

*Newcastle City Council
Information Technology & Related Services*

No
Corporate
Takeover
of
Council Services

by

Newcastle UNISON's
ITRS Evaluation team

assisted by the

Centre for Public Services

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Preface

Newcastle City Council is in the process of considering the future provision of IT and related services. A decision is to be made within a matter of weeks which could result in a BT, a major private sector company, having responsibility for the management and provision of a range of services to residents of the City and to the Council itself.

Originally, access to investment and a need to make savings were the key factors in persuading the Council to look at a major private sector involvement in service delivery. However, analysis has shown there is little difference between the BT and in-house options in these areas.

The Council is poised to choose between a BT-controlled joint venture company and an in-house option, and management argues that the capacity and capability to manage the necessary transformation will be the key factor. This report examines BT's track record which clearly illustrates their unsuitability to manage and provide public services. Similar bids from BT and other private companies have been rejected by other local authorities around Britain.

We do acknowledge that change is necessary. This document sets out to summarise what's needed to manage the large scale transformation involved in improving services. Whether in-house or outsourced, Change Management will be needed. The skills and knowledge already within Newcastle City Council make it by far the best qualified candidate for the job.

Summary

- There is an alternative to the BT bid currently being considered by Newcastle City Council, and it is to keep the running of these services in-house.
- Precedents of other local authorities declining similar bids are Kent, Salford, Sandwell and Brighton. Kent County Council expects their project to be self-financing over five years. Salford City Council made substantial savings from centralising and integrating services.
- Even kept in-house, however, changes are needed – we've named a strategy for bringing about these changes, the Service Delivery Strategy (SDS). A bit like Going for Growth, the name draws together different strands of a city-wide project for Newcastle.
- The SDS is committed to seeing through changes in services while putting people first – the report details the ways in which SDS project teams will promote a public service ethos while implementing change, as well as properly valuing the intelligence and skills of our public service employees and service users.
- BT's track record in the North East is not good. They are poorly placed to be regional champions of regeneration or investment.
- BT is itself a company in flux and unstable. It is something of an irony that they should offer themselves as experts in 'Change Management'. Continual internal restructuring within BT is common. However, whether these are being effectively 'managed' is questionable given the continuing sell-off of assets and joint ventures.
- There is no legal obligation on Elected Members to award a contract to BT.
- Even completion of a process of procurement does not necessarily require the awarding of a contract - the City Council has the right not to award contracts whenever it has reasonable grounds for doing so. We think BT's corporate instability and the availability of a viable alternative solution constitutes reasonable grounds.
- BT's chief executive Ben Verwaayen received a one off payment of £1m on joining the company plus £339,000 for his first two months work. His total annual package consists of a £700,000 salary plus pension contributions and benefits of £340,000, annual bonuses valued up to £1.8m in shares and cash, and annual share options of £2.8m. BT's profit - based on a 12% return - on the proposed £22m annual Newcastle contract would not be sufficient to pay him.

Part 1

In-house capacity for change management

Reconfiguring services : the shape of changes to come

We propose that key elements of the In-house Service Improvement Plans, recently prepared for the in-house option are drawn together to form a **Service Delivery Strategy (SDS)**, comparable to the city's Going for Growth strategy. This would provide an overall vision and framework for the service improvement plans.

The existing In-house plans provide a basis for Newcastle's Information and Communications Technology (ICT) and Customer Relationship Management (CRM) strategy. These plans also provided most of the proposals contained within BT's bid.

The **SDS** would include a five-year investment plan and ensure that the strategy and plans are both corporate and directorate driven. Under the **SDS** each service/function improvement plan would be enhanced to include:

- service and resource planning
- service standards
- performance management and monitoring
- innovative application of ICT, CRM and organisational change
- review and re-engineering of service delivery
- staff training and development
- consultation and communication with service users and staff
- management and change management
- financial resources
- phased implementation
- evaluation/post implementation review

External specialist ICT, CRM and management support and expertise will be used when required.

The objectives of change management are multiple. Change management is intended to:

- Create opportunities for public management leadership who will drive the application of ICT, CRM and service improvements.
- Mobilise a process of organisational and cultural change within the city council which breaks down traditional barriers between services, sections and departments.
- Centralise and integrate functions, together with the roll out of new customer service centres to provide new and enhanced customer access, communications and better quality services in the city.
- Sustain the change management process to have a continuing impact on other functions and services in the city council.
- Meet and exceed e-government targets.

Changing the organisational culture

How will we do it? A first-tier multi-disciplinary project team will be established consisting of service, technical, financial and personnel staff with the necessary powers and control of resources to implement change.

Under its lead, second tier project teams, consisting of a cross-section of staff, will manage and implement change in particular functions, services and/or locations.

Team working will also be introduced in the application of ICT which will lead to flatter management structures giving additional flexibility and responsibility to teams of frontline and support staff and removing current unnecessary layers of bureaucracy.

All these project teams will promote public service principles so that a public service ethos underpins all aspects of change management.

The change management teams will:

- Map, review and prioritise processes to streamline and standardise operations, eliminate duplication and unnecessary tasks.
- Group and integrate functions with a high degree of commonality.
- Design and implement new customer-focused operations using tried and tested software packages to maximise benefits and the effective transfer of systems thus minimising disruption to services.
- Develop a joint working approach which will breakdown organisational resistance, improve productivity, service performance and hence user satisfaction.
- Ensure that valuable information about user needs, which is not already captured or used, is made available for service planning.
- Coordinate implementation of Service Improvement Plans to ensure integration with the Customer Service Centre strategy and the application of CRM, e-procurement and property rationalisation which are not part of BT's proposal.
- Ensure that the change management process does not result in over-engineered solutions and that IT is driven by user needs and service processes and that it is not viewed a panacea.
- Provide high quality management information and introduce performance management systems.

Promotion and communications strategy

It will be essential to communicate the change management objectives to staff so that they are informed at each stage of the process. Communication will be through workshops, briefings, presentations and visits from the project team. All staff will have the opportunity to get involved in the project and to express their views and ideas. For instance, they will receive and be able to contribute to regular newsletters and bulletins on implementation and achievements of the project.

Example: radical in-house change in Kent

"We have concluded that our own staff have the expertise, potential and commitment to develop and take forward these support services in a mix of public and private provision",

Sandy Bruce-Lockhart, Leader, Kent County Council, September 2001.

At the 11th hour of negotiations with Hyder Business Services, Kent Council decided that their objectives could not be achieved through a strategic partnership with the private sector.

Elected Members decided to retain in-house services and established the Kent Support Services Improvement Programme (KSSIP) to improve financial and personnel systems.

The KSSIP team began with a series of roadshows and workshops last autumn and has an implementation and training plan for a new Oracle financial and personnel information system which will also provide a platform for the wider development of electronic services to the public. KSSIP is phased over three years and has the support of Kent UNISON. The Branch is committed to working "as closely as possible with officers and councillors to ensure KSSIP meets the needs of staff, services users and the people of Kent" (UNISON and KSSIP, 2001).

Kent County Council established a Programme Team of four officers who are responsible for coordination, preparing business cases and the application of best practice. The team is supported by technical, finance and personnel teams responsible for ICT application and implementation of change management.

Motivating staff

Staff will be motivated to support the Service Delivery Strategy through the combined impact of increased team working, sharing responsibility and greater involvement in decisions affecting jobs and service delivery. There will be new opportunities for learning and career development, more opportunities to express their ideas for organisational, operational and managerial change, and more examples of having their views valued and respected.

Morale will be boosted by the process of revitalising a public service ethos throughout the organisation. This will lead to enhanced job satisfaction, much more chance of maintaining good employment and equitable procedures for deployment and redeployment/retraining. Working conditions and a transition programme negotiated with the trade unions will ease the implementation of change.

The skills and experience of council staff, workers and managers, have often been undervalued and under-used. Change Management and the proposed **SDS** will harness these skills. We're confident staff will respond positively to these new opportunities.

Harnessing innovation

It will be essential to create an organisational culture throughout where innovation is valued and respected. Innovative ideas and proposals from staff and users will be explored and tested. An innovation fund will be established to support staff and trade union initiatives to improve services and test new working methods. By empowering teams and individuals the **SDS** will develop new ways of working and specifically, new ways of applying ICT so that it enhances service delivery.

Involving and empowering staff

Staff and trade union representatives will be involved in project planning, the transition programme and the design of the training and development programme. Project teams will have staff from different levels within the organisation and will include a trade union representative. Staff will be fully informed and consulted throughout the change management process, particularly in business process reengineering. This level of involvement will help to ensure that any re-design of systems, changes to working practices or organisational change meet the needs of both customers and services.

Training and development programme

A new training and development plan will be designed to address the needs of operational and managerial staff at all levels - service, team and individual. It will include training in:

- re-engineering services
- project awareness
- project management, encompassing change management and methods of sustaining staff/stakeholder involvement
- reskilling for improved and enhanced service delivery
- use of new equipment and software
- retraining of staff redeployed to other services and functions
- management development and team working

The training and development programme will be financed initially be re-directing existing training resources and in the longer term by savings produced by the application of ICT, as well as the centralisation and integration of services.

Financing the changes

Investing in new ICT systems - a phased investment programme is required, it is not a big bang situation. Investment will be required for upgrades, technical refresh of existing equipment and new equipment and software.

Efficiency savings – a combination of centralisation, integration and the application of new information and communications technology will generate on-going savings. In Kent, savings are expected to exceed the cost of investment over a five-year period. Additional savings are likely to be available from e-government collaboration with other Tyne and Wear councils.

New opportunities in capital spending - The recent White Paper, *Strong Local Leadership – Quality Public Services*, sets out the government's proposals for a new prudential system for local authority spending. The government intends to abolish the existing system of credit approvals giving the City Council greater freedom to borrow for investment.

E-government financial support - Newcastle, together with other local authorities which submitted an acceptable *Implementing Electronic Government* statement in July 2001, will receive a capital grant of £400,000 over the next two years (2002/3 – 2003/4) for implementing e-government.

Further funding may be available through the national Local Government Online strategy.

The Transition programme

A transition programme is proposed to implement the change process and to deal with the effects on services and staff. Because the pace of change can be best sustained when there are shared objectives and agreed methods of implementation and consultation, a transition team will be established consisting of project team, personnel and trade union representatives.

The transition programme will also include project awareness training for all affected staff.

Staff displaced by the transition programme will be redeployed and retrained.

Example: in - house service improvement programmes

Salford City Council, Brighton & Hove Council and Sandwell MBC have all considered the outsourcing of ICT and related services and decided against it. All three councils have successfully improved in-house services within their own investment programmes.

Note: strategic partnerships appear to get the go-ahead in authorities where senior officers have driven the procurement process forward, to the virtual exclusion of Elected Members, staff, trade unions and service users. Strategic Partnerships appear to be rejected when there is close Elected Member involvement and a genuine in-house option.

The Proof of the Pudding: Feedback and Results

Regular assessment of the progress of change management will be made through surveys, appraisals and feedback:

- Staff views on leadership, training opportunities, re-skilling, involvement in improvement projects, innovation implementation, job satisfaction, and so forth will be monitored and heeded.
- Users will also be asked for their assessment of service improvements including access, quality of service and user-staff relations.

Data from these two streams of response will be reported quarterly to Cabinet and will enable scrutiny of progress when contrasted with baseline data collected at the start of the project.

Improving the working environment

The working environment will be improved to provide a comfortable and safe environment with good quality furniture and meeting facilities.

Transformation of other council services

Changing the structures for provision of public services will have a considerable beneficial knock-on effect on other council services at both managerial and operational levels. Corporate procedures will be developed to ensure that the council can learn through this experience of change which also take account of the particular needs of different council services and functions. The organisational and operational intelligence will be corporately owned ie. it will be shared across the organisation without the constraints of contract and contractor vested interests.

Fulfilling corporate objectives

Reducing costs

In-house change management produces savings: Kent County Council expects their project to be self-funding over five years, Salford City Council made substantial savings from centralising and integrating services. Newcastle expects that the in-house management of change proposed in this document will save money.

Sustaining quality employment and contributing to Going for Growth

The retention of in-house services and the commitment to an in-house process of change management will support the maximum retention of quality employment.

Renewing democratic accountability

The City council should have a clear perspective on how it can develop e-democracy and e-citizenship beyond the current rather narrow agenda.

E-democracy offers an opportunity for the council to develop new methods of democratic accountability. Currently, despite hype, e-voting and e-counting play a minor role.

E-democracy could extend user and community involvement in Best Value. It could inform local area decision-making, and user involvement in service monitoring. It could also improve access to basic information for service review and procurement processes, and encourage service innovation by being a medium for the development of improvement proposals from both staff and users.

E-citizenship offers the potential to enhance participation in civil society and political life of the city. It could also be a key means of widening opportunity for life-long learning.

Social inclusion and equalities

Equalities will be a core value of the change management process. The in-house project will ensure that the application of ICT and CRM to service delivery will be designed to increase social inclusion. Similarly, any redeployment and retraining of staff will be planned equitably.

UNISON commitment

Newcastle City UNISON recognises the need for change.

It is committed to:

- improving the quality of services in the city
- making social justice and equality a reality
- creating a regeneration plan for our city that puts people first

ICT and centralisation

UNISON is committed to working with the City Council to use information and communications technology for social and economic advantage. We believe this can only effectively be achieved through a public sector Tyne and Wear option.

It accepts that the application of ICT will mean the centralisation of some services. It is prepared to work with the City Council in making the transition to a more centralised system workable with minimal disruption to service delivery, as long as the City Council is on its part committed to redeployment and retraining where appropriate.

A jointly agreed redeployment and retraining programme is a core requirement of any change management strategy.

Involvement in the management of change

City Council staff and trade unions want to be fully involved in the planning, design and implementation of ICT in both frontline and back office services.

Since the start of the procurement process UNISON has argued that the in-house option was the best. As the procurement process has proceeded this case has been strengthened. Our analysis of BT proposals, the preparation of Service Improvement Plans, planned changes in the local government capital spending regime, the initiatives by other Tyne and Wear councils and recent government encouragement of public sector consortia all point to the considerable advantages of an in-house option. This makes the joint venture company proposal look increasingly weak.

Bluff

The private sector's claimed superiority in managing change is grossly exaggerated when the ICT track record is examined in any detail.

BT's management of change has consisted of asset sales, closures and cuts and three different strategies in the space of as many years (see Part 2). Such a track record does little to inspire confidence in their ability to manage change.

The lost opportunities and risks of 'going it alone' with BT

Going alone with BT is likely to have the following consequences:

- The other local authorities in Tyne and Wear will strengthen their in-house initiatives. It is unlikely they will be willing to join a Newcastle/BT venture when they have been totally excluded from the process of setting it up and are presented with 'a take it or leave it' scenario.
- Other regional ICT initiatives will be compromised because the BT representation on behalf of the Newcastle City Council joint venture will inevitably seek to protect its own commercial interests in the region. BT is unlikely to support projects which challenge its commercial position or to acquiesce to their competitors gaining ground. BT would be able to apply bureaucratic pressure by influencing the speed at which regional projects are progressed.
- If the other Tyne and Wear authorities proceed to separate procurement processes rather than a joint in-house option, BT may not win these contracts. In Middlesbrough, Hyder thought it had a very good chance of winning a similar contract in neighbouring Redcar and Cleveland Council, but this proved not to be the case. Hyder were not even selected for the final stage of the procurement process.

Each of these issues challenges the potential success of the city council's growth strategy. The likelihood of a Newcastle-based regional business centre following a successful BT bid would be slim.

Opportunities for collaboration with Tyne & Wear local authorities

There have been important e-government developments in other local authorities in Tyne and Wear. The Heads of ICT in Tyne and Wear authorities have formed a group 'to determine options' and a scoping document is currently being prepared. 'It is anticipated that this will set out a form of partnership based initially on a shared CRM system, broadband connections between the Councils and links to the Government Gateway' (Report to Cabinet, South Tyneside MBC, 13 March 2002). Back office and e-commerce systems are also to be part of the joint approach between local authorities with each council determining its own level of participation. The South Tyneside report states that the government had given a strong indication that they will back such partnerships

In addition to this, South Tyneside MBC has had discussions with Newcastle City Council and Sunderland City Council regarding potential ICT partnerships between the councils. Newcastle was reported to be 'keen to develop partnerships' with the South Tyneside Council but Newcastle's current tendering process to obtain a private sector partner 'will affect any partnership working' (Report to Cabinet, South Tyneside MBC, 13 March 2002).

South Tyneside report that their task group met with Members and senior officers of Sunderland to discuss joint working and partnerships. Sunderland have 'no definitive plans' to date but it was agreed to jointly examine all partnership opportunities. South Tyneside, assisted by Deloitte Touch, is currently producing a revised ICT and e-government strategy.

Key issues for Elected Members

There is no legal obligation on Elected Members to award a contract to BT.

Completion of a process of procurement does not require the awarding of a contract -The City Council has the right not to award contracts whenever it has reasonable grounds for doing so.

There is no obligation to establish a joint venture company.

The City Council is perfectly within its rights to decide that a joint venture company is not in the interests of service delivery - in terms of efficiency, effectiveness and economics - or corporate policies, or the interests of council taxpayers.

In-house service is best

Through the Newcastle Service Delivery Strategy, in-house services will maximise possibilities for innovation, as well as providing opportunities for collaboration with other Tyne and Wear local authorities.

The improving quality of frontline core services

The focus on day-to-day contact between service users and the city council's and the improvement of 'back office' services must be kept in perspective. The quality of core frontline services is also very important. E-government will improve communications for complaints, appointments, information exchange and transactions, but it will not transform all services.

The public will judge the city council on the performance of its core services such as education, social services, housing and environmental services in which communication between service users and the city council is only a relatively small part of service delivery. The in-house option is much better placed to ensure that e-government works to improve the city's services and people's lives, rather than the interests of a transnational company or the latest technological fads.

Part 2

BT performance – strategic blunders, outsourcing, cuts and closures

BT – changing strategies

BT's attempt to become a successful worldwide communications group have floundered as it has been outpaced by more aggressive European competitors and by the British-based mobile phone rival Vodafone.

The demise of BT's global ambitions was a consequence of the volatile Telecoms and Information Technology markets in the late 1990s, together with its own failed strategy.

The Telecoms sector spent over £60bn acquiring third-generation mobile phone licences – now regarded as excessive costs for a product which has suffered delays and technical problems - and many internet companies failed to deliver and collapsed following super-inflated share prices.

BT grossly miscalculated its corporate strategy, basing decisions on market forecasts rather than genuine customer demand. The company pursued three different strategies in as many years. What BT's track record manifestly demonstrates is an inability to manage change – precisely the skill it hopes to sell to Newcastle City Council.

Question: Would you buy a promise of expertise in 'change management' from this company?

The family silver

The fact that BT is being forced to sell its own headquarters and key parts of its core business is an indication of retreat.

BT used to hold a number of minority stakes in foreign companies, and this contributed to its £30bn debt. Coming under pressure from the financial markets to rapidly reduce its debts, *it has been selling assets, outsourcing services, closing companies and imposing job cuts throughout its operations.*

Little has been considered sacrosanct - BT has been ruthless in selling assets, rationalising services, terminating joint ventures and outsourcing in order to appease City and shareholder interests, often conflicting with public service and user interests.

Newcastle's contract would be with BT's loss-making *Ignite* division, whose sale has already been mooted, and which currently faces ultimatums to break even or face closure. It would be ill advised for the City Council to rely on on-going financial savings or on continuing corporate ownership from BT.

Experts in restructuring

Over the last two years there has been continuous restructuring within BT with major implications for management and staff. In 2000 BT restructured to create four business sectors – *Ignite*, *BTopenworld*, *Yell* and *BT Wireless* (mobile phone business). By 2001, however, it had sold off two of these four sectors and had embarked on another restructuring plan.

The instability and insecurity within BT as a result of continual sales, closures, cuts and outsourcing has, unsurprisingly, led to increased insecurity for staff.

Management performance

Since BT is a transnational company in an almost permanent state of restructuring, the competence of its managers is in question.

For example, the Affinitis business unit was formed less than two years ago with 6,000 staff in property, fleet management and other central services but this division has now been abolished following major outsourcing deals, while a new unit, the Commercial Partnerships Directorate, is being established to manage contracts

The cost of rationalisation and restructuring in the financial year ending March 2002 was a staggering £4,525m. This included a £2,202m bill for writing off Ignite's European assets (a result of 'streamlining'); call centre rationalisation, £68m; Concert joint venture 'unwinding' costs, £253m; and a loss on Concert and AT&T Canada investments of £1,153m.

BT in 2002

BT embarked on a new 7-point strategy in April 2002, following the appointment of Ben Verwaayen as Chief Executive. The seven latest aims are summarised in Appendix 1.

The new strategy targets savings of £175m in BT Retail and £200m in BT Wholesale in 2002/03, involving a further 5,000 job losses and possible sale of assets such as Cegetel (France).

Savings do not stretch to all areas of the operation, however: Verwaayen himself received a one off payment of £1m on joining the company plus £339,000 for his first two months work (consisting a £122,000 salary payment, £36,000 in benefits and a bonus payment of £152,000).

His total annual package consists of a £700,000 salary plus pension contributions and benefits of £340,000, annual bonuses valued up to £1.8m in shares and cash, and annual share options of £2.8m (share options payable after three years).

BT's profit (assuming a 12% return) on a £22m annual Newcastle contract would not be sufficient to meet the current annual payments to its chief executive, let alone reinvest in the North East economy.

If BT's bid goes ahead, Newcastle taxpayers can have the pleasure of contributing to the £5 m in cash and shares that BT's chief executive receives annually.

Pension fund deficit for BT staff

Meanwhile, BT's 2002 annual report reveals a £1.8 billion black hole in its pension fund. The deficit takes account of decline in the value of shareholdings held by the pension fund coupled with the rise in average life expectancy.

Sale of BT businesses

BT sold 11 businesses in 2001 valued at over £8 billion in a desperate attempt to reduce its debt mountain. Details are included in Appendix 2. Plans for sales in 2002 include BT's headquarters in London, BT *Redcare*, and possibly BT *Ignite*. More details in Appendix 3.

BT outsourcing

In the last eighteen months BT has outsourced support services delivered by nearly 4,000 staff. Transfers have included:

1,800 staff to facilities management company Monteray in 2001, providing building repairs and maintenance, building and equipment services, caretaking, grounds maintenance and cleaning.

350 staff to Telereal, after a £2.4bn sale of BT's Property portfolio. Telereal is a 50:50 joint venture between Land Securities Trillium PLC and The Pears Group. Approximately 6,700 properties have been transferred to Telereal consisting mainly of offices, telephone exchanges, vehicle depots, warehouses, call centres and computer centres. Land Securities is one of Britain's largest property groups owning offices, shopping centres, leisure and industrial properties. Land Securities won the PRIME contract in 1998 to own and manage the Department of Social Security's property portfolio, and commenced a 30 year contract last year to manage the BBC's London and Scottish properties. The Pears Group also has substantial property interests and is one of Britain's largest private companies.

22 BT staff and **98** agency staff to Edotech in March 2002 as part of an outsourcing deal to replace Gateshead and Milton Keynes Print and Dispatch Centres. Edotech is one of Europe's largest document printing and processing organisations. The firm has a five-year contract with BT.

380 staff providing desktop and data services, including 33 managers and professionals, to Computacentre to replace BT's Retail Business Information Systems.

Future staff transfers

Over **500** financial and accounting staff will transfer In June 2002 to Xansa plc (formerly FI Group), an international IT consulting and outsourcing company which had a turnover of £434m last year. In January 2002 Xansa announced 100 redundancies in its Business Change Consultancy unit.

700 staff will move to BT Fleet – a new BT subsidiary starting May 2002 which will seek a partner to operate the 58,000 vehicle fleet serviced by 93 workshops in England, Wales and Scotland. BT has guaranteed £1bn of work to BT Fleet over the next five years.

Outsourcing to India halted

In July 2001 BT Retail announced, without notification or consultation, that they were commencing a trial outsourcing of back office order processing work in the Small and Medium sized Enterprises (SME) unit to non-unionised Mahindra-BT in Mumbai, India in which BT has a 43% stake. BT claimed that outsourcing to India would give BT Retail employees more time to 'focus exclusively on the customer experience'. However, the Communication Workers Union threatened industrial action and won a commitment that the pilot scheme would be scrapped when the trial ended in September 2001.

Call Centre closures

53 BT Call centres will close over the next two years, followed by a further 8 centres in the following two years. 2,300 jobs will be lost in addition to the 2,000 lost in the last twelve months as BT has reduced the number of call centre sites from a peak of 104 to 30. Further details of BT closures are in Appendix 4.

BT will spend £100m on next generation customer contact centres. Nationally, call centre employment is forecast to reduce by half – a loss of 250,000 jobs – over the next five years. Wider use of the internet for transactions, automated telephone services and increased outsourcing to low wage economies in Asia and Africa will underpin the decline in call centre employment.

Joint venture folds

Concert, the joint venture between BT and AT&T (US), has been terminated with the two companies taking back into ownership the assets and work each company originally contributed. Starting operations in January 2000, and axed in October 2001, Concert lasted less than two years.

The collapse of Concert means that 1,600 out of Concert's 2,600 European staff will return to their original companies with most staff integrated into BT. However, some 1,000 have been made redundant.

Job cuts

Over 9,400 jobs have been cut from BT divisions in 2001/02. Details, as follows:

March 2001 - 200 job losses in internet business BT Openworld (20% of the workforce) - following operating losses.

July 2001 - 300 staff, more than half its UK workforce, made redundant as a US company which acquired the UK assets of AT&T, BT's partner in Concert, is declared bankrupt.

August 2001 - 1,500 job losses (9% of workforce) in BT *Ignite's* European operations by the end of the current financial year.

December 2001 - 7,000 job losses in BT Retail in 2001 *with a further reduction planned of 3,000 by the end of the current financial year plus another 3,000 in the next financial year.*

February 2002 - reduction of 400 staff in BT Group Centre central functions.

The fixed-line network – selling BT's 'crown jewels'?

BT received two unsolicited offers for its fixed-line assets in 2001. The first was a £8bn offer from Earthlease, a consortium of financial interests, which would have involved BT selling its 28m copper pairs (the local loop) which connect phone users with local telephone exchanges, and then leasing them back. Earthlease would have taken over full management and maintenance responsibility for the network. The second offer from the German bank WestLB, valued at £18bn including £5bn in cash, involved acquisition of the entire fixed-line network. BT rejected both offers.

Meanwhile, rival telecommunications company Cable & Wireless has called for BT's network business to be separated from other services to ensure 'free and fair competition'.

Cable and Wireless recently gave evidence to the House of Commons Select Committee on Culture, Media and Sport investigation into the communications industry. The Committee recommended that the proposed Office of Communications (OFCOM) should take account of these criticisms as it set out to create a competitive UK market for broadband. Remedial action was needed, the Committee decided, 'taking account of the proposal (by Cable and Wireless) to require BT's network to stand on its own as a distinct business' (House of Commons, 2002). This could create another Railtrack scenario in which the telecommunications infrastructure is unbundled with competition imposed on all parts of the network.

Media focus on the draft Communications Bill, published on 7 May 2002, has concentrated on the potential impact on television ownership and the prospect of Murdoch and US companies such as AOL Times Warner, Disney and Viacom acquiring stakes in ITV and Channel 5 under Labour's new 'light touch regulatory regime'.

But the Bill also replaces five regulatory bodies such as OFTEL and ITC, with a new Office of Communications (OFCOM), which will have similar powers to the Office of Fair Trading, to apply competition rules across the communications sector.

Disposal of all or part of the fixed-line network – BT's crown jewels - would have drastic consequences for BT. The separation of core network assets would ultimately effect BT Retail's ability to maintain its customer base. BT and investors may gain financially in the short term but the longer-term consequences for BT, staff, the government and customers will almost certainly be negative.

There has been relatively little press comment on the implications of the Bill for BT's continued control of the fixed-line assets. An AOL Time Warner spokesperson has stated that they really wanted to see competition in the supply of the fixed-line network. This could come about either as a result of action by OFCOM or by institutional investor/fund manager pressure on BT.

For Newcastle City Council to enter into a ten year contract with BT would be highly risky: BT is in a constant and continuing state of flux, with no prospect of internal stability and the real possibility of further radical restructurings. BT's 'change management' expertise may be more than soaked up by its own transmutations.

BT's interest in a Newcastle City Council contract

Elected Members and council staff should be under no illusion that BT's bid in Newcastle is intended to improve the company's poor record of investment in the region. The weakness of its North East track record (detailed below and in appendices) reveals what can only be described as deep flaws in its organisational culture.

However, BT has a considerable commercial interest in a contract with the City Council. It stands to make the following gains:

- profit from the bid - normally between 10% - 15%, on the contract value
- sell itself for consultancy, with charge-out rates of up to £1,600 per day;
- profit from sale of software designed and tested in Newcastle;
- guarantee use of its own phone lines for 10 years
- boost its own image on the basis of already well-performing city council services
- increase its credibility as a bidder with other local authorities

It's nothing special

BT has or is negotiating similar strategic partnerships in Liverpool, Edinburgh, Newcastle, Barnsley and Walsall. It already has similar contracts in other regions. For example, BT has a £150m strategic partnership with Edinburgh City Council and a £300m joint venture in Liverpool.

BT in the North East: the story so far

The North East provides BT with its highest concentration of temporary workers in Great Britain: proportional to the overall BT workforce in the North East, 30% of employees are on temporary contracts.

There are fewer BT managers in this region, proportional to the rest of the workforce. In fact there are only half as many as the national average - fewer than anywhere else in the Northern area.

Of BT's Northern Area (covering the North East, North West and Yorkshire and Humberside) expenditure, only 7% is spent on goods and services in the North East. This contrasts with the 17.7% of the Northern area population who live here.

In 2000/1 BT's expenditure on goods & services in the North East was only 0.5% of its expenditure overall.

All this from a company with an alleged interest in Corporate Social Responsibility, which in 2001 produced a Social and Environmental Report which was described as an "all-encompassing, social, environmental, sustainable development, corporate social responsibility, triple bottom line report".

But BT has been actively involved in European and global business organisations which promote privatisation and liberalisation of public services and the early implementation of the World Trade Organisation's General Agreement on Trade in Services (GATS).

All of this is surprising in the view of BT's professed claims in its corporate social responsibility and social policy statements

The Spin

BT commissioned DTZ Pieda Consulting to undertake an assessment of BT's economic contribution to the regional economies in Britain.

The resulting report, *The Economic Impact of BT in Great Britain* was no doubt intended to provide evidence of BT's contribution to employment and the economy. It's available on Newcastle City Council's *website*.

It's some credit to the report that it clearly reveals BT's poor contribution to the North East in comparison with other regions.

The report's credentials

The report was written by DTZ Pieda Consulting, an 'independent consulting practice' which is part of the international group, DTZ Debenham Tie Leung, estate agents and property managers.

DTZ Debenham Tie Leung have been appointed property advisers for the sale of BT's corporate headquarters in Newgate Street, London. They are also advising BT Property on a series of state-of-the-art office buildings outside central London. DTZ has acquired the site of a BT Property/Railtrack scheme at Sevenoaks in Kent while DTZ Pieda Consulting has been providing planning advice and obtaining planning permission at the same site.

DTZ acquired the consultancy Pieda plc in 1997. Clearly, DTZ Pieda Consulting is not independent in regard to BT by any usual definition of the word 'independent'. It is an integral part of an international group of estate agents and property managers who number BT among their clients.

DTZ's report refers only briefly to BT's restructuring strategy, noting the plans announced in May 2001 and the planned sale of Yell, the demerger of mmO2 and the disposal of 'other assets and businesses'. The report does not take account of the stream of asset sales, outsourcing, closures and jobs cuts over the last 14 months.

It also makes much of the contribution that BT makes through the payment of uniform business rates for its land, buildings and pavement furniture. Nationally, this amounted to about £400m in 2000/01. What's not mentioned is a £250m refund BT obtained in October 2000 following a five-year legal battle with the Valuation Office. This refund also covers future business rates, for example, BT's rates bill for England and Wales in 2001/02 was reduced by £100m from the £310m paid in the preceding year (Source: BT Group Press Release 8 October 2000)

Finally, DTZ's report uses BT employment data for March 2001. However, since there have been substantial job losses and outsourcing over the past 14 months, this is misleading.

Underneath the spin

Poor as the DTZ's own report reveals BT's North East performance to be, the reality is even worse. An analysis of the national pattern of BT expenditure on goods and services, and the employment this supports is shown in Table 1.

The first two columns show the population of each region/country as a percentage of the Great Britain total. The next four columns identify BT expenditure on goods and services in each region/country, and the employment which this spending supports. The North East has the lowest expenditure - just 0.5% of the BT total. This is paltry compared to the totals for other regions/countries, particularly when the ratio of GB population is taken into account.

Table 1: BT expenditure and employment supported by BT spending – the national picture

Region/Country	% of GB population*	BT expenditure on goods & services 2000/01 £m	% of GB total*	Employment Supported by BT spending	% of GB total*	BT capital spending
North East	4.5	25.1	0.5	580	0.6	
North West	11.9	231.0	5.1	5,020	5.7	
Yorks /Humber	8.7	87.3	1.9	1,960	2.2	
Total capital						751
East Midlands	7.2	92.7	2.1	2,090	2.4	
West Midlands	9.2	972.4	21.7	21,120	23.9	
Eastern	9.4	733.1	16.3	14,890	16.9	
Total capital						716
South East	14.0	992.9	22.1	19,170	21.7	
South West	8.5	134.3	3.0	2,970	3.4	
Total capital						707
London	12.6	1,054.0	23.5	16,700	18.9	585
Scotland	8.9	100.6	2.2	2,220	2.5	275
Wales	5.1	65.1	1.4	1,480	1.7	143
Total		4,488.6		88,200		3,177

DTZ Piedad Consulting (2002) *The Economic Impact of BT in Great Britain* (Edinburgh),

* Figures rounded therefore do not add to 100.0

BT employs people directly - its own workforce plus temporary contract staff – and it also indirectly supports employment through the purchase of goods and services, and through capital expenditure. These activities in turn support employment in the local and regional economy as a result of the multiplier effect ie. people spend part of their income on food, clothing, entertainment in the local economy and this in turn supports employment. DTZ Piedad estimate that the additional income generated in the North East was £46.0m and 2,530 jobs in 2000/01.

Business and residential BT customers in the North East may consider that BT's track record in the region is a poor return for their millions of pounds in telephone charges annually.

BT community expenditure in the North East

BT expenditure on community activities was £31.3m in 2000/01. Mostly spending was proportional to population in each region or country of Great Britain. The North East was no exception to this: expenditure was £1.4m, 4.5% of the total - the same percentage as the region's population of Great Britain.

Appendices

1. BT's new strategic objectives

- to increase customer satisfaction
- to balance financial discipline with organic growth and generate cash by a further reduction of debt from £13bn to £10bn by March 2005
- to expand Broadband with a target of 5m users by 2006
- to further streamline of BT Ignite
- to unify management of UK networks
- to supply a wider range of wireless and mobile services
- to increase the skill base of BT staff.

2. BT asset sales in 2001

Company	Acquired by	Sale price (£m)
Cellnet (mmO2)	Stock market flotation	N/a
YELL (Yellow Pages)	Apax Partners & Co. Ventures Ltd and Hicks, Muse, Tate and Furst	2,140
Maxis Communications, Malaysia (33% stake)	Usaha Tegas Sdn Bhd	350
Bharti Cellular Ltd, India (44% stake)	N/a	114
Clear Communications, New Zealand	Telstra Corporation, Australia	26
Rogers Wireless, Canada	AT&T Wireless Services	269
Japan Telephone (45% stake)	Vodafone	3,700
Airtel, Spain (18% stake)	Vodafone	1,100
British Interactive Broadcasting (BiB(Open) (20% stake)	BskyB	for BskyB shares
Apollo Call Centre, Northern Ireland	E-Serve (HCL Technologies, India)	n/a
e-peopleserve (50% stake)	Accenture	50+

3. Further BT asset sales

BT Headquarters - BT is selling its Newgate Street headquarters in London with staff moving to the Holborn Centre, advisers are DTZ International (see below).

BT RedCare (formerly Telecom Red) - negotiations with Numerex Corporation (Atlanta, USA) collapsed in late May 2002. RedCARE operates in the telemetry sector enabling remote monitoring. It also provides communications links that connect CCTV camera installations to video monitoring centres.

Possible sale of BT Ignite - The collapse of Concert, the joint venture with AT&T, has forced BT to put the planned sale of BT Ignite on the back burner. BT Ignite has been told to achieve profitability in its loss-making European operations by March 2003 or closures will be considered. It had operating losses of £309m and £353m in 2001 and 2002 respectively.

4. Call centre closures

In the past year BT Retail Customer Call Centre Management announced the closure of Newcastle, Edinburgh and Norwich Call Centres followed by the closure of Directory Enquiry Call Centres in Darlington, Aberdeen, Medway and the Potteries.

In January 2002 BT Retail Billing and Dovetail announced the closure of billing operations in Bedford, De Monfort exchange Leicester, Newbury and Preston. The Billing operation in Dundas House Middlesborough will be transferred to Call Centre Management 150, whilst in return the Newcastle 150 unit will transfer to the billing section. Small and Medium Enterprise (SME) will cease operations in Maidstone and Milton Keynes. In the same month BT Retail will close 5 centres at Durham, Leamington, Irvine, Hemel Hempstead and Glasgow.

5. BT employment in the North East

Table 2: **BT employment in the North East**

	BT	Contractor	Total	% Temporary
North East	4,070	1,732	5,802	29.8
Northern area	21,476	7,134	28,610	24.9
National	101,226	25,334	126,560	20.0

Source: DTZ Pleda Consulting (2002) *The Economic Impact of BT in Great Britain* (Edinburgh), Tables 4.1 and 5.5.

Table 3: **BT direct employment by grade, March 2001**

	North East	North West	Yorks & Humber	Total for North	Great Britain
Manager	526	1,171	1,437	3,680	26,878
Non-manager	3,544	9,156	5,096	17,796	74,348
Total	4,070	10,873	6,533	21,476	101,226
% Managers	12.9	15.8	22.0	17.3	26.5

DTZ Pleda Consulting (2002) *The Economic Impact of BT in Great Britain* (Edinburgh) , Tables 4.2 and 5.6.

Table 4: **BT expenditure and indirect employment**

Region/Country	BT expenditure on goods & services 2000/01 £m	Supported total*	Percentage Supported by BT spending	Supported total*	Percentage spending
North East	25.1	10.5	7.3	580	7.7
North West	231.0	96.8	67.3	5,020	66.4
Yorks & the Humber	87.3	36.6	25.4	1,960	25.9
Total Northern area	343.4	143.9	100.0	7,560	100.0

DTZ Pleda Consulting (2002) *The Economic Impact of BT in Great Britain* (Edinburgh), Tables 4.2 and 5.6.

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No
Corporate
Takeover
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by

Newcastle UNISON's
ITRS Evaluation team

assisted by the

Centre for Public Services