
THEIR BUSINESS **YOUR** **PUBLIC SERVICE**

Lincolnshire's Enabling Experience

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The Centre has unrivalled experience of working with local authorities, trade unions and community organisations on developing strategies to retain and improve public services, monitoring privatisation and competitive tendering, and researching changes in public services. It also publishes the influential Public Service Practice series of reports.

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Contents

Introduction

Part 1

The Enabling Model

Part 2

The Lincolnshire model: Business units and the internal market

Part 3

Business Unit Performance

Part 4

Critique of business planning and annual reports

Part 5

Impact on staff and users

Part 6

Comparison with other local authorities: Berkshire, Westminster, Wiltshire, and Kent

Part 7

Alternatives to the enabling model

Introduction

Lincolnshire: the cutting edge?

The County has been at the forefront of influencing and implementing Government policies for the last decade. In 1988 we published a report, *Taken to the Cleaners: The Lincolnshire Experience*, which exposed the award and the performance of the building cleaning contract operated by ISS and examined the County Council's competition policy in general. This report was widely read both here and abroad.

East Midlands Unison commissioned this study into Lincolnshire's adoption of the enabling model of local government, in particular business units and the internal market, because of the potential effects for both users and staff alike. The County Council was one of the first local authorities to start implementing the enabling model. But it has not promoted itself in the same manner as Westminster and Wandsworth but this does not mean their policies are any less threatening to users and staff.

It may, however, indicate a weakness in the County Council's belief in what it is doing. The Conservative Leader of the Council made a telling comment at a recent meeting with trade unions by saying that the unions were making the assumption that the Council wanted the business units to succeed.

The County Council has singularly failed to cost or evaluate the impact of its policies. What 'reviews' have been carried out by the Council and the District Auditor, Coopers & Lybrand, are very superficial and focus on very limited financial matters, such as the rate of return of the business units.

Importance nationally

We believe this report raises many fundamental issues. There has been little critical analysis of the enabling concept despite the fact that it has major implications for the future of local government. The Government has recently embarked on a 'review' of the welfare state. The Local Government Review is examining the future form and structure of local authorities. But Lincolnshire is under no legal obligation to implement the enabling concept, establish business units and the internal market.

To adopt such policies without any real debate or examination of alternatives, to implement them without a full assessment of the costs and benefits, and to continue to defend them without any effective monitoring of performance indicates a narrow and blinkered approach. It makes a mockery of even the Government's limited Citizens Charter. Some may say that the structure and operation of the County Council is not important, what matters is the availability and quality of services as perceived by residents.

But it **does** matter. The enabling model will fundamentally affect the range and quality of services in the longer term. We are not just concerned about the quality of services today and tomorrow, but in the longer term. It is no coincidence that the Government embarks on the Citizens Charter which is based on the idea that we are merely individual consumers, that it is irrelevant who actually delivers, at the same time that it is embarked on a fundamental restructuring of government and local democracy. The structure, management and organisation of local authorities is being subject to profound change and although these may not be causing immediate negative consequences they are establishing the basis for:

- more privatisation of local services
- less democratic control and accountability
- service provision tied to market forces, not user needs
- cuts in jobs, pay and conditions of service
- poor quality services

Empowerment and quality are on the political agenda. Lincolnshire's response has been feeble and ineffectual. It has no strategy, or at least one which it can or dare make public. We believe it is the County Council's responsibility, indeed it has an obligation to residents and service users, to justify its policies. In the absence of this, East Midlands Unison commissioned this study to try to assess the impact of the County Council policies.

Objectives of the report

We have had three main objectives in preparing this report:

1. To assess the operation and performance of the business units
2. To examine the longer term consequences of the enabling model and the internal market
3. To compare Lincolnshire's approach with other local authorities adopting similar policies

We also wanted to more fully assess the impact of business units and the internal market on the quality of service to users. However, this requires far more substantial time and resources than we currently have available.

Methodology

We have had limited sources of information. Whilst we have examined many County Council Committee reports detailed information has not been available. Ideally we would have assessed the business units performance using a wide range of criteria, however, little but financial information is available. We also interviewed staff in most of the business units. Meetings have also been held with NALGO branches in Westminster and Berkshire and we thank them for their cooperation.

We would like to sincerely thank all those UNISON members who have contributed to this study.

Summary

The main conclusions of this report are:

- **Poor performance**

The performance of business units and the internal market in Lincolnshire are less than convincing based on the Council's own narrow criteria. The Council and the District Auditor, Coopers & Lybrand, have singularly failed to show that real value for money and quality of service have been achieved. There is no evidence that the substantial costs of setting up business units and internal market have been quantified.

- **Short term crisis management**

Despite the appearance of a 'strategy' there is little evidence to show that Lincolnshire is doing anything other than simply implementing Government policies as quickly as possible. There is no longer term strategy, no cost benefit analysis of policies, no concept of value other than money by which to set standards and evaluate performance, and no overall plan for business units and the internal market.

- **Crude management techniques**

The establishment of the business units and an internal market in Lincolnshire has led to importing crude business methods into the public sector. There has been no real attempt to develop new management systems and organisational structures which are specifically geared to the functions, values, and needs of public services.

- **Unsubstantiated claims to efficiency and economy**

The County Council has consistently made unsubstantiated or exaggerated claims about the so-called 'savings' achieved through its competition policy. If the County Council is so confident about the claims it should 'open the books' so that a detailed cost benefit analysis can be undertaken.

- **Deliberate concealment of information and fragmentation**

Despite Government rhetoric about the citizens charter and empowering 'customers', Lincolnshire's refusal to supply basic information about contracts awarded under CCT or their own market testing policies leads us to believe that the tender evaluation process is less than rigorous.

- **Lack of democratic accountability**

Far from creating a responsive, open and accountable system, the internal market in Lincolnshire is shrouded in secrecy. This protective and closed system is either covering up vulnerable policies and practices or it represents the arrogance of power.

- **Potential for corruption and collusion**

There is no way of knowing whether contract decisions are in the interests of council-tax payers, they are only told so but there is not a shred of evidence to prove it.

- **Little concern for effects on users**

Quality of service has been pushed onto the back burner in Lincolnshire in the interests of money and implementing government policies. There has been little recognition of user needs in the establishment of the business units and the internal market. It is cost, not quality, driven. This is a cavalier attitude to user interests and needs.

Part 1

The Enabling Model

The enabling concept, internal markets, business units, and business planning are seen by the Government as forming key elements in the future management and structure of local government. This chapter examines the concept of enabling, the internal market and business units and examines the potential longer term impact on local government.

Before examining these issues a number of important points need to be made. **Firstly**, There is no specific legislation which requires local authorities to develop the enabling model in general nor to adopt specific policies such as an internal market, business units, prepare business plans, trading accounts (except for CCT services) nor to enforce the rigid separation client-contractor.

It is being driven by political and managerial motives of some councillors and senior managers. The planned reorganisation of local government is influencing some local authorities who are attempting to curry favour with the government by adopting the enabling model in the hope that they will be 'rewarded' with unitary status. Rutland DC was the first to attempt this desperate tactic and others have since followed suit. Other factors include the crisis caused by cuts in local government spending and the adoption of 'new management strategies' based on transferring private sector business practices into the public sector lock, stock and barrel.

Secondly, there is nothing inevitable about the enabling model. It is being promoted by those with specific motives. It should also be stressed that there is no one technical model which is being used by local authorities. Senior managers are basically making the rules up as they proceed. Despite the apparent air of confidence generated by some managers, intended more to disarm questioners, much of what is happening is experimental. There is no certainty that any of it will work, let alone achieve their objectives. Once the outer skin of current management-speak is peeled back and the smokescreen of business jargon is removed there is little substance.

Thirdly, there is a distinct lack of detailed analysis. These concepts have been uncritically adopted and a political consensus is emerging with differences only over the scale and interpretation. Yet the enabling model has far reaching implications which extend well beyond the government's proposals for the internal management of local authorities. The government wants councillors to focus on strategic policy and to move away from involvement in day to day management. (This is a simplistic analysis of their current role). But the continued transfer of responsibilities, further privatisation of services and facilities, and withdrawal of the state (centrally and locally) will mean that strategic responsibilities will be shifted to other bodies such as boards, quangos etc.

The idea that the enabling local authority will have strategic responsibility over services which they do not supply, have no legal responsibility for, nor any resources to allocate, is fanciful. The agendas will be full of contracts, companies, business plans, appointments to other boards etc which is likely to fuel the governments desire to see local authorities as businesses run by business people. There is a clear message to get over to current councillors who support the enabling model,

Fourthly, it is important to examine the implications of the enabling mode, having peeled away the current 'citizens charter speak' and the related business terminology of the 1990s. 'The radicalism of these reforms has gone largely unnoticed' and involves 'nothing less than a fundamental reappraisal of the role of Government itself' (William Waldegrave in Public Service

and the Future, Conservative Political Centre, February 1993).

The enabling model

The Government's version of the enabling model has a small corporate core and purchasers with services being provided mainly by contractors and the voluntary sector. The local authority would virtually cease to be a direct supplier of services and have few directly employed staff. It means extending the client/contractor split to the extreme with the local authority primarily having a client, regulatory and monitoring role.

The Citizens Charter stated:

'Local authorities have historically seen the direct provision of services to the community as one of their major tasks. However, we believe that now is the time for a new approach. The real task for local authorities lies in setting priorities, determining the standards of service which their citizens should enjoy, and funding the best ways to meet them. By concentrating on these strategic responsibilities they will enable their communities to enjoy higher standards, more choice, better value for money and a greater degree of involvement in the decisions which affect them.'

The Structure of Local Government paper:

'As enablers, local authorities have greater opportunities to choose the best source of service and thus to provide local people with a greater choice. The aim should be to secure the best services at least cost. The private and Voluntary sectors should be used to provide services where this is more cost effective than direct provision by the authority.'

Those who advocate this model believe that it will 'free' local government managers and councillors to concentrate on strategic planning, setting standards, and monitoring and regulating service delivery. This 'new structure of public service consists of five key concepts' according to William Waldegrave, Chancellor of the Duchy of Lancaster and responsible for the Citizens Charter:

- the separation of purchaser and provider
- the extension of privatisation ('Of all the privatisations that this Conservative Government could undertake, the greatest and most far-reaching and the one to which I am most committed is the privatisation of choice' the Prime Minister told the right wing Adam Smith Institute in June 1992.)
- the Next Steps programme of turning the Civil Service into agencies
- the extension of competition by market testing
- the introduction of the Citizen's Charter

There is a broader view of enabling which has been promoted by the Local Government Management Board and others.

'The local authority accepts that its direct provision of services is but one means of providing for the community among many. Its role as an 'enabling' council is to use all the means at its disposal to meet the needs of those who live within its area. It will produce some services itself. It will work with and through other organisations - in the public, private and voluntary sectors - aiding, stimulating and guiding their contributions.'

The Labour Party is also examining the enabling role of local government. In a recent discussion paper it questioned:

'Should we take on the Tories on the principle that local authorities have an absolute right to be direct providers and managers of services?

Or should we, as this paper argues, make the central issue the right of local authorities to be responsible for services to be the government of their communities? Is not the European model of local government, where communes and councils have responsibility for lots of functions but do not necessarily carry them out themselves, the one we should be advocating?

The paper proceeds to define enabling:

'If we accept that being a provider is not necessarily central to an authority's existence, this

does not leave local authorities with nothing to do. On the contrary the experience of local authorities which have decentralised services and involved the voluntary and private sectors in service delivery shows that the role of the centre becomes more important the more diversified the service provision is. Strong local authorities are needed to:

- „assess the needs of the whole community - including the needs of the disadvantaged*
- „set and plan levels of service provision*
- „ensure a plurality of service provision*
- „check and select providers*
- * integrate service delivery across different areas*
- „support providers*
- „monitor providers*
- „respond to new and changing situations*
- „review levels of service and performance'*

(The Future of Local Government: What should it look like?, NEC Action Advice Note, Labour Party, July 1992)

There are a number of common themes in these differing views of the enabling authority:

1. Acceptance that the local authority is not necessarily the direct provider of services and that contracting out to the private and Voluntary sectors will be expanded.
2. That local authorities will focus on strategic policies and identifying overall needs.
3. That local authority activities will focus on setting standards, awarding contracts, making and enforcing regulations, and monitoring performance.

Enabling: What it means in practice

The Conservative's enabling model has six main components:

1. Competitive tendering and market testing across all services

The client - contractor split is extended to virtually all services. Whilst initially tendering is confined to 'contractor' activities the focus will inevitably turn to client functions as efficiency gains dwindle on the contractor side. Right wing organisations such as the Adam Smith Institute have long argued that client functions such as planning, preparation of specifications, tender evaluation, and monitoring should be contracted out.

2. An internal market

Services which cannot currently be contracted out are subjected to an 'internal market'. This has several components:

- * Separation of client and contractor roles as discrete cost centres
- * Preparation of specifications
- * Tendering for contracts or negotiation of Service Level Agreements (SLAs)
- * Pricing and charging for services
- * Business units
- * Business planning
- * Corporately set market rules
- * Trading accounts

3. New Financial systems

Given the state of public finance government pressure on local authority expenditure is likely to continue for some time. Pressure on Standard Spending Assessments, further cuts in expenditure, the shift to central funding for particular services, withdrawal of Urban Programme will all intensify financial pressure to achieve more and more efficiency 'savings' and attempts to control expenditure. This will lead to trading accounts across a wide range of services and the introduction of private capital for services through 'partnerships' of various kinds.

4. Privatisation

The sale of DSOs has continued and is likely to accelerate with the sale of business units. The continued transfer and withdrawal of responsibilities - Polytechnics, Further Education Colleges, Grant Maintained Schools, Urban Development Corporations, Training and Enterprise Councils, and Housing Associations have reduced local authorities responsibilities and removed direct democratic control.

5. Empowerment

This grossly misused term is likely to be used to justify the use of volunteers to run services as has happened in some US cities. The LMS model under which the appearance of control is used to justify policy changes with increased centralised control (under LMS governors have control of budgets but the main education policies such as testing and national curriculum are imposed centrally with decreasing real control over policies in schools)

6. Regulatory and monitoring authority

Regulatory functions could also be contracted out under the enabling model.

* misuse of performance indicators - crude league tables

* powers and ability to regulate private and voluntary sector

The Internal Market

Business units are seen as an integral part of an 'internal market'. This market has a number of characteristics:

1. Separation of client and contractor functions: The model relies on the virtual separation of client and contractor functions with the contractor forming the business unit. This results in service delivery being under the financial microscope while the client side avoids detailed attention.

2. Preparation of specifications: Every service will have a specification describing the work to be carried out and the standards to be achieved.

3. Tendering for contracts or negotiation of SLAs: The market requires that no work is undertaken without a 'contract' or agreement such as a Service Level Agreement.

4. Business units: The contractor or provider organisation established along business lines.

5. Pricing and charging for services: The market and contracts require the costing and pricing of services - no work is performed without it being priced and charged to a client. Whilst information about the cost of services is vital, the market results in all interchanges within the market being based on money - advice and information is charged. Thus the level of charges becomes the focus and the search for 'cheaper' sources virtually inevitable.

5. Corporately set market rules: A set of rules are drawn up corporately which determine the operating parameters for each business unit. These not only include financial targets but also the power of managers and other financial matters.

6. Devolved management of business units: Managers are given the power to set charges, vary staffing levels, and manage their own budgets.

7. Trading accounts: Each unit has its own trading account covering its own income and expenditure. Financial performance is based on the level of surplus and avoiding loss. It forces units to match expenditure according to income and irrespective of other corporate policies, needs, and service objectives, to ensure that it 'lives' within budget by taking appropriate action to maintain the income/expenditure balance. This balancing usually takes place at departmental level across a range of services and budgets.

The Enabling Model



Business Units

What is a business unit?

Originally called Quasi Trading Units (QTUs) in Lincolnshire and often referred to as Trading Units or Commercial Units the basic model is the same. Separation of 'client' and 'contractor' duties in each department with the 'contractor' side being formed into a separate 'business'.

Westminster describe a business unit as 'analogous to an external contractor. It is a fully accountable 'service centre' which works to a clear specification for an agreed price or fee structure over defined periods. Its success or failure will be judged by its performance against explicit service targets and output measures.' (The Enabling Council: Business Units, Policy & Resources, 14 October 1991, Westminster City Council)

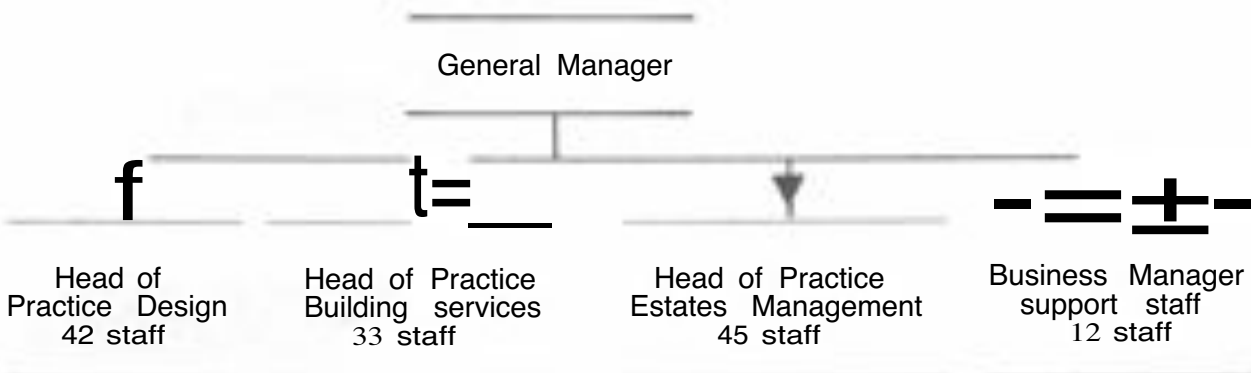
A Business Unit has a number of key features:

1. A trading account: it must operate within a budget determined by contracts and Service Level Agreements. Separate cost centres for each main activity within the business unit.
2. Devolved management of business units: Managers are given the power to set charges, vary staffing levels, pay and conditions, and manage their own budgets.
3. Corporate rules which govern the finances, trading and activities of units.
4. Annual financial targets which normally focus on achieving a rate of return.
5. A Business plan which should set out how the unit will meet its strategic and operational objectives in the medium term.
6. Competition for work both internally and externally which means the unit's survival rests on winning contracts for its 'own' work as well as trying to win work externally.

Structure of a business unit

Business units are often divided into sections based on particular services each operating as a cost centre within the unit's trading account. For example, the Lincolnshire Land & Buildings Consultancy has three main sections, Practice Design, Building Services and Estate Management each headed by a manager under the unit's general manager. A business manager heads up a team of support staff. The structure is outlined below:

Land & Buildings Consultancy Business Unit, Lincolnshire CC



A number of advantages are claimed for business units:

- * Identifies full cost of each service
- * Encourages support services to contain costs
- * Imposes discipline to keep within budget
- * Enables comparison with competitors
- * Helps to prepare for competition
- * Equitable allocation of overheads across the authority

However, many of these are not contingent on business units or an internal market. They can be achieved by other management systems and organisational structures.

Definition of terms

Different terms are used for an internal contractor or provider unit:

- Trading Unit (Lincolnshire)
- Trading Agency (Berkshire)
- Commercial Unit
- Business Unit (Westminster)
- Strategic Business Unit
- Internal Business Unit (Kent)
- Quasi Trading Unit (previously used in Lincolnshire)

These are simply different names for what is essentially the same thing and although there are some differences in the organisation and powers given to units in different authorities these are small. We have used the term 'business unit' throughout this report.

Tendering is usually defined as:

- Competitive tendering
- Market testing

Privatisation:

- Contracting out
 - Outsourcing
 - Externalisation
 - Transfer
 - Management Buy-Outs (MBO)
-

When a business is not a business!

Although many local authorities are determined to try to set up business units as private contractors and to treat them accordingly, the reality is that business units have to operate under quite different rules and limitations. Firstly, business units cannot trade in the same way as private firms. Local government legislation places major restrictions on local authorities trading activities. Secondly, private firms are not compelled to put large parts of their core work out to tender. Some contract out support services but none have to put their core work out to tender in the way that local authority business units are being forced to both by local authorities own market testing policies and by CCT.

Business units and Direct Service Organisations (DSOs) operate under quite different rules to private businesses because they:

- Cannot undertake work in the private sector, nor sell goods and services, except under very

limited circumstances

- Government-imposed controls on capital spending limit new investment in plant and equipment and generating new developments
- Government imposes restrictions on the rate of return and profits of DSOs, which, if not met, means DSOs can be closed down.
- Separate trading accounts for each area of work means that normal cross subsidisation of work is illegal.
- Diversification and the development of new services is severely restricted.
- limited freedom to compete for work in other areas
- Achieving economies of scale by spreading fixed costs across a larger amount of work are curtailed.

Fallacy of the internal market

There is a major structural weakness in the internal market model. Local authorities voluntary market testing and the Government's CCT legislation means that there cannot be a truly 'internal' market if services are subject to external tendering. The internal market is incompatible with CCT.

The notion of the 'internal market' gives the impression of 'security' with trading and transactions within the organisation between departments, services and sections.

In addition, business units do not simply 'outsource' or contract out their support services but are forced to put large parts of their core or basic work out to tender. No private firm has to operate by such rules. Tendering on this scale is quite different from the contracting out practiced by large national or transnational companies. For example, ASDA supermarkets have recently agreed a facilities management contract at its head office with Procord (a 1991 management buy-out of IBM's property management division). The contract includes nine separate services such as cleaning, maintenance, caretaking, security, mailroom, reception, and telephone services. ASDA did not contract out the running of its supermarkets which is the equivalent of Lincolnshire Legal Services having to tender its core work on conveyancing.

The loss of the conveyancing contract has been reflected in revised revenue estimates for 1993/94: 'the consequence of this loss in 1992/93 is that Legal Services does not expect to achieve its target rate of return on gross expenditure' which has also been reduced for 1993/94. (Report by Chief Executive, Trading Units: Revised Estimate 1992/93 & Estimates 1993/94, Property & Contractors Committee, 9 December 1992)

Management by contract

The enabling model, internal markets and business units represent an approach to service provision which relies heavily on organisational change, financial systems, and management by contract as the engine of change. Whilst organisational changes and new financial systems have an important role to play, they do not constitute an effective strategy in their own right. Reinventing the organisation of local government based on business methods and contracts is fundamentally flawed.

Improving service, quality, value and equity in local government will instead depend heavily on:

- the effective involvement and 'empowerment' of public service workers in the planning, design and operation of services.

- a focus on new management strategies and practices.

Yet, local authorities like Lincolnshire are wedded to the traditional approach that if there is a problem, reorganise it, and copy private sector methods as closely as possible. There is nothing essentially new in this approach, just the zeal by which it is being implemented.

Enabling: The Impact on local government

The enabling concept of local government has far reaching consequences. These are summarised under five main headings:

1. Loss of strategic response and innovation

Enabling cannot be viewed separately from other Government policies. The continued transfer of responsibilities and functions to quangos and the private sector makes a mockery of the idea that local authorities will be 'enabled' to concentrate on strategic policies. The combination of privatisation and transfers with the continued implementation of the enabling model will mean a loss of responsibility, less strategic planning, and fewer resources. Local authorities will be reduced to service provision under contract. The skill base will be further eroded thus weakening their capacity for innovation and service development.

2. Changing role of council in urban policy and local economy

The enabling model will have a profound effect on a local authority's ability to influence policies and changes in the local economy. More contracts and transfers of responsibility will lead to far fewer staff being employed and local authorities will lose their dominant position in the local labour market. The implementation of best practice employment policies through pay rates, conditions of service, and equal opportunities policies is much more effective when it is set by a large local employer than by a monitoring or regulatory body trying to exhort and enforce rules.'

Local authorities are also likely to have a much reduced role in economic development and employment issues. Whilst they have always had an 'enabling' role in initiating and generating (re)development this is likely to be considerably diluted because councils will lose the capacity for direct intervention. The power of a persuader is far less than that of a provider. The run-down of the Urban Programme will also accelerate the marginalisation of local authorities' role in the inner cities.

3. Reorganisation and restructuring

The enabling model will lead to local authorities having to constantly carry out internal restructuring and reorganisation as contracts are won or lost and responsibilities and partnerships are shifted from one body to another. Local government desperately needs a period of stability with security of funding. There will be a heavy price to pay both in terms of the cost of constant internal reorganisation draining resources away from service delivery and in staff morale.

4. Further client/contractor or purchaser/provider split

The current obsession with the client/contractor split, which is not essential, has a number of longer consequences:

- separation of client from direct contact with front line service delivery (information, experience, knowledge of service delivery) leading to barriers to developing services
- loss of regular contact with service users
- who controls client efficiency? Evidence that staffing on client sides have expanded
- reliance on monitoring
- inflexibility of response to needs
- distancing of policy formulation from service provision
- undermining of the public service ethos
- creating a structure which reduces organisational responsibilities and can fuel antagonistic relationships because of vested interests
- additional costs for both client and contractor
- division could lead to skill shortages and more restricted training and career development

opportunities

5. Business control: democratic control and accountability

More contracts, companies, partnerships will be used by the Government to call for more business people to run local authorities, boards and quangos, thus speeding up the commercialisation process. Reduced powers and responsibilities, less strategy, fewer policies, will lead to the marginalisation of councillors.

Enabling concept is based on:

- acceptance that competition is good
- market forces are the right way of allocating resources
- it does not matter who delivers the service nor their employment conditions
- quality only matters at the point of consumption
- costs of contracting out are ignored
- local authorities will retain a strategic view despite widespread transfer of responsibility and privatisation

In short, enabling really means:

- * Competition
 - * Contracting
 - * Market Forces
 - * Short term planning
 - * Business values
 - * Constant reorganisation
-

, the radical version of government by contract is a distraction from the main task of creating high quality public services. That requires the disciplines of good management, focusing on the service to be performed, defining the objectives and providing the structures to ensure that they are achieved. In some cases, contracting out parts or all of the operation can play a role, but that is essentially a secondary consideration. '

Editorial, Financial Times, 19 November 1991

Part 2

The Lincolnshire model: Business units and the internal market

Lincolnshire was one of the first authorities to develop business units. Originally defined as Quasi Trading Units (QTUs), this section traces the establishment of these units and the internal market and the lack of any appraisal of the costs and effectiveness of these policies.

The County Council responded enthusiastically to the Government's 1985 Green Paper on competitive tendering and although the planned legislation was delayed until 1988, Lincolnshire contracted out building cleaning in 1986 with a £1.6m contract to ISS Servisystem (see *Taken to the Cleaners: The Lincolnshire Experience*, East Midlands NUPE & NALGO, 1988). This was one of the first large local authority cleaning contracts to be tendered. In 1987 the County agreed to expose all services to competition and establish 'quasi trading units' in printing, vehicle fleet, legal and computing services.

A year later the Chief Officers group presented proposals further developing the Council's Competition Policy recommending the establishment of a further 20 OTUs. The report stated: *'For the future, competition will become the major driving force for some activities. We should begin to see them as business units. Recruitment policies should include business experience, marketing and sales skills. We may see new forms of industrial relations eg cooperatives, profit sharing, home working etc. New organisational forms may also emerge such as consortia with other authorities or private industry, management buy-outs and independent companies.'*

The key characteristics of OTUs were tendering, management on a commercial basis, profit targets, annual business plans and service level agreements for support services.

Lincolnshire adopts the enabling model

The Chief Executive first proposed changing the organisation and structure of the County Council in November 1989. A report to Policy and Resources Committee in February 1990 proposed that 'elected member structures to operate within the overall philosophy of the enabling council,'

The Chief Executive's Department then consisted of the County Personnel Office, the Solicitors Office, Public Relations Team, and a Corporate Review Team. The new structure, proposed that the Chief Executive Department 'should be limited in terms of functions and staffing to those which are essential to the corporate management of the council.' Its role is limited to formulating, coordinating, and implementing corporate policy to which was added responsibility for 'ensuring the development and implementation of competition throughout the

Their Business: Your Public Service

organisation wherever that is appropriate.' The Chief Executive is also responsible for developing personnel policies, practices and procedures. These functions are the responsibility of three Heads of Corporate Services, Committee and Member Services, and Public Relations directly accountable to the Chief Executive.

The bulk of Personnel and Legal services were transferred to an 'inhouse contractor organisation' or business unit. Computer Services were transferred from the County Treasurers Department to a separate business unit. Following another report to Policy & Resources Committee in May 1990, the County Treasurer took over corporate aspects of telecommunications from the County Personnel officer. Most remaining staff in the County Treasurer's office together with financial staff in some other departments were transferred to a new business unit, Lincolnshire Financial Services. A Corporate Property Department was also established as a business unit with three main cost centres:

- * Building & Energy Services: day to day management of maintenance of CC buildings

- * Land & Building Services: design and supervision of construction of buildings

- * Estate Management: day to day property management of County Farms, valuations etc

The Printshop was also established as a business unit under the Property Department, but this has since been transferred to a private firm,

A Property & Contractors Committee was also established to consider all competition and trading matters and to review their performance. However, it is the Policy Committee which is responsible for setting the rules, particularly financial rules, for the operation of business units. This means that the Property & Contractors Committee has limited influence and weakens the position of the business units who are in effect answerable to at least two committees. Each business unit has to 'produce an annual business plan which would review the past year's performance and set the framework for the next year or years.' The key elements of each business plan require committee approval.

In addition, one or more specialist members were appointed to each business unit 'to work on a regular (say monthly) basis with the General Manager' of the business unit 'including involvement in the preparation and monitoring of the annual business plan.'

Existing DSOs were also given business unit status.

Business units in Lincolnshire

The County Council has established 14 business units, locally termed trading units:

Lincolnshire Financial Services: internal audit, accountancy, payroll and exchequer services

Legal Services

Personnel Services

Lincolnshire Computer CS

Land & Buildings Consultancy

Catering for Lincolnshire

Translinc - Fleet

Translinc - Contract Hire

Translinc - Maintenance

Translinc - Operations

Lincway Construction

Lincway Landscapes

Lines Lab

Engineering Consultancy Services

The client/contractor split has also been implemented in the Social Services department. They are effectively operating as separate units although they remain under the same Chief Officer. Client officers are using the County's commitment to the enabling concept to stimulate the private and voluntary sectors in a wide range of services. The County has already transferred most of its residential homes to a trust.

District Auditor approval

Each year the District Auditor (Deloitte Haskins Sells until 1989, then Coopers & Lybrand Deloitte, now Coopers & Lybrand) issues a Management Letter to the council on completion of the previous years accounts identifying matters which 'are significant enough to be brought to the attention of the authority but do not require either a qualification of the accounts or a report in the public interest.' Below we trace the District Auditors recent comments on Lincolnshire's policies and financial approach.

The 1989 Management Letter stated:

'We commend the Philosophy underlying the introduction of these trading units. It has helped to promote a change in attitude towards the provision of services within the Authority, on both the client and contractor sides. The approach taken, promoting competition and adopting a more commercial line in the provision of services, should encourage value for money, to the benefit of the Authority.'

Following the review we discussed our impressions with the Chief Executive on the 14 September 1989. The matters included:

- ensuring effective communication/coordination between units*
- consistency of accounting treatment*
- importance of client taking a leading role*
- formulation of business plans'*

(Management Letter, Deloitte Haskins & Sells, 21 December 1989)

The following year the District Auditor commented:

'We continue to support the developments in principle, but consider that it is too early for us to comment on their overall effectiveness.'

However, as part of this year's audit we have been asked by the Chief Executive to review and comment on the arrangements for applying and determining a target rate of return based on turnover to its internal trading units. We are currently in the process of carrying out this review.'

(Management Letter, Coopers & Lybrand Deloitte, 11 December 1990)

The following year's Management Letter reported that a paper on the rate of return was presented to the Chief Executive and Chief Officers and revised guidelines and processes for 'Internal rates of return' were drawn up. The District Auditor made no other comment about business units other than about the rate of return but ended this short section of the Letter with the following comments:

'In view of the Government's commitment to extend compulsory competitive tendering to professional services, the Authority's forward looking initiatives will undoubtedly stand it in good stead when those services are exposed to the challenges of a competitive tender.'

(Management Letter, Coopers Lybrand Deloitte, 5 December 1991)

Despite the comments in previous Management Letters and several business units being operable for two years, the 1992 Management Letter is vague to say the least.

It merely comments on the Council's 'proactive approach to competition in respect of the trading units'. It notes that 'a process has commenced for each of the relevant trading units to be considered in isolation against a range of criteria which seeks to identify the best means of service delivery in the future.'

The Letter goes on to state:

'We continue to support the Council's radical and extensive approach to its enabling role and believe that the initiatives already taken demonstrate a willingness to achieve quality and value for money in service delivery.'

Where is the evidence?

In 1989 Coopers & Lybrand were stating that the Council's proposals should encourage

Their Business: Your Public Service

value for money, by 1990 it was ***still too early*** to comment, and by 1992, they still only ***'believe'*** that the trading units ***'demonstrate a willingness'*** to achieve quality and value for money! That after three years the District Auditor can issue such vague statements is truly remarkable. There is again no reference to the costs of trading units, their performance, the effect on corporate management, and so on.

- There is no evidence that costs have ever been assessed, either before or since the business units were established, by the council or the District Auditor.
- The 'review' in 1990 was very specific to the rate of return and only one aspect of the operation of the business units.
- No details of the criteria (1992 Management Letter) by which the trading units are being assessed have been made available.

By December 1992 Cooper & Lybrand had completed a separate study into the business units. Labour Councillors sought information about the terms of reference for the study, its conclusions and recommendations, and clarification whether the study had been carried out by Coopers & Lybrand acting as the authority's auditors or as management consultants. The Council have so far failed to answer any of these questions. There is a clear conflict of interest between the duties of the District Auditor and work which has traditionally been carried out by internal advisers or management consultants. The result of privatising the District Audit service to private accountancy and consultancy firms such as Coopers & Lybrand, Price Waterhouse, KMPG, Ernst & Young and other familiar firms has led to potential conflicts of interest.

The fact that this 'study' has been kept so secret speaks volumes. It has been described as 'shallow' and if it has been produced on the same level of analysis or 'impressions' as Cooper & Lybrand's District Audit work on these issues then it will indeed have very limited use. No doubt it may surface after the forthcoming local elections.

Coopers & Lybrand's enthusiasm for business units and the internal market is hardly surprising given the firm's embrace of Government policies. As District Auditors, they are responsible to the Audit Commission which was set up under the Local Government Act 1982 to ensure that a local authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'. The Local Government Act 1988 gave auditors additional powers to prevent 'unlawful expenditure' in anticipation of it occurring.

Costs of competition

To our knowledge there has never been any assessment of the costs of setting up the business units or the internal market. Costs have never featured in any report either to Policy & Resources or Property & Contractors Committees nor the full council. For the authority to embark on such a project without assessing the costs involved is questionable financial management. To continue to implement the policy without publicly analysing the real costs suggests a cavalier attitude towards the use of public money.

Nor is there any evidence that the District Auditor has assessed costs, either before or since business units were established. It would appear the Coopers & Lybrand were only too happy to see the County Council implement its policies, their comments over three years can only indicate an uncanny degree of faith in the council's abilities. The approach of the District Auditors reflects the approach of the Council to their fiduciary duties and responsibilities, and may, in addition, constitute a breach of their own legal responsibilities and duties under the Local Government Finance Act 1982. The District Auditor is appointed by the Audit Commission and is responsible not only for ensuring that the accounts comply with statutory provisions but that the council has made proper arrangements for securing economy, efficiency and effectiveness in the use of resources (Section 15 of the Act)

Staff in some of the business units stated that knowledge of costs within the business units is only part of the story. They will only be convinced that the system is effective and efficient

when the overall costs are transparent. Staff report that no attempt was made to make these costs available. 'A *narrow and unrealistic view of costs within units will not fool most managers*' stated one officer.

Other local authorities have not been so reluctant to recognise or to reveal costs of establishing business units and an internal market. A Westminster report admitted that 'it would be unrealistic to suggest that Business Units could be introduced at no cost, since costs will need to be incurred in areas such as training and advice and systems as well as the significant senior officer time that will be diverted from other activities.' Wiltshire County Council allocated £300,000 simply for additional work, for example for management consultants, required by the Chief Executive.

Limits of the internal market

Advocates of the internal market and business units usually claim the advantages of these policies in relation to 'making local government more business-like'. But there are some fundamental differences between public and private sectors. It is far more complicated than merely transferring the concept of the shopping mall into the structure of the local authority

- the primary incentive is survival, rather than maximising service quality to meet user needs
- growth is extremely limited because of legal restrictions on local authority trading
- in virtually all cases competition is not internally generated between business units supplying similar services but is external with private contractors. The internal market gives the client no additional choice or control and merely results in the internal business unit being treated the same way as external private contractors.
- fragmentation of identification of and responsibility for perceived 'problems' by either client or contractor as they are viewed as individual business unit or client side responsibilities.
- focus on the cost of the service, not quality, because the market is driven by a tendering process which is driven mainly by price
- the costs of operating the internal market are not identified but absorbed centrally and within tender prices and client costs.
- it is modelled on private sector values which conflict with an established public services ethos
- service users external to the organisation have little power or influence over the internal market - rather than empowering users, the internal market effectively privatises decision making.
- internal markets do not themselves create resources, they only provide a means of allocating work between competing internal or external contractors.

Lincolnshire's Competition Programme

The County Council has consistently attempted to implement a programme of competitive tendering which is far more comprehensive than government requirements and in advance of their timetable. For example, building cleaning was tendered in 1986 and contracted out to ISS and it has already tendered several white collar services such as legal services, internal audit, and property management retaining only one of these contracts inhouse. The scale of the current competition programme is shown in Table 2.1.

Their Business: Your Public Service

Table 2.1: Lincolnshire's Competition Programme 1992-94

Service	Target	Result
Library Support Services	Establish service level agreement by December 1992	No proposals yet
Internal Audit	Contract to commence April 1993	Contract won by Financial Services Business Unit
PC procurement, maintenance and support	Contract to commence April 1993	No proposals yet
Telecommunications	Target date for commencement of contract April 1993	No proposals yet, contract to start April 1994
County Farms Estate	Contract to commence April 1993	Contract won by Clegg Kennedy Drew, start in May 1993
Other property	Chief Property Officer to agree programme with Chief Executive September 1992	As previously, part Architectural service contracted out
Waste disposal	Contract to commence October 1992	Contract won by LAWDC, now subject to possible sell-off
Engineering design services	Targets for 1992 scheme design - 75% site supervision - 25% bridge assessment - 50%	Targets reached
Grounds Maintenance (CCT)	Fourth tranche to start Jan 1993	Won by Lincway Landscapes First contract expires April 1994 and retendering work underway.
Building Cleaning	Contract expires April 1994	
Personnel Services	Target for first contract April 1994	Some areas under contract from April 1994
Financial Services	Consultants report to County Treasurer September 1992 with packaging options for future contracts	No proposals yet
Passenger transport	Proposals for extending competition in social services & education transport in 1992	20% out to tender, major contract for social services lost to private sector, Further 20% in 1993/94,
Maintenance & provision of road signs & markings	To be introduced in 1992	Out to tender, implementation April/May 1993
Legal Services	Contract for property related work to start April 1993, Contract for remaining work to start November 1993	Contract won by Richmonds Solicitors, Gainsborough, Second contract to start April 1994,
Highways geotechnical services	Comprehensive laboratory services contracts put to competition in 1992/93	Awaiting result
Police Catering	New contract Jan 1994	Work underway

Conclusions

Short term crisis management

Despite the appearance of a 'strategy' there is little evidence to show that Lincolnshire is doing anything other than simply implementing Government policies as quickly as possible. There is:

- no longer term strategy
- no cost benefit analysis of policies and decisions
- no concept of value other than money by which to set standards and evaluate performance
- no overall plan for business units and the internal market other than to market test as much work as possible.

Crude management techniques

The establishment of the business units and an internal market in Lincolnshire has led to importing crude business methods into the public sector. There has been no real attempt to develop management systems and organisational structures which are specifically geared to the functions, values, and needs of local authority services. Instead, the County has embraced the ideology of market forces and copied private business practice.

The internal market has the seeds of its own destruction. It is not intended to be permanent but a halfway house to contracting out virtually all services. It is not a 'contained' or protected market but is exposed not only to the full external market and to the weaknesses of the internal market itself. Business units have to compete to survive but in reality they have very limited control of their own destiny. Very few businesses have to put large chunks of their core work out to tender and therefore risk their very existence. The loss of contracts to the private sector will have a snowballing effect across all business units. As each unit contracts there are fewer staff leading to reduced demand for personnel and payroll services and reduced demand for technical support such as computing and building services.

Unsubstantiated claims to efficiency and economy

The County Council has consistently made unsubstantiated or exaggerated claims about the so-called 'savings' achieved through its competition policy. Whilst it has claimed 'savings' on both the legal services and County Farms contracts these must be treated with great caution. Information is not currently available to make an accurate assessment. Our detailed analysis of their 'savings' on the 1986 building cleaning contract showed that they were less than half the savings claimed. (Taken to the Cleaners: The Lincolnshire Experience, NALGO/NUPE, 1988) If the County Council is so confident about the claims it should 'open the books' so that a detailed cost benefit analysis can be undertaken.

Deliberate concealment of information and fragmentation

Despite Government rhetoric about the citizens charter and empowering 'customers', Lincolnshire's refusal to supply basic information about contracts awarded under CCT or their own market testing policies leads us to believe that the tender evaluation process is less than rigorous.

The combination of extending the client/contractor split through the business units and the internal market has led to the fragmentation of issues and policies across different committees making it very difficult for opposition Councillors to know exactly what is going on. Since 1989 officers have had delegated powers to assess tenders and evaluation reports are rarely reported to Committee.

The County Council is also hiding behind 'commercial confidentiality' to 'protect staff interests' on the basis that too much information in plans and reports to committee will enable private

contractors to put in low bids. Whilst commercial confidentiality is important it is naive to believe that the summaries of business plans of the quality produced in Lincolnshire is somehow going to provide a private contractor with the means to undercut inhouse bids. It appears instead as a rather unconvincing attempt to maintain the illusion of a traditional paternalistic council being concerned about its workforce. The County Council would have never embarked on its current policies if it was genuinely concerned about the health and welfare of its staff and industrial relations.

Lack of democratic accountability

Far from creating a responsive, open and accountable system, the internal market in Lincolnshire is shrouded in secrecy. A small group of senior officers have delegated powers and work closely with the Conservative leadership. Although business units report to the Property & Contractors Committee, other related policy matters are often reported to the main service committees, for example, capital spending is referred to Finance Committee. Opposition Councillors have great difficulty in keeping track of issues and often have to prove the 'need to know'. There is an apparent lack of any real questioning by back bench Conservative Councillors. This protective and closed system is either covering up vulnerable policies and practices or it represents the arrogance of power.

Potential for corruption and collusion

Because the tendering process not even seen to be 'fair' it is not surprising that staff in the business units feel that the dice are loaded against them internally and externally. The Government is obsessed with its own version of the mythical 'level playingfield' and trying to stop so-called 'anti-competitive behaviour' by local authorities acting in favour of their inhouse services. But some senior officers in Lincolnshire's business units and the trade unions believe that the system operates against public service interests in favour of private contractors.

There is no way of knowing whether contract decisions are in the interests of council-tax payers, they are only told so but there is not a shred of evidence to prove it. We must assume that contract award decisions and tender evaluation reports are kept secret for a purpose. This is either to hide the superficial evaluation and cost analysis or for some other reason(s). If the business units, Councillors and trade unions do not have access to information about evaluation and contract decisions this opens the possibility of corruption and collusion in the assessment of bids. This is against the principles of local democracy and amounts to anti-competitive behaviour. The adoption of closed and secretive business practices only serves to highlight their unsuitability to local public services.

Little concern for effects on users

Quality of service has been pushed onto the back burner in Lincolnshire in the interests of money and implementing government policies. The County has adopted the very opposite approach to the traditional paternalistic local authority of putting the interests of its residents before that of national government policies or dogma. Instead, Lincolnshire has done precisely the opposite by forcing through managerial and organisational change for its own sake. The County Council couldn't even develop and learn from the evaluation of similar policies elsewhere but had to lead, to be the first.

There has been little recognition of user needs in the establishment of the business units and the internal market. It is cost, not quality, driven. This is a cavalier attitude to user interests and needs.

Finding favour with Conservative Central Office

Lincolnshire's whole approach ranging from its attempts to implement Government policies, its own competition policy and adoption of the enabling model with business units and the internal

market are indicative of an authority trying to gain recognition and favour with the Conservative Central Office.

Demands

Unison believes that there are fundamental flaws in Lincolnshire's policies and therefore calls on the County Council to:

1. Stop all further development of the internal market and the enabling model and immediately carry out a complete review of the effectiveness of current policies. This review should take stock of the current situation and examine alternative models. It should be carried out jointly by officers, Councillors, and trade unions drawing on appropriate external expertise when necessary.
2. The review must examine all the costs, advantages and disadvantages
3. Immediate publication of the Coopers & Lybrand report on business units.
4. Develop and publish a full range of performance indicators which will be used to assess business units.

Part 3

Business Unit Performance

This section assesses the performance of Lincolnshire's business units. This assessment is somewhat limited because of the lack of information and the domination of financial criteria in the County's own limited assessment.

Financial objectives dominate

Both the summary business plans and the annual reports of the business units list their aims and objectives. These are very revealing because they are obsessed with meeting financial targets. Quality of service is secondary. In fact the 1991/92 summary business plans for Lincway Construction, LincLab, ECS, Lincway Landscapes, and Catering for Lincolnshire all had virtually the same five objectives, substituting only their particular name or service. These were in order:

- "1. to generate sufficient income to cover total expenses of..... and achieve annual targets for surplus.
2. to win work in competition with private sector contractors and to achieve annual targets for the volume and proportion of work awarded in competition.
3. to maintain low prices to County Council clients.
4. to maintain standards of work which fulfil client contract specifications in terms of quality and hence sustain customer satisfaction.
5. to maintain an efficient, skilled and motivated workforce."

The Legal Services business unit has 8 internal objectives seven of which are concerned with fees and charges, management information about workloads, value for money, and last in the list is 'to provide a high quality service'.

The extent to which financial criteria dominate is shown in Table 3.1 based on the objectives stated in the 1993-94 business plans. Eighteen objectives were concerned with financial matters, eleven with quality (these were very general statements about quality of good service and represent a token recognition), and nine concerned about staffing.

Contracting performance

Whilst Lincolnshire has won most of its CCT contracts inhouse (except building cleaning originally won by ISS in 1986), Lincway has lost over £2.5m of work in the last two years by very narrow margins. The chart in Part 2 shows that work which has been contracted ahead of the government's timetable has a less successful track record:

Printshop: work transferred to a private firm
Legal Services: lost conveyancing contract to private solicitors
Estates lost estate management contract for County Farms
Financial Services: Internal audit contract retained
Translinc: Social Services transport contract lost to private firm

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Table 3.1

Analysis of objectives

Business Unit	No. of objectives which are financial	No. of objectives dealing with service quality	No of objectives about staffing
Computer Services	2	1	1
Engineering CS	3	1	1
Financial Services	3	1	1
Land & Building	2	1	1
Legal Services	2	1	2
Personnel Services	1	1	2
LincsLab	3	1	1
Lincway	2	1	1
Catering for Lincs	1	2	2
Translinc	1	1	1
Total	18	11	9

Source: Summary Business Plans 1993-94

Meeting targets

The rate of return is the main performance target used by the County Council. This is a very crude performance indicator giving the level of financial surplus achieved. Table 3.2 shows the rate of return over the three years together with targets agreed each year by the Property & Contractors Committee. There has been a decline in performance: in some units:

- computing fell from 14.5% to 6.2% and has a 1993/94 target of 4.0%
- legal
- construction (from 2.8% to 1.3%)
- catering
- Translinc (from 4.2% to 2.4%)

Only Engineering Consultancy Services showed an increased rate over the three year period.

A rate of return is proposed by each business unit general manager and discussed with the County Treasurer and then referred to the Property & Contractors Committee. The target rate of returns for 1993/94 were agreed by the Committee in December 1993 in the absence of business plans for this period. The Committee report makes bleak reading:

Financial Services: 'is facing a reduction in demand for services due to the loss of Grant Maintained Schools, Colleges of Further Education, Care Trust properties and Waste Disposal. Action is currently in hand to restructure LFS in order to achieve the target rate of return'

Personnel Services: 'growth (in external clients) is balanced by reduction in demand from internal clients as the County Council's employment base contracts'

Computer Services: 'anticipates a reduction in turnover and profitability due mainly to increasing levels of competition'

Land & Buildings Consultancy: 'faces a reduction in workload'

Lincway Construction: 'Intense competition and 'below cost' tender prices from competitors indicate a reduction in turnover for 1993/94'

The report treats the business units as if they are subsidiary companies. Whilst the focus of

Their Business: Your Public Service

the report is on revenue estimates it is obsessive about turnover or gross expenditure and the target rate of return. There is not even a hint of any concern about quality of service, the County's needs, or the staff providing the service.

Table 3.2
Rate of return (% surplus/loss as a percentage of gross expenditure)

Business Unit	1989/90 Actual	1990/91 Actual	1991/92 Actual	Target	1992/93 Target	1993/94 Target
Computer Services	14,5	3,4	6,2	4,0	5,0	4,0
Engineering CS	1,6	4,4	4,1	3,5	2,0	2,0
Financial Services	n/a	n/a	2,6	0,0	0,5	0,5
Land & Building	n/a	n/a	2,0		0,5	0,5
Legal Services	10,6	4,7	7,3	5,0	4,0	3,0
Personnel Services	n/a	n/a	0,1	0,0	0,5	0,5
Lincs Lab	6,4	3,7	6,0	4,0	3,0	2,0
Lincway						
Construction	2,8	2,3	1,3	2,5		1,0
Landscapes	0,4	1,4	0,3	1,0	1,0	1,0
Catering for Lincs		8,4	2,8	3,0	4,0	3,0
Translinc	4,2	4,7	2,4	2,2		2,4
Printshop		11,6				

Source: Business Unit Annual Reports and Trading Units: Revised Estimate 1992/93 and Estimates 1993/94, Property & Contractors Committee, 9 December 1992.

The financial targets for some business units for 1993/94 were reduced compared to their current level in recognition of the recession and pressure on local authority finance. These included computing, Lincs Lab, and catering, Lincway's 1992 Annual Report points out that 'the County Council's targets imposed on Lincway Construction for both profit and competition requirements are now in excess of the statutory minima.'

Competing for work

There is clear evidence that the County Council adopts a very narrow and less than rigorous approach to evaluating tenders. The Lincway Construction 1992 annual report stated that 'over £1.2m of work tendered for was lost by a margin of 1% or lower which indicates the intensity of the competition. The loss of this work has removed the potential of Lincway generating an additional £120,000 towards County Council funds,' The corresponding figure for 1991 was £1m.

Contracts have been lost by inhouse services by ridiculously small amounts. For example, two £65,000 contracts were lost by 0.3% and 0.6%, a £96,000 contract by £1.96p, a £48,000 contract by £140, and a £80,000 contract by £80.

Decisions on the award of contracts appear to be delegated to officers. We have been unable to trace any tender evaluation reports.

Business unit overhead costs

There is little evidence to show that the support or overhead costs of running business units have been reduced by the internal market. In fact the cost of central and technical support has been increased for some business units as shown in Table 3.3:

- The cost of Central Support Services for Computer Services nearly doubled from £164,202

in 1991/92 to an estimated £304,000 in 1992/93.

- Similarly Lincway Construction's Central costs increased from £154,000 in 1990/91 to £290,000 1992/93 - almost doubling in two years.

Table 3.3
Central Department & Technical Support as a percentage of gross expenditure

Business Unit	1990/91	1991/92	1992/93*
Computer Services	5.2	3.2	5.9
Engineering CS			
Central	6.6	6.8)	8.0
Highways	5.2	3.4)	
Financial Services	n/a	43.3	43.0
Land & Building	n/a		
Legal Services	n/a	12.5	12.6
Lines Lab	n/a	n/a	n/a
Personnel Services	n/a	17.1	17.0
Lincway			
Construction	0.9	1.9	1.9
Landscapes	0.8	1.1	1.2
Catering for Lines	n/a	n/a	n/a
Translinc	n/a	n/a	n/a

Source: Business Unit Annual Reports 1990-92

* Trading Units Revised Estimate 1992/93, Property & Contractors Committee, 9 December 1992.

Training

It has been difficult to compare the performance of business units with respect to training because of the lack of consistent information from year to year and the differences in the each unit calculates its input on training. (see Table 3.4)

Table 3.4
Training expenditure as a percentage of gross expenditure

Business Unit	1990/91	1991/92
Computer Services	No figures supplied	0.77
Engineering CS	No figures supplied	3.0 (includes loss of fee earning days)
Financial Services	n/a	0.35 (half actual budget)
Land & Building	n/a	
Legal Services	No figures supplied	0.8
Personnel Services	n/a	1.54 (percentage of consultancy hours)
LincsLab	No figures supplied	0.9
Lincway	No figures supplied	0.46
Catering for Lincs	No figures supplied	No figures supplied
Translinc	No figures supplied	0.3*

Source: Business Unit Annual Reports 1990/91 and 1991/92

* excludes staff time

n/a - not applicable

Monitoring performance

Business unit performance can only really be fully assessed by using a range of performance indicators which should cover:

- * the quality of service provided
- * the quality of employment
- * the extent to which public service or business plan objectives are met
- * organisational performance

Lincolnshire has a very long way to go in developing meaningful performance criteria to assess the performance of business Units.

Changes in staffing levels

It has been difficult to establish clear and consistent staffing figures in order to examine changes in staffing levels. The County agreed to abandoned its Manpower Budget in October 1991 giving Chief Officers and General Managers delegated authority to establish posts within their budgets and the provision of annual reports on 'employee resources' at the 1 October each year. Figures for October 1992, the benchmark report, were only reported to personnel Sub-Committee in March 1993.

Changes in staffing levels in the business units are shown in Table 3.5. In four cases staffing levels have increased and declined in five cases.

Table 3.5

Staffing levels (FTE)

Business Unit	1990/91	1991/92	Oct. 1992	% change
Computer Services*	67	58	60	-10
Engineering CS	55	56	60.4	+10
Financial Services"	113	113	116.9	+3
Land & Building**			134	
Legal Services**	24.0	24.5	22.5	-6
Personnel Services* ..	132	128	120	-9
LincsLab	28,5	30,5	32,0	+12
Lincway	393	342	346	-12
Catering for Lincs*		373	328	-12
Translinc'	166	175	177	+7

Source: Business Unit Annual Reports: Figures cannot be totalled because some are actual jobs, others are full time equivalents. * Not necessarily FTE ** Prior to be established as a business unit

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**Table 3.6
Staffing in business units**

Business Unit	Full Time		Part time		Total
	Female	Male	Female	Male	
Computer Services	19	32	9	0	60
Engineering CS	11	48	2	0	61
Financial Services	59	49	19	0	127
Land & Building	33	101	0	0	134
Legal Services	18	4	1	0	23
Personnel Services	62	48	10	0	120
LincsLab	5	25	2	1	33
Lincway	12	331	4	0	347
Catering for Lincs	11	3	311	3	328
Translinc	19	96	37	25	177
Totals	249	737	395	29	1,410
	18	52	28	2	100

Source: Employee Resources Report, Personnel Sub-Committee, March 1993

**Table 3.7
Employees by grade (October 1992)**

Business Unit	Manual	S1-S6	S01-S02	PO&CO
Computer Services	0	30	11	19
Engineering CS	9	23	16	13
Financial Services	0	91	14	22
Land & Building	13	65	20	36
Legal Services	0	14	1	8
Personnel Services	0	90	16	26
LincsLab	0	26	0	7
Lincway	292	30	16	9
Catering for Lincs	310	14	3	1
Translinc	129	38	3	7
Totals	753	421	100	148
	53	30	7	10

Source: Employee Resources Report, Personnel Sub-Committee, March 1993

Note: There is a discrepancy in the figures for Personnel Services between Table 3.6 and 3,7 originating in the Employee Resources Report.

Part 4

Critique of business planning & annual reports

Business units are required to produce business plans and annual reports. In this section we examine the scope and quality of both plans and reports.

Business Planning

There is little evidence that business units have adopted any other than a traditional private sector business planning approach to the preparation of plans. This is wholly consistent with the commercial approach adopted in the County Council generally.

One year planning: Business units have to prepare plans for one year only. Whilst it is difficult planning public services under the current government financial regime, Lincolnshire has not suffered the scale of budget cuts as have many other authorities. The effect of this short term planning, which not only makes a mockery of public service or business planning, but is hardly different from traditional local authority budget dominated planning. It effectively means that business units stagger from year to year.

Financial targets set before plan prepared: The extent to which financial targets determine the business unit plans was revealed at the Property & Contractors Committee meeting on 9 December 1992. The committee received a report from the Chief Executive noting revised estimates of each units expenditure for 1992/93 together with revised financial targets for 1993/94. There were no business plans or summaries presented to the committee, indeed, DSO and business unit managers were told not to attend the meeting. This is hardly different from a board of directors of a large company dictating the profit targets for its subsidiaries.

No staff involvement: There has been no staff involvement in the preparation of business plans nor have any of the business units communicated the contents of the plan to staff. The plans appear to be 'secret' documents only available to senior managers. The need for 'commercial confidentiality' was referred to by senior Conservative Councillors at a recent Property & Contractors Committee. One of the purposes of plans is to use the planning process to try to motivate and maintain the morale of staff and to seek their commitment to the implementation of the plans objectives.

Financial issues dominate planning: The process by which financial targets are set, the absence of a public service approach to planning, and the focus on short term planning inevitably leads to plans focusing on financial issues. The summary business plans contain no information about other than financial performance indicators.

Public Service Plans

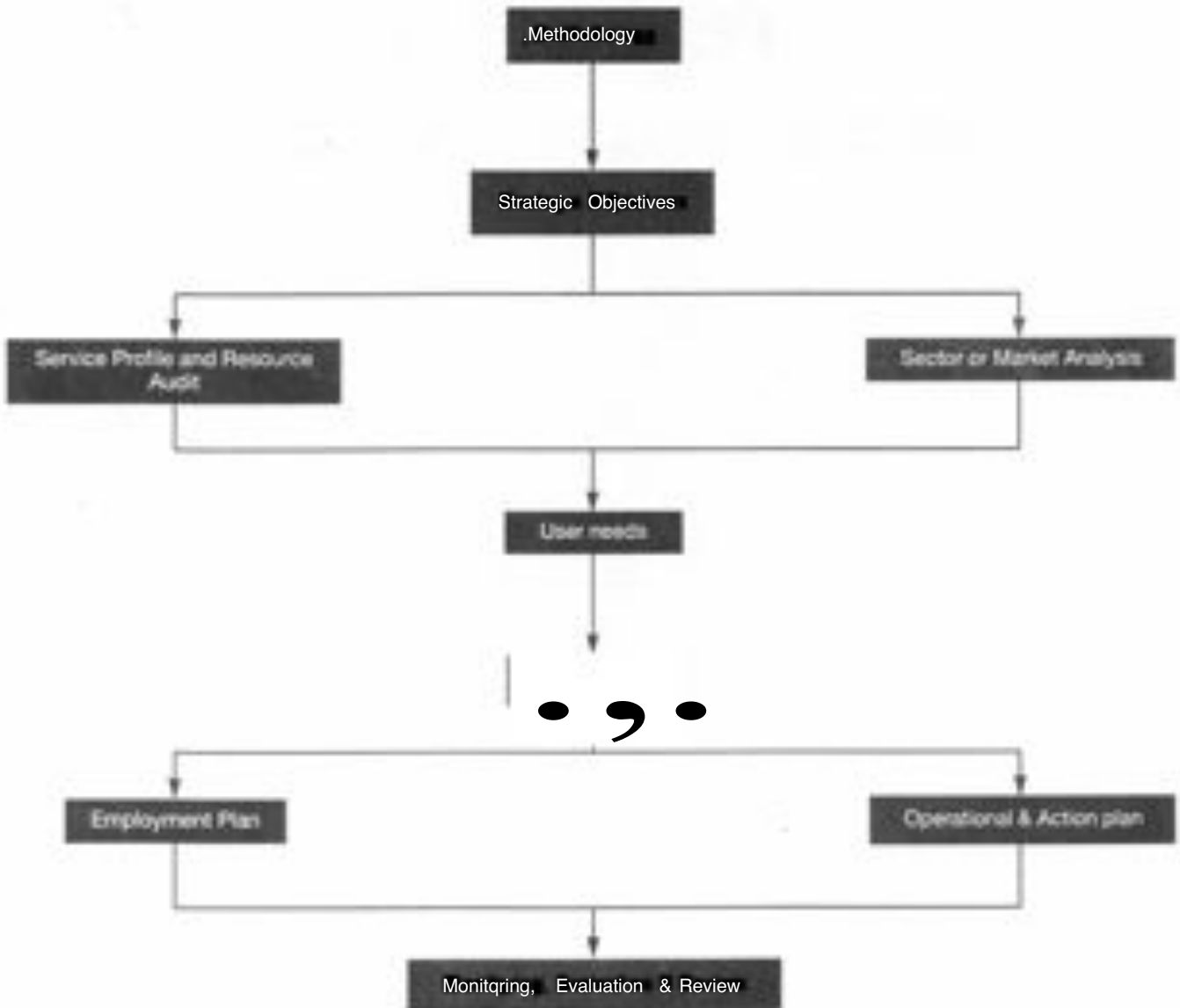
The summary business plans we have examined indicate the adoption of traditional business planning. Lincolnshire is not alone in this approach. However, there are major limitations in simply applying private sector planning to public services. Part 1 noted the constraints and

differences between public and private sectors.

An alternative Public Service Planning approach has been developed based on the eight components illustrated below. (A Detailed Handbook for Public Service & Business Plans, Centre for Public Services, 1993)

When the business unit plans are tested against this best practice methodology they are found to be wanting in virtually all elements.

Structure of a Public Service Plan



Annual Reports

Format of the annual reports

Each Business Unit is required by the Council to submit an annual report using the following headings:

Summary
Aims and objectives
Policies
Targets
Equipment and capital
Developments
Employees and training
Marketing
The environment
Future Prospects
Specialist Member Comment
Financial summary

Eight units published reports for the year ending 1991/92 and nine for the following year. The reports vary in length from five pages upwards.

Apart from the Lincway annual report, the quality of the reports is poor because:

- there is no information about the range or type of service actually provided
- no information about who the users are
- there is virtually no information about the quality of service.
- financial reporting is very general, in some cases it is impossible to even determine the level of income and expenditure in broad categories such as labour costs, central support costs and so on.
- the reports are dominated by financial targets
- the structure and tone of the reports only serves to reinforce commercial values
- the comments from Specialist Members are general, naive, and despite some written with good intentions, add nothing to the reports.
- the presentation of most of the reports is mundane.
- although they are generally written within the overall framework of headings required this is somewhat gratuitous when information and figures are not prepared on a common basis. For example, information on training is provided in some reports but not others and the basis on which the level of training has been calculated is not clear. It is therefore virtually impossible to compare expenditure on training across business units. It is impossible to compare business unit training expenditure with previous department expenditure.
- reports do not provide information which could be used in connection with Audit Commission quality standards.

Implementing County Council policies

This is usually a one line statement confirming that the unit 'operates to County Council policies'. Translinc 1992 report was the exception when it stated that "Translinc, whilst

Their Business: Your Public Service

developing its role as a freestanding Contracting Unit within the Authority and therefore by necessity establishing its own internal policies, does comply with the County Council policies as they affect the Organisation, its operation and staff."

Part 5

Impact on staff and users

This section assesses the impact of the internal market in general and the specific effects of policies in Lincolnshire.

Impact of the Internal Market

The establishment of an internal market has a number of important consequences:

Business/private sector values: Business units and the internal market are based on the view that public services are a 'business' and that there is no fundamental difference between the public and private sectors - the differences are claimed not to be substantive, only marginal.

Focus on financial objectives and financial performance: The imposition of financial rules governing the very survival of individual units inevitably leads to the dominance of financial matters and service delivery and other matters having secondary importance.

Private sector employment practices: The concept of business units is based on devolving decisions on staffing levels, pay, service conditions and working practices to unit managers. Given a free hand under the Internal/external competition regime managers usual response is to seek to match or undercut their competitors particularly on jobs and pay. Private sector policies become the maximum.

Intensifying pressure for efficiency gains: Labour costs are a substantial element of public service costs and hence there is always pressure to improve productivity in order to reduce costs. The internal market is essentially a system which intensifies this pressure to achieve efficiency gains - an attempt to focus on getting more out of fewer people rather than starting with needs and quality.

Competition is the driving force: Creation of insecurity through the loss of work and the very existence of the organisation is used as the incentive to encourage the workforce to meet performance standards. But this is using a negative approach in order to achieve positive results - it is a replacement or substitute for good management practice.

Encourages the enabling model of local government: Business units and the internal market are stepping stones towards the enabling model of local government. They are temporary measures

Loss of corporate information: Information about staffing, budgets and other issues is fragmented between client and contractor. Kent NALGO have found great difficulty getting information about provider units. Business Unit budgets are often not explicit but incorporated under overall client budgets. Information is also fragmented between council committees with client information going to one committee and business unit information to others. This can lead to more centralised control.

Fragmentation of industrial relations

Loss of overall framework as each business unit becomes an bargaining unit. Whilst corporate

personnel policies are currently being maintained, and there have been few instances where business unit general managers have attempted to reduce terms and conditions, this is unlikely to continue. A 'mature' internal market will have a plethora of bargaining units each negotiating their own staffing levels, pay and conditions of service. This not only has major implications for UNISON branches but also for local authorities. Even in terms of the market, any 'gains' from hard local bargaining are likely to be more than offset by the loss of economies of scale.

Loss of accountability and democratic control

The internal market has led to more secrecy and the loss of accountability in Lincolnshire (see Part 2).

Internal market hastens external tendering:

Rather than 'protect' services from external tendering the internal market actually helps to prepare the ground for full blown tendering. It forms a 'incubator' in which services can be organised along business lines and can start competing for work internally thus preparing them for competition against private contractors.

Encourages business culture and MBOs: This occurs irrespective of whether units are successful or not. The more they are successful then many managers are likely to argue that they could be even more successful in the private sector and achieve greater personal rewards for their efforts. If it is a successful 'business' why is it 'owned' by local government? If it runs into financial problems then the managers, workforce and/or the authority may argue that the 'only' option is to move into the private sector to get rid of public sector trading restrictions, hence improve financial performance, and thus 'save' jobs.

Summary of effects of the internal market

Impact for staff

- job loss and less public service employment
- increased insecurity
- erosion of pay and conditions of service
- restricted range of jobs, training and career prospects
- more limited equal opportunities policies
- weaker trade union representation

Impact on trade union organisation & industrial relations

- more branch resources taken up dealing with plethora of bargaining units
- increased pressure on trade union facility time
- greater difficulty in recruiting reps
- change from public sector to general union as public service employment falls

The Lincolnshire experience

Staff in the Lincolnshire business units face a range of problems:

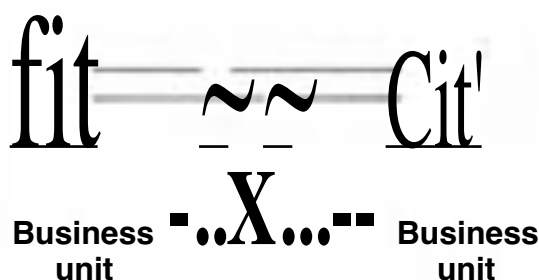
- Staff morale in a number of units is very low and in some cases has deteriorated in recent months. Insecurity is reported to be more dominant resulting in a drop in morale which is also likely to impact on productivity.
- The erosion of the public service ethos and loyalty to the employer is changing. A change in emphasis is detected in that the County Council gives the impression that it is here to make money rather than providing a service to people as its primary responsibility. *'The priority is income, service is becoming secondary.'* The internal market also poses a challenge to loyalty.

'Will be be loyal to each other' or will loyalty shift from the County Council to the business units.

Government policies are creating similar attitudes within local government as they are externally. The deliberate promotion of the 'me' and 'my' ethos concerning schools, homes, community care and other issues is part of the individualising and consumer packaging of public services - the Prime Minister's 'privatisation of choice'. It spawns the 'why should I pay for a service I do not use' attitude. The internal market encourages similar attitudes. Each business unit increasingly views corporate and overhead costs as a 'burden' which have to be reduced or if possible evaded. Cheaper alternative sources are sought. The 'freedom' associated with the private sector becomes increasingly more attractive. Each business unit is less and less concerned about other business units because it is not in their immediate financial interests to do so. The concept of the public interest is replaced by self interest.

- There have been a number of conflicts between client departments with and between business units over responsibility for work. There has been a reluctance by some departments to transfer work to the business units, for example computing. One department recently established their own personnel officer which the Personnel Services business unit regard as part of their work.
- The pressure of work has increased, although it is difficult to disaggregate the extent to which this is the result of business units causes or other changes in local government. There was some resentment that fewer staff were doing the same or increased workloads yet the client side has increased in size beyond what could be considered expected from changes in their workloads.
- More, not less, red tape with contracts, detailed time sheets, preparation of tenders and so on.
- Staff in business units having to go through their respective client in order to deal with matters rather than business unit to business unit. This is leading to communication problems and delays in obtaining information, sorting out queries and so on. Some staff note that the system is relying on the fact that previous channels of communication through existing staff are still operating hiding the real complexity which may exist if work is lost to the private sector and when the client/contractor separation is more widely cemented in Lincolnshire custom and practice.

The system sets up barriers to communications



A change in attitude has also been noticed by some officers. It is changing from 'getting the whole job done properly' to 'doing only what you are contracted to do and nothing more' under a backdrop that financial viability is the dominant factor. It becomes somebody else's problem (and cost) if the specification does not describe all the work which needs doing.

- The loss of contact with Councillors was regretted - the appointment of Specialist Members is generally regarded as as mere tokenism - as business units are treated as contractors.
- Loss of economies of scale particularly as business units 'go their own way'. Engineering

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Consultancy Services recently relocated, together with Lincway, on an industrial estate to *'pursue its own identity as a commercial organisation.'*

- Unfair competition
- Lack of direction from the centre
- Despite the new organisational arrangements there have been no real changes in management style.
- Most units reported that whilst there had been no real change in management's attitude to time off for trade union activities, representatives reported an informal reluctance and pressure to limit their trade union activities because it meant fee earning time was being lost.
- Many staff don't fully understand the longer term implications of business units and the internal market, however more are slowly realising the implications for their jobs.

The effects on users

We have highlighted some of the problems encountered by internal users. We have not had the resources to carry out any detailed analysis of the effects on external users, ie the public. The client/contractor did present major problems for education and social services transport. The split left the client side inadequately staffed. In 1991/92 there were major problems in maintaining the quality of service.

Some positive points

Three main points were evident from our interviews of staff:

- * Staff had been forced to re-examine long standing procedures and practices and this had obvious benefits.
- * There have been examples of efficiency improvements
- * There is greater awareness of the time and costs associated with service delivery.

However, these could have been more easily achieved through improved management strategies.

Language of the market place

There is evidence in the NHS and local authorities such as Lincolnshire that many staff remain unconvinced about the suitability and workability of the internal market and resent the private sector language with which these 'reforms' are shrouded. Although the internal market is being implemented this does not mean that they are actively accepted and implemented by all staff.

Part 6

Comparing internal markets in other local authorities

Several other local authorities have adopted the enabling model and developed internal markets and business units. These include Berkshire CC, Westminster LBC, Wiltshire CC and Kent CC. This section briefly explains the policies adopted by these councils and identifies the similarities and differences in approach with those adopted by Lincolnshire.

Berkshire CC

Berkshire County Council has supported the enabling concept for some time both under Conservative control and the current Labour/Liberal/Independent coalition. Externalisation or contracting out and the formation of trading agencies (business units) to create an internal market has been a key feature of this strategy.

The Conservative Group on Berkshire County Council recently launched The Berkshire Partnership: Looking to 2000 with Confidence. The Group 'believes that the vehicle best suited to harnessing the skills of the private sector is the move towards the 'enabling authority'. Councils are moving away from being the main provider to being the securer of local services.' They state that local authorities 'need to work in partnership with local residents, local businesses, local Voluntary groups and the local churches to deliver quality services at a price people can afford.'

'Councillors can now champion the interests of the citizen with contractors against whom they have market sanctions, rather than acting as apologists for their own workforce. By forcing accountability and responsibility outwards, standards are forced upwards. It involves eyes-on management, not hands on provision.'

The County Council has already 'externalised' many services including:

- Computing operations
- Architectural Design and Quantity Surveying
- Music tuition
- Training
- Highways Maintenance and Emergency Services
- Forestry
- Reprographics
- School meals
- Cleaning
- Supplies
- Grounds Maintenance

Their Business: Your Public Service

Vehicle Maintenance

But this is only the beginning. **'The Conservative Group further believes that it should be possible to achieve the objective of externalising the majority of staff within a four year period.'** They give three reasons for their rigorous support for contracting out. The first is about achieving savings and 'improving the quality of service'. But significantly, the other two have nothing to do with contracting out itself. One refers to 'externalisation strengthens the image of a lean and efficient organisation' thus supporting their commitment to unitary status. The other states that 'it is apparent that central government is committed to establishing a new form of local government. The Conservative Group believes that it makes good sense to influence this process rather than react to it - in other words, to lead rather than be led.'

The four year programme includes considering the 'externalisation' of social service providers and purchasers, libraries, education direct services, support services to schools, treasurers functions and other services. The Berkshire Partnership believes that its vision of a new local government will require 'an enhanced role for the councillor' for which they will need 'strategic flair, good management skills, a real understanding of community needs and interests, an ability to work with the private and Voluntary sectors, and a determination to see through the implementation of the enabling role. The future committee structure would be built around only four key areas of policy, review, contract management, and inhouse provision. It believes that the education committee should be abolished.

The establishment of nine internal trading agencies from 1 April 1992 was 'a logical next step on from the implementation of the concept of devolved management and the development of Berkshire an an enabling authority' (Report by County Treasurer to Central Services Committee, 22 June 1992). This followed a senior officer driven Support Services Review in 1991/92. The agencies cover:

ISO related functions

- 1, Information System which has four functions
 - Berkshire IT and Technical Support
 - Strategic Support
 - Telecommunications
 - Systems Development and Business Analysis

Finance related activities

- 2, Income
- 3, Internal Audit
- 4, Payroll and pensions

Property related services

- 5, Building maintenance management and practice
- 6, Capital projects and building maintenance commissioning
- 7, Estates and valuation, acquisitions and disposals, and development
- 8, Facilities management

Legal activities

- 9, County Solicitors Office

A post of Managing Coordinator has been established to develop the agencies as quasi-commercial operations. Each trading agency has to produce a business plan, operating within a set of corporate rules, and it's 'business operations will be a matter of commercial confidentiality'. The financial arrangements mean that trading agencies budgeted operating costs do not form part of the County Council Budget but are reflected in the purchase budgets of client departments. Each agency has been given 'protection' for a year after which 'a controlled programme of market testing' will commence.

Westminster LBC

In October 1991 the London Borough of Westminster reviewed its progress towards becoming an enabling authority and decided to ensure that all direct and support services are subjected to the discipline of 'contract'. This will be achieved through the introduction of business units. The enabling model was described as 'one which has become less involved in direct service provision, concentrating instead on the strategic management, specifications, procurement and monitoring of services. Therefore direct service provision is increasingly carried out by external contractors and agencies.' (Report by Managing Director to Policy & Resources Committee, 14 October 1991).

A programme of pilot business units, at least one in each department, started in April 1992 and from April 1993 'a full framework of autonomy, incentives/sanctions, and charging mechanisms will be ready for use. Thereafter a full phased programme of setting up Business Units will begin, to cover by the end of 1994 all services in the organisation which are not tendered out.'

The new strategy, Enabling through Business Units, will apply 'where no market exists, or where tendering is not appropriate or possible in the short term, then internal business units should be established. These Business Units will be set up and treated the same way as external contractors. Thus Business Units are not an alternative to competitive tendering, rather they are a natural complement to it.'

From January 1992 a Contracts Committee took over responsibility of the Competitive Tendering Committee (which dealt mainly with the ward of contracts) and a Contracts Management Board (which dealt mainly with contract performance). The new committee now has responsibility for the development, phasing and implementation of all competitive tendering and the policy and programming of business units. It also awards and monitors all contracts exceeding £1m.

Business units have been established to date include:

1. Grounds Maintenance DSO
2. General Highways maintenance DLO
3. On Street parking DSO
4. Payroll DSO
5. Debt Collection
6. Mechanical and Electrical DLO
7. Inhouse Printing Service
8. Housing - Responsive Repairs DLO
9. Home Ownership DSO
10. Westminster Libraries
11. Westminster Reference Library
12. Information for Business
13. Home Library Service
14. School Library Service
15. City Archives
16. Environmental Protection Group
17. HIV and Drug Services

Wiltshire CC

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Wiltshire County Council has also decided, 'in principle, to establish business units wherever appropriate. These will initially be within the particular department. Some may remain so but others, as circumstances allow or dictate, may be moved into the private sector.'

The County Council 'wanted to take the initiative by anticipating the Government's proposals (for local government). The County Council therefore wants to provide a new structure for the

Their Business: Your Public Service

delivery of services. The objectives of this restructuring is to establish the County Council as an enabling authority setting priorities, determining the standards of service, finding the best ways to meet them and ensuring they are met. (The Future Management of the County Council by the Chief Executive, Policy & Resources Committee, 8 September 1992)

'The core will have a strategic role, developing the business plan for the authority, defining and setting standards, monitoring the provision of services within the and by the County Council, establishing resource allocation. Services will be provided by other groups of County Council staff known as business units.'

The core/business unit model is being applied across all departments including the four central departments, Finance, Personnel, Chief Executives, and Property Services. 'Each Chief Officer must produce a structure showing the client side and the contractor side, The contractor side will be split into business units.'

For example, the Education Department will be divided as follows:

* a 'core' headed by a deputy Chief Education Officer (overall financial control, monitoring and planning, client services, policy, capital programme, research and information, and commissioning activities on behalf of the LEA)

* ~ series of business units headed by a Business Director (Education) covering six business Units:

- Youth and Community services including oversight of all residential centres
- Education Psychology Service
- Services to Schools (Management) including financial and personnel functions
- Inspection/Advisory Services
- Wiltshire Training Service - youth training and other employment schemes under contract with Wiltshire TEC
- Guidance Services (Careers)

Kent CC

Kent County Council adopted a strategic planning approach to devolving management responsibility over five years ago and has consistently both influenced the form of Government legislation and implemented it ahead of most other local authorities. It also developed a competition strategy based on maximising value for money.

It has developed a 'controlled programme of moving positively towards the enabling authority' which includes further purchaser/provider splits and the establishment of internal business units.

The Local Government Review has also been influential. 'there are potential opportunities to be seized, if the Government intends to proceed as indicated, in developing the organisation so it is ready to make the best case to the Commission and the Government.. ...This would put KCC in the driving seat of change rather than waiting to be passively 'done to'. (Competition Strategy, Report by Chief Executive to Local Government Group, 29 July 1992).

The report proceeds to set out a vision of the authority, 'It is anticipated that within 5 years the organisation will be strong, slim, and strategic with identification and continuation of in-house units only where they are necessary to carry on and support:

* the essential business and strategic role of the authority

* a sound purchasing function in all its respects

* those provider functions that remain within the organisation,

Some units will be 'externalised' where this makes good business sense, as a means (amongst others) of attaining the mixed economy.'

It predicts that within 2 years of the full implementation of the purchaser/provider split 'there is a potential for the number of staff in core and purchasing sectors of the organisation to

be reduced as value for money increases through increasing familiarity with specifying, monitoring and accounting.'

In the Kent model an internal business unit will have one or both of the following characteristics:

- * providing a service which is (or will be) a CCT defined activity or which the client intends to expose to competition
- * intending to provide services outside its own department on a competitive basis.

The County has established a regulatory framework under a Competition Guidance Board which has six members from a panel of Chief and second tier officers from service and support departments. It will issue guidance on the formation of business units, manage the accreditation process, and report on KCC wide issues which arise.

Comparison of Lincolnshire Westminster and Berkshire Internal Market Operating rules for business units

The corporate rules which govern the functioning of an internal market vary from authority to authority. They can be divided into *general* corporate principles, accounting principles, and trading rules. A comparison of Lincolnshire's rules with those of Westminster and Berkshire (Table 6.1) highlights the similarities of the overall framework whilst noting some differences in detail. The common elements are:

- * devolved power to business unit managers
- * short term business planning
- * annual financial targets
- * limited period of sole provider status before start of market testing

Although these corporate rules do allow a degree of devolved management responsibility they are also a means of increasing central control both through the Chief Executive and immediate senior officers and by key Councillors.

Table 6.1

Comparison of Lincolnshire, Westminster, and Berkshire Internal Market Rules

Corporate rule	Lincolnshire	Westminster	Berkshire
Decide staffing levels	yes	yes	
Hire & fire	yes	yes	
Pay and conditions	no	yes	
Make bonus payments	yes	up to 25% of salary	
Virement of budgets	yes	yes	
Responsible to:	Prop & Contr Committee	Chief Officer	
Vary personnel policies	no	yes	
Fix Unit charges/prices	yes	yes	yes
Financial			
Financial targets	Annual rate of return		
Use of surplus		50% retained by unit	No limit
Use of reserves	Limited		5% surplus/deficit
Deficits/overspending	Deducted next budget	Deducted next budget	Carried forward
Financing redundancies	Business unit (Policy Comm. if market testing)		
Business Plans			
Planning period	1 year	1 year	1 year
Trade union involvement	None	None	None
Market Testing			
Services out to tender	yes		yes 1 year
Period of sole supplier		yes	
Tendering BU support services		6 months notice after 1 yr	
Trading			
Freedom to trade	20% existing capacity	Permission of C Officer	
Limits on % of external work		None	
Role of Councillors			
Specialist Member	Yes	No	No
Premises			
Ability to move	Yes		
Rent charges			Market rents for CC premises
Ability to sell or buy property		No	
Ability to purchase equipment	Yes	Yes, if in business plan (permission if +£5,000)	

Source: Corporate Principles Governing Relationship between Trading Agencies and Service Departments, Central Services Committee, Berkshire CC, 22 June 1992; Management Code for Business Units, Policy & Resources Committee, Westminster LBC, 13 February 1992; Financial Guidance in respect of Commercial Units, Report by County Treasurer, Finance Sub-Committee, 15 June 1992 and Scheme of Delegation to Officers, Report by Chief Executive, Policy Committee, 1 July 1991, Lincolnshire CC,

Part 7

Alternatives to the Enabling model

The move to the enabling model and the adoption of business units, the internal market is not 'inevitable' as this report has shown. Nor is it simply a matter of whose version or interpretation of enabling is 'right'. The real task is to develop a coherent public service alternative which builds on the existing strengths of local government but which also develops new approaches to address its weaknesses.

The following would form part of a new Public Service Practice which would seek to transform the County Council into a more effective, efficient, and democratic local authority.

- Client - contractor cooperation and limited enforcement of organisation separation of these functions
- Adoption of public service planning in place of traditional business planning
- Quality of service targets are set for all services
- Performance review based on:
 - * quality of service
 - * quality of employment
 - * organisational performance
 - * financial performance
 - * implementation of corporate policies
- The abolition of Compulsory Competitive Tendering and the internal market together with the adoption of a comprehensive best practice approach to purchasing supplies and services based on quality specifications, stringent contract conditions and effective contract compliance, rigorous tender evaluation and effective monitoring. (Competitive Tendering Strategy Handbook, for GMB, NALGO, NUPE & TGWU, by Centre for Public Services, 1993)
- Focus on management strategies and practices to replace the focus on constant organisational change
- A commitment to effective involvement and consultation with the trade unions and the workforce in the management of change.
- Replace business and marketplace language with terms which reflect public service values. For example, business units could become service units.
- Social audits examine all the public costs of policies together with their social and environmental impacts,