Barnet UNISON

Assessment of the Customer Services and New Support Services Business Case Update

London Borough of Barnet

European Services Strategy Unit

(Continuing the work of the Centre for Public Services)

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There are now 50 strategic partnership contracts in Britain similar to the proposed CSO/NSO contract. Their performance has further deteriorated. The failure rate of terminated contracts plus those significantly reduced or experiencing major problems is now 22.7%.All strategic partnership contracts incur cost increases through variation orders and often more significant increases via the change control mechanism after the contract has commenced. A combination of inadequate monitoring of the contract, the loss of technical expertise within the Council, combined with large-scale post-contract changes in Revenue and Benefits will significantly increase risks and costs. Somerset's "failing" Southwest One and the Liverpool projects illustrate the very high risks embedded in strategic partnership contracts.

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The use of cumulative cost reductions is intended to give the impression that there is £47m of new cost reductions, which is not the case. This tactic of rolling up the cost reductions is purely for political purposes to try to claim a benefit of outsourcing.

Non-financial benefits

These 'benefits' should be treated simply as a list of objectives and aspirations. The final evaluation of bids must include a rigorous assessment of the ability and resources to achieve the objectives.

Inadequate Equalities Impact Assessment

There are major shortcomings in the approach to equalities matters. There is a danger that the EIA is treated mainly as a data or statistical assessment. A contract of this scope and nature will have equalities impacts common to both bidders and the business case should be identifying these issues now. Leaving this to the contract award stage gives little time to carry out a genuine assessment and to identify the full impact on staff. A service users equalities impact assessment should be commenced as a matter of urgency.

Location of staff

The CSO/NSO contract could result in mass redundancies if BT and Capita are allowed to transfer work to other locations around Britain.

New Risks

The Business Case Update does not adequately address risks around future changes in client needs, legislation (UK & EU), technology and the environment. In addition, the re-location of services and staff leads to new risks. The CSO/NSO Risk Assessment must be completely revised and expanded to include all the risks identified in this report.

1. The £600m Revenues and Benefits risk

The Council's Revenue and Benefits Serviceadministers £230m benefits each year and collects £250m council tax and over £100m business rates. This service has a major role in many people's lives. It also has a vital role in providing resources to ensure the sustainability of Council services. Thus service continuity is essential.

Three significant risks are not addressed in the Business Case Update:

- The switchover to Universal Credit and the potential impact on those in receipt of benefit in Barnet has been raised as a major change/risk following its initial announcement. However, outsourcing the service immediately before a radical new benefit system comes into effect will mean the contract will be subject to large-scale variations. Changes to contracts provide contractors with opportunities to increase costs. In this situation they could be considerable. Once the business expertise is lost to the contractors, Barnet Council will have little understanding to counter contractor's claims.
- The impact of potential delays in the government's Universal Credit timetable (April and October 2013) due to the lack of, or operational problems, in new information technology systems.
- Barnet Council's planned changes in service delivery and working practices (through a restructure) in Revenues and Benefits. Since the SAP CRM system was procured several years ago, followed by the proposals to fragment complex business processes, there has been a failure to recognise that a single call centre model does not work. It is interesting to note that the Business Case refers to a PI target for the call centre of 80% of calls being handled at the first point of contact compared to current Revenue and Benefits performance of 100% of calls being handled at the first point of contact.

The history of new Information technology systems is littered with failed timetables, cost overruns and poor service delivery, including outsourced revenue and benefits contracts (Whitfield, 2007). The House of Commons Public Accounts Committee recently concluded:

> *"…the introduction of Universal Credit is dependent upon the successful implementation of new IT, and this requires effective resourcing of the IT back office support services in the Department. Furthermore, the Department is assuming running costs reductions from an optimistic expectation that most customers will communicate online with the Department. Both of these areas are high risk, and any delays are likely to impact on planned cost reductions. There are insufficient contingencies in place and services could be adversely affected if things do not go to plan. Too often this Committee has highlighted examples in other government departments where IT systems or projects have gone off track and emerging problems have gone unchallenged by staff* (PAC, 2011).

Revenue and Benefits staff believe that the proposed restructuring of the service, the adoption of a call centre model and the planned adoption of generic job descriptions could result in a significant reduction in the quality of service.

The substantial risks for revenue and benefits are not included in the Risk Assessment Issues in Business Case Update. This should be rectified as a matter of urgency. The Council appears to be complacent, relying on the contractor to solve these problems and reduce risk:*"Their scale and expertise also enables them to change and negotiate changes to the technological platform for the service with far greater ease than the council could manage alone"*(London Borough of Barnet 2012, page 3).

2. Further decline in performance of strategic partnerships

There are now 50 strategic partnership contracts in Britain similar to the proposed CSO/NSO contract. Their performance has further deteriorated. The failure rate of terminated contracts plus those significantly reduced or experiencing major problems is now 22.7% (European Services Strategy Unit, 2011). Five contracts have been terminated (including BT in Essex and Capita in Sefton), two contracts significantly reduced with several services and staff returned in-house, and major problems in four other contracts.

The significant problems of two contracts relevant to Barnet are summarised below:

Liverpool

A detailed value for money review of Liverpool Direct Limited (LDL), the joint venture between the City Council and BT that commenced in 2001, revealed that the Council was overcharged by £19m over the last nine years. The review identified excessive mark-up of the cost of equipment, support charges, software, hardware and training. Some desktop and laptop prices were marked up 93% - 143% compared to the cost of alternative suppliers. It concluded that in-house provision would save £82m up to 2016/17 with annual savings of £23m for 2017/18 and beyond. The review was unable to verify the planned £100m investment, financed by the City Council, because of a systemic lack of transparency (Liverpool City Council, 2010).

In July 2010 BT submitted Contract Refresh proposals, conditional on the contract continuing to 2017. Negotiations with BT led to a revised financial deal for the remainder of the contract approved by Cabinet in June 2011. It consists of:

- a £9m price reduction phased between 2011-2017;
- investment of £17.5m (at no cost to the city council) in hardware, software or project works;
- £12m will be allocated by BT in the 2011-2017 period to a new fund to finance social housing, social care or community development;
- £6m over the same period to an apprenticeship fund to finance 56 new apprenticeships each year;
- a share of third party business estimated to be £1m between 2011-2017;
- sponsorship of £1m, for example, the BT Convention Centre;
- allocation of £100,000 per annum to community initiatives;
- BT will 'write-off' potential claims of £56m that might be liable if the Council terminated the contract.

The city council has also increased its shareholding in LDL from 20% to 40% and increase Board representation from one to three (Liverpool City Council, 2011).

The financial aspects of the contract refresh proposals must be considered in the light of the original City Council audit that revealed significant overcharging.

All strategic partnership contracts incur cost increases through variation orders and often more significant increases via the change control mechanism after the contract has commenced. A combination of inadequate monitoring of the contract, the loss of technical expertise within the Council, combined with large-scale post-contract changes in Revenue and Benefits will significantly increase risks and costs.

Somerset

Somerset County Council, Taunton Deane Borough Council and Avon & Somerset Constabulary commenced a ten-year strategic partnership with IBM in 2008. The County Council is currently renegotiating the contract with Southwest One, the joint venture company.

The County Council is proposing to transfer the following services back to its own management responsibility:

- HR and Finance ‘advisory’, Shared Accounting and Business Development functions within the Finance Service.
- The HR Development service and the Learning and Development function.
- The Dillington Advertising and Somerset Staffing traded functions.
- The Business Analyst function within ICT, as well as the ICT support staff currently engaged in supporting SCC’s Somerset Skills and Learning service.
- The SCC element of the Design and Print service.

“The above list outlines specific services where negotiations are sufficiently mature. All other services are subject to further negotiations, and we are not ruling anything out at this stage” (Somerset County Council, 2011).

Southwest One accumulated losses of £19m in the first two years of operation. It suffered pre-tax loss of £16.5m in 2009/10 following a £2.5m loss in its first year. Planned savings of £200m over ten years have plummeted to £144m “pipeline” savings according to the latest accounts. It has also to date failed to attract any additional contracts or create the promised new jobs.

“Progress on developing the potential for more effective joint working between Somerset councils has been mixed and there is still a lack of clarity as to how the partnership will secure benefits. Current leadership arrangements need to be enhanced and speed of delivery improved if the potential benefits are to be realised” concluded the Audit Commission’s Annual Governance Report (Audit Commission, 2010).

A summary of “achievements” 4 years into the 10-year contract:

- Four years into the contract and of the £192m of promised and “assured savings” for SCC, just £7.6m in cash has actually been saved.
- Due to a shortfall in Southwest One-based predicted savings by IBM, Taunton Deane Borough Council are having to borrow another £2m over 3 years, at a cost of £61K per year (IBM took no risk in underwriting the so called “assured savings”).
- Since 2007 at least £50m has been spent with IBM by Somerset County Council (SCC).
- £30m has been added to borrowing by SCC to buy an expensive IT system called SAP, that the Head of Finance recently reported still not working to his satisfaction.
- In 2009/10 it was reported that SAP had paid invoices more than once resulting in £400K of overpayments.
- £7m has been spent on call centres and a web site that is ranked as 1* and “Poor”; it is still not possible to lookup and recover official SCC documents from the Council’s own web site.
- £5m was loaned to the Police by SCC to help them finance SAP.
- £2.17m has been written down by SCC, as IBM have won no new business for SW1; no other local authority in the South West wants to join.
- Police workforce planning of shifts and rotas system to work as a part of SAP Accounts still undelivered and 3 years late; no other Police force or blue-light service wants to join (Somerset UNISON, 2012).

Southwest One’s financial problems were further exposed when IBM had to loan the joint venture £10m shortly before the company filed its 2010 accounts in January 2012.*“The accounts said South West One directors had calculated it would not be able to recover its losses before the end of its contract with part-owners Somerset County Council, Taunton Deane District Council and Avon and Somerset Police Authority, in 2017.SW1 has also been* *unable to cover its start-up costs of £17m. It accumulated an operating loss of £31m and a trade debt with IBM of £45m. It had nevertheless in three years bought £107m of goods and services from IBM, according to accounts for the period 2008 to 2010"* (Computer Weekly, 14 February, 2012).

The Conservative Leader of Somerset County Council, John Maddock, stated at the full Council meeting in February 2012:

> ***"Sadly, Southwest One is failing.***
>
> ***"It is failing to deliver promised savings; failing to cope with a changing financial landscape; failing to be flexible enough to adapt in challenging times and provide the best possible value for money.***
>
> ***"But I have to be clear; it is failing; it is inflexible; and it is intransigent.***
>
> ***"We are therefore looking at all the options available to us.***
>
> ***"I do have one final message for Southwest One – and that is to the staff and our Somerset County Council colleagues and secondees working there.***
>
> ***"The message is this - this continuing failure is not about you; it is about the contract, the complications, the failed technology, the missed opportunities, the lack of promised savings.***
>
> ***"It is about Southwest One itself, not about the people working for it."***(Somerset County Gazette, 15 February 2012)

Southwest One illustrates the very high risks embedded in strategic partnership contracts. In this case, a global corporation has failed to deliver the improvement of support services in Somerset.

These two examples demonstrate the difficulties and overall poor performance of strategic partnership contracts.

3. Miscalculating client costs

Client costs are forecast to be 7.7% in year one and fall to 6.5% from year three onwards. Client costs are usually 7% - 13% of a contract, with contract management and monitoring costs for strategic partnerships recommended to be1% - 3% (Audit Commission, 2008).

The proposed CSO/NSO client costs appear to be under-estimated and do not adequately take account of:

- the required level of contract management and monitoring costs in a large strategic partnership contract;
- the potential additional costs from increased demand for services arising from the deepening and continuing recession;
- experience in other local authorities that significantly under-estimated these costs in similar projects and have had to increase monitoring staff and thus reduce the level of savings;
- Barnet's poor track record in managing relative small contracts and lack of experience in managing a large contract;

The Council claims the 6.5%*"…is in line with market norms"* and based on *"…knowledge of running these services to date and what statutory functions cannot be delegated, as well as financial and commercial advice from the Council's implementation partner[s] Agilisys [and]*

Impower on the expected requirements of the management and monitoring of a strategic partnership such as this" (London Borough of Barnet, 2012). Agilisys is an outsourcing company with strategic partnerships in Barking and Dagenham, Hammersmith and Fulham and North Somerset, so its advice is compromised as it is in a gamekeeper and poacher role.

Barnet's contract management track record – MetPro, Catalyst, Fremantle, SAP, Aerodrome Road, Connaught - summarised in our analysis of the business case, is not the 'market norm'(Barnet UNISON, 2011). Hence there is a clear case for the client side to have the skills, experience and resources to fully manage and monitor a strategic partnership contract and to fulfil its other client duties.

The Council's attempt to have a so-called 'thin client' is almost certain to lead to poor contract management and monitoring, risking delivery of projected savings and quality of service to Barnet citizens. It is a flawed neoliberal public management concept both in theory and practice that increases risks and reduces savings as the Council is forced to increase client-side staffing levels.

4. Exaggerating savings

The Council did not fully answer our question about the grossing up of savings over the contract period. A cost reduction of £4.7m in year one and continuing the same cost reduction over ten years becomes a total cost reduction of £47m. The planned savings are nearly two and three times the average savings identified by the Audit Commission in strategic partnership contracts (Audit Commission, 2008).

The use of cumulative cost reductions is intended to give the impression that there is £47m of new cost reductions, which is not the case. This tactic of rolling up the cost reductions is purely for political purposes to try to claim a benefit of outsourcing.

5. Non-financial benefits

The Business Case Update identifies 21 non-financial benefits (Appendix 1) of which 19 are stated that they ***"will"*** be achieved and are treated almost as 'facts'. Elected Members should be under no illusion that there is any evidence to support these statements at this stage of the procurement process. Only two of the 'benefits' contain the relevant words *"…**are expected"**,* which is all that can be claimed.

The compilation and presentation of this list displays a misplaced or naïve attitude of officers and their consultants for the following reasons:

- There is no basis on which to make an assessment at this stage of the procurement process.
- The list implies a win-win scenario for the Council, service users and staff that is unrealistic and implausible.
- No evidence is supplied to support any of the statements.
- The achievement of each objective will involve costs and the successful implementation of reorganising and restructuring of service delivery. There is no guarantee that they are affordable within the Council's budget.
- Each 'benefit' is associated with risks.
- The sustainability of benefits throughout the contract period is crucial.

These 'benefits' should be treated simply as a list of objectives and aspirations. The final evaluation of bids must include a rigorous assessment of the ability and resources to achieve the objectives.

6. Inadequate Equalities Impact Assessment

The Equalities Impact Assessment (EIA) consists of the profile of staff within scope of the contract, plus several pages about objectives, milestones, stakeholders and data gaps. It states that the end of the Dialogue One stage*"…is not expected to have an impact on equalities"* (page 3 of EIA). It also states that there "…*will be clarity on actual impacts on employees of any procurement process at the stage of contract award, following competitive dialogue"* (page 4).

The CSO/NSO contract will have a profound impact on staff and service users. It is the largest Barnet contract affecting about 650 staff, of which 60% are female. The Business Case Update report acknowledges that staff and service users will be significantly affected by the restructuring of services.

However, there are major shortcomings in the approach to equalities matters.

Firstly, most of the key equalities issues could be identified without risk of commercial disclosure. There is a danger that the EIA is treated mainly as a data or statistical assessment. A contract of this scope and nature will have equalities impacts common to both bidders and the business case should be identifying these issues now. Leaving this to the contract award stage gives little time to carry out a genuine assessment and to identify the full impact on staff.

Secondly, the Update makes no reference to service users equalities impact assessment. This should be commenced as a matter of urgency.

7. Location of staff

The Council's failure to require Barnet services to be provided in Barnet is almost certain to increase inequalities as bidders relocate provision elsewhere where wages and accommodation costs lower outside the South East.

The cost of staffing is the largest single cost in providing the CSO/NSO services and will be the focus for further cost reductions by a private contractor trying to increase profits. The Council is, in effect, seeking to maximise savings at the expense of staff.

The Parking contract has already identified the consequences of this policy, with a majority of staff likely to be made redundant immediately after TUPE transfer to the contractor. The CSO/NSO contract could result in mass redundancies if BT and Capita are allowed to transfer work to other locations around Britain.

8. New risks

The Business Case Update does not adequately address risks around future changes in client needs, legislation (UK & EU), technology and the environment. Inappropriate arrangements will lead to failure in the delivery of projected savings and quality of service to users as shown by the Southwest One.

In addition, the re-location of services and staff leads to new risks:

- The ability and resources of the client to effectively monitor services located outside of Barnet.
- Increased reliance on self-monitoring by the contractor.
- The loss of technical expertise within the Council and the ability to manage the contract without recourse to engaging more consultants at additional cost.
- The consequences and cost of increased unemployment in Barnet if services are relocated elsewhere in Britain or off shored.

The CSO/NSO Risk Assessment must be completely revised and expanded to include all the risks identified in this report.

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