

- Revenue savings from Business Process Reengineering – the application of ICT and changes in work systems and practices results in job reductions and savings which can in turn fund further investment.
- Prudential borrowing – good performing public bodies are allowed to increase investment based on their ability to meet loan charges.
- Leasing arrangements.
- Various government programme and project grants.
- The use of reserves to pump prime initial investment.
- The capital investment programme.

The combined use of these resources has enabled local authorities such as Newcastle and Kent to restructure services in-house and procure 'best in class' ICT advice, hardware and software as and when required.

Democratic Renewal and Stakeholder Strategy

This strategy will be committed reversing the outsourcing and transfer of functions to arms length companies and Trusts and to renew democratic accountability in North Tyneside. It will also make a commitment to engage service users, community organisations and civil society organisations in the public policy making process.

It will also make a commitment to engage staff and trade unions representatives in the design and planning of service improvements and new methods of delivering services. The workforce has a valuable knowledge base and ideas about how services can be improved and made more efficient and effective. But this can only accessed through new ways of working and a more enlightened industrial relations framework. Staff want to improve services which helps to improve their security of employment.

Rigorous scrutiny of the transformation programme. The latest version of the scrutiny programme 2006/09 barely takes account of the transformation programme (North Tyneside, 2006). Of the six scrutiny subcommittees, only the Finance agenda refers to

'cost reductions' and the medium term financial strategy. The other subcommittees appear to concentrate examining existing issues and projects. The Alternative Plan will require the scrutiny subcommittees to focus on the relevant parts of the plan with the Overview and Scrutiny Committee having a continuing role in assessing the implementation and impact of the Plan as a whole.

Part 12

Recommendations

North Tyneside local authority trade unions recommend that:

- A new transformation plan is prepared.
- The market testing and outsourcing programme is stopped immediately where the procurement process has not been commenced.
- Negotiations on the planned local authority-wide School Trust should be terminated.
- Proposals for other trusts and arms length companies must also be terminated.
- All procurement processes involving potential staff transfer must include an effective in-house bid.
- Discussions and negotiations are immediately commenced with other local authorities in Tyne and Wear and Northumbria/Durham on the potential for public sector shared services or joint public sector provision.
- Service users, community organisations, staff and trade unions are involved in the preparation of a new transformation plan.
- The Council publishes the evidence on which the current transformation plan is based.

References

- ASLEF (2004) Locomotive Journal, December.
- Audit Commission (1993) Realising the Benefits of Competition: The Client Role for Contracted Services, March, London.
- Cabinet Office (1996) *Competing for Quality Policy Review* (London: HMSO).
- Centre for Public Services (1992) Competition, Cuts and Contractors: Lessons for trade unionists from three flagship London Boroughs for NALGO branches and Metropolitan District, Sheffield.
- Centre for Public Services (1995) Calculation of the National Costs and Savings of CCT, Research Paper, Sheffield.
- Centre for Public Services (1996) The Employment Impact of Market Testing in the NHS in Northern Ireland: Contracts awarded between 1988-93, Sheffield
- Centre for Public Services (1997) *Reinventing Government in Britain: The Performance of the Next Steps Agencies*, (for AFL-CIO, Washington DC), Sheffield.
- Centre for Public Services/Fawcett Society (1997) *Undervalued Work, Underpaid Women: Women's Employment in Care Homes* (Sheffield).
- Centre for Public Services (1998b) *Externalisation by Privatisation* (London: UNISON).
- Centre for Public Services (1999) *Management Consultants: Best Value Handbook* (Sheffield).
- Centre for Public Services (2000) Outsourcing the Future: A Social and Economic Audit of Privatisation Proposals in Newcastle, for Newcastle City UNISON, December, Sheffield.
- Centre for Public Services (2001) Public Finance Initiative and Public Private Partnerships: What Future for Public Services, Sheffield.
- Centre for Public Services (2004) The Case for the 4th Option for Council Housing, Sheffield.
- Centre for Public Services (2004) How to Exclude Support Services from BSF and PFI/PPP Projects, A Best Practice Report for UNISON, GMB, NUT and NASUWT in Tyne and Wear, November, Sheffield.
- Centre for Public Services (2005) Strategic Partnership in Crisis: An Investigation of the performance of the Strategic Service-delivery Partnership between HBS Business Services and Bedfordshire County Council, for Bedfordshire UNISON, Sheffield.
- Chicago Institute on Urban Poverty (1997) Does Privatisation Pay? A Case Study of Privatisation in Chicago (Chicago).
- Cubbin, J. Domberger, S. and Meadowcroft, S. (1987) Outsourcing and Refuse Collection: Identifying the Sources of Efficiency Gains, *Fiscal Studies*.
- Davies, R. (2004) Contracting Out and the Retention of Employment Model in the NHS, *Industrial Law journal*, Vol. 33 No. 2, June.
- Deakin, N. and Walsh, K. (1996) The Enabling State: The Role of Markets and Contracts, *Public Administration*, Vol 74, Spring, p33-48.
- Deakin, N. and Michie, J. (1997) Contracts and competition: an introduction, *Cambridge Journal of Economics*, Vol. 21, p121-125.
- Department of Health (2000) New NHS 'Hospital Clean-Up' Initiative to Improve Patients Experience, Press Release, 31 July, London.
- Department of Health (2003) Guidance on the Retention of Employment Model, London.
- Department of Health (2004) New Model Cleaning Contract Will help Improve Standards, Press Release, 7 December, London.
- Department of Health (2004) Towards Cleaner Hospitals and Lower Rates of Infection, London.
- Department of the Environment (1993) A Clearer Framework for Compulsory Outsourcing, London.

- Department of the Environment (1993) *Competition and Service: The Impact of the Local Government Act 1988* (London: HMSO).
- Department for Education and Skills (2006) *Academies Evaluation: Second Annual Report*, Price WaterhouseCoopers, London.
- Education and Skills Select Committee (2004) *Secondary Education: School Admissions*, Fourth Report of Session 2003/04, July, House of Commons, London.
- Edwards, P., Shaoul, J. Stafford, A. and Arblaster, L. (2004) *Evaluating the Operation of PFI in Roads and Hospitals*, ACCA Research Report No 84, ACCA, London.
- Equal Opportunities Commission for Northern Ireland (1996) *Report on Formal Investigation into Outsourcing in Health and Education Services in Northern Ireland* (Belfast).
- Escott, K. and Whitfield, D. (1995) *The Gender Impact of CCT in Local Government* (Manchester: Equal Opportunities Commission).
- Europa Economics (1999) *Review of Railtrack Efficiency*, A Report for the Office of the Rail Regulator, London.
- European Services Strategy Unit (2006a) *Employment Risk Matrix*, Northumbria University, Newcastle upon Tyne.
- European Services Strategy Unit (2006b) *Leisure Trust Failure: East Herts Council*, Report for UNISON East Herts, Northumbria University, Newcastle upon Tyne.
- Fraser, L. (1997) *Impact of Contracting Out of Female NESB Workers: Case Study of the NSW Government Cleaning Service* (Belconnen, Australia: Ethnic Communities Council NSW).
- Hatcher, R. (2006) *Academy Governing Bodies don't represent parents and staff*, www.socialist-teacher.org
- Hodge, G.A. *Outsourcing and Contracting Out: Rhetoric or Reality? Public Productivity and Management Review*, Vol. 22 No. 4, p455-469.
- House of Commons (2002) *Individual Learning Accounts*, Third Report, Education and Skills Committee, London.
- House of Commons Council Housing Group (2005) *Support for the 'Fourth Option' for Council Housing*, London.
- International Monetary Fund (2004) *Public-Private Partnerships*, Washington DC.
- Institute for Women's Policy Research (2002) *Why Privatising Government Services Would Hurt Women Workers*, Washington DC.
- Jensen, P.H and Stonecash, R.E (2004) *The Efficiency of Public Sector Outsourcing Contracts: A literature Review*, Working Paper No 29/04, Melbourne Institute of Applied Economic and Social Research, Melbourne.
- Jordan, G. (1994) *From Next Steps to Market Testing: Administrative reform as improvisation*, *Public Policy and Administration*, Vol 9, No 2, Summer.
- Justice Forum (2002) *Privatising Justice: The impact of the Private Finance Initiative in the criminal justice system*, London.
- Kable Research (2004) *UK Public Sector Outsourcing: The Big Picture to 2007/08*, London.
- Kirkegaard, J.F. (2003) *Outsourcing – Stains on the White Collar*, Institute for International Economics, Washington DC.
- Kirkegaard, J.F. (2005) *Outsourcing and Offshoring: Pushing the European Model Over the Hill, Rather than the Cliff*, Institute for International Economics, Working Paper, 05-1, Washington DC.
- KPMG (2006) *North Tyneside Council: Business Transformation Review, First Report*, North Tyneside.
- Local Government Information Unit (1994) *Clients and Contractors in Local Government – Helping or Hindering*, Discussion Papers: *The Enabling Council 3*, Charlie Hislop, London.

Local Government Management Board (1994) *Understanding the Market*, by Centre for Public Services, London.

Manchester City Council (1989) *The Price of Winning: Lessons from the First Round of Enforced Tendering*, Vol. 3, Manchester.

Museum, Libraries and Archives Council (2006) *Moving to Museum Trusts: Learning from Experience, Advice to Museums in England and Wales, Part 1: Strategic Overview*, London.

National Union of Teachers (2005) *Outsourcing*, January, London.

Newcastle UNISON (2003) *From Sports and Leisure Provision to Neighbourhood Management: A Strategy for Sport and Leisure in Newcastle*, Centre for Public Services, Newcastle upon Tyne.

Network Rail (2003) *Business Plan 2003*, London

Network Rail (2005) *Business Plan 2005: Summary*, London.

Network Rail (2006) *Business Plan 2006: Summary*, London.

Network Rail (2003) *Network Rail Accelerates Plans to Extend Direct Control of Rail Maintenance*, Press Release, 10 July, London.

Network Rail (2003) *Network Rail and Jarvis Announce Agreement on Future of Jarvis' Rail Maintenance Contracts*, Press Release, 10 October, London.

Network Rail (2004) *Delays Tumber as Maintenance and Operations are Unified after almost 10 years*, Press Release, 28 July, London.

Newcastle City Council Trade Unions (2002) *Our City is Not for Sale: The impact of national, European and global policies*, Centre for Public Services, Newcastle upon Tyne.

Northern Ireland Equal Opportunities Commission (1996) *Report on Formal Investigation into Outsourcing in Health and Education Services in Northern Ireland*, Belfast.

North Tyneside MBC (2006) *Council Plan 2006 – 2010*, North Tyneside.

North Tyneside MBC (2006) *Benefit Realisation Strategy*, June, North Tyneside.

North Tyneside MBC (2006) *Revenue Budget Monitoring and Management Position to 31 May 2006*, Report to Cabinet 18 July, North Tyneside.

North Tyneside MBC (2006) *Value for Money Study – Repairs and Maintenance*, Report to Cabinet, 16 May, North Tyneside.

North Tyneside MBC (2006) *Scrutiny Work Programme 2006-09, Overview and Scrutiny Committee*, 7 August, North Tyneside.

North West Regional Assembly (2003) *The Health and Social Care Economy in the North West*, Wigan.

North West Regional Assembly (2005) *Economic and Social Audit of the North West*, Wigan.

Office of Management and Budget (2003) *OMB Circular A-76 (Revised) and Technical Note*, 29 May, Washington DC.

Office of Management and Budget (2003) *Big Savings Expected from Competitive Sourcing Initiative*, 29 May, Washington DC.

Office of Management and Budget (2003) *OMB Circular A-4: Regulatory Analysis*, September, Washington DC.

Office of Management and Budget (2004) *Competitive Sourcing: Report on Competitive Sourcing Results Fiscal Year 2003*, May, Washington DC.

Ohlsson, H (2003) *Ownership and Production Costs: Choosing between public production and contracting out*, Department of Economics, Goteborg University, Goteborg.

Oldham MBC (2006) *Annual Report 2005/06*, Subject to Audit, Oldham.

Redcar and Cleveland Council (2006) *Overview and Scrutiny – Annual Report 2005/06*.

Shaw, K. Fenwick, J. and Foreman, A (1993) Client and Contractor Roles in Local Government: Some Observations on Managing the Split, *Local Government Policy Making*, Vol 20, No 2, October.

Shaw, K. Fenwick, J. and Foreman, A (1994) Compulsory Outsourcing for Local Government Services: The Experiences of Local Authorities in the North of England 1988-1992, *Public Administration*, Vol 72, Summer, p201-217.

Services to Community Action and Trade Unions (1985) *The Public Cost of Private Contractors*, Conference Report, London.

South Tyneside UNISON (2001) *Future of Leisure Services in South Tyneside*, Centre for Public Services, South Tyneside.

United States General Accounting Office (2000) *DOD Competitive Sourcing: Savings are Occurring but actions are needed to improve accuracy of savings*, GAO-00-107, Washington.

United States General Accounting Office (2001) *DOD Competitive Sourcing: Results of A-76 Studies over the past 5 years*, GAO-01-20, December, Washington DC.

United States General Accounting Office (2001) *DOD Competitive Sourcing: Effects of A-76 Studies on Federal Employees' Employment, Pay and Benefits Vary*, GAO-01-388, Washington DC.

United States General Accounting Office (2001) *DOD Competitive Sourcing: A-76 Program has been augmented by broader reinvention options*, Testimony of Barry W. Holman, Director, Defense Capabilities and Management, GAO-01-907T, June, Washington DC.

United States General Accounting Office (2001) *Contract Management: Trends and Challenges in Acquiring Services*, Testimony of David E. Cooper, Director Acquisition and Sourcing Management, GAO-01-753T, May, Washington DC.

United States General Accounting Office (2002) *Competitive Sourcing: Challenges in Expanding A-76 Government Wide*, Testimony of Barry W. Holman, Director, Defense Capabilities and Management, GAO-02-498T, March, Washington DC.

United States General Accounting Office (2003) *Competitive Sourcing: Implementation will be challenging for Federal Agencies*, Testimony of David M. Walker, Comptroller General of the United States, GAO-03-1022T, July, Washington DC.

United States General Accounting Office (2003) *Competitive Sourcing: Implementation will be key to success of New Circular A-76*, Testimony to Committee on Government Reform, House of Representatives, GAO-03-943T, June, Washington DC

United States General Accounting Office (2004) *International Trade: Current Government Data Provide Limited Insight into Offshoring of Services*, GAO-07-932, September, Washington DC.

United States General Accounting Office (2004) *Competitive Sourcing: Greater Emphasis needed on increasing efficiency and improving performance*, GAO-04-367, February, Washington DC.

Walsh, K. (1995) *Public Services and Market Mechanisms: Competition, Contracting and the New Public Management*, MacMillan Press, London.

Walsh, J. and O'Flynn, J. (1998) *Managing Through Contracts: The Employment Effects of Compulsory Outsourcing in Australian Local Government*, Department of Management, University of Melbourne, Australia.

West Midlands Health Service Monitoring Unit (1986) *Competing At Our Cost*, Birmingham.

Whitfield, D. (1992) *The Welfare State: Privatisation, Deregulation and Commercialisation of Public Services*, Pluto Press, London.

Whitfield, D. (1999) *Private Finance Initiative: The Commodification and Marketisation of Education*, *Education & Social Justice*, No 2, Spring, 1999.

Whitfield, D. (2001) *Public Services or Corporate Welfare: Rethinking the State in the Global Economy*, Pluto Press, London.

Whitfield, D. (2002) *PPPs – where we will be by 2010?* *Public Management Policy Association Review*, No 16, February.

Whitfield, D. (2002) Impact of Privatisation and Commercialisation on Municipal Services in the UK, *Transfer* - European Federation of Public Service Unions, Brussels.

Whitfield, D (2006a) Financing Infrastructure in the 21st Century: The Long Term Impact of Public Private Partnerships in Britain and Australia, Don Dunstan Foundation, Australian Institute for Social Research, University of Adelaide, Australia.

Whitfield, D. (2006b) New Labour's Attack on Public Services, Spokesman Books, Nottingham.

Williamson, O.E. (1985) *The Economic Institutions of Capitalism* (New York: Free Press).