European Services Strategy Unit
(Continuing the work of the Centre for Public Services)

Barnet UNISON Briefing

Why a 'thin client' is a bad policy

September 2012

This five-part Briefing examines:

1. Council and client responsibilities
2. Commissioning – separating client and contractor responsibilities
3. Barnet Council's 'thin client' plans
4. Resources required for contract management and monitoring
5. Consequences of under-resourcing the client function

1. Council and client responsibilities

Barnet Council, like all local authorities, has statutory or legal duties, service, financial management and other responsibilities irrespective of whether the service is provided in-house or is outsourced to the private or voluntary sectors. They include:

Firstly, to plan and control development and to ensure environmental, health and safety and other regulatory frameworks and standards are maintained.

Secondly, to plan and design the provision of functions, facilities and services that fulfil its legal duties and community needs, meet quality of service performance standards, equalities and diversity and implement public service principles and values. This includes developing strategies and policies that seek to implement the Council's corporate policies and priorities.

Thirdly, to obtain value for money and best value in the management of public money and public assets, and from suppliers of goods and services and construction contracts.

Fourthly, to integrate the provision of services and functions and take a holistic view of the Council's responsibilities for community well being, public health and the local economy.

Fifthly, to be a good employer that values workforce development, training and family friendly policies.

Finally, to be democratically accountable in decision-making and scrutiny, enable community participation in governance and the decision making process and to meet the ethical standards of local government.

Contract management and monitoring is only one client responsibility.

2. Commissioning – separating client and contractor responsibilities

When services are provided in-house there is no need for a strict division between the planning and design of services and their delivery. There is scope for more integrated and coordinated services with shared objectives. However, commissioning separates the client and service delivery functions of the Council into two different divisions or organisations with different interests and objectives. Commissioning requires a procurement process to select a service provider with public, private and voluntary sector contractors competing to win the contract. Remaining in-house services are treated as if they are commercial contractors. Commissioning means mainstreaming procurement and contracting across all services to create markets for the supply of public services.

In effect, in-house service reviews and improvement plans are replaced by options appraisals, business cases, procurement and a contract culture. The Council has to manage increased risks, which are inherent in procurement and contracting. It also results in staff being transferred between public, private and voluntary sector companies as contracts are won or lost.

So how resources are divided between client and contractor functions is vitally important, particularly when public spending cuts are imposing intense pressures to reduce the cost of both functions.

Barnet Council's poor commissioning track record

The Council's transformation and commissioning track record has been closely examined over the last four years. The methods and approaches to service improvement, options appraisals, business cases and procurement revealed fundamental weaknesses. Furthermore, its poor track record in managing and monitoring relatively small contracts raises key questions about its ability to manage contracts that are up to fifty times larger.

> *"These failures were a result of weak client side and poor contract management and failure to monitor contracts; inadequately resourced internal audit and assurance; a lack of recognition of the risks of outsourcing; and ineffective Oversight and Scrutiny and ability to challenge"* (Barnet UNISON, 2012).

3. Barnet Council's 'thin client' plans

The concept of a 'thin client' is taken from information technology. The term 'thin client' is used when computing is carried out on a 'virtual desktop' - a simple computing device that does not have a hard drive or other moving parts - relying on the server for all computing resources. This approach is claimed to lower costs, simplifies management, increases productivity, and improves versatility and flexibility.

Although 'thin client' computing can assist the Council in its client duties, it is not a substitute for a properly resourced team of client officers.

A 'thin client' usually means that the Council is increasingly reliant on **self-monitoring by private contractors**. In other words contractors monitor their own performance and either pass on this information to the Council or the Council has access to the contractors information system. The Council relies on spot-checks by its monitoring officers to determine the extent to which the contractor has met performance standards and targets and the financial deductions for poor performance that determine the monthly contract payment. Of course it is essential that the contractor monitors its own performance, but this should not be the prime source of monitoring information.

The 'thin client' also relies heavily on Key Performance Indicators (KPI), which are **broad indicators to show the overall performance of the service.** However, they report on general performance and must be supported by detailed performance information obtained by monitoring frontline service delivery and taking account of the views of residents and service users.

Self-monitoring also means the Council becomes over-reliant on the contractor to supply it with information and intelligence about how services are performing and the needs of residents. The 'thin client' often leads client officers to rely on the contractor to consult with residents on performance and service delivery.

Client costs in the Customer Services and New Support Organisation business case

The CS/NSO Business Case update proposed retained client costs of 7.7% of gross expenditure (2011/12) on the services in scope in year 1 of the contract, falling to 6.5% from year 3 onwards. The Council claimed that a client-side of 6.5% *"…is in line with the market norm"* in response to Barnet UNISON's concerns that the client will be under-resourced. It also claimed that "…financial and commercial advice from the Council's implementation partners Agilisys and Impower on the expected requirements of the management and monitoring of a strategic partnership" (London Borough of Barnet, 2012). It failed to recognise that Agilisys is a *contractor* with several strategic partnership contracts and is thus operating in dual role!

Client costs in the Development and Regulatory Services Business case

The first Development and Regulatory Services Business Case contained client-side costs of 7.5% of gross expenditure (London Borough of Barnet, 2011a). However, the Business Plan update in December 2011 reduced this figure to 2.5%! (London Borough of Barnet, 2011b).

> *"2.5% of service costs were deducted from the indicative revised gross expenditure figure in order to account for the commissioning council (client side). This has been revised from the previous figure of 7.5% as it is expected that the balance required to undertake regulatory functions will be met by the provider"* (London Borough of Barnet, 2011b).

The cost of the public sector client function is usually between 7%-13% of the service budget (Barnet UNISON, 2012). The cost of administration in the NHS was about 5% of health-service expenditure until the 1980s, after which it soared to 12% by 1997. In 2005 it was estimated to be 13.5% of NHS expenditure (study by the University of York) reflecting the increasing role of market mechanisms, commissioning, outsourcing and PPPs (House of Commons Health Committee, 2010).

Barnet Council's planned client-side resources are significantly below the minimum required level. The Business Plan update of 2.5% retained client cost was £266,782 per annum, equivalent to about 6.5 staff.

Five important issues are evident.

Firstly, the resources for the retained client are totally inadequate. The amount allocated would hardly be adequate to fund contract management and monitoring, leaving nothing to fund other client functions.

Secondly, the assumption that *"…the balance required to undertake regulatory functions will be met by the provider"* is likely to be a gross error of judgment. It undermines the concept of partnership, because the Barnet Council would either be simply monitoring the contract or carrying out some other client functions and not monitoring the contract. It could not do both on such meagre client resources.

Thirdly, the same contractor that is responsible for service delivery cannot carry out client functions; they cannot be both gamekeeper and poacher!

Fourthly, outsourcing does not automatically reduce client responsibilities. In fact, they create new and additional responsibilities to manage and monitor contracts, a client function in which the Council has a poor track record, particularly with larger and more complex contracts.

Finally, it is a high risk strategy to copy other local authority strategic partnership arrangements when these authorities have experienced a 25% performance failure rate and have consistently under-resourced contract management and monitoring staffing levels (Barnet UNISON, 2012).

4. Resources required for contract management and monitoring

Local authorities with strategic partnership contracts have frequently under-estimated the client resources needed to manage and monitor the contract. An Audit Commission research study examined fourteen strategic partnerships and concluded:

> *"With the exception of one council, the level of resource is low relative to comparable data on the cost of managing external contracts. Office of Government Commerce guidance suggests that 2 per cent of the contract value is typical of all government procurement, including goods and services. Experts on PFI contracts put the figure at approximately 3 per cent, and unpublished research undertaken by Compass Consulting suggests that the optimum figure for managing IT service contracts should be as high as 7 per cent. These figures suggest that increased complexity in contractual arrangements requires higher contract management costs.*

We would anticipate that, at least for large or multi-functional SSPs, ***councils should expect to invest at least 3 per cent of the contract value to resource client-side management.*** *This should be considered when undertaking appraisals of different options for service delivery"* (Audit Commission, 2008).

If client costs are 10% of gross service expenditure, then contract management costs will be 3% of the contract value or 90% of the gross expenditure and thus 2.7% of client costs.

A good practice contract management framework has four components – structure and resources, delivery, development and strategy – with a series of key activities in each of the eleven areas of the framework (National Audit Office and Office of Government Commerce, 2008). This should be the starting point for developing the Council's contract management and monitoring system.

The good practice contract management framework

Source: National Audit Office and Office for Government Commerce, 2008.

5. Consequences of under-resourcing the client function

Under-resourcing the client function can result in:

- **Poor or inadequate planning and design of services that will ultimately increase resident dissatisfaction of Barnet Council services.**
- **Inadequate monitoring of a contractor's performance potentially resulting in failure to identify the actual level of performance and ability to impose financial deductions for poor performance.**
- **A loss of information about the problems and issues in frontline service delivery.**
- **Inability to fully respond to resident's complaints and understand the reasons why they have made them.**
- **Constraints on the scope and detail in assessing community needs and well-being**
- **Limit management's ability to research and obtain up-to-date information and intelligence about technological change, trends and developments in service sectors and markets.**
- **Failure of the contract to meet financial savings because of the above shortcomings.**
- **Inadequate information and analysis presented to elected members and scrutiny.**
- **Wider use of costly management consultants and advisers**
- **Failure to obtain value for money.**

Barnet Council could both significantly under-resource the client function and under-resource contract management and monitoring. The 'thin client' strategy could have a very significant impact on the quality of services, the Council's corporate objectives, increase risks and compound the problems already evident in managing contracts.

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