CSO/NSO
Options Appraisal
Trade Union Response

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

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The **European Services Strategy Unit** is committed to social justice, through the provision of good quality public services by democratically accountable public bodies, implementing best practice management, employment, equal opportunity and sustainable development policies. The Unit continues the work of the Centre for Public Services, which began in 1973.

Summary of Key Risks to the Council

1. Delivering Savings – Relentless drive for Efficiency

There is a **significant risk** that the Council will not achieve the forecasted £100 million savings for following reasons:

- Over reliance on the private sector to deliver savings without a proven record.
- Poor understanding of outsourcing models as reflected in the scoring.
- No evidence based economic assessment & financial projections for each service delivery model.

Somerset CC has decided to renegotiate the strategic partnership contract with IBM. Just three years into the ten-year £400m contract, the Council has decided to bring some services and functions back in-house, change the governance of the JVC, and simplify the contract (Cabinet Member Decision, 21 February 2011). The Council considered terminating the contract but this was ruled out because of early termination financial penalties and significant transition costs. Planned savings have already plummeted by a third.

2. Value for Money

There is a **significant risk** that the council will not achieve **value for money** for the following reasons:

- No assessment of costs and benefits for each service (business) delivery model.
- No forecast of affordability and no financial projections for each service delivery model.
- No analysis of **business** risks for each service delivery model.
- Little or no recognition of interdependencies between services resulting in a flawed options appraisal outcome.
- Issuing an OJEU notice in the absence of in depth business case and Gateway review.

The recent Catalyst dispute, which resulted in the Council bearing an additional cost of £10.3m illustrates the risks.

3. Challenge

There is a risk of external challenge for the following reasons:

- No evidence that service users have been consulted about the design of the Customer Services Organisation.
- No recognition or concern for democratic accountability and transparency when assessing each service delivery model.
- No evidence of Equalities Impact Assessment when assessing each service delivery model.

The 2009 Sheltered Warden Judicial Review incurred both financial and reputational costs.

Detailed Comments

High-risk strategy

The Council is pursuing a **high-risk** strategy by not examining the risks of each option, which should be a fundamental part of options appraisal. The Appraisal is devoid of recognition and identification of the risks associated with each option except in a general sense in Appendices D and E. **Weaknesses are not the same as risks.**

The section on Strategic Partnership states "…and risk for service delivery will be transferred" (page 31). The Incremental Partnership again states, "service delivery and commercial risk is passed to the partner for all transferred services" (page 31 and 39). Some risks will be transferred but not all, and new risks arise which are specific to each option. This is naïve.

The risks of a strategic partnership include:

Table 1: **Risk Register for a strategic partnership**

Risk	Rank
1. Financial savings are lower than planned	**HIGH RISK**
2. Value for money not achieved	**HIGH RISK**
3. Failure to increase service user satisfaction	**HIGH RISK**
4. Unanticipated additional costs	**HIGH RISK**
5. Delays in transformation implementation	**HIGH RISK**
6. Failure to improve quality of services	**HIGH RISK**
7. Outsourcing Council services reduces scope of NSO	**HIGH RISK**
8. Contract monitoring is inadequate	**HIGH RISK**
9. Inadequate governance arrangements	**MEDIUM RISK**
10. Failure to draw in other public bodies	**MEDIUM RISK**
11. Impact on Staff	**MEDIUM RISK**

1. Delivering Savings

Page 29 Appendix A states that they analysed baseline performance, cost and quality. There is no explanation of what this baseline was based on. Further down the page it states that a business case will provide a more detailed baseline for the preferred option. However this means that the options ruled out have been **ruled out with partial evidence.**

The CPA report relating to Liverpool City Council (LCC) published in February 2008 followed by an IDeA peer review of financial management in LCC identified the following:

- The council had been **overcharged** (at a conservative estimate) by £19m
- The **cost** of the contract could be **cut** by £10m a year
- Transparency and agreement on future investment were problematic
- There **needed** to be an **effective** and transparent **governance** structure
- The council could **save £23 million** annually by taking the work in-house

Evaluation matrix and methodology

Price: No analysis of a projected total cost of each option, nor any evidence of the transaction costs for the different options.

Investment: Upfront investment would be low i.e. spread over the life of the contract. See further comment under paragraph 5 below.

Income Generation: The ability to generate additional income is roughly an equal responsibility shared between Barnet and other local authorities and public bodies. Therefore, the **award of one point for the in-house transformation is unwarranted** and should be at least the same as a consultant-led transformation.

The current marking may reflect an assumption that the private sector is more successful in generating income, **yet there is no evidence to support this**. Although a private partner may increase income generation opportunities at least half the benefits would have to be shared with the contractor. Furthermore, strategic partnerships have a poor record in obtaining additional work from other public bodies and **stimulate local economy** through job creation.

Pace: Throughout the **appraisal the scoring for in-house is the same in all services** on pace as the other options (except consultant led in-house). However on p37 it says; "Any in-house option will deliver faster than a partnership with a private sector because there will be no requirement for a lengthy procurement process."

Flexibility: This theme includes ability to work with other local partner organisations – **but there does not appear to be any interest in this**. It is given a low weighting throughout the scoring, yet flexibility is key to all other criteria.

Performance*:* Future performance is subjective based on analysis of current and past performance and evidence gathered from other local authorities. This must be based on research and intelligence, not simply benchmarking data. One criterion is a service "readily" available to deliver high performance service. There is no explanation of what what "readily" means. Staff morale will affect performance!

Service transformation*:* The in-house options scores low on Service Transformation (p38) because the Council has a poor track record. Barnet Council has a poor and costly track record on outsourcing and privatisation, which seems to have been ignored.

Weightings*:* The weightings applied to service evaluations change from one service to the next **without** providing any rationale for the figures selected. E.g. the price weighting for the CSO is 15%, for Estates it's 20%, for Finance the figure is 25% etc and yet the explanation for weighting under "consideration" for each service is the same.

Revised Evaluation Matrix

Please find below our scoring **based on the limited information provided in the Option Appraisal process and limited to the selected evaluation criteria.** Additional criteria, such as governance and equalities, should be included in the matrix.

The original senior officer figures of the report are shown in brackets.

Table 2: **Revised scoring of options**

	In-house		**Public Sector Partnership**	**Private Sector Partnership**		
Theme	In-house Transformation	Consultant-led transformation	Shared Service	Strategic Partnership	Incremental Partnership	Private Sector Joint Venture
	Score	Score	Score	Score	Score	Score
Price	3 (3)	2 (2)	3 (2)	4 (5)	4 (4)	4 (4)
Investment	3 (1)	3 (1)	3 (2)	4 (4)	3 (3)	4 (4)
Income generation	2 (1)	2 (2)	2 (2)	2 (3)	2 (3)	2 (3)
Pace	3 (2)	4 (4)	2 (1)	2 (2)	2 (2)	2 (2)
Flexibility	4 (4)	3 (3)	3 (3)	3 (3)	3 (3)	3 (3)
Performance	3 (3)	3 (3)	3 (3)	3 (4)	3 (4)	3 (4)
Service transform.	3 (2)	4 (4)	3 (2)	3 (4)	3 (4)	3 (4)
Governance						
Equalities						
Total	**21 (16)**	**21 (19)**	**19 (15)**	**21 (25)**	**20 (23)**	**21 (24)**

2. Value for money

The **absence** of financial projections, scoping analysis and economic appraisal indicates that a value for money assessment has not been undertaken. This also indicates that the options appraisal is a ‘work in progress’ and significant additional work is required before a business case can be completed, let alone consider procurement.

There is virtually **no financial** information other than historic budget totals, probably prepared on incremental basis rather than zero based approach, dating back to 2007/08 plus a breakdown of gross expenditure and income for each service. There is **no analysis** of how the budget for each service is likely to be affected by planned spending cuts for 2011/12 and subsequent years.

There appears to be some **confusion** between ‘income’ and ‘income generation’. Firstly, no information is provided on the sources of income for each service and the extent to which it is internal or external and from which sources. Secondly, income generation is normally referred to as the extent to which a service can generate additional income from undertaking work from other public bodies in Barnet and/or other local authorities or from user charges. However, the low score of the shared services option appears at odds with this approach. There is no information on the **price elasticity of demand** and therefore the income projections for each service delivery model cannot be relied upon.

The presentation ‘Changing our Support Services’ include a slide (No. 32) that an OJEU would be produced in April 2011 followed by the business going to CRC for approval in May 2011. This is **not best procurement practice** and exposes the Council to additional **financial and reputational risks**.

No reference is made to **Gateway Reviews** and how they will be included in the procurement process as part of a validating and learning process. This is further evidence of an unseemly rush to commence the procurement process with a project that is ill-defined, lacks consultation with services users despite the project being central to the ‘new relationship with citizens’, minimal scrutiny and with no peer review to draw on best practice.

3. Failure to increase service user satisfaction

The document sets out the principles for improving service users access to the Council, the performance of staff assisting them and increasing opportunities for online transactions. The report does not explore how service user satisfaction will be delivered for each of the service delivery models. The options appraisal does not address the future vision of the Council, how this will be affected by the outsourcing of other services and the implications this could have for service users.

It is of concern that an options appraisal for a new Customer Service Organisation for Barnet citizens and proposals affecting over 900 staff there is **no evidence** of **Equalities Impact Assessments** when assessing each service delivery model.

4. Unanticipated Additional Costs

Somerset County Council and Liverpool City Council have incurred significant additional costs in undertaking reviews of strategic partnerships, costs that were not part of the original value for money analysis. Reviews and re-negotiating contracts often require additional legal and financial advice that further increases costs. The recent Catalyst arbitration case has cost the Council **£2 million on legal charges**.

5. Delays in transformation implementation - No private investment

The council has identified that there is a risk that “the council fails to foster opportunities investment by the private sector.” This risk will materialise if the private sector does not front-load some of the investment, and furthermore the Council will repay the costs over the contract period. These will include **higher private sector** interest rates and arrangement fees, similar to **PFI deals**.

“A partnership with the private sector will be the option best able to provide investment into the service, which would not be possible through an in-house option due to the state of the council’s finances” (page 36). This statement is incorrect. Price and investment in a SSP are the same thing i.e. they are both financed by the Council. The private sector may frontload some investment but this will be repaid by the Council at private sector interest rates plus financing arrangement charges. This is the same principle as PFI. Page 39 corrects the above statement but raises questions about the level of understanding that formed the basis of the appraisal.

The above statement implies that the private sector is going to ‘give’ Barnet some investment which is additional to the contract price for the service. This statement, coupled with the ‘strengths of the strategic partnership model on page 39, indicate a rosy and non-analytical appraisal of the evidence of the performance of strategic partnerships to date.

Furthermore, a Strategic Partnership is described as *“a relationship, not purely a contractual provision of service and the relationship with the partner needs to be equally focused at delivering wider aspirational targets, eg. transformation of the customer experience”.* It goes on the claim that this model *“can make a much wider* *strategic contribution to the organisation by delivering additional external benefits"* (p33). The contract will have to identify what the private sector will be expected to deliver. Extras cost money. It will be a contractual relationship, not some loose partnership. Transformation of the customer experience will be a core part of the contract and the council will have to closely monitor that it gets the transformation it has set out in the objectives and the contract. There is **no reason** why the unspecified 'additional external benefits' would not be obtained from the other five options.

We are also concerned that these assumptions about the contract could lead to **underestimating** the responsibilities, contract management, staffing and cost of the client function. The Audit Commission and ESSU have reported how local authorities with SSPs have **frequently** under-estimated client side costs, which ultimately affects the level of claimed savings. The Council's own procurement track record includes this issue must be fully addressed as a matter of urgency.

6. Failure to improve quality of services - Lack of organisational and operational design

The Council appears to be relying on the private sector and the Competitive Dialogue procurement process to develop the CSO concept. This suggests that the Council 'does not know what it wants'. This is contrary to the model suggested by HM treasury see below, and further the CD procurement process was not designed for this high level of dependency.

> *"One of the private sectors main complaints about Competitive Dialogue is the tendency for the public sector to use the Dialogue phase as an opportunity to take advantage of "**free consultancy**" from the market – allowing suppliers to come forward with suggestions during Dialogue and then using this information to tailor, and often redefine, their requirements and outcomes. Doing this at the Dialogue stage it too late"* (HM Treasury Review of Competitive Dialogue, November 2010).

At the same time the Council is planning to undertake transformation to consolidate CSO services within the Council. It is vital that the Council has a much clearer idea of the CSO model because:

- The private sector is likely to produce models that fit within their experience and interests, which may not align with those of the Council and Barnet residents.
- The lack of clarity could cause delays in the Competitive Dialogue process and result in higher procurement costs.
- The costs and benefits of each option cannot be clearly identified or fairly compared without a model to assess them with.
- Introduces additional risks into the transformation and procurement processes.

There are **massive legislative** changes about to be made by the current government especially in relation to all benefits, which are to be replaced by a **universal benefit**. Under these circumstances it is premature to include Revenue and Benefits in this project. Their inclusion gives the impression that they have been included to create a desirable contract package rather than the needs of Barnet residents.

Further, Revenue & Benefits is currently implementing a new ICT system. This service is high performing low cost. Any attempt to impose the CSO model and therefore its breakup would be a high-risk to performance and cost.

The **poor track record** of the outsourcing of this service in London, for example, Hackney, Ealing and Southwark and nationally where this service has been returned to in-house operation. Where strategic partnerships have taken over Revenue and Benefits these have generally been high performing service *before* they were outsourced. In addition, government review of the benefits system could lead to this service being nationalised. This is another reason why it should be excluded from the project.

7. Outsourcing Council services reduces scope of NSO

The planned outsourcing of other Council services will ultimately result in a declining scope of contract for the NSO as these contractors deliver their own HR, financial and other support services. No profiling of this scenario has been provided yet this could have a very significant impact on the viability of the NSO and the level of private sector interest in the contract. In the absence of the level of NSO demand that will be required in the future it makes **no business sense** to consider this proposal at this time.

8. Contract Monitoring

The lack of adequate client and contract management resources has been a major problem in most strategic partnership contracts. The Audit Commission found a low level of resources in its study of strategic partnerships. It reported government guidance suggested between 2%-3% of the contract value should be allocated to managing external contracts but "…*unpublished research undertaken by Compass Consulting suggests that the optimum figure for managing IT service contracts should be as high as 7 per cent"* (Audit Commission, 2008). The Commission concluded:

> *"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).

9. Inadequate Governance

Many local authorities have experienced problems in maintaining democratic accountability with multi-tier governance structures involving elected members, officers together with private sector directors and managers. Backbench elected members in local authorities with strategic partnerships frequently report a lack of reporting on the partnership. Most authorities have also had difficulty determining the degree of transparency in the public interest whilst maintaining the required level of confidentiality.

10. Failure to draw other public bodies - Shared services

The political and governance implications of pooling resources with other local authorities and the perceived 'letting go' of direct control attributed to shared services is almost identical for public bodies in Barnet (p43). The NHS, FE, Police and so on face the same issues. There is no analysis of the potential scale of a One Barnet project and the current focus is on a One-Council approach. The set-up costs for shared services, given that they are shared, are unlikely to be as high as the costs of procurement.

11.Impact on staff

The report understates the number of lives affected by stating FTE posts rather than the actual numbers of jobs in this case 771.7 FTE is equivalent to about 940 full and part-time jobs. Strategic Partnership and JVC are so close in scores as to be the same given the crudeness of the exercise – no evidence is provided as why secondment has been rejected. There is no evidence that a **secondment option** has been fully considered.

Several statements in Appendix E regarding the impact of the options on staff are inaccurate, for example, the "limited investment opportunity for upskilling" in both the in-house and shared services options; the "staff would go through a major transformation programme" in shared services (surely this is applicable to all the options); no recognition in the outsourcing options that new staff will be on the same terms and conditions and that a two tier workforce will be created; the statement that "staff should gain access to a wider pool of expertise" is in practice only potentially applicable to a very small number of staff and would also apply to the in-house consultant led and JVC options; several statements in the JVC section are very negative describing situation that could arise in all the options; and to claim that "staff confidence dip due to finite venture" is applicable to all the outsourcing options but has been omitted.

Consultation with trade unions

The trade unions welcome the more open approach which has provided an opportunity to comment on the options appraisal before it goes to CDG and CRC. However, having an embargoed copy for the branch secretary does not allow the trade unions to consult with the members who are affected by the appraisal. The timetable does not give the trade unions sufficient time to adequately assess the proposals. We urge again that staff and trade unions should be involved in the options appraisal process, not simply having the opportunity to comment on the conclusions of the appraisal.

References

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