

FOREWORD

Between 1990 and the local government elections in May 1990, Tory run Ealing Council embraced the concept of the 'enabling authority' and pursued policies designed to minimise the role of the council as a direct provider of services.

The council embarked on an enthusiastic round of 'market testing' and planned to put a whole range of services out to tender. These plans culminated in April 1994 with the sell-off of the whole Technical Services Group to a company with no track record in local government. This contract is worth £130 million over 5 years and comprises 15 per cent of the council's workforce.

At the same time, the council made significant reductions in expenditure on frontline services. In short, hardly any service has been unaffected by either cuts or the spectre of tendering.

The Tory legacy has been a loss of jobs, a reduction in service quality and accountability and a huge budget deficit which the incoming Labour administration inherits.

Ealing UNISON has campaigned actively against the council's cuts and privatisation programme. It established 'Fight Against Cuts and Tendering' (FACT), organised public meetings to highlight the impact of council policies, delivered leaflets to households across the borough, and organised a series of other events which attracted both public and media interest.

Finally the branch commissioned the Centre for Public Services to undertake an independent research project into the council's activities. This report is a product of that effort and presents a powerful critique of both the philosophy and practice of the 'enabling model' and the high risk venture of externalisation as practised by Ealing's Conservatives.

It offers a salutary lesson for governments, councils, trade unions and the public for the need to end the nightmare of privatisation, to restore pride in our public services, and to help restore local democratic accountability.

Sukhminder Kalsi

Ealing UNISON Branch Chair

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INTRODUCTION

Ealing's Conservative administration, 1990-94, created a structure which caused considerable damage to jobs and services in the borough. The Conservative council took the commercialisation of its services to extreme lengths as part of its move to become an 'enabling council'. The recently elected Labour leadership has inherited a council committed to this enabling model.

Labour will have to do more than reverse Conservative policies if the problems created by the enabling model, including the sale of the Technical Services Group (TSG) to the private sector, are to be overcome. The sale, which took the form of 'externalisation', has major implications for the future of Ealing and for local government nationally. If the best traditions of local government are to be returned, there will need to be a strong commitment to restore TSG to direct public sector control, together with policies for high quality, efficient and effective in-house services run by experienced staff on secure terms and conditions of employment. In addition, equal opportunities should be returned as a central feature of service delivery and employment in Ealing council.

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The enabling model has caused widespread uncertainty among council staff and concern among users of Ealing's services. Although Ealing was never regarded as a flagship Tory authority in the same way as Westminster or Wandsworth, the extent of its policies have had a similar effect. The changes were management led; managers appeared intent on ploughing ahead with the break-up of local government in the borough beyond even the Government's far-reaching proposals.

The Conservative's policy proposals and the resulting changes and uncertainties caused serious demoralisation amongst staff. A great deal of money was wasted on employing consultants to make proposals to reorganise and privatise many sections of the council.

The council adopted a high risk strategy which has backfired as local people became intolerant of the level of privatisation and cuts in key services, at the same time as incalculable financial resources and staff time were wasted on introducing unnecessary changes. The previous council administration's extreme position, shared by leading councillors and managers, showed no commitment to in-house services and staff, and very little regard for the views of the Ealing community and the effect of its policies on local people.

Part 1 of this report examines the council's record between 1990 and 1994, its key objectives, and points to the implications of its policies. Part 2 looks at the externalisation of the Technical Services Group.

THE ENABLING AUTHORITY

Under Conservative control, Ealing was committed to becoming an enabling council. Included in its corporate objectives in 1992 were the following two items pointing to a radical change in the provision of services and a policy which, in total and in practice, worked directly against in-house provision:

- the provision of efficient, quality controlled services at a competitive price, whether it be directly by Council employees, through private contractors or in partnership with others;
- the development of the Council as an enabling authority which, through partnership with all sections of the community will seek to enhance the facilities, services and environment of the borough.' (Report to Policy Committee 7 Jan, 1992)

In the same committee report the Council denounced its support for in-house provision 'The council will aim to be a leaner authority, responsive to change, and will provide well run and efficient services at a competitive cost, either by its own in-house organisation, by contractors, or in partnership with others. The council will enhance the facilities, services and environment of the borough through partnership and becoming an enabling authority'.

COUNCIL POLICY

The council's future was seen as being divided up into:

- Contractor functions
- Client activities
- Enforcement activities
- Corporate core activities

This structure facilitated the enabling model with internal trading and a far reaching contract culture.

The language of the 'new direction' for Ealing encompassed the central planks of right wing ideology for local government. The underlying assumption was that it does not matter who provides the services and that a leaner, fitter and therefore cheaper service is to the benefit of the 'community'. The council did not back up their arguments and objectives with information and research.

The enabling concept is based on the following key elements which were integral to Ealing's proposals:

- acceptance that widespread competition is the most appropriate method for achieving service provision;

- an assumption that market forces are the correct way to allocate resources;

- the use of business, rather than social, criteria such as value for money, profit ratios, and increasing productivity;

- a view that it does not matter who delivers the service and that employment conditions are not related to quality of service. In Ealing voluntary competitive tendering, the externalisation of TSG and the failed large scale voluntary transfer of housing stock are explicit examples of this view;

- the considerable costs of restructuring and contracting out under the moves to an enabling model are ignored. Ealing employed consultants in numerous cases to put forward the arguments for restructuring departments and to prepare options for the council in terms of sell-offs and privatisation;

The enabling model in Ealing has major implications for service users and workers. 'Enabling' means:

- services being based on the 'needs' of the private sector rather than the needs of existing or prospective users of Ealing's services;

1 the management use of contracting out and privatisation as a means of centralising management control and achieving productivity increases;

- the break-up of trade union organisation through the fragmentation of the work force into different contracts and employers;

- the introduction of locally negotiated pay deals to undermine local authority NJC pay levels, in some cases down to the level of business units.

The combined impact of these moves could lead to more fragmented, fewer and poorer quality services leaving the local authority with the less profitable and less attractive services private contractors do not want.

The Conservative's enabling model, which was accepted with little debate in Ealing, has several components:

- Competitive tendering and market testing across the authority with the contractor/ client split extended to all services. In Ealing's case the extreme example of selling off all the technical services accelerated the process. As a result, although initially tendering is confined to the contractor functions efficiency gains will also be sought in the client side functions.

- An internal market where services which cannot be contracted out are subject to an internal trading

framework including pricing and charging for services, market rules and trading accounts.

- New financial systems and the encouragement of partnerships with the private sector, including management buy-outs and buy-ins.
- Privatisation and the removal of democratic responsibility for services from elected political representatives. Under the enabling model top managers, rather than councillors, control local services and make use of the complicated contracting process and internal trading to push through changes.

These were all key elements of Ealing Council's strategy for the future of local government in the borough.

Ealing's Contract Culture

A contract culture grew alongside CCT in Ealing. It included tendering of a wider range of services than legally obliged to by Government legislation, the division of services into client-contractor roles, and the creation of internal markets in which departments trade with each other on a contract basis. If allowed to continue, Ealing could end up with a small client side, a core of corporate activities and a series of totally separate entities providing services. This will limit the ability to manage improvements in service quality.

The council acknowledged that the proposed changes would lead to further changes in structures and the delivery of Council services. Services and activities which are currently provided in an integrated way will need to be defined and separated out for the implementation of service level agreements and for the extension of competition. The key elements will be the division into corporate core activities, enforcement activities, client activities (eg specification, revision and monitoring of services) and the contractor functions (whether the service be provided by an internal work force or a private contractor). The council may also wish to consider an extension of the activities carried out by the voluntary sector, or may wish to consider Management Buy Outs or other partnership options' (Report to Policy Committee 7 January 1992)

Client/provider split

In its moves to externalise services and extend voluntary competitive tendering, Ealing proposed to split the client and contractor/provider functions throughout the council. This contract culture had the direct effect of dividing the work force and weakening the organisation of in-house services. The split makes services much more vulnerable to privatisation as it separates off the contracting operations from the client side. Initially, client side costs are hidden whilst the contractor side will be under constant pressure to reduce costs.

In 1992, the council identified the need for 'client' and 'provider' roles across all activities.

Client roles were described in Ealing as 'enabling' service delivery and comprises only those duties which at this stage should continue in-house, in order to determine and maintain the standard of services provided to the public, whether the service is delivered to an in-house provider or by a third party'. (Report to Policy Committee 14th April 1992).

The provider role 'refers to all aspects of service provision, including those involving an interface with the public, whether direct front line, or support'

The way in which the arguments were presented indicate the extent to which the council was prepared to go in developing a split in the council between clients who are in effect purchasers of services whether they be from in-house provision or private companies and consultants. The evidence from numerous research studies on CCT and the enabling model, shows that the level of split will result in major problems.

Ealing's objective of splitting service departments into two distinct roles - client and provider, meant:

- A separation between the client side which decides on standards and budgets and the provider side which includes those who understand the technical running of the service and its costs.
- Management by contract which in a climate of financial stringency the provider or contractor side, delivering the service, is permanently under financial scrutiny.
- The separation of corporate budgeting and service planning from responsibility for operating the service on the ground and recruiting and employing staff, making it easier for the council to make cuts without concern for the consequences.

The client/provider split in Ealing also encouraged further privatisation:

- by promoting commercialisation - with business criteria being adopted as part of the contract culture in place of public service values;
- through the sale of DSOs to the private sector as in the case of the TSG externalisation;
- by reducing the possibility of in-house staff successfully bidding for council contracts;
- by creating greater uncertainty amongst staff and users. This divides the work force, the trade unions and weakens the organisation of direct services.

The contract culture moves the council further away from well managed direct labour. The split between client and provider, even where services are retained

in-house, will remove the advantages of direct labour and lead to less flexibility, less control, more bureaucracy and uncertain service delivery.

Service Level Agreements

Service level agreements (SLAs), first proposed in Ealing in April 1992, were considered by the council to be central to the extension of CCT. During 1993/94 SLAs were being negotiated and some financial and personnel functions are in the process of being devolved to departments.

A Service Level Agreement is an internal agreement between the providers and users of central services within an organisation. Central services such as accountancy, information technology, legal, printing, typing are often considered to be SLA candidates.

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Much depends on the context in which SLAs are introduced; it cannot be assumed that they will automatically improve service quality unless accompanied by other initiatives. In the right circumstances, SLAs can represent an opportunity:

- to assess service provision
- to discuss service quality with service users/other parts of the service.
- to explain the benefits of the service and the way it is provided to managers, workers and users benefiting from the central service.
- to develop and amend services to meet changing needs and demands.

SLAs should be used to improve accountability and performance measures against the criteria of the organisation, of service providers and of service users.

However, SLA's tend to be used as a management tool and in Ealing led to fragmentation and a weakening of corporate direction. In a Report to the Policy Committee by the Director of Finance on the 1993/94 budget and level of council tax (9th March 1993), the following statement appeared '...During 1992/93, managers throughout the council have been negotiating SLAs. This process will provide business unit managers, departments and Committees with a clear statement of the support services they use and their cost. Once the process is completed, it will be important to incorporate the financial effects of the SLAs into the budget. A restatement of the budget in line with finalised SLAs will be undertaken early in 1993/94. This will then form the basis for the future budgets'.

Linked to SLAs was the increasing disaggregation of central budgets to departments and business units.

In an attempt to copy private sector practices the council risked taking on board the worst aspects of commercialism with internal trading and business

units linked to SLAs, without regard for the broader needs of service users which do not necessarily relate to costs and trading between departments. Innovation and ideas for service development can be sidelined where the ethos is for increased divisions in the council between departments and between clients and service providers. If allowed to continue, Ealing will soon see a situation where no work is undertaken without a 'contract' or agreement as a SLA.

Alternative ways of achieving the positive objectives of SLAs such as Standard Service Statements, which are produced by service providers after discussions with service users, do not appear to have been considered in Ealing.

Although SLAs can be used positively there were fears that the commercial climate being pursued in Ealing would result in SLAs being adopted to further the business values being promoted by the council, with internal trading across all departments and cost criteria being put before quality and the needs of the local community.

Internal trading

Linked to the enabling concept and the contract culture is the establishment of internal trading with internal markets. Under the Conservative's, the council planned to set up internal trading arrangements in the borough's services with different business units, departments and contractor organisations competing against each other.

Internal markets have a number of characteristics:

- Trading accounts where each unit has its own account covering its income and expenditure. Financial performance is based on the level of surplus and on avoiding loss. It ensures that services are run to a budget but overlooks the need to adapt to changes in corporate policy and differing user needs.
- Pricing and charging for services with all aspects of services being based on money. The level of charges becomes the focus and leads to a search for cheaper sources, and therefore, competition.
- Work is only carried out to specification of the standards to be achieved.
- A contract culture with separation of client and provider functions.
- Business units with contractors established along business lines and cost centres.
- Market rules which determine the operations of each business unit.
- Devolved management of business units where managers are given the power to set user charges, alter staffing levels, and manage their own budgets.

We've certainly lost a lot of local accountability since Pilate tendered-out crucifixions!



Business units

Ealing proposed to establish business units with their own trading accounts and the council made 1994 a trial year for their introduction. As a result, the part of the Council's budget relating to trading accounts, was intended to be confidential. As well as increased secrecy, the establishment of business units could lead to further fragmentation of services and of staff, and to a move away from developing corporate objectives.

Business units, which are also known as trading units and commercial units, have been introduced as part of the trend to commercialise services in several Conservative authorities. Business units are often divided into sections based on particular services each operating as a cost centre within the unit's trading account.

Their key features fit neatly into the enabling model:

- Trading accounts with units operating within a budget determined by contracts and Service Level Agreements
- Corporate rules governing finances, trading and activities of units
- Annual financial targets focussing on achieving a rate of return
- Business plans which are finance, rather than service, driven
- Competition for work both internally and externally

Business units give a great deal of power to managers who are given discretion to make the decisions necessary to meet the financial objectives set for the trading account. Managers may be able to decide on pay and conditions within their business unit. In

addition, managers may also be able to decide whether they 'buy' services from other departments or from private contractors. As a result, fragmentation arises and there is no overall support for in-house services and corporate policies.

Support for management buy-outs and buy-ins

As part of the council's 'new direction' to become an enabling authority, Ealing gave its support to management buy-outs (MBOs) and buy-ins (MBIs). So far, no group of managers in Ealing has taken up the offer of setting up an MBO. However, the massive externalisation of TSG was a management-led initiative and in effect a form of management buy-in.

In a committee paper (Report to Policy Committee 14th April 1992), the council outlined the 'potential benefits of MBOs and MBIs to Ealing'. Included in these benefits were:

- achieving the enabling role
- achieving significant cost reductions through releasing the entrepreneurial flare of managers
- retaining the local knowledge of staff whilst reducing the inflexibility of direct employment
- providing better security of employment for the majority of the existing workforce by enabling them to compete for work more effectively
- maintaining continuity of employment and management when there is declining or erratic demand for the service.

Although the paper also highlighted other issues such as 'securing impartiality', the CCT complications, the transfer of staff, the viability of an MBO/MBI in the long term and the time/resources needed to assemble a MBO/MBI, the paper did not look in any detail at the poor record of MBO/MBIs in local government or outline the problems of effectively privatising the service in this way.

There have been virtually no management buy-ins in local government, but based on the experience of public sector MBOs so far, the disadvantages to local authorities of establishing MBO/MBIs include:

- loss of valuable public assets;
- a detrimental impact on service quality, as MBO/MBIs can operate like any private contractor and provide minimal, rather than quality, service provision;
- loss of skilled and experienced work force, and the effect on employees since the authority cannot safeguard their interests once they join a buy-out;
- loss of democratic control over services. Accountability for a service will be lost to the public

sector and control of the service is only through the terms of the contract the council has with the MBO/MBI.

Countering the move to MBO/MBIs

Ealing's arguments in support of MBOs can be challenged by looking at the experience in local government so far, and the problems faced by the majority of MBOs.

- They are no different to private contractors and will bring insecure employment conditions. This is especially true where an MBO fails to expand as planned or even goes into liquidation, as so many of those set up in local government have.
- They do not remove uncertainty for the work force. MBO's are subject to similar failures to private contractors and in spite of guarantees given at the time of the buy-out bid being made on pay, staffing levels and trade union recognition, they may not apply for long.
- They are unlikely to produce financial savings to the council in the long run. Like any other private company, they will benefit by reaping any profits for themselves, rather than by providing a cheaper service.
- They usually hope to build on existing relationships with local authorities as customer. However, some MBO's have lost contracts with their prime customer on re-tendering and found it extremely difficult to expand their markets.
- Most MBO's 'exit' after 2-4 years and become part of other private contractors or consultants. The most common exit route is the sale of the MBO to another

company. There is evidence that public sector buy-outs are twice as likely as those in the private sector to be floated or sold off to another company in a short time.

- An MBO/MBI can mean a local authority losing both its client (all or part of the management) and contractor functions at the same time, seriously affecting service delivery.
- There is no form of local accountability linked to an MBO/MBI and public ownership is lost as ownership is passed from the local authority to a few managers.

The broader impact of MBO/MBIs is to effectively privatise work on wages, supplies, repairs, legal and financial advice previously obtained for a particular service from other departments in the local authority.

Market testing and externalisation proposals

Externalisation involves inviting private companies to bid for local authority work and is in effect another form of contracting out which by-passes CCT requirements.

Ealing went ahead with the largest externalisation of services ever carried out by a local authority. The proposal, which came from the management of the Technical Services Group (TSG), was considered preferable to piecemeal privatisation of the department (See Part 2).

Externalisation by-passes CCT and allows the council to provide services without directly employing staff. It is directly opposed to support for existing in-house services since it also avoids the need for bids from in-house staff. The staff affected by the externalisation proposals were in a weak position since they were unable to prepare an in-house bid. Competition was, therefore, restricted to the private sector.

Ealing's proposals were adopted without proper debate with staff, service users and the local community. The local authority has lost control and influence over a large section of the council's operations through externalisation.

The moves to externalise TSG showed the heavy reliance of Ealing's leadership on the advice of managers, private consultants and so-called 'experts'. There is no proof that externalisation will bring any of the 'benefits' promised by the managers and consultants leading the drive to externalise all manual and technical services, along with TSG's support services, in Ealing. Experience of using consultants in local government shows that they tend to use private sector values and suggest organisational changes which are not necessarily applicable or appropriate for

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the public sector. In this case the management consultants, PA Consultants, compared TSG with commercial criteria and the performance of private sector companies, rather than with other public sector operations. They do not appear to have rigorously examined the full range of potential alternatives for the in-house service. PA also talked to private companies and potential bidders and were then employed as 'negotiations advisers' for the externalisation.

Quality of service is unlikely to be improved by externalisation. In areas of work with very high labour costs, such as those in the TSG, it will be much more difficult for the council to ensure that quality will be achieved where staff are not actually employed by Ealing. Bureaucracy is likely to increase with externalisation and the responsiveness of staff to users can be expected to decline as with other cases of privatisation.

Performance related pay

Linked to the commercial and business values, the council adopted a performance related pay scheme for senior managers at a time when many private and public sector bodies are rejecting PRP for its ineffective and costly results.

In the year (1993/94) when council employees received a pay rise of only 1.5%, in effect a pay cut, and the government announced a pay freeze for the public sector over the next three years, the council allocated a £120,000 budget to introduce performance related pay for chief officers. The council also planned to introduce PRP for all managers down to business unit level.

The Conservatives also intended to introduce a staff appraisal scheme looking at performance and development. There is a fear that such a scheme would eventually be linked to pay and internal appointments.

BUDGET CUTS

At the same time as the enabling model was introduced with its high costs, Ealing council made substantial cuts in essential services each year from 1990.

Estimated 'savings'	
1991/92	£7.9m
1992/93	£14.0m
1993/94	£15.0m

In 1992/93, with a relatively low level of community charge of £299 in the borough, there were £14m worth of cuts in expenditure in Ealing, mainly in education (£6m) and social services (£3m). Services most affected were peripatetic teaching, adult education, welfare rights, youth and community services, grants to voluntary organisations, library services, housing benefits, preschool playgroups, residential homes and health education.

The education budget was cut by £6m. This had an immediate effect on schools with larger class sizes, fewer resources and a reduction in staffing. As a result in 1992, Ealing Council was spending £8m less on education in the borough than the Government's estimates of the level of need.

Ealing's budget for 1994/95 was a no-cuts budget, designed to win support from local people. Although there was a reduction in the Standard Spending Assessment (the Government's assessment of a local authority's need to spend to provide a standard level of service) for the borough, the council partially offset this by the Government's special grant (SSA Reduction Grant) as a compensation payment for 1994/95 and council balances. Therefore, in the run-up to the local elections in 1994, the Conservative's managed to achieve a no growth-no cuts budget, 5% (£12.5m) below the 'capping limit' with lower council tax levels than originally anticipated. At the end of March 1994 the council balances were about £11m and it has used £3.3m of this to help pay for the Council Tax reductions for 1994/95. The fact that the council has financial balances also shows that more cuts were made than necessary in the previous year.

There is the potential for a gap between income and expenditure in 1995/96 which could result in cuts. This is particularly acute since there is no guarantee that the council will receive a further SSA Reduction Grant from the Government. In a report to the Finance Committee by the Finance Director (17th January 1994) it was stated that 'In future years it will not be possible to meet the difference between base budget and SSA without expenditure reductions'. The report also presented indicative figures for the next three years showing the increasing gap between base budget and SSA.

Table 1

	1994/95 £m	1995/96 £m	1996/97 £m
Base Budget	254.0	259.0	264.2
Ealing's SSA	243.8	246.2	248.7
Gap to be bridged	10.2	12.8	15.5

Source: Report to Finance Committee '1994/95 Council Tax Base and 1993/94 Collection Fund' 17 January 1994.

Ealing has switched to outturn budgeting where department's make a firm prediction at the start of the year. Departments can carry forward surplus and deficits. This is part of the enabling process, involving a commercial approach, rather than the corporate planning of resources needed to improve services.

TENDERING COUNCIL SERVICES

Compulsory Competitive Tendering

The annual value of CCT contracts in Ealing was approximately £36m, until in April 1994 the Council sold off the whole of the Technical Services Department, which includes all the DSOs and DLOs except catering and sports and leisure management, to US multinational Brown and Root.

Ealing's policy on CCT has altered with the political changes. In the early '80's under the Conservatives, the council voluntarily privatised school meals and street cleaning. Under Labour there was a strong commitment to in-house services and tendering along public service principles. The Tory administration proposed extending competition to a range of services, but it is of note that although contractors have been encouraged, the only substantial privatised contract in CCT specified services remains school meals. CCG have held the contract since 1984.

The Sports and Leisure management contract was tendered in 1992. Private contractor, DC Leisure, withdrew from the tendering process over the possibility that the Transfer of Undertakings (Protection of Employment) Regulations (TUPE) could apply. Ealing gave the company another chance by retendering the contract but DC Leisure did not submit a bid, and the DSO were awarded the contract.

The privatised school meals contract provides all school meals, meals on wheels and luncheon clubs from a central cook chill unit. More than 500 council catering jobs were lost when the Tory council privatised the service in 1984. An independent report by the London Food Commission in 1987 condemned Ealing's catering contractors as 'unhealthy and unsafe with a constant risk of contamination'. Outbreaks of food poisoning also occurred. The Labour council planned to tender the whole of the meals service with a view to establishing an in-house service operating to proper standards. They planned this on a phased basis. The council negotiated with CCG in 1989 for them to continue the contract for a further year but without special school and welfare meals. The council started its own service in special schools before January 1990 so they were exempt from the provisions of the Local Government Act 1988. They tendered welfare meals. Only the DSO bid and were awarded the contract.

The council also tendered staff catering, which was never covered by the CCG contract and again the DSO was the only bid. It was Labour's intention to tender the main part of the school meals contract, to come into operation in September 1990. The Tory council elected in May 1990 stopped the tendering process and extended the CCG contract, which is still in operation.

The street cleaning service was initially privatised by the Tories in Ealing in 1983 but was taken back in-house by a Labour administration in 1987, a year before the contract was due to expire, following major problems with the contractor - Exclusive. When the service was privatised there was a reduction in staffing from 128 to 86 and staff suffered cuts in basic pay, holiday pay and sickness benefits. Pay dropped by about 30%. There had been widespread dissatisfaction with Exclusive's inability to meet the performance standards leading to a high level of complaints. The in-house labour force was enlarged and conditions of the work force improved. Standards improved and the service received negligible complaints.

Table 2

Service	Contractor	Year Awarded	Employment (FTEs) 1993
Sports and Leisure	DSO	1993	171
Civic catering	DSO	1993	40
Building cleaning	DSO	1992	256
Grounds maintenance	DSO	1993/4	56
Cleansing	DSO	1991	242
School meals	CCG	1984	
Welfare Catering	DSO	1994	8.4

According to the council's Statement of Accounts 1992/93, all the manual DSOs apart from Sports and Leisure which comprises three contracts awarded in 1992 and 1993, are making a high rate of return. In total there was a 54.0% rate of return in the above DSOs and an operating surplus of £315,000 in 1992/93. Most of these services now form part of the externalisation of TSG, and surpluses may not be put to the benefit of the council or its community charge payers. Any surplus is more likely to profit Brown and Root's operations.

The performance of the Building Maintenance DLO was subject to a review by A & P Glover Management

Advisory Services in 1992 (this is the same private consultant used by Ealing to prepare a 'streamlining report' for TSG). The losses made in 1991/92 appear to have been averted in the following year, 1992/93, when the DLO made a 5.8% rate of return and a small surplus. In the same year highways made a surplus of £60,000 and a 12.8% rate of return

Voluntary Competitive Tendering

Under the Conservatives, Ealing council aimed to go beyond the legal requirements of CCT and developed far reaching plans to contract out a wide range of services. These plans have not yet been achieved on a large scale though there has been market testing of small areas and proposals for facilities management where areas of work are packaged together to improve the chances of competition from the private sector.

'Pre-tender assessments' were the method used by Ealing to prepare the ground for voluntary competitive tendering (VCT). The council admitted that pre-tender assessments, which include collection of information on the external market and cost comparisons, 'take up a considerable amount of staff time' (Report to Policy Committee 27th April 1993) and thus resources. Despite this admission the council did not quantify these costs in detail.

In 1992 the council made a commitment to extend tendering to a range of Council activities including:

- printing
- 30% of architectural and engineering consultancy work on the capital programme
- residual community charge collection.

In 1992/3 the council decided to voluntarily tender at least 12 activities. As a result the council has already voluntarily tendered out work with an annual value of £5m.

During 1993/94 pre-tender assessments were carried out in:

- Environmental Health and Planning/Building Control
- Landscape design, landscape construction and playground maintenance in Leisure Services
- Temp. Link (the council's own internal temporary staff agency)
- One area of Legal Services

The council also identified scope in tendering a range of ancillary support services if packaged together for a building/facilities management contract.

In April 1993 the council agreed to examine facilities management arrangements for office services for at least one office building on the central site.

A 'tendering survey' carried out by the council in 1992 recommended that the following services be considered for tendering:



Table 3

Service	FTE	Staff budget	Proposal
Purchasing	5	£115,000	1993 - part of FM
Stationery	2.5		"
Printing & Reprographics			Contract being prepared
Out of Hours service	4		Possible part of FM 1993
Switchboard	18		"
Text processing	13+49?	£268,000	Possible part of FM 1993
Reception	3+12		"
Creche & after school service			"
Post room	11	168,000	"
Halls		£460,000	"
Press and publicity	8/9		1994
Graphic design	2		1994
Civil litigation			1993
Other legal non corporate services			1993
Recruitment reception	2		Market test 1993
Occupational health and safety			Possible part of FM 1994
IT Central operations	32		1993
IT development	3		1993
Systems support	16		
Departmental IT	34		1993
Estates management	30	£700,000	1993
Community charge			Arrears collection out to tender
Council Tax	86	£2m	1994
NNDR	9		1993
Housing benefit	150	£3m	1994
Income collection	39	£700,000	1994
Accountancy	68	£1.8m	1993
Finance computer services	18	£326,000	Link with IT FM
Finance admin.	25	£463,000	1993
Bulk mailing & printing			1994
Youth & community - play	27	£575,000	1994
Recreation - halls	11	£850,000	1993
Playgrounds maint.	26	£200,000	1993
Landscape design	4+		1993
Welfare services		£2,100,000	market testing in progress
Nursery centres		£1,700,000	1993
Food hygiene			1993
Pollution services			1993
Asbestos lab			1993

Source: 'Competitive Services' Report by the Chief Executive to Policy Committee, 27th April 1993.

In the brief review of services and their suitability for VCT, the council highlighted the above areas for further investigation and pre-tender assessments.

Table 4**Pre-tender assessments**

Activity	Committee Report	Outcome	Tendering	Award
Housing estate cleaning/caretaking	September 1991	Tender for cleaning	Completed	April 1993 to Blue Ribbon
Horticultural services	1992	Tenders for two areas		
Dog Warden	1992	Tender	Completed	1993
Microfilming	July 1992	Reorganise and tender 1993	In progress - delay	
Advertising	Sept. 1992	In-house bid for graphic design	Completed	Nov. 1993
Sheltered housing	Sept. 1992	Tender	In progress	Nov. 1993
Residual community	October 1992	Tender	Completed	Feb. 1993
Printing and bulk reprographics	October 1992	Tender	Completed	April 1993
Architectural and engineering consultancy	October 1992	Tender	Included in externalisation	
Energy conservation	November 1992		"	
Internal auditing	November 1992	No tendering in	advance of CCT	
Vehicle fleet management	January 1993	Included in externalisation		
Community transport	February 1993	Tender some aspects Welfare included in externalisation	In progress	
Meals transport	January 1993	Tender/ included in externalisation	In progress	
Courier & other distribution	Feb. 1993	Tender/included in externalisation	In progress	
Security (property)	Postpone	Some included in externalisation		
Policy, strategy, review	Feb. 1993	No tendering of policy work Further report on management review work		
Conveyancing	Feb. 1993	Tender	Delayed	Jan 1995
Right to buy valuation	Feb. 1993	Tender	In progress	
Pest control	March 1993	Review in 1994		
Parks patrolling	March 1993	Consider tendering part of service		
IT system management	April 1993	Include in larger operations package		
Work study	April 1993	No tendering part included in externalisation		
Payroll and pension	April 1992	Tender subject to progress on computer system		
Training	July 1993	No additional tendering	Completed	1993
Mortgage portfolio	Sept. 1993	Tender	In progress	

Source: Report to Policy Committee , November 1993.

Several of these services have been included in the externalisation of TSG. Many of the areas listed are small scale and employ a small number of staff. Administrative and clerical areas appeared to be likely candidates for VCT, through a Facilities Management arrangement for routine services. This would severely affect women employees, many of whom are low paid and undervalued in the council hierarchy.

The logic of the proposals is unclear. FM for support services in local government is a largely untested market and the motives behind such proposals were based only on the enabling plan rather than rigorous research on the best options for the service.

COSTS OF THE STRATEGY

Ealing spent incalculable amounts of staff time and resources on the introduction of the various elements of the enabling model. There was never any proper assessment of the full costs of setting up:

- Client/provider splits across all services
- Business units
- Introduction of the internal market
- Introduction of Service Level Agreements
- Voluntary competitive tendering
- Externalisation of TSG.

Use of consultants

Ealing spent large sums on employing consultants to pursue its policies. The following examples illustrate the extent of the use of private consultants to advise the council:

● Technical Services

PA Consulting Report - £25,000

Cost of Negotiations Adviser from PA Consulting Group - £70,000

'Benchmarking' Report by A.P. Glover - £28,000

● Review of Social Services

Report by King's Fund - £25,000

● Review of Housing Department

Report by A & P Glover Management Advisory Services - £80,000

● Review of Building Maintenance DLO

Report by A & P Glover Management Advisory Services - £25,000

● Appointments

Employed Price Waterhouse at a cost of £10,000 to headhunt Assistant Director of Social Services.

Employed Price Waterhouse at a cost of £15,000 to assist in the appointment of Chief Executive after Interview Panel made no appointment. Eventual appointment of Deputy Chief Executive who had applied first time!

Inefficient use of council tax payers money

● 'Management of Change Budget'

Ealing spent large sums of money on implementing its policy changes over the last three years as the following figures show:

1992/1993	£168,000
1993/94	£400,000
1994/95	£550,000

This was largely spent on additional staffing, reports, publicity and associated costs.

● Sell offs

There was a bungled attempt to sell off a local golf course and cricket ground which cost the council £600,000.

● Office block scrapped A planned new office block was scrapped at a cost of £71,000

Abandoned transfer costs Ealing

In late 1992, Ealing abandoned plans for a large scale voluntary transfer of 17,000 homes in the borough following Government rule changes limiting LSVT to a national limit of 25,000 per annum. In December 1992, Ealing launched a publicity campaign for a LSVT of 4,500 homes in the Northolt area, the first of four areas divided for transfers. Only four days after the launch, the Chairman of Housing said that the new rules, including a 20-40% levy on capital receipts meant that 'the figures did not stack up'.

The council had argued that it was pursuing a transfer for the benefit of tenants, but local anti-transfer activists thought it more likely that the £10-20m to be raised by the transfer would be used by the council to reduce the council tax before the 1994 local elections.

Ealing had earmarked £350,000 for the cost of the transfer including, £61,500 for the cost of 'coordinating consultants', £29,000 for public relations, and £27,000 for legal advisers. At the time the Labour Group opposed the transfer and queried the Coopers and Lybrand report on transfer which

failed to answer many of the questions about benefits to tenants. The high costs of the process were also criticised.

Source: *Public Housing News* Nos. 18 and 22

Client side costs

Tendering is costly and time consuming and the longer term costs are often not taken into account when making estimates of 'savings' from competition. In Ealing, client side costs are already high for manual services and the TSG externalisation will increase costs to the council further (See Part 2).

Tendering costs were outlined in pre-tender assessments. Although savings may be achieved from tendering the council acknowledged that 'It is anticipated that some tendering in 1994/5 and subsequent years which will not give rise to any economies' (Report to Policy Committee 27/4/93).

It is clear from this statement and the actions of the council that cost was not a central issue for senior managers and councillors intent on making Ealing one of the leading 'enabling' authorities of the 1990's.

IMPACT ON STAFF AND EQUAL OPPORTUNITIES

The staffing and equal opportunities implications of the Conservative's period of administration have been extremely serious.

Between 1990-94, Ealing council took a number of steps to dismantle any previous progress in the field of equal opportunities. In 1990, when the Conservatives gained control of the council, one of their first priorities was to abolish the race and women's units. This was achieved within months of the new administration and several staff were made redundant. The only posts not abolished in equal opportunities work were the workers with disabilities.

All the 12 posts in the Women's Unit, 20 posts in the Race Equality Unit, several Race Equality and

Womens' Equality Departmental Coordinators and the gay and Lesbian Advisors were deleted.

The council creche, used predominantly by service users, but also by staff, was closed in early 1991.

Equality related conditions of service have been attacked. The Conservatives abolished the child care allowance, dependency leave and language allowance. These conditions were an easy target for the council but represented a severe loss for council employees, especially lower paid women.

The weakening of the central Personnel function led to moves for a variety of employment practices across the council and a shift away from corporate personnel practice.

With the enabling model as the driving force, insecurity for Ealing's work force has increased at the same time as there has been increasing pressure on employees to meet performance standards and targets. This has clearly resulted in an extremely negative experience for Ealing's employees seeking to provide a quality service.

The impact of an approach which involves commercialisation has an immediate effect on employment levels and working conditions. Women (who make up 65.6% of Ealing's APT&C workforce) and ethnic minority employees (who make up 25.6% of Ealing's workforce) tend to be concentrated in the lower scales of local authority employment and are likely to be disproportionately affected by the enabling route. The threats of redundancy and uncertainty of externalisation have been additional to the massive reorganisation of council departments and the transfer of staff between departments.

The council's summary of establishment changes shows that between December 1990 and December 1993 there was a loss of 885 officer posts in the borough representing a 15% decrease from a level of 6,049 in 1990.

The percentage job loss in 1991, 1992 and 1993 in Ealing was higher than the average loss in English authorities and double that in London boroughs in 1992-93 as the following tables illustrate:

Officially, the Council has an equal opportunities policy...



Table 5

Job loss March 1991 to March 1992

	Full-Time		Part-Time		Total
	Manual	Non-manual	Manual	Non-manual	
	%	%	%	%	
Ealing	-8.2	-3.8	5.2	-3.8	-4.7
London Boroughs	-15.2	-2.5	-8.1	-3.0	-5.4
All authorities	-9.0	-0.3	2.3	-2.9	-1.3

Source: Report to Policy (Employee Relations) Sub-committee 'Human Resource Information' 18th November 1992

Table 6

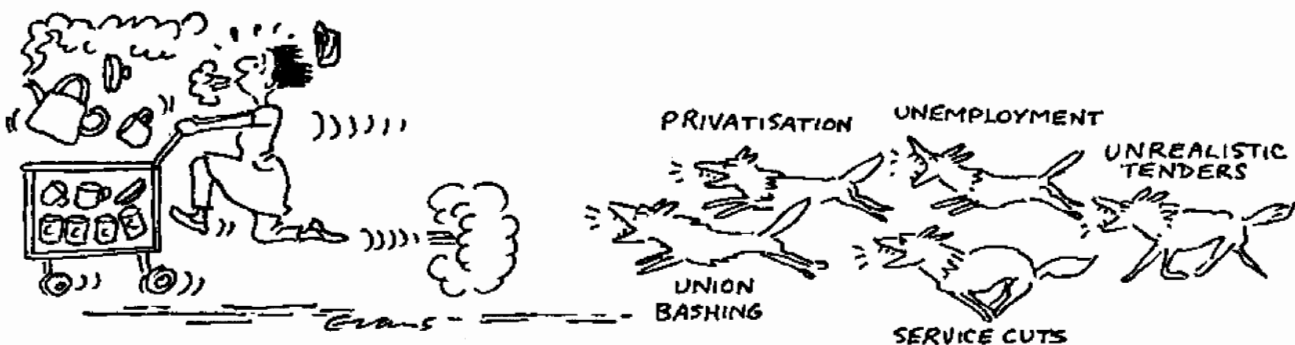
Job loss March 1992 to March 1993

	Full-Time		Part-Time		Total
	Manual	Non-manual	Manual	Non-manual	
	%	%	%	%	
Ealing	-14.1	-10.1	-9.7	-9.4	10.0
London Boroughs	-10.8	-3.4	8.6	-3.0	-5.1
All authorities	-7.3	-1.6	-4.8	2	-2.6

Source: Report to Policy (Employee Relations) Sub-committee 'Human Resource Information' 27th January 1994

Job loss affected both full-time and part-time manual and white-collar staff during the period 1991-93. Externalisation has had the greatest effect on manual staff and Ealing will lose over a third of its manual staff employed in the council following the sale of TSG to Brown and Root. Over 400 white-collar employees will have been affected by externalisation, representing 6% of the council's APT&C staff.

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IMPACT ON SERVICE PROVISION AND LOCAL NEEDS

The enabling model and the commercialisation of services has seriously altered the relationship Ealing has with its service users. It has reduced the possibilities for democratic control over services and the influence of user organisations to alter council policies. The following examples show how service provision has been removed from local need and centralised in the council structures.

Abolished Unified Community Action.

Unified Community Action (UCA) was originally set up in 1980 by the Conservatives as a cheap method of working with the voluntary sector. Labour expanded the programme in the late '80's and put resources into local areas. UCA gave support and advice to local community groups. Meetings were held regularly between UCA staff, council representatives, tenants and pensioners groups, clubs, and other organisations to discuss matters of local concern. UCA workers were employed in four areas of the borough - Southall, Acton, Ealing/Hanwell and Greenford/Northolt/Perivale. With the re-election of the Tories in 1990, the centres became a focus for opposition and in 1992 the council closed the information and advice centres in local communities and centralised facilities. The decision was taken without proper consultation with staff and user organisations.

Community consultation is now very poor and there are few attempts to seek user involvement in planning and developing services.

Closure of Area Offices

During their four years of office, the Tory Council increased the centralisation of services and closed offices in areas of the borough where they are the most needed:

- Closure of the Southall Area Housing Office. The service is now provided at Greenford Office (renamed Western Area Housing Office).
- Closure of the Southall Area Social Services Office, service now provided at the Greenford Office (renamed Greenford/Southall Area Social Services Office)
- Closure of three Area Education offices at Acton, Greenford and Southall. The service for all areas including Ealing is now provided from a central administrative office in Ealing.

- Closure of the Acton and Southall Information and Advice offices. The service is now provided from central administrative offices in Ealing and a small office in Greenford.

In addition to the centralisation of Ealing's service provision, the moves towards an internal market with business units has made the council much more inaccessible. With the establishment of business units, decision making is fragmented and there is less possibility for users to influence overall council policy and the activities of individual departments providing services.

Service quality

The Government's Citizen's Charter and the trend for policies for quality services in local government has not been taken up in other than a minimalist way in Ealing. There is little or no consultation with service users and no assessment of the needs of different groups in the borough. Those with no political voice, for example the elderly, disabled and many ethnic minority groups have had little chance of voicing their problems and concerns in Ealing. The enabling model combined with the privatisation of services reduces the possibility for improvements in service quality. They do not allow for the flexibility needed to respond to changes in service delivery and the organisation of the work force which is possible where there is a corporate and more flexible strategy with DSO run services.

Community Care and reorganisation

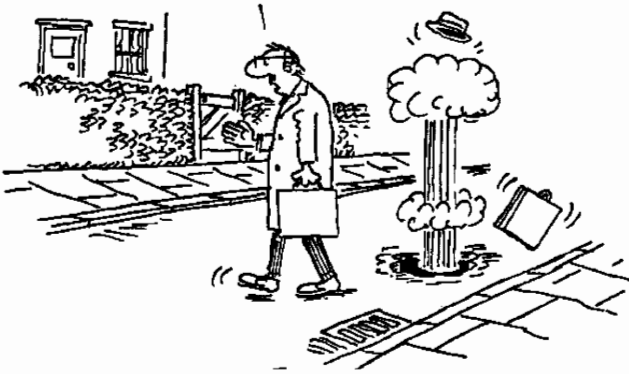
Problems have arisen from the huge increase in workload of Ealing Social Services associated with the Community Care Act and the fact that new staff have not been recruited to deal with the placement and assessment of elderly people in the borough.

Ealing Hospital was the first in the country to complain of 'bed-blocking' because hospital wards were full and they were unable to discharge elderly people. In October 1993 UNISON stated that up to 16 patients a night including cancer and stroke victims have been sleeping in hospital corridors because up to 20 other patients could not be discharged. Two people died in beds in the corridors.

Loss of democratic control

The combination of the enabling model and budgetary restrictions has meant less public control over services in the borough as commercial values take hold. If allowed to continue, political representatives, trade unions and users will have less access to decision making structures which will be dominated by managers.

Well, we've saved quite a bit by tendering out highway maintenance, Smithers... Smithers?



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Loss of strategic response and innovation

Commercialisation of Ealing's services, and especially externalisation, will mean a loss of strategic planning and fewer resources with which to plan local services. If allowed to continue, Ealing's policies could well reduce services to more limited and rigid provision, the majority of which is subject to contract.

Decline in in-house expertise

Ealing's externalisation and the increasing commercialisation of its services has led to a decline in in-house expertise. Demoralisation set in as reliance on contractors increased. This also limited the advancement, training and education opportunities for in-house staff. As a result, in-house staff in enabling authorities such as Ealing see no future in local government and end up being forced to look for employment in the private sector. A spiral of decline in the morale of the workforce will take hold as those leaving the council leave their colleagues feeling isolated and concerned about their own futures. If the model is pursued further, increasing uncertainty and the carving up of in-house services will erode Ealing's current expertise and experience.

Trade union organisation

Under the enabling model, the break-up of the council into business units and the externalisation of key services will result in a weaker trade union structure and less bargaining power. Industrial relations becomes more fragmented, national pay agreements may be replaced by local deals. Internal trading and a multiplicity of bargaining units within the council will lead to major bargaining and negotiating problems for trade unions.

LESSONS FROM ELSEWHERE

The enabling model is being pursued by only a handful of English councils. The extremes of Westminster and Wandsworth's policies have been under close public scrutiny and criticism over recent months following the highly critical District Auditor's report on Westminster's activities. The way in which policies were pursued in these authorities over a number of years and the effect on local people must provide lessons for the future running of local government. In 1993, Lincolnshire's Conservative's lost control of the council and voluntary competitive tendering has been stopped. Westminster has seen the resignation of senior managers and politicians as the consequences of the enabling model come to light.

Westminster - business units

As part of its enabling model and ideology of being at the forefront of right wing ideas for local government, Westminster introduced a pilot programme of 17 business units. The proposal was presented as an extension of the 'benefits' of competition beyond the existing programme. The aim is to ensure that all services are subjected to the 'discipline of contract'.

By the end of 1994, the council plan to have business units covering all council services not tendered out. Business units will be treated the same as external contractors and are seen as a 'natural complement to competitive tendering'. In Westminster business units will be made to work to a specification for an agreed price or fee structure over a defined period.

Berkshire-externalisation

The enabling concept in Berkshire includes externalisation and the establishment of business units or trading agencies to create an internal market. A range of services have already been 'externalised' including computing, training, highways maintenance, reprographics, school meals, cleaning, supplies and grounds maintenance.

Externalisation is also proposed for the majority of council staff over a four year period. The programme includes considering 'externalisation' of social service providers and purchasers, libraries, education direct services, support services to schools, treasurers functions and other services.

Berkshire has also set up nine internal trading agencies covering information technology, finance functions, property related services and legal activities. Each agency has to produce a business plan and its business operations will be kept confidential. The financial arrangements mean that trading agencies budgeted

operating costs will not form part of the county council budget, but will be reflected in the purchase budgets of client departments. Each agency has been given a years protection following which a programme of market testing will start.

Lincolnshire-enabling council

The enabling model pursued by the Tory administration in the county has been subject to detailed analysis in a report 'Their Business: Your Public Service' (East Midlands UNISON/Centre for Public Services). This report is important for Ealing since it analyses a council much further forward with its implementation of the enabling model.

In summary the report concluded that:

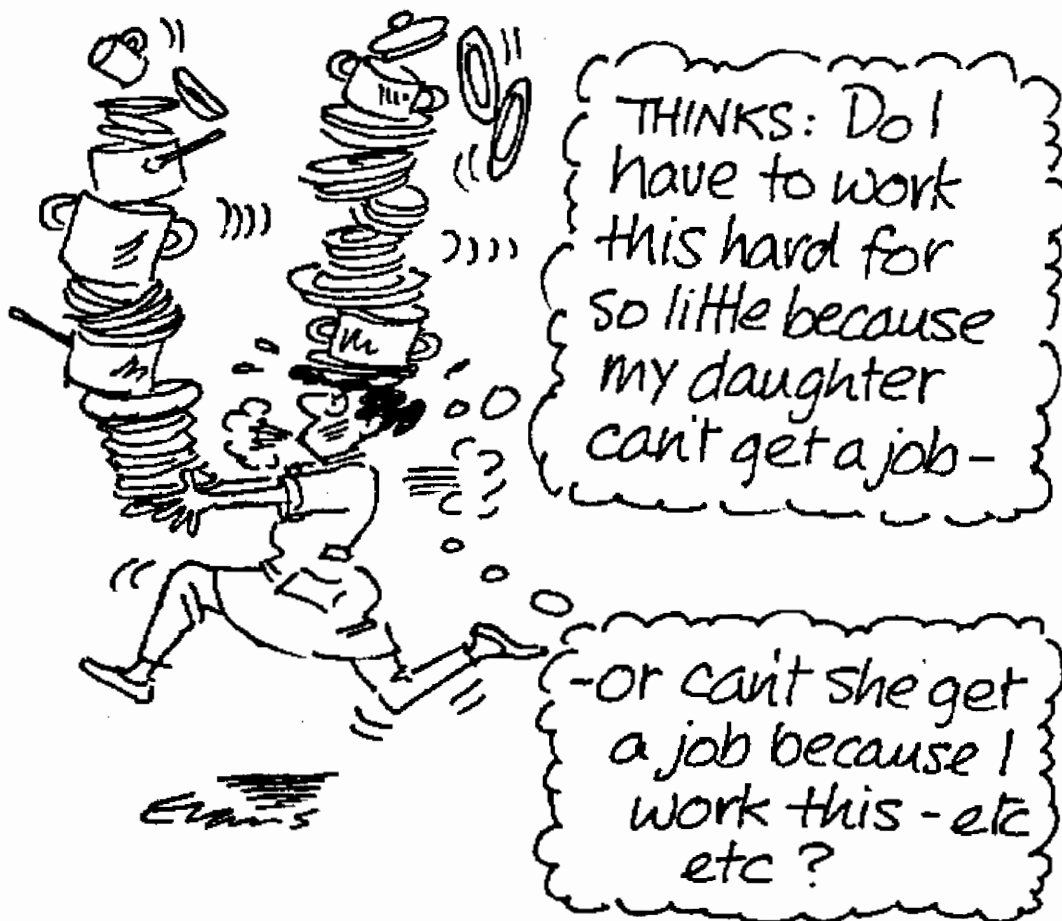
- The performance of business units and the internal market in Lincolnshire were less than convincing based on the Council's own narrow criteria. There was no evidence to show that real value for money and quality of service have been achieved.
- Lincolnshire's short term crisis management meant that there is no longer term strategy, no cost benefit analysis of policies, and no overall plan for business units and the internal market.

- Unsubstantiated claims to efficiency and economy
- Lack of democratic accountability with a closed system and secrecy surrounding the internal market
- Little recognition of user needs in the establishment of business units and the internal market, with cost rather than quality as the driving factor.

In February 1994 the London Borough of Ealing agreed to the largest sale of services ever seen in local government. The sale to Brown and Root, a US based multinational company with no track record in local government, is worth at least £130m over five years. The Council said that externalisation would be in the 'best interests' of the residents and employees in the borough. This view was not based on consultation with local Ealing residents and council staff, but on the advice of managers and private consultants.

1,500 employees, 15% of Ealing's workforce, have been affected by externalisation. Virtually all manual staff in the Direct Service Organisations and all those white-collar staff involved in the Technical Services Group (TSG) such as engineering, property and architecture have been affected by the sale of the Technical Services Group.

Brown and Root has set up a subsidiary - Brown and Root Ealing Technical Services (BRETS) - to which TSG staff were transferred on 1st April 1994.



EXTERNALISATION - A HIGH RISK STRATEGY

EXTERNALISATION MEANS PRIVATISATION

Externalisation is a new word for privatisation in local government, adopted by those local authorities intent on becoming enablers rather than providers of council services.

Compulsory Competitive Tendering (CCT) for TSG services has been bypassed by the externalisation. In-house staff had no opportunity to bid for the work and compete to keep the work under direct labour. In effect externalisation is another word for selling off services to the private sector without even the possibility of competing under the CCT rules.

In Ealing, the proposal, which came from the management of the Technical Services Group, was posed as an alternative to piecemeal privatisation of the department. In reality, externalisation was not a real alternative since under Government rules only 65% of construction-related services are required to be subject to CCT. Ealing sold 100% of its construction-related services and more.

One of the arguments in favour of externalising TSG was that if DSOs are externalised then they have more freedom to trade and are not restricted by Government regulations restricting local government activities.

Although the council has negotiated a 'partnership' option with Brown and Root, BRETS is wholly owned by the company and the local authority will have much less control and influence over the externalised company than it would over in-house services.

The other negative impact for the community is that as well as losing a committed local authority organisation which includes many manual services, externalisation is not guaranteed to bring value for money. The costs of externalising such a large proportion of the council's operations have been very high and include large amounts of officer time, employment of consultants, the tendering process itself, and high monitoring costs of the externalised services.

Ideological motives underlie externalisation in Ealing, which work directly against the direct public provision of services. The Conservative council's belief in the private sector was highlighted in a statement by the previous Conservative Leader of the Council, Councillor Bull, following the council's decision to sign a contract with Brown and Root: 'This decision marks the council's determination to take a positive and enterprising approach to the future as part of our

Management of Change programme. Partnership approaches can build on the strengths of the council and the expertise of the private sector to deliver real benefits for our customers'.

But externalisation on any scale is largely untested and Ealing Council took a major risk with their decision. Externalisation was pushed through to take effect prior to the local elections in May 1994. But as this report illustrates, Ealing council had been determined all along to externalise TSG in spite of limited competition for the whole package of work.

WHAT THE COUNCIL DID

The council expressed its support for management buy-outs (MBOs) and management buy-ins (MBIs) as part of its enabling model in April 1992 (See Part 1). Principal Chief Officers were authorised to discuss any potential areas for MBOs and MBIs with staff and bring forward proposals.

The Director of Technical Services presented a review of the Technical Services Group to councillors and got agreement for the appointment of consultants to investigate alternative arrangements for TSG.

Alternatives - no option for in-house services

The options presented by management were made in the context of the council's 'new direction', CCT, Voluntary Competitive Tendering (VCT) and concerns about declining internal and external markets. The management options were:

1. Managing competition within the existing framework
2. Management Buy out or Buy in
3. Local authority arms length company
4. Joint venture company

None of these options looked in detail at the possibility of strengthening the in-house service and making improvements in the competitiveness of the vast range of technical and manual services included in the group. All the thirty six services included in TSG were lumped together and not analysed in any depth for their individual strengths and weaknesses.

The process

In December 1992 the council appointed private management consultants, PA Consulting Group, to

carry out a detailed study of the options focussing on the possibility of a management buy-in for all or part of TSG.

PA Consulting Group's final report was presented in February 1993 and recommended that three of the options - a management buy out, arms-length company and joint venture company should be rejected. Two alternatives were presented as potentially viable:

1. Retention of in-house services within a 'revised framework designed to maximise the chances of its success within an increasingly competitive environment'

Under this option, the report highlighted the need to rationalise and reduce overheads.

2. Offering all TSG's services to the market on a flexible basis 'designed to maximise interest and innovation'.

The report argued that this form of externalisation would not be any more risky in one or several packages, but that the benefits could not be firmly outlined until the market was 'properly and formally tested'

In April 1993 the council agreed to progress the externalisation option and the in-house streamlining option. A budget of £370,000 was approved to carry out this work. In addition a temporary post of Negotiations Advisor was appointed at a total cost of no greater than £70,000. The Technical Services client side was separated from the contractor side.

New committee established

The council also set up the Alternative Provision Committee to deal with the future of the TSG, which at its first meeting decided on the advertisement for expressions of interest in the externalisation.

The committee made the following decisions during the summer of 1993:

- Set up an interim client side of 16 staff within the Chief Executive's department;
- Appointed PA Consulting Group as the council's negotiations advisor for externalisation;
- Agreed guidelines for the packaging of Technical Services. This included preference for a single package externalisation over multiple packages;
- Criteria for initially assessing companies.

Expressing interest in externalisation

180 firms expressed interest in the externalisation of TSG and were sent information packs and a questionnaire.

41 questionnaires were returned from private companies. An expression of interest was also submitted by a new holding company 'Alternative Direct Services' which is backed by the trade union GMB.

Evaluation Panel

The questionnaires were considered by an evaluation panel which consisted of staff from PA Consulting Group, the interim client side, the Approved List Unit, Legal Division, Finance Department, Personnel Division and the Business Consultancy Unit. The criteria used were:

- experience in delivery of the services concerned
- financial viability of the companies in relation to managing a large-scale contract
- personnel policies
- acceptance of the Transfer of Undertakings Protection of Employment Regulations (TUPE)
- degree of commitment in respect of forming a long term partnership with the council.

Shortlist

In August 1993, Ealing agreed a short list of nine companies to be invited to bid for all or part of the TSG.

1. All TSG Services - WS Atkins, Brown and Root, Taylor Woodrow
2. Engineering and Architectural Services - Babbie, Capita, Travers Morgan.
3. Works/Services only - Artel (OCS), Sita, John Doyle

Alternative Direct Services, was also invited to submit a bid.

Evaluation criteria

The council decided on the following tender evaluation criteria in addition to the need to establish which bid was the economically most advantageous:

1. Quality including customer orientation, technical expertise and effective management.
2. Price
3. Transfer of staff under TUPE
4. Willingness of bidders to enter a partnership with the council.

The contractors were informed of these criteria and asked to prepare bids by 19th November 1993.

STREAMLINING REPORT

At the same time, the council created further uncertainty for staff by commissioning a 'streamlining report' (also referred to as a benchmarking report) for technical services, as an alternative to externalisation. This was carried out by private consultants, A.P. Glover and Associates and was 'intended to provide an estimate of the cost of retaining a streamlined internal organisation carrying out similar activities to the proposed externalised organisation in order that external bids can be compared with a viable in-house alternative' ('The benchmark review of the TSG' Report to Chief Executive and Director of Finance. 19th January 1994).

The report was based primarily on a financial analysis of restructuring and the views of managers. Staff were not consulted on the content of the report.

21 The 'benchmark' was calculated by the Finance department, with the support of TSG management, establishing the current expenditure split over the 36 specifications covering all the different TSG activities. The benchmark exercise estimated the expected level of fees which could apply to each of the affected areas, which the report admitted could 'only be best guess'. The report found that the savings estimated to be required could only be achieved through reductions in staff.

The job loss on the staff side was estimated assuming there was 100% tendering success at 79 (18%). An estimate was also made of the impact of 75% tendering success on jobs; this was 119 job losses (28%) over the period 1994-99. On the manual side, the consultants estimated a reduction in workload of about £3.5m with associated employment implications.

Prior to bids being submitted, consultants AP Glover Associated presented the streamlining report to the council, which made predictions of the possible future for TSG. Although a summary was produced, the full report was never made available to the trade unions or staff. It was delivered to the council on the same basis as the bids from private contractors and kept totally confidential. The benchmark review was then used as the basis against which to assess the external bids for TSG.

The staff affected by the externalisation proposals were in a weak position since they were unable to prepare an in-house bid. Competition, therefore, was restricted to the private sector.

THE BIDS

Out of the 10 organisations invited to prepare bids for the externalisation of TSG, four withdrew and Alternative Direct Services did not submit a bid. The five bids were as follows:

1. Brown and Root Limited for the total package
2. Sita (GB) for the works and services
3. John Doyle for the works and services
4. Travers Morgan for professional services
5. Babbie Group for professional services.

In other words, the council only received one bid for its preferred option of bids for the total package.

The five contractors then made presentations to the Alternative Provision Committee and to groups of staff. However, manual and craft employees largely did not participate in this because of union opposition to the externalisation process.

One company was rejected because it did not provide sufficient information to allow the bid to be evaluated.

Two companies had submitted bids which were uncompetitive when compared with the existing council costs for TSG services.

Only Brown and Root for the whole package and Sita(GB) Ltd. for the manual services were left in the running. Bids for only part of TSG were clearly not what the council wanted as the following statement shows: 'It should be noted that it had not been the council's intention to externalise part of the service alone, but because it was unable to recommend a suitable professional partner for SITA, the Alternative Provisions Committee..authorised officers to amend the terms of the prospectus to reflect the possibility of the Authority pursuing a bid for part of the TSG only' (Report on the Externalisation of the Technical Services Committee to the Alternative Provisions Committee, 10 Feb.1994).

The council also agreed to look further at the Benchmarking exercise prepared by AP Glover. However, it was not subjected to detailed evaluation in the same way as the private bids. Externalisation was clearly the council's preferred option from an early stage and the streamlining proposal a secondary consideration in the tendering process, against which to compare the private bids.

SERVICES AFFECTED

Thirty six services are included in the externalisation including all the council's CCT services apart from sports and leisure management and catering. The school meals service is already privatised.

It includes the following services which had already been subject to CCT and won in-house:

- Refuse Collection and Street Cleaning
- Waste and Recycling
- Public Convenience cleaning

- Building cleaning
- Grounds Maintenance
- Building Maintenance

Other services affected are:

- Property Design
- Building Maintenance Management
- Mechanical and electrical maintenance
- Special Projects Management
- Energy Conservation
- Telecommunications
- Building Facilities management
- Structural services
- Highway and Transport feasibility
- Highway Design and Construction
- Traffic and transportation
- Main drainage management
- Environmental services
- Parking control and enforcement
- Dept. of Transport Agency management
- Highway control service management
- Street lighting management
- Routine highway maintenance management
- Planned highway maintenance management
- Office services
- Courier services
- Mobile meals delivery
- Day centre transport
- Fleet management
- Mechanical and electrical maintenance operations
- Highways and sewers operations
- Public lighting operations
- Sign fabrication unit
- Depot management
- Central stores

TSG also carried out work for Thames Water and the Department of Transport and these contracts have now been assigned to Brown and Root.

THE CONTRACTORS

The following contractors were shortlisted for the TSG externalisation but either did not submit bids or were rejected before final tender evaluation:

Babtie (bid for professional services only)

Group Turnover: £38m
Employees: 1291

Scottish based company specialising in professional design and cost control. The company has recently taken over Berkshire's highways and planning services.

Travers Morgan (bid for professional services only)

Group Turnover: £150m
Employees: 3,914

Subsidiary of Huntingdon International Holdings, Travers Morgan claims to be a leading firm of consulting engineers. The group specialises in civil and structural engineering.

John Doyle (bid for manual services only)

Group Turnover: £30m
Employees: 323

UK company with activities in building, property, construction, and plant hire.

WS Atkins (no bid)

Group Turnover: £114m
Employees: 2,500

A company providing consulting services in Engineering, Architecture, Planning and Management. WS Atkins have contracts in construction related services in the following local authorities: Oxfordshire, Surrey, Cheshire, Essex, and Bedfordshire.

Taylor Woodrow (no bid)

Group Turnover: £1,226m
Employees: 10,266

A major multinational contractor in construction and engineering. Also involved in property management, housing design etc. The company has its headquarters in Ealing. Although it was not recommended by officers of the Council, the Alternative Provision Committee included them in its list of companies invited to bid.

Capita (no bid)

Group turnover: £33m
Employees: 523

Capita has been involved in local government management consultancy for some time and in the last three years has expanded into financial and IT services in local authorities.

Artel (OCS) (no bid)

Group Turnover: £199m
Employees: 29,221 worldwide

The group's main activities are office and factory cleaning, laundry, security, construction and allied work.

Only two of the bids received from contractors reached the final stage of tender evaluation:

1. SITA (GB) Ltd. (bid for manual services only)

Group Turnover: £360m
Employees: 14,000 worldwide

SITA (GB) is part of the SITA Group and a subsidiary of a French owned multinational, Lyonnaise des Eaux-Dumez. SITA's UK base was specifically set up to tender for CCT services in local government. Sita has refuse contracts in Doncaster, Leicester etc. and has bought up DSOs in Bromley, Elmbridge and Barrow and, most recently, Kingston-upon-Thames. Sita was very keen to acquire the DSO so it could establish a base in West London.

The bid for Ealing's technical services is clearly part of a move to broaden Sita's field of work in the UK. But in spite of the emphasis on quality by Sita the way in which quality would be achieved was unclear as the following statement shows: 'Sita believes that the Ealing TSG externalisation is unique in terms of size and scope and represents 'an opportunity to move the concept of quality control into a new dimension'. However, Sita has not come to a definitive conclusion as to how this might be achieved, and proposes to commission a detailed study into how meaningful quality control and management systems can be specifically designed for this situation' (Externalisation of the TSG. Report to Alternative Provision Committee 10 February 1994).

The bid included the intention to move to BS5750 and to introduce Service Standard Agreements although Sita has no specific experience of the latter.

Sita's bid included the offer of a joint venture approach as an alternative where the Council would be offered a 19.9% stake in the company. Ealing rejected this possibility as it would involve complicated and time consuming arrangements.

Sita stated that all staff would be transferred under TUPE but that they "will seek changes to terms and conditions over time but have described this as a process of 'evolution not revolution' ." Sita also stated that they would work with recognised trade unions and employees to ensure smooth running and continuity of the service. This may have been the case but in other contracts Sita do not negotiate with trade unions.

Sita submitted a fixed price 'competitive bid' which would have also required the white-collar services to

be provided in-house, streamlined to meet the 'Benchmarking report'.

2. Brown and Root

Group Turnover: £2,000m
Employees: 8,000 in the UK

Subsidiary of American US multinational, Halliburton, with a UK base in Wimbledon. The company provides engineering, design, project management, construction, operations, maintenance and facilities management services.

Brown and Root work in the oil and gas, petroleum and chemical, civil, environmental and defence sectors. They are the 'lead partner' in operating Devonport Dockyard and Aldermaston Atomic Weapons Establishment.

In 1992, Brown and Root had a turnover of £324.5m and made a profit of just under £8m. The company employed 4,660 people and paid its top director £213,000. However, the holding company Halliburton employed 10% fewer people in 1992 than in 1990, and made a loss of \$131.3m.

Brown and Root has no specific UK experience in local authority work.

Brown and Root submitted two alternative bids. One option was a fixed price bid which was rejected by Ealing and the other a 'partnership' option which the Council agreed to pursue.

PARTNERSHIP?

Brown and Root's bid included a number of issues which made it different from the Sita bid:

- Proposed to implement a two year management programme to ensure that 'the transfer of staff from a Local Government environment to the private sector is managed effectively and the motivation and morale of staff is maintained'

- Proposed the establishment of a new company Brown and Root Ealing Technical Services Ltd., the board of which includes the Director of Technical Services, transferred from TSG, managing director of the new company and the Chief Executive of Ealing representing the Council. This has formed a partnership between BRETS and the council.

- The key financial elements of Brown and Root's partnering option were:

1. Setting annual targets

2. Payment of annual management fees to Brown and Root

3. 'Sharing of savings' made over and above those contractually guaranteed ie. if BRETS actual costs are less than the amount reimbursed under the annual

pricing schedules, Ealing and BRETS will share the additional efficiency savings in accordance with a formula set out in the contract.

4. 'Sharing of profits' made on additional work secured by BRETS

5. Annual performance fee of up to approx. 1.5% which Ealing would disburse in proportion to the success of Brown and Root in meeting standards

Partnering is being increasingly used in private industry between companies and is meant to develop a relationship based on trust and increase flexibility. However, it also involves 'a sharing of some of the management risks with the council and consequently less certainty over the real bottom line cost of the services...If this breaks down the Authority has less potential recourse to the traditional tools of Contract Management and the sanctions provided by them' ('Externalisation of the TSG' Report to the Alternative Provision Committee 10th February 1994).

The partnering bid does not have a price attached to it and the contract value will be negotiated every year with the council. BRETS will charge on an annual pricing schedule and invoice the council based on the schedules in the council's prospectus. In this way there are more opportunities for the company to pass costs back to the council.

Two additional 'safeguards' were agreed:

1) Continued use of the pricing schedules within the council prospectus as the basic planning, commissioning and control mechanisms for the contract.

2) The company is to cap its expenditure on the total budget for each year on a formula which sets a ceiling of 3.5% above target budget but 'which also sees the rapid erosion of its own performance fee at levels of 2.5% above target'. The calculation of this is expected to be 'complex since it will be across all areas of service delivery'.

However, it should be remembered that partnership through privatisation is the weakest form of partnership. The council has lost control of a large chunk of its assets and in the process will lose ultimate control of its technical and manual services. The financial arrangements of this partnering arrangement will be extremely complicated and there are likely to be many hidden costs which are harder to identify than in a fixed price bid.

The council has already agreed to create an additional post at a cost of over £30,000 a year to ensure that 'effective financial control may be exercised over the contract with BRETS' ('Proposals relating to Financial Control Mechanisms for BRETS Operations' Report to Alternative Provision Committee 13th April 1994).

VALUE FOR MONEY?

Under the Conservative's, Ealing Council claimed that externalisation will 'save' £9-£10 m over five years. But the figures do not appear to have been quantified or justified in any detail. The overall figure of £9-£10m is a small amount from such a large contract and represents only 7% of the total value of the work over five years. Since there is no firm contract price it is unclear as to how the council make the claim and on what basis savings have been calculated.

The savings were clearly not the first priority for the council as the following statement from a council report on the '1993/94 Budget and level of council tax' shows:

'Under the partnership arrangements the cost of the contract will reflect the costs of providing the service rather than being averaged over the type of contract as in a fixed price contract. Thus, in the first year the costs will be higher to reflect the additional cost of the new organisation and in subsequent years costs will fall.

As part of the restatement of the budget to reflect the externalisation it will be necessary to allocate around £2m from working balances to meet the first year costs on the basis that these working balances would be reinstated in subsequent years as the savings from the contract come on stream'. This money is to come from the council's working balances.

The Council claimed that the specification is very detailed and that the quality standards would be met including meeting customer care and complaints procedures. However, the complexity of the financial arrangements will make it very difficult to see where the savings will be made. Rigorous tender evaluation which involves a detailed financial analysis of bids is very difficult once a partnering option is agreed, as the arrangements are more fluid and open ended than with fixed price bids. In this case there were no other partnering bids for the whole of TSG with which to compare Brown and Root's bid, either in terms of cost or quality of service.

Profits

In the year ending 31st March 1993, Ealing's DSOs made substantial rates of return on capital employed.

Table 7**DSO Surpluses in 1992/93**

	Surplus on DSO Revenue Account	Employment (FTE)	Rate of return
Ground Maintenance	£10,000	56	13.9%
Vehicle Maintenance	£41,000	27	68.7%
Cleansing	£61,000	242	36.6%
Building Cleaning	£205,000	256	n/a
Highways	£80,000		12.8%
Building Maintenance	£54,000		5.8%

Source: Ealing Council 'Statement of Accounts 1992/93

Local authorities have wide discretion as to what to do with these surpluses and can transfer them to the general fund, to clients, to DSO reserves, to meet DSO capital expenditure or to fund a profit sharing scheme.

25

All these DSOs are included in the externalisation and their surpluses and other profits made by TSG will now be subject to the new deal. Ealing will no longer have the options it once had, although on paper it has negotiated a 50% stake in any 'additional profits' generated by the new company.

Costs of externalisation

The council were 'advised throughout' by PA Consulting Group at the following cost.

- PA Consulting Report - £25,000
- Cost of Negotiations Adviser from PA Consulting Group - £70,000
- The 'Benchmarking' Report by A.P. Glover cost the council £28,000

The expenditure by Ealing Council during 1993/94 alone on externalisation is as shown in the following table:

Table 8**Costs of externalisation 1993/94**

Internal staff resources	£200,000
Consultancy fees	£152,200
Legal fees	£80,000
Other expenses	£31,400
Total	£463,600

This does not account for all the costs of externalisation, for example, council committee meetings, full in-house staff costs and the financial impact on other parts of the council.

IMPACT ON STAFF AND TUPE

A total of 1,494 (416 white-collar and 1,078 manual) staff have been transferred to BRETS and will be covered by TUPE and 'comparable benefits in their pension scheme'.

This represents a loss of 15% of Ealing's total staff (36% of manual staff and 6% of APT&C staff).

Brown and Root based its bid on a staffing level of 1,181 full time equivalent staff.

The company has confirmed that 'all staff in post on the date of transfer will be transferred, with their terms and conditions protected by TUPE. It envisages adjustments to staffing levels during the contract to reflect improvements in efficiency and changing workloads'.

However, the benefits of TUPE may be short lived for those staff transferred and there are loopholes which may be exploited by the company. BRETS will be seeking to make savings and this will inevitably have implications for staff, as the council's own reports on TSG have shown. In a note to staff issued with the ballot papers on the options available for staff it was stated: 'Brown and Root envisage that the workload reductions will require some staff reductions over the five years of the contract. In addition they envisage progressive reductions in staffing levels as a result of efficiency reviews. They expect to achieve any reductions by natural wastage. However they have also submitted a detailed business plan indicating a high level of confidence in their ability to attract new work to the company'.

This statement shows that BRETS success is dependent on the company 'attracting', that is, winning new work. Otherwise, it appears, job losses could be higher. If BRETS do bid for other local authority work then TUPE is also likely to apply in these councils. In the longer term BRETS will look for savings and the jobs shake-out from its local authority contracts could be very high.

Other issues include:

- if staff leave they may well be replaced by employees on inferior terms and conditions to the transferred staff, thus creating a two tier wage structure. Lower terms and conditions for new workers could cause recruitment problems and in the end affect service quality. This is particularly important for manual staff working anti-social hours.
- Brown and Root's in-house staff could be on different terms and conditions of employment from those transferred to BRETS. This could result in layers of staff on different terms and conditions and serve to fragment the workforce in the future.
- staff could be moved to work on other contracts

since there is no legal requirement that transferred staff must be employed on the specific contract tendered for in Ealing.

In January 1994, the council conducted a ballot of all officer staff affected by the externalisation of TSG through the Electoral Reform Society. The options put before staff were:

- letting the whole contract to Brown and Root
- letting a contract for works and services to SITA and streamlining the architectural and engineering side
- not to externalise TSG but to streamline the organisation to 'reflect falling workloads and to prepare for CCT'.

The externalisation was opposed by both UNISON and the manual unions. A ballot of white collar staff voted in favour of rejecting bids from Brown and Root and Sita and in favour of streamlining TSG. TGWU and GMB balloted their members on strike action.

Pensions

The trade unions argued that staff should not lose out in any way. In their proposal Brown and Root stated that they would only provide the level of warrants and indemnity to the council if they were allowed to reprice their bid to a level which provided a fully indexed near 'mirror image' scheme to that provided by the council. The law limits the Superannuation Fund's ability to transfer full pension values to a new scheme. Staff transferred to BRETS are prevented by law from remaining members of the Local Government Superannuation Scheme (LGSS).

Brown & Root's original proposal did not include full index linking of pensions, as provided in the LGSS. They were forced to concede this with the cost of employer pension contributions significantly higher than those applying within the LGSS. It had been demonstrated that an employee who had retired 20 years ago whose pension increases were capped at 5% would now have a pension 58% less than one that had been indexed to the retail price index.

Brown and Root have also undertaken that where an employee retires (provided they were a member of LGSS and joined the BRETS pension scheme) they will be no worse off than if they had still been a member of the LGSS scheme. In this case the Council has undertaken to make up the value of the pension rights transferred to the BRETS scheme so as to provide year for year equivalent transfer value. This would have cost at least £5m if all staff had transferred to the BRETS pension scheme on 1st April 1994. The agreement between BRETS and the council provides that staff will preserve their previous pension benefits in the LGSS. Before staff retire their benefits will, if necessary, be transferred to the BRETS scheme and at that point the council will bear the additional cost of year for year equivalent transfer value. There is also



27 the cost of administering the new BRET'S pension scheme. Most of the costs of this arrangement (which are greater than if staff had remained in the LGSS) will, in one way or another, eventually fall on the Council.

Equal Opportunities

The pressures on contractors to make profits is not compatible with equal opportunities. The record of CCT and privatisation in local government shows that the effect of changes has been particularly severe on women and ethnic minorities, particularly those working part-time and in manual jobs. The equal opportunities policies of private contractors are generally very weak and purely paper exercises.

Any progress made on equal opportunities by Ealing in TSG could be eroded by the contractor and since the outlawing of contract compliance, there are few controls Ealing can use in ensuring that even the most basic equal opportunities targets are maintained. Although the company do have a general equal opportunities statement, monitoring of employment is not usually carried out by Brown and Root. However, the council are to make available their monitoring procedures to the company and UNISON understand that Ealing has insisted that the company do carry out employment monitoring. Again this could end up being an additional cost to the council.

WIDER IMPLICATIONS OF EXTERNALISATION

Impact on users

Quality of service will not be improved by externalisation. In areas of work with very high labour

costs, such as those in the TSG, it will be much more difficult for the council to ensure that quality will be achieved where staff are not actually employed by Ealing. Bureaucracy will increase and the responsiveness of staff to users is likely to decline. Internal users in Ealing council, that is other council departments and staff, who used TSG's services will also be affected by externalisation.

Health and safety

UNISON has examined in detail the health and safety implications of externalisation since TSG carried out a range of health and safety work for the council. In spite of UNISON's arguments that all health and safety functions should remain with the council, fire officers and officers with safety responsibilities for buildings have been transferred to Brown and Root. The council has also created an additional post at a cost of £26,000 to 'undertake duties which are currently largely carried out within the TSG...to provide the necessary resourcing and expertise associated with monitoring asbestos work' ('Health and Safety: Post externalisation' Report to Alternative Provision Committee 23rd February 1994).

Outstanding issues of health and safety responsibilities remain unclear and there are problems about how safety representatives should function and whether they will report to contractor or client. The asbestos unit has also been included in the externalisation and Ealing will now have to rely on the contractor for asbestos work on council premises being done safely. There will also be complications over the application of regulations covering shared workplaces and over who has control for safety purposes of particular operations.

A number of health and safety incidents have already arisen since the contract started on 1st April 1994. These have resulted in difficulties and confusion in respect to management responsibilities for particular pieces of work in the borough.

Impact on other council services

The externalisation of TSG has implications for all council departments. For example, the demand for financial services will decline and there could be a move to externalise other parts of the council. The sale of TSG effectively means that work on wages, supplies, repairs, legal and financial advice previously obtained from other council departments has been privatised. The following list shows the immediate effect of externalisation on other departments:

- Business Consultancy Unit in the Chief Executive's Department - seven full time equivalent posts transferred to BRETS
- Templink - one post
- Payroll - six posts transferred to BRETS
- Accountancy - six posts transferred to BRETS.

The costs for the council will increase. For example, twelve finance staff have been transferred to BRETS and the council are now having to employ an additional member of staff to monitor the complex financial arrangements between BRETS and Ealing. The Council have also allocated a further £25,000 to undertake the work of closing the 1993/94 accounts that would have been done by staff now transferred to BRETS.

High costs of monitoring

The authority produced a staffing schedule for the client side of the externalisation of TSG. It includes 37 posts, of which eight are totally new and the remaining 29 are retitled, redesignated and regraded jobs already on the council's establishment. The additional cost of the new staffing structure will be over £220,000 in the first year.

Impact on the local economy

Externalisation will impact on the Ealing economy in a number of ways. The loss of 1,494 jobs from the public sector has a direct knock-on effect on the local economy. It has been calculated that for every four local authority jobs lost through contracting out, one additional job is lost in the local economy. Therefore, externalisation could result in 373 jobs being lost from Ealing's economy. It will also mean that private sector practices will increase. Job security will be undermined and social costs will be caused by the strain on individuals and their families of working within a system requiring greater productivity and financial targets to provide public services. Brown and Root are also more likely to obtain services from cheaper sources, possibly outside the locality.

In the longer term the impact on the local economy could be even more severe. If, for example, BRETS moved certain staff and functions out of Ealing to work on either other local authority contracts or Brown and Root's own existing functions, the company would look to consolidate functions to seek further efficiency savings. Thus the longer term job losses in the local economy could be much higher. If for example, 600 jobs went in BRETS over the next five years, then another 150 staff would be lost in the local economy.

Further private sector expansion

Brown and Root's intention to bid for other work is clear. In a press statement Ealing's Chief Executive stated 'This is a tremendous opportunity for staff. They will continue to provide services to the council to their usual high standard but will also have the opportunity to win new work from the private sector'.

Brown and Root has already brought in 15 of their own staff into BRETS with the aim of turning it into a 'commercial organisation'. It could well be that BRETS initially runs the contract in Ealing as a loss leader, whilst planning an aggressive marketing policy to gain more work from other parts of the public sector, particularly in West London.

'Winning new work will be an urgent and important task for BRETS in order to reduce reliance on work from one client, Ealing Council, to spread overhead costs over a larger workload and to provide work for any surplus staff.' (Response to staff questions by Brown and Root).

It is clear from Brown and Root's statements that the Ealing bid is highly dependent on obtaining additional work. In a recession this could be problematic and if they do not get the work intended, jobs transferred to BRETS from Ealing could be under threat.

Now that TSG is privatised the discussion about bringing the work back in-house must not be lost. The five year contract means that it will not be up for renewal until after the next local elections. The arrangements are very complicated and costly and will be made even more so if BRETS does succeed in expanding its base.

FUTURE PROBLEMS

Externalisation in Ealing was not inevitable. It was a planned initiative and externalisation was used as the method to privatise TSG. This form of privatisation will not serve the interests of the Ealing community, but will benefit the private sector and in this case a

large US multi-national company. TSG services will no longer be locally owned and controlled and Ealing's needs will be secondary to the financial needs of the private company providing the services.

The externalisation of TSG involves an open ended arrangement with the private sector, a high degree of risk with limited immediate benefits, and possible longer term cost increases.

The managerial leadership adopted in Ealing based much of its argument on the advice of private consultants and external 'experts'. There is no proof that externalisation, based on a partnering arrangement, will bring any of the 'benefits' promised by the managers and consultants who have led the drive to externalise manual and technical services, along with TSG's support services, in Ealing.

BRETS will be run as a commercial organisation and not as a public service. Ealing Council based its decision on commercial criteria and copied private sector practices in setting up its complex arrangements with BRETS.

Costs could escalate, and in the first year externalisation will mean a more expensive service. The council has already been forced to set up a large client side to monitor the work and agreed to take on additional health and safety and finance officers as part of the contracts team. In addition, the full costs of pensions (an estimated £5m) for TSG staff will continue to fall on the council rather than Brown and Root. Added to this is the £500,000 of costs incurred in developing and carrying out the externalisation exercise. The long term impact in cost terms is unclear and it may be that as well as being a very risky experiment, externalisation is also a very expensive one.

Staff transferred to BRETS are likely to leave once the commercial direction of BRETS takes hold and could be replaced by workers on different terms and conditions, thus creating a two-tier workforce. Some of the new professional and technical staff could be on higher private sector rates than Ealing staff transferred under TUPE. Others, particularly new administrative and clerical staff are more likely to be on inferior terms and conditions of employment than transferred staff. This differential treatment of the workforce will inevitably have serious implications for the services provided for Ealing's residents over the next five years.

The strategy of Brown and Root is to expand its public sector market now that it has a foothold and a base in local government. The enabling model of Ealing Council with its associated externalisation, could be responsible for accelerating the threat to public services in several areas, particularly in West London.

TRADE UNION LESSONS FROM EALING'S ENABLING MODEL

The analysis contained in this report shows that there is a need to develop alternative models for local government. An alternative model needs to build on the existing strengths of local government and develop new ideas to address its weaknesses.

For more effective and democratic services the following public service principles should be adopted:

- Service quality targets for all services, rather than constant organisational change.
- Regular service reviews looking at quality of employment, financial performance, implementation of corporate and service-related policies.
- Development of a best practice approach which is based on quality specifications, stringent contract conditions and effective contract compliance.
- Social audits examining the public costs of policies and their social and environmental impacts.
- Replace business language with terms which reflect public service values.
- Services which are provided by staff who are fully trained, properly paid, properly valued and supported, and who can use their skills and experience in improving and developing services.
- Commitment to effective involvement and consultation with trade unions and the workforce in the management of change.

Opposing Externalisation

The increasing externalisation of construction related and technical services and the sale of DSOs must be challenged by the trade unions. The following points should be considered as part of a strategy opposing externalisation in local government:

- Externalisation needs to be established as a major trade union issue.
- The longer term implications of externalisation need to be highlighted including the high risks, private control of public services and CCT avoidance.
- The public costs of externalisation need to be exposed in terms of the immediate externalisation costs and the value for money issues over a long period.
- The potential impact on other council departments should be investigated.

- Show that there are clear alternatives to externalisation and its associated language.
- Reduce the scope for management-led initiatives for externalisation and present the longer term implications to staff.
- Resist the use of private management consultants and draw up alternative proposals to reports recommending externalisation.
- Highlight the difficulty of the private sector in providing local authority pension benefits.
- Investigate the interests and strategy of companies agreeing to implement TUPE and look at the loopholes.

Post-externalisation

- Monitor developments, performance and costs of externalisation where it has taken place.
- Look at adherence to TUPE obligations in the post-transfer period.
- Work to retain trade union membership and organisation after externalisation.



CONCLUSION

The enabling policies adopted by the Conservative's in Ealing have:

I reduced public service provision;

I sold off all the technical services and most of the DSOs to the private sector with no regard for the costs to services, jobs and the effect on the council and the local economy in the longer term;

I demoralised the work force and built fears for the future of jobs and conditions of employment at all levels in the council;

I stifled equal opportunities policies and reduced opportunities for Ealing's staff;

I led to the organisation of services modelled on private companies and based on cost and profit centres, rather than a detailed assessment of the services required to meet the needs of different groups and organisations;

- threatened in-house innovation and improvements in service quality;

- increased management control and encouraged the use of business and private sector values in decision making;

- increased the use of private companies and consultants to determine the future running of services using narrowly defined efficiency and financial criteria;

- treated service users largely as individual 'consumers', rather than collective groups, whose needs may be contradictory and unequal;

- Costs have not been reduced under the enabling model. The savings have been marginal even by the council's own admission and the enabling model as a whole is likely to cost council tax payers dearly in the future.

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Interviews with Ealing officers

Interviews with UNISON representatives

Officially, the Council has an equal opportunities policy...

