



Somerset County UNISON

Taunton Deane BC UNISON

# **Somerset's ISiS or Crisis?**

An Assessment of the proposed Strategic  
Service-delivery Partnership with  
IBM, HBS and Mouchel Parkman



**European Services  
Strategy Unit**

(Continuing the work of the Centre for Public Services)

## Somerset County UNISON

UNISON Office

County Hall

Taunton

Somerset TA1 4DY

Tel. 01823 355567/8

FAX 01823 355444

Email: [unisonoffice@somerset.gov.uk](mailto:unisonoffice@somerset.gov.uk)

Website: [www.somersetcountyunison.org](http://www.somersetcountyunison.org)

## Taunton Deane UNISON

Environmental Health

Flook House

Belvedere Road

Taunton

Somerset TA1 1HE

Tel 01823 356342

Email: [i.mcculloch@tauntondeane.gov.uk](mailto:i.mcculloch@tauntondeane.gov.uk)

Funded by UNISON's General Political Fund

August 2007



(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](mailto:dexter.whitfield@unn.ac.uk)

Web: [www.european-services-strategy.org.uk](http://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 context	8
2. SSP project	12
3. Financial risk, savings and affordability	17
4. Employment model and quality of employment	23
5. Growth, jobs and the local economy	25
6. Governance and democratic accountability	30
7. There is an alternative	36
8. Key questions which must be answered	38
9. Recommendations	40
Appendix 1: Response to 7 key questions in UNISON's first report	41
Appendix 2: Failed/poor performance of SSP contracts	43
References	

### Tables

1: Scope of ISiS in 2006
2: Failed SSP partnerships
3: Staff survey of secondment and TUPE preferences
4: Employment impact of savings
5: Real Unemployment in Somerset
6: Key questions
7: HBS Scorecard in Bedfordshire

### Figure

1. Summary of IBM's proposal for ISiS
---------------------------------------

# Executive summary

This report was commissioned by UNISON Somerset County and UNISON Taunton Deane from the European Services Strategy Unit (ESSU). It was researched and written by the ESSU Director, Dexter Whitfield (Dip.Arch. Distinction, University of Newcastle, MPhil, University of London). He has undertaken major research studies of strategic partnership projects, PFI/PPP/BSF, regional and city economies, employment strategies, social/economic and equality audits, and written four books on the marketisation and privatisation of public services.

## **This report forms the basis of UNISON's referral of the ISIS project to the Audit Commission.**

The report is critical of the project's option appraisal process. There has been a failure to explore alternative options to a Joint Venture Company and to properly develop a Public Sector Comparator to inform the evaluation process.

The report is also critical of:

- the unprecedented degree of secrecy in a public sector project;
- the continual overuse of commercial confidentiality by the ISiS project team;
- the lack of public consultation and public debate;
- the lack of rigorous scrutiny of the project, to ensure the protection of public services and allay public concerns.

The report raises major questions about:

- the way the ISiS project has been managed;
- the absence of any form of public impact assessment of the project;
- the adequacy of the proposed retained client structure and the governance arrangements.

The report further identifies the financial risks to the authorities arising from the front-loading of the ISiS project with costly investment from the private partner; the potential effects of this debt on the authorities future cash flow, future investment plans and the significant cost of any contract exit strategy.

There is a significant danger that the current focus on 'customer access' is likely to change as other demands and the limitations of improving access are not met by improvements in the customer experiences of those accessing frontline services. The quality of customer service/call centres are ultimately only as good as the quality of education, social care, housing and other services and functions provided by the Council.

## **Financial risks**

It is rumoured that IBM is targeting large savings in the procurement of goods and services in all directorates in each authority. Reliance on procurement savings raises key questions.

- will procurement savings be at the expense of sustainable development policies and local supply chains?
- will there be an affordability gap if the savings targets are not met?

- if there are additional budget cuts or a public spending squeeze in the next ten years, will this challenge the financial viability of the contract.
- will budget cuts be concentrated in other services because IBM will be guaranteed annual contract payments?

### **Hidden costs**

The contract will be very vulnerable to hidden costs such as additional IT costs, the understaffing of the client function, increased accommodation costs and operational costs and potentially costly amendments to the scope of the contract.

### **ISiS faces five main risks**

- Operational failure to meet the performance and investment requirements.
- Partnership failure
- Shared services failure
- Savings smaller than planned
- Inward investment lower than forecast

It is common for SSP contracts to contain an element of front-loading of investment. It is rumoured that IBM will front load ISiS by about £80m. In other words, IBM will spend more in the first years of the contract than they will receive in contract payments from the councils. This speeds up the investment and BPR process. However, it is all council money – IBM will only invest its own money if it retains ownership of the assets in which it invests.

### **This raises four fundamental questions:**

- Is the preferred bidder price from IBM affordable within the current budget?
- What level of savings is required to make the contract affordable?
- What is the distribution of responsibility between local authorities and IBM for achieving these savings?
- What percentage of these savings are guaranteed by IBM and Mouchel Parkman?

### **Staff – maintaining the commitment to secondment**

Staff and UNISON welcome the commitment to secondment taken by both Somerset CC and Taunton Deane BC. UNISON is concerned that the reports to the March 2007 and July 2007 Executive meetings did not seek a decision confirming secondment to the JVC. The minutes of both meetings singularly fail to make any reference to employment.

### **Job creation and income growth forecasts**

No information has been made available by either the local authorities or IBM and its partners about:

- The forecast of employment change as a result of the implementation of ICT investment and business process re-engineering.
- The forecast of employment change as a result of additional local authorities and public bodies joining the shared services project.
- The impact on employment in local economies as a consequence of shared services projects.
- The forecast of new jobs to be created by inward investment.

- The employment impact of IBM's proposals.

Additional jobs in Taunton are likely to be jobs transferred from other Somerset local authorities/public bodies or from the other parts of the South West region. Taunton may gain but other towns will lose jobs. The electoral risks, affordability and service impacts associated with the job losses from other authorities and more deprived towns in Somerset needs to be assessed.

### **Inadequate scrutiny**

Given the unprecedented level of commercial confidentiality of this project, it is incumbent on all three authorities to subject this contract to regular and rigorous scrutiny. However, there has been little or no involvement by the all-party scrutiny committee during the ISiS project. We have not been able to find any plans for Scrutiny. There is no reference to ISiS in the Scrutiny Programme to December 2008 submitted to Scrutiny Committee in July 2007.

SSP contracts must include a mechanism by which the client or contractor can propose changes to the scope of the contract. However, there are major shortcomings with the draft contract. It is essential that any extension of services must be subjected to rigorous analysis before Elected Member decision-making and consultation with service users and trade unions.

### **There is an alternative**

It is not too late to adopt a different strategy. A number of local authorities, such as Kent and Walsall, were negotiating with contractors in the preferred bidder stage when they decided not to proceed with the contract.

Elected Members have the legal power to decide not to proceed with the ISiS contract if they consider that it is not in the Council's interest to do so.

This report identifies the different ways in which an in-house strategy can be financed, which together with an incremental approach with staff and UNISON involvement, is a viable alternative. The lessons from the Unitary bid demonstrate that three core issues – participation, savings and political support – have similarly not been demonstrated for ISiS. It should not be approved for the same reasons.

### **Key Questions**

The report identifies a series of outstanding key questions under four headings - savings and affordability, job creation and inward investment, governance and scrutiny and increasing public sector capability - which must be answered before any further decisions are taken in relation to this project.

### **Recommendations**

1. SCC, TDBC and ASP should not award the ISiS contract to IBM and Mouchel Parkman and terminate the procurement process.
2. Somerset CC and Taunton Deane BC should use the work undertaken to develop an in-house transformation strategy and implementation plan as other excellent performing authorities have successfully implemented using private sector consultancy and skills e.g. Surrey CC and Hampshire CC.
3. Draw up a new shared services strategy involving all local authorities in Somerset, which includes collaboration and joint provision strategies that utilise in-sourcing to bring in private sector expertise, whilst maintaining democratic and financial control.

4. Staff and trade unions should be involved in the planning, design and implementation of the transformation plan through service improvement workshops and other initiatives to harness staff ideas and commitment to change.

## Part 1

# Introduction and context

### SSP contract proposal

Somerset County Council and Taunton Deane Borough Council formed the Improving Services in Somerset (ISiS) project in 2004. Avon and Somerset Police joined the procurement process in late 2006. Another 34 local authorities in the South West signed up to the OJEU Contract Notice in December 2005 enabling them to join a shared services project via a framework agreement at a later date should they choose to do so.

An Invitation To Negotiate (ITN) was issued in March 2006. IBM (with HBS Business Services and Mouchel Parkman) were appointed preferred bidder in March 2007 following an evaluation of bids from two other bidders – Capita and BT (with Carillion and Xerox). In July 2007, Mouchel Parkman acquired HBS in a £46.2m deal ending HBS's loss making ownership by the private equity group Terra Firma which invested £100m in HBS in 2001.

### Key issues

UNISON challenges the basis on which this project has developed:

**The options appraisal process was fundamentally flawed.**

**The two Councils set out to have a SSP before they had carried out an Options Appraisal** and then sought to structure the appraisal process to this end. For example, they only visited local authorities that already had SSPs and did not visit any which had rejected this option and had transformed services in-house. No alternative options were fully explored and no public service comparator was developed to inform the evaluation process. The PA Consulting report on insourcing was only commissioned by the County Council as a sop following UNISON's first report, which heavily criticised the one-sided appraisal process.

**The degree of secrecy and widespread use of commercial confidentiality is unprecedented.** A veil of secrecy descended on the SSP once the procurement process commenced and has continued throughout the process. What is regarded as basic information in other SSPs is treated as commercially confidential in Somerset. The Council refused to allow UNISON's adviser access to part of the bid under a confidentiality agreement and only agreed to a meeting with ESSU where no hard information was forthcoming.

**There has been no public consultation has been undertaken for the £360m SSP.** This makes a mockery of the Council's and government participation, engagement and empowerment agenda. Consultation has only been with 'internal' clients such as schools. Yet the IBM bid promises transformation of council services and the Somerset economy. These are public issues requiring public consultation.

The Somerset CC unitary proposal claimed that *"the County and District Councils have a strong track record in community engagement"* (para 2.3.3). But the bid failed on lack of community support, a failure to consult with the public and stakeholders and some reservations over affordability.



**The level of scrutiny has been negligible** There has been no thorough scrutiny and it appears that there has been too much internal ‘cooperation’, by design or by default, between those with scrutiny responsibilities and ISiS project management.

**There is no evidence that a full impact assessment of the bids** has been carried out. The potential effect on the local/county economy, sustainable development and equalities remains ‘commercial confidential’.

**These issues raise major questions about the way this project has been managed.** Whilst both Somerset and Taunton are rated as ‘excellent’ authorities according to the Comprehensive Performance Assessment, the ISiS project has fallen short of these ‘excellent’ standards. In our view the project has revealed:

- A lack of rigor in the identification and appraisal of options.
- A veil of secrecy has been imposed with unprecedented use of commercial confidentiality.
- Government and council policy on community engagement and participation has been ignored.
- The ISiS project has failed to subject the project to full scrutiny.
- The ability to oversee the management of the ISiS project is unsatisfactory.
- The ISiS project has not assessed the full impact of the SSP on Somerset service users and council taxpayers.

### **Public interest**

The procurement process for SSPs is long and complex which inevitably means that officers are in a powerful position. However, rather than acquiesce political control, there is a responsibility on the political leadership and chief executives to ensure full and proper scrutiny. Officers repeatedly refer to elected members ‘making the decisions’ but in practice they can only base their assessments on what is presented to them.

### **UNISON position**

UNISON is committed to innovation in public services including ICT investment and sustainable inward investment in Somerset. UNISON will fully support transformation where this is in the public interest and will benefit service users. Without full democratic scrutiny to protect the public interest and the interests of service users, UNISON is opposed to the expansion of marketisation and privatisation of public services.

Somerset County Council UNISON branch commissioned the Centre for Public Services, now the European Services Strategy Unit (ESSU), for strategic advice on SSPs in 2005. A report, *The Flawed Options Appraisal and Outline Business Case for a Strategic Service-delivery Partnership*, was published in autumn 2005, which was highly critical of the council’s approach to options appraisal and made the case for in-house transformation. The ESSU also subsequently advised UNISON at different stages of the procurement process.

### **Objectives of this report**

There are four key objectives:

- To challenge the veil of unprecedented secrecy of the ISiS project.
- To identify key questions which must be answered in full as matters of public interest before any further decisions are made.
- To ensure the commitment to the secondment employment model is maintained.

- To demonstrate that an alternative strategy is still viable.

### **Confidentiality**

Neither UNISON branch signed a confidentiality agreement at the beginning of the procurement process because they considered this would constrain their freedom to comment on ISiS. In May 2007, the branches decided that it would be useful if ESSU were to have access to the bids because little detailed information was being made available and a cloak of 'commercial confidentiality' surrounded the project.

The then Leader of the County Council and the Portfolio holder agreed to this arrangement. UNISON and ESSU were not seeking access to detailed financial information, which is confidential. ESSU had signed similar agreements in other local authorities and has maintained confidentiality.

UNISON and ESSU were seeking access to the bid proposals in order to make an assessment of the potential impact of the project for staff, service users and the public interest. The plan was to prepare a report which would only be circulated to Elected members and senior managers. A second public report was to be produced which would have been submitted to the local authorities for approval.

**However, IBM and senior ISiS project management refused to allow access on the grounds of 'commercial confidentiality'.**

An alternative arrangement of holding a meeting of the bidders and project directors with ESSU was offered and negotiated by the two UNISON branches. This meeting took place in June 2007 attended by project directors of IBM and HBS and Somerset CC and Taunton Deane BC project managers, the Head of Human Resources and other senior managers and Dexter Whitfield, European Services Strategy Unit, who signed a confidentiality agreement. The meeting consisted of questions and answers. No documentation was made available except at the end of the meeting the Risk Assessment Matrix was available for inspection but it had been edited to exclude confidential information. The ESSU appreciated the opportunity to discuss the project; however the information provided was of little benefit.

This report has been produced using information made available to UNISON, staff and the public. It has not drawn on the limited information obtained at the meeting. The two UNISON branches and ESSU have, therefore, not submitted this report for prior approval to the two local authorities on the basis that it has not disclosed any information, which is not already publicly available.

**The level of secrecy in this project is unprecedented.** It appears to be largely driven by IBM who are concerned about competitive advantage over other contractors. Whilst this is an inevitable consequence of market forces, it also serves to stifle legitimate debate and public accountability. We do not believe that any of UNISONs requests for information could be considered 'commercially confidential' in the level of detail requested.

Other local authorities which have proceeded down the SSP route have had procurement policies and frameworks based on the National Procurement Strategy for Local Government and more enlightened public management and industrial relations strategies than those exhibited by the ISiS project.

There are key public interest issues at stake and large sums of public money – the two local authorities are proposing to agree a circa £360m contract with minimal scrutiny. SSPs are large complex projects, often driven by officers, with a consequent low level of involvement by Elected Members based upon a minimal level of consultation and open debate.

### Why the secrecy?

There is always a high level of secrecy in SSP projects and to that extent ISiS is no exception. Both Councils have regularly reported on the procurement process at Joint Consultative Committee, Staff Forum and ISiS email updates. However, there has been no information forthcoming on the **content** of the project.

ISiS has progressively become more secretive and senior management have done nothing to alter or mitigate this situation. Staff and UNISON have sought consistently to obtain hard information without success. For example, the Staff Forum on 21 September 2005 asked whether the figures for insourcing were commercially confidential (Outline Business Case projections). This was confirmed by the project team "but there may be an opportunity to release it at a later date" (Minutes of Meeting, issued 25 October 2005). The later date never arrived.

- Are there things to hide and/or uncertainties that the bidder and council officers do not want exposed?
- Is it that the vested interests of IBM and the ISiS project team do not want to give any credibility to the political doubters, because it may result in the project being challenged and possibly changed or stopped?
- Does this reflect an anti-trade union position on the part of the ISiS project, where they do not want to give any credence to UNISONs informed comments, observations and experiences?
- Is the level of secrecy and control around the ISiS project aimed at ensuring that elected members can't challenge or ask difficult questions? Secrecy can also be a defence mechanism, which could indicate uncertainty and/or a lack of confidence and ability by the ISiS project team.
- Local elected members may feel intimidated in challenging the basis of a £360m - £450m contract with a global IT company, particularly without the benefit of the results of rigorous independent scrutiny?

### Unitary authority proposal

Somerset County Council responded to the government's Local Government White Paper invitation for local authorities to submit proposals to become a unitary authority. Somerset's bid was submitted in January 2007 and was approved by the DCLG for further work and consultation in March 2007. However, the bid was rejected by DCLG when it approved nine of the sixteen bids submitted in July 2007.

All the District Councils, including Taunton Deane, were strongly opposed to the unitary proposal and organised a county-wide postal ballot of residents, in which **82%** of Somerset residents voted against plans for a unitary authority. The turnout figure of 48.2% was well above the average turnout in local elections and close to the turnout level expected in a general election. 158,754 people voted against the county council's proposals and 34,851 for the proposals.

**Failure to inform the public of the risks and potential service impacts of the ISiS project raises similar electoral risks.**

## Part 2

# The SSP project

### Introduction

This section outlines the scope of the SSP project, objectives and IBMs proposals.

### Scope of the project

The following County Council and Taunton Deane services are in scope:

- Human Resources Department
- Legal Services – Conveyancing and advice on property law
- Finance Department
- ICT
- Property
- Customer Services
- Design and Print
- Facilities management (telephones, County Hall reception)

The Avon and Somerset Police Authority at business centre at Portishead, Bristol will also be part of the contract if the authority agrees to participate in the project. No information is available regarding the services which IBM will deliver to the Police.

Table 1: **Scope of ISiS in 2006**

Service	2006/07 Budget Gross £m	No. of Full Time Equivalent Jobs
<b>Somerset County Council</b>		
Finance	5.3	165
ICT	6.8	111
Human Resources	9.1	144
Customer Services	1.4	47
Property Services	4.5	102
Legal Services	0.1	0.5
Design and print, telephony	2.0	29
<b>Sub total</b>	<b>29.2</b>	<b>598.5</b>
<b>Taunton Deane DC</b>		
Finance	0.4	11
ICT	0.8	15
Human Resources	0.6	10
Customer Services	0.5	33
Property services	1.5	20
Procurement	0.2	12
Office Services	0.5	15
Revenues	0.7	24
Benefits	1.1	34
<b>Sub total</b>	<b>6.3</b>	<b>174</b>
<b>TOTAL</b>	<b>35.5</b>	<b>772.5</b>

Source: Joint Outline Business Case, March 2006.

### SSP objectives

The ISiS objectives are:

- 1) To improve access to and delivery of customer facing services.
- 2) To modernise, reduce the cost of and improve corporate, transactional and support services.
- 3) To help modernise and transform the overall workings of the County Council and the Borough Council.
- 4) To invest in world-class technologies to improve productivity.
- 5) To create an excellent working environment and a more sustainable employment for council staff in the future.
- 6) To generate economic investment by attracting a partner willing to invest in Somerset.

### How different?

The County Council has claimed *that “structurally ISiS has a number of unusual features:*

- *It was originally developed by two tiers of local government – SCC and TDBC will be the founding partner Councils.*
- *Avon and Somerset Police Authority are currently seeking to join the partnership. If successful this will be the first multi-agency shared service environment in the public sector.*
- *The contract has been advertised as (and will be let as) a framework arrangement, which can be of benefit to other agencies in the South West. To date agreements have been procured from 36 local authorities as potential customers/shareholders.*
- *It is envisaged that the delivery vehicle for ISiS will be a Joint Venture Company, with the founding public sector agencies being significant shareholders.” (Unitary bid).*

However, the statement about two-tier cooperation is overstated because both authorities are located within a mile of each other in Taunton and, it could be argued, a greater degree of sharing should have developed a long time ago. ISiS may be the first multi-agency shared service project but it will operate from two independent sites with the Avon and Somerset Police Authority retaining its centre at Portishead, in north Bristol.

Thirty-four local authorities were signatories to the OJEU Notice but none have joined the ISiS project. They remain merely *potential* partners. The objectives listed above are no different, in substance, from the objectives of SSPs in other local authorities.

### Aspirations

How can a local authority promise a new dawn in service delivery but fail to consult the public, service users and community organisations and without a proper service impact assessment?

The phrase ‘world class’ is now so commonly used by local authorities and private contractors alike that it has lost any meaning. What does ‘world class’ actually mean and why is it confined to ICT and customer services? Why don’t Local Authorities use the term ‘world class’ when describing local services that are delivered directly to the public? For example a ‘world class’ home care service or a ‘world class’ waste service? Why does

'customer access' to services have to be 'world class' when the services themselves apparently do not?

How can a local authority promise a new dawn in service delivery but blatantly fails to consult the public, service users and community organisations?

Most SSPs are aspirational rather than inspirational. Despite the impact on resources and additional costs, in many SSPs there remains a substantial credibility gap between the original aspirations, the stated objectives and what is actually achieved in practice during the contract.

### **Limitations of customer service/call centres**

*"The council is committed to improving access to services, widening the choice of communication methods and increasing the coordination/joined up delivery of services."*

**Important as this is, there is a significant danger that the current focus on 'customer access' is likely to change as other demands and the limitations of improving access are not met by improvements in the customer experiences of those accessing frontline services.**

A number of issues could arise such as the relative priority given to customer services/call centres, compared to the needs of core frontline services, may change. The relative capital and revenue costs of customer services/call centres compared to frontline service delivery needs in education, social care, housing, leisure and other services may also be challenged.

**The quality of customer service/call centres are ultimately only as good as the quality of education, social care, housing and other services and functions provided by the Council.** Furthermore, there are many questions over the future role of customer service/call centres in implementing the choice agenda – with the danger of centres being used in rationing and brokering – thus limiting their contribution to community cohesion. Improved customer access may only marginally improve people's perception of local government, particularly if they are regularly transferred or referred to trusts, arms length companies and contractors.

### **Limited research of options**

The ISiS project's commitment to the SSP model was demonstrated by the three visits to existing SSPs in Middlesbrough, Suffolk and Pendle. They did not visit any of the local authorities, which had rejected the SSP model and transformed services in-house. However, under pressure to be at least seen to have investigated the in-house option in response to the UNISON report, the County Council commissioned PA Consultants to report on local authority in-house experience (PA Consulting, 2005). No alternative options were fully explored and no public sector comparator was developed to enable continuing informed options appraisal, as advised by OGC for SSP best practice.

UNISON's letter to the Audit Commission in July 2007 expressed concern that *"from the very outset, the project has suffered from ambitious and aspirational objectives that have been set without regard to OGC/4Ps advice or the experiences of early reference site visits."*

It also expressed concern that *"Without the completion of a Full Business Case there are significant risks of post-contract legal challenge and possibly even judicial review?"* Furthermore, there *"has been little or no involvement by the all-party scrutiny committee during the ISiS project. There appears to be very little formal involvement by the internal audit or the Council's external auditors (Robson Rhodes)"* (UNISON, 2007).

### Preferred bid

In March 2007 the Executive Board of each council accepted IBM (Variant A/B bid) as the preferred bidder. They agreed that if the preferred bidder negotiations did not “*reach an acceptable commercial framework agreement with IBM within 8 weeks*” then the councils would “*revise the priorities and expectations of its requirements and seek to re-engage with all three bidders on the basis of Best and Final Offer*” (Executive Board, 20<sup>th</sup> March 2007). It was also agreed that Avon and Somerset Police Authority join the negotiating team, subject to their decision on 21 March.

The timetable was extended by nearly three months in early June 2007 when it became evident that the original timetable of signing the contract by the end of June 2007, with the JVC commencing operation in mid July, was impossible. It is now planned to complete by the end of September with a mid October start date (ISiS Update, 8 June 2007). The resignation of three key IT staff from the Police Authority increased pressure on the department’s “*ability to service projects*” (ASPA, 2007). The Authority also reported that the new timetable “*will mean that several projects will now need to decide to proceed to procurement in advance of the ISiS programme*” (ibid).

### Transformation projects

IBM included a programme of more than 30 transformation projects in their bid. Five “*core*” transformation projects (Wave 1 Transformation Projects) were agreed by both Councils in March 2007.

- e) Enterprise wide SAP ERP implementation (and enabling projects)
- b) Replaced Customer Relations Management systems and piloted Customer Access improvement
- c) Roll-out of the People Excellence Model throughout the JVCO, hopefully as a precursor to organization wide roll out.
- d) Full county-wide property review commissioned
- e) Procurement transformation

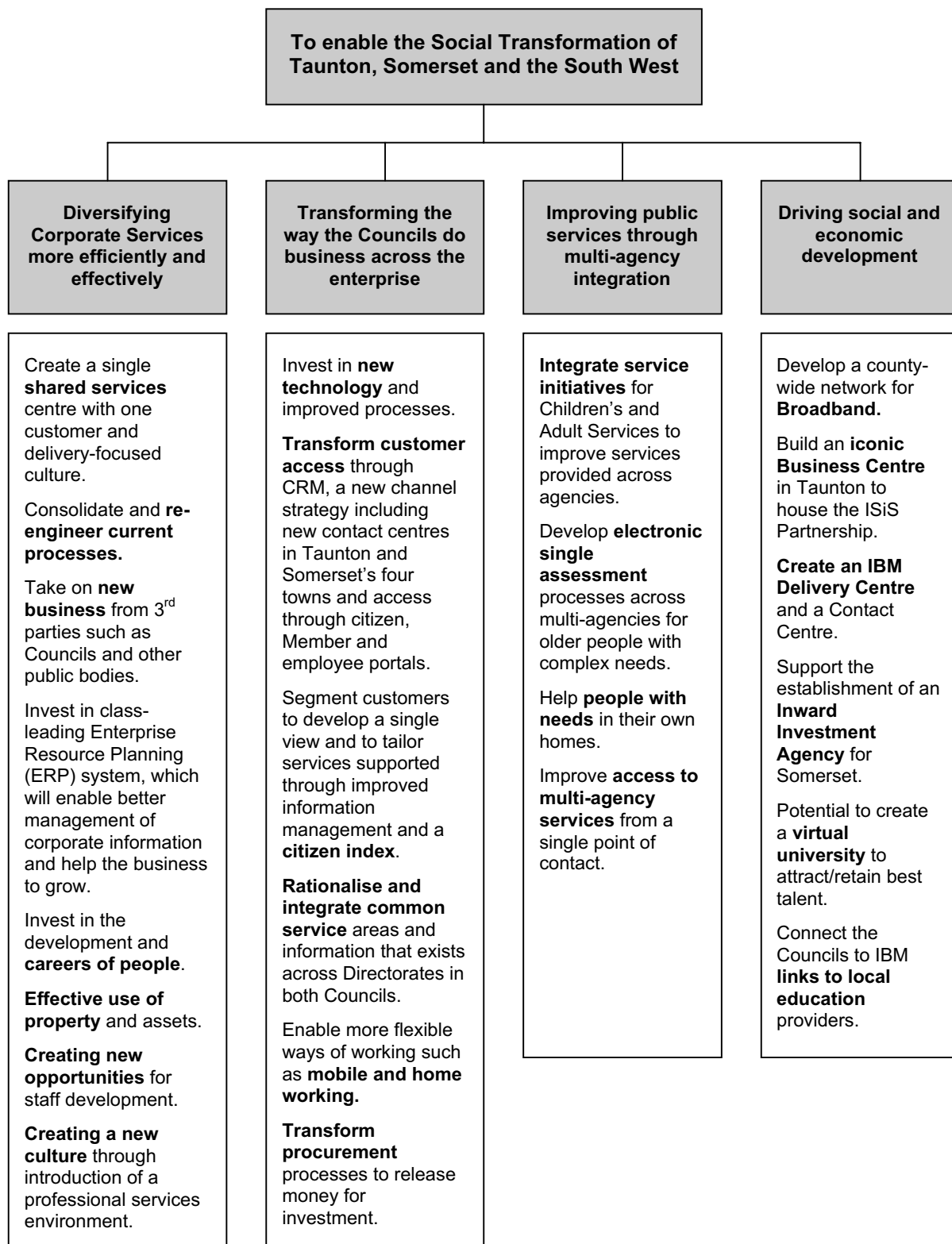
*The July 2007 ISiS report to the Executive stated “these “Wave 1” projects were prioritised either because they are fundamental to a sequential change programme or because they are fundamental to delivering core council policies. There are also some potential early candidates for Wave 2 projects – for example, the roll out of Broadband, and mobile working capability.”* The report omitted to state that they were also essential to achieve savings to make the contract affordable.

### Transformational programme

IBM’s Partnership Executive Summary contained a diagram which has “***translated the seven ISiS strategic objectives into a ‘4 box’ model***” – see Figure 1. There is nothing ‘commercially confidential’ about this diagram because it is merely a translation of ISiS objectives into IBM objectives. The objectives are very similar to those in the other 25 SSP contracts in Britain. No detail is provided about *how* the objectives will be met and *what* resources will be used.

It is also carefully worded – it does not propose a virtual university but merely indicates “*potential to create*” one. The “*Connect the Councils to IBM links to local education providers*” is vague and could have implications for further outsourcing of education services in the Building Schools for the Future (BSF) project.

Figure 1: Summary of IBM proposals for ISiS





## Part 3

# Financial risk, savings and affordability

### Introduction

This section examines the source of savings, hidden costs, financial risks, the sale of assets and affordability of ISiS. As we have already stated, the local authorities and IBM have refused to share even the most basic information on these issues. This section, therefore, draws on the experience of the procurement of SSPs in other local authorities and highlights a number of key issues which must be resolved in Somerset.

### Source of savings

The source of savings is of crucial importance for the viability and affordability of the contract. It is essential that Elected Members have a clear understanding of the source of the savings:

**Savings in procurement across each authority:** It is rumoured that IBM is targeting large savings in the procurement of goods and services in all directorates in each authority. This requires strong corporate control of all procurement across all services, including all the services, the majority, that remain outside the JVC.

In other SSPs, for example Southampton City, procurement savings form a large percentage of the total savings and are usually a priority in the first phase of the project. For example, £2m procurement savings in year 1 ratchets up to £20m over ten years compared to a value of £4m if they are not achieved until year 9.

Reliance on procurement savings raises other questions. For example:

- will procurement savings be at the expense of sustainable development policies and local supply chains?
- will there be an affordability gap if the savings targets are not met?
- if there are additional budget cuts or a public spending squeeze in the next ten years, will this challenge the financial viability of the contract.
- will budget cuts be concentrated in other services because IBM will be guaranteed annual contract payments?

Some procurement savings are a 'soft' target and can be achieved relatively rapidly. Will IBM focus on the 'easy targets' leaving SCC, TDBC and ASP responsible for the more difficult savings, requiring culture change in services outside of the scope of the JVC (still the responsibility of the local authorities)?

It is common for a private contractor to guarantee some savings but not others. It is rumoured that IBM have agreed to guarantee some procurement savings but no details have been forthcoming.

The Unitary bid concluded, "*procurement savings are likely to be extremely significant but are hard to quantify or support at this stage.*" The bid only included procurement savings of only £0.373m from reduced audit fees and corporate subscriptions.

Why was the bid so coy about procurement savings when virtually every local authority in Britain is forecasting and achieving significant procurement savings? Was it because large procurement savings had already been earmarked for the ISiS project in order to make it affordable and couldn't be double counted? **Given that procurement savings will be significant it is essential that the amount, type, timetable and how the savings are to be used is a matter of public interest.**

**Savings in Business Process Reengineering of ISiS services:** The ISiS project will have identified savings, which can be made as a result of ICT investment and the re-engineering of services.

**Savings in other council services outside of the scope of the contract:** The savings figures may be reliant on achieving savings in council services, which are outside the scope of the ISiS project. The sustainability and affordability of the project may be dependent in part of the achievement of savings in other directorates and statutory services. This puts additional pressure on other discretionary frontline services, particularly if they are also facing separately imposed budget cuts.

**Extending the scope of the ISiS contract:** IBM and Mouchel Parkman may assure the councils that they will initially focus on the services currently in the contract but they are almost certain to seek to bring other SCC, TDBC and ASP services within the scope of the contract at a later date. The question is whether assumptions about these savings are built into the savings calculations.

**Shared services:** what level of savings has been identified for shared services provision to other public bodies?

**Strategic sourcing savings:** are savings from outsourcing other council services built into the calculations? This happened in at least one other SSP.

If the planned level of savings is not achieved will this threaten the viability of the contract and/or put more intense pressure to increase the level of savings within ISiS and the rest of the authority? Sustainable procurement policies could be marginalised because greater savings can be achieved from global sourcing. Failure to achieve the savings could also put pressure on jobs and/or terms and conditions within the JVC.

### **Hidden costs**

**IT costs** – Additional costs could arise as a result of the need for further IT development, CRM and other aspects of the contract, which have not been fully priced or included in later stages of the contract.

**Client function under-staffed** – the County Council plans to have only five professional client staff with two support officers (Scrutiny Committee, 10 July 2007). The Report to Scrutiny referred to it being “a ‘lean’ structure, and perhaps smaller than might be expected...” Other local authorities with SSPs have had to increase the size of the client and contract management staff. We would like to know the evidence base on which this client function is based. A ‘lean’ structure helps to boost the savings forecasts but equally the cost of say three additional staff could reduce the savings by £1m over ten years.

The County Council’s proposed client structure consists of five professional client staff with two support workers – A Head of Client Function, contract manager, finance manager, client liaison manager, projects coordinator and two support workers – a P/A office manager and a technical admin officer. A report to Scrutiny Committee reported that it had been “*carefully designed to ensure it can draw upon the wider resource and ‘intelligence’ located around the Authorities.*”

However, it may be more difficult in practice to draw on resources and intelligence in the rest of the council. **There is an assumption that other staff will have sufficient understanding of the ISiS contract, the required skills and will not have their own directorate issues to deal with which will take priority.**

ISiS may need faster responses than that which can be obtained from out of scope directorates, particularly if all the skilled professionals will be seconded to the contractor. How will the client Directorates be assured or receiving good impartial advice? If the three client authorities each rely on ‘lean structures’, then this could also cause further problems and competition for limited resources.

**Accommodation** – Plans for a new centre in Taunton could be delayed, site complications could arise, design and construction delays may arise. The question is who bears these risks and costs which could amount to several £m?

**Operational costs** – There is no such thing as a perfect contract and it is inevitable that there will be omissions from the output specification and the contract, and changes in the anticipated volumes, which will incur additional cost to the three authorities. There is a need for strong change and cost control arrangements to protect services and public interests, which is not reflected in the "thin client" proposal.

**Amending the scope of the contract** – All three contractors will inevitably seek to use the change control mechanism to bring new projects and additional services within the scope of the contract. This is standard practice and although the bidders will state that they will initially concentrate delivery of the services currently in scope, they will endeavour to widen the scope of the contract to try to increase contract security and profit maximisation.

**The combination of the above hidden costs could run into several £m and significantly reduce or eliminate the financial advantage claimed for the SSP.**

### **Risk transfer to private sector exaggerated**

It is common for local authorities procuring SSPs to extol the transfer of risk to the private sector. This is usually exaggerated to help 'sell' the project to Members. In reality, only some risks can be transferred because the three authorities are ultimately responsible for statutory services and the risks remain with the Authorities.

### ***ISiS faces five main risks:***

- *Operational failure:* failure by the contractors to meet the performance and investment requirements and targets, similar to HBS's failure in Bedfordshire (see Appendix 2). **To date three SSP type contracts have been terminated after only three to four years of the contract by local authorities because of poor performance.** A fourth contract is being substantially reduced in scope, with many staff being transferred back to the local authority. The second phase of a fifth contract has been cancelled after it was discovered that the savings, and hence affordability of the first phase, were grossly overstated.

Councillors remember the problems caused by previous failed contracts, such as CSL's (now Liberata) Revenue and Benefits contract and ITNET's payroll contract. The benefits contract commenced in 1998 but was terminated in 2000 after hundreds of tenants were threatened with eviction because their claims not been resolved despite CSL employing 20 extra staff. The service returned in-house and is now a highly rated service.

- *Partnership failure* – IBM, HBS and Mouchel Parkman have limited experience of working together on SSP contracts: Mouchel and HBS operate SSPs in their own right and may experience some difficulty in being a junior partner with IBM (or vice versa). Tensions and conflicts of interest are unlikely to arise until after the honeymoon period is over.
- *Shared services failure* – fewer authorities agree to join and/or decisions to join ISiS take much longer than expected.
- *Savings smaller than planned* – business process re-engineering takes longer and/or is more costly, procurement savings are lower than forecast and other system difficulties could significantly affect the affordability and viability of the contract.
- *Inward investment lower than forecast* – IBM could under-achieve in attracting inward investment with subsequent fewer additional jobs.

Table 2: Failed SSP partnerships

<b>Failed Strategic Service-Delivery partnerships in local government</b>	
<b>1. Bedfordshire County Council</b>	Terminated contract with HBS Business Services in 2005 after failure to achieve key deliverables and poor performance.
<b>2. West Berkshire Council</b>	Terminated contract with Amey Group in 2005.
<b>3. Redcar &amp; Cleveland Council</b>	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.
<b>4. London Borough of Southwark</b>	Education Services contract with WS Atkins terminated because of poor performance.
<b>5. Swansea City Council</b>	£83m ICT contract with CapGemini. Phase 1 savings reduced from £26m to £6m and Phase 2 abandoned.

European Services Strategy Unit, 2007.

See Appendix 2 for further details of the failed/poor performing SSP contracts.

#### **Risks linked to the limitations of customer service/call centres**

Both Councils are committed to improving access to services but the focus on 'customer access' could change as the limitations of improving access are exposed.

**It is the quality of frontline services which is crucial to service users and increased access will not change the basic composition of these services. The most friendly and comfortable surrounding is of little consequence if you are denied housing.**

The relative priority given to customer services/call centres compared to the needs of core frontline services may change. The costs of customer service/call centres is likely to be compared to the cost of frontline services. Improved customer access may only marginally improve people's perception of local government, particularly if they are regularly transferred or referred to trusts, arms length companies and contractors.

#### **Sale of assets**

The Unitary proposal estimated capital receipts of £9.9m from the sale of assets resulting from reduced accommodation needs with fewer staff. It concluded:

*"In reality, we expect asset rationalisation to go much further than this (all of the ISiS bidders have proposed significantly greater asset rationalisation programmes through modernising office accommodation)."*

Whilst this figure was for the unitary proposal of merging five district councils with the County Council, it is clear from the above statement that the disposal of public assets is a significant element in the IBM bid although no additional information has been forthcoming. Given the ISiS ambition of a shared services strategy for the South West and the relative impact of staff reduction in corporate and support services in the district councils, it is reasonable to assume that the level of asset sales in the ISiS project will not be dissimilar to those forecast in the unitary bid. A new IBM business centre for 830 ISiS staff will significantly reduce the accommodation requirements of both Councils and thus potentially release some assets.

Similarly, if other local authorities join ISiS this could create surplus assets in other Somerset towns. IBM plans for localised contact centres are unlikely to impact on accommodation requirements.

So what asset sales are planned – which assets, whose assets, what is the estimated value of these assets and what happens to the capital receipts?

### Profits exported

A 7% - 10% profit level will be built into the contract which means that IBM and its partners will net between £25m - £36m profit from the £360m contract (or between £31.5m - £45m if ASP join ISiS). Profits may be significantly higher but this range is the *minimum* profit target set by SSP contractors. So for every £1,000 that Somerset County Council, Taunton Deane BC and Avon and Somerset Police spend on this project about £100 will go directly to IBM and Mouchel Parkman/ HBS as corporate profits. These profits are almost certain to be exported out of the Somerset and South West economy to IBM's corporate centre and shareholders.

### Transaction costs

The cost of ISiS has soared from £1.64m (agreed at the Executive meeting, 7 September 2005) with another £450,000 for the County Council's share of cost (agreed at Executive, 19 July 2007), bringing the total to £2.1m. Taunton Deane DC agreed a Supplementary Estimate of £130,000 from reserves to fund the ISiS programme costs in July 2007. Half will be funded from the General Fund but the Housing Revenue Account will fund the remaining £65,000!

**This highlights the need for a clear statement of all costs and savings and for the achievement of the claimed savings to be a condition of the contract.**

### Affordability

It is common for SSP contracts to contain an element of front-loading of investment. It is rumoured that IBM will front load ISiS by about £80m. In other words, IBM will spend more in the first years of the contract than they will receive in contract payments from the councils. This speeds up the investment and BPR process. **However, it is all council money – IBM will only invest its own money if it retains ownership of the assets in which it invests.** So no one should have any illusions about who pays.

### **There are some key issues:**

- The local authorities will pay IBM the additional cost of borrowing money, which they use in front-loading. This is at private sector interest rates, which are higher than public sector borrowing rates so Somerset, and Taunton will be paying the additional costs involved.
- The front-loading of the contract means that both the local authorities and IBM will have to secure the planned level of savings – failure to do so could reduce profitability or make the contract unaffordable.
- The front loading of the contract by IBM means that the local authorities are also back end loading the contract – paying more for the services and investment in the later years so that IBM can recoup the cost of front end loading. There are substantial risks with this strategy. If the contract has to be terminated for any reason, the local authorities will have a commitment to the additional back end payments, which could make termination complex and expensive. They will also have the cost of re-acquiring assets or retendering.
- If the planned level of savings are not achieved the local authorities will be confronted with an affordability gap with regard to the revenue payments to IBM.

### **This raises four fundamental questions:**

- Is the preferred bidder price from IBM affordable within the current budget?
- What level of savings is required to make the contract affordable?
- What is the distribution of responsibility between local authorities and IBM for achieving these savings?
- What percentage of these savings are guaranteed by IBM and Mouchel Parkman / HBS?

### **Public Sector Comparator and Full Business Case**

Given the flawed options appraisal process and criticism of the Outline Business Case it is imperative that all the above issues and questions are addressed openly and supported by an evidence base. This should include:

- The basis for any differences in the level and timing of savings from business process re-engineering between the PSC and IBM.
- The reasons for any difference in the level of procurement savings to be achieved by the PSC and IBM.
- The full financial cost of front-loading the contract.
- The market/development value of surplus assets included in the PSC and business case.
- Since staff are seconded to the JVC there should be no difference in the employment costs between the PSC and IBM proposal. Any differences in costs should be fully itemised and included in the affordability calculation.
- Differences in the shared services income forecast in the PSC and IBM proposal.

### **Impact assessment**

**The Full Business Case should also include a social and economic impact assessment of the project although there is little evidence that an impact assessment has been carried out.**

## Part 4

# Employment model and quality of employment

### Introduction

Staff have expressed an overwhelming vote for secondment. This section summarises the preference for secondment and the importance of maintaining this commitment.

### Overwhelming vote for secondment

Only 0.24% of staff opted for a TUPE transfer in a survey carried out by the respective local authorities. All Taunton Deane staff (100%) and 99.76% in Somerset County Council opted for secondment. Only 2 (0.24%) staff decided to opt for a TUPE transfer. This is a highly significant and overwhelming endorsement of the secondment model.

Because the level of interest is so low only a defined contribution pension scheme (a money purchase scheme) will be available to transferring staff, a further disincentive for a TUPE transfer.

Table 3: **Staff survey of secondment and TUPE preferences**

Authority	Secondment	TUPE	Total
Somerset CC	673	2	675
Taunton Deane	155	0	155
ASP	N/a	N/a	*550
<b>Total</b>	<b>828</b>	<b>2</b>	<b>1,380</b>
<b>Total %</b>	<b>99.76</b>	<b>0.24</b>	<b>100</b>

Source: Somerset CC and Taunton Deane DC. \* Estimate

Staff and UNISON welcome the commitment to secondment taken by both Somerset CC and Taunton Deane BC.

### Employer's preference

Both Somerset County Council and Taunton Deane BC have consistently stated that they "prefer a secondment approach" Elected Members have referred to the commitment to secondment as being a 'deal breaker' in the sense that if secondment cannot be achieved then there is no contract with IBM.

The report to the Executive Board on the appointment of preferred bidder made no reference to employment, secondment or TUPE, although this may have been referred to in a presentation at the meeting. The ISiS Joint Outline Business Case (March 2006) set out the reasons for the Council's position:

*"The Councils' preferred model is for staff to be seconded to a partnership rather than apply a TUPE transfer. The reasons for this are:*

- *Terms and conditions of employment will remain those of the employing authority and will consequently give more stability to staff at a significant time of uncertainty*

- *A more stable staff base is more likely to ensure continuity of high quality service provision.*
- *Although the partnership will decide how many and what sort of staff it wants any staff in excess of its needs will first be considered for other positions within the partnership and will also have the opportunity to return to the local authority for redeployment to be explored. This gives an added safeguard to staff if the partnership decide to rationalise staff numbers*
- *Our experience of other local authorities who have opted for the secondment model rather than TUPE is that partnering relationships tend to be stronger and the need to retain a top heavy strategic core tends to be less.” (ISiS, 2006)*

### **Guarantee of employment as founding member**

ICT and related services transformation may result in a 20% - 35% reduction in jobs so IBM must be relying on a significant increase in additional work to bridge this gap. It can do this in two ways:

- Redirect IBM work for existing or new clients to Somerset (HBS and Mouchel Parkman could do likewise).
- Attract additional members to the partnership or succeed in attracting shared services contracts with other local authorities and public bodies in Somerset and the South West.

IBM's plan to attract inward investment into Somerset may be of benefit to the County and South West economy but is unlikely to contribute to the SSP job gap.

### **Maintaining the commitment to secondment**

UNISON is concerned that the reports to the March 2007 and July 2007 Executive meetings did not seek a decision confirming secondment to the JVC. The minutes of both meetings singularly fail to make any reference to employment. The minutes of the March 2007 recommend that the Council accept the Variant A/B bid by IBM for further clarification, evaluation and negotiation as the preferred bidder.

They also make five other recommendations concerning authorisation and procedural matters. The July 2007 minutes confirms the County Council's commitment to entering into a Joint Venture with IBM, commissions IBM to commence interim work on the procurement transformation project, approves the five first wave transformation projects, and approves a further £450,000 to fund the ISiS procurement costs.

Having not seen any detailed documentation regarding the employment content of the variant bid, combined with the absence of any mention of employment in the reports to the Executive and Council, staff and UNISON are concerned about the level of commitment to secondment. The fact that the Executive and Council have not been asked to endorse and approve the secondment of staff is of great concern.

The Swansea City Council procurement of an ICT contract with CapGemini was based on secondment until the day before the Cabinet meeting to award the contract when it suddenly became a TUPE transfer.

### **Employment information**

**ISiS and IBM have so far failed to provide basic employment information. A profile of the forecast annual employment change in each service, job creation targets, shared services income forecasts are basic information which should be available to UNISON so that they can contribute their views and reassure their members about the implications of the JVC employment policies as part of the industrial relations framework.**



## Part 5

# Growth, jobs and the local economy

### Introduction

The creation of additional jobs has been a central feature of SSPs. It has also been a common failure with only one SSP achieving growth targets – and this was achieved not by organic growth but by transferring staff from a television licence contract. This section examines:

- Job creation and income growth forecasts
- Record of SSP job creation
- Unitary proposals
- Impact on Somerset local economies

### Job creation and income growth forecasts

No information has been made available by either the local authorities or IBM and its partners about:

- The forecast of employment change as a result of the implementation of ICT investment and business process re-engineering.
- The forecast of employment change as a result of additional local authorities and public bodies joining the shared services project.
- The impact on employment in local economies as a consequence of shared services projects.
- The forecast of new jobs to be created by inward investment.
- The employment impact of IBM's proposals.

IBM's summary bid document referred to the JVC *“becoming as fast growing new enterprise for the area and wider South West. It will attract **new business**, thereby securing sustainable, high quality jobs for Taunton and creating economies of scale for the delivery of Support Services across the region”* (emphasis in original, IBM, 2007). Another key factor is that IBM and Mouchel Parkman have made a commitment to jobs for those staff who second from the founding member authorities into the JVC.

IBM has also proposed a Somerset Inward Investment Agency and to help *“put Somerset on the World Stage”* through *“a programme of complementary support which comprises four interrelated themes – enablement, education and skills, enterprise and economic vibrancy”* (IBM, 2007). In addition to a business centre in Taunton to house the ISiS partnership, IBM proposes to create an ‘IBM Delivery Centre and a Contact Centre’.

The lack of hard information raises a number of important questions:

- Has IBM produced any forecasts of employment change within ISiS and/or inward investment?
- Will the contract contain any employment or inward investment targets to enable monitoring and performance assessment of the social and economic development aspects of the proposals? Without this they are merely rhetorical statements.
- What, if any, impact assessment has the County Council undertaken to assess the effects of ISiS and other local authorities and public bodies joining?

**In considering the IBM proposals, Elected Members should take account of the following points:**

- The implementation of ICT transformation and business process re-engineering reduces jobs.
- If IBM is assuming that it can fulfil its commitment to seconded staff by winning additional shared services work for other local authorities/public bodies then this assumes a loss of employment elsewhere.
- Many jobs will be **replacement jobs** and not new jobs.
- Additional jobs in Taunton are likely to be jobs **transferred** from other Somerset local authorities/public bodies or from the other parts of the South West region. Taunton may gain but other towns will lose jobs. **The electoral risks, affordability and service impacts associated with the job losses from other authorities and more deprived towns in Somerset needs to be assessed.**
- Many jobs will not be 'high quality jobs' and a degree of deskilling is likely in some contact centre and processing jobs.
- Public sector job losses have a knock-on impact on jobs in the private sector because of lower spending in services (shops, entertainment, leisure) – economic analysis shows that one private sector job is lost for every four public sector jobs lost (Centre for Public Services, 1985 and 1995).
- Without annual income and employment targets references to 'social and economic development', 'world class' and other similar statements are meaningless.

#### **Record of SSP job creation**

The earlier market leaders in SSPs had ambitious plans to create a network of regional business centres. HBS originally had a strategy of creating nine regional business centres but the number of centres was gradually reduced and then abandoned.

The reasons for the poor record are simply that other local authorities have been very reluctant to outsource services to a private contractor in another local authority. The shared services agenda is attempting to address this issue but there is widespread reluctance, particularly in local government, to accept the provision of services from outside of the authority boundary. This is rooted in the principle of democratic accountability and economic development and regeneration policies. Each authority faces political pressure to maximise public and private economic benefits within the locality.

Furthermore, authorities may have recently invested in different IT systems and software and may be reluctant to have to fund further investment. Elected Members are often concerned about losing a degree of control over the provision of services, particularly if these are likely to be delivered in another authority. Different organisational cultures are also a barrier.

**For example, HBS did not create any additional jobs in Bedfordshire (see Appendix 2) and has created only 137 after over 6 years in Middlesbrough despite a target of between 487 and 750 new jobs.**

In Blackburn Capita refers to the 500 job creation target and how it generated 700 jobs in two years. They fail to describe how this target was met giving the impression that the SSP created the jobs. In fact, Capita was awarded a ten-year £500m TV licensing contract by the BBC in December 2001. The work was previously carried out by the Post Office who employed 1,000 staff in Bristol and another 400 staff in enquiry offices nationally. Capita transferred a large number of the Bristol based jobs to Blackburn in 2002. So the "new" jobs were not directly linked to the local authority contract but part of a company strategy to relocate privatised jobs to the area. If Capita loses the contract on retendering Blackburn could be suffering large job losses if another contractor adopted the same strategy.

### Somerset's unitary reform proposals

Some indication of the employment impact of ISiS can be gleaned from Somerset County Council's proposals for unitary reorganisation submitted to DCLG in January 2007. Somerset forecast savings of £27.2m savings per annum in their Unitary bid (putting the £12.0m transitional costs to one side).

The bid documents refer to "ISiS bidders are of the view that a 30% saving in non-management staff budgets can be assumed" with a total assumed saving of £10.7m per annum from the merger of 5 district councils with SCC (Table 18). A further £0.76m annual saving is forecast from savings in Housing Benefits based on a 35% saving in the non-management staff budget. Further savings of £1.35m per annum are forecast because "All the ISiS bidders submissions forecast at least a 35% saving in county management budgets and a 50% reduction in district management budgets, which relate to the savings generated when 6 management structures and systems are integrated into one along with the savings generated through BPR under ISiS" (Table 17). The bid document states that "a letter by our financial advisers supports the ISiS assumptions used in estimating savings available" (para 3.20).

Savings on employment costs is £19.041m or 70% of the total savings of £27.168m. A total of 732 FTE posts will be lost so the corporate and support services represent 70% of this total ie 512 posts of which 32 are management posts leaving 480 staff posts. The cost per staff is approximately £27,355 (£13.13m divided by 480) with the management costs of £64,200 per job.

Table 4: Employment impact of savings

Service Area	Details	Savings Forecast (£m)	Estimated job impact
Corporate Services	Non-management staff costs budgets	10.70	391.1
Central Services	Non-management staff costs budgets	1.67	61.0
Housing Benefits	Non-management staff costs budgets	0.76	27.8
Sub total		13.13	479.9
Corporate Services	Management budgets	1.35	21.0
Central Services	Management budgets	0.20	3.1
Housing Benefits	Management budgets	0.02	0.3
Sub total		1.57	24.4
<b>Total</b>		<b>14.70</b>	<b>504.3</b>

Source: Somerset County Council, Unitary bid, 2007.

The figures in Table 3 presumably includes Taunton Deane DC corporate and support services given that the unitary bid submission occurred at an early stage of the ISiS procurement process. If ISiS succeeded in the four other District Councils joining the project, the job losses would be about 480, the same effect as the unitary proposal combining corporate and support services of six authorities in Somerset.

Alternatively, ISiS will have to gain shared services contracts valued at £13m per annum in order to replace the loss of employment in the County. Only after that has been achieved can any reference to 'new' jobs have any legitimacy.

### Impact of shared services on local economies

The potential loss of 480 local authority jobs will have a knock-on effect on employment in the local economy. Given the ratio of full/part time jobs and the grade/salary of the staff affected, a

multiplier of 1.25 will lead to a further loss of 120 jobs mainly in the private sector (shops and other services) as a result of lower consumer expenditure.

Public sector employment (public administration, education and health) accounts for South West 28.2% of jobs in the South West region (compared to 26.9% in Great Britain). In Somerset the public sector accounts for between 22.4% in Sedgemoor to 37.5% in Taunton Deane as indicated below.

Mendip	24.2%
Sedgemoor	22.4%
South Somerset	24.0%
Taunton Deane	37.5%
West Somerset	26.6%

If the IBM shared services strategy is successful it could result in a further concentration of public sector employment in Taunton and a corresponding reduction in other towns in Somerset.

### Real unemployment in Somerset

There were 3,329 Job Seekers Allowance claimants in Somerset in June 2007 but this does not reflect the real level of unemployment. In the same month there were 18,390 incapacity claimants in Somerset. In January 2007 the national claimant count was just over 0.9m but real unemployment was estimated to be 2.6m indicating 1.7m 'hidden unemployment' (Beatty et al, 2007). Since 1997 there has been a diversion of unemployed people into incapacity benefit. The government has a policy of reducing the number of people claiming incapacity benefit by 1.0m.

The JSA claimant count in Somerset varies from 1.2% in South Somerset to 1.8% in West Somerset with a total of 3,329 claimants in June 2007 (NOMIS). However, the calculation of real unemployment in Somerset by Beatty et al indicates a real unemployment over four times higher at 14,300 with local authority area rates ranging from 4.3% to 6.1%.

Table 5: Real Unemployment in Somerset

Local authority	Claimant Count	JSA Claimants June 2007	Real unemployment rate	Total real unemployment
Mendip	1.3	675	3.8	2,500
Sedgemoor	1.7	966	5.8	3,800
South Somerset	1.2	818	4.3	3,900
Taunton Deane	1.3	653	4.6	2,900
West Somerset	1.8	217	6.1	1,200
<b>Total</b>		<b>3,329</b>		<b>14,300</b>

Source: NOMIS (accessed 6 August 2007) and Beatty et al, 2007.

### No evidence base

An indication of the general statements is demonstrated in a powerpoint presentation, presumably prepared by IBM and its partners, as part of an ISiS presentation for the Resources Directorate on 22 March 2007 (two days after the Executive Board has appointed IBM as preferred bidder and in full knowledge of what their bid contained).

The slides contained several graphics but no actual proposals. For example, one slide was entitled 'Social and Economic transformation – making the partnership really work'. This is a good example of the general nature of the information made available by ISiS and IBM, taking into account the limitations of power-presentations.

**ISiS slide presentation**

**‘Social and Economic transformation – making the partnership really work’**

IBM will help develop Taunton Deane and Somerset to meet their key objectives.

ISiS Programme Objective 6: To generate economic development by attracting a partner willing to invest in Somerset:

- New employment opportunities
- Raise skill levels
- Contribute to economic growth
- Generate capital investment
- Reduce deprivation in priority areas
- Support small businesses
- Reduce cost of living
- Increase quality of life

The development will be

- Social
- Economic
- Sustainable

Aimed at a 21<sup>st</sup> century economy

- Environmental science, creative industries, knowledge economy

**Without hard information it is impossible to determine the substance, viability and sustainability of IBM’s proposals.**

## Part 6

# Governance and democratic accountability

### Introduction

This chapter examines the key public interest issues concerning the unprecedented level of secrecy, which has been used to stifle public, staff and UNISON engagement in the procurement process. It examines:

- The misuse of commercial confidentiality
- Lack of public consultation
- Inadequate scrutiny
- Gateway reviews
- Governance of the JVC
- Transparency of the JVC and shared services projects

### Unprecedented secrecy and the misuse of commercial confidentiality

The unprecedented level of commercial confidentiality was discussed in the Introduction of this report. Public bodies are in the process of procuring a contract, which will commit them to £360m - £450m expenditure of public money over the next ten years yet there is virtually no public disclosure. Valid public interest questions on how the SSP will operate, profit sharing arrangements, risk assessments & mitigation, the amount of borrowing, interest rates on borrowings and even the SSP Governance arrangements have all been turned down using “commercial in confidence”.

Unison submitted a number of detailed and technical questions to the ISIS Project Team over the last twelve months but the responses were general, often derisory. When further information was promised it was either not forthcoming or was of the same general nature.

Unison has repeatedly found that key and complex papers are not copied or submitted to them in a timely fashion. Only 2 working days were allowed to look at the terms of reference and scoping papers for the recent MAANA Gateway Review of the ISiS procurement process, despite the review having been agreed 6 weeks previously. Minutes often do not fully reflect meetings, especially if conflicting views are expressed. Minutes from some contentious meetings have simply never been published.

As the preferred bidder, IBM is in a powerful position. Whilst some SSPs have not proceeded at this stage, for example, Kent County Council and Walsall MBC, these local authorities decided against proceeding and terminated the procurement process. We know of no SSP contracts where negotiations with a preferred bidder have been terminated and they have been replaced by the reserve contractor. UNISON accepts that a degree of commercial confidentiality is necessary for both public bodies and private contractors but it has been taken to an unprecedented and unnecessary level in the ISiS project.

### Lack of public consultation

There may be a belief that because ISiS is essentially focused on corporate and transactional services that there is no reason for public consultation. Because they are considered internal rather than frontline services there is no need for any external participation. However, this is a very narrow perspective. The ISiS project may have decided that they don't want public participation, either because they would have to divulge more information than they wanted and/or they thought there would be opposition to the proposed contract, which could threaten its progress.

- The claimed 'transformation of customer services' is a matter for public consultation and affects all residents and businesses in the County.
- ISiS includes some frontline services such as revenues and benefits
- Expenditure of £360m is a matter of significant public interest.
- Expenditure on this level on corporate services and 'customer access' raises issues of the relative importance attached to improving access and internal systems when frontline services also need transformation and investment. The choices, balances and priorities are matters of public interest.
- Failure to involve the public makes any future reference to participation, community engagement and empowerment of little value.

Citizen engagement and participation in public policy making generally, and specifically in regeneration and service delivery, is widely promoted by the government. A series of government reports have set out policy frameworks and practical advice:

- *Community Involvement in Planning: The Government's Objectives* (ODPM, 2004)
- *Citizen Engagement, Neighbourhoods and Public Services: Evidence from Local Government* (ODPM, January, 2005)
- *Citizen Engagement and Public Services: Why Neighbourhoods Matter* (ODPM, January 2005)
- *New Localism – Citizen Engagement, Neighbourhood and Public Services* (ODPM, January 2005)
- *Together We Can: People and Government, Working Together to Make Life Better*, (Home Office, 2005)
- *Promoting Effective Citizenship and Community Empowerment*, (ODPM 2006).
- *Policy Review: Public Services* (Cabinet Office, 2007)

ISiS appears to be oblivious to these policy documents.

### **Inadequate scrutiny**

Given the unprecedented level of commercial confidentiality of this project, it is incumbent on all three authorities to subject this contract to regular and rigorous scrutiny. However, there has been little or no involvement by the all-party scrutiny committee during the ISiS project. There appears to be very little formal involvement by the internal audit or the County Council's external auditors (Robson Rhodes).

There appears to be no detailed plans for Scrutiny of ISiS. There is no reference to ISiS in the Scrutiny Programme to December 2008 submitted to Scrutiny Committee in July 2007.

Scrutiny should immediately draw up a plan to assess all the different aspects of the contract, performance, governance and impact. The scrutiny process must require attendance of IBM and its partners, the JVC and the respective authorities. It must also ensure that trade unions and community organisations are given the opportunity to be fully involved in the scrutiny process. There must also be much wider access to, and transparency of, information. IBM and the JVC must not be allowed to use commercial confidentiality on the scale they have to date, during the implementation process. The consequences will mean continued secrecy for the next 10-15 years.

Elected Members on the County Council's Executive Board are often given inadequate time to assess the IBM proposals because crucial information is presented to them at the meeting instead of being in reports which they have time to read and consult. For example, the 17 July 2007 Executive Board report on ISiS stated:

*“the most up-to-date detail will be reflected in the updated business case which will be presented to Members on the day of the meeting. This report contains information in draft form – hence the recommendations are not finalised. More detailed recommendations will also be presented at the meeting which will provide Members with more information on the affordability of the offering and how it will meet their aspirations.”* (Somerset CC, 17 July 2007).

### Gateway Reviews

The Gateway Review process was developed by the Office for Government Commerce (OGC) and is used by public sector bodies such as 4Ps (established to promote PPPs and PFI) to assess the preparation of project briefs, the procurement process and evaluation methodologies. Two Gateway Reviews were undertaken of ISIS in 2005 by the 4Ps - a business justification review between 3 - 5 May 2005 followed by a desk-top review of the Outline Business Case on 15 August 2005.

The first Review team concluded that **“the project is not sufficiently prepared to proceed to procurement without considerable risk of it failing to achieve its objectives.”** Particular concerns were expressed about the scope of the project, robustness of the business case and further work on the partnership structure (4Ps, 2005). UNISON believes that not all of the recommendations were implemented before the OJEU Notice was issued.

The Gateway Review of Outline Business Case criticised **“the overriding impression is one of an inability to capture the base position or in-house comparator”**, too many lists of objectives and success factors, concerns about the robustness of the options appraisal and concluded that **“The SSP option carries significant risk for the Council”**.

Unison has written evidence from 4Ps, that claims made by the ISiS project that 4Ps could not conduct the Gateway 3 review due to capacity and continuity issues, were in fact untrue. Despite several requests, the written minutes from the meeting at which the ISiS project made these claims regarding 4Ps have never been produced.

4Ps appear to have been largely marginalised and after a lot of pressure from UNISON, a pre-contract Gateway 3-like review was conceded. Rather than continue with 4Ps (as per the original project PID & early commitments to Members, Unison and Staff), the ISiS project team chose to use a paid consultancy (MAANA) instead.

The MANNA review of ISiS was completed only days before the July 2007 Executive Board meeting. But the MANNA report was unavailable. The decision about the SSP was made without the public, press, Unison or staff being able to attend, even in part. Significant and key decisions to continue the preferred bidder negotiations were taken before the summer break without the Members having had sight of the completed MAANA report?

### Governance of the JVC

A brief one-page diagram of the proposed governance structure, which has a series of boxes and main headings, is devoid of any roles, responsibilities and membership. It is headed ‘CONFIDENTIAL – DRAFT’ when in fact nothing about this proposed structure can disclose any commercial confidential information whatsoever!

It is in effect saying, that an organisational diagram which should form the basis of the democratic accountability of a £360m - £450m project must not be disclosed. The ‘confidentiality’ label imposed by ISiS and IBM that all drafts are not definite and must not be released until it is agreed, makes a mockery of the consultation process. This approach reflects badly on the ISiS team, the IBM partnership and in the end the local authorities themselves.

### Transparency of the JVC and shared services projects

If the JVC are allowed to establish excessive secrecy and absence of public scrutiny as the norm, the contract will continue with this non-public service ethos throughout the 10-15 year



term. The arguments used by IBM about the need to have commercial confidentiality to protect its competitive advantage, apply equally to the implementation of the contract as it does to the pre-contract negotiations. IBM will be bidding for other contracts and will not want its 'methods' etc revealed.

### Key performance indicators

Key Performance Indicators (KPIs) are only a minor form of accountability or governance of the contract. They also serve another purpose in ensuring the contractor obtains a regular income from the completion of tasks. KPIs frequently focus on processes rather than the quality of service.

KPIs are:

- Designed and negotiated between council officers and the contractor;
- Self-monitoring of KPIs by the private contractor;
- Overall assessment by council officers;
- Reported to Partnership Board (and often considered commercially confidential);

Bedfordshire's experience of KPIs is relevant: *"HBS claimed 100% performance for 19 out of 34 months between June 2001 and March 2004, which covered the start-up of the contract including the transfer of over 500 staff, the implementation of SAP and substantial change management, proves beyond doubt that the KPIs are simply a mechanism for payments to the contractor. They have little relevance to the quality of service. No public organisation or private company can undertake such substantive change in the delivery of its services and functions without having an effect on their quality."*

*The stark reality is that the package of KPIs is at best a partial reflection of performance"* (Centre for Public Services, 2005). The original KPIs operated between 2001-04 and a new system ran in parallel between April-October 2004. Nine months later the HBS contract was terminated.

### Changing the scope of ISiS

SSP contracts must include a mechanism by which the client or contractor can propose changes to the scope of the contract. This will normally cover new projects, the exclusion of services currently in scope and the inclusion of additional services.

Schedules 14 and 15 of the draft contract issued as part of the ITN contain the proposed Change Control Procedure and the Further Services Approval Procedure respectively. We do not know whether this schedule has been amended during the 'mark up' of the draft contract by IBM when they submitted their bid or during the preferred bidder negotiations.

However, there are major shortcomings with the current drafts of Schedules 14 and 15 prepared by ISiS legal advisers. We have compared the ISiS draft with a SSP contract from another local authority to highlight the exclusions. The numbered paragraphs are the same in both contracts.

#### Schedule 14:

The Service Provider is required to respond to the Council's Notice of Change but the following requirements have been removed from the Somerset draft:

- *"impact on stakeholders"* excluded from para 1.3.1
- *"any other effects or likely effects on the services, this agreement, the Council or the provider arising from the change"* excluded from para 1.3.1

When the Service Provider initiates a Notice of Change the Council must evaluate the proposed change using criteria set out in para 2.3. Somerset's draft excludes the following criteria:

- *“there is internal support within the Council for the proposed change”*
- *“the change would adversely affect the Council’s ability to discharge its statutory and contractual obligations”*

### Schedule 15:

The Service provider must submit a draft business case in support of a proposal for Further Services. Para 3.3 sets out the criteria by which the Council must assess the proposal. The Somerset draft has excluded:

- *“any impact on all relevant stakeholders”*

Under Stage 2 approval the Service Provider must submit a full business case – Somerset has excluded the following contents:

- *“a transition plan including a stakeholder impact analysis and plan”*
- *“any non-financial benefits of the Full Business Case”*
- *“details of any proposed new Council obligations relating to the Stage 1 Approved Further Services”*

Section 4.5 sets out the criteria for the approval of Further Services. Again, the criteria have been significantly weakened in the Somerset draft.

- Clause 1b refers to value for money but the criteria *“maintained or improved service quality”* and *“service improvement and efficiencies”* have been excluded.
- *“whether the Provider and any proposed sub-contractor which the provider wishes to appoint have sufficient financial strength, capacity, expertise and resources to perform the Stage 1 Approved Further Services to the required standards.”*
- *“whether the implementation of the Stage 1 Approved Further Services would adversely affect either party’s ability to perform its obligations under this agreement or have a detrimental effect on the services or any part of them.”*
- *“whether there is internal approval within the Council (including at Member level) of the Full Business Case”*
- *“whether the Council can comply with any proposed new Council obligations relating to the Further Services.”*

Neither Schedule makes any reference to consultation with service users or staff/trade unions.

There is a pattern to these omissions, which exclude key criteria from the decision-making process and leave decisions to be made essentially on financial and narrow legal grounds. In effect, it reduces the hurdles through which IBM/Mouchel Parkman /HBS must proceed in order to extend the scope of ISiS. **It is essential that any extension of services must be subjected to rigorous analysis before Elected Member decision-making and consultation with service users and trade unions.**

### Longer-term issues

The implementation of the ISiS project raises a number of long-term issues. The procurement process imposes a series of more immediate concerns, problems, negotiations and conflicts that become the focus of attention. What may happen outside of the specification and transformation process over the 10 – 15 year contract period is usually marginalised.

This is not surprising because there is a reluctance to think long-term in local government. Although many Elected Members will still be serving in 2017, many of the responsible senior officers will not be working in Somerset. Some will have moved into new jobs and others

retired. Only the service users, public stakeholders and elected Members can provide the necessary continuity to manage the service and societal impacts of the ISiS project.

What will be the scope of the contract, or what additional services will the JVC be delivering in 2017? A process of adding further services could significantly widen the scope of the JVC. This could reduce the role and functions carried out by district councils with the JVC having a key role – a unitary body by another name and process with reduced electoral accountability!

**Leadership without the ability to deliver is almost certain to be ineffective.**

## Part 7

# There is an alternative

It is not too late to adopt a different strategy. A number of local authorities, such as Kent and Walsall, were negotiating with contractors (HBS and Fujitsu respectively) in the preferred bidder stage when they decided not to proceed with the contract.

Elected Members have the legal power to decide not to proceed with the ISiS contract if they consider that it is not in the Council's interest to do so. The authority must have just cause and good reasons for not awarding a contract. The evidence of this report shows that there are major public interest questions which have not been answered and no further decisions on the future of ISiS should be taken until they have been answered in full.

### **In-house transformation and BPR**

Somerset County Unison's first report in 2005 highlighted the scope for in-house transformation. The Council responded by commissioning research on insourcing from PA consultants, which highlighted a number of local authorities, which had decided against a SSP and undertaken transformation in-house with selective use of external support.

A very good example is Newcastle City Council which is the only authority to date to submit an in-house bid in a SSP procurement. It had significant advantages over a BT bid in 2002. Since then the City Council has successfully implemented transformational change. City Service, Newcastle's in-house service, out performed ICT bids for Building Schools for the Future in 2006 – an example of how in-house delivery can go from strength to strength and have added value.

### **Financing an alternative**

Local authorities, which rejected the SSP 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 frequently result in job reductions and savings, which in turn fund further investment.
- leasing arrangements.
- the use of reserves to pump prime initial investment.
- prudential borrowing – good performing public bodies are allowed to increase investment based on their ability to meet loan charges.
- the authority's capital investment programme.
- various government programme and project grants.

The combined use of these resources has enabled some local authorities to restructure services in-house and procure 'best in class' ICT advice, hardware and software as and when required as part of an in-house approach as an alternative to the SSP model.

### **Capital programme**

Somerset CC and Taunton Deane BC have a projected combined capital expenditure of £413.9m between 2006/7 and 2011/13. Some £23.5m is planned for Corporate Services although this figure includes the remaining three District Councils (Somerset CC, 2007). Whilst the government's Comprehensive Spending Review 2007 will determine public expenditure plans in general for the next three years when it is launched later this year, the

Somerset capital programme could finance a substantial part of an in-house transformation strategy.

### **Incremental approach**

An incremental approach has many advantages over the large 'big bang' approach favoured by the private sector. The Government's Strategic Partnering Taskforce believed that an incremental approach reduces risk to the local authority and providers, is possibly less costly to establish for all parties, provides an ongoing incentive to cooperate and assess value for money of each project, and allows partners with differing skills and strengths.

### **Staff and UNISON involvement**

Somerset and Taunton Deane UNISON branches would wish to be involved in the planning and implementation of an in-house strategy. They would also seek the cooperation and involvement of UNISON branches in other District Councils.

### **Lessons from the Unitary bid**

Somerset's unitary bid was rejected on three of the five narrow criteria established by the government.

Neighbourhood Flexibility and Empowerment:

*"..proposals for devolution of powers and budgets beyond these Area Committees are not clear and that the absence of meaningful devolution could be a step backwards from the current successful local working practices in some parts of the county."*

Affordability:

*"..questions about the realism of the on-going savings projected in the proposal and the projected transition cost figures, which arguably understate the impact of contract novation."*

Supported by a Cross Section of Partners and Stakeholders:

*"...whilst the bid does command some support, representations from a range of stakeholders, both public and private sector, as well as the majority of views expressed by the general public, indicate that the proposal would not command a sufficient broad cross-section of support from a range of stakeholders. She notes that whilst the climate in which the polls were conducted suggests that the results should be viewed with some caution, there was a high turnout and a very high percentage of voters opposed to the proposal." (DCLG, 2007)*

**These reflect three core issues – participation, savings and political support – have similarly not been demonstrated for ISiS. It should not be approved for the same reasons.**

### **Shared services 'market' shrinks**

Wiltshire and Cornwall County unitary and Exeter City unitary proposals were approved by the government and will have the effect of reducing the scope of the potential shared services in the South West. The loss of twelve potential local authority clients (five district councils in Cornwall, four in Wiltshire plus the new unitary authorities) in the South West region is a significant reduction. Whilst it is possible the three unitary authorities may be potential future clients for ISiS, this is highly unlikely for the immediate future as these authorities will be focused on local government reorganisation and merging services and functions.

### **Principles for the shared services framework agreement**

The shared services framework agreement should incorporate a range of principles for the quality of service, democratic accountability and governance, the shared services process and the quality of employment (ESSU, 2007).

## Part 8

# Key questions which must be answered

## Questions

Somerset County Unison's first report raised seven key questions concerning the options appraisal methodology, which were never fully answered.

In an effort to achieve resolution the following questions must be answered before either Somerset County Council, Taunton Deane Borough Council and Avon and Somerset Police Authority make any further decisions in relation to this project. The questions and answers are matters of public interest and must not be claimed to be commercially confidential. They are all deal-breakers.

Table 6: Key questions

No	Key Questions
<b>Savings and affordability</b>	
1	What is the level of planned financial savings over the contract period and from which services and functions will they be obtained?
2	Who is responsible for achieving these savings – how are they divided between IBM (and partners) and SCC, TDBC and ASP?
3	What proportion of the savings in each service are guaranteed by IBM?
4	How many Elected Members fully understand where savings will be made, their scope, how they will be achieved and what impact they might have?
5	What level of savings are required in services outside of the scope of the SSP contract in each of the three authorities?
6	How does the contract demonstrate value for money using a definition of VfM, which includes sustainable development and social justice?
7	Does the Payment Mechanism set out a comprehensive and adequate financial deductions scheme for delays, poor or inadequate quality/levels of service and advice for all services and regeneration activities?
8	If Somerset CC and Taunton Deane will not release the full MANNA review of the ISiS process then will they publish its recommendations as they are a matter of public interest?
9	What asset sales are planned or anticipated in the project and have these receipts been included in the affordability envelop of the contract?
10	Which risks remain with the public sector and what are the potential financial consequences?
<b>Job creation and inward investment</b>	
11	What are the annual job creation targets or forecasts built into the SSP contract for shared services projects and for inward investment?
12	What level of inward investment is forecast?
13	In which sectors (services, industries) and what level of skills are the new jobs planned?
14	What action or sanctions will be taken if the job creation targets are not achieved?
15	What impact will job losses within ISiS have on other towns in Somerset?
16	What mechanisms will be used to ensure that IBM and its partners mainstream sustainable development in the procurement of goods and services, particularly from local suppliers?
<b>Governance and scrutiny</b>	
17	What proposals have been drawn up to ensure that the SSP be subjected to regular and rigorous scrutiny?
18	What amendments have been made to the Change Control Procedure for new projects and extending the scope of the contract? The original draft Schedule 14 is

	inadequate in several respects.
19	What obligations will the JVC have to make regular progress reports, performance information and minutes of the Partnership Boards available to staff, trade unions and elected members?
20	How will other local authorities and public bodies joining the JVC be able to demonstrate democratic accountability and transparency?
<b>Increasing public sector capability</b>	
21	What provisions are in the contract, which require IBM and its partners to increase the capability, skills and intellectual knowledge of SCC, TDBC and ASP staff not employed within the JVC?
22	How will transformation be extended to the services outside the scope of ISiS, who will be responsible and what timetable has been set?

## Part 9

# Recommendations

- SCC, TDBC and ASP should not award the ISiS contract to IBM and Mouchel Parkman and should terminate the procurement process. This decision could be made on grounds of affordability, value for money and sustainability.
- Somerset CC and Taunton Deane BC should use the work undertaken to develop an in-house transformation strategy and implementation plan as other excellent performing authorities have successfully implemented using private sector consultancy and skills e.g. Surrey CC and Hampshire CC. This would include a resource and investment plan and identify which elements can be developed using existing capability and skills and which require external sourcing using best in class techniques.
- Draw up a new shared services strategy involving all local authorities in Somerset, which includes collaboration and joint provision strategies that utilise in-sourcing to bring in private sector expertise, whilst maintaining democratic and financial control.
- Staff and trade unions should be involved in the planning, design and implementation of the transformation plan through service improvement workshops and other initiatives to harness staff ideas and commitment to change.



## Appendix 1

# Response to the 7 key questions in UNISONs first report

The responses from Somerset County Council indicate no real commitment to address the issues raised. They have all the hallmarks of project management with one option in mind.

The seven questions in the UNISON 2005 report are in bold followed by the Somerset County Council responses in italics.

**1. Why have officers visited selected strategic partnerships at Middlesbrough, Suffolk and Pendle but not fully investigated Kent, Northamptonshire and Newcastle where the Strategic Service-delivery Partnership was rejected in favour of in-house provision?**

*We have agreed that further research will be carried out into the in-sourcing arrangements that the authorities noted above have undertaken, and into other authorities that are pursuing this route. The results of this research will be noted in an updated Outline Business Case.*

**2. Are the elected members right in stating that the County Council will not “receive £32m investment” as stated in the Outline Business Case but this will be paid for by the County Council. Isn’t it wrong to imply that is an investment by the private sector when it is financed by council job losses? And does the private sector’s 7% rate of return (profit) built into the equation also amount to £30m in a 15-year contract?**

*Clearly any capital investment will have to be paid for. Although the model builds in different levels of efficiency savings, it assumes that if there are staff reductions, they should be generally manageable through natural staff turnover. The rate of return varies according to a number of factors, including the level of required capital investment. The level of capital investment required will be assessed as the statement of requirements is developed.*

**3. Councillors remember the terrible problems caused by previous failed contracts, such as the CSL revenue and benefits contract and ITNET’s payroll contract, and we are aware of the termination of two high profile Strategic Service Delivery Projects in Bedfordshire County Council and West Berkshire Council in the last few months. How have the risks of failure been taken into account in the Somerset project?**

*We recognise the risks and these have been identified on the strategic risk register together with mitigating actions. Whilst it is of interest to understand more about the reasons for the failures cited above, it is also important to realise that each and every procurement for a strategic service partnership is unique in its motivation and approach and therefore the experiences of one procurement cannot be superimposed on another.*

**4. Why have the scores for only 3 options been given rather than all 5 options? Secondly why have the detailed scores for each criteria for all the options not been included in the report in the interest of transparency?**

*We will be revisiting the options appraisal during the coming months.*

**5. Why is there no review of the council’s current performance in corporate services in the OBC – this is surely a starting point?**

*The ISIS programme is wider than corporate services and therefore the CPA report and the Access to Services inspection report were cited as both highlight the need for further improvement.*

**6. Why is the OBC overly concerned about “the appetite of the market” for a contract for corporate support services when it is obvious that a large long-term multi-service County Council contract is almost certain to attract wide interest? Is it not more important for the County Council to spend time sorting out what it wants to achieve with this type of contract?**

*It is important to actively engage with the market to attract the best suppliers to bid.*

*We have clearly set out the objectives for the ISIS programme in the OBC and we are working with ‘in scope’ Heads of Service and service directorates across the County Council to prepare the output specifications*

**7. Why rush to start the procurement process, because once commenced it gains a momentum and commits the County Council to over £2m expenditure whatever the outcome?**

*We have already paused in the procurement process following the recommendation from the Gateway Review that we should allow time for Taunton Deane to become fully integrated in the programme.*

*We feel that we are now ready to commence the procurement process and the Executive Board has supported this and agreed a budget of £1.164m.*

*If we do not enter into a strategic service partnership the money spent on the programme will not have been wasted as the work that is being undertaken will identify our priorities for the future and will form the basis for the modernization and change agenda whatever the outcome of the procurement process.*

<http://www.somersetcountyunison.org/pdf/ISiS/ISiSSuppQsandAsFinance.pdf>

<http://www.somersetcountyunison.org/pdf/ISiS/ISiSPlanarySubmissionAnsasResponses030pdf>

## Appendix 2:

## Failed/poor performance of SSP contracts

**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, which showed that several key deliverables had in fact not been delivered and quality had declined in some services.

Table 7: **HBS Scorecard in Bedfordshire**

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

### **Swansea City Council**

The City Council signed a £83m contract with CapGemini in 2006 to transform IT services and promising £70m savings over ten years. However, a year later the contract was reduced to a £40m project with the abandonment of phase 2. An investigation by the external auditor, PricewaterhouseCoopers, revealed that only £6m savings had been achieved even from the reduced contract, which had claimed £26m savings. Furthermore, the City Council had transferred only 5% of the risk of failing to meet savings targets to CapGemini. The City Council, CapGemini and UNISON representatives had agreed a secondment model for staff during the preferred bidder negotiations but this was overturned only hours before the Cabinet meeting approving the contract.

## References

- Audit Commission (2002) Somerset County Council - Corporate Assessment, London.
- Audit Commission (2004) Customer Access: Somerset County Council, December, London.
- Audit Commission (2005) Annual Audit and Inspection Letter: Somerset County Council, January, London.
- Audit Commission (2005) Community Planning: Somerset County Council, May, London.
- Avon and Somerset Police Authority (2007) Information and Communications Technology Update, Report of Chief Constable, Finance Committee, 26 June, Bristol.
- Beatty, C, Fothergill, S, Gore, T, and Powell, R. (2007) The Real Level of Unemployment 2007, Centre for Regional Economic and Social Research, Sheffield Hallam University, Sheffield.
- Centre for Public Services (2005a) Strategic Partnership in Crisis, Bedfordshire UNISON, March, Sheffield.
- Centre for Public Services (2005b) Employment Risk Matrix, Sheffield.
- DCLG (2007) Proposals for Future Unitary Structures: Letter to Chief Executive, Somerset County Council, 25 July, London.
- European Services Strategy Unit (2007) Shared Services in Britain, for Australian Institute for Social Research.
- European Services Strategy Unit (2007) Shared Services Strategic Framework, [www.european-services-strategy.org.uk](http://www.european-services-strategy.org.uk)
- IBM (2007) ISiS Partnership Executive Summary (Adapted), April, Taunton.
- PA Consulting (2005) ISiS Programme: In Sourcing Research, November, London.
- Somerset County Council (2004) Resources Directorate: Vision and the Way Forward, report to Executive Board, 20 October, Taunton.
- Somerset County Council (2005) The ISIS Programme – OBC, 23 August, Taunton.
- Somerset County Council (2005) Customer Access in Somerset: Vision and Strategy, July, Taunton.
- Somerset County Council (2005) ISIS Newsletter No 1, July, Taunton.
- Somerset County Council and 4ps (2005) Somerset County Council Strategic Partnering Project: Gateway Review, May, Taunton.
- Somerset County Council (2005) Resources Directorate – Procurement Strategy for a Strategic Partner, report to Executive Board, 13 April, Taunton.
- Somerset County Council (2005) ISIS Programme: Frequently Asked Questions, April, Taunton.
- Somerset UNISON (2005) UNISON response to Procurement Strategy for a Strategic Partnership, April, Taunton.
- Somerset CC (2006) Draft Joint Outline Business Plan, March, Taunton.
- Somerset CC (2006) ISiS - Invitation to Negotiate, June, Taunton.
- Somerset CC (2007) Improving Services in Somerset: Briefing for Resources Directorate, March, Taunton.

Somerset CC (2007) Improving Services in Somerset: Report to Executive Board, 20 March

Somerset CC (2007) The ISiS Programme – Employment of Staff, powerpoint presentation, April, Taunton.

Somerset CC (2007) The ISiS Programme – Retention of Employment, powerpoint presentation, April, Taunton.

Somerset CC (2007) The ISiS Programme – TUPE and Secondment compared, powerpoint presentation, April, Taunton.

Somerset CC (2007) Summary of our overall bid proposition, powerpoint presentation, Taunton.

Somerset CC (2007) Business Case for a Unitary Authority, January, Taunton.

Somerset CC (2007) ISiS Update: Announcing a Revised ISiS Timeline, 8 June, Taunton.

Somerset County Council (2007) Project ISiS: Client Function, Report to Scrutiny Committee, 10 July, Taunton.

Taunton Deane District Council (2007) Improving Services in Somerset, Report to Executive, 10 January, Taunton.

Taunton Deane District Council (2007) Minutes of the Executive, 10 January, Taunton.

Taunton Deane District Council (2007) Improving Services in Somerset, Report to Executive, 20 March, Taunton.

Taunton Deane District Council (2007) Minutes of the Executive, 20 March, Taunton.

Taunton Deane District Council (2007) Improving Services in Somerset, Report to Executive, 18 July, Taunton.

Taunton Deane District Council (2007) Minutes of the Executive, 18 July, Taunton.

UNISON (2005) The Flawed Options Appraisal and Outline Business Case for a Strategic Service-delivery Partnership, Taunton.

UNISON (2007) Serious concerns about due process & ultra vires actions on the Improving Services in Somerset (ISiS) Strategic Services Partnering (SSP) Project, Letter to Audit Commission, 23 July, Taunton.

4ps (2004) The Outline Business Case: Project and Procurement Support for Local Authorities, May, London.

4ps (2005) ISiS Project: 4ps Desk-top Review of Outline Business Case, 15 August, London.