

Outsourcing the Future

A Social & Economic Audit of
Privatisation Proposals in Newcastle



UNISON

City of Newcastle upon Tyne Branch

CENTRE for PUBLIC SERVICES

Research • Strategy • Planning • Training

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Executive Summary

Job losses

The proposed outsourcing and transfer of a range of services will result in 435 job losses and 1,332 jobs transferred to private contractors. The services affected include:

- * IT and related services
- * parts of the grounds maintenance service,
- * Private Finance Initiative projects in schools, street lighting and leisure,
- * 11.25% of the housing stock plus the demolition of 4,000 dwellings under Going for Growth.

Gender impact

An analysis of the gender impact of job losses reveals a 57/43 male/female division with men suffering 248 jobs losses compared to 187 for women. A very high proportion of the jobs are full-time, particularly those in white collar services, housing management and repairs and maintenance. This is markedly different from the employment impact of CCT in manual services which embraced a much larger proportion of female part-time jobs.

Reduced pay and conditions

New staff are not covered by TUPE, and unless UNISON and the city council can negotiate agreements with contractors, some 596 staff will suffer reduced terms and conditions in the first three years of contracts. The number will grow annually as a result of labour turnover. The gender structure of those affected by reduced pay and conditions is the reverse of the job loss division with a 53/47 female/male division.

Additional jobs lost in the local economy

The loss of city council jobs will have a knock-on effect on jobs in the local economy, particularly in private services, because of reduced spending power. We estimate that the loss of 435 council jobs will lead to the loss of an additional 109 jobs in the local economy. Reduced pay and conditions for new staff employed on outsourced work also impacts on the local economy. A 15% reduction in wages for nearly 600 staff will result in a further 22 job losses in the local economy. The total job loss is therefore 435 local authority job lost plus 131 job losses in the local economy.

Newcastle economy

Some 60% of council staff live in the city and 86% reside in the four Met Districts on Tyneside, hence the impact of job losses will be centred on Newcastle. This because the city serves as a regional capital for the 40% of staff residing outside the city as well as the local economy for the local authority staff who reside in the city and will lose their jobs.

Job creation

The audit clearly demonstrates that before a regional business centre and/or the Going for Growth strategy create any additional jobs they must first replace the 435 jobs losses in the city council. If these jobs do not have comparable terms and conditions to city council jobs then the replacement figure will need to be somewhat higher to take account of the the new jobs having less impact in supporting employment in the local economy.

Conflict with corporate policies and priorities

An assessment of the city council's corporate policies and priorities with findings of the social and economic audit highlights the conflict in pursuing an outsourcing and transfer policy which will have a negative effect on five out of the six corporate policies.

Regional impact

If the scale of the outsourcing and transfer proposals in Newcastle are repeated by other local authorities in the North East region, some 15,775 local authority jobs will be affected with an estimated 5,050 job losses and 11,890 jobs transferring to the private and voluntary sectors.

Reducing economic growth

If outsourcing and transfer of public services proceed in Newcastle, a substantial part of Going for Growth and Regional Economic Strategy job targets will merely be replacing public sector job losses thus reducing economic growth.

Equalities impact

The audit identifies the ways in which outsourcing and transfer could adversely affect equality groups. There are a number of equality groups (gender, race, age, physical and learning disability, marital status, with/without dependents and sexual orientation) in service provision and employment.

Community well-being

The adoption of outsourcing and transfer policies will in effect undermine the community strategy for social, economic and environmental well-being. Newcastle could have a preset agenda - the community strategy will be required to combat the negative affect of other city council policies, let alone make a contribution to reducing poverty in the city.

Negative impact on local labour market

Outsourcing and transfers will have a negative impact by reducing training opportunities, reducing job opportunities for the unemployed, eroding the city council's role in setting quality employment standards (particularly in equalities and health and safety) and increasing casualisation.

Recommendations

UNISON recommends that the city council:

- Urgently reassess the scale and scope of the current proposals for outsourcing and transfer.
- Reaffirms the importance of in-house provision of public services both to service users, regeneration strategies and the local economy.
- Carries out and publishes a social and economic audit of all future outsourcing and transfer proposals to identify the wider impact on users, the community and the workforce.
- Carries out a full corporate and directorate impact assessment of all outsourcing and transfer proposals.
- Includes social and economic factors in the evaluation criteria for assessing all bids from external organisations for city council work.
- Ensures that all contracts which may involve a transfer of staff include a TUPE Code of Practice.
- Uses the forthcoming introduction of new regulations permitting local authorities to take workforce matters such as terms and conditions, training, equalities and health and safety into account in the invitation and evaluation of bids.
- Encourages providers to engage new staff on the same terms and conditions of service as transferred staff.
- Strengthens its performance management and monitoring system.
- Enhances and strengthens the scrutiny role to encompass outsourcing proposals and the regular assessment of any projects which proceed.

Introduction

The City Council is planning to, or is in the process of outsourcing, certain council services as a consequence of Private Finance Initiative projects, seeking a private partner to increase investment in IT and related services and as result of pressure from the government to transfer some or all of council housing to a Registered Social Landlord. The need for budget cuts and the requirement to 'make markets' and subject services to competition in Best Value reviews also place pressure on council service provision.

UNISON commissioned the audit from the Centre for Public Services in order to identify the impact on jobs and the community. Outsourcing and transfers are frequently justified on the grounds of accessing private investment and increasing efficiency by streamlining back-office services in order to invest in frontline services, supporting regeneration and reducing social exclusion. However, as the audit reveals, there is another dimension to these 'modernisation' policies.

The application of Information and Communication Technology (ICT) in the city council to meet the e-government targets set for 2005 will affect the number and type of jobs and working practices. These changes affect all local authorities. But large scale outsourcing of this work, together with Private Finance Initiative (PFI) projects, the possible transfer of provision to the private and voluntary sectors, adds a new dimension to the potential employment and social impact.

Objectives of the audit

1. To identify the planned and potential outsourcing and transfer proposals and to assess the social and economic impact on the community, local economy and labour market.
2. To identify the social and economic factors which should be built into the design and planning of the procurement and/or transfer process.
3. To reinforce the case for the direct provision of council services.
4. To assess the city council's corporate policies and the findings of the social and economic audit to identify policy conflicts.

Proposals in the Medium Term Plan and Capital Programme

The audit is based on proposals identified in the Medium Term Plan (2000) and Capital Programme (2000/01 to 2002/03). The Education PFI project covering seven schools has received preliminary

approval and the council is seeking a PFI credit of £41m. The programme states that PFI and other partnership options will be explored for the following areas:

- street lighting
- car parking
- housing
- schools
- social services facilities
- leisure
- vehicle replacement

The audit has also assessed the impact of a partial council housing transfer, Going for Growth demolition of council housing, the planned ITRS strategic partnership, the planned outsourcing of grounds maintenance and the potential transfer of leisure services to a trust and youth work to a Connexions partnership. The audit has excluded an assessment of the potential impact of changes to residential and homecare services, which if outsourced or transferred, would substantially increase the level of job losses, the impact on the local economy and the impact on women.

Best Value service review programme

We have also taken into account the Best Value Service Review Programme which includes technical services in 2001/02 and recreation and leisure in 2002/03.

The audit assesses the impact of potential outsourcing and transfer of council services to other providers. The aim is to quantify the impact of this process which also sets a benchmark against which other plans and projects which are claimed to increase employment should be judged. For example, private firms are promising that regional business centres will create additional jobs by winning other contracts. These are not commitments but aspirations. The reality is that firms are not building business centres until they win contracts from other local authorities, public bodies or the private sector.

Methodology

The audit was carried out in a number of stages, commencing with an assessment of the scale, content and timetable of projects; the collection of data on staffing levels, terms and conditions; calculation of the employment impact of projects and the impact on the local and sub-regional economy; and an assessment of the social and economic impact on service users, staff and communities in the city.

The data on which the employment impact has been calculated have been based on the following:

Employment data: The existing employment levels in each of the outsourcing and transfer proposals have been obtained from the city council's Medium Term Plan, the OFSTED inspection report of youth work and supplemented by data from the relevant directorates.

Job losses: Different levels of job losses and changes to terms and conditions have been used based on experience of outsourcing and privatisation in other local authorities together with national studies on competitive tendering, externalisation and transfers published by the Equal Opportunities Commission, the Local Government Information Unit, the Association for Public Service Excellence, UNISON and research by the Centre for Public Services. DETR competitive tendering research studies have also identified similar employment change.

Labour turnover: Some 1.75% of the city councils total workforce left in 1999/2000 because of early retirement or ill health (Best Value Performance Plan, March 2000). The city council has not yet provided data for the performance indicator of voluntary leavers as a percentage of the total workforce. This figure is estimated to be between 8% - 10% per annum. Evidence shows that labour turnover increases after outsourcing and transfer. The audit has used staff turnover rates of 40% and 50% over five years depending on the service and type of jobs.

Changes to terms and conditions: The audit uses different percentage rates of change to terms and conditions of service for new staff in different services and types of jobs. These are based on the research studies referred to above. It should be noted that the audit has assumed that there will be no changes to terms and conditions of transferred staff. Evidence suggests that this is a conservative assumption.

Employment multiplier: The impact on the local economy is based on research for social and economic audits with similar policy contexts.

In summary, the basis of the projected employment change is evidence based and the figures used to calculate the level of change veer on under-estimating the potential degree of change and hence the impact on users, staff, the community and the local economy.

The focus on jobs

There four important points which underpin this audit. Firstly, the audit focuses on jobs or posts rather than Full-Time Equivalents (FTE), in other words, the number of people employed.

Secondly, the audit focuses on the total number of jobs affected by the various proposals, not just the impact on those individuals who may be transferred to a new employer. Although the TUPE regulations usually ensure that existing staff are transferred to a new employer, this does not prevent the loss of jobs prior to transfer as a result of Voluntary Early Retirement (VER). The latter represent job losses when posts are eliminated following VERs.

Thirdly, a concern for new employees in addition to existing employees. Virtually all contractors have a two tier staffing policy with all new staff employed, legally, on lower terms and conditions and conditions. Furthermore, the regulations enable a new employer to restructure jobs after transfer if they can be justified on the grounds of economical, organisational and technical reasons.

Finally, the audit is concerned about employment in both the public and private sectors. Changes in employment levels in the public sector have a direct impact on employment in local private services in the local economy.

Whose jobs

The purpose of the audit is also to identify the number of jobs which are likely to be affected by outsourcing and transfer to the private and voluntary sectors. The aim is to transcend the simple categorisation of jobs into 'male manual' or 'part-time female' as part of identifying the wider social implications of job losses and changes to terms and conditions.

Transferred staff and new starters

The audit distinguishes between transferred staff and the likely impact for new staff. The TUPE regulations require that existing staff are transferred to a new employer with protection for pay, conditions of service together with recognition agreements. Such protection does not apply to new starters and experience shows that most employers operate a two tier wage policy.

New regulations and guidance on workforce matters for procurement under Best Value are due to come into force early in 2001. The Government

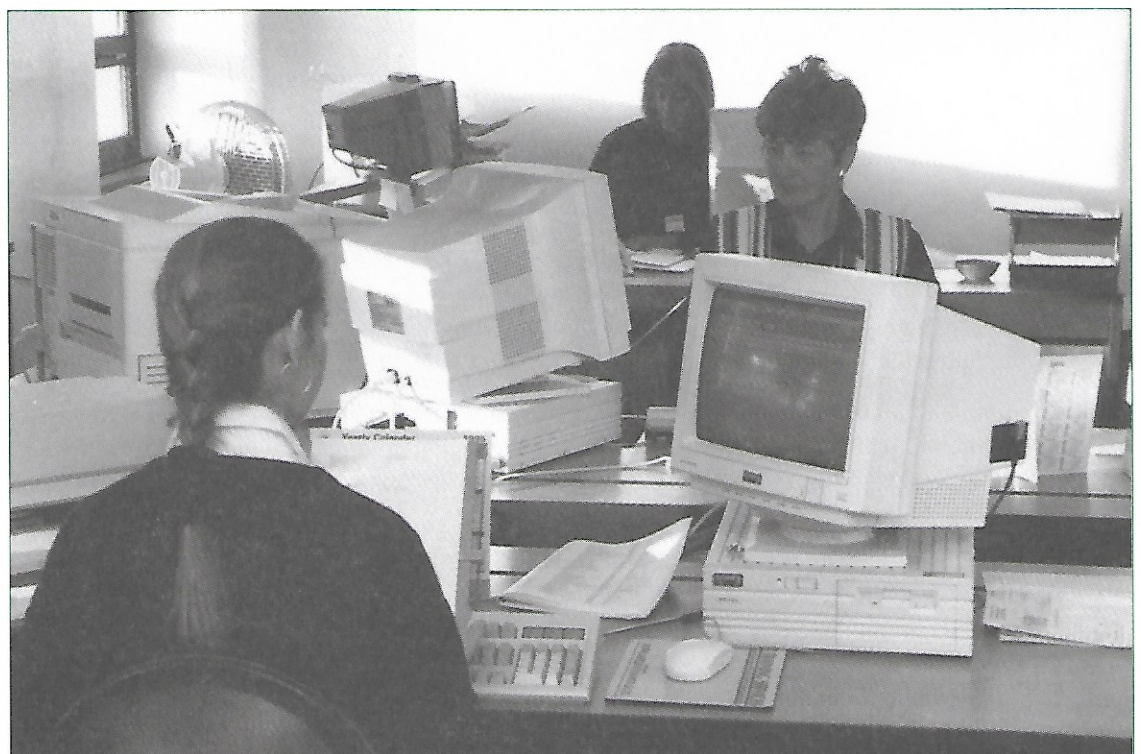
will amend the procurement provisions of Part II of the Local Government Act 1988 so that local authorities can have regard to workforce matters in relation to quality and Best Value. Currently, local authorities are unable to enquire about a contractor's workforce and management practices. In addition to TUPE, training and development, health and safety, local authorities be able to take into account compliance with equalities legislation and Codes of Practice, as well as equalities service requirements. The changes should strengthen the protection of transferred staff but they are unlikely to have a significant impact for new staff. The social and economic consequences of lower pay and conditions for new staff will hinge on contractor's management policies and staff turnover.

Consequences for evaluation of ICT and outsourcing proposals and partnerships

The findings of the audit indicate the importance of developing a comprehensive and rigorous evaluation process for all contracts and partnerships. The audit also identifies criteria which need to be built into the regular monitoring and performance assessment of all projects.

Development of social and economic audits

The Centre for Public Services has developed the technique and application of social and economic audits in public services. The Jobs Audit in Sheffield (1985) and the audit component of the Manchester Employment Plan (1987) identified the important role of the public sector in the local economy. A Social and Economic Audit of the Royal Hospitals Trust, Belfast (1993) assessed the impact of the planned rationalisation of specialities at the Royal and City hospitals and the impact on jobs and the West Belfast community. This was followed by an audit of the employment impact of market testing support services at the Down Lisburn Hospital (1995). The national costs and savings of CCT were calculated as part of the research for the Equal Opportunity Commission study on the gender impact of CCT in local government (1995). The Centre has further developed the social audit technique having recently completed an equality impact assessment of the revised Capitation Formula which allocates hospital, community health and personal social services revenue resources for the Department of Health, Social Services and Public Safety in Northern Ireland.



Part 1 Employment impact of outsourcing and transfer proposals

Introduction

This section identifies the scope of potential outsourcing and transfer proposals together with their current staffing levels. It identifies the level of potential job loss, the likelihood of changes in the terms and conditions for new staff and the impact of staff turnover. This section is divided into the following sections:

- Existing and proposed Private Finance Initiative projects
- Information technology (IT) and IT Related Services (ITRS)
- Outsourcing of other services
- Housing stock transfer
- Going for Growth demolition
- Connexions - Youth Service
- Knock-on effect on Cityworks

Existing and proposed Private Finance Initiative projects

Schools PFI: The first PFI schools project is proceeding which involves the redevelopment/replacement of one secondary school (Heaton Manor) 3 middle schools (Gosforth Central,

support services such as cleaning and catering (see also ADLO, 1999).

Street lighting PFI: A scheme is being developed, possibly in collaboration with North Tyneside, which could involve the transfer of between 20-40 staff mainly engaged in the repair and maintenance of street lighting plus support services staff.

Car parking: Capital investment is expected to be funded by the City Council and will therefore not involve the transfer of staff.

Housing: It is unlikely that a housing PFI scheme will be developed in the immediate future as the eight government housing pathfinder schemes have been hit by delays. However, this assumes that the government will wait to assess the pathfinders before deciding whether to expand the scheme. This approach was not followed with Best Value when the government proceeded with legislation before the Best Value pilot authorities had been evaluated. If the city council did proceed with a PFI housing project, which is suitable only for small areas or estates and not large scale stock transfer, it is assumed that this would be within, rather than additional, to the transfer assumption made below.

Social services: It is expected that the city council's capital programme will be used to finance investment.

Leisure: Although a PFI scheme may be considered, it is equally likely that a proposal to transfer the service to a leisure trust may also be considered. This would involve the city council establishing a new non-profit organisation which would takeover responsibility for service provision. Trusts are run by a board of between 10-20 members which usually include community, business, staff and council representatives. Staff cease to be council employees and would transfer to the trust although the city council would retain ownership of the leisure facilities. The primary objective of transfer is usually to make financial savings through business rate relief and VAT.

There are currently 351 posts (260.7 FTE) in Leisure Services divided between APT&C staff with 222 posts or 169.2 FTE and 129 manual posts or 91.5 FTE (Source: Medium Term Plan, Director of Strategic Support, Cabinet Committee, 16 February 2000). The council could supply support services to the trust for only a year after the transfer. An estimated further 20 jobs in these support services will be lost from the city council as a result of a trust transfer. Although these are jobs reduce the city council's workforce the work would continue to be provided by a range of private companies.



Gosforth East and Throckley), one first school (Westerhope) and one primary school (Wingrove) plus a new first school at Brunton. The PFI project will cost £56m (net present value) and will require the transfer of about 60 staff to the PFI facilities management contractor (Source: Newcastle Schools PFI Project: Outline Business Case, February 2000). An additional similar school PFI project is planned which is expected to have a similar employment impact. The total employment impact will thus be about 120 staff in school

Employment change

Job loss: TUPE transfer would protect full/part time staff but turnover of casual workers and some part-time staff will create opportunities to restructure staffing levels. This has occurred in most transfers to Trusts (UNISON, 1998). The audit assumes the casualisation of all part-time staff with a 10% loss of jobs - 35 jobs. The city council would be able to provide support services to the trust for a maximum period of one year following transfer after which the trust will be required to purchase services from the private sector. The transfer of support services to the private sector will result in a loss of work for Cityworks but will increase work for private firms. There is also likely to be a 20% job loss as a result of the transfer of support services to the private sector.

Change in pay and conditions: There are likely to be reduced earnings for staff employed on casual basis and a 15% reduction in terms and conditions for new starters.

Impact of staff turnover: A 40% staff turnover rate has been assumed over a five year period.

Vehicle replacement: There are currently no plans for a PFI project.

Information technology (IT) and IT Related Services (ITRS)

The city council is planning to seek a partner(s) to streamline its back-office services, particularly IT and related services. The indicative range of services includes information technology, council tax, benefit administration, business rates, payroll, collection of non-tax income (excluding housing rents), cashiering and payments to third parties. A procurement process is expected to commence in November 2000 concluding with a potential transfer in early 2002.

There are currently 146 posts (137 FTE) in IT services, many of whom are outposted to directorates, covering strategic services, IT development, support services and IT operations. In addition, there are a further 420 posts (396 FTE) in IT related services which include council tax, benefit administration, business rates (NNDR), payroll, cash receipting, cash collection including housing rents and car parking, payments and sundry debtors. The total staffing of IT and ITRS is therefore 566 posts or 533 FTE. (Source: Medium Term Plan, Director of Strategic Support, Cabinet Committee, 16 February 2000).

However, strategic partnerships in other local authorities have incorporated a wider range of services because the private sector have been involved in scoping the services to be outsourced and local authorities such as Lincolnshire and Bedfordshire used the strategic partnership to

include remaining DSO services following their closure or already outsourced services which required retendering. Therefore the following employment changes are conservative estimates.

Employment change

Job loss: Assume 20% job loss as a result of transfer to a private contractor - this will include any reduction in posts between now and transfer as a result of early retirements.

Change in pay and conditions: New staff are likely to have less favourable terms and conditions, assume a 15% reduction.

Impact of staff turnover: A 40% staff turnover rate has been assumed over a five year period.

Wider ICT employment implications

Two further issues need to be recognised although they are not taken into account in the audit. Firstly, the IT/ITRS contract could encompass a wider range of services than those identified above. Although it is the city council's intention to limit the scope of the contract to the specified services, the partnership approach encourages private firms to make proposals for a wider range of services and/or assets. If the scope of the contract is widened then the employment implications will be more far reaching than those predicted in this audit.

Secondly, the city council is advertising for a 'Digital City' provider to develop an internet portal, the provision of broad band access to the entire city together with public access terminals. At this stage it is too early to be able to identify the impact on the city council and the additionality component of this project.

Outsourcing of other services

Since the Medium Term Plan was approved by the Cabinet in early 2000, it has emerged that Cityworks is planning the selective outsourcing of grounds maintenance, in particular, the grass cutting functions. It is estimated that 50 full-time staff will be affected by this change.

Employment change

Job loss: A 20% job loss is almost certain to be accompanied by a switch to seasonal working resulting in the loss of 10 jobs.

Change in pay and conditions: Evidence from other local authorities indicates an average 20% differential.

Impact of staff turnover: A 50% staff turnover rate has been assumed over a five year period.

Outsourcing school support services

One school has outsourced support services to Sodexo, the multinational services group, and the Gosforth pyramid of 13 schools (a secondary school and a group of middle and primary feeder schools) is currently considering a similar move.

Employment change

Job loss: There are currently 123 Cityworks staff engaged in catering, cleaning and caretaking in the Gosforth pyramid of schools. Outsourcing is likely to result in a 20% job loss, ie 25 jobs.

Change in pay and conditions: A 20% reduction in terms and conditions has been assumed for new staff.

Impact of staff turnover: A 50% staff turnover rate has been assumed over a five year period.

Housing stock transfer

Consultants are currently carrying out a housing stock options appraisal for the city council. We have assumed that a Large Scale Voluntary Transfer of the city council housing stock will not be a viable option because of political and tenant opposition. Instead, a partial strategy is likely to be adopted which will involve smaller scale stock transfers on an area or estate basis. Transfer is likely to be promoted where major

improvements are required and vacant land may be sold to developers as part of PFI or partnership projects. The audit has assessed the employment impact based on 15% of the stock being transferred, either through PFI, securitisation or traditional stock transfer, over the next five years, assuming that a majority of tenants vote for transfer. This would require the transfer of about 5,300 dwellings in one or more areas or estates.

There are currently 703 posts (648 FTE) in the provision of council housing management services - see Table 1.1

Employment change

Job loss: If 15% of the stock is transferred to RSLs or developers over a five year period this would effect, on a pro-rata basis, a similar percentage of the housing staff, about 105 posts or 95 FTE. The audit assumes a 10% reduction in staff, 10 jobs. RSLs may rationalise their operations after transfer as they consolidate new transferred stock with existing operations. This may be achieved without redundancies but there is likely to be a net loss in the overall number of jobs.

Change in pay and conditions: There is unlikely to be a marked differential in comparable terms and conditions and a few senior managers will probably have wage increases. However, a new employer is likely to appoint staff at lower grades hence still achieving cuts in labour costs.

Impact of staff turnover: A 40% staff turnover rate has been assumed over a five year period.

Table 1.1: Current staffing levels in housing management

General Management HRA functions	Posts	FTE
Neighbourhood management	319	273
General administration	60	55
Renewal staff	30	28
Management and administration	17	17
Repairs and maintenance	21	20
Caretaking	52	52
Sheltered housing and group bungalows	36	36
Community care alarm system	27	27
Secure accommodation, concierge and porters	89	89
Homeless accommodation	24	24
Misc services	28	27
	703	648

Source: Medium Term Plan, Director of Strategic Support, Cabinet Committee, 16 February 2000.

Note these figures are based on Housing Revenue Account expenditure only and do not take account of other housing and regeneration functions within the Community and Regeneration Directorate.



Cityworks repairs, maintenance and other services

Clearly, any transfer of the city council's housing stock will have a knock-on impact on Cityworks services to council housing such as

repairs and maintenance, cleaning, minor and capital works. Cityworks has over 900 staff dedicated to providing services to council housing - see Table 1.2. The repairs and maintenance section includes 22 FTE apprentices and trainees.

Employment change

Job loss: A 15% housing stock transfer would affect some 139 staff in Cityworks. In theory, repair and maintenance staff could be transferred to the RSL (or another agency) but this would depend on a number of factors. A transfer is likely to result in a 20% job loss, about 28 jobs.

Change in pay and conditions: There is likely to be a 15% differential in the pay and conditions of service between the city council and constructing companies and their sub-contractors.

Impact of staff turnover: A 40% staff turnover rate has been assumed over a five year period.

Going for Growth

The Housing Business Plan 2000-2005 proposes the demolition of 4,000 council dwellings, 11.25% of the housing stock although a much higher proportion of council houses in the West and East of the city. Demolition is also proposed in the Going for Growth strategy although no decision has been made on specific numbers.

Table 1.2: Impact of housing transfer on Cityworks services

Services	Budgeted staff	% Housing	Potential job loss
City Build			
Contracts	233	55	128.15
Mechanical and electrical	196	53	103.88
Maintenance	384	85	309.40
Other Cityworks subcontracted services	100	85	85.00
Sub total	893		626.43
Other Services			
Estate cleansers	13	100	13.00
Pest control	7	28	1.82
NFS	2	100	2.00
Grounds maintenance	208	32.5	67.60
City Design	142	48	68.16
Void alarms	3	67	2.01
Housing cleaners	741	20	148.20
Sub total	1,116		302.79
Total	2,009		929

Source: Cityworks, 2000

Employment change

Job loss: A reduction of 11.25% in the stock will result in the loss of approximately 79 housing management jobs plus 104 jobs in Cityworks repairs, maintenance and other services provided to council housing - a total loss of 183 jobs. These are job losses, not transfers because the stock will be demolished. The construction of new private and social housing and commercial development will create replacement employment for a limited period with ongoing repair and maintenance also likely to be carried out by the private sector.

Connexions - Youth Service

The government has formed a number of quasi-public bodies to 'modernise' youth and education services, for example, the Youth Justice Board and Youth Offender Teams, Learning and Skills Councils and the new Connexions Service. They are effectively purchasers of services funded by new payment mechanisms linked to individuals. Democratic representation on these new bodies is minimal.

Connexions Partnerships will be responsible for strategic planning and funding at the sub-regional level (same as Learning and Skills Councils) with local management committees at individual or

groups of local authorities. A network of Personal Advisers will be created to "take responsibility for ensuring all the needs of a young person are met in an integrated and coherent manner" (DfEE, 2000). This will include health, housing and welfare in addition to traditional functions of careers and training advice. It will be an output target driven service and will be delivered by Connexions Partnerships formed by public, private, voluntary and community organisations. Careers Services companies are expanding to take on this new work. UNISON supports the aims of Connexions but is highly critical of the plans and timetable (UNISON, 2000).

The youth service is part of the Children and Young Peoples Section, Community & Housing Directorate. The service provides youth centres, play centres, holiday play schemes, after school clubs, detached/outreach projects, training schemes and special needs schemes for children and young people. The 1999 OFSTED inspection report of the youth service gave similar figures with staff equally divided between children and youth work. The Medium Term Plan referred to a total of 141 posts in the section of which 49 were full-time and 92 part-time (49.5 FTE). For the purposes of the audit, the staffing of the youth service is taken to be 50% of the total, 70 posts consisting of 24 full time and 46 part time.

Table 1.3: Employment change summary table

Service	No of / jobs affected	Estimated job loss	No of jobs transferred	*No of jobs affected by changes to terms and conditions
IT/ITRS	566	113	453	181
Housing	105	10	95	38
Cityworks services to council housing	139	28	111	44
Going for Growth demolition	183	183	-	-
PFI school project	60	6	54	30
- other school PFI projects	60	6	54	30
- street lighting	40	5	35	14
Other school support services	123	25	98	49
Leisure services	351	35	316	150
Leisure support services	20	4	16**	16
Grounds maintenance	50	10	40	20
Connexions: Youth Service	70	10	60	24
Totals	1,767	435	1,332	596

* Over 5 year period based on different turnover rates for each service as noted in text. This assumes that there is no change in the terms and conditions of transferred staff.

** All jobs would not be transferred as such but work will be resourced from private firms.



Employment change

Job loss: There is a distinct possibility that the city council's youth service will be transferred to a new Connexions Partnership in the next few years. Some 70 staff would transfer to a new employer. There are likely to be substantial changes to job descriptions and the organisation of work affecting full and part-time staff. Tyne and Wear is one of 16 first phase areas where the service will be established from April 2001. The merging of services between local authorities will almost certainly lead to job losses and a 15% reduction (10 jobs) could be expected.

Change in pay and conditions: There is likely to be a 15% differential in the pay and conditions of service for new staff between the city council and a partnership employer.

Impact of staff turnover: A 40% staff turnover rate has been assumed over a five year period.

Summary

The potential combined impact of the above proposals will affect some 1,747 staff (12.5% of the total current workforce of 14,006 posts - February 2000). The audit estimates that 435 jobs will be lost and of the 1,332 jobs transferring to the private and voluntary sectors some 580 will be affected by changes to terms and conditions of employment - see Table 1.3. This is a minimum figure because it assumes that there is no change in the terms and conditions of transferred staff, only for new staff.

Knock-on impact on Cityworks

The combination of all the above proposals will have a substantial impact on Cityworks. The combined impact of the demolition of 4,000 dwellings under Going for Growth and transfer of

15% of the stock could result in reducing the housing stock by a quarter and reducing Cityworks services by a similar proportion. Cityworks would also bear the brunt of the transfer of work through PFI projects, ITRS and schools outsourcing and a transfer to a leisure trust. Although it is not possible to identify the number of staff in Cityworks who would be affected by the IT/ITRS contract, it is estimated that about 70% of the total number of jobs affected by outsourcing and privatisation will be in Cityworks, nearly a quarter of the directorate's workforce.

The level of impact will affect Citywork's unit costs, economies of scale and competitive capacity, and in the longer term, the viability of provision of some services. It is likely to result in some reorganisation and restructuring which have their own costs and associated job losses. Citywork's training and apprenticeship schemes are also likely to suffer.

Corporate impact

It is essential that the city council continually assesses the corporate impact of all outsourcing and privatisation proposals to ensure that the full ramifications are identified and scrutinised (see also Part 2).

It is important to identify which of the outsourcing and transfer proposals are for decision by the city council or are required by government. This is summarised in Table 1.4.

Table 1.4: Responsibility for outsourcing and transfer decisions

Level of government	Outsourcing and transfer proposals
Required by central government	Connexions youth service
Promoted by central government	PFI Transfer of council housing (but dependent on tenant ballot)
City council decisions	ITRS outsourcing Outsourcing grounds maintenance Leisure trust
School governors	Outsourcing support services

Part 2 The impact on local economy

Knock-on effect on local economy

The calculation of the knock-on effect of city council job losses in the local economy must take into account the proportion of full/part time jobs and the wage levels. The ratio of posts to FTE is 106% which indicates a very high proportion of full-time jobs particularly in white collar services, housing management and repairs and maintenance. The average wage is also substantially higher than that found in the CCT research studies. For example, the average labour cost of IT and related services was £20,725 per FTE in 1998/99 compared to average leisure services employee costs in 2000/01 of £14,978 per post or £20,166 per FTE. In housing management average employee costs are £18,548 or £20,122 per FTE (Source: Medium Term Plan - city council employee costs include pension and employers National Insurance costs hence gross wages are about 15% lower. The average gross salary for joiners/bricklayers in Cityworks is £19,700 and £20,770 for plumbers (Source: Cityworks).

The loss of city council jobs will have a knock-on effect on jobs in the local economy, particularly in private services such as retailing and related services. Research has identified multipliers between 1.15 - 1.35 depending on the ratio of full/part time jobs and wage levels in the particular sectors concerned (Centre for Public Services 1987, 1993, 1995). In this instance, a multiplier of 1.25 is sustainable - in other words, for every 4 jobs lost in the city council 1 additional job is lost in private services in the local economy because of reduced spending power. The combined annual loss of earnings as a result of the projected job losses and changes to terms and conditions is estimated to be £7.5m. The multiplier takes into account the payment of tax, national insurance and pensions which is not spent in the local economy and the availability of benefits and redundancy payments. It also takes account of a proportion of spending outside the local economy. Thus the loss of 435 council jobs will lead to the loss of an additional 109 private sector jobs, primarily in private services.

But the loss of spending power is not limited to the loss of jobs. Reduced pay and conditions for new staff employed on outsourced work also impacts on the local economy. A 15% reduction in wages for 596 staff (see Table 1.5) will have about the same impact as the loss of 88 council jobs, equivalent to a further 22 job losses in the local economy as a result of a further reduction in spending power. In summary, the total job loss will be 566 - see Table 2.1.

The term 'local economy' requires qualification because city council employees live in different

Table 2.1: Projected council and local economy job losses

Projected job losses	
Newcastle City Council	435
Private sector jobs in the local economy	109
Loss of jobs due to reduced pay and conditions	22
Total	566

parts of Tyneside. Some 60% of Cityworks staff reside in Newcastle and a further 26% reside in the three other Metropolitan Districts on Tyneside (Gateshead, North Tyneside and South Tyneside) see Table 2.2. Assuming the residence of city council staff is the same as that of Cityworks, the Newcastle economy will also be affected by the 40% of staff residing outside the city because the city has a key role in the Tyneside economy and is also the regional capital. The 131 job losses in the local economy will have a similar distribution to that indicated in Table 2.2.

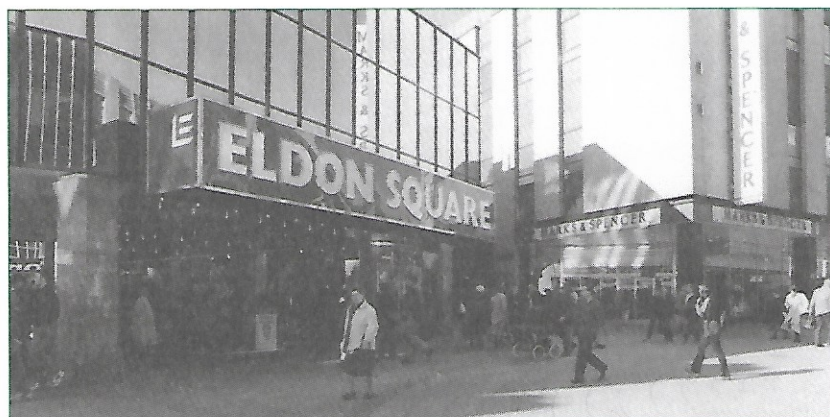
Gender impact

An analysis of the gender impact of job losses reveals a 57/43 male/female division with men suffering 248 jobs losses compared to 187 for women. The gender division varies widely between the services as shown in Tables 2.3 and 2.4. The proportion is reversed for the staff potentially suffering changes to terms and conditions. We estimate some 596 staff, of whom 314 will be women, will be subjected to these changes over a five year period.

A total of 1,031 jobs will be affected by displacement and changes to terms and conditions after transfer of which 501 (49%) are performed by women compared to the 530 (51%) performed by men - see Table 2.5.

Low paid women employees affected in IT related services

There also gender differences in the structure of employment within certain services. For example, 79% of the female staff in one section of ITRS (customer services, business rates, accounts and recovery) were in grades Scale 2/3/4 compared to 65% of the male staff. 19% of the male workers were PO/SO grades compared to 3% of the female staff.



Changes in local purchasing of goods and services

Outsourcing services to private companies will have a detrimental effect on the city council's policy of local sourcing of goods and services. Firms bidding for strategic partnerships are national or transnational and have their own preferred sourcing of goods and services from national or international suppliers. Cityworks has a policy of working with a network of local suppliers and subcontractors which would be put in jeopardy by outsourcing and transfers. This could result in further local job losses although it is not possible to predict them at this stage.

Table 2.2: Residential location of council employees

Residence of Cityworks staff	%	No of job losses
Newcastle	60	261
North Tyneside	13	57
Gateshead	10	43
Northumberland	9	39
Durham	3	13
South Tyneside	3	13
Sunderland	2	9
Total	100	435

Source: Cityworks, 1998.

Table 2.3: Gender division of city council job losses

	% female staff	% male staff	No of female staff	No of male staff
IT/ITRS	60	40	68	45
Housing	50	50	5	5
Cityworks housing services	15	85	4	24
Going for Growth				
housing management	50	50	40	39
repairs and other services	15	85	16	88
PFI schools project	75	25	5	1
- other school PFI projects	75	25	5	1
- street lighting	5	95	0	5
Other school support services	75	25	19	6
Leisure	50	50	18	17
Leisure support services	50	50	2	2
Grounds maintenance	0	100	0	10
Connexions: Youth Service	50	50	5	5
Total	-	-	187	248

Impact on the rest of the city council

Outsourcing and privatisation of services is likely to have a number of wider effects on the city council:

1. It could lead to destabilisation and the threat of outsourcing or transfer hanging over directorates and services, particularly Cityworks.

2. Increased insecurity for the remaining city council staff who will face the continuing threat of further outsourcing and transfer. This could affect recruitment and retention of existing staff and their commitment to the management of change.

3. Future Best Value reviews will have a contractor 'ready and waiting' when it comes to the options appraisal and competition requirements.

4. There is substantial evidence that private firms with multi-service contracts adopt a policy of

identifying and targeting additional services in the city council which they wish to provide.

5. On-costs of the remaining city council services are likely to rise leading to further pressure to reduce costs and increase the threat of outsourcing.

6. Additional PFI projects could contribute to the emergence of a rolling programme of outsourcing and transfers. PFI projects are likely to have a spiralling effect with each new PFI project having an impact beyond that of the project itself, the accumulated impact could ultimately threaten the viability of particular services.

7. Further rationalisation of private sector FM contracts in the region is likely, resulting in further job losses. Contractors will be seeking to achieve rationalisation of PFI projects across the public sector with strategic partnership contracts to obtain further economies of scale and to strengthen their market position.

Table 2.4: Gender impact of potential changes to terms and conditions of employment

	No of staff affected	% female staff	% male staff	No of female staff	No of male staff
IT/ITRS	181	60	40	109	72
Housing	38	50	50	19	19
Cityworks housing services	44	15	85	7	37
PFI schools project	30	75	25	23	7
- other school PFI projects	30	75	25	23	7
- street lighting	14	5	95	1	13
Other school support services	49	75	25	37	12
Leisure	150	50	50	75	75
Leisure support services	16	50	50	8	8
Grounds maintenance	20	0	100	0	20
Connexions: Youth service	24	50	50	12	12
Total	596	-	-	314	282

Table 2.5: Summary of the gender % employment impact

	Women No of jobs	%	Men No of jobs	%
Job losses	187	43	248	57
Changes to terms and conditions	314	51	282	49
Total	501	-	530	-



The public cost of outsourcing

The cost of outsourcing is in two parts. The first covers the project, procurement and transfer costs borne by the city council and the second covers the public cost of loss losses which are borne primarily by central government.

Project, procurement and transfer costs

IT/ITRS strategic partnership: Advisers costs to cover legal, management consultants and financial advisers fees are likely to be about £350,000 - £500,000 based on evidence from other local authorities. This excludes the cost of officer time.

Housing transfer: The average cost of the transfer of housing is £600 per dwelling producing a total cost for 5,300 dwellings of £3.1m.

PFI schools project: PFI tendering, consultants and advisers fees vary between 2%-5% of the cost of schemes depending on the complexity and nature of the scheme. A 2% cost will incur £1.1m fees.

Other school PFI projects: A PFI project of similar size to the first scheme will incur the same level of advisers and consultants costs, ie £1.1m.

PFI Street lighting: A £50m PFI street lighting project will incur similar legal, adviser and consultants costs to the above, about £1m.

Leisure Trust: Transfer to a trust costs an average £200,000 in advisers fees, legal and related costs (Source: Leisure and Library Trusts, UNISON 1998 and additional CPS research).

Connexions Youth service: The cost of a transfer of the service and staff, mainly legal, consultants and advisers costs, is likely to be between £150,000 - £200,000.

The total cost of these projects is estimated to be £7m. This does not take into account the cost of establishing city council client and monitoring systems nor the cost of city council staff time in the procurement and transfer process. This is an opportunity cost, in other words, staff could have been employed implementing service improvements or other projects to enhance services.

The public cost of job losses

A research study which was part of the Equal Opportunities Commission study on the gender impact of CCT in local government provided detailed evidence of the public cost of contracting out (Centre for Public Services, 1995). The study calculated the cost of benefits and their administration, employment measures and local authority measures to mitigate unemployment to be £7,083 per unemployed claimant at 1993/94 prices. It also calculated the additional cost of unemployment resulting from the loss of government income such as inland revenue, national insurance contributions, VAT and indirect taxes. This was based on 24% of the 12,587 job losses in the EOC study being entitled and claiming unemployment benefit. It also calculated the loss of income from cuts in working hours and reduced earnings. The total public cost of job losses and associated changes in hours and earnings in 39 case study authorities was £41.2m. This can be also expressed as £3,273 per public sector job loss in 1993/94.

There have been a number of changes since the mid 1990s such as changes in tax rates, inflation, the introduction of new benefits, employment and training measures. There are also differences in the jobs profile between the EOC and Newcastle studies with the latter having a higher proportion of full-time jobs. It has not been possible, within the terms of this study, to recalculate the public costs. However, if the differences between the two studies and the changes in circumstances between 1993/4 and 1999/2000 are considered to cancel each other out, the public cost of the outsourcing and transfer proposals contained in the audit is estimated to be £1.4m per annum (£3,273 x 435).

If the share of these costs was the same as that in the earlier study (central 94.7%, local 5.3%) the cost to the government will be £1.3m per annum and £75,000 per annum for the city council.

The combination of project, procurement and transfer costs and the city council's share of the public costs associated with job losses gives a total cost to the city council of £7.1m.

The cost of job creation

The job losses may be compensated by newly created jobs. However, the audit reveals that the number of jobs must exceed 566 before they can be

classified as 'new' or 'additional'. The cost of replacing these jobs will be substantial. The average cost per job in English Partnership regeneration projects was £23,000 (more than twice the agency's benchmark of £10,000) and the agency's estimates of the number of jobs created were four times greater than those actually created (House of Commons, 2000). On this basis the cost of replacing 566 public and private sector jobs would be £13m in public investment.

The outsourcing and privatisation of services, involving both jobs loss in both the public and private sectors and changes in terms and conditions, will have a number of social and economic knock-on effects. This section identifies the type of impacts although it is not possible to provide quantifiable data at this stage.

Part 3 The social and economic impact

Introduction

The outsourcing and privatisation of services, involving both jobs loss in both the public and private sectors and changes in terms and conditions, will have a number of social and economic knock-on effects. This section identifies the type of impacts although it is not possible to provide quantifiable data at this stage.

Outsourcing and transfers

Impact on low paid: The social consequences of new patterns of employment on family life, for example, the impact of a 24 hour service on shift patterns, call centre employment environments and increase flexibility expected of part-time employees.

Reduced training opportunities: Transfer of work to the private sector could result in fewer training opportunities because private firms and third sector organisations generally have fewer and less comprehensive training schemes.

Rent increases for new tenants: The transfer of housing stock usually results in all new tenants being charged high rents, often between 15% - 20% higher than existing tenants transferring to a new RSL. Furthermore, transferred tenants are also likely to face rent increases once rent freezes negotiated at the time of transfer expire and rent assessment schemes are redesigned.

Lack of participation: There is very limited

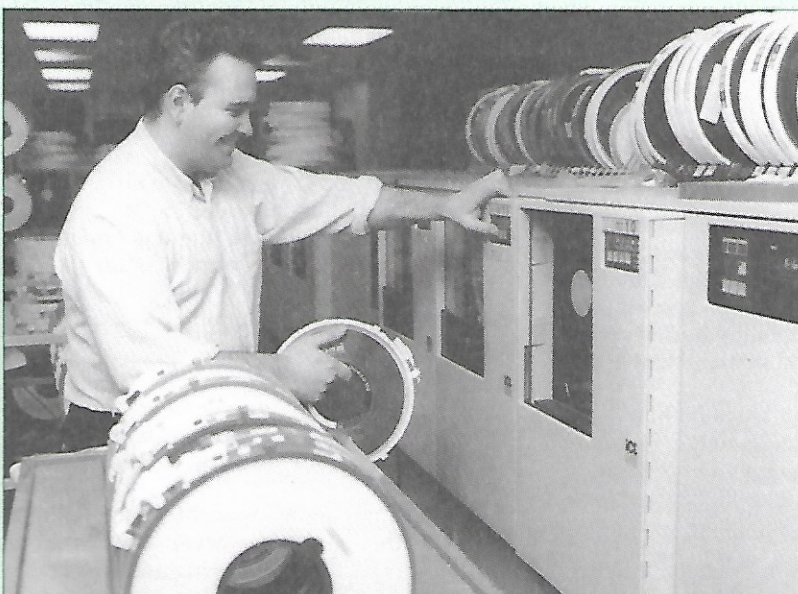
community and employee participation in the key decisions affecting most of the outsourcing and privatisation proposals. These policies are designed, planned and approved with minimal or no involvement of the people directly affected. It will be particularly important to ensure participation in the application of ICT systems both within the city council and the community in order that they are geared to meeting social need rather than being solely driven by technological change and business interests.

Increasing democratic deficit: Outsourcing and privatisation requires the extension of client and contractor functions making participatory democracy more complex and difficult, particularly if there is a multiplicity of providers. Token involvement in strategic partnership boards which will be dominated by the business agenda and commercial confidentiality will do little to increase social inclusion.

Increased insecurity: Increased emphasis on the contracting system leads to greater insecurity for services and jobs.

Undermining of social needs: Outsourcing and transfers frequently result in services and functions being organised, for example the scope, size and length of contracts, on the needs of private and voluntary providers rather than the needs of service users.

Quality of employment is important in reducing social exclusion: The security of jobs, wage levels which take people out of the benefits trap, training provision, conditions of service and family friendly policies are important ingredients in reducing social exclusion.



Information technology and related services

Potential failure of housing benefits service: The outsourcing of housing benefit administration has proved to be highly controversial with 14 local authorities experiencing major problems, four of which have terminated contracts. Service failures have the greatest impact in the most deprived neighbourhoods where there is a high level of dependency on housing benefit. The scale of the problems in other authorities has led to housing associations experiencing major financial difficulties as a direct consequence of benefit backlogs and delays.

Democratic accountability and access reduced by 'partnership' between council and contractor: There is little or no track record of how ICT and strategic partnerships operate in practice because they are relatively new and untested. One result

could be the potential loss of accountability as a partnership board becomes little more than a subcommittee of the cabinet and constrained by commercial confidentiality leaving user and community organisations and backbench Elected Members with limited involvement.

Over-reliance on and investment in ICT at the expense of basic services which rely on personal service and human labour: A focus on 'new' means of access to information and communications technology could result in an over-emphasis on a customer relations strategy and not enough attention paid to the provision of basic services.

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

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

Equality impact assessment

There is not the scope within this audit to undertake a full equality impact assessment which should certainly be undertaken if any of the proposals reach a more developed stage. There are a number of equality groups based on gender, race, age, physical and learning disability, marital status, with/without dependents and sexual orientation.

It would be important to identify how each equality group is potentially adversely affected by outsourcing and transfer proposals and to identify what action can be taken to minimise adverse impact.

The criteria could include service quality,

access, size of the population in the equality group, identification of unmet needs, existing utilisation of services, geographic availability of services and support, socio-economic factors, the extent to which are equalities mainstreamed in service provision, access to training and lifelong learning, quality of employment and mainstreaming and social relations between users and frontline employees.

At this stage the audit identifies some of the ways in which outsourcing and transfer could adversely affect equality groups. This analysis is based on the differential track record between public and private, quasi-public and voluntary sector organisations with regard to the implementation of equalities in service provision and employment. Of course, a particular organisation may provide a higher standard than that achieved by the city council (which falls short of achieving best practice in certain aspects of equalities).

Service provision

- delays in housing adaptations for physically disabled;
- new landlords may make changes to allocations policies which may restrict access for different groups;
- organisations representing equalities groups will face a larger number of providers and employers in campaigning for equalities provision;
- the geography of equality is likely to become more uneven, fragmented and piecemeal;
- increased disputes between client, contractors, partnerships and other providers over responsibilities for the provision and implementation of policies and practices to eliminate inequalities;
- business and commercial criteria are given equal or higher priority over social and community needs.

Employment

- the EOC study of competitive tendering identified discrimination and widening inequalities and larger outsourcing contracts are likely to a similar or greater impact;
- fewer apprenticeship and training opportunities;
- fewer employment opportunities for the physically disabled;
- reduction and/or longer delay in implementing family friendly policies.

Health impact assessment

A health impact assessment is not within the scope of this audit, however, the social and economic impact of outsourcing and transfers will

have a health dimension. This could include the following:

- health impact of increased unemployment
- health and safety in call centres
- health impact of new and/or increasing user charges for services lead to the elderly and the poorest being unable or afraid to access these services.
- increased stress at work
- health impact of reduced earnings as a result of outsourcing and transfer.

Assess impact on deprived wards

Newcastle has five wards (Scotswood, Walker, Elswick, Monkchester and West City) in the top eight of 711 wards in the North East based ranked in the Index of Local Deprivation (based on unemployment, children in low earning households, overcrowded housing, housing lacking basic amenities, households with no car and educational participation at age 17).

We do not have a ward breakdown of residence for the city council's workforce. Clearly, a significant number of manual and administrative staff will reside in inner city neighbourhoods. Such areas will be particularly hard hit by outsourcing and transfers for the following reasons:

- Inner city neighbourhoods have a high level of dependency on the provision and quality of council services, for example, some 70% of council tenants are in receipt of housing benefit, higher levels of homecare services, and lower levels of use of computers.
- Job losses in both the city council and the local economy will increase unemployment in inner city neighbourhoods.
- Reduced earnings for new staff on outsourced contracts and transferred functions will negatively affect the spending power in these neighbourhoods.
- Regeneration areas and initiatives require strong and effective public sector provision in order to have a substantive effect in increasing social inclusion.

Impact on regeneration and economic development

The assumptions about additional jobs created by a business centre are very difficult to quantify at this stage. A number of points are pertinent. Firstly, the contractor will have to win additional contracts before any new jobs can be generated. There is a wide gap between having a plan to win contracts

and actually winning them. The track record of the private sector is winning additional work after local authorities had externalised professional services and DSOs in the 1990s was very poor. Interviews and presentations by contractors were full of 'promises' of new work which in practice did not materialise. Even the very large multinational firms have found it difficult to obtain third party work.

Secondly, if private firms win additional contracts they will need fewer and fewer staff to be transferred because economies of scale will ensure that existing staff will undertake part of the additional work. This will affect residents of Newcastle who work in neighbouring authorities. So far from creating additional employment on Tyneside, a call/business centre could result in a net loss of jobs. It becomes a mere technicality that a Newcastle based business centre increases the number of jobs within the centre but Newcastle residents (working for Newcastle and neighbouring local authorities) suffer a net loss of jobs.

The audit clearly demonstrates that before a regional business centre and/or the Going for Growth strategy create any additional jobs they must first replace the 435 jobs lost as a result of outsourcing and transfer. If these jobs do not have comparable terms and conditions to city council jobs then the replacement figure will need to be somewhat higher to take account of the new jobs having less impact in supporting employment in the local economy.

Social, economic and environmental well being of the community

Local authorities have new powers under the Local Government Act 2000 to develop community strategies to improve the social, economic and environmental well-being of their area. The city council is required to produce a community plan to demonstrate how it will put such objectives into practice.

The draft government guidance on Community Leadership and Community Planning recommends that local authorities prepare a community strategy which:

- "promotes an outward focus on the needs of the community at large, its wellbeing and sustainable development;
- promote a holistic view of social, economic and environmental wellbeing and their interconnections;

- focuses attention on tackling causes with preventative or anticipatory measures;
- develops and monitors indicators of wellbeing together with 'general health' and service specific performance indicators;
- challenges or tests current services, policies and practice against their impact on current and future wellbeing."

This social and economic audit demonstrates how community needs, a holistic approach to wellbeing and impact analysis can be combined to provide evidence which will underpin the development of a community strategy. It provides evidence that a policy of outsourcing and transfer is not compatible with improving community wellbeing for the following reasons:

- Resources which may be saved internally within the city council are likely to be spent externally in combating the social and economic consequences caused by the city council's outsourcing and transfer policies.

So the claim that outsourcing so-called back-office services can produce savings which can be used to improve frontline services and create more jobs is simplistic.

- By contracting and transferring provision to private and voluntary sector providers, the city council is in danger of weakening and diluting its power and capacity to improve the well-being of the community.
- Rather than making services more accountable to communities, outsourcing and transfers are likely to reduce accountability, being limited to that which can be contained within contracts.
- There are a number of high level risks associated with outsourcing and transfers and the question is who bears these risks. For example, the risk of failure by the client to enforce corporate and contract requirements, the risk of providers failing to fully implement equalities policies and practices, the risk of providers encountering financial crises and many other risks can be allocated and assessed as part of risk management but it is service users and staff who ultimately bear the consequences of such failures.
- The adoption of outsourcing and transfer policies will in effect undermine the community strategy for social, economic and environmental well-being. Newcastle could have a preset agenda - the community strategy will be required to combat the negative affect of other city council policies, let alone make a contribution to reducing poverty in the city.

Impact on local labour market

Outsourcing and transfers will impact on the local labour market in the following ways:

- reduced training opportunities;
- job losses will result in fewer vacancies and therefore reduced opportunities for the unemployed and those on training schemes;
- the erosion of the city council's role in setting quality employment standards, particularly in such sectors as repairs and maintenance, cleaning, catering, clerical and administrative jobs where there is a substantive difference between public and private sector wage rates and conditions of service;
- the combination of TUPE transferred terms and conditions and separate terms for new staff usually results companies having a wide range of pay scales which are frequently used to divide the workforce into different interest groups.
- reduced application of health and safety standards;
- increased casualisation of the workforce;
- a reduction in the level of trade union organisation and representation with more fragmented industrial relations. Although TUPE transfers would ensure that trade union representation continued, it is unlikely to be applicable to the indirect reduction in jobs as a result of outsourcing and where trusts or other organisations seek new providers for support services which can no longer be supplied by the city council. Studies have shown conclusively that trade union organised workplaces have better terms and conditions compared to non-unionised workplaces.

In the longer term, it is expected that there will be further rationalisation of jobs as a result of the expected emergence of a secondary market in PFI projects in which consortia are bought and sold. In other words, takeovers and mergers of PFI consortia across different parts of the public sector, will lead to further jobs cuts and changes in the labour process.

Regional impact

Local authorities have a vital role in the regional economy in planning, financing, providing and regulating a wide range of activities. They employ 126,205 staff, of which 57,650 are employed in the five Tyne and Wear local authorities.

If the scale of the outsourcing and transfer proposals in Newcastle are repeated by other local authorities in the North East region some 15,775 local authority jobs will be affected (representing 12.5% of the regional local government workforce). The employment impact will include an estimated 5,050 job losses (3,880 local authority jobs and 1,170 private sector jobs in the regional economy) and 11,890 council jobs transferred to the private and voluntary sectors.

Other regional policy issues include:

- It is important to make a distinction between the region becoming a leader in the creation of a digital economy through design, software programming, manufacturing and the use of ICT in business, education and the community, and attempting to become a leading centre for call centre service provision. The creation of a call centre economy alongside the north east's branch plant economy will make the regional economy even more vulnerable to transfer elsewhere. Call centres are essentially large sheds which can be vacated and the operation quickly moved elsewhere.
- The outsourcing of key public sector work contributes little to ICT innovation.
- The transfer of assets (contracts and staff) from the public to the private sector does not represent economic growth. Outsourcing is unlikely to achieve Best Value even using a narrow efficiency definition and will not provide any additional economic benefit to the region.
- The encouragement of private sector business/call centres competing for local authority and public sector work will significantly reduce net employment in the region. Middlesbrough Council has recently awarded a £260m ten year strategic partnership contract with Hyder Business Services. It involves the transfer of 1,050 council staff to Hyder. With Capita centres in Darlington and

Carlisle (Cumbria County Council's design and business services with 570 staff) and Redcar and Cleveland considering a similar approach the 'market' for regional business/call centres is limited.

- Strategic partnerships and the regional business/call centre market are dominated by large national and international companies such as BT, Hyder Business Services (Nomura International), Amey and other managed services groups. This reinforces the problems of external control of the North East economy.
- The potential negative effect on the local labour market in Newcastle will be mirrored in the regional labour market.

It is clear from the above that an outsourcing and transfer strategy will undermine the regional economic strategy.

The achievement of the regional targets requires a regional public sector capacity

WTO agenda

This social and economic audit is an example of local and sub-regional analyses which identify the consequences of the marketisation and privatisation of public services. Proposals in the General Agreement on Trade in Services (GATS), currently being negotiated by the World Trade Organisation, will result in the enforced marketisation and privatisation of public and welfare state services. The audit provides evidence of the employment, social and local economy impact of outsourcing and transfer which can be used to counter the business agenda being pursued so vigorously in the GATS negotiations. The audit focuses on only partial outsourcing and transfer in one local authority and region - the national and European wide impact across all public services would be many thousand times greater than the effects identified in Newcastle and the North East region.

Part 4 Assessment against corporate objectives & priorities

Introduction

This section assesses the findings of the social and economic audit against Newcastle City Council's corporate objectives and the North East Economic Strategy objectives.

It highlights the conflicts and contradictions between the consequences of outsourcing and transfer policies and the stated objectives of the city council. The second part of this section has a

similar assessment for the Regional Economic Strategy. In each of the following tables, the corporate and regional economic strategy aims are listed in the left column with the audit findings on the right.

Conclusion

Going for Growth, the city council's economic and regeneration strategy, aims to create 30,000 new jobs over the next twenty years. However, the

Table 4.1: Comparison of Newcastle City Council corporate objectives and social and economic audit findings

Corporate objectives and priorities	Social and economic audit findings
Improving educational achievement Priority: Raising levels of attainment and improving educational standards for all learners in the city	Transfer of work to private and voluntary sectors will reduce the impact of other initiatives.
Creating jobs Priority: Create more jobs for young people and the long-term unemployed	The audit shows that outsourcing and transfers lead to job losses and lower quality employment. It reduces opportunities for the unemployed.
Regenerating communities Priority: Encourage the social, economic and cultural regeneration of local areas	Increased reliance on contracting system and plethora of providers will reduce effectiveness of regeneration resources. The negative employment effect of outsourcing will impact most on the communities already suffering deprivation.
Improving the environment Priority: Create a clean, healthy and attractive environment	n/a
Strengthening Newcastle as Regional Capital Priority: Enhancing Newcastle's role as regional capital	Establishment of private regional business/call centre likely to result in net job loss in sub-region. Fragmentation of providers and reduction of city council capacity.
Supporting children and families Priority: To make Newcastle a centre of excellence in caring for children and families	Social exclusion will increase as a result of job losses and cuts in earnings.

Source: www.newcastle.gov.uk

outsourcing and transfer of services and functions detailed in this audit would directly undermine and reduce the effectiveness of these policies.

If these policies continue in Newcastle, then a substantial part of GfG and regional economic strategy job targets will merely be replacing public sector job losses thus reducing economic growth. The job replacement component will be even larger if other local authorities in the region adopted similar outsourcing and transfer policies.

Table 4.2: North East Regional Economic Strategy objectives and social and economic audit findings

RES objectives	Social and economic audit findings
1. Creating Wealth by Building a Diversified, Knowledge Driven Economy	n/a
2. Establishing an Entrepreneurial Society	The transfer of services and assets from the public to the private or voluntary sectors is only one form of entrepreneurialism and one does not provide a net gain for the regional economy.
3. Building an Adaptable and Highly Skilled Workforce	Outsourcing and privatisation are associated with job losses, lower terms and conditions and less training which undermine the achievement of this objective.
4. Placing Universities and Colleges at the Heart of the Region's Economy	n/a
5. Meeting the 21st Century Transport, Communication and Property Needs	n/a
6. Accelerating the Renaissance of the North East	The public sector has a key role to play in meeting this objective but an economy built on dual speed strategy with one sector expanding at the expense of the other is not conducive to real economic growth.

Source: Regional Economic Strategy: Unlocking Our Potential, One NorthEast, 1999.

Part 5 Recommendations

The audit provides conclusive evidence of the negative impact of outsourcing and transfers on jobs, the community and the local economy. The following recommendations should be considered as a matter of urgency.

UNISON recommends that the city council:

- Urgently reassess the scale and scope of the current proposals for outsourcing and transfer taking into account the findings of the audit.
- Reaffirms the importance of in-house provision of public services both to service users, regeneration strategies and the local economy.
- Carries out and publishes a social and economic audit of all future outsourcing and transfer proposals to identify the wider impact on users, the community and the workforce .
- Carries out a full corporate and directorate impact assessment of all outsourcing and transfer proposals.
- Includes social and economic factors in the evaluation criteria for assessing all bids from external organisations for city council work.
- Ensures that all contracts which may involve a transfer of staff include a TUPE Code of Practice, modelled on the Department of Social Services 'Personnel Outsourcing Framework' which requires thorough assessment of the personnel implications at invitation to tender, evaluation of bids and transfer stages together with monitoring of the contractor's human resources practices and policies throughout the contract period.
- Uses the forthcoming introduction of new regulations permitting local authorities to take workforce matters such as terms and conditions, training, equalities and health and safety into account in the invitation and evaluation of bids.
- Encourages providers to engage new staff on the same terms and conditions of service as transferred staff.
- Strengthens its performance management and monitoring system.
- Enhances and strengthens the scrutiny role to encompass outsourcing proposals and the regular assessment of any projects which proceed.

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