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# Social & Economic Audit Down Lisburn Trust Northern Ireland

for  
**UNISON Northern Ireland**

UNISON Centre  
4 Fortwilliam Business Park,  
Dargan Road,  
Belfast BT3 9JZ  
Tel. 01232-770813

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Researched and written by

**CENTRE *for* PUBLIC SERVICES**

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# Summary

The tendering process will result in:

- The loss of 55 health service jobs plus a further 8 jobs in the local economy could be lost as a result of the tendering process.
  - Women will bear the brunt of job losses in the Trust with 45 jobs or 82% of job losses compared to 18% for male employment.
  - Women will also bear the brunt of reduced earnings as a result of cuts in hours. This will force many workers below the National Insurance Lower Earnings Limit enabling employers to deliberately avoid paying the employers contributions resulting in mainly women workers being denied a right to statutory sick pay, maternity benefit, unemployment benefit and state pensions.
  - Women, in particular, will be forced into seeking other part-time jobs resulting in having multiple jobs in order to try to maintain their earnings.
  - The total cost of tendering to the Government will be £657,500 per annum.
  - Savings made by the Trust will be substantially smaller than those indicated in the tender prices. Initial savings for the Trust are likely to be between £225,000 and £300,000 but these will be substantially reduced or eliminated after the cost of the tendering process, monitoring and contract management costs, additional payments to the contractor during the contract, and other costs are taken into account.
  - The net public cost of tendering is estimated to be £500,000 per annum or £2m over a four year contract.
  - A fair proportion of staff affected by tendering in Lisburn live in the Twinbrook, Kilwee and Colin Glen wards which are amongst the most deprived wards in Northern Ireland. The tendering process will intensify poverty and deprivation in these areas.
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# Introduction

## **Analysis is specific to Northern Ireland**

The analysis of the costs of tendering at the Down Lisburn Trust are specific to Northern Ireland. We have used Down Lisburn Trust information on the existing jobs and hours of the 482 staff. The financial analysis of the costs of unemployment and related benefits is based primarily on Northern Ireland Office statistics.

The data on proposed changes to jobs and input hours are those which were recently notified to trade unions. The actual changes will obviously depend on whether a contract is awarded and who it is awarded to. Experience indicates that job losses and reductions in hours will be even more extensive if the contract is awarded to a private contractor.

Debate on the accuracy of the figures relating to changes in employment and input hours must not be used to divert attention away from the fundamental issues concerning the public costs of tendering. Whilst the use of precise data is important, no organisation or Government department carrying out the analysis at this stage of the tendering process would have access to any more definitive data. Waiting either until such data was available from the evaluation of tenders or for award of the contract would clearly be too late. The Trusts would by then be committed to awarding a contract and any analysis would be academic.

## **Loss of jobs**

The analysis is based on the loss of jobs, not the individuals who occupy those jobs. So it is not relevant whether some of those losing their jobs obtain alternative full or part-time employment. This may be at the expense of others seeking employment. The issue is the net loss of jobs in the economy as a result of tendering. They can only be replaced by the creation of new jobs through the expansion of the economy or by specific employment initiatives creating new and additional jobs.

## **Financial and public interest duties**

There are different layers of fiduciary duty.

**Trust Board Members:** They have a responsibility to fully assess all the costs borne by the Trust in the tendering process and over the length of the contract. Board Members will clearly not be fulfilling their duty and meetings their obligations by simply examining tender prices and claiming 'savings'. There are many other costs which must be taken into account (see Part 3). Members would be vulnerable to charges of financial mismanagement if they failed to fully examine all the financial consequences of decisions which affect Trust expenditure.

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**The Department of Health and Social Services:** The Department has a duty covering expenditure on health and social services as a whole.

**The Government:** The Northern Ireland Office has a duty to control, audit and evaluate public expenditure. Its objectives are:

\* to authorise and control the issue of money from the Consolidated Fund in accordance with statutory requirements (Comptroller function)

\* provide independent assurance, information and advice to Parliament on the proper accounting for expenditure and revenue by central government and certain public bodies, including compliance with relevant laws and regulations (Certification Audit)

\* examine the the economy, efficiency and effectiveness with which certain public bodies use their resources in major fields of expenditure (Value for Money Audit).

It, therefore, has a responsibility to ensure fiduciary duties are carried out across all departments. It has a duty to ensure that claims of 'savings' by one section or department are substantiated and do not Simply transfer or impose costs on another department. It should be the central arbiter of the assessment of 'savings' but there is no evidence that this has been carried out todate. A social and economic audit of 'savings' should be carried out as a matter of urgency.

### Economic policy issues

The loss of jobs and reductions in earnings as a result of tendering has a knock on effect and in effect undermines the economic development strategies adopted by the Department of Economic Development, local authorities and other projects.

### Equal opportunities

Some 44% of staff in the Down Lisburn Unit of Management are Catholic and 46% are Protestant, the fourth highest proportion of Catholic staff of the ten units of management in the Eastern Health & Social Services Board.

There is also detailed evidence showing how competitive tendering increases inequalities (The Gender Impact of CCT in Local Government, Equal Opportunities Commission, 1995). Whilst this evidence relates to local government in England Wales and Scotland, there are striking similarities between the composition of the workforce in the Down Lisburn Trust, the services subject to tendering, the firms bidding for contracts, coupled with the common elements of the tendering process.

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## Part 1

# The Impact of Tendering on Jobs

### Current staffing levels

A total of 482 jobs are affected by the tendering process. The bulk of these are in-house services although there are two existing contracts for domestic services operated by Mediclean (ISS) with 92 jobs and Grosvenor with 19 jobs. The distribution of jobs within the five services is detailed in Table 1.

Table 2 shows the pattern of employment between full-time and part-time jobs in female and male employment in the five services. The vast bulk of female employment is in part-time jobs whilst a large proportion of male jobs are full-time. Men dominate in portering and security service and in grounds maintenance which are predominately full time jobs.

The trade unions have been informed of changes in Catering services which will result in loss of jobs, the elimination of the bonus scheme operating in the Down area facilities and a reduction in hours for some other staff. We did not have comparable information for Domestic services and have estimated the possible overall reduction in input hours of averaging 15%. This would be reflected partly in job losses and partly in a reduction in hours.

### Cuts in hours

The analysis of the changes in input hours for domestic services was based on schedules of the existing input hours for both the in-house service and the Mediclean contract. These gave the number of staff and the number of hours worked in each location.

Some 13 staff in the in-house domestic services and 28 staff on the Mediclean contract work 16 or less hours per week and thus are below the National Insurance Contributions Lower Earnings Limit (LEL) (£58 per week in 1995/96). This is significant because those below the LEL are excluded from contributory state benefits such as statutory sick pay, maternity pay, unemployment benefit and state pensions.

A reduction in input hours will lead to a larger number of workers being below the LEL. Those working between 16-22 hours per week are clearly vulnerable to having their hours deliberately cut so that they are below the LEL thus saving employers from making contributions. Another 50 in-house staff and 28 Mediclean staff are in this position. If all these workers had cuts in hours this

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would increase the total number of staff below the LEL to 119, virtually half the domestic services workforce. These figures exclude the Grosvenor contract for which we do not have information on actual working hours.

Table 1. Distribution of jobs in the five services

	Full-time	Part-time	Total
<b>Catering Services</b>			
Female	11	122	133
Male	12	18	30
<b>Management/clerical</b>			
Female	7	3	10
Male	1	0	1
<b>Total</b>	<b>31</b>	<b>143</b>	<b>174</b>
<b>Domestic Services</b>			
<i>In-house service</i>			
Female	5	121	126
Male	0	6	6
<b>Management/clerical</b>			
Female	4	1	5
Male	0	0	0
<i>Mediclean contract*</i>			
Female	1	86	87
Male	0	5	5
<i>Grosvenor contract</i>			
Female	0	19	19
Male	0	0	0
<b>Total</b>	<b>10</b>	<b>238</b>	<b>248</b>
<b>Portering &amp; Security Services</b>			
Female	0	0	0
Male	34	3	37
<b>Management/clerical</b>			
Female	0	0	0
Male	1	0	1
<b>Total</b>	<b>35</b>	<b>3</b>	<b>38</b>
<b>Grounds maintenance</b>			
Female	0	0	0
Male	8	0	8
<b>Total</b>	<b>8</b>	<b>0</b>	<b>8</b>
<b>Telephone Service</b>			
Female	7	6	13
Male	1	0	1
<b>Total</b>	<b>8</b>	<b>6</b>	<b>14</b>
<b>Grand Total</b>	<b>92</b>	<b>390</b>	<b>482</b>

Source: Down Lisburn NHS Trust 1995

Table 2. Gender analysis of full and part-time employment.

		Full-time	Part-time	Total
Caterin9	Services			
Female		10%	72%	82%
Male		8%	10%	18%
Domestic	Services			
Female		4%	92%	96%
Male		0%	4%	4%
Porterin9	& Security			
Female		0%	0%	0%
Male		92%	8%	100%
Grounds	Maintenance			
Female		0%	0%	0%
Male		100%	0%	0%
Telephone	Service			
Female		50%	43%	93%
Male		7%	0%	7%

Table 3. Job losses

Service	Female	Male	Total
Catering services	20	4	24
Domestic services	25	0	25
Grounds maintenance	0	1	1
Porters and security	0	5	5
Total	45	10	55

Women will bear the brunt of job losses in the Trust with 45 jobs or 82% of job losses compared to 18% for male employment.

### The impact of TUPE

The TUPE regulations should ensure that jobs, terms and conditions are maintained if the work is contracted out to a private contractor. However, there is mounting evidence to show that private contractors are exploiting loopholes in the regulations resulting in job losses, harmonisation of terms and conditions with their own lower terms and conditions, and the operation of two level pay schemes with new starters being employed on lower wage rates. If the work is contracted out we believe that the financial estimates of the cost of tendering would have to be increased to take into account potentially larger job losses and more stringent changes to terms and conditions. This would have a greater impact on the local

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economy.

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## Part 2

# The Costs of Tendering

The costs of tendering have been calculated using the model we developed for the Equal Opportunities Commission research. We have calculated the cost of unemployment and related benefits using Northern Ireland data, primarily tables and statistics in *Northern Ireland: Expenditure Plans and Priorities 1995/96 to 1997/98* published by the Department of Finance and Personnel and HM Treasury.

### **The cost of unemployment and related benefits**

This was calculated taking into account expenditure on benefits to the unemployed in 1994/95 estimated at £312m (Table 9.27) plus additional expenditure on men aged 60-64 receiving Income Support in return for not registering for work because by not registering they effectively reduce the unemployment count. The cost of Housing Benefit (rent rebates and rent allowances) to the unemployed must also be taken into account. Total expenditure related to the registered unemployed was £483m.

The average monthly level of unemployment in 1994 in Northern Ireland was 96,400. Thus the average annual cost of unemployment and related benefits was £5,010 per registered unemployed. To this must be added additional costs such as the cost of administering benefits (£370 per registered claimant, based on GB figures); the cost of employment and training schemes, excluding Youth Training, funded by the Department of Economic Development which have the effect of reducing the number of claimant unemployed (£1,170 per registered claimant); the cost of redundancy payments (£110 per registered claimant); the cost of measures taken by local authorities to mitigate unemployment including increased use of social services and other services (£250 per registered claimant); and increased health care costs (£220 per registered claimant). This gives a cost of £7,130 per annum per registered unemployed.

The loss of 55 jobs in the Down Lisburn Trust will have a knock-on effect in the local economy resulting in further job loss. A multiplier of 1.15 has been used which is lower than that used in the Royal Hospital audit to take into account the lower average earnings of staff affected by the tendering process. The loss of 55 health service jobs will lead to the loss of about 8 additional jobs in private services in the Down and Lisburn local economy.

The Government not only incurs additional expenditure as a result of job losses but it also suffers a loss of Income Tax, National Insurance contributions from both employees and employers, and a loss of VAT and indirect taxation as a result of lower consumer spending. We have estimated this loss of income using 1995/96 Tax information on current rates of 20% and 25% and personal allowances for single and married persons and National Insurance contribution rates. The loss of

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income tax is estimated to be £260 per annum, the loss of National Insurance contributions at £385 per annum and the loss of VAT and indirect taxation at £100 per annum. The total cost per registered unemployed is thus £7,875 per annum. The loss of 63 jobs would cost £495,000 per annum.

### **The impact of reductions in input hours**

We have assessed the impact of reductions in input hours, the elimination of the bonus scheme for some 43 catering staff in Down, and a proposed reduction in overtime (see Part 2). Based on current tax rates and allowances we estimate that the Government will suffer of loss of income tax of £57,500 per annum. The combined loss of employee and employers National Insurance contributions is estimated to be £35,000 per annum. The loss of VAT and indirect taxation is estimated to be £20,000 per annum based on 62% of earnings spent on general consumption and indirect taxation on consumption of 14%.

Staff working less than 16 hours per week would be entitled to claim Income Support which an income related benefit to provide financial help for those in work but whose income is below a minimum level. Some staff working more than 16 hours per week would be entitled to Family Credit. Assuming that only 20 additional staff claim Income Support and another 20 claim Family Credit this will cost some £50,000 per annum based on current benefit rates.

### **Summary**

The total cost of tendering to the Government will be £657,500 per annum.

### **Corporation Tax payments by contractors**

The Government would receive Corporation Tax from contractors if the work is contracted out. We carried out a detailed analysis of the Corporation Tax payments made by contractors for the Equal Opportunities Commission study into the gender impact of competitive tendering in local government. The Government constantly refers to the Corporation tax payments made by the privatised utilities to support their privatisation policies. However, our research shows that private contractors pay a very low level of Corporation Tax (Centre for Public Services, 1995).

We examined the accounts of 20 companies including 10 firms in the cleaning and catering sectors. This included ISS, Compass and Gardner Merchant, three of the firms invited to tender in the Down Lisburn Trust.

The information was obtained from company annual accounts submitted to Companies House. Three years' accounts, 1991, 1992 and 1993, were examined. A three year period was selected to give a more comprehensive and fairer picture of company performance. The accounts of subsidiary companies engaged in competitive tendering were used whenever possible, although in nine cases the main or parent company accounts were used. Even when subsidiary companies

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were used as the basis of the analysis, the accounts reflected contracts operated in both the public and private sectors. Contractor's financial reporting periods varied, for example, year ending 31 March, 30 September or 31 December. UK Corporation Tax rates were 34% in 1991 and 33 % in 1992 and 1993.

The data also reveals that contractor's Corporation Tax payments represented an average of 2.1% of their annual turnover. In other words for every £1m of contract value private contractors pay on average a mere £21,000 in Corporation tax. This is in effect a very low tax rate and will have only a marginal effect in reducing the public cost of tendering.

### VAT payments

Valued Added Tax (VAT) charged by contractors does not represent additional income for the Government. VAT is charged by contractors but paid by the client, ie the local authority. Services bought in by local authorities are eligible for a VAT refund. In some cases both DSO and private contractors invoices for services supplied will contain VAT on the purchase of goods. VAT on these goods is also eligible for a refund as the goods are incidental to the supply of the service in the performance of a contract.

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Part 3

# Myth and reality of Down Lisburn Trust 'savings'

## Health service 'savings' in Northern Ireland

It is interesting to note that the the Government's Expenditure Plans and priorities 1995/96 to 1997/98 report that the Department of Health and Social Services market testing programme for the current financial year includes £1.8m of new market tests and £24.9m of retendering. Significantly, there is no reference whatsoever to 'savings'.

The same report two years earlier had claimed that 'savings' in Northern Ireland Departments had averaged 28.4% in the 1987/88 to 1991/92 period.

We have also researched for information on 'savings' from databases such as the King's Fund Centre for Health Services Development and the Public Services Privatisation Research Unit but they were unable to provide any evidence of a detailed examination of health service competitive tendering 'savings' .

The Government has consistently claimed savings of 20% from competitive tendering in the NHS, Civil Service and local government. However, they were forced to concede that savings in local government were on average 6.5%, less than a third of what they had claimed, following detailed Government funded research (which also confirmed our own research findings). There has been no comparable research into savings in the the NHS or Civil Service, hence the continued application of the 20% figure. Whilst a strict comparison with local government would not be valid, evidence suggests that savings are substantially lower than those claimed.

We firmly believe that the level of savings in the NHS has been overstated. We consider that if all the costs below are taken into account the actual savings will be between 7.5% - 10%. Thus on a £3m contract initial savings of between £225,000 and £300,000 could be expected. However, there are substantial other costs described below, which must be taken into account.

## The Trust's Budget

Tendering is likely to show a reduction in its budget for hotel services. This would hardly be surprising since it is primarily achieved by redUCing jobs and cutting input hours. This represents neither innovation nor increased effectiveness.

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However, the apparent saving in one budget must be considered together with other costs incurred by the Trust and with costs incurred by the Government.

The tendering process has a number of costs which are rarely taken into account. These include:

- The cost of carrying out the tendering process including the preparation of specifications, tender adverts, the in-house bid. Experience shows that they are likely to be about 2% of the contract value. Thus a £3m contract will have tendering costs of about £60,000 per annum spread over the length of the contract.
- Client side costs including monitoring of the contract and contract management costs are usually about 5% or 6% of the annual contract value - about £150,000 per annum. This may include additional monitoring staff which the Trust may have to employ to monitor the contract.
- The full costs of redundancy and early retirements related to the tendering process must also be taken into account.
- The cost of any capital expenditure specifically related to tendering
- The cost of compensation payments made to staff as a result of successful claims of unfair dismissal and failure to properly consult under the TUPE regulations.
- The cost of contractor's claims for additional or non-specified work over the length of the contract.
- Changes made by client officers to the level of service over the length of the contract. These may reflect changes in the level of demand, meeting unforeseen circumstances and so on, and are, nevertheless, usually increased costs which would reduce any initial 'savings'.

Together these costs can add up to a substantial erosion or even elimination of 'savings'.

### **'Savings' transferred into patient care**

Patient care must be fully and properly funded through the Trust's main budget and must not be dependent on 'savings' being generated by tendering. Part of any 'savings' transferred to patient care are in effect helping to offset increased health care costs related to higher levels of unemployment.

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## Part 4

# Increasing Poverty and Inequalities: The impact in Lisburn and Down

### Compounding deprivation

An analysis of relative deprivation in Northern Ireland, carried out for the Department of Finance and Personnel (Manchester University, 1994), showed that Down ranked 16th, 12th and 11th respectively in the degree, intensity and extent of deprivation in the 26 Districts. The figures for Lisburn were 23rd, 13th and 18th respectively.

However, the report specifically refers to Lisburn as an example where they "appear more deprived on intensity than on degree, reflecting their broad mixture of rural, commuting and industrial sub-areas included within their administrative areas. This means that, while overall their degree of deprivation is not high, at sub-district level they contain areas of intense deprivation."

A further analysis of 352 wards showed that the Lisburn wards of Twinbrook (16th), Kilwee (17th) and Colin Glen (45th) were amongst the most deprived wards in Northern Ireland. The Tollymore (78th) and Flying Horse (85th) wards in Down were in the next group of most deprived wards.

A wide range of indicators of deprivation were used in the analysis and were grouped under the following headings:

#### Environment

- health
- shelter
- security
- physical environment

#### Skills/Socialisation

- education
- family

#### Resource base

- income
- jobs

We have not been able to obtain any quantitative information about the residential

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location of the 482 staff affected by the contract. However, a significant proportion of staff live in the wards with relatively high levels of deprivation.

The tendering process will intensify deprivation in these wards.

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