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PREFACE

The Contractors Audit is of major importance for Councillors, workers and their trade unions, and council officers.

It will raise the level of debate and understanding around the structural differences between 'privatised' services and those delivered under direct local control.

As the Audit shows problems created by enforced tendering exist because of the deeply divisive system of enforced tendering itself, the pursuit of the cheapest price, and the way that contractors must operate to stay in business.

Local services will be more difficult to control if they are in the hands, not of people's elected representatives but the grip of contractors whose interests will conflict with local needs. Contractors interests are fixed on what happens nationally and internationally within their company, their profits, their investment, and their shareholders. Local people know we are responsive to local needs and are answerable to people living and working locally and using local services.

The consequences of these divisions exist in graphic detail. Despite the claims of some firms to be specialists many in the scramble for profit have diverse interests and customers. So unless local councils like Manchester are careful - if forced to take on contractors - they may:

- be dealing with unanswerable and unobtainable management;
- have lost control of labour power and spending decisions;
- and find it harder to establish the quality of work done and how and where ratepayers' money is spent.

We understand those lessons and should in turn make it clear to contractors interested in bidding for Manchester Council work that we have taken the Environment Secretary at his word - we mean business!

Graham Stringer
Leader
Manchester City Council
15 July 1988

INTRODUCTION

Manchester Council has published the Audit to turn the spotlight on contractors.

Volume 1 has three themes:

*** Economic and Commercial Analysis**

A sector by sector examination of:

- the total value of our services and
- contractors' corporate strategies and major economic trends in each service forced out to tender

*** Possible Effects on Services and Jobs**

The activities of contractors in local government and the wider public sector also come under scrutiny and the Audit shows how contractors decisions to bid for local authority work may lead to job-loss, deteriorating services, spurious savings, fines and failures, malpractice and legal wrangles with local Councils.

*** Tender Evaluation and Contractors Monitoring**

We have a responsibility to the people we represent to get enforced tendering right first time. The Audit provides the means for us to check contractors claims to be able to provide the services in the way we want them delivered. And to subject them to rigorous scrutiny on a truly commercial basis.

Volume 2 contains over 50 files on the top national and selected local contractors. Publicly available information and other data have been examined to show organisation and control of the firm, details of labour power and performance records on public sector contracts. The information will be used to compare the performance of our services with those of private contractors bidding for our work.

Nick Harris
Chair
Privatisation Working Party
15 July 1988

CATERING

SECTOR ANALYSIS

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Major trends and issues in Catering sector

During the recession 1980-82 catering expenditure (all types) declined in real terms although it has since grown.

1980-82	10% decline in expenditure
1983-86	14% increase in expenditure
(Source: Catering UK, MSI, March 1988)	

Factory closures have resulted in a decline in the number of canteens. There have been changes in the pattern of employment with a larger proportion of workers employed in offices and retail outlets which have traditionally not provided meals at the workplace.

The provision of meals in educational facilities, hospitals, staff canteens and public services has declined in importance within the catering sector (share of meals outside the home/million meals)

	Commercial catering	Canteens/public services
1975	34%	66%
1987	49%	51%
(Source: Catering UK, MSI, March 1988)		

Public Houses have been suffering from the growing trend towards the home consumption of alcohol and many have turned to serving food to attract more customers (see Leisure Services sector analysis).

The total value of the catering industry was estimated at £22 billion in 1987 (including food, drink and accommodation). Catering contractors have only 1% of all catering outlets but 5% of total catering turnover.

Contract Catering

There has been a 12% decline in the number of catering outlets in educational facilities, staff canteens, hospitals, and public services between 1983-87 caused by falling school rolls resulting in school closures, factory closures, and hospital reorganisation

and closures. Fast food outlets increased 37% in the same period.

Outlets	1983	1984	1985	1986	1987
Education	37,720	34,715	33,735	33,000	32,913
Canteens	26,050	23,550	22,550	23,300	22,225
Health Care	11,930	11,185	11,135	11,050	11,013
Public Services	3,050	3,020	3,020	3,020	3,020
Total	78,750	72,470	70,440	69,370	69,171

Source: Catering UK, MSI, March 1988.

Turnover in contract catering has increased from £575m in 1980 to £1,001m in 1987. Between 1980-84 the number of catering contractors increased from 1,196 to 1,483.

Despite the decline in the overall number of works canteens catering contractors increased their share of contracts from 4,800 sites in 1980 to an estimated 6,100 sites in 1986. Several market surveys attribute this increase to cost cutting by firms, particularly medium sized firms, and catering contractors advantages in bulk purchasing of supplies. Many firms subsidized staff canteens but have since decided to cover both food and labour costs and moved towards "commercially viable staff catering".

Profit margins have been under great pressure declining from 4.2% in 1982 to 2.6% in 1986. The return on capital has also declined from 18.3% to 14.6%. Trusthouse Forte's Contract Catering division which includes Gardner Merchant and Airport Services have slowly been increasing profit margins from 3.4% in 1986 to an estimated 3.8% in 1988 (Trusthouse Forte plc, Kleinwort Grieveson Securities, March 1988)

The Euromonitor Report estimated the structure of in-house catering costs as:

Food and beverages	26%
Wages and associated staff costs	50%
Utilities, equipment maint., property	24%

Contracting out of public sector catering

Only a handful of school meals services have been contracted out.

Croydon	Sutcliffe Catering (management contract)
Ealing	Commercial Catering Group Ltd
Gloucestershire	Sutcliffe Catering (management contract)
Hereford & Worcs	Compass Services, Main Table Ltd Various co-ops
Merton	Sutcliffe Catering
Richmond	Sutcliffe Catering (management contract)

Both Buckinghamshire and Dorset County Councils abandoned school meals and now provide only cold snacks to meet statutory requirements.

Contractors have made greater in-roads into civic catering ie town hall catering and catering for special occasions. Compass Services has several town hall contracts including Oldham. Retaining these contracts has not always been straightforward for contractors - Compass had their contract at Enfield terminated.

An analysis of catering in leisure and recreation centres revealed 53 local authorities contracting out between 1985-87. Sports and Leisure Foods Ltd had 10 contracts, Compass Services had 4 contracts (it now has at least 10), and Caterleisure 3 contracts. No other firm had more than one contract and the vast majority of these were small local companies.

Social Services catering:

Bromley	Compass Services
Ealing	Commercial Catering Group (meals on wheels/luncheon clubs)
Merton	Sutcliffe Catering started 1984 but withdrew in 1985. Contract awarded to Catering By County Ltd. (meals on wheels/day centres/residential homes)
Richmond	Sutcliffe Catering (management contract)
Wandsworth	ARA Services Ltd (10 homes for elderly)

Between 1983-1988 (March) 434 NHS catering contracts were awarded but contractors gained only 21 contracts (5%).

Company	No. of contracts	% share
Spinneys (British & Commonwealth Hldgs)	8	38
Compass Services	5	23
Gardner Merchant (Trusthouse Forte)	4	19
Allied Medical Catering	1	5
Catering by County	1	5
Airline Caterer (name unknown)	1	5
Berkeley Taylorplan	1	5
	21	100

Source: Joint NHS Privatisation Research Unit, NUPE, 1988

"The experience of the major contractors in the NHS has not so far been a happy one" (Using Private Enterprise in Government, HM Treasury, HMSO 1986). The same report went to state: "The cost effectiveness of staying in the NHS market is becoming an issue. Catering tenders can cost up to £2,000 to put together. With a current 'success' rate of about 1 in 15 bids, some £30,000 must be 'carried' on each contract. And that is not commercially feasible, particularly under a management fee arrangement".

The DHSS brought in Coopers & Lybrand to recommend ways of making NHS catering more 'attractive' for contractors which led to recommendations for 'district wide operations' to make mass production, eg cook-chill, more viable. Gardner Merchant and Spinneys withdrew from NHS tendering in 1984 and 1986 respectively. The former then heavily promoted 'fixed fee' contracts and has since gained a district wide catering contract at Ealing DHA. Earlier this year Gardner Merchant seem set to win a £17m cook/chill management fee contract by Worcester Health Authority. However, following a campaign by catering workers the West Midlands RHA agreed to lend the DHA £1.3m needed to upgrade the kitchens and retain direct labour. Gardner Merchant had previously offered to loan the DHA the money as part of the contract.

Contractors have also made some in-roads into police catering, for example, ARA (Hampshire), Compass (South Wales), ABM Catering (Thames Valley). Ministry Of Defence catering at several RAF, Army and Royal Navy establishments has also been contracted out - Sutcliffe Catering has gained several contracts recently.

Transport authorities such as London Regional Transport and the PTE's have sought cuts in catering operations. Greater Manchester PTE recently contracted the management of its new staff dining room to Gardner Merchant.

Contract failures

The following is a brief list of some of the problems which been reported on private contractors school meals and social services catering contracts:

- underweight meals
- lack of nutritional value
- non-meat choices available infrequently
- lack of fresh vegetables
- lack of provision for ethnic minorities
- insufficient food available for second sittings
- portions too small
- under-cooked food
- too many meals with both pasta and potato content
- health risks in food handling
- high wastage of food
- drop in take-up of meals

(Source: Public Service Action Nos 1-36, London Food Commission Report, and reports by NUPE and NUT)

The Catering Contractors

Three companies have a major share of the contract catering market:

Gardner Merchant (Trusthouse Forte)	25%
Sutcliffe Catering Group (P & O Steam Navigation)	18%
Compass Services	17%
Other regional/local companies	40%

	100%

The sector is dominated by a handful of large companies, particularly Trusthouse Forte, and a profusion of small companies. There is very little foreign ownership. Gardner Merchant now claims to be the world's second largest contract caterer (first is Marriott Contract Food Service Division, USA).

Trusthouse Forte dominates contract catering in Britain for it also owns Airport Catering Services Ltd providing in-flight catering, cleaning etc with 38% of the British market. It also has 40% of all airport catering, numerous motorway services areas operations, and 20% of the UK offshore catering through Kelvin Catering Ltd.

The Kleinwort Grieveson report on Trusthouse Forte explained the growth of Gardner Merchant:

" As increasing numbers of of firms in the business economy and public sector organisations privatise their catering the market for Gardner Merchant grows prodigiously. There is an estimated UK market of 73,900 outlets only 9.5% of which are already serviced by contractors. The impediment to growth for Gardner Merchant relates to the availability of manpower of sufficient quality to operate the new contracts which have been negotiated at a fast rate. During the past 6 years the division has negotiated 1719 contracts One reason why Gardner Merchant can maintain this growth is that it trades on goodwill with practically no fixed assets. The premises in which the meals are served and the equipment are the concern of the principal rather than Gardner Merchant".

The major firms are:

Firm	Turnover
-----	-----
Trusthouse Forte	
Gardner Merchant	
Airport Services	£635m (1987)
Compass Services	£175m (1985)
Sutcliffe Catering	£ 79m (1985)
ARA Services	£ 49m (1986)
Taylorplan Services	£ 12m (1985)
(Source: Company Annual Reports)	

Major developments in contract catering

There are a number of developments in the sector:

Firstly, the market for contract catering amongst the larger industrial customers is considered to be reaching saturation point

although this still leaves considerable scope for contract catering in smaller industrial firms.

Secondly, some contractors will seek to increase market share by acquisition rather than relying solely on organic growth. Compass Services, announcing a 14 per cent increase in turnover and profits doubled to £15.2m in February 1988, also indicated it is to use its £10.5m cash assets to acquire other companies. Recent takeovers have included:

Compass acquired Hamard for over £5m in 1986

Sutcliffe acquired Fairfield (specialising in supplying private schools)

Compass Services recently announced it "was seeking to buy substantial companies worth more than £50m" (Caterer & Hotelkeeper 17 March 1988) and is also seeking acquisitions to broaden its range of services to add to its core catering business. It was having to diversify because it can see no way of dramatically increasing its catering business. "The fact is that neither Gardner Merchant nor Sutcliffe, the other two major companies, is for sale. It is as simple as that" stated Gerry Robinson, Compass Group Chief Executive. (Caterer & Hotelkeeper, 17 March 1988)

Thirdly, some contractors are looking to areas with higher than 'average spends' ie

- private health care
- private education
- higher education

Fourthly, other contractors see growth in offering a wider or fuller range of services, for example, cleaning, security, painting and decorating, and gardening services. Some examples:

Taylorplan Services Group - catering, cleaning, vending, and travel

Compass Services - catering, cleaning, security, housekeeping,

Sketchley - retail dry cleaning/industrial workwear rental
deemed to have limited growth potential so
expanded into contract cleaning and catering.

ARA Services - catering, vending, cleaning, building
maintenance.

Securiguard Group - cleaning and security firm is looking to
expand into catering.

Fifthly, leisure catering eg pubs, discos, restaurants, theme parks, is expanding and offering potentially higher profit levels. In leisure catering - bands, booze and burgers - the scope for added value is enormous. The level of expenditure per person is in £'s compared to the limited added value of school meals and spending in pence. Many of the major leisure companies such as Mecca, Pleasurama, Brent Walker, First Leisure all have catering operations but are focusing on the development and acquisition of restaurants and pubs. (See Leisure Services Sector Analysis)

Two other points require coverage. The large contract caterers

such as Gardner Merchant are expanding rapidly overseas. Almost 31% of its contracts are overseas and seeking further expansion in Europe. So they have other interests and other markets to expand in addition to developments in Britain.

There is some uncertainty over the potential involvement of other catering organisations. The Polytechnics, given their more independent status, may well seek additional work for their catering staff as a means of trying to achieve economies of scale to reduce their own catering costs. Sheffield Polytechnic have already tendered, unsuccessfully, for various cleaning activities in the City Council's new Science Park. The position of airline catering contractors also requires further investigation. SAS Service Partner Restaurant Ltd (turnover £8.1m in 1986) provides airport catering services and is registered at Manchester International Airport. Trusthouse Forte's Airport Services Division has a in-flight catering operation at the Airport.

Size of the sector

The following two tables give details of the estimated size of the contract catering 'market'. There are slight variations with previous tables because of different sources.

	No of catering establishments	Est. £m Catering expenditure 1986
Education	35,000	740 (ex Scot)
Health	1,900	480
Social Services	4,900	46
Civil Service	600	33
Prisons	120	30
Defence	1,000	215
British Rail	165	92
Offshore Oil & Gas	150	35
Airlines & airports	60	160
Private industry	20,000	1,500
Total	63,895	3,331

(Source: Institutional & Contract Catering, Euromonitor, 1986)

The number of educational facilities alone is substantial as detailed in the following table.

Number of Education facilities 1983/84

Nursery	1,260
Primary	25,326
Secondary	5,328
Non-maintained	2,619
Special	1,972
Universities	46
Polytechnics and major establishments	
Public	698
Assisted	57
Adult Education Centres	4,513

Total 41,819

(Source: Institutional & Contract Catering, Euromonitor, 1986)

The following table shows a small decline in the number of meals served.

Number of meals served (million)

	1981	1985	1986	1987
Education	1810	1703	1667	1613
Canteens	1600	1465	1420	1435
Health Care	483	483	483	471
Public Services	100	100	100	100
Total	3993	3751	3670	3619
% change	-	-6%	-2%	-1%

(Source: Catering UK, MSI, March 1988)

Comments about local government tendering

The following comments have been drawn together from a range of market analyses and publications.

- 'average spend is low'
- 'not a year round business' (school meals)
- limited growth opportunities and opportunities for added value are small
- local councils are liable to abandon services entirely as they are to contract them out.
- social services catering seen as politically sensitive
- there are significant costs in tendering
- local authorities already have advantages of bulk purchase of supplies
- contracts are threatened by political change, therefore may have limited life, therefore start-up costs have to be spread over a shorter period than would otherwise be the case.

"Obtaining economies from contracting out relies heavily on reducing employment and the earnings of already low paid workers with little bargaining power"

Institutional & Contract Catering, Service Industry Reviews, Euromonitor 1986

"There can be problems of a semi-political nature however, when a contractor takes over in a public sector location such as a school or hospital. Partly this arises from the ability of the contractors to weed out potentially troublesome staff previously employed and simply fail to offer them employment within the new organisation"

Contract Catering, Keynote Report, 1985

A report in the Municipal Journal (15 January 1988) of a speech by Gary Hawkes, Managing Director of Gardner Merchant, at the Civic Catering Association Conference last autumn emphasized a number of points.

"For a start his company would only work with those those local authorities which actually wanted contractors to win contracts".

"Few people outside the industry realise how much more costly the preparation of catering tenders are than for other ancillary services like cleaning".

"Flexibility of response was going to be the hallmark of his company's approach to the local government market. The company was not only interested in the large local authority-wide all-in catering contract linked to a purpose built cook chill unit. The company did not, even with Trusthouse Forte as it's parent company, have the resources to finance all, or part of, more than one or two authority-wide schemes in a year."

"The sheer scale of the local government market compared with the resources of the catering industry makes any idea of a catering contractor takeover of the local catering market absurd".

"There are not enough experienced management and technical specialists in the contract catering industry to handle such large tranches of public sector work and service all the other invitations to tender from more profitable and welcoming markets." eg commercial sector, Ministry of Defence.

"The strategy of the large catering company will be to build up its business in local government over 10 years or more".

"Local authorities are operating in a sellers' market as far as contract catering is concerned".

Example of catering tenders in one local authority

The following table indicates the wide differences in costs calculated by contractors in tenders submitted for town hall catering to start in 1988. It highlights the dangers in trying to

define contractors unit costs and comparing them with in-house costs when the former are subject to such wide variation.

Cost element	Company				
	A	B	C	D	E
Labour costs	45.06	53.61	52.28	56.40	54.04
Food costs	43.22	29.86	34.47	24.10	30.62
Cleaning materials	1.41	2.70	1.24	4.71	5.27
Management fee	8.48	11.47	6.97	11.08	6.87
Other costs	1.80	2.34	1.96	3.16	3.18

Contractor D had the highest tender followed by B,C,E and A.
Contractor C was awarded the tender.

Different types of contract

There are 4 different types of catering contracts:

Full Service: the contractor provides both management and staff to fully operate a catering service.

Management Fee: the contractor provides only the management, the authority being responsible for providing kitchen staff etc.

Executive Lease: senior manager(s) or specialists from catering contractor are seconded to the authority for an agreed period.

Consultancy: Contractors are brought in to examine existing services, propose new working methods etc.

Gardner Merchant have promoted 'fixed fee' contracts. The firm submits a monthly invoice covering food and wages costs, plus a fixed fee to cover management and support services plus a percentage to cover profits. This places the 'risk' element of changing food prices and changes in demand with the client. They have been promoting similar contracts for police catering. The Civil Service Catering Organisation (CISCO) has reorganised and now provides only management services leaving individual Government departments to employ the catering workers.

Contractors and City Council Catering Services

Compass Services wrote to the Chief Education Officer in April 1988 asking to be included on the list of tenderers for catering in:

- * Colleges of Further Education
- * Civic catering
- * Leisure catering Concessions
- * Social Services Residential Homes

It made no mention of school meals although Compass already have a contract for school meals at Hereford and Worcester. The 1985 Keynote Report on Contract Catering stated that Compass were seeking school meal contracts and offering -

- nutritionally balanced diets
- term by term financial planning
- special staff selection procedures

- special sports day facilities

Sutcliffe Management Services (part of Sutcliffe Catering Group) wrote to the City Council in March 1988 stating "Sutcliffe have decided not to tender for Social Services catering when the proposed legislation takes effect" but offering to explain its management consultancy work in Richmond.

Contract Catering Industry Forecasts

"Dismal picture with very little profit growth and low margins" mainly due to 'fierce competition'. "Only most efficient companies will make much headway. The large number of lossmakers in the final year (of the reports coverage) also suggests that not all the present constituents of the industry will survive as independent units"

The Catering Industry, ICC Business Ratio
Report, 1987

Education: "not too attractive market for commercial caterers wanting year round business" and also commented on the existence of "highly organised national organisations capable of holding off outside competition". Social services catering was viewed being politically sensitive and partly dependent on volunteer workforce and a "market fraught with potential difficulties for commercial operators".

Catering contractors are expected to increase their penetration of the industrial catering market. The number of companies using contractors is expected to increase from 31% (6,100 contract sites) in 1986 to 35% (7,000 contract sites) by 1990.

Institutional & Contract Catering
Service Industry Reviews,
Euromonitor 1986

"Even allowing for the increased amount of competitive tendering for public sector catering work, the report predicts that growth in contract catering up to 1990 will be 'gradual rather than dramatic', and assumes a 'modest' one per cent annual growth rate".

Hotel & Catering Trends and Forecasts, Issue No
4, quoted in Incomes Data Services Study 398,
Catering Workers Pay, Nov 1987.

Of the major changes taking place in competitive tendering: "This should offer excellent growth prospects for the commercial caterers".

Marketing Strategies for Industry,
MSI Database: Catering: UK, March 1988

Some important points

- * Clearly, contractors ability to take on 40,000 or so catering

sites in education, social services, and civic catering will be severely limited. **Contractors will be highly selective - they have no choice.** Some are likely to select cities in which to bid for contracts in order to test the potential and gain information and experience from the tendering process. Some are likely to deliberately submit high tender prices.

* Assuming there is only one Manchester school meals contract, there are only about 4 or 5 catering contractors who could even contemplate such a contract.

* A catering strategy must examine developments in public sector catering in the city as a whole, eg the threat of District wide NHS catering contracts of the Worcester type giving contractors the base and ability to tender for other public sector contracts combining additional purchasing power and other economies of scale.

* School meals catering has certain limitations for contractors.

- there is limited scope for added value because there is a limit to what parents will spend on a school meal.
- there is a limit to state spending on free school meals
- since Manchester already has a high take-up level for school meals there is therefore limited growth opportunities for contractors.

* City Council control over catering prices is crucial. If a contractor has any leaway in fixing prices this will only guarantee rapidly rising prices because of low margins and/or recouping the cost of a loss leader tender.

* Gardner Merchant has been making a series of demands in their advertising on NHS catering: "Only if contracts based on management fee are offered would Gardner Merchant and other experienced contract caterers commit themselves to do everything in their power to help Health Authorities achieve their targets" (series of Gardner Merchant adverts, Health and Social Services Journal, 1987). The demands also included:

- food costs must **not** be strictly fixed
- support costs should be included in all tenders
- sufficient time allowed for contractors to prepare tenders
- cover a number of hospitals to allow economies of scale and possible use of new technology ie cook chill

* The size and complexity of school meals means that it is essential that all contractors intending to submit tenders must carry out detailed inspections and convince the City Council in its tender submission that it fully understands the scale and nature of the requirements of the school meals service. This will impose certain essential tendering costs on contractors.

Finally, many of the ideas developed by the trade union initiated Haringey School Meals Project eg menu development, meeting needs of ethnic minorities, health eating education, better presentation

etc are finding wider interest. The Coronary Prevention Group Working Party report on school meals 'Diet and Disease' takes up many of these issues. Both Gardner Merchant and Compass had representatives on the Working Party. Sutcliffe's have produced a 'Eat Fit' booklet. The evidence from the contractors catering contracts to date suggests these ideas have still to put into practice.

There are of course wider issues at stake. Minimum standards would apply to all contractors giving the larger caterers an advantage. They don't want to be blamed for poor quality school meals because this could have a knock-on effect on public use of their other catering outlets. The companies recognise that healthy eating is a growing public concern and they need to be associated with it for commercial reasons. They also need a growing and guaranteed 'market' for set meals. Ultimately, one or two local production centres would provide 'guaranteed minimum standard healthy' meals and food for office and works canteens, schools, town halls, hospitals, and residential homes.

GROUND MAINTENANCE

SECTOR ANALYSIS

Size of the sector

Local authority expenditure on Parks and Open Spaces in 1987-88 is expected to have been £440m (England and Wales). Even in tranches of 20% this still represents a new 'market' for contractors of £88m annually. At the same time landscape contractors are gaining work from increased property development activity, particularly in the South East.

The national retail gardening and horticulture sector turnover in 1986/87 was estimated to be:-

	£m
Seeds	37
Bulbs	40
Bedding plants	50
Hard nursery stock	130
Flowers/indoor plants	500
Gardening products	145
---	---
	902

Clearly contractors are going to be highly selective, even if they have the resources and experience to take on large contracts.

Despite the retail and DIY boom in recent years and increased interest in gardening the sector has been described as a "slow growth, low margin and low return industry" (Horticulture Growers and Gardeners, ICC Business Ratio Report, 1987) although industry wide data tends to hide some companies with high growth rates. The report goes on to say:

"Profit margins and growth for the leading horticulture growers and gardeners are not particularly attractive. Average margins have increased to 3.8% but sales growth has just been moving along at around 6% to 7%. Even with this unexciting performance the industry sector is receiving attention from the large corporations, especially the seedsmen (sic)". Seeds have a very high added value hence greater opportunity for higher profit levels.

An analysis of 52 companies over 3 years to April 1986 revealed the following:

Profit Margins

1983-84	2.4%
1984-85	2.5%
1985-86	3.8%

Return on capital

1983-84	10.6%
1984-85	11.3%
1985-86	11.6%

Sales growth 13.5% overall

Firms recording losses

1983-84	13 companies
1984-85	11 companies
1985-86	12 companies

(Source: Horticulture Growers & Gardeners, ICC Business Ratio Report, 1987)

The output of hardy nursery stock increased by 56% in value terms at constant prices between 1977 and 1986. "All this increase was in production of container grown stock, as production of field grown stock fell slightly in value. A considerable proportion of hardy nursery stock goes to the public sector and demand has remained good despite public expenditure cuts. The interest in regeneration of inner cities may help keep up public sector demand for trees and shrubs". (Horticulture Retailing, An Industry Overview, Key Note Report, 1987)

Forecast

"The aggregate sales trend (excluding weather effects) is likely to be upward at a slightly higher rate than in the last two years because of factors such as: the increase in home ownership, adults participating in gardening is increasing, the spin-off from the building boom, and the continuation of the consumer boom albeit at a lower pace" (ICC Business Ratio Report, 1987)

Contracting

These industry-wide reports focus on horticulture retailing rather than the contracting side although there is obviously some overlap.

Many local authorities already contract out specialist horticulture but this is usually occasional work and involving relatively small expenditure. The only maintenance work of any size which is sometimes contracted out is grass cutting. Evidence of 50 local authority contracts 1985-87 revealed the vast majority were grass cutting including highway verges. The largest was Wandsworth (£494,000) followed by Solihull (£143,000) but most were small. (Source: Recreation: A Workers Report, SCAT/Sheffield City Council, 1987)

Warrington New Town recently privatised ground maintenance management to landscape architects Gillespies. The firm has opened an office at Warrington taking on 25 members of the existing landscape team.

Although contracting out has primarily focused on grass cutting there have been a number of failures:

Contracts terminated

Contractor	Local Authority	Service	Reason Given
Pritchard Ser.(ADT)	Wandsworth	Grass cutting	Contract terminated after £138,116 penalties 1983.
Pritchard Ser.(ADT)	L.B.Kingston	Grass cutting	Failed to comply with spec, 1984.
Landscape Control Services	Boothferry	Grass cutting	Poor standards & safety violations 1986
Supercare	Warwick	Sports facil.	Poor service, at Kennilworth terminated 1984

(Source: Wandsworth Council Committee Reports; Evidence submitted by NUPE to DOE on Consultation Paper 'Competition in the provision of Local Authority Services', 1985; Public Service Action No 4,5 and 27)

Ground Maintenance Contractors and major trends

There is only a handful of firms which even claim to be 'national'. R.B.Tyler (Ware) Ltd (AAH Holdings plc) is currently the leading grounds maintenance contractor in terms of contracts won. It has the Wandsworth contract and five other grass cutting contracts in the above survey. It recently won the first local authority grounds maintenance contract at Rochford District Council. The £500,000 contract started 1 April 1988 and covers the maintenance of all parks, gardens, grounds and cemeteries (including grave digging).

Tyler's strategy is "of seeking to balance the seasonal land maintenance activity with year-round refuse disposal and cleansing contracts" (AAH Holdings plc Annual Report 1987). Rochford is a clear example of this, Tyler's having won the refuse and street cleansing contract in 1987. They clearly intend to maximise labour flexibility between contracts. The need to ensure contractors employ suitably trained and qualified staff for grounds maintenance work becomes even more important in this situation.

* Some cleaning companies are expanding into ground maintenance as part of the trend to offer a package of services eg cleaning,

security, catering, vending, building maintenance. Initial plc (BET Group) claims to offer a ground maintenance service - Initial Cleaning Services submitted a tender for the Wandsworth grass cutting contract in 1983 subsequently won by Pritchards with a tender 26% lower than Initial's. There is no information whether Initial have in fact tendered for further grounds maintenance work nor is there any evidence of contract experience. Another firm, Electrolux Contract Services, (it has a Kent C.C. Education cleaning contract) is also offering "general gardening and site maintenance". However, there is little evidence at present that the 'service' companies have any experience in local authority parks maintenance or intend to bid for such work.

* Some landscape contractors - site preparation, landscaping etc - may also seek ground maintenance contracts. However, there are important differences: landscape work tends to involve more extensive use of equipment whilst ground maintenance is more labour intensive. These contractors have been hit by the decline in public sector capital spending. They do have an advantage over other contractors in that they 'know their way around the local authority'. Many firms subcontract work. There is also a horticultural temp staff agency which charges contractors between £4.50 - £5.50 per hour. Many workers have only one day contracts - the average is between 7-10 days.

Other developments are likely given the size and structure of the existing sector and the scale of potential new work for the private sector.

Some larger firms such as Dew Group Ltd and Economic Forestry Group plc already undertake some landscape contracting work although this is a small part of their existing turnover. These firms would have the financial resources to expand into ground maintenance work should they choose to do so. Tilhill, which already has small contracts with several London Boroughs, announced in May 1988 that it had set up a new landscaping division which will have nine branch offices around Britain with a projected turnover of £4m this year. Wyevale, the garden centre chain, recently restructured and transferred its landscaping interests to Western Landscapes Ltd.

Another contractor, Turfsoil Ltd, is also expanding but concentrating in the South East. It has contracts with the Property Services Agency maintaining 3 large naval establishments at Portsmouth. Its managing director, John Newton, is also chairperson of the BALI ground maintenance group, recently stated:

"We are about to undertake a major recruitment drive but one problem we are all going to face is the fact that local authorities have not done much contracting out of grass cutting before."

"Some of the larger borough's requirements will represent, in total, far more than even we as a medium sized company employing up to 150 full-time staff could readily take on."

"In reality many councils will retain their own work while others will parcel out grass cutting between a number of private companies."

(Horticulture Week, 6 May 1988)

* The vast majority of the 1,200 garden centres in Britain are individually owned. The 'market' is usually described as being 'very fragmented'. However, small chains of garden centres are developing eg Cramphorn plc - 15 centres, Wyevale Garden Centres plc - 15 centres, Beacon Garden Centres Ltd - 13 centres. Although these firms concentrate on retailing some have subsidiaries engaged in landscaping and small ground maintenance contracts and often operate their own nurseries. Some of these firms are likely to expand into ground maintenance work particularly if they can expand their market for the production and sale of plants. Such firms could be easy prey for larger 'services' firms wanting to add ground maintenance activities to their list of services offered.

Even the largest garden centre/nursery firms tend to be relatively small. Cramphorn's 1986 turnover was £15m, Wyevale's £7.9m (1987), and R.C.Notcutt's (nursery, garden centre operator and landscape contractor) £10.5m.

Given the losses incurred by some firms, further takeovers can be expected.

The large DIY superstores are increasing in numbers, there are 725 stores over 1,400 sq.metres with another 150 new stores expected to open in 1988, an increasing number with gardens centres. B & Q (Woolworth Holdings plc) has garden centres at 177 out of 217 stores, Texas Homecare (Ladbroke Group plc) has 75, Homebase (J.Sainsbury plc) has 38,, Do It All (W.H.Smith & Son) has 51, and Great Mills 48. Horticulture retailing is being developed on supermarket principles. Notcutt's opened Britain's largest garden centre at Shirley near Solihull late last year. It is next to a new Tesco superstore adjacent to a M42 interchange, has 11 computerised tills, a 100 seat restaurant, evening opening hours, and plants are delivered daily direct from Notcutt's production nurseries. These kind of schemes are likely to attract a large proportion of horticultural investment.

It is highly unlikely that these firms would diversify into ground maintenance. They are, however, providing a major threat to the small chains of garden centres and individual nurseries/landscape contracting firms. This may force the latter to try to concentrate on a specialist sector of the 'market' and/or to build up a ground maintenance capability.

* Plant producers such as Geest Holdings Ltd, Lowland Nurseries Ltd, (Imperial Group plc) could also diversify into this sector but this seems unlikely at this stage.

Size of contracts

Contractors have already protested about the size of contracts. When BALI learnt that Rochdale was considering a £6m single tender they contacted the DOE (Horticulture Week, 6 May 1988). BALI also made representations to the DOE last year on behalf of Lanes Landscapes' complaints of 'unfair trading' by a local authority in Greater Manchester and the Groundwork Trust. (Horticulture Week, 17 July 1987). They are clearly going to act as unofficial watchdogs - "During the drafting and negotiating of the legislation we have built up a good relationship with the Department of the Environment, which has listened to what we have to say" stated BALI chief executive Bill Hickey (Horticulture Week, 6 May 1988). Some authorities have already been advertising seeking tenders. Kent County Council has divided its school ground maintenance into 6 areas. Each contract, initially for 3 years but possible further 2 years, having an annual value of between £70,000 - £100,000.

Some smaller contractors are also concerned that even £100,000 contracts would represent a substantial proportion of turnover and are concerned at being tied to one client.

Some firms are suggesting that contracts should start in the autumn giving them plenty of time to prepare over the winter. However, many local authorities will prefer a spring start and there is also the tendering timescale imposed by the government to comply with.

There are substantial differences in the costs of investigating firms and monitoring and inspecting work depending on whether there is one contract for 20% of the work or a number of much smaller contracts. It is essential that these costs are taken into account in the decision on the size of contract.

BALI Contractors in the North West

The British Association of Landscape Industries has produced a list of member firms providing grounds maintenance services. An analysis of this list revealed:

7	firms in North West	preferred maximum contract size	£50,000
5	"	"	"
6	"	"	"

There were 7 firms, four operating nationally, which claimed a maximum preferred contract size of over £500,000. These were:

Blakedown Landscape Ltd, Kidderminster and Shipley
Brambledown Landscape Services Ltd, Brandon, Durham
CDC Landscapes Ltd, Woodbridge, Suffolk
Cotterill Landscapes Ltd, Widnes
Economic Forestry Group plc, Kendal
Landscape Maintenance Ltd, West Moors, Dorest
R.B. Tyler (Ware) Ltd, Royston, Herts (AAH Group plc)

This BALI listing should be considered simply as a list of company preferences and **must not** be taken to represent a firm's ability to undertake the full scope of local authority ground maintenance work let alone the size of contract stated. Few firms in this sector currently operate nationally.

Countrywide Garden Maintenance Services, Cheadle, claims to be "Britain's No 1 Private and Industrial Garden Maintenance Contractors" in its brochure sent to the City Council and in its Yellow Pages advert. But its claim cannot be substantiated by a public examination of its accounts (Companies House search March 1988, registered as Cheshire Garden Services Ltd) as it has not filed them since incorporation in 1982.

Some important issues

There are some issues very specific to ground maintenance which will require particular attention in specifications, contract conditions, and the evaluation of tenders.

- * Since the private sector has so little experience of parks maintenance it will be essential to thoroughly investigate a firm's technical ability. Maintaining a private garden on contract or a small planted area in a office development is not comparable in technical requirements nor resources needed to maintain a public park.

- * References from landscaping contractors should be checked to see if they were responsible for maintaining the area once it had been landscaped and planted.

- * Landscape contractors often cut costs by having mobile depots/cabins resulting in few facilities for the workforce. It would be advantageous for the contract conditions to include the use of council cabins and depots. This ensures more equitable cost comparisons and avoids problems of temporary parking in parks of the contractors 'facilities'.

- * Many grounds maintenance firms sub-contract work. It will be essential to ensure that tender documents fully declare what work it will do directly and what it will sub-contract. Subcontractors should also be subject to a financial and technical appraisal.

- * Contract conditions should ensure contractors are not allowed to use council nurseries and parks to grow and/or retail plants nor to use depots as a base for private contracting work. Some contractors may believe the often central locations of public parks and many local authorities extensive nursery facilities are ideal for commercial use. This is likely to result in increased costs to the council and possible disruption of other council services using the same depots. There is already at least one example of private use of council facilities - see Transfleet's use of the Woking Depot in Vehicle Maintenance Sector Analysis.

* A comprehensive Health and Safety policy and monitoring is a vitally important and requires detailed study which has not been possible in this Audit. It should cover:

- a chemicals and pesticides policy including limits on use, supervision etc.
- protective clothing requirements
- safety requirements imposed on contractors equipment used in public open spaces.

* Special attention needs to be given to monitoring and inspection of ground maintenance work. The cause of 'failures' is likely to be disputed by contractors, who have the opportunity to blame the weather, wrong or inappropriate use by the public, vandals etc.

Company Profiles on the following firms:

Economic Forestry Group plc
Countrywide Garden Maintenance Ltd (written to City
Council requesting inclusion on tender list)
R.B.Tyler Group Ltd
Dew Group Ltd (written to City Council)
Stag Landscapes (written to City Council)
JPW (Contracting) Ltd - County Landscape Development
Blakedown Landscapes Ltd
Cotterill Landscapes Ltd
Horticultural Contractors Ltd
Clapham's Landscapes Ltd
P. Casey Ltd

VEHICLE MAINTENANCE

SECTOR ANALYSIS

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Major trends and developments in the sector

Although the Local Government Act 1988 requires only the repair and maintenance of motor vehicles/trailers to be subject to the tendering procedures, major changes in the sector mean that it is increasingly difficult to separate maintenance from the ownership, finance, and operation of vehicle fleets.

Vehicle rental and leasing has grown rapidly in the 1980's as a result of:

- * the growth in air travel, particularly business trips.
- * companies with large fleets seeking to reduce costs.
- * more manufacturing companies contracting out distribution and warehousing.
- * large retail chains contracting out store deliveries using own livery trucks operated by freight firms.
- * growth of national/international freight and parcels operations dominated by large firms.
- * the continued shift from rail to road, the latest example being the ending of British Rail newspaper deliveries, now carried out by Newsflow (National Freight), TNT etc.
- * further concentration in the ownership of dealerships and garages.

These developments have led to:

- * the establishment of national chains of garages and depots, some with spare repair and maintenance capacity - others increasing shift work to reduce overhead costs.
- * some firms viewing local authority vehicle maintenance facilities as a useful and low cost method of extending their national coverage.
- * development of various financial packages including ownership/leasing/renting, maintenance, and fleet management options.

The shift to contract hire

Fleet sales are taking an increasing share of new car sales. Car manufacturers sold over 540,000 new cars in 1987 to companies operating 25 or more cars, representing 28% of new car sales. The figure rises to 50% when other business sales are included. There is also a shift from outright ownership to contract hire.

	Bought outright		Contract hire	
	1985	1987	1985	1987

Large Companies (turnover £200m plus)	78%	- 58%	6%	- 22%
Medium-sized Companies (turnover £50m - £200m)	49%	- 38%	23%	- 28%
Small Companies (turnover under £50m)	52%	- 37%	20%	- 36%

Monk's Guide to Company Car Policy

The Operations Director of Kenning Leaseline, Brian Mahoney, has stated that "industry is progressively divesting its responsibilities for its vehicle fleets" (FT, 27 Jan 1988). There is some evidence of a similar trend in the public sector although the lack of accurate information makes it difficult to identify the scale and rate of change.

Two recent examples bear out the trend. Boddingtons Brewery has recently closed three distribution depots and transferred transport and distribution responsibility to TNT Brewery Distribution with a centralised warehouse at Wigan. In June 1988 Grand Metropolitan announced Britain's largest sale and leaseback to date in a £27m deal with Ailsa Truck Finance, the financial services subsidiary of Volvo Trucks. About 500 trucks, 280 trailers and 300 lift trucks are involved.

On the same day Volvo of Sweden announced it had acquired a 20% stake in the Hertz parent company with Ford reducing its stake to 60% (Financial Times, 23 June 1988). Other manufacturers have set up joint venture contract hire operation eg. Austin Rover Finance/Lombard North Central- British Car Contracts, and Ford, Vauxhall, Audi-Volkswagen and Peugeot-Talbot are also involved in leasing/hire operations.

The total British contract hire fleet has been estimated at 500,000 cars in 1986, a rise of 42% since 1983. The finance-leased fleet was estimated at 386,000 cars in 1986 representing a 64% increase in four years (Makrotest market research, FT, April 1987). Profit margins in vehicle leasing/rental have also increased from just over 2% in 1981 to 8% by 1984, declining slightly to 7% in 1986 (Vehicle Rental and Leasing, ICC Business Ratio Report, 1987)

It is estimated that there are about 400 companies offering fleet related services. The car/van 'market' is very fragmented with even the larger companies such as Lex Vehicle Leasing and Interleasing (T. Cowie Group) having 5% or less market share. The Managing Director of Lex Vehicle Leasing predicted in 1987 that the rapid growth in contract hire may be coming to an end although it is forecast to remain the fastest growing form of company car acquisition. He predicted further acquisitions, mergers and rationalisations within the industry. Many firms make exaggerated claims about the size of their business - the Kenning Leaseline director claimed "fisherman's tales" were widespread and called for official basic data and much better planning. (Vehicle Renting and Leasing, ICC Business Ratio Report, 1987)

Within Europe as a whole two companies, Avis and Hertz, dominate the rental market with 18% and 15% market share respectively (Vehicle Rental and Leasing, ICC Business Ratio Report, 1987)

In Britain the truck contract hire/maintenance 'market' is dominated by a few large firms with a national network of depots.

Problems for contract hire firms

An expansion of current trends across the local government sector is not quite so straightforward. A recent study commented: "the LA market poses particular difficulties. LAs use high proportions of very heavy and specialist vehicles and Contract Hire companies have great difficulty in estimating maintenance costs and residual values of vehicles in these fields. Already informed sources in the trade believe that some firms have made serious errors in these fields and are very concerned about their future performance here. In some cases maintenance can amount to 50% of the value of a municipal vehicle over its life and it is clearly a very hazardous business to try and assess for example the life of clutches on municipal tipper trucks." (Public Sector Purchasing of Motor Vehicles, Dr Steve Tolliday, Institute of Local Government Studies, University of Birmingham, 1987)

The Audit Commission study (Improving Vehicle Fleet Management in Local Government, HMSO, 1984) found that only a third of councils could match the costs of contract hire companies but the best practice authorities could operate cars and vans 22% cheaper than contract hire companies.

Sector forecast

Rapid growth in leasing and contract hire may be coming to an end and "partially as a result of this and also due to the fact that substantial increases in the leasing fleet usually require very much smaller rises in overheads, further mergers and acquisitions are likely to take place within the industry" (ICC Business Ratio Report, Vehicle Rental and Leasing, 1987)

In July 1988 Suter plc sold Mitchell Cotts Transport Services for £32m to Transfleet Services Ltd increasing the latter's vehicle fleet to 4,700.

Size of the local authority sector

Research by the Audit Commission and the Motor Industry Local Authority Network indicates that local authorities in England and Wales spend about £700m annually on their own fleets, broken down as follows:

	County Council	District Council
Repair and Maintenance	41.0%	36.0%
Fuel and oil	13.5%	18.0%
Overheads and depot charges	7.5%	10.0%
Licences and insurance	4.5%	6.0%
Vehicle replacement	33.0%	30.0%

Precise data is not available but the figures indicate that local authorities spend about £250m per annum on repair and maintenance and a further £200m acquiring 13,000 new vehicles annually.

Existing contracting out

Despite the leasing/hire trends very few local authorities have contracted out a major part of their vehicle maintenance work to date.

Authority	Maintenance only	Contract Hire	All-in Deal
Woking			Transfleet
Runnymede			Transfleet
Three Rivers			Transfleet
Hammersmith	Mitchell Cotts (Transfleet)		
Wandsworth	Highway Veh. Maint.		
Hertfordshire		Godfrey Davis	
East Cambs D.C.	Manchett's Burwell		
S. Shrops. D.C.	Local garage		

(Source: Company Annual Reports, Local Government Chronicle Annual Contracting Out Surveys)

Other local authorities such as Kent County Council, Bury MBC, contract out some vehicle maintenance work.

The economics of contract hire

"The way in which a contract hire firm makes profits is relatively simple: it borrows money at a cost of 12.5% or less, aims to obtain a target rate of return of about 18%, and normally achieves a return of 165 at best. The return is made by using the borrowed money to purchase vehicles, minimising overhead costs by the use of economies of scale, and obtaining a monthly fee for the use of the vehicles which covers their capital repayments, the interest

and the administrative costs incurred. Essentially, the contract hire is a cash flow business where the key is to spread the overheads by obtaining the maximum economies of scale".

(Special Report: Municipal Vehicles, Transport, December 1987)

The report also notes that most contract hire firms operate from a base of either a vehicle manufacturer/dealership or a haulage/distribution company. Vehicles are obtained cheaply and maintained in existing facilities. Other parts of the business may subsidise the contract hire operation by not charging commercial rates for services charged to other parts of the same firm - the equivalent to transfer pricing by multinationals. Fleets can be increased considerably without much additional overhead cost: most firms have computerised systems to aid fleet management, servicing and billing.

Recent developments in municipal vehicles sector

Manufacturer expands into repair and maintenance: Norba Waste Management Systems, manufacturer of refuse vehicles, has expanded into vehicle maintenance with contracts for the Waste Management Ltd contract at Wirral, Cleanaway and Teamwaste. "It is on maintenance that they (local authorities) are very vulnerable" claimed David Gardner, managing director of Norba (Municipal Journal, 10 June 1988). Norba are offering to run vehicle maintenance depots for local authorities or private contractors. The firm has recently opened a new factory at Ellesmere in addition to its existing Shrewsbury operations.

Local authorities restructure transport services: Since 1982 both Bristol and Leeds City Councils have reorganised transport services into single organisations providing all the transport requirements across the council. In Bristol, Transport Services provides and maintains cars, vans, trucks, tipplers, tractors and mowers. About 12% of its turnover comes from contracts to provide transport for the Bristol and Weston Health Authority and the Avon Ambulance Authority (Financial Times 9 February 1987). Leeds offers similar services.

Joint ventures in leasing and maintenance: The leasing firm Ackers Jarrett have set up a joint venture with specialist vehicle manufacturers Shelvoke Dempster to lease/hire and repair cleansing vehicles. Ackers Jarrett already has a fleet of 700 vehicles and has invested £1m in additions to the fleet. The two companies are pooling their ten depots to provide national coverage. Ackers West Midlands repair and maintenance facilities have recently been extended. A recent advert in Municipal Journal (10 June 1988) offered contract hire with full maintenance on chassis and equipment, replacement vehicles to cover breakdowns and annual testing. Trio Containers is another firm offering similar vehicles from depots in Manchester, Sheffield, Newcastle and 4 other centres.

Car dealerships encourage to tender: Earlier this year the Ford Motor Company circulated a guide to all its dealers 'Local Authority Vehicle Maintenance: Challenge and an Opportunity'. The guide explains how local authorities will have to tender for vehicle maintenance work and describes how dealers can try to obtain this work. "A local authority contract for maintenance is likely to provide a useful - or even major - part of your Dealership's service turnover. But it need not stop there. Vehicle supply is closely allied, and your knowledge of the authority's fleet will give you a head start when replacement time comes around". Part of the checklist also asks Dealers to check "Will you be allowed to use the premises or hardstanding for working on other customers vehicles?".

The contractors

The main contractors are grouped according to their basic business:

Freight/distribution

Transfleet Services Ltd (Lex Service/Lombard North Central)
Mitchell Cotts Transport Services (Suter plc)
BRS (National Freight Corporation)
Wincanton Transport (Unigate plc)
TNT Roadfreight UK Ltd (

Vehicle Manufacturer/dealers

Trimoco plc
Godfrey Davis Holdings plc
Wadham Kenning Motor Group (Tozer Kemsley & Milbourn
(Holdings) plc - Brierley Investments Ltd (New Zealand)
Highway Vehicle Leasing (Highway Finance Holdings)
GELCO Contract Hire (Avis Europe plc)

Companies specifically targeting local authority/public sector vehicle maintenance/fleet management include:

Transfleet
Trimoco
BRS

TNT Truckcare

TNT Truckcare Fleet Maintenance and TNT Public Sector (a division of TNT Contract Services) are both seeking public sector contracts. TNT Public Sector is seeking distribution contracts offering "fully integrated distribution, reduction in investment, release of capital" and even purchasing responsibility whereby TNT "control purchase forecasting, master procurement schedules, stock control and inventory as well as weekly statistical analysis".

TNT Truckcare (depot at Railway Street, Ramsbottom, Lancs) offer preventative truck maintenance, day or night repair and maintenance operations, damage repairs etc.

BRS

BRS has over 100 engineering facilities to service its own 8,500 vehicles and customer vehicles and claims that "40% of the BRS engineering resource is available for outside operators". It operates a range of services including fleet takeover, contract hire with or without maintenance, maintenance only for vans, trucks up to 38 tonnes, trailers etc.

It already has some public sector contracts. Lewisham and North Southwark Health Authority hires 52 vehicles on a full service basis. British Coal used a fleet takeover/contract hire/provision of drivers covering 75 vehicles in the South Wales Area. BRS Western recently gained its first local authority contract providing 25 trucks to the Consortium for Purchasing and Distribution worth £310,000 over five years (Transport, December 1987)

Facilities in Manchester

Transfleet Services has two depots in Manchester and both BRS and TNT have depots in the area. Avis Europe plc (79,000 vehicles) acquired the C.D.Brammall and Gelco International Ltd contract hire/leasing/ fleet management firms in 1987/88. A new headquarters is being built in Salford from which Avis will operate all its leasing and management operations from 1989. Avis also own Manchester Garages Ltd. (Annual Report and Accounts 1988).

Some important issues

* The scope for improvements in vehicle fleet management in local government have been highlighted in several studies (see Public Sector Purchasing of Motor Vehicles, Institute of Local Government Studies, University of Birmingham, 1987). The City Council is in the process of major changes and improvements of facilities at the Gorton Transport Maintenance Depot. The full integration of all City Council departments full transport requirements is essential. This should include the termination of private hire and maintenance unless it can be specifically justified.

* The maintenance of cars/vans and trucks and specialist vehicles should be retained together in one contract. Given the different demands and costs, and bearing in mind the likely interest from car/van contract hire companies on the one hand and truck/freight distribution companies on the other, it would seem advantageous not to divide repair and maintenance by vehicle type.

* All companies seeking vehicle maintenance work should be informed at an early stage that the contract conditions will clearly prohibit the use of City Council depots and premises for private sector work and that this will be strictly monitored.

* The evaluation of tenders should try to ensure that companies

are under no illusion, nor have fixed prices, on the basis that having obtained a maintenance contract that a further contract for the supply of vehicles will be readily forthcoming.

* There is considerable scope for undertaking repair and maintenance work for other public sector bodies in Manchester.

REFUSE COLLECTION STREET CLEANSING SECTOR ANALYSIS

Major trends and issues

Refuse collection and street cleansing are but one part of waste management which can be divided into the following elements:

Domestic	Industrial/Commercial	Hazardous
Collection	Collection	Collection
Transfer	Transfer	Disposal
Disposal	Disposal	
Local Authorities 6.4% Contractors	Local authorities & Contractors	Contractors

There are basically two types of contractors categorised by their main activities:

Cleaning Companies

Exclusive Cleansing (BET)
Teamwaste (R.B.Tyler, AAH Holdings plc)
Pritchard Services (ADT)
Taskmaster Ltd (ADT)
BFI Wastecare (Browning Ferris Industries)

Waste Disposal Companies

Cleanaway Ltd (Joint venture, GKN/Britain and Brambles Industries/Australia)
Wimpey Waste Management (George Wimpey plc)
Leigh Interests plc
Shanks & McEwan Group plc
Waste Management Ltd (National Freight Consortium)
Biffa Waste Services (BET)
Econowaste Ltd (Tarmac plc)
Hales Containers (RMC Group)
Haul Waste (English China Clays)
Attwoods plc
Hargreaves Clearwaste (Coalite Group)

It should be noted that of the 29 refuse/street cleansing contracts currently operated by private contractors all but 4 have been gained by the cleaning companies. Most of the waste disposal companies are competing with local authorities on trade waste having gained the bulk of industrial waste collection. Several of the waste disposal companies are subsidiaries of firms with large quarrying interests and hence own substantial landfill sites.

Two firms have major US interests. Browning Ferris Industries is one of the two largest refuse collection/waste disposal firms which dominate the US sector (the other is Waste Management Inc - no connection with the NFC subsidiary). Sixty eight per cent of Attwoods turnover in 1987 came from the USA, mainly refuse operations in Florida.

Size of the 'market'

Between August 1989 and January 1992 some 454 local authorities in Britain will be putting over £600m worth of refuse collection work out to tender. This is a rate of 180 tenders annually compared with the previous maximum rate of 24 tenders in the whole of 1982 which it is claimed "the industry was flat out in coping with them" (Municipal Journal 10 June 1988). Even allowing for some increased capacity following takeovers since 1982 it is clear that contractors will have no choice but to be selective.

"The evidence is that tender response will be careful and selective and aimed quite deliberately at those groups of authorities where the contractors (rightly or wrongly) see a better chance of fair specifications, equitable tender analyses and reasonable prospects of a peaceful life during the contract" (Rodney Simpson, waste management consultant, Municipal Journal 10 June 1988).

The experience of Westminster City Council is very revealing. In 1987 the council decided to start the tendering process in advance of the legislation. Eight companies, including the management buyout company MRS, applied for the tender documents for the refuse/street cleansing contract. Invitations were issued to four companies - Pritchards, Teamwaste, Drinkwater Sabey and MRS. Only Pritchards and MRS submitted tenders but the former then withdrew. BFI Wastecare was initially excluded but an invitation to tender was later issued but the firm did not do so. The council has extended the deadline three times. The companies gave a variety of reasons for not tendering eg not enough resources, tendering elsewhere. It is also a large 'visible' combined refuse/cleansing contract with street cleansing of the West End imposing continuous demands. Nevertheless, the lack of response at a time when there are relatively few other authorities tendering indicates the private sectors planned selectivity. The existence of a management buyout bid may have had some influence but the main reasons are likely to be the promise of much easier contracts in 1989 and companies unwilling, or unable, to risk failure on a contract covering the streets surrounding the House of Commons.

Major changes in ownership 1983-88

There have been several major takeovers in the sector which has led to all the main refuse collection/waste disposal contractors now being owned by major multinational firms.

Contractor	Original Owner	New Owner
Exclusive Cleansing	Brengreen Holdings	BET
Wastedrive Ltd	" "	"
Pritchard Industrial Ser.	Pritchard Services	ADT
Taskmaster Ltd	ADIA SA (Switzerland)	ADT
Wastecare	Grand Metropolitan	Browning Ferris Industries (USA)
Cartaways	M.J. Industries	Leigh Interests
Hargreaves Clearwaste	Hargreaves Group	Coalite Group
Peter Andrew	" "	" "
Attwoods plc		ADT has 27.6% of shares
Drinkwater Sabey		
J.M.Roper		
Summerleaze		
London Brick Landfill	Hanson Trust	Shanks & McEwan

(Source: Company Annual Reports, McCarthy Information Service press reports.)

See also the chart of BET/ADT takeovers in the Cleaning Sector Analysis.

Waste disposal, including the collection of industrial and commercial waste, has proved highly profitable. The 1988 edition of the ICC Business Ratio Report on Waste and Scrap Merchants analysed 19 waste disposal companies which had annual sales of £217m in 1986 and concluded:

"The excellent margins of these companies are accompanied by equally excellent returns".

The performance of these waste disposal companies in 1984-86 can be compared with that of Exclusive Cleansing Services (then part of Brengreen Holdings) which was the largest refuse collection contractor with 14 contracts.

	Waste Disposal firms (average for 19 firms)	Exclusive Cleansing Services
Profit Margin		
1985/86	7.3%	5.8%-
1984/85	8.2%	7.3%-
1983/84	7.4%	2.7%-
Return on Capital		
1985/86	17.4%	56.4%-
1984/85	16.9%	73.7%-
1983/84	17.0%	11.5%-

(Source: Waste and Scrap Merchants, ICC Business Ratio Report, 1988)

Exclusive Cleansing Services had pre-tax losses of £621,000, £689,000, and £189,000 for the same period. The ratios are based on the published accounts and the comparison assumes that there were no payments between subsidiary and parent which would have distorted the company's performance. The contrast is quite stark.

The waste management industry

Ninety per cent of waste is disposed of in landfill sites owned by contractors and Waste Disposal Authorities (WDA's). The remainder is incinerated. The large firms involved in building materials production eg bricks, cement, limestone and aggregates, diversified into waste disposal as a means of filling excavated land. Although Britain, unlike most other European countries, has a number of cheap landfill sites the cost of landfill disposal is becoming more expensive because of the transportation costs. Denmark recycles 75% of its waste to create energy.

The Third Report of the Hazardous Waste Inspectorate (HMSO, June 1988) notes the improvements at some of the large sites of the waste disposal companies but notes there are still many blackspots with varying standards applied by WDA's - "the disparity between the best and the worst remains as dramatic as ever". Nearly 4m tonnes of hazardous wastes are disposed of annually in England and Wales, virtually all by the private sector. The report notes one large unnamed company's attempts to prevent random WDA checks of one the country's largest landfill sites. It also notes the big rise in the estimated levels of waste imported into Britain. It should be added that the Vulcanus II toxic burning ship operating in the North Sea which Greenpeace has campaigned against is owned by Waste Management Inc.

A number of waste disposal companies have attempted to gain a larger share of trade and commercial refuse. In London over 60% of trade waste is collected by private contractors. Firms such as Hargreaves Clearwaste adopted aggressive pricing in some northern cities eg Leeds, Sheffield, Middlesbrough. However, the Cleansing Department in Sheffield successfully countered with its own initiatives to expand trade waste.

The lessons from North America

Over 60% of domestic refuse in America, 30% in Canada, and virtually all commercial and industrial waste is collected by private contractors. Three firms, Waste Management Inc, Browning Ferris Industries, and Laidlaw Transportation dominate the market. These firms expanded rapidly since the 1970's acquiring hundreds of local and regional firms. The development of the industry in America has some lessons for Britain.

* Firms initially concentrated on the more profitable commercial

and industrial collection and disposal, and only later expanded into domestic collection when they were in need of new markets.

* The larger firms started integrating collection and disposal once they had sufficient and strategic control of the main landfill sites. There were many alleged attempts to prevent the opening of other landfill sites, varying tipping charges to competing firms etc. Interest in domestic collection followed control of the key landfill sites.

* Many companies, including the industry 'leaders', were subject to a series of investigations by Federal and State Judicial and Environmental Agencies for alleged illegal dumping, price fixing, and various other illegal activities. (Public Service Action Nos 2, 14, and 22) New legislation had to be introduced which led to the closure of nearly two thirds of hazardous waste landfill sites, with new controls imposed on nearly a third of domestic refuse sites.

The Federal Government has been forced to provide \$8,5 billion to help clean up polluted sites (Economist 7 November 1987). Waste disposal costs have soared, leading in part to plans to transport US rubbish for disposal in Britain.

* The same US companies noted above are also investing heavily in mass burning incineration plants.

Whilst there are differences in the structure and control of waste management in Britain and the US, it is nevertheless important to draw out more detailed lessons given the potentially increased role of the private sector in Britain.

Analysis of contracted out services and market share

Services contracted out at March 1988.

Contractor/Local Authority	Service	Population served(000)	Contract ends
Exclusive Cleansing (BET)			
Arun	Refuse	126.6	-
Chelsea	Refuse	50.0	1990
Chiltern	Refuse	91.1	1993
Medina, Isle of Wight	Ref/str cl.	69.7	1993
Penwith	Refuse	55.4	1989
Southend	Ref/str.cl.	158.2	1991
South Kesteven	Ref/str.cl.	99.9	1989
Tamworth	Refuse	66.7	1989
Vale of White Horse	Ref/str.cl.	108.4	1993
Previously held but lost:			
Bromley	Str.cl.	297.9	
Ealing	Str.cl.	292.4	
Eastbourne	Ref/str.cl.	80.5	

Milton Keynes	Ref/str.cl.	153.2	
Surrey Heath	Str.cl.	79.3	
Tandridge	Refuse	76.5	
Teamwaste (R.B.Tyler - AAH Holdings plc)			
Bromley	Str.cl.	297.9	1993
Mid Beds (part)	Refuse	108.1	1990
Rochford	Ref/str.cl.	74.8	1992
Sevenoaks (part)	Refuse	110.0	1990
Tunbridge Wells	Refuse	98.5	1993
Wandsworth	Ref/str.cl.	258.8	1992
Pritchard Services (ADT, Bermuda)			
Bath	Ref/str.cl.	84.3	1993
South Oxfordshire	Refuse	133.3	1993
Previously held but lost:			
Wandsworth	Str.cl.	258.8	
Taskmaster Ltd (ADT, Bermuda)			
Merton	Ref/str.cl.	164.5	1992
Tandridge	Refuse	76.5	1993
BFI Wastecare (Browning Ferris Industries, USA)			
Basingstoke	Refuse	137.6	1989
Solihull	Refuse	201.9	1990
Previously held but lost:			
Chelsea	Refuse	50.0	
Waste Management Ltd (National Freight Consortium)			
Taunton Deane	Refuse	90.9	1993
Wirral	Ref/str.cl	336.5	1993
Cleanaway Ltd (GKN, Britain/Brambles Industries, Australia)			
Mendip	Refuse	93.4	1993
Biffa Waste Services Ltd (BET)			
North Norfolk	Refuse	87.4	1992
MCS Ltd			
Milton Keynes	Ref/str.cl.	153.2	1993
Barker			
Maldon	Refuse	51.0	1993

Source: National Association of Waste Disposal Contractors, April 1988. Note: Separate refuse and street cleansing contracts in Wandsworth and Tandridge have been combined in the table.

The scale of contracting out to date needs to be kept in proportion. The above 29 contracts represent only 6.4% of the 454 collection authorities in Britain.

In addition 9 out of 19 contracts have been extended **not** by competitive tender but by negotiation with the existing contractor. Of those that did to to competitive tender 70% resulted in a change of contractor. Another two authorities, Eastbourne and Surrey Heath, returned to direct labour at the end of the contract whilst Ealing returned in-house after the contract was terminated by agreement.

Between 1981-87 64 refuse collection and street cleansing contracts were awarded of which 34 (53%) were retained by direct labour and 30 (47%) awarded to contractors. Of those contracted out 23 went to the lowest tender, 6 to second lowest tender, and 1 was sole bidder invited to tender. (Private Sector Provision of Public Services: The First 7 Years in Municipal Cleansing: Keith Bury, Waste Management Ltd, paper for Institute of Wastes Management 1987)

Contracting out peaked in 1983 and has since declined dramatically.

	New Contracts	Contracts Terminated
1981	2	0
1982	6	0
1983	12	0
1984	4	0
1985	4	0
1986	1	1
1987	1	2
	--	-
	30	3
	--	-

The experience of contracting out

It is not possible to identify all the penalties and defaults imposed on contractors (see Public Service Action No 1-36). However, below are examples of some of the problems encountered:

Bins not collected: Complaints of bins not collected extend far beyond the initial 'settling-in' period when deductions are often not imposed. Taskmasters had £23,613 deductions on its Merton refuse/street cleansing contract in a 6 month period. Several contractors have had to take on additional staff following backlogs and complaints. (Private Contractors & Local Government - Fines and Failures, Private Profiles No 3, LGIU)

Streets not swept: Between October 1983 and June 1985 Exclusive Cleansing only managed to sweep between 29%-74% of Ealing's streets to the required standard. There were also 5,512 complaints in the same period. (Cleaning Up in Ealing, Private Profile No 2, LGIU)

Disruption caused by contractors employment practices: The

workforce on Waste Management's Wirral refuse/street cleansing contract were on strike for two months in 1984 over the firm's holiday pay, sickness and bonus payments. The council agreed to increase the contract by £250,000 to achieve a settlement. The workforce on the Wastecare (then owned by Grand Metropolitan) Basingstoke refuse contract took industrial action over several weeks in 1984 after management breached an agreement over the use of temporary staff hired to clear a backlog. (Public Service Action No 12 and 20)

Unsafe vehicles: Eight out of 13 of Wastecare's Wandsworth refuse vehicles were found to have serious safety defects following an inspection in late 1984. (Report by London Hazards Centre, 1984)

Audit Commission findings

Within the limits of the Audit Commission study (for details see Public Service Action No 10) it found that "the better DLO's compare favourably with the performance of the privatised services covered in the survey - against the same standards". It went on to state that: "it is not inevitable that privatised services should be less costly. Indeed, many DLO's are doing as well as or better than those servicesthat have been privatised". (Securing Further Improvements in Refuse Collection, Audit Commission, 1984). It also added that five of the eight authorities which it studies which had privatised found "that contractors needed greater pressure and higher levels of inspection".

The same study estimated refuse collection costs in 1984 as:

Drivers and loaders	53%
Vehicle standing costs	18%
Vehicle running & maintenance	11%
Other costs	29%
Income	(11%)

	100%

Attempts to cut costs have included the introduction of larger vehicles and reorganising rounds, changing the collection method to the use of plastic sacks or wheeli bins with kerbside collection. These have resulted in job losses even when work has remained with direct labour or through 'deals' negotiated under the threat of tendering.

The Audit Commission's main 'savings' centred on a change to kerbside collection (placing responsibility for putting and pulling back bins onto residents) "and accept(ing) the service standards involved".

But reducing standards in order to reduce costs and claim 'savings' leads to major problems. When Wandsworth Council came to renew its street cleansing contract in 1986 it was forced to increase the overall level of service in the specifications by 31% and "the emphasis has been changed from once weekly to twice

weekly sweeping". (Report to Special Leisure and Amenity Services Committee, 15 July 1986). The contract included twice weekly sweeping for 80% of streets compared with the previous 20% together with many other changes. The contract, awarded to Teamwaste, cost the Council an extra £516,000 annually. (Public Service Action Nos 24 and 25)

Company strategies

Attwoods: Raising £40m from existing shareholders to reduce borrowings and enable it to continue acquisitions in Britain and USA. Expected to announce some £15m worth of quarrying and landfill acquisitions in summer 1988. (Financial Times 25 June 1988)

Biffa: Set up new subsidiary Biffa Environmental Technology, based at Blackburn, linked with ORFA Technology (Switzerland) and two other European firms, to develop waste recycling plants and new waste processing and compacting systems. (Municipal Journal, 10 June 1988)

Cleanaway: Earlier in 1988 announced plans to build a £15m hazardous wastes incinerator at Ellesmere Port, Cheshire to add to its existing plant in the area.

Ackers Jarrett: The Walsall based vehicle leasing firm has invested £1m to add to its fleet of 700 vehicles hired out to public/private operators in bulk refuse, liquid wastes etc. Joined with Shelvoke Dempster to provide pool of 10 depots around Britain offering contract hire with full maintenance. (Municipal Journal 10 June 1988)

Waste Management: Has developed a second base in the South East with a 2.5m tonnes landfill site at Washington near Worthing to add to its existing site at Redhill.

Norba Waste Management Systems: Developing from role only as manufacturer of municipal vehicles into maintenance and consultancy. has maintenance contract for Waste management vehicles at Wirral, and similar work for Cleanaway and Teamwaste. Offering to run vehicle maintenance depots for local authorities. (Municipal Journal 10 June 1988)

Hargreaves Clearwaste: "The strategy for this business is to achieve greater market share both organically and through acquisition.....and increasing the fleet of rear end loading and trade waste collection vehicles" (Rt Hon. Eric G.Varley, ex Labour MP and Government Minister, now Coalite chairperson writing in 1987/88 Annual Report)

Shanks & McEwan: "Our basic strategy....is to secure safe and environmentally sound landfill capacity which is well sited in relation to the markets we wish to serve. We then establish a collection network to ensure the flow of waste to our landfill

sites". (Chairperson's statement, Annual Report 1987). "SME does not collect domestic waste and its market share in the collection of commercial and industrial waste is small." (Shanks & McEwan Group plc, Share Offer document, 1988) "it is not itself in the business of 'running wheels'. The quality and location of its sites meaning that others' wheels run towards it" (Investors Chronicle, 26 February 1988)

Some important points

1. Contractors are going to be highly selective as to which authorities they will submit 'keen' tenders as opposed to those where they will either not tender at all, withdraw or put in high bids (see Evaluation of Tenders).
2. The waste disposal companies will be more interested in refuse collection contracts than separate street cleansing contracts. One Contracts Manager with a firm which has a combined refuse/street cleansing contract described the relationship between his company and council monitoring staff as "permanent confrontation" because of the difficulties in inspecting the cleanliness of streets compared with the more straightforward refuse collection. Street cleansing was also described as being more difficult to administer, and "too much at the edge" for waste disposal companies.
3. Firms which span both collection and own major landfill sites could be at an advantage in certain areas.
4. New joint ventures with US and/or European company involvement may develop to bid for local authority work. Waste Management International (part of Waste Management Inc) has had a London office for several years and had a joint venture with Pritchard Services for Saudi Arabian refuse and street cleansing contracts. (Public Service Action No 2 and 16)
5. Some contractors are seeking longer term contracts. Richard Creswell of Exclusive has argued for 10-20 year contracts to facilitate investment in plant "and engender a better feeling of partnership" (Municipal Journal 17 April 1987). A Waste Management Contracts Manager called for 25 year contracts.

Other points

The City Council should also note the following;

"It is also interesting to note the view of a well-known insurance company which estimates that the waste disposal industry was one of the least well insured" (Tony Bispham, Secretary General, Institute of Wastes Management, writing in Municipal Journal Supplement, 10 June 1988)

CLEANING

SECTOR ANALYSIS

Major trends and issues in cleaning sector

Factory and business closures in the recession in the early 1980's led to a 9% drop in contract cleaning sales between 1980-84 allowing for inflation. Growth in office development and the service economy did not compensate because building occupancy rates also declined.

The cleaning sector 1984 (£m)

	Contracted out	In-house	Total
Public sector	50 (2.5%)	1,950 (97.5%)	2,000
Private sector	500	500	1,000
Total	550	2,450	3,000

Source: CCMA

Changes in cleaning employment indicate the shift to contracting out in both public and private sectors. In the figures below in-house covers both public and private sectors.

	1981		1984	
	(000)	%	(000)	%
In-house .	500	72	450	64
Contract	190	28	250	36
Total	690	100	700	100

(Source: A Review of the data available on Cleaning Services, Department of Trade and Industry, 1987)

Some key characteristics of contract cleaning

1. Low barriers of entry: Little capital investment is required and start-up costs eg advertising are relatively small. The number of contract cleaning firms registered as having a turnover above the mandatory VAT registration threshold increased from 2,800 in

1979 to 3,700 by 1986. (Source: A Review of the data available on Cleaning Services, DTI, 1987). Nor are there any statutory standards or qualifications required before setting up a contract cleaning company.

2. Limited economies of scale: Larger firms enjoy some advantages from economies of scale in purchasing equipment, vehicles and supplies but these are limited. Market share is more important to take advantage of 'experience' and 'credibility'.

3. Labour intensive: There are limited opportunities for labour saving methods or equipment. Labour costs usually account for between 80%-90% of contract costs.

4. Low wage/part-time employment: Three out of four cleaners are women working less than 16 hours a week, dispersed over a large number of worksites each requiring relatively few cleaners for a short period daily.

5. Highly casualised with a high turnover rate, partly due to low earnings and few benefits.

6. It is work which has consistently been undervalued by public and private sector employers and other groups of workers.

7. Constant takeovers as companies seek market share through acquisition: Some companies acquired by Pritchard Services in the mid 1980's have now had four different owners in as many years following BET's £44m takeover of Pritchard Services and Provincial Cleaning from ADT in July 1988. If a cleaning contractor gains a good sized public sector contract this only increases the likelihood of a takeover by a larger firm.

8. Growth of transnational cleaning companies: Both BET and ISS have cleaning companies operating in most European countries. BET shares are now traded in New York, Toronto, Montreal, Paris, Amsterdam, Zurich and Frankfurt and increased its borrowing facilities in order to make future acquisitions easier. ADT and ISS are leading US cleaning and building services contractors.

Contract cleaning firms

Cleaning contractors can be grouped into the following 3 categories: The figures in brackets indicate the approximate turnover from cleaning activities, not total turnover. The main companies in each category are:

1. Multinational Service Companies

ADT (£420m from maintenance services in worldwide, 1987)

BET (£115m from cleaning and waste disposal, 1987)

ISS (£13.5m in UK 1986)

2. Medium-sized 'National' Companies

OCS (£55m from cleaning, 1987)

RCO (£17m from cleaning, 1987)

Godfrey Davis (£13.5m from cleaning, 1986)

3. Small Regional and Local Companies

Amalgamated Cleaning (Hampson Industries)

(£7m in 1986)

Securiguard (£6.8m in 1987)

CCA (£5m in 1986)

Sketchley (£4m in 1986)

Executive Cleaning (£3m in 1986)

Automagic (£3m in 1986)

plus over 3,000 smaller firms.

Manchester and other major cities have a mixture of multinational and national companies with local depots and offices, plus a plethora of small firms. The absence of a firm from local listings is not very significant, contract cleaners are adept at finding cheap offices to rent, gaining a few small contracts, hiring cleaners through newspaper adverts, and a local presence is established.

Market share

Estimated current market share of the major contractors:

	%
BET (including Initial, ICC, Brengreen, Reckitt, and Blue Arrow Cleaning Pritchard and Provincial)	23
OCS Group	7
ADT (including Mediclean)	6
RCO Holdings	3
Godfrey Davis (Sunlight, Pall Mall)	2
ISS Servisystem	2

(Based on Key Note Report: Contract Cleaning, 1986, ICC Business Ratio Report: Contract Cleaners, 1988: and adjusted to take into account recent takeovers)

Market share has changed dramatically since 1986 when BET and ADT launched a series of takeovers for other major competing firms. These latter firms had themselves grown mainly through acquisition of smaller cleaning contractors. See Buying Market Share: How Two Companies Came To Dominate The Cleaning Sector chart.

Although two firms now dominate the sector, not so much in sales terms but clearly in the percentage of public sector contracts won, a large part of the industry remains very fragmented. The ICC Business Ratio Report on Contract Cleaners notes the increasing concentration but describes the sector as having "a long and well populated 'tail'".

BUYING MARKET SHARE

HOW TWO COMPANIES CAME TO DOMINATE THE CLEANING SECTOR

BET plc

Turnover: £2,130m 1987/88

Initial plc: 41% stake, paid
£173.0m for remaining 59%
in 1985

Initial Services (IS)
Initial Service Cleaners (ISC)

Advance Services: 81% stake,
acquired remainder 1985

Advance Laundries

Descaling Contractors: £2.5m in
1983

Biffa Waste Services

Hoveringham Waste Control: 1982
from Tarmac plc

Brengreen (Holdings) plc: £33.0m
in 1986

Turnover £56.9m in 1985/86

Exclusive Cleaning Group

Exclusive Health Care Services

Exclusive Cleaning Services

Exclusive Office Services

White Cross Equipment: £5.5m in
1983

Wastedrive Ltd (as above)

Retail Cleaning Services

Four Seasons Roofing Co: £5.5m
in 1985

HAT Group plc: £114.6m in 1986

Turnover £240.2m in 1985/86

ICC (Cleaning Services) Ltd

ICC (hospital Services) Ltd

Metropolitan Window Cleaning Co

HAT Maintenance Ltd

HAT Plastering Ltd

HAT Painters Ltd

Reckitt Cleaning Services (RCS):

£12.75m in 1987, from Reckitt &
Colman plc. Turnover £23.0m in
1986/87

Blue Arrow Cleaning Group: £8.5m
in 1988 from Blue Arrow plc.

Turnover £15.2m in 1986/87

**Pritchard Services and Provincial
Cleaning Services:** £44.0m in 1988
from ADT. Turnover £65.0m in 1987

ADT (Previously Hawley Group)

Turnover: £1,134m 1987

Provincial Cleaning Services
Progressive Cleaning Services
Industrial Cleaners (UK) Ltd
Mediclean Ltd (set up 1982)

Taskmasters Ltd: £2.0m in 1984
from Alfred Marks/Adia S.A.

Home Counties Cleaning Group:
£4.9m in 1985

Cleanall (Leeds) Ltd: £0.7m in
1983

About 50 cleaning firms acquired
in 1984-86

Pritchard Services Group:
£150.0m in 1986

Turnover £412.0m in 1985/86

Cleaners Ltd

Pritchard Industrial Services

Pritchard Security Services

Zeus Security: £0.6m in 1983

Acme Services

Crothall & Co Ltd

B.A.Lester Ltd: £1.3m in 1984

Spring Grove Services; £16.0m
in 1983

United Linen Services

Pritchard Janitorial Supplies

Hygenol Ltd, Radium Chemicals

Spearhead Chemicals. Stretton

Chemicals: £0.5m in 1984 from

Oceana Holdings/Home Counties
Cleaning Group

Crothall International, USA:
£3.1m in 1980

National Medical Consult, USA:

Food Concepts, USA: £10.4m 1983

Automatic Catering, USA: £8.6m
in 1984

All State Cleaning, USA: 1984

Attwoods plc: 25.6% stake 1987

Turnover £73.3m in 1986/87

Drinkwater Sabey Ltd

J.M.Roper Ltd: £4.2m in 1986

Industrial Waste Service, USA

County Sanitation Inc, USA

Waste Aid Systems Inc, USA

Peterson Corporation, USA

The following table shows how the two major cleaning companies, although with only an estimated combined 29% share of the contract cleaning market, have won 60% of the NHS domestic services which have been contracted out between 1983-88. By early 1988 contractors had gained 20% (176) of the 871 NHS domestic services contracts.

NHS domestic services contracts 1983-88

Company	Number of contracts	% of total
ADT (Mediclean)	87	31
BET (Initial, Exclusive, Reckitts)	81	29
Hospital Hygiene Services	18	6
RCO	15	5
OCS	11	4
ISS Servisystem	9	3
Sunlight	8	3
Berkeley Taylorplan	8	3
Mediguard (Securiguard Group)	6	2
All the rest (approx 25 firms)	40	14
Total	283	100%

Source: Joint NHS Privatisation Research Unit, NUPE, 1988

Profits squeeze

Since the early 1980's competition between companies has been intense. Average profit margins were at 6% in 1980, fell gradually to 5% by 1984 but then dropped to 2.8% followed by a slight increase in 1986-87- see table below. Companies average return on capital has also been falling, from 25% in 1980 to 15% by 1986-87.

Performance criteria	1986-87	1985-86	1984-85
Profit Margin	3.3%	2.8%	4.0%
Return on Capital	17.0%	14.9%	18.6%
Liquidity	1.3	1.3	1.2
Average Employees Wages	£1,867	£1,673	£1,530
Profit per employee	£90	£70	£89
Sales per employee	£2,723	£2,461	£2,283

Source: ICC Business Ratio Report, Contract Cleaners, 1988 covering 65 companies)

An expanding 'market'

The Contract Cleaning and Maintenance Association (CCMA) 1986/87 membership survey revealed that the 150 member companies increased their turnover 66% to £750m in two years. They estimated

that £80m had been added to CCMA turnover over the past five years as a result of public sector contracts covering the Ministry of Defence, the NHS, and local government. (Cleaning & Maintenance, Dec 1987).

Local authority cleaning is estimated to cost about £500m annually (£430m for school cleaning, £70m for town halls, libraries and other buildings. (DTI report, ref above)

"At present we have some 80 plus companies interested in tendering in the local authority market but perhaps their continued keenness will depend on how the contractor is treated by the tenderer. We may still have a situation where some companies stand back, let others get their fingers burned and await some future time to move in when conditions are more favourable". stated Eric A. Green, CCMA, Cleaning & Maintenance, Dec 1987.

The CCMA claim that there are 28 contractors tending for NHS work although only 9 do so on a national basis.

Contracts terminated by Local Authorities

Service/Contractor	Local Authority	Reason Given
School Cleaning:		
Academy (Securiguard)	Merton	Poor standards, 1983
Exclusive (BET)	Dudley	Low quality, 1984
Initial (BET)	Dudley	Low quality, 1984
Initial (BET)	Cambridgeshire	Fail to clean, 1985
ISS Servisystem	Norfolk	Poor quality, 1984
ISS Servisystem	Birmingham	Many complaints, firm withdrew 1984 due to erosion of profit margins.
OCS	Dudley	Low quality, firm withdrew 1984
Pall Mall (Godfrey Davis)	Cambridgeshire	Fail to clean, 1985
Provincial (ADT)	Berkshire	Low standards, 1986
Taskmasters (ADT)	Cambridgeshire	Fail to clean, 1985
Town Hall Cleaning:		
Initial (BET)	Manchester	Fail to clean, firm withdrew, 1988
Pritchard (ADT)	Enfield	Fail to clean, 1987
Other Cleaning:		
Market cleaning		
Amalgamated (Hampson Ind)	Gloucester	Demanded extra payment, 1983
Initial (BET)	Gloucester	Poor stds, 1983
Toilet Cleaning		
Initial (BET)	Kennet	Poor stds, 1986
Bus Station cleaning		
Home Counties (ADT)	Milton Keynes	Poor stds, 1983

(Source: Various Council Committee Reports, Public Service Action Nos 1-36, Contractors' Failures: The Privatisation Experience, TUC, 1985, More Contractors Failures, TUC, 1986)

This list does not include those firms who were awarded contracts but then withdrew because authorities would not meet additional payment demands eg Pall Mall, Merton school cleaning contract (see PSA No 33 and 34). Nor does it include many more examples where contracts have been terminated at the end of the contract period.

A similar list covering NHS domestic services contracts will be found in PSA No 30. This showed the following contract terminations:

ADT	5	contracts
BET	8	"
Care Services	2	"
Hall Cleaning Ser.	1	"
Pall Mall	1	"
Spinneys	1	"

Contractors tactics and the impact of contracting out

There have been substantial penalties and defaults by contract cleaning firms in local government and the NHS. There is not the space to detail them in this study. Details are available in Public Service Action Nos 1-36, Labour Research, various reports by the Joint NHS Privatisation Research Unit at NUPE, and many other local government publications. However, it is important to briefly identify the types of problems identified.

These can be grouped into the following categories:

Poorer quality of work:

- * Areas of schools and hospitals not cleaned or cleaned inadequately, sometimes leading to disruption of services.
- * Council or NHS staff having to take on cleaning duties to cover or remedy inferior work.
- * Insufficient or inadequate cleaning materials used.

Employment practices:

- * cutting jobs, hours, pay and conditions both before and during contracts leading to high labour turnover, inadequate staffing levels and poor performance.
- * claiming maximum annual contract inflation payments but often refusing annual pay rises to workers in order to boost profits.
- * hire and fire management policies leading to the loss of experienced staff.

Threat of withdrawal:

- * Demands for increased payments either before the start of contracts or in its duration as contractors attempt to recover losses incurred in loss leader bids.

Increased costs to the authority:

- * Disputes over monitoring and inspection of contractors work leading to additional staff being employed.
- * Additional time of existing staff, additional on-costs, contract variations and so on.

It is not possible to detail in full all the experiences of cleaning services which have been privatised. Several reports cover this in detail:

- Privatisation in Hereford and Worcester: Time to Think Again, NUPE, West Midlands Division, 1988.
- Dudley: Contract Cleaning in Schools, LGIU Private Profile, 1987.
- Lincolnshire School Cleaning, NUPE, NALGO, SCAT, forthcoming 1988.
- Public Service Action Nos 1-36 details many examples of contract cleaning fines and failures.
- Cleaning Up in Schools, Research Paper No 6, Birmingham Trade Union Resource Centre, 1987.

Contractors strategies

1. **Growth by acquisition** is likely to continue. Smaller companies which do win local authority cleaning contracts will find that this 'success' will only increase the likelihood of takeover as the larger companies seek to increase market share.

2. **Expanding the range of services:** The Catering Sector Analysis noted that the larger companies are diversifying to offer a wide range of services ie security, vending, building maintenance, gardening etc. The following statement from Eric Harrison, chief executive of Initial Contract Services explained this further: "There is a growing emphasis on the provision of on-site management to ensure the correct supervision of an ever-increasing range of services. that more and more of our larger customers are seeking just one source for services. Starting with the basic cleaning requirements, these services range from the supply of toilet rolls to complete waste collection and disposal. It's the practice of one-stop shopping and something that we will be providing on a much broader basis." (Cleaning, February 1988)

3. **Widening the role of cleaners:** There is also what contractors are calling 'Value Added Cleaning Contracts'. Because cleaning contractors are now winning a small percentage of NHS contracts they have been lobbying intensely for changes for the grouping of services into larger packages, extending the range of services, and to extend the role of trained cleaners to 'Ward Assistant' relieving nurses of some of their unskilled tasks. "In the local government scene you can be sure that the contractors will be coming forward with similar imaginative schemes to enhance the value of their business" claimed Eric A.Green, CCMA (source as above)

Contractors tendering methods

Two reports have explained how some contractors prepare their tenders (National Health Service: Domestic Tendering-The Contractors Approach; and British Standards and Contract Compliance, both by David Shannon, 1986) These reports indicate:

1. Contractors often do not subscribe to British Standards. At least one of the largest contractors, uses a 'minute value per square metre' built up from company data and US work and which ignored frequencies laid down in NHS specifications. Appendix 1 explains the importance of requiring contractors to comply with British Standards.
2. After a total time figure was worked out it was then adjusted subjectively based on an assessment of the local situation, a view of how clean the building had appeared when visited, and an impression of how effective monitoring was likely to be.
4. If the authorities monitoring system involves penalty payments then the contractor is likely to increase the basic hourly rate.
5. Most contractors base their labour costs on rosters. Although there is an CCMA agreement not to pay less than Whitley Council rates, contractors devise their own inferior conditions of service.
6. Material costs are assumed to be 4% of the productive staff cost. Site office costs are usually very small, about £20 per week.
7. Corporate overheads and profits are added to the total sum. Typical rates are:

	Annual turnover	Overheads	Profit
Very large contract (a whole district)	£750,000	3%	3%
Large contract (a District Gen Hosp)	£400,000	4%	4%
Medium contract (less than 80 beds)	£80,000	5%	5%
Small contract (cottage hosp)	£30,000	10%	10%

A breakdown of costs

The following table has been compiled from the costings and prices in three tenders for local authority cleaning contracts. They should only be used as an indication of costs; not necessarily as representing an industry wide pattern.

Analysis of tenders: % of total tender price

Item	Contractors		
	A	B	C
Cleaners Wages	72.74	71.80	-
Supervisors Wages	5.30	5.36	-
Total Wage Costs	78.04	77.36	75.80
National Insurance	0.48	-	-
Holiday Pay (2 weeks) (3.5% of wages)	2.73	2.70	-
Materials	3.90	3.87	4.26
Equipment	3.75	4.98	0.95
Overheads	11.10	11.08	3.09
Profit (A and B included in overheads)			15.90

(Source: 3 Tender Documents)

Cleaning costs per square foot

Recent tendering of cleaning services in a local authority revealed the following variation in the cost per square foot. % increase compared to the lowest tender:

Contract A		Contract B	
-----		-----	
RCO	0	Pall Mall	0
ISS	23.1	OCS	3.1
Taylorplan	50.0	ISS	18.7
Initial	69.2	Electrolux	37.5
Pall Mall	136.5	RCO	43.7
OCS	203.8	Taylorplan	106.2
		Initial	128.1

(Source: Report Evaluating Tenders, large cleaning contract, 1988)

LEISURE MANAGEMENT

SECTOR ANALYSIS

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The Government announced in July 1988 that the management of sports and leisure facilities will have to be put out to tender under the Local Government Act 1988. It is important to put this in the context of general developments in the provision of leisure and sport facilities, and in particular, the role of the private sector.

Developments in the leisure/recreation sector

Leisure markets have experienced rapid expansion with further growth forecast to the early 1990's even if there is a slowdown in the economy generally. One forecast predicts leisure spending to increase 26% to 1988-92 compared with a 21% increase in consumer spending in the same period (Leisure Forecasts 1988-1992, Leisure Consultants, 1987). Physically active leisure - sports, DIY, gardening - is predicted to have a 4.4% annual growth rate to 1992 (Leisure Futures, Henley Centre for Forecasting, 1987).

Another study forecasts spending on sports will increase 20.7% in the 1985-89 period and a further 19.7% between 1989-92. It predicts leisure centres will grow in popularity with "new purpose built facilities, though expensive, could represent good commercial propositions for the private sector if well sited and run". The report also sees continuing growth in indoor sports including squash, badminton, roller skating, martial arts, and driving ranges. "As with lawn tennis, there is considerable potential for private sector enterprise to run both badminton and squash courts on a commercial basis in the 1980's". (UK Leisure Markets, Standiland Hall Associates, 1988)

Another study commented:

"Playing fields, outdoor sports and sports hall games have remained generally non-commercial. The markets for even small-court games such as squash remain tiny. However, substantial commercial niches have been carved, alongside public and voluntary provision, for snooker, exercise facilities and bathing". (Participant sport in the commercial sector, Leisure Studies 7, 1988)

The Sports Councils strategy 'Into the 90's' has set various

targets for participation in sport.

	Indoor		Outdoor	
	Men	Women	Men	Women
Actual Increase 1983-88(000)	+597	+981	+386	-111
Target Increase 1988-93(000)	+248	+1660	+729	+1879

(Sport in the Community: The Next Ten Years, and Assessments of Achievements To Date)

New leisure/recreational developments

1. Theme parks and major leisure centres: Following the success of Alton Towers and Thorpe Park, and despite the failure of Britannia Park, major investment, much of it overseas, is taking place at the conversion of Battersea Power Station and the planned £190m Wonderworld at Corby (construction by Bouygues, France and Kier, Britain and managed by Club Mediterranee and Havas Tourisme of France). Other theme park investment is planned. The Granada Group is reported to be looking for additional sites to add to its subsidiary, Park Hall Leisure's Camelot theme park in Lancashire and American Adventure park in Derbyshire. Granada is spending £3.5m on one water ride at American Adventure alone. The Pearson Group plan to invest £30m in new theme parks through its Tussauds Group subsidiary.

These parks are located within easy access of large urban areas, charge admission only to the site, but the cost of a day outing rises considerably when refreshment costs are included. Catering outlets have a captive market given the location of parks. In the US entrance expenditure is matched by spending on catering and shopping.

2. Leisure centres linked with retail development and entertainment: The trend is towards leisure complexes linked with retail and entertainment, often on greenfield sites. An example is the new £8m Leisure Plaza at Milton Keynes being developed by a consortium of contractors called Fenland Investments in which First Leisure is involved. The scheme will include an 2,500 seat ice rink, 36 lane bowling alley, a fitness centre, a 1,600 capacity disco, a theme cafe/bar together with 70,000 sq. feet retail space. Another sports development is planned in the city with indoor tennis, cricket, bowling green and a bar/restaurant.

The 2m sq.ft MetroCentre at Gateshead has a 70,000 sq.ft. MetroLand indoor fun fair built by Canadian developer Forrec. It built the well known West Edmonton Mall in Alberta which has 5m sq.ft of shopping space integrated with an indoor amusement park, ice rink, underwater rides, a water park, miniature golf and other facilities. Other shopping centres in Britain eg Meadowhall, Sheffield; Parkgate, Rotherham; Park Plaza, Hatfield and others combine shopping with leisure/recreational facilities. Leisure goods now a major sector in retailing. "both the pattern of shopping and its role in leisure time use are changing steadily as the 'essentials' elements in shopping are reduced, relative to the amounts of money now available for 'discretionary' purchases"

The developments in theme parks and retail linked leisure schemes are providing new 'markets' for equipment manufacturers and construction companies. However, a large majority of the jobs created in running these facilities are traditional low pay service jobs.

3. Growth in commercial health and fitness clubs: The number of private clubs, run by small firms and hotels, has increased in recent years and many local authority recreational centres, swimming pools have also installed exercise equipment, weights, solaria, sunbeds etc although the public sector has often not effectively marketed such facilities.

The £3.5m 40,000sq.ft Barbican Health and Fitness Centre currently being completed will be the largest in Britain with 25 metre pool, indoor jogging track, fitness machines, saunas, solaria and whirlpool together with the obligatory bar/restaurant. By March 1988 1,200 people had joined at £800 membership fee plus between £200-£400 annual subscription. The target is 6,000 members and a full time staff of 30. The centre is run by the Health and Tennis Corporation of America which has 300 clubs worldwide. Another 5 are planned in London.

A recent study comparing commercial and public sector health and fitness centres in several cities concluded that although public facilities were often just as good if not better, the commercial sector provided higher standard changing facilities. The pricing structure excluded children and the unemployed, and there were no team games to attract large groups of teenagers. Nor were there casual users or participants to 'dilute the atmosphere'. (Participant Sport in the Commercial Sector, K.Roberts, C.S.York, D.A.Brodie, Leisure Studies 7, 1988)

4. Local authority provision of multi-activity leisure and recreational centres: A number of major leisure centres have been built or are planned eg Doncaster, Bletchley, Blackburn, Perth, Bracknell, Wallsend. The £31m Ponds Forge sports complex in Sheffield, being built for the 1991 World Student Games will include swimming pool, leisure pool and river, and indoor sports centre. Although other schemes are smaller they represent a clear trend to provide both leisure and sports/recreational facilities on one site.

The London Borough of Croydon is planning a £10m leisure and water facility, capable of accommodating 3,000 people, with 1,700 sq. metres of water and a surrounding sub-tropical theme. The complex will be designed, constructed and managed by Sunley Leisure Ltd. The Local Government Chronicle (8 April 1988) concluded its report be stating: "Maybe councils should instead spend the £10m on an olympic size pool to train our prospective champions".

5. **Redevelopment of dockland and water front sites** in many cities is creating new opportunities for the private sector provision of recreational facilities combined with commercial leisure facilities as part of major property schemes. Many of the large construction firms are marketing their involvement in leisure.

6. **Expansion of holiday village/leisure complex breaks:** Center Parcs is developing a second centre in Norfolk and increasing facilities at its Sherwood complex in Nottinghamshire. Another 4 centres are planned. Each centre provides a wide range of recreational and leisure facilities. These centres are expected to grow in popularity particularly for short holiday breaks. Center Parcs recently revealed it was departing from its traditional schemes and was one of three contenders to build a hotel, leisure facilities, restaurant complex at Crystal Palace. (Caterer & Hotelkeeper, 9 June 1988)

7. **'Partnership' schemes:** The Government is trying to force local authorities, by financial constraints and encouragement of the 'enterprise economy', into partnership deals with developers. Urban Development Corporations have been set up in many cities which will encourage and facilitate these schemes. A review of sport in the inner cities is underway to examine "how more private sector support for the right kind of schemes can be secured" (Action for Cities, Department of the Environment, March 1988).

The Sports Council's new five year strategy 'Into the 90's' plans to focus on four main areas which include further encouragement to the commercial sector and an expansion of sponsorship. The Minister of Sport, Colin Moynihan, stated at the recent 'A Sporting Future' conference at Wembley "We realise that not all facilities will become profit-making, that other needs have to be balanced with efficiency and profit". Many speakers claimed that local authorities had to change their role from one of providing to that of an enabling, "a phrase repeated around Wembley as if some sort of mantra" reported Sport & Leisure, May/June 1988.

Sponsorship of both facilities and events is increasing. ASDA have set up a Foundation, administered by the Sports Council, to assist in the provision of facilities. Many of the large cleaning companies both sponsor and advertise heavily at many sporting events. ADT recently agreed a three year £2m deal to sponsor the London Marathon from 1989.

Other developments

More and more schemes are not stand alone sports facilities or centres but complexes offering entertainment as much as recreational facilities. The larger leisure companies have expanded into restaurants and pubs. First Leisure, Midsummer Leisure and Brent Walker now own pubs. First Leisure operates 18 some with restaurants/late night dancing - "we make a jolly good margin on them" stated chairperson Michael Cotterell. Brent Walker acquired 386 pubs in London and East Anglia in February 1988 in a

£47.5m deal with Grand Metropolitan. "When a brewer looks at a pub he sees a pub. We see it as anything. And while eating and drinking are our major thrust, if a public house is not making the right return we will develop it as something else when the tenancy expires. That could be as a restaurant or as residential development" claimed Brent Walker chair George Walker (FT 24 Feb. 1988).

The views of a firm specifically set up to develop leisure/recreational facilities are instructive. Sports & Leisure Developments plc currently operates ice rinks and is involved with a number of retail/leisure schemes:

"Disco's - the profits are considerable.

Pub/restaurants - this area presents a very attractive development market.

Snooker - resulted in extremely attractive profits being achieved by existing operators.

Indoor cricket - one of the fastest growing sports in the country

Ski slopes - potential for return on investment...very attractive. Additional revenue from bar, restaurants and retailing of ski equipment and apres ski activities can be considerable.

Holiday villages - about to burst onto the leisure scene."
(Taking the Lead in Leisure, Sports & Leisure Developments plc)

Company reports by stockbrokers Barclays de Zoete Wedd on Mecca, Brent Walker, Ladbroke, First Leisure, and Rank Organisation in the last few months have all recommended 'buy' to investors. (Various reports, Barclays de Zoete Wedd, London). Typical was the report on Rank Organisation: "We expect Rank to invest further in UK leisure developments with profits arising both from operations and from development gains. The Stoke development could be typical - a 23 acre complex incorporating a Waterworld, cinema, ten pin bowling, bowls, snooker, amusement centre, disco, bars and catering. Acquisitions with complementary expertise could be a possibility" (Rank Organisation, Barclays de Zoete Wedd, February 1988)

"We like to be big in large leisure markets" stated Rank's leisure director (Where there's fun there's money, FT, 26 Sept 1987). The same article quoted stockbrokers Wood Mackenzie's leisure analyst as stating: "The established companies in the sector have appeared to see their future more in their core markets, rather than trying to develop relatively small leisure markets".

Commercial criteria

The major leisure firms are concerned about 5 key aspects:

1. multi-activities to attract a high volume of users.
2. the potential for added value - not just admission to a pool but higher charges for water chutes/rides etc

3. scope for restaurants and bars, not just refreshments.
4. construction - opportunity to profit from undertaking the building of facilities.
5. property - scope to benefit from rising values from owning leisure developments and profit from adjacent commercial, residential schemes.

Single activity facilities, for example, swimming pools offer very limited scope for added value and have a virtually fixed income. This is borne out by CIPFA estimates for England and Wales 1987-88 for "average recovery of running costs from income" for-

swimming pools	31%
sports halls with pools	44%
sports halls without pools	42%
outdoor sports facilities	23%
golf courses	88%

Such facilities can only operate with public subsidy but it is highly unlikely that companies can make acceptable profit margins from changes to staffing, management, and running costs alone assuming they could win tenders on stringent technical, safety, and financial criteria.

Implications for local authorities

This can be divided into the impact on:

- a. the provision of facilities
- b. the management of existing facilities

Provision:

The leisure firms and the Government will try to ensure that a large proportion of 'mass market' leisure and recreational facilities will be designed, built and managed by the private sector using public money where necessary to cover the 'risk' element. If its 'fun' its entertainment, that means spending more time and money, hence the greater potential for commercial success.

Local authorities will remain responsible for recreational and sports facilities which cannot be profit-making. The attitude of the private sector was summed up in recent interview with Josh Brenner, Heery Engineering, one of the leading US leisure developers;

"In the States, we make no provision at all for exercise swimming in leisure pools. When a private developer is charging \$10, \$11 or so for admission to a water park, he's going to put his money into boosting the activities in the pools, not in providing swimming lanes. Besides, you can swim lengths at the YMCA, or at the local club". (Sport & Leisure, May/June 1988)

Management of existing facilities:

Although facilities will remain in public ownership the management functions, for example, providing staff to run centres, bookings, collection of fees, hiring of equipment, instruction, will have to

be put out to tender. Cleaning and catering are already included under the Local Government Act 1988. Local authorities will retain control over prices and opening hours.

Most local authorities have a wide range of leisure/recreational facilities built over the last 80 years or so. These range from new leisure centres providing multi-activities to old single activity facilities. There are an estimated 1,000 swimming pools, 1,100 recreational centres and 450 athletic tracks. They can be classified into three broad groups.

1. new multi-activity leisure centres.
2. recreational centres and individual buildings in good condition with adjacent open space or with potential to expand.
3. traditional and old buildings eg swimming pools, often on constrained urban sites.

Some major leisure firms may be interested in the management of group 1 centres, particularly the larger 'fun' centres with high usage levels. Mecca Leisure has carried out at least two privatisation feasibility studies for local authorities. A Mecca director was quoted in the Local Government Chronicle 25 Dec 1987) as saying the company had investigated the potential of operating council facilities and had concluded that the business suited smaller companies better. A few may be interested in group 2 centres but only if there is scope and space to add water slides, health clubs etc. But it is far more likely that only small firms, often based around management buy-outs, will show any interest. Companies will seek economies of scale by demanding a number of facilities in each contract.

Crosland Leisure (Holdings) Ltd has 7 leisure centre management contracts. A separate company is set up for each contract which employs the staff and pays the running costs. The firm charges a management fee, but also increases charges, allows private use of facilities to increase income, extends bar/restaurant opening hours, and often establishes a health club in vacant space.

"A key factor contributing to Crosland's profitability is that the majority of projects are in new or refurbished buildings, thus reducing repair and maintenance costs and enabling more up-to-date activities." (The Leisure Contractors: Fit to Compete?, SCAT for Association of London Authorities, 1988)

Few firms are likely, under present circumstances, to be interested in group 3 facilities.

Clearly, the catering and cleaning functions in all leisure facilities will be sought by the firms also seeking town hall, school and other local authority cleaning and catering contracts.

Whilst strict local authority control over prices and opening hours is likely to deter many firms, the distinct likelihood is that once management is contracted out firms will try to pressure

local authorities into submitting to changes by:

- using the carrot of some extra income to the authority.
- claiming financial difficulties.
- marketing the facilities in a particular way to specific groups to create a particular 'demand' which will then be used to justify changes.
- showing how income can be raised by allowing the use of facilities for non-recreational uses.

The tendering of management of sports and leisure facilities will contribute nothing to the improvement of facilities nor has it anything to do with 'sport for all'. Despite a continuing national shortage of sports and recreational facilities in Britain, Manchester and other local authorities have successfully built and managed many excellent facilities providing access for all city residents at low cost. It is this very success of local government which stands in the way of the increasing commercialisation of sport and leisure. The relatively low cost of public facilities ultimately limits the potential market charges in the private sector.

Existing contracting out

An analysis of leisure services contracted out between 1985-87 revealed the following:

leisure management	13 local authorities (Crosland Leisure held 7)
catering	53 local authorities (see Catering Sector Analysis)
cleaning	12 local authorities

(Recreation: A Workers Report, SCAT/Sheffield City Council, 1987)

Major recent takeovers

Company/facility	Original Owner	New Owner
1985		
Mecca Leisure Brighton Marina	Grand Metropolitan	£95m Management buy-out Brent Walker
1986		
Havne Leisure	Eng. China Clays	Rank Organisation
1987		
5 Marinas - £23.5m	Rank Organisation	Marina Development Grp.
8 Casinos - £128m	Lonhro	Brent Walker
President Ent - £63m		Pleasurama
Trocadero- £90m	ESN Pension Fund	Brent Walker
Hilton Int - £654m	Allegis Corp, USA	Ladbroke Group
Ladbroke Holidays £55m	Ladbroke Group	Mecca Leisure
Aureon Ent. £22.8m	Whitbread	Pleasurama
Riley Leisure- £16.4m		Midsummer Leisure
1988		
Ahnert Ent.(USA) £102m		Rank Organisation
Theme Holdgs - £16.8m		Leisure Investments

(Source: Company Annual Reports, McCarthy Information Service press cuttings)

There have also been a number of smaller takeovers in the same period.

THE EFFECTS ON COUNCIL SERVICES AND JOBS

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This section examines:

- Potential job losses in services
- The impact on women
- The economic impact of contracting out
- Impact on the local economy
- Limited competition
- Commercialism in council departments
- Use of council facilities by contractors
- Continuity of services
- Response from the Trade Unions

Potential job losses in services

Determining the potential job loss in cleaning is more difficult than other services because of the combined impact of changes in the number of jobs and hours worked. The loss of jobs on school and town hall cleaning contracts in other local authorities has varied from 17.8% in Dudley to 41.2% in Croydon. Cuts in hours worked have been higher - 37.4% and 42.9% in Birmingham and Dudley respectively.

However, these are also authorities where contractors suffered financial penalties and had contracts terminated for poor quality work, often caused by employing too few staff for too few hours to complete the work. This also applies to some of the contracts included in the analysis of job losses in other services.

The following table is based on an analysis of council committee reports evaluating tenders. Hence they indicate the contractors intended workforce but do not take into account the later employment of additional staff because of contract difficulties. The averages have been adjusted for each service based on the assumption that the City Council will impose;

- tighter specifications and contract conditions
- comprehensive monitoring and inspection together with financial penalties.
- thorough tender evaluation to eliminate technically inferior tenders.

	% average job loss	Adjusted %
Cleaning (7 contracts)	24.08	15
Refuse (15 contracts inc 6 combined ref/str.cl)	35.45	25
Street cleansing (2 contracts)	38.80	25
Ground Maint. (2 contracts)	30.50	20
Catering (1 contract)	31.40	20
Vehicle Maint. (1 contract)	45.80	30
Leisure Management (0 contracts)	-	25

Note: It should **not** be assumed that the the in-house tender has to be based on equivalent reductions in the existing workforce.

The table below includes both full and part time jobs.
The potential impact on jobs could be as follows:

Service	Existing Jobs		Potential Number of job losses
	Manual	Manag./Admin	
Cleaning (all depts)	2,830	-	425
Catering-school meals	1,724	-	345
welfare catering	171	-	34
civic catering	139	23	32
Ground Maintenance	681	30	142
Refuse Collection	347	-	87
Street Cleansing	267	-	67
Vehicle Maintenance	166	41	60
Leisure Management	447	-	112
Total	6,772	94	1,304

(Source: Service Profiles, Manchester City Council, 1988)

Note: All 6,866 jobs are threatened by redundancy: the job losses are actual number of jobs which could be lost if the service is contracted out.

The potential 1,304 job losses represent 19% of the 6866 jobs identified. Of the 6,866 jobs some 32.5% are full-time jobs and the remainder part-time, usually 20-30 hours per week, and concentrated in services run virtually entirely by women.

The impact on women

The following table shows how women will bear the brunt of redundancies and job losses.

Service	Womens employment in existing service	Potential job loss for women
Cleaning	2,688*	403
Catering-school meals	1,672*	334
-welfare	166*	33
-civic	128	26
Grounds Maintenance	23	5
Refuse Collection	4*	1
Street Cleansing	3*	1
Vehicle Maintenance	15	4
Leisure Management	150	37
Totals	4,849	844

(Source: Service Profiles, Manchester City Council 1988,
*indicates based on employment data in Manchester Employment Plan,
Manchester City Council 1987)

The table shows that women workers will bear 70.6% of the potential redundancies and 64.7% of potential job losses if all the above services are contracted out.

Women workers, particularly cleaners, will also face reduced earnings working for contractors both from shorter hours and lower wage rates. A report Enforced Tendering-The Implications for Women to the City Council's Equal Opportunities, Womens Steering Group, Strategy Sub-Committee, earlier this year also noted how women workers in council departments are often in the front of service delivery and could be placed in an increasingly stressful position having to deal with complaints about contractors performance.

Women are also likely to bear the brunt of the consequences of any reduction in the level or quality of services such as school meals, meals on wheels, recreational facilities, conditions in parks etc.

The economic impact of contracting out

Tendering and contracting out cannot be seen in the isolation of each individual service or department. The cumulative financial impact of tendering and contracting out must also be examined in a wider local economic context. Two Government reports have highlighted the problem.

"Most of the savings from contracting out arise because contractors offer poorer conditions of employment. Contractors in the ancillary services usually offer similar basic rates of pay ranging from 10 per cent less to a few pence more in some cases, but they eliminate costly bonus schemes and overtime working, provide little if any sick pay, and avoid national insurance payments by means of more part-time working. The difference in total labour cost may typically be of the order of 25 per cent.

Pensions are the main single element in it." (Using Private Enterprise in Government, HM Treasury, HMSO, 1986)

This view was repeated in the National Audit Office's study of competitive tendering in the NHS (HC 318, HMSO, 1987).

The Treasury report stated that the aims of the contracting out policy were:

- * reducing the size of the civil service
- * saving money
- * increasing the share of the economy in which market forces can operate." (ref as above)

The commercial relevance of wage rates and benefits was noted in the section Investigation of Contractors and Evaluation of Tenders. Wage rates have a direct bearing on the contractors ability to recruit and retain sufficient suitable staff to fully implement the contract specification.

Tendering and contracting out can lead to a conflict of policies for the City Council concerned about the effective and efficient use of public money providing good quality services but also having policies and expenditure to improve local employment opportunities and encourage the economic regeneration of the city.

It is therefore important to identify the potential wider local economic impact of tendering and contracting out in addition to its impact on City Council budgets.

The local economic impact would be caused by the following:

- the loss of wages and reduced earnings
- the multiplier effect on private services in the local economy
- changes in the supply of goods, equipment, vehicles etc
- transfer of overheads to company headquarters elsewhere

Contractor's wage rates and benefits

Details of individual contractor's wage rates and benefits are included in the Company Files where this information has been obtainable. Two points of caution need to be made. Firstly, because of the difficulty obtaining contractors wage rates they may not be the actual current rate although increases are likely to be small. Some wage rates, for example in cleaning, may have declined. Secondly, allowance must be made for higher rates in London when making comparisons.

Catering:

Contract catering wage rates vary widely. Both Gardner Merchant and Compass Services have some local union recognition agreements but usually base wage rates on the local 'market rate' or the existing client rates for management only contracts. Examples of hourly rates for industrial catering contracts in 1987 using the companies job titles are:

	Gardner Merchant	Compass Services
Food Service assist	£2.34, £2.64, £2.67	
Cook	£2.50	
Assistant Cook	£3.01	£2.48
General Assistant		£2.08, £2.60, £2.85
Cashier	£2.56, £2.77	
Kitchen porter	£2.34, £2.98,	

(Source: Catering Workers' Pay, Income Data Services, Study 398, November 1987)

Caterleisure's pay rates on its new British Rail catering contracts will be between £2.05 and £2.18 per hour for catering assistants. Several Health Authorities are experiencing difficulty recruiting catering staff for cook/chill units, partly because there is no opportunity for overtime pay. One recent advert had the following pay rates for a cook/chill central production unit:

Assistant cook	£82.00 per week 40 hours
Cook	£88.80 " " " "
Assist. head cook	£91.60 " " " "
Head cook	£94.80 " " " "

The NJC local authority rates from 1 July 1987 were:

Grade 1 Dining Room assistant/cook 1	£95.75 per week
Grade 2 Cook 2	£100.10
Grade 3 Cook 3	£104.45
Grade 4 Cook 4	£113.15

Cleaning:

Wage rates in contract cleaning vary from about £1.30 to £2.00 an hour. Rates vary within companies depending on the contract (Public Service No 1-36). These rates are substantially lower than local government rates. For example ISS Servisystem currently pays £1.77 an hour on its Lincolnshire school cleaning contract (forthcoming study by NUPE/NALGO/SCAT). Cleaning contractors usually agree to pay Whitley rates in the NHS but do not provide the same benefits (Joint NHS Privatisation Research Unit, NUPE).

Some contractors have attempted to further reduce wage rates but industrial action by cleaners has often led to the reinstatement of higher rates (Bargaining Report No 53, Labour Research, 1986). The same survey found that unionisation of cleaners led to 15% higher pay levels and significant increases in holidays.

Refuse Collection/Street Cleansing:

The enclosed table indicates the wage rates of BFI Wastecare, Taskmasters (ADT) and Teamwaste (R.B.Tyler/AAH Holdings plc) submitted in tenders for the Wandsworth refuse contract in 1987 (Paper 4402, Leisure and Amenity services Committee, 2 July 1987).

Note these are London pay rates.

A comparison of wage rates between the Cleansing Department, Sheffield City Council, and BFI Wastecare's Solihull contract in

	BFI WASTECARE		TASKMASTERS		TEAMWASTE
NORMAL WORKING WEEK	40 HOURS	40 HOURS	40 HOURS	40 HOURS	
WEEKLY WAGE LEVELS	£	CH/DRIVERS 173 INC BONUS CO/DRIVERS 155 " " LOADERS 137 " "	£ CH DRIVERS 161.50 DRIVERS 151.00 LOADERS 142.20	£ DRIVER/LOADER 156 + O/T LOADERS 150 ALLOWANCE FOR CHARGEHAND 5	
PENSION SCHEME	COMPANY SCHEME		VOLUNTARY COMPANY SCHEME		NO COMPANY SCHEME GRADUATED PENSION SCHEME
CONTRACT OF EMPLOYMENT	YES		YES		YES
HOLIDAY ENTITLEMENT	20 + STATUTORY DAYS		20 + STATUTORY DAYS		20 + STATUTORY DAYS
SICKNESS	SICK PAY SCHEME AFTER 1 YEARS SERVICE		3 WEEKS SICK PAY AFTER 1 YEARS SERVICE		SICK PAY SCHEME AFTER 1 YEARS SERVICE
HEALTH AND SAFETY	WRITTEN POLICY FOR ALL EMPLOYEES		WRITTEN POLICY FOR ALL EMPLOYEES		WRITTEN POLICY FOR ALL EMPLOYEES
PROTECTIVE CLOTHING	GLOVES, BOOTS, OVERALLS, WATERPROOFS, DONKEY JACKET		GLOVES, BOOTS, OVERALLS, WATERPROOFS, DONKEY JACKET		GLOVES, BOOTS, OVERALLS, WATERPROOFS, DONKEY JACKET

November 1986 showed the latter to be £18.00 (13%) per week lower comparing basic rates and bonus. (Contract on Cleansing, Sheffield City Council/SCAT 1986)

Grounds maintenance:

There is little information currently available on contractors wage rates due to their being few contracts. Hospital grounds staff, who also face the threat of contracting out, are on the NHS Ancillary grades receiving £81-£97 gross per week (or £90-£107 per week for supervisors) since April 1987 but these are below the Local Authority Manual grades.

In the private sector Nuffield Hospitals employ their own gardeners on an hourly rate of between £2.18 to £2.53 or £85 to £99 for a 39 hour week. (Horticulture Week 6 May 1988)

Another indication of wage levels is the annual average wage paid by contractors to their employees obtained from company annual reports or accounts filed at Companies House. The table below has excluded the larger companies because their average wages are based on a range of activities usually paying higher basic wages than grounds maintenance. The averages will also reflect temporary and part-time employment.

Firm	Average Employees Remuneration in 1987	Equivalent Hourly Rate assuming 39 hrs
Pople Landscapes	£3,925	£1.94
Stag Landscapes	£2,560	£1.26
Cotterill Landscapes	£8,672	£4.28

(Source: Company Annual Reports, Accounts filed at Companies House.)

Vehicle Maintenance

Again little information is currently available on wage rates. The average annual employee remuneration for the following companies includes other staff involved in fleet management services and is only an indication of wage levels.

Firm	Average Employee Remuneration in 1986
------	--

Gelco	£7,340
Godfrey Davis	£8,480
Wincanton Contracts	£8,330
Highway Vehicle Leasing	£8,750
Trimoco Leasing	£9,500

Transfleet Services

(Source: Company Annual Reports, Accounts filed at Companies House.)

Leisure:

There is little information available on wage levels as so few leisure management contracts have been let.

Changes in purchasing supplies and equipment

Contracting out the 7 services would result in the City Council losing direct control over the purchasing mainly of food, cleaning materials and equipment, vehicles, plants and horticulture machinery, unless the contractor was obliged to use existing council equipment.

The changes in purchasing could be as follows:

1. loss of local production of goods as contractors used other suppliers.
2. loss of local wholesalers and agents as contractors used their own established agents.
3. loss of direct control over the quality of goods and services used in the delivery of services, although effective monitoring and inspection of contractors work should give some control over the quality of materials.

However, the impact of these changes on the local economy needs to be kept in perspective. A detailed examination by SCAT of over 1,000 permanent suppliers to the City Council for the Manchester Employment Plan covering £95.55m of the £169m spent on goods and services in 1985-86 (excluding construction) revealed the following location of payments:

Manchester	29.25%
Greater Manchester	24.00%
Other locations	46.75%

Changes in supplies of goods could result in some loss of local employment. For example, a loss of orders for £3m of goods produced locally could lead to about 55 local job losses unless these firms replaced lost orders with new ones. (Manchester Employment Plan, Manchester City Council, 1987)

Catering contractors usually have established suppliers. Gardner Merchant claims to purchase £160m of food annually and its own research claims to show it "buy(s) better than anybody else" (Gardner Merchant News, 1988). The City Council's Markets Department currently supplies the school meals service with meat but this is likely to be terminated if the service is contracted out.

There are also likely to be changes affecting the 16 suppliers currently contracted to supply the school meals service with groceries, provisions, milk, fish, fruit, vegetables and minerals.

Many of the large cleaning contractors not only produce their own cleaning materials eg OCS (AMEL Chemicals Ltd), ADT (Pritchard Janitorial Supplies), ISS Servisystem (ISS Darenas Ltd) and supply contracts direct cutting out wholesalers.

Impact on the local economy

The combined effect of job losses and reduced earnings for those working for contractors will have a knock-on effect on the local economy as there will be less money to spend on goods and services. Previous studies have calculated the multiplier to be between 1.20 to 1.25 (Manchester Employment Plan, Manchester City Council, 1987; The Public Cost of Private Contractors, Sheffield City Council/SCAT 1985)

Assuming a multiplier of 1.20 the potential loss of 1304 jobs will result in a further loss of 260 jobs in private services locally, giving a total potential job loss of 1,564 jobs.

Limited 'competition'

The following table shows how two transnational service companies have come to dominate an important and substantial part of public sector work in the last five years.

Percentage of Contracts held.

Company	NHS ⁽¹⁾	Local Authority ⁽²⁾	Civil Service ⁽³⁾
	Domestic Services	Refuse/cleansing	Cleaning
BET	29	37	23
ADT	31	15	23
	----	----	----
Combined share	60%	52%	46%
Other firms	40	48	54
	----	----	----
	100	100	100

Source: (1) Joint NHS Privatisation Research Unit, Nupe, 1988.

(2) National Association of Waste Disposal Contractors, NAWDC News, April, 1988. (3) Labour Research Department, 1986

Both BET and ADT operate through a number of subsidiaries. For example, BET uses several 'brand' names - ISC, Biffa, Advance, IS Initial, ICC etc. Subsidiaries of the same company will usually not compete against each other for the same contract but the firm will use different subsidiaries to compete for various contracts from the same local authority. Unless there is a clear understanding of the pattern of ownership an exaggerated impression of competition can be created.

Whilst there will be many companies competing for contracts in the seven services initially, this is likely to change as some firms withdraw and others are subject to takeovers and mergers. A few firms will come to dominate each sector. The Sector Analyses noted how some firms are diversifying and offering a range of services. This has important implications for the City Council:

1. These firms will seek additional work not yet covered by the Local Government Act 1988. Once company managers get a better working knowledge of the local authority they are likely to identify additional areas of work the company is interested in, they may also suggest possible 'savings'. They are likely to bid for work from other departments where they may not have previously tendered.

2. Companies which gain more than one contract within the authority may be able to effectively 'combine' contracts by transferring staff from one job to another as and when required. This could also occur on a wider scale if one company gained two or more similar contracts in the Greater Manchester area. The firms would then achieve various economies of scale and flexibility. The Local Government Act 1988 prevents the City Council from acting in a similar manner.

3. Some companies are likely to seek to use council depots and facilities for other public or private sector work. There are already examples of this in vehicle maintenance eg. Transfleet Services at Woking. It could also apply to ground maintenance work and refuse collection.

4. An alternative to (3) above is that some companies, once they have gained a number of public/private contracts in an area may seek to build their own new premises. Again, 'savings' may be offered from centralisation but this could make local authority facilities redundant. If these premises were closed or sold-off it would make the authority entirely dependent on the private sector.

Commercialism in council departments

Enforced tendering may lead to some change of attitudes and perspectives within local government, the concept of public service being slowly replaced by a single minded concern for the price or cheapness of work; excessive detail about the client/contractor relationship; a growing irreverence to jobs, wages and conditions; an acceptance that market forces should determine charges to users; all leading to an increasingly pervasive ideology of commercialism.

This will have major repercussions for the range, quality, and cost of council services. There is a direct link between the quality of service and the quality of employment. Council services are labour intensive and will remain so. 'Service' cannot be delivered by machines. Driving down the quality of employment by wages cuts, fewer benefits, less job security, will ultimately be reflected in the quality of service.

It is therefore important that the City Council takes certain measures to retain public service attitudes and values in all departments. This can be done in several ways:

- ensuring induction and all training courses include information and discussion on the principles of public service.
- regularly explaining to workers and users the different aspects of public service eg through the Enforced Tendering Action newsletter, departmental circulars and internal publicity.

Use of council facilities by contractors

There are basically two aspects to this issue.

Firstly, the use of council equipment by contractors. It is usually advantageous to make it a condition of contracts that the contractor uses and maintains the council's vehicles and equipment. The council thus has at hand equipment to meet its statutory obligations should the contract fail. In addition vehicles could be maintained in council depots. There is little to be gained in the council selling its vehicles and equipment as the income received is likely to be small. Contractors could easily lease/hire vehicles and the larger firms could possibly make deals with vehicle manufacturers if several local authorities adopted the same position.

Allowing contractors the use of council depots also has advantages. The council could be left with under-used facilities which would lead to increased on-costs for other services sharing the same facilities. There could also be pressure to sell-off surplus facilities and land gaining immediate income but severely restricting the council's ability to return to direct labour when the contract ends. If a contractor is forced to acquire a separate depot and facilities it would give them complete independence and create commercial pressures to seek similar contracts from neighbouring authorities to achieve economies of scale. The council may also find certain aspects of monitoring and inspection more difficult to implement. Another aspect is that contractors in some sectors eg, ground maintenance operate with few facilities and requiring the use of council depots, cabins etc ensures a more equitable comparison of tenders.

Contract conditions must lay down strict rules for the use of council premises and equipment.

Secondly, the council could face additional problems and costs. In some depots there could potentially be several contractors using depots and facilities in addition to council staff. This could lead to the mis-use of council facilities eg use of telephones, contractors using council supplies and equipment to which they are not entitled, and increased security problems. The monitoring of contracts should ensure that any additional costs are taken into account in the evaluation of future tenders.

Continuity of services

The threat to the continuity of the City Council's services comes from five main sources. Only one of these, disruption as a result

of industrial action, is applicable to council services run by direct labour. In effect the risk of disruption will be quadrupled if services are contracted out.

1. Failure to perform all the required work and/or to the required standards is likely to lead to a diversion of council staff resources to deal with these problems. They can ultimately lead to the council terminating the contract. The Sector Analyses give examples where this has already happened.

2. Contractors gaining contracts but then demanding additional payments before commencing the work. In some cases contractors have then withdrawn. Extends tendering procedures, staff time absorbed in negotiations, causes uncertainty in workforce, and can lead to additional costs depending on the precise timing of such demands.

3. Contractors withdrawing from a contract, often taking the initiative before the local authority takes action. Usually follows increasing user complaints over the standard of work. Contractor will take a calculated risk that termination will not deter other local authorities eg ISS Servisystem withdrew from the Birmingham school cleaning contract in 1984, two years later it gained one of the largest cleaning contracts to date, the £1.5m annual Lincolnshire school cleaning contract.

4. Industrial action by staff, applicable to both direct labour and contractors workforce. Claims are often made that contracting out avoids the threat of industrial action. In reality there have been several examples of contractors workers taking industrial action eg two month strike by Waste Management workers at Wirral, strike action by Pritchard's workers at South Oxfordshire.

5. The threat of a contractor going bankrupt applies only to the smaller firms. Smaller firms taking on work for which they have very little experience eg grounds maintenance, leisure management are also at risk. So too are management buy-outs - they may not be able to survive in a commercial environment and they may face financial pressures if they are under-resourced.

The role of the trade unions

Whilst the City Council is restricted by the Local Government Act 1988 from asking contractors certain questions about their policy on trade union recognition and specific employment matters, the trade unions are free to make such demands and to campaign accordingly.

We are advised by the joint City Council trade unions that they are currently looking at ways to ensure good employment practice by contractors should any contract be lost to the private sector.

"The most likely way forward is the drawing up of an **Employment Charter** containing a series of proposals and demands relating to

specific areas of employment and industrial relations. The Charter could include the following:

- * wages rates and benefits.
- * health and safety at work.
- * trade union recognition.
- * sub-contracting and lump labour.
- * equal opportunities.
- * training policy.
- * grievance and disciplinary procedures.

The joint City Council trade unions will also be considering ways in which they could apply pressure on contractors who reject all or part of such a Charter.

The joint City Council trade unions are committed to ensuring continued strong trade union organisation in those services subject to enforced tendering."

Why tender evaluation is important

Tender evaluation is usually treated as an end stage in the process and its importance is greatly under-estimated. So too are:

- the time and resources needed to evaluate
- the technical and political dimension

*** IT IS NOT SIMPLY A NUMBER-CRUNCHING EXERCISE**

*** NOR IS THE LOWEST TENDER THE CENTRAL ISSUE**

Rigorous tender evaluation is necessary because:

1. Some accidental arithmetic mistakes in tenders are inevitable given the volume of prices and costs to be calculated.
2. Some contractors costings may be based on a misunderstanding of the specification and contract conditions.
3. It is a process which helps to reach judgements and technical/professional opinions as to whether the contractor can deliver a service as laid down in the specification and contract conditions. Contractors may well propose different working methods to those in the tender documents and may have priced their tender on the basis that these would be accepted, or would be changed once the contract started and the authority was in a weaker bargaining position and the firm had established a relationship with the monitoring officers. Contractors may only tender for parts of the work.
4. It is essential to uncover accidental or deliberate mistakes which conceal gross under-estimation of costs and hence required quality of work.
5. To expose loss leader bids where the contractor has decided to effectively 'buy' the contract. This will have a major subsequent impact on costs and service delivery. It must not be seen as some sort of bonus, a chance for larger than anticipated savings, for these rarely materialise as firms attempt to claw back the 'loss' element over the contract period. It often results in protracted negotiations and conflicts over contingencies, annual cost reviews, and monitoring of the contract.
6. It provides the reasons for the acceptance or rejections of tenders which local authorities, if requested, have to put in writing to contractors. They are also important in the event of contractors complaining of 'unfair' competition or of 'irregularities' in the tender evaluation process.
7. To ensure fair comparison of tenders. Contractors and the government are concerned about fair competition but often it is the DLO tender which is at a disadvantage because:
 - the DLO bid is more likely to be based on a thorough knowledge of the work involved and hence more realistically

costed.

- there is no opportunity for a loss leader tender.
- there is less likelihood of any attempt to conceal or make deliberate 'mistakes'.

8. Contractors often use their own methods of work measurement and cost calculation (see National Health Service: Domestic Tendering - The Contractors Approach, David Shannon, 1986). They may not have inspected all the depots and sites and the tenders will reflect different understandings of what the contract involves.

How it should be organised

The criteria or checklist must be decided during the preparation of the tender documents and issued to contractors so that they have advance notice how the process will proceed and the criteria to be used.

It is essential that a carefully selected team of officers from the client side is set up to undertake the evaluation. It should be accountable and report to the relevant committee. The team should not include those directly involved in preparing the in-house tender but it **must** include officers who have the technical/professional experience and knowledge of the specification.

Some contractors are likely to make some form of complaint at not winning a contract. The Government has virtually invited them to do so. Comprehensive tender evaluation should aim to make such complaints unfounded and to provide the relevant reasons and evidence.

The appointment of consultants to evaluate tenders is **not** recommended. They do not have the detailed experience of the service and the specification. Nor can they fully identify all the financial consequences of tenders and the costs to the local authority of contracting out. Their use may reduce some 'anti-competitive' claims from contractors, but trade unions and other organisations could legitimately point out that consultants 'independence' or 'neutrality' is a myth since most are part of multinational accountancy firms who are also the auditors for the contracting firms.

INVESTIGATION OF CONTRACTORS

Every firm bidding for council work must be thoroughly investigated on the grounds that it is normal business practice, that it is essential to ensure the prudent use of public money, and that it is necessary to obtain value for public service. This investigation can be started well before the evaluation of tenders.

Many contractors are circulating sales literature (the City Council has received a number of letters and brochures) which make

claims about their quality of work, the range of services, geographic coverage etc. Research shows many of these claims to be somewhat exaggerated and the literature should be treated with care.

Whilst the City Council should require substantial performance bonds from all contractors they are really only an insurance or last resort against non-performance of the contract. They signify very little about a firm's financial resources, stability or competence and do **not** pre-empt the need for a detailed investigation of the contractor. Whilst it is important to have performance bonds they can give a false sense of security.

The experience of the London Borough of Wandsworth is instructive. After the council terminated Pritchard Services' grass cutting contract in 1983 for non-performance, the council applied to claim the £75,000 performance bond. Pritchards immediately took legal action to try to stop the council claiming and the Bank of America, with whom it had taken out the bond, from paying the sum due. The matter was only resolved recently with a £80,000 out of court settlement agreed by Pritchards after five years of legal wrangles, the cost of which the council refuses to divulge. (see Public Service Action No 30 and 35).

The investigation of contractors should cover 4 key areas:

Financial resources and stability

1. the ownership and control of the firm.
2. details of any current merger or takeover talks with other companies.
3. its size ie turnover of parent, subsidiary, and turnover in the activity in which it has submitted a tender. A firm can have a relatively large turnover but very small sales in the service it is bidding for.
4. the relationship between parent and subsidiary and indemnification or guarantee for any losses, damages, costs and expenses incurred as a result of defaults etc. This is particularly important since many firms seeking contracts are owned by parents based overseas. For example, ARA Services (USA), ISS Servisystem (Denmark), Pritchard Services, Taskmaster, Mediclean (all Bermuda), BFI Wastecare (USA).
5. the financial viability of the firm.
6. copies of annual reports and accounts for at least the last three years. Small companies using Sections 247-249 of the Companies Act 1985 to submit modified accounts should be required to furnish full accounts.
7. the firm's credit rating - the latest issue of the Dun and

Bradstreet Market Guide is useful for rating medium and smaller sized firms although it does not cover very small firms.

8. references from the firm's bank, insurance company, and financial institution with whom it will obtain a performance bond.

9. an internal check within the City Council to see if the firm has a record of late payment of rates, rent for premises, payment for other council services etc.

(See Appendix 2 for explanation of financial terms and ratios used in the Company Profiles)

Organisation of the firm

1. the company structure and geographic spread of operations.

2. location of head office and local depots: A firm with no local depot is likely to have difficulty fully implementing the contract.

3. the extent to which sub-contractors are used (although questions about self-employed subcontractors is classified as 'non-commercial' under the Local Government Act 1988, the competence and track record of subcontractors is an important and perfectly legitimate issue for the City Council.

4. current workload of the firm and its ability to undertake the work it has tendered for.

5. health and safety policy (see box below). This is an area where many firms either do not take into account all the necessary requirements and cost them accordingly, or they do so with the expectation that many will not be implemented in practice.

6. evidence of compliance with Race Relations Act 1976 and questions allowed under Section 18(5) of Local Government Act 1988.

7. evidence from visiting a firm's depots and facilities.

Service delivery experience

1. at least three quality of work references should be sought from other public bodies where the contractor has been involved in similar work on a similar scale.

2. details of fines, failures and contract terminations incurred on all similar public sector contracts should be obtained in order to determine the firm's regular standard of work.

3. assess the firm's ability to meet the specification with the resources outlined in the tender.

4. membership of trade/professional associations - can be of limited use given the role of organisations like the Contract Cleaning Maintenance Association (CCMA) and British Association of Landscape Industries (BALI) in promoting the contractor's interests and support for statutory tendering.

Managerial experience

1. determine the quality of local management and supervision arrangements particularly if the firm does not already have a local base.

2. the technical and professional ability of the firm.

3. registration for BSI Quality Assurance - the scale and nature of the work for which registration is claimed. It should be noted that the registration does **not** cover the quality of work or the specification, only the management and implementation of a given specification. The latter may well require lower standards and quality of service than those demanded by the City Council.

Health and Safety Issues

Health and safety is important in all public services for both workers and users. The provision of services involves the use of machinery, plant, vehicles, food and chemicals. The following list of issues is reproduced from Who Cares Wins, A Trade Union Guide to Compulsory Tendering for Local Services, GMB, NALGO, NUPE and TGWU, 1988. It should be used in investigating contractors and evaluating tenders.

"* Employers must have a written Health and Safety Policy that sets out their organisation and arrangements for protecting their own employees and other people.

* Local safety codes should also be drawn up with details of how particular jobs will be done, who is responsible for health and safety, what equipment will be provided and which health and safety standards apply.

* Staff must be informed of the hazards of their work and trained to work safely. All new staff will require induction training and staff should have retraining whenever new equipment or working methods are introduced.

* Staff must be supervised to ensure that work is carried out safely. It is recognised that young workers and new or inexperienced workers of any age require closer supervision.

* Enough staff should be employed and sufficient time allowed for the work to be done properly and safely. Lack of staff and/or time leads to lower standards and more accidents.

* Equipment and working methods to be used by contractors must comply with relevant Regulations, Approved Codes of Practice and Guidelines.

- * Machinery, tools and protective clothing should conform to British Standards Institution (BSI) or other relevant specifications, and should be subject to inspection.
- * Arrangements must be made for first aid provision for employees. Special arrangements should be made for employees travelling from site to site in the course of their work.
- * A list of all chemicals used (including cleaning materials) should be kept by employers. Information, training in safe use and effective protective clothing and equipment must be provided for all staff using chemicals. Arrangements for safe storage and disposal of chemicals must also be made.
- * After 1 January 1989, contractors employees who are using or supervising the use of pesticides must have a Certificate of Competence recognised by the Ministry of Agriculture.
- * Catering staff must be trained in basic food hygiene and undergo regular health checks, to avoid outbreaks of food poisoning.
- * Plant and equipment must be stored in designated sites to ensure public safety.
- * The costs of the above must be included in the tender price."

It should be added that the monitoring and inspection system must be designed to ensure the full implementation of all health and safety requirements.

EVALUATION OF TENDERS

There are 3 stages:

1. compliance with specification and contract conditions
2. technical analysis
3. financial analysis

The evaluation of tenders should be undertaken as a thorough technical and financial audit.

Stage 1: Compliance with specification and contract conditions

1. Each tender should be checked for arithmetic errors.

Contractors can be held to errors. If they are on the low side it will be in the City Council's longer term interest to make adjustments. This stage should also identify all elements omitted from the contractors' tenders so that they can be assessed and adjustments made to costs. Tenders with many errors can only signal future problems for the City Council should the firm be awarded a contract.

2. Specification met in full and completion of all schedules. Some contractors may exclude areas of work in error or because they simply do not want to undertake certain parts of the contract.

3. Compliance with tender conditions and working methods. Some contractors may propose different working arrangements from those in the tender documents and these may conflict with the operation of other council services.

4. Adequate health and safety arrangements to protect employees, council workers, users, and the public, and to ensure the safe and proper use of specialist equipment and dangerous materials.

"there is no reason why authorities should not make reasonable enquiries about contractors' health and safety records and their arrangements for making their employees aware of their health and safety obligations" (DOE Circular 8/88 April 1988).

5. Adequate staffing levels/working hours to meet the requirements of the specification including peak demands and emergencies.

6. Adequate management and organisation of the contract.

7. Approval of financial references from bank, insurance cover, performance bond, and guarantee from parent company.

8. Understanding of the contract - has the contractor visited all the sites and depots?.

The above criteria can be complied in a matrix to facilitate comparison:

Criteria	Contractors					
	A	B	C	D	E	F
Specification met
Compliance with tender conditions
Adequate health & safety
Adequate staffing levels
Adequate management
Financial references
Understanding & visits

Each tender could be judged to have complied or failed to comply. Alternatively, it could be given a score out of 5 or 10 for each criteria. It may also be appropriate to weight the assessment criteria in the order of importance. For example, rating adequate staffing higher than financial references or understanding/site visits.

At this stage excessively high tenders should be excluded from more detailed analysis. Low tenders are often based on misinterpretations of the specification and/or working methods. They may also be low because of a loss leader bid from a major firm. Unless there are straightforward grounds for exclusion based on the above criteria, a low priced tender should be included in the second and third stages of the evaluation process but subjected to rigorous analysis of the possible implications for the City Council.

Tender costs usually vary significantly. Two recent examples from the London Borough of Wandsworth highlight this.

Street Cleansing, 1986:	Annual Cost
Initial Service Cleaners (BET)	961,568
Teamwaste (R.B.Tyler, AAH Holdings plc)	1,487,283
Pritchard Industrial Services (ADT)	1,750,075
BFI Wastecare (Browning Ferris Ind)	1,873,372
S.Grundon (Waste) Ltd	3,195,035

Initial Service Cleaners misinterpreted the specification and withdrew. The Grundon tender was not examined in detail. (Report to Leisure & Amenity Services Committee 30 Sept 1986)

Refuse Collection 1987:	
BFI Wastecare	2,342,784
Teamwaste	2,057,112
Taskmaster Ltd (ADT)	2,540,980
Drinkwater Sabey (Attwoods plc)	4,655,928

The Drinkwater Sabey tender was not examined in detail. (Report to Leisure & Amenity Services Committee 2 July 1987)

Stage 2: Technical Analysis

The remaining tenders should now be examined in detail using the following criteria:

1. Technical ability and resources to undertake the work as specified for the duration of the contract. This should include a technical assessment of any proposals by contractors to change working methods if these had not been eliminated at stage 1.

2. Ability to recruit and retain labour and the firm's organisational arrangements. Information on wage rates and benefits is vitally important because the City Council will need to make a judgement whether a contractor will be able to recruit and retain enough suitable staff to provide the specified service. Low wages lead to high turnover rates and staff shortages which in turn leads to non-delivery and/or poor performance.

3. Qualifications of the workforce - "authorities are not prevented from asking questions about the qualifications of a contractor's workforce, or from enquiring that particular kinds of work are carried out by people holding appropriate qualifications". (DOE Circular 8/88) This is particularly important for health and safety matters.

4. Previous experience and references from users - these should cover the quality of work, standards achieved, the causes of any fines and failures and termination of contracts, the authorities experience of monitoring the contract etc. It should not only cover references supplied by the contractor but also the range of other contracts operated by the firm.

5. Reliability and compatability of contractor's equipment - evidence of proven reliability operating in similar conditions will be needed. Unreliable and/or incompatible equipment could lead to additional unforeseen costs to the City Council.

6. Risk assessment - the City Council will have to make a risk assessment of each tender to determine the likelihood of the firm failing to deliver the required service, and the risk of non-performance in relation to the local authorities statutory duties. Contracting out does not change a local authorities legal duties but the risk of breaching such duties is greater because the authority ceases to have direct responsibility for service provision.

The above criteria can be compiled in a matrix:

Criteria	Contractors					
	A	B	C	D	E	F
Technical ability/resources
Ability to recruit/retain labour
Qualifications of workforce
Previous experience/references
Reliability/compatibility
Risk assessment

Each tender should be rated or scored ie very good to poor or from 1 to 5 or 10. The criteria could also be weighted in terms of their importance as suggested in stage 2. The purpose is to identify the tender(s) which fully, or come close to, fulfilling all the City Council's requirements.

Stage 3: Financial analysis

The first task is to determine an accurate cost of the current service, amending budget data to take into account recent changes to the service, patterns of expenditure on supplies, current staffing levels, increased income from user charges etc.

The financial analysis should cover the following criteria:

- Comparison of total tender costs
- Retained or constant costs to the City Council
- Redundancy, severance and early retirement costs
- Income from rental of premises, sale of equipment
- Depreciation
- Contracting out costs
- Differences in monitoring costs

1. Comparison of total tender costs to ensure all tenders are compared on a like basis. The financial analysis should identify:

- differences in contractors' rates for additional work and emergency call-outs.
- assumptions about the level of user charges and who retains them (other council departments may also be users)
- ensure contractors rental of depots includes payment for utilities, cleaning, and any other use of council services.

2. Retained or constant costs could include:

- leasing of vehicles hired to contractors
- some depot costs including repair and maintenance.
- the cost of supplying any materials and equipment

- administration

3. Redundancy, severance and early retirement costs

- the full cost of redundancy and severance payments
- the "costs of premature retirement (mainly pensions costs until retirement) arising in the period of the contract should be taken into account and spread over the contract period" (National Audit Office -reference in Appendix 1)

4. Income from rental of premises

- rental income from contractors' use of depots
- income from the sale of surplus vehicles and equipment

5. Depreciation

- accrued depreciation for replacement cost of vehicles and other capital equipment.

6. Contracting out costs

- cost of any ancillary support to contractor eg assistance in recruiting staff
- costs incurred in arranging legal transfer of vehicles, equipment, issuing redundancy and severance payments and other costs of implementing a decision to contract out which would not be incurred if the DLO was awarded the contract.
- continuing accommodation and equipment costs once a service is contracted out should the contractor not require them or they cannot be immediately sold off.
- any other costs in abandoning direct labour provision and in handover arrangements.

7. Differences in monitoring costs

- any differences in the cost of monitoring, inspecting, reporting and establishing a complaints procedure between the different tenders should be identified.

The various costs should be assessed as follows;
(C. Tomkins, Contracting Out: Relevant Costs and Decision Criteria, in Contracting Out in the Public Sector, Royal Institute of Public Administration, London 1984)

Calculation of avoidable costs and net tender price

	£
Operating cost of the service
less non-avoidable elements of operating costs -----

plus avoidable costs in other services or central administration -----
Annual avoidable cost of current operations -----

compared with:

Tender price
less adjustment for capital and revenue receipts after contracting -----

plus new costs incurred by contracting -----
Net tender costs of contracting out

Contract Decision

The final decision must be based on a careful weighing up of both the technical and financial appraisal findings. The City Council is not obliged to select the lowest tender.

Additional Public Costs of Contracting Out and Impact on the Local Economy

There are substantial wider public costs of contracting out which have been identified and quantified in the Manchester Employment Plan (Manchester City Council, Feb 1987) and The Public Cost of Private Contractors (Sheffield City Council, Nov 1985). These are real public costs borne by local authorities, central government and other public bodies as a result of increased unemployment following job losses. Public sector budgeting, accounting procedures, government directives and the Local Government Act 1988 make consideration of even the additional costs borne by the local authority a very difficult task.

Impact on local economy

Contracting out also has a knock-on effect in the local economy as result of job losses and reduced earnings of those working for contractors. Lower wages, cuts in hours, reduced benefits such as sick pay, contractors moving supplies and equipment orders from local firms to other sources, all have a cumulative economic impact. The Sheffield study noted above found that for every four local authority jobs lost through contracting out, further jobs would be lost in private services in the local economy.

It is strongly recommended that the City Council monitor and calculate the effects on the local economy in order to develop appropriate economic development policies and initiatives.

The costs of tendering

There are also substantial costs to the City Council in implementing the Local Government Act 1988. Any real reductions in the cost of services **will have to be compared with the full cost of tendering** incurred by the City Council, otherwise 'savings' are purely mythical. They can only be created by manipulative accounting and concealment of costs in other budgets. The Sheffield study found that once the wider public costs are included in the equation the so-called savings disappeared into substantial public sector costs.

It is therefore essential that the City Council monitors the full cost of tendering including staff time and other resources in all departments concerned:

- the cost of preparing specifications and tender documents
- the cost of organising tendering arrangements including the cost of investigating contractors and the evaluation of tenders, meetings with contracting firms etc.
- the cost of preparing the DLO tender
- the cost of service groups, attendance at conferences and training of staff to deal with statutory tendering
- the cost of reverting to in-house provision during/after work is contracted out.

These costs are likely to be substantial taken across all departments and represent a forced diversion of council finance and resources away from the direct provision and improvement of services.

APPENDIX 1

Comments from the National Audit Office (NAO) Report on Competitive Tendering in the NHS (HC 318, HMSO, April 1987)

"Tenders should be subjected to a detailed appraisal to identify all financial and non-financial factors which need to be considered in deciding the contract award, and tendered prices, together with any evaluation adjustments should be compared on a consistent and like basis".

The NAO criticised tender evaluation in only one out of 29 cases.

DHSS Circular HC(83)18 directs Health Authorities to award to the lowest-cost tender unless there are compelling reasons. The NAO found nine examples out of 29 case studies which rejected the lowest tender. The reason for rejection was given as either:

- inadequate hours tendered
- inadequate proposed staffing levels
- doubts on feasibility not dispelled on interview of the firm
- inadequate tender submission
- incomplete tender

APPENDIX 2:

Explanation of financial terms and ratios used in the Company Profiles

Turnover: The total income of the company from sales exclusive of intra-group sales (ie between subsidiaries) and VAT. It is important not just to look at total turnover for at least three years but also the annual turnover in the activity for which the firm is tendering. This is often difficult to obtain from Companies House records, Annual Reports, or other financial data and should be requested directly from the company and checked with other available information. It is also important to note the geographic spread of turnover.

Pre-tax Profit/Loss: Calculated after deducting all operating expenses (staff and material costs, depreciation and finance charges) from total turnover but before deduction of tax, dividends or extraordinary items. It is widely used as the most accurate indication of a companies profit/loss performance.

Total Assets: The sum of fixed assets (such as property, vehicles and equipment at written down value) plus intangible assets (the value of goodwill, trademarks and copyrights) plus intermediate assets (investments made by subsidiary companies) plus total current assets (value of stock, work in progress, cash etc).

Liabilities and Creditors: The total debts of the company including bank overdrafts, short term loans, hire purchase and leasing obligations, bills payable within one year, corporation tax due, dividends and all other payments due within one year.

Net Assets: Obtained by subtracting the total liabilities from the firm's total assets.

Profit Margin: Pre-tax profit or loss expressed as a percentage of total turnover. Useful for comparing with other companies in the same sector and with average margin for the particular industry/service. If a company's profit margin is very low eg 2% or 3% then it is more likely to seek ways of cutting corners once it gained a contract in order to increase margins.

Return on Capital: Profit/loss before tax is expressed as a percentage of capital employed (the total of shareholders funds, long term loans and other long term liabilities). Return on Capital is another performance check on companies. It should only be compared with those of other companies in the same sector.

Liquidity: The current assets of the firm expressed as a ratio of current liabilities. This is an indication of the firm's ability to raise immediate cash to pay creditors and staff, and to meet unforeseen crises. If the ratio is 1.0 then current assets equal current liabilities. If the ratio is less than 1.0 then current liabilities exceed current assets.

Borrowing Ratio: A company's total debt expressed as a ratio of its net worth or assets. This is a gearing ratio which indicates the level of borrowing by a company. For example, firms in vehicle fleet hire tend to have very high borrowing ratios whilst contract cleaning companies relatively low ratios.

MONITORING AND INSPECTION OF CONTRACTORS

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Why effective monitoring is important

* it ensures contractors are paid only for the work they complete to the required standard.

* effective monitoring is the means by which comprehensive specifications and tight contract conditions are actually implemented. Monitoring is therefore equally as important as the specifications and contract conditions.

* it is the means of not only ensuring that services are delivered as planned but the method of delivery and other terms of the contract eg health and safety, use of subcontractors are adhered to.

* it can reduce the opportunities for contractors submitting loss leader bids and recouping losses later by cutting corners and reducing standards.

* it is needed to identify the causes of any problems and the need for any changes in the specification.

* it is essential to safeguard the interests of the City Council should legal action be taken by the contractor or by users for non-performance, injuries etc since the local authority can then prove that it has fully implemented its contractual obligations.

* disputes of one kind or another between the City Council and contractors are inevitable over standards based solely on visual inspection eg. street sweeping. The contractor will claim that it was clean but subsequent events..... It is therefore essential that the Council has its own evidence assembled through continuous monitoring and inspection.

* it is a vital part of the financial control system and limits the use of variation orders, and hence cost increases, to those which are essential to service delivery.

Why failures arise

"Monitoring standards requires constant attention: the contractors are not angels" (Using Private Enterprise in Government, HM Treasury, HMSO 1986)

Contractor's failure to complete all specified work and/or to maintain the required standards is usually the result of one or more of the following:

- employing insufficient staff
- paying poor wages and benefits, inadequate working conditions, and excessive workloads leading to high staff turnover or employment of untrained staff.
- poor supervision and management by contractors
- cutting corners, particularly on health and safety, trying to recover 'losses' because of loss leader tenders or low profit margins.
- insufficient resources to respond to complaints and to liaise with City Council monitoring staff making it more difficult to get work rectified and causes identified.
- hire and fire management practices reducing experienced staff.
- contractor's working methods proving inadequate.
- contractors using start-up staff brought in from a firm's other contracts who may be untrained and/or unfamiliar with local authority public service work.
- contractors going bankrupt, withdrawing or threatening to withdraw for higher payments.

. But some reduction in service may be the responsibility of the local authority caused by:

- insufficient monitoring and inspection staff.
- changes or cuts in standards of service introduced during the preparation of the specification.

Contractors tactics

Contractors use various tactics in response to monitoring:

- they quickly identify the highly visible areas or activities and concentrate on these areas at the expense of others.
- they try to build a clear picture of the timing and location of the council's monitoring so that they can alter schedules and put their work in the most favourable light.
- they will often claim that uncompleted work was caused by interference or non-cooperation from council workers or by trade union action. The weather, 'vandals', and mis-use by users are also often cited.
- they will claim that the work is not included in the specification and not their responsibility, or may demand a variation order and hence increased payment.
- they will simply dispute the interpretation of standards, particularly those based on visual criteria.
- they may request increases in contract payments shortly after starting the contract.

The lessons from local government and NHS contracting out

"Authorities have found that, initially, they require an increased supervisory force to monitor the level of performance of the private contractor". (Managing Competition, SOLACE/LGTB, 1988)

Five out of eight local authorities who privatised refuse collection found that "contractors needed greater pressure and higher levels of inspection" (Securing Further Improvements in Refuse Collection, Audit Commission, HMSO, 1984).

"Experience...shows that a high level of supervision on the Council's part is essential in order to inspect thoroughly and on a daily basis" (Report to Establishment Committee, Wandsworth Borough Council, 1985 concerning the Town Hall cleaning contract with Executive Cleaning Services). The Council had to employ a temporary contract supervisor. The report also stated: "The high level of defaults being recorded requires a greater administrative input into the council's management of the contract than was originally foreseen: the same applies to the recording of default points, the issue of rectification notices, the preparation of monthly statements and payments, and the monitoring of the contractor's workforce. At the moment, these additional duties are being performed on the basis of overtime arrangements".

The National Audit Office report on Competitive Tendering in the NHS (HC 318, HMSO 1987) found "some weaknesses in monitoring and quality control arrangements". Eleven out of 29 case studies were criticised on monitoring and inspection. One of the Authorities which experienced difficulties with contractors now includes quality control requirements as an essential part of the tender. "But this change was not popular with contractors and has led to withdrawals from tender exercises."

Pre-service implementation phase

The NAO report explains how one Authority introduced a three month pre-service implementation phase, with the agreement of the regional legal adviser, for its domestic services contract. The form of contract was amended so that "the contractor must satisfy the Authority that contract preparations are undertaken in accordance with specified plans". This should become a standard part of local government tendering. Whilst this will involve contractors in additional costs it is essential that public service provision and standards are maintained.

The same Authority tightened its monitoring arrangements. Both the Authority's and the contractors monitoring arrangements are detailed in the specification and a "default clause specifying monitoring results as a basis for deductions from contract payments in the event of unsatisfactory performance are to form part of the contract. In addition there is to be more rigorous provision for the recovery of damages for breach of contract, including the extra costs of providing the service until a new

contract begins. Account will also be taken of the difference between old and new contract costs for the outstanding period of the old contract. These amendments were recommended to other authorities in the region."

The organisation and management of monitoring

It is essential that the method and organisation of monitoring, the default notice and penalty system, and the grounds for termination of the contract are fully explained to contractors in the contract conditions and tender documents. Contractors should be left with no illusions that, if having obtained a contract, the City Council will not strictly enforce the full specification and working methods. It is a weak defence to try to strengthen monitoring after a tender has been awarded to a contractor. Effective monitoring has to be built into the system from the start to finish of the tendering process. The contract conditions should spell out:

- a policy statement on monitoring and its importance to the City Council in the provision of services.
- the methods to be used in monitoring and inspecting the quality of materials and equipment, working methods, and the standard of services provided.
- details of the default points, penalty payments, and grounds for termination.
- the reporting arrangements to the relevant council committee.
- the limitations imposed on the lead-in period.

Monitoring and Quality Control Plan

The importance of monitoring should be recognised by the development of a **Monitoring and Quality Control Plan**. This should cover:

- * Monitoring techniques, methods and frequencies.
- * The recording, compiling, reporting and publicity of performance and standards.
- * Staffing requirements together with transport and other resource needs fully costed.
- * A complaints procedure to receive, record and process complaints from other city council client departments, users, trade unions, council workers, and the public.
- * An appeals system for contractors disputing monitoring findings.
- * Periodic evaluation of the monitoring system and procedures.

The Plan will also have to recognise the difficulties inherent in monitoring public services. A review of NHS monitoring outlined several difficulties which are also applicable to local government:

1. the general absence of a clearly defined physical product which can be measured objectively and quantitatively.
2. the reliance which has to be placed on qualitative measures and subjective judgement.

- 3. the importance of time in the service and particularly of the time at which monitoring takes place.
- 4. the participation of a number of different departments in the provision of service with difficulty in defining who is responsible for problems. (Management and Monitoring of Contracts for Domestic, Catering and Laundry Services, Nuffield Provincial Hospitals Trust, 1987)

1. Monitoring techniques

What is monitored: this must include the materials used; the working methods - frequencies, equipment used, health and safety; and extent and the standard of the completed work.

Part of monitoring is verification to enable the contractor to receive payment for work completed. This should identify:

- completed work
- partially completed work
- work which has not been started
- re-inspection of work on which default notices have been issued.
- issuing variation orders for work not included in the tender but which requires completion as part of the contract - the early stages of the contract will probably uncover items omitted from the specification, later changes may be needed because of additional demands or changed circumstances.

Checking standards and the quality of work will involve:

- checking that the finished work complies with the specification.
- identifying the possible causes of failures to comply.
- determining any changes needed to the specification

Assessing the quality of the contractor's own monitoring system.

The frequency of monitoring will vary from service to service and will cover:

- daily inspection as work is carried out.
- random sample inspection (but this can only be effective if the contractor does not know when and where it will take place)
- specialist inspections eg by health and safety officers, EHO's.
- checking complaints of non-performance or poor standards from users.
- reviews of overall performance.

The techniques to be used could include:

- measuring and quantifying - length of grass, number of bins returned to correct location with lids replaced.
- photographic techniques, first pioneered in New York City, for determining the relative cleanliness of streets.
- tests eg planting litter to see if and when it is removed.
- portion size, weight, temperature tests, food handling and storage procedures, cleanliness of kitchens etc in catering.
- checking standard of finish eg reflectometer readings and checks for staining for laundry work.
- checking when services are delivered.

Given the different nature of the six services it has not been possible, within the scope of the Audit, to define precise monitoring techniques for each service.

Examples of default and penalty provisions

A system of imposing deductions and penalties on contractors must be designed to:

1. ensure the contractor does not get paid for non-delivery and poor performance.
2. act as an incentive to provide the service, hence penalties should accelerate if performance deteriorates.
3. provide a basis for the termination of the contract if poor performance continues at a high level.

The London Borough of Wandsworth operated the following penalty system on its street cleansing contract commencing in 1982.

Category	Notice	Nature of default	Penalty	Termination
1	A	Omission of street	Deduction of full cost	-
	B	Inadequate cleaning of street	Deduction of 50% of cost	-
2	C	Further failure on next or following 5 scheduled occasions where A or B notice has been issued	Deduction at source rate as A or B, plus liquidated damages	If 25 notices within a 4 week period
3	D	Failure to comply with notice, or repetition of original default	As for C	If 10 notices within a 4 week period

The amount deducted is the value of the work not performed. The cost of administration and inspection costs are usually included in liquidated damages.

Another default/penalty system is shown below. This is based on grading parts or elements of the service according to their priority ie the relative importance of areas to be cleaned, or activities considered to be essential in maintaining a quality of service. The system below is based on grading all areas/activities into two categories (see also Appendix 1), however, three or four categories could be used.

Performance Criteria	Financial penalty	Priority of tasks Default Points	
		A	B
Task carried out properly	-	-	-
Task not carried out properly	50% paid	1	2
Task not attempted	Nil	2	4
Failure on next occasion	Nil & deduct damages	4	8
Failure to remedy in 24 hrs	Nil & deduct damages	4	16

Now used by Wandsworth and suggested in Managing Competition,
SOLACE/LGTB, 1988

The tender documents for the Gloucester City Council refuse collection contract in 1983 (the service remained in-house) showed how a system of increasing defaults led to increasing financial deductions:

Default Notices	Deductions			
Between 5-11 per week	0.5	per	cent	of monthly payment
Between 10-21 per week	1.0	"	"	"
Between 20-31 per week	2.0	"	"	"
More than 40 per week	5.0	"	"	"

The Management and Monitoring of Contracts in hospitals study referred to above identified two financial deduction systems, one 'severe' and another 'less severe'. The 'severe' system was used by some Health Authorities for high risk areas. It is based on a sample which is used to judge overall performance. The system can be adjusted by altering the accepted failure rate.

'Severe' system

Step 1	Note the number of high risk areas and calculate the total number of possible points for all tasks, for example	1000 points
Step 2	Note the contract price for all high risk areas	£15,000
Step 3	Set an allowable percentage failure rate	5%
Step 4	Select a sample of the high risk areas and perform a monitoring check	
Step 5	Record the total points value of all the tasks which are assessed as failures	150 points
Step 6	Calculate the overall failure rate percentage (150/1000 x 100)	15%

continued

Step 6	List all the default failures giving a description of the area, the activity or task	
	non rectifiable default failures	25
	default failures after rectification	40
		--
		65

Step 7 Use standard time data or information from the contractor to assign time values to each default task or activity, for example 87.75hrs

Step 8 Multiply the default hours by the hourly rate of the contract for the payment period and deduct from the payment to the contractor, for example:
 deduct 87.75 hours at £3.50 per hour= £307.12

(Source: as above)

Note: The example in the report gives an hourly rate of £1.50 ie based only on the contractors hourly wage rate. In not completing the work the contractor has also avoided other costs such as supervision, use of materials and other overheads and it would seem essential to base the deduction on the contractors' overall rate for the job.

It will be essential for the City Council to have a clear set of procedures and rules to limit technical assistance given to contractors if they are having problems delivering a service. With services at threat it is rather easy for contractors to seek, and council officers to give, additional support and to relax monitoring. Wandsworth Council suspended the penalty system for several months and introduced 'penalty free zones' after Pritchard Services accumulated penalties six times higher than the level at which the street cleansing contract could have been terminated in 1982/83. (Privatisation: The Wandsworth Experience, Background Paper, LGIU, 1987)

The basis by which the City Council can terminate a contract must be set out clearly. So too must the financial costs to be incurred by contractors deciding to withdraw from a contract before it is completed. "Once a replacement service has been established an authority should commence action against the defaulting contractor in order to recover any losses sustained as a result of the default." (Management Guide to Contracting Out Services in Local Government, CIPFA, 1984) ISS Servisystem negotiated their release from the £0.5m Birmingham school cleaning contract in 1984 after a series of complaints and penalty deductions "subject to the payment of £150,000 to Birmingham City Council for non-completion and re-instatement." (Letter from Birmingham City Council, quoted in Report by Chief Executive to Policy and Resources Committee, Lincolnshire County Council. 27 June 1986)

2. Recording, compiling and reporting system

This system should include the following:

- easy-to-use monitoring sheets for use by monitoring staff. An example is shown in Appendix 1 from the London Borough of Wandsworth's estate cleaning contract.
- information from the monitoring sheets should be transferred into a computer based storage system and quality control charts (see BS 5701) which can be used to give an immediate picture of the contractors' overall performance, and will be essential to determine changes in performance levels and to signal whether contract termination should be threatened.
- this information, together with an analysis of complaints received from users etc, should be reported to the relevant council committee in monthly progress reports (later quarterly if the contract proceeds satisfactorily).
- these progress reports should be distributed to the trade unions and the tender documents, as well as explaining the reporting system, should indicate the council's responsibilities to report progress to users and the public.
- progress reports should also be made available to the databases being set up by some local authority bodies eg LAMSAC, the trade unions, and databases run by SCAT and LRD.

3. Staffing requirements and costings

It is essential, given the experience of contracting out noted above, that whatever monitoring system is used, it must be fully staffed and costed, including cost variations for different tenders, at an early stage. In order to do this it will be necessary to design and test the monitoring system, in conjunction with the trade unions in each department, before tendering commences.

The Plan will have to include management systems to ensure that, although there will be adequate monitoring staff, inspectors will monitor contractors effectively and with commitment. It will have to ensure that the relationship between monitoring staff and the contractors management is based on public service ethics.

4. Complaints procedure

An essential part of any monitoring system. The first point about any complaints procedure is that users must first know about the basic level and standard of service being delivered. Without this information, complaints are likely to be random and it will be difficult to determine levels of user satisfaction.

Users in each service should be informed how and where to lodge complaints. It is important that all complaints come to the City Council and not to the contractor.

The system should be set up to receive, record and forward onto

the monitoring team complaints from:

- individual users (including other council departemnts, local firms etc).
- council staff working alongside contractors.
- trade unions, community organisations and other organisations representing groups of users.
- the general public.

The City Council should examine ways in which users of each service can monitor contractors' performance using specially designed and distributed monitoring sheets. This could also be a useful means of distributing information about service standards and initiating debate about social needs, public spending, and improvements to services and jobs.

5. An appeals system

A procedure should be established so that when the contractor and monitoring staff cannot reach agreement the contractor can appeal to senior officers with ultimate recourse to a council committee or panel. The procedure should be set out in the tender documents. The use of such procedures will be minimised if the monitoring methods and techniques are explained in the tender so that it is the contractor's responsibility to understand the inspection methods, frequencies, and penalties for non-performance.

An appeals system "will be an important defence to authorities in a situation where contractors will have easier access to Judicial Review" (Don't Panic, AMA, LGIU, LSPU, ADLO 1988).

Contractors are likely to focus attention on the contract compliance/tendering procedures initially, but could equally consider legal action if they considered the monitoring to be 'too stringent'

6. Evaluation of monitoring

Periodic evaluation of all aspects of the monitoring system will help to ensure it is effective, to identify any required changes, and provide much needed experience for those services scheduled later in the tendering timetable.

It will also assist the City Council in supplying references and evidence to other local authorities should any firms gain contracts in Manchester.