

Southampton
UNISON

**Analysis of
Strategic Services
Programme Bids
and an
Alternative Strategy**



**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.

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Executive summary

The assessment of the Strategic Services Programme reveals that:

- Major questions about the affordability of the programme – there is a £7.2m gap on Capita's standard bid alone. There is less than a million pounds difference between the Public Sector Comparator and Capita's bid.
- The original Outline Business Case (OBC) produced by PA Consulting in 2005 concluded that the Council could achieve a surplus of £19.6m over the ten-year contract period. In January 2006 this was revised down to £4.7m - less than twenty percent of the previous OBC completed only a year earlier. Now there is a £7.2m funding gap.
- The private sector will only invest a relatively small sum in a Regional Business Centre which they will own and operate and recoup the cost through leasing back to the City Council.
- The vast bulk of the claimed savings promised by the two leading bidders are conditional on Property Services, Human Resources and Revenue and Benefits being Phase 1 services which contradicts the City Council's decision earlier in this year for a phased approach.
- The Bidders enthusiasm for the inclusion of Property Services and the higher level of claimed savings indicates that the private contractors will also be making significant profits from the inclusion of this service.
- The ITN assumed that the Bids would allow the City Council to reduce its accommodation needs and cost. Neither the Capita or BT bids allow any savings, in fact both will involve a major accommodation exercise to relocate Council staff from Southbrook Rise and co-locate staff involved in the partnership. This will involve "considerable disruption.....across the whole council" and cost.
- The bidders are devoid of any proposals to increase employment except for vague statements.
- The bidder regeneration proposals are weak and rely solely on property-led regeneration.
- Only BT is committed to a full secondment model which the City Council believes is not a legal option. The TUPE and the 'choice' employment models impose significant and unacceptable risks for staff.
- The City Council obtained a legal opinion from Nigel Giffin QC on the employment models. The questions in the instructions were clearly biased against secondment. Other QCs would almost certainly have different interpretations although it is not possible to determine the degree to which they might differ from the opinion sought by the City Council. The Opinion gives short shrift to the questions about secondment being a 'fiction' and to the LGPS challenging a secondment decision.
- Whilst the City Council has emphasised that staff are an important asset, the City Council's response to the original Employment Risk Matrix makes a wide range of positive assumptions about private sector practice which are not borne out by evidence.

- Continuing the procurement process will have a negative impact on Council Services as detailed in Appendix F. Other important strategic work will be at a standstill. The work required in Property Services will be extensive in order to accurately estimate whether the Bids are affordable and in the Council's interest.
- We have not seen the details of the risk assessment. This usually benefits private sector bids because of the assumptions about risk transfer. The transfer of risk is frequently exaggerated as demonstrated by most PFI and SSP projects. The political risks of service failure cannot be transferred to the private sector. Elected Members should not be misled over the mathematics of risk transfer.
- The proposed exclusive negotiations with Capita cannot be justified given the above conclusions. Whilst the BT and Serco bids should not be taken further for financial/quality reasons, the Capita bid is conditional and has many limitations noted above. The option of "Abandon the process and look towards in-house improvements" in Appendix A should be taken now rather than in January 2007 after which the City Council has used more resources in the procurement process when another viable option is available to it.
- The inclusion of the Capita summary document in the report to Council and Cabinet (Appendix C) is questionable. This document presents a series of savings statements and business growth which merge the Standard and Variant bids and exclude all reference to the conditions imposed by Capita in order to achieve these benefits.

Shared services strategy

The City Council should develop a public sector Solent Shared Services Strategy with Havant BC and other neighbouring local authorities. It is likely that other local authorities will be more enthusiastic cooperating with the City Council directly than joining a private sector project which they had not been involved.

The Comprehensive Spending Review 2007 Interim Report indicates that the shared services agenda will be accelerated and those authorities which have been reluctant to participate to date will be under increasing pressure to do so (HM Treasury, 2006).

The City Council should immediately:

- Merge the skills developed by the existing Business Process Reengineering team with those of the SSP project team and other relevant staff.
- Divert the expenditure planned for the SSP to this new project team.
- Plan and design an in-house strategy drawing on the experience of Kent, Newcastle and other local authorities which adopted an in-house approach. This would include:
 - an affordable implementation plan;
 - a capability review to determine which elements of the programme could be obtained in-house and which require sourcing using 'best in class' procurement;
 - A joint officer/Elected member approach to other local authorities and public sector bodies in the Solent to seek their involvement in a genuine public sector shared services strategy.

- An implementation plan which was geared to affordability and capacity to deliver to ensure that the project achieved maximum effectiveness and there is no negative impact on frontline services.

At least nine local authorities have considered a SSP, and in some cases reached the preferred bidder stage in the procurement process, before deciding that an in-house approach provided value for money and was affordable.

A public sector Shared Services strategy could be funded from a mixture of revenue savings from the Business Process Reengineering, prudential borrowing – good performing public bodies are allowed to increase investment based on their ability to meet loan charges (this is not available to fund an outsourcing contract), leasing arrangements, various government programme and project grants, the capital investment programme and the use of reserves to pump prime initial investment.

Recommendations

UNISON makes the following recommendations to the City Council:

- 1) The Strategic Services Programme procurement should be terminated and an in-house strategy should be developed as outlined in Part 6.
- 2) The City Council should develop a public sector Solent Shared Services Strategy with Havant BC and other neighbouring local authorities.
- 3) It should retain the agreed incremental approach to the project starting with Phases 1 and 2 and only progressing to other services following rigorous appraisal and evaluation.
- 4) If the City Council decides to proceed with the procurement process it should further investigate the legal implications of a full secondment model.

Part 1

Introduction and context

ITN issued

The City Council issued the Invitation To Negotiate (ITN) in 2006 and received three bids from BT/Carillion, Capita and Serco. Earlier in November 2005 the City Council had also shortlisted Fujitsu Services and Vertex Data Science but they later withdrew from the project.

The Council and the Cabinet meetings in January 2006 decided that the project should be undertaken in phases:

Phase 1/2: IT and Customer Contact Centre.

Phase 3: All other services including Property Services, Human Resources and Payroll.

The ITN required the bidders to submit a Standard Bid for Phase 1/2 which had to satisfy the Customer Services Output Specification and the IT Services Specification. However, it also allowed the submission of Variant Bids which could include the stated Phase 3 services, and others, in Phase 1. Not surprisingly, the bidders Variant Bids proposed abandoning the City Council's phasing and condensing all the services in one phase.

It is also important to note that full specifications were not prepared for the Phase 3 services. The Bids were therefore based only on indicative prices. Bids were not included in the Evaluation Scoring but Bidders were expected to meet a threshold score of 3 for each of the Phase 3 services to demonstrate they had the ability to deliver these services.

UNISON concerns

UNISON has expressed a range of concerns over the Strategic Services Programme and the procurement process.

The European Services Strategy Unit (ESSU) was commissioned by Southampton UNISON to advise the Branch during the procurement process and to assess the bids with regard to their impact on staff, the City Council, service users and the local economy. The City Council made available certain parts of the bids as a result of an Information Agreement made between the City Council with UNISON and the ESSU.

We did not have access to the financial data in the bids except that of a general nature contained in other parts of the bids.

This report is for UNISON Southampton City Council branch for internal use within the City Council. It will not be published by the ESSU.

The analysis also draws on the extensive experience of the European Services Strategy Unit (continuing the work of the Centre for Public Services) of SSP projects in other local authorities.

Part 2

Standard and Variant bid proposals

Introduction

Bidders were required to submit a Standard bid and could also submit one or more Variant bids. There is some confusion in executive summaries in the presentation of Standard and Variant bids. For example, Capita's overview of Key Benefits state savings of between £15m - £30m and "up to £10m investment" are misleading between they combine the benefit of Standard and Variant bids and ignore the very precise conditions imposed by Capita in order to access savings and investment.

Standard Bids

The phasing agreed by the City Council for the Standard Bid was as follows:

Phase 1: Customer Contact centre

Phase 2: IT Services

Phase 3: Human Resources (part)

Payroll

Property Services

Growth: Revenues and Benefits after 2009

Debt Recovery

Further parts of Human Resources

Other defined services where there are 'good economic and service benefits'

Bidders are required to submit two options for a Standard Bid and any Variants. The first option should be a secondment option and the second should assume a TUPE transfer model. Bidders were encouraged to submit alternative hybrid or choices models as a variant Bid.

All three bidders stated that they would still be interested if the City Council decided to proceed with the Standard Bid.

Variant bids

BT

BT's Variant bid proposes that Human Resources and Payroll should be within scope from day one of the contract. It also includes all remaining Human Resources within the SSP including advice and guidance teams, caseworkers, organisational development resources and strategic HR and learning development.

Revenues and Benefits – recommend that the Unisys contract is novated to BT as part of taking responsibility for the service and would undertake a contract review, assessment of end-to-end processes.

The Variant Bid includes a plan for a full Corporate Real Estate Service by including Property Services in Phase 1. A new property strategy and rewritten asset management plan would be based on a 30%-40% reduction in the number of desks required. BT/Carillon would fund and construct a new building which the city council would lease.

ICT – extends the Standard bid by providing increased capability earlier and increases capacity to support improvements in other services. Increased level of flexible and mobile working together with increased integration.

Finance Service – Although Mainstream Finance, Accounting and Financial Management were expected to remain with the City Council, BT proposes the establishment of a Shared Service Centre for Finance responsible for processing all finance transactions across the city council. The Strategic Finance and Policy functions would remain with the city council but BT would takeover Transactional Finance and routine Financial Management.

Procurement – ‘transform the Corporate Procurement Unit into a Best Practice procurement function and separate the high value activities from lower value ones by transferring the latter to an Accounts Payable team. It would extend the current Agresso platform. Commitment to “targeting the spend locally, stimulating markets and capacity building local SMEs” (para 18.2 Variant Bid).

Adult and Children’s Services – to “expand and extend public access capability through face to face, telephone and electronic means” and to create a common ICT infrastructure to enable new ways of working.

Customer Services – the variant bid identifies further shared services opportunities, out of hours service, expansion into middle office administration, optimising the depth of serviced delivery, extending the use of CRM data, and improving Members Services.

Capita Variant Bid proposals (Service Southampton)

Include the following services in Phase 1:

- Full scope Property Services (review to release additional earlier)
- Human Resources and Payroll (with integrated service)
- Revenues and Benefits
- New Business Centre development

The additional benefits claimed for the variant bid include the expansion of citizen access channels, increased service availability, voice over Internet Protocol/call automation and a “new landmark office building plus an additional one stop shop”.

The Variant bid offers £9m savings over 10 years by including property services in Phase 1. Capita would invest £8m in a new office building to provide accommodation for the contract. This is a Capita capital investment in office accommodation which it will own and must be not be considered as private sector investment in the SSP project. Capita could be expected to invest in new facilities in areas of the country where it does not have a substantial presence. If Capita lost the contract on retendering then it would either maintain use of the building for other work or sell it to a property developer or lease/rent to the new contractor.

Serco proposals (Sea Change Southampton)

- Investment of £19m
- New offices to house ICT and Call centre staff
- Redesign and expansion of Gateway facilities in the Civic Centre.
- New processes for Customer Services
- New and improved ways of working for Customer Services staff
- New ICT projects including Customer Relationship Management (CRM) and Electronic Document Management systems.

The Variant bid includes an urban regeneration property development project for new accommodation in the Central Station area. A refurbished Gateway will remaining-situ throughout the contract.

The level of information provided by Serco, based on the information made available to UNISON, was significantly less than that provided by the other two bidders. This made it difficult to identify the proposals and their impact.

Table 1: **Summary of Variant Bid proposals**

Bidder	Variant Bid proposals
BT	All Human Resources Full Corporate Real Estate Service by including Property Services in Phase 1. Revenues and Benefits Finance Service Procurement Adult and Children's Services
Capita	Phase 1 Human Resources and Payroll Property Services Revenues and Benefits (before 2009) Affordability measures (including sale of Housing Benefit debt to Capita partner) New Build Customer Services Centre (dependent on inclusion of Property Services)
Serco	Revenues and Benefits The Asset Factor (Urban regeneration property development in the Central Station area to accommodate SSP staff.

Commentary on Variant Bids

The Variant Bids from BT and Capita are basically condensing Phases 1 – 3 into a single phase plus adding some additional services within scope of the contract. Whilst it is an advantage to seek variant bids, in this case the contractors approach undermines the political decision made earlier in the year to split the project into three phases.

Part 3

Employment issues

Introduction

Bidders were required to submit two options as part of the Standard Bid and any Variant Bid. Option 1 had to be based on a secondment employment model with Option 2 based on a TUPE transfer. “Bidders are also encouraged and invited to propose any alternative model such as a hybrid or staff choices model as a Variant Bid (para 6.1.3, Volume 1, Section 2).

Bidders were also informed that “the interests of staff and unions are paramount and key to the successful implementation of the SSP” (para 4.7.2, Volume 1, Section 1).

The City Council’s Evaluation Report states:

“...that whilst staffing model proposals would be evaluated and form part of the overall scores, the City Council did not regard the selection of the staffing model as being solely determined through the evaluation of Bids and the competitive process. Whilst the Bidders’ proposals would clearly form part of the decision process, ultimately this would be a client decision that would be taken by the full council and based on a number of factors including the views of key stakeholders affected by the decision such as staff and their representatives, legal advice on the advantages, disadvantages, disadvantages and viability of each model and affordability” (Southampton City Council, 2006).

The Evaluation Report contains significant section on the employment models plus the following Appendices:

D – SSP Staffing Models

G – Legal Opinion from QC

H – Advantages and Disadvantages of Staffing Models

This section is divided into the following sections:

- The Bidders’ employment models
- Commentary on the Bidders’ employment models
- Legal advice on employment models
- The City Council’s approach to the employment models
- Advantages and disadvantages for the City Council
- Revised Employment Risk Matrix
- Commentary

Bidders’ employment models

Standard bid employment proposals

BT

BT propose a secondment model in which all staff within scope of the contract are seconded by the Council to a Joint Venture Company using a Secondment Agreement similar to those adopted in Liverpool, Rotherham and Suffolk.

- *“Staff remain employees of the City Council.*
- *Staff continue to be paid by the City Council.*
- *Staff retain their existing pension arrangements.*
- *Staff are seconded on their existing terms and conditions of service.*
- *Staff are allowed to focus on improving service to citizens rather than worrying about an employer change or changes to terms and conditions.*
- *Staff are seconded under existing HR policies, procedures and practices.*
- *Staff are represented by their existing trade unions operating within the current bargaining and representational framework.*
- *Staff terms and conditions of service may only be changed by the City Council in consultation or negotiation with the secondees and their trade union representatives.*
- *The SPV undertakes to work within all subsequent national, provincial and local contractual changes.*
- *The City Council operates all formal procedures such as discipline and grievance procedures.*
- *New joiners to the SPV will also enjoy City Council terms and conditions of employment and be employed by the City Council seconded, to the Partnership.*
- *The SPV will be responsible for the day-to-day management and service delivery, service improvement and the development of secondees' job competencies.*
- *The City Council will continue to include secondees in all corporate City Council training, communications and development initiatives.*
- *Secondees retain the right to return to the City Council at any time with x weeks' notice. The precise timescale will be agreed at the Preferred Bidder stage.”*

Bidders were required to comment on a 'Choices Staffing Model' (R3.22). BT's response was clear cut in that they would not be submitting a Choices model.

BT concluded:

“the distinct disadvantages to this approach is that it may be difficult to ensure consistent consultation with the two types of employees, one under T.U.P.E. and the other set under Secondment. Such an approach may also cause consistency issues in relation to the Two Tier workforce. One further disadvantage would be that Manager working within Consortium may be required to manage people over two sets of procedures, payroll provision and policies. This would cause considerable increase to Managers and support unit's workloads.” (page 87 of Response Statement 3).

Capita

Capita understands that TUPE will apply and “therefore staff are free to request that they are transferred under to TUPE to the SSP provider regardless of any other options that they are offered.” They propose a model which enables staff to “...maintain a seconded position whilst minimising the potential additional performance risks associated with a full and permanent seconded workforce”

Capita produce a table of secondment positives and negatives (page 27, Response Statement 3) which indicates a clear bias with several more negatives than positives. It claims that a secondment model has the following attributes which also appear to

undermine Capita's support for a mixed model and seems to reveal the company's long held preference for TUPE transfer models:

- *"Split loyalties and general staff uncertainty – can be divisive if mixed secondees/TUPE.*
- *Proven high staff turnover.*
- *Different cultures – mixed messages/lacks clear accountability.*
- *Different HR approaches/benefits.*
- *Lack of clarity around insurance, health and safety and other procedures.*
- *Service improvement is slower and more expensive.*
- *Lack of flexibility in approach – time and speed of change would be significantly slowed.*
- *Restricts career opportunity.*
- *Regeneration growth does not happen to the same degree.*
- *Cultural change is not as effective.*
- *Employment liability remains with local authority"(ibid).*

Capita's mixed model would include the following arrangements:

- The secondment agreement would be on a personal basis and would cease if that person left the Council.
- If a seconded employee is promoted into a position which is not a position vacated by another seconded employee then they would have to transfer to Capita terms and conditions.
- Where vacancies occur in posts filled by seconded employees, Capita would decide whether that post should be filled and would be responsible for recruiting new staff on Capita terms and conditions.
- Capita want to ensure that "the proportion of staff on long term sick leave does not prevent" them delivering the service.

Serco

Serco adopt a similar position to Capita with regard to TUPE and a 'choices' model. They also believe that "the decision to opt out is a personal one" (page 63, Response Statement 3). Their 'choices' model will comprise mainly seconded staff at the start of the contract but Serco will be responsible for recruiting all new employees (on Serco terms and conditions) so that over time the workforce will comprise new Serco employees and Serco staff from other contracts.

New staff will be "offered membership of our Money Purchase pension scheme" (page 64). However, this statement conflicts with Serco's statement under Response 3.15 in which they state they are committed to applying for Admitted Body Status. If the former is correct then a two-tier workforce in terms of pension rights would operate almost immediately since money purchase pension schemes are far inferior to the LGPS and other final salary schemes.

Variation in costs of the employment models

BT: Do not provide costs in Response Statement but this is included in the response to Questions from Bidders Presentations. Include a table identifying the type of costs incurred in both options and refer to the TUPE option being based on the GAD-approved defined benefit scheme operated by BT and Carillion. However, BT's response to

R3.15.3 indicates that they would be willing to apply for Admitted Body status in the Hampshire LGPS subject to the Council's acceptance of "relevant cost indemnities".

In BT's response to Questions from Bidders Presentations (7 June 2006) it states that the TUPE price is £206.6m which is £24.2m higher than the secondment price of £182.4m. The additional sum comprises of £20m relating to a 20% overhead charge applied to the salaries of all Council staff transferred to BT to cover additional responsibilities such as training, staff appraisal and development, statutory returns plus the risks such as litigation, pension costs and redeployment. In addition, £4.2m covers the central staffing costs incurred with a TUPE transfer.

Capita: Did not disclose a cost "because it is not something we are able to do accurately at this time" but they estimate that it would require two additional experienced HR officers with appropriate support reducing as the contract develops a mixed structure.

Serco: An additional cost for secondment of £512,000 over the length of the contract for two additional management staff and additional legal fees, based on their risk profile.

Pensions

BT secondment model is the only option which guarantees retaining LGPS status for all staff. The Capita and Serco secondment models are in fact 'choices' models and the number of seconded staff would decline as the contract progressed and the number of staff on company terms and conditions increased.

Capita state that they want to offer transferring employees 'broadly comparable' pension arrangements. They offer the GAD approved Capita Pension and Life Assurance Scheme and it is assumed that their TUPE bid is priced on this scheme. Capita also state that they are 'open to discussing' the possibility of offering Admitted Body Status. It will be important to identify the additional financial cost of retaining LGPS in a TUPE transfer in a Capita bid.

In a TUPE transfer model Serco state that they are committed to applying for Admitted Body Status for all employees in scope (Response to 3.15)

Variant bid employment proposals

Hybrid employment models were requested only as part of Variant, not Standard, bids. However, the Council recognised that bidder might have their own form of secondment agreement which they wanted to use in a Standard bid. "Whilst the City Council does not wish to be overly prescriptive or rule out options prematurely, **it does need to ensure that the Bidders' secondment proposals are comprehensive and deal with all the key areas which are likely to be relevant to a secondment staffing model.**" (para 6.2.1, Volume 1, Section 2, ITN, our emphasis)

The Variant bids from all three contractors are the same as those proposed for the Standard Bid.

Commentary on the Bidders' employment models

Only one bidder proposed a full secondment model in which all staff and new starters remain City Council employees for the duration of the contract (BT). The employment models put forward by Capita and Serco are both 'choices' models in contrast to the BT model for secondment to a JVC.

Both 'choice' models are a mixture of secondment and TUPE transfers with new starters directly employed by the contractor. In these circumstances, the level of secondment would decline as the contract proceeded.

We believe the 'choices' model is flawed. Although this option gives members of staff a limited 'choice' of employer only if the decision is considered to be a person one for each member of staff. The City Council as employer and provider of public services also has a

key role in determining employment relations and safeguarding the public interest by retaining staff to maintain and increase the council's capability, capacity and enhance its intellectual capital.

Disadvantages of a 'choice' employment model

- Secondment gives staff a transitory status with the expectation that they will eventually transfer to the contractor's terms and conditions.
- It potentially creates a three-tiered workforce consisting of seconded, TUPE transferred and new starters with differences in pensions provisions. Seconded staff would remain in the LGPS, TUPE staff may or may not be the LGPS but new starters are likely to be in the contractor's own pension scheme.
- The Council reduces its capability because it will no longer have access to their skills and experience except through contractual relations with a private firm or the services are returned to in-house provision at a future date.
- Will be more costly to manage the different employment arrangements which could pressure a contractor to reduce or eliminate the secondment scheme.
- If a contract fails or parts of it have to be returned to in-house provision the secondment makes for a much easier and less costly transfer.
- Seconded staff are likely to be put under pressure later in the contract to transfer to the private contractor, particularly if they are in a minority as a result of transfers and new staff joining on the contractors terms and conditions.

The advantages of the 'choice' model for staff are that it may suit the different interests of staff, it offers the flexibility of secondment for those who do not want or have reservations about transfer to the private sector and allows them to take a 'wait and see' position.

Legal advice on employment models

The City Council obtained a legal opinion from Nigel Giffin QC on the employment models. We have not seen the instructions but the Opinion sets out the scope of most of the questions. The questions are clearly biased against secondment. They include:

- whether the Council has "power to pursue a long term secondment which it knows or believes is legally a fiction"
- whether there might be a potential challenge to the adoption of the secondment model from the Local Government Pension Scheme?
- whether "the whole exercise (would) be tainted and void because its purpose would be the avoidance of TUPE"
- whether there is any potential risk of challenge from an unsuccessful bidder if the secondment or staff choice model is selected.
- whether an employee's continuity of employment would be broken in a situation where an employee is part of a TUPE transfer and is then reemployed on a seconded basis.
- what would happen at the end of the ten-year contract with a secondment model.
- whether staff have the right to end the secondment and return to substantive posts within the Council.
- whether the Council's monitoring officer (the Council's solicitor) would have a duty to make a report under section 5 of the Local Government and Housing Act 1989 if the Council decided to proceed with a secondment of staff choice model (on the

basis that the Solicitor considered that the City Council had made a decision which was not in the commercial interests of the Council).

All legal opinion, and for that matter public policy in general, lies in the quality and 'direction of travel' of the questions.

It is also important to note that this is one legal opinion. Other QCs would almost certainly have different interpretations although it is not possible to determine the degree to which they might differ from the opinion sought by the City Council.

The Opinion gives short shrift to the questions about secondment being a 'fiction' and to the LGPS challenging a secondment decision.

The Opinion states that, on the evidence available, there is no intrinsic advantage to the Council for a secondment option, although the Council has the power to continue to employ staff and second them to a contractor. Further, based on the *Celtec v Astley* case, the Council could not "sensibly contemplate adopting a fully-fledged secondment model."

The Opinion states that TUPE would apply irrespective of the employment model adopted and staff would have to object to becoming employed by the contractor. An employee would terminate their contract of employment with the Council but without being treated as dismissed by the Council and would be reemployed to then be seconded to the contractor. Sharpe Pritchard, the City Council's SSP legal consultant expressed the view that continuity would be broken but the Opinion disagrees with this view.

The City Council's approach to the employment models

The Evaluation Report concludes that secondment model is not possible and if the Council decides to pursue secondment then the 'choice' model "is the way to achieve it."

The interpretation of the *Celtec* case are that TUPE applies in all situations and that each member of staff has an individual decision, where a 'choice' model is available, to second or transfer to the new employer. This in effect means that the interests of the local authority are irrelevant since full secondment is ruled out and the ultimate position of staff is a personal decision regarding their self-interest. Obviously protecting the employment interests of staff is vitally important, which is one of the reasons why secondment is often preferred to transfer.

But the local authority (or other public sector employer) also has an interest in retaining capability and capacity to carry out its statutory and corporate functions. Its staff play a crucial role in providing and retaining intellectual capital which provides the authority with the skills and experience to carry out its functions.

The Evaluation Report states that "dismissals and changes to terms and conditions for reasons connected with a transfer are unlawful unless they can be justified on fairly narrow grounds..." It fails to state that there is substantial evidence that contractors do change terms and conditions and the 'economic, technical or organisational' reasons are in practice relatively wide in their scope. Virtually anything can happen to a private company over a ten-year contract period.

We also note that the legal opinion is presented as fact in the Evaluation Report. Any caveats, questions or further consideration are not even considered. This position is described in a more deliberate manner in Appendix D which states that "in the light of the recent legislation and advice received, there is doubt over whether a secondment model is viable."

Appendix D includes a commentary on the Employment Risk Matrix submitted by UNISON. It dismisses virtually all the risks and put the best possible gloss on private sector practice.

- 1) It creates the impression that there is virtually no difference between public and private sector employment and that contractors carry out everything, which is in the contract. Such a perfect does not exist. The failure rate of SSP contracts and the substantial list of long delayed, over-budget and incomplete IT projects by private contractors is evidence which the City Council cannot afford to ignore.
- 2) The risk of changes to pensions is very real given the number of so called 'blue chip' companies which have closed their final salary pension schemes in recent months. The LGPS may change contribution levels and/or changes in benefits but they do not face closure.
- 3) The loss of public service ethos extends far deeper than customer care referred to in the response. The 'culture and brand' of the partner organisation will be a private sector ethos. Companies bidding for SSP contracts view local government as part of a wider market in which they can engage profitably for the benefit of shareholders.

The Table in Appendix D summarising the Bidders' employment model proposals has a number of points which require further comment.

Firstly, the comment on Capita and trade union recognition. Capita has consistently refused to sign a full recognition agreement with UNISON. We understand that negotiations are currently being held on a new agreement.

Secondly, Capita shows little commitment to seeking to ensure staff remain in the LGPS. The pensions issue is simply not simply about comparability of benefits but also comparable security.

Advantages and disadvantages for the City Council

We believe the City Council is under-estimating the advantage of the secondment model in relation to the advantages it affords the City Council. Appendix H lists the advantages and disadvantages of the TUPE and secondment/choice models for the City Council under the following headings:

- Cost benefit
- Pace of change
- Certainty of impact
- Exit
- Risks/disadvantages

However, this is a false assessment of secondment because under the 'choice model' there will be a mixture of TUPE transfer and seconded staff. It is a NOT a full secondment model and cannot be treated as such.

Furthermore, the capability and capacity of the City Council are only referred to briefly in the section on Exit with the comment that all Intellectual Property Rights and knowledge remains with the council.

Firstly, knowledge or intellectual capital it only partially remains with the Council because a proportion of staff will opt to transfer.

Secondly, the partial retention of intellectual capital is transitory because the 'choice' model is designed so that more and more staff transfer rather than continue secondment.

Thirdly, the City Council must consider the question of intellectual capital as a continuing issue, not merely as an ‘exit’ issue, ie what happens when the contract is concluded or terminated. The City Council must also consider the long term, not just the parameters of a contract. It must consider its capability and capacity to carry out its statutory functions and other roles on behalf of its citizens, civil society and business, notwithstanding the current debate on ‘commissioning organisations’ which is simplistic and unlikely to be sustainable.

The government has undertaken four Capability Reviews to date and has developed a capability framework centred on leadership, strategy and delivery. However, this framework has certain limitations because it is very process driven. It does not include the capability to implement public service principles and values, planning and researching social needs, mainstreaming sustainable development and social justice and rebuilding public sector intellectual capital (see Table 2).

This framework should be used by the City Council to assess its approach to all large projects. Too often assumptions are made about public sector capability which underestimate its capability and understate the importance of retaining and enhancing organisational intellectual capital for the future.

Table 2: Capability review

Capability reviews	
Leadership	Set direction; ignite passion, pace and drive; take responsibility for leading delivery and change; build capability.
Strategy	Focus on outcomes; base choices on evidence; build common purpose.
Delivery	Plan, resource and prioritise; develop clear roles, responsibilities and business models; manage performance.
Additional elements	
Public service principles and values	Essential base for public service management.
Planning and researching social needs	Generic planning inadequate as specific skills needed to research and plan social needs.
Mainstreaming sustainable development and social justice	Government priority but not reflected in Civil Service approach and specific skills required.
Rebuilding public sector intellectual capital	Building organization intellectual capital omitted in Civil Service model.

Source: www.civilservice.gov.uk/capabilityreviews

Revised Employment Risk Matrix

The Risk Matrix (Table 3) identifies the range of risks which are borne by staff in the Secondment, TUPE transfer and the ‘choices’ (mixed secondment and TUPE transfer) employment models promoted by some private firms.

The advantage of the secondment model is that it substantially reduces the risks of employment change which may occur when staff are transferred when a service is outsourced.

The Matrix assesses the level of risk of changes in four categories of risk:

- Risk of changes to terms and conditions of service
- Pensions arrangements (not covered by TUPE regulations)
- Risk of changes to staff consultation and representation

- Risk of problems with secondment agreement

Outsourcing via a transfer of staff effectively means that the local authority or public body is transferring a series of risks to their existing staff. TUPE transfers and the Best Value Code of Practice on Workforce Matter do not provide any guarantees. Pensions are not covered by TUPE. There is considerable change occurring in the pensions sector with private sector employers replacing final salary with money purchase schemes and a growing number of under-funded pension schemes.

Other risks are transferred to staff such as changes to terms and conditions of service, changes to staff consultation and representation, and to workplace conditions.

Table x identifies and compares the levels of risk borne by employees in the secondment, TUPE transfer and 'choice' employment models. The 'choice' model is promoted by some private contractors as an alternative secondment model although it is significantly different from full secondment.

The scoring of the Risk Matrix is summarised in Table 4. It shows clearly that 100% of the risks for the secondment model are in the none/low risk category compared to only 20% in the transfer model and 16% in the 'choice' model. The transfer model has 40% of the risk for employees in both the high and medium risk categories.

The overall effect of the 'choice' model will depend on the proportion of staff that second and transfer and how this changes over the length of a contract. Private contractors expect the proportion of secondments to reduce considerably or to zero as the contract proceeds. This would mean that in the later part of a contract the risk profile in the 'choice' model would change and become similar to the transfer risk profile.

Table 3: Employment Risks in Secondment, Transfer and 'Choice' Models

Risk	In-house or Secondment	TUPE Transfer	'Choice'
Risk of changes to terms and conditions of service			
Risk of changes to staffing levels after transfer without staff agreement.	No risk because of Change Control Procedure in Secondment Agreement	High risk Code of Practice on Workforce Matters does not prevent changes over time.	Medium risk Code does not prevent changes over time but will not affect seconded staff.
Risk of changes to terms and conditions of employment.	No risk as staff remain on local authority terms and conditions	High risk Code of Practice on Workforce Matters does not prevent changes over time.	Medium risk Code does not prevent changes over time but will not affect seconded staff.
Risk of not meeting annual pay award in full and on time	No risk as staff remain on local authority terms and conditions	Low risk - Code of Practice on Workforce Matters should prevent it happening.	Low risk - Code should prevent it happening and will not affect seconded staff.
Risk of changes to the composition of pay and benefits such as holidays	No risk as staff remain on local authority terms and conditions	High risk Code allows contractor to change mix of pay, holidays and pension.	Medium risk Code does not prevent changes over time but will not affect seconded staff.
Risk of two-tier workforce developing	Low risk - only if large differences between transferees and seconded staff develop	High risk Staff on different terms and conditions could create two-tier workforce	High risk Staff on different terms and conditions could create two-tier workforce
Risk of no or inadequate redeployment	Low risk	High risk Not applicable therefore staff bear the risk	Medium risk Applicable only to transferred staff.
Risk of inadequate implementation of family friendly policies	Low risk	Medium risk	Medium risk Applicable only to transferred staff.

Risk	In-house/ Secondment	Transfer	'Choice'
Risk of changes to pensions			
Risk of not remaining in Local Government Pension Scheme	No risk as staff remain on local authority terms and conditions	Medium risk Requires public sector to make it a condition of contract	Medium risk Requires public sector to make it a condition of contract
Risk of changes to quality and conditions of private company pension scheme	No risk as staff remain on local authority terms and conditions	Medium risk Code is 'permissive' with regard to defined benefit/final salary scheme	Medium risk
Risk of reduction in employer contribution and increase in employee contribution	No risk as staff remain on local authority terms and conditions	Medium risk Code is 'permissive' with regard to defined benefit/final salary scheme	Medium risk
Risk of closure of final salary scheme by private sector employer	No risk as staff remain on local authority terms and conditions	Medium risk Code is 'permissive' with regard to defined benefit/final salary scheme	Medium risk Many private companies closed final salary schemes.
Risk of changes to workplace conditions			
Risk of changes to trade union facility time	Low risk	Medium risk of demanding/imposing a reduction	Medium risk of demanding/imposing a reduction
Risk of changes to health and safety policies and practices	Low risk	Low risk	Low risk
Risk of changes to grievance and disciplinary procedures	Low risk	High risk as private sector has own procedures.	Medium risk Affects only transferred staff.
Risk of changes to equal opportunities policies and practices	Low risk	Medium risk in terms of degree of implementation.	Medium risk in terms of degree of implementation.
Failure to implement corporate policies and priorities	Low risk	Medium risk of some corporate policies not fully implemented.	Medium risk of some corporate policies not fully implemented.
Risk of loss of public service ethos	Low risk as staff remain council employees.	High risk - staff will be private sector employees.	Medium risk Mixture of private and public sector employees.

Risk	In-house/ Secondment	Transfer	'Choice'
Risk of changes to staff consultation and representation			
Risk of lack of consultation with staff over improvement plans and reengineering proposals	Low risk because of Change Control Procedure in Secondment Agreement	Medium risk based on experience of PPP and outsourcing contract	Medium risk based on experience of PPP and outsourcing contracts
Risk of lack of consultation with staff in other departments	Low risk because of Change Control Procedure in Secondment Agreement	Medium risk based on experience of PPP and outsourcing contracts	Medium risk based on experience of PPP and outsourcing contracts
Risk of changes to working practices which have not been agreed with staff and trade unions	Low risk because of Change Control Procedure in Secondment Agreement	High risk based on PPP and outsourcing contracts.	High risk based on PPP and outsourcing contracts.
Risk of inadequate training	Low risk because of Change Control Procedure in Secondment Agreement	High risk based on PPP and outsourcing contracts.	High risk based on PPP and outsourcing contracts.
Risk of changes to the industrial relations framework	Low risk because of Change Control Procedure in Secondment Agreement	High risk based on PPP and outsourcing contracts.	High risk based on PPP and outsourcing contracts.
Risk of problems with secondment agreement			
Risk of secondment agreement failing	Low risk based on experience in other parts of the public sector	No risk – not applicable	Low risk based on experience in other parts of the public sector
Risk of legal challenge to secondment agreement re TUPE	Low risk based on experience in other parts of the public sector	No risk – not applicable	Low risk based on experience in other parts of the public sector
Risk of contractor seeking to reduce or terminate secondment	No risk – not applicable	No risk – not applicable	Medium risk if most staff transfer.

European Services Strategy Unit, 2006.

Table 4: **Summary of Employment Risk**

Risk level	In-house/Secondment		Transfer		'Choice'	
	Number	%	Number	%	Number	%
None	9	36	3	12	0	0
Low	16	64	2	8	4	16
Medium	-	-	10	40	17	68
High	-	-	10	40	4	16
Total	25	100	25	100	25	100

European Services Strategy Unit, 2006.

Commentary

If secondment is not an immediate option then a TUPE transfer and 'choice' employment models impose significant and unacceptable risk on staff.

Whilst the City Council has emphasised that staff are an important asset, the City Council's response to the original Employment Risk Matrix makes a wide range of positive assumptions about private sector practice which are not borne out by evidence.

The complexity of the 'choices' model and different legal interpretations with the possibility of a challenge on the basis of a break in employment between a TUPE transfer and reemployment on secondment (there is a difference of opinion between the Council Solicitors and the Legal Opinion on this matter) adds to the considerable disadvantages of this model.

If the City Council continues to explore an option based on a TUPE transfer then this must be a TUPE Plus model.

Part 4

Evaluation of bids – some key issues

Introduction

This section is intended to assess other key aspects of the proposed SSP proposals and to provide a series of questions to be used to further assess the bidders proposals. It is divided into the following sections:

- Financial and investment analysis
- Affordability
- Capacity to expand the Shared Services concept and create additional jobs

Financial and investment analysis

We have not had access to the financial element of the bids and can thus only identify some of the financial issues arising in other sections.

Capita's Standard Bid plans to deliver £1m compared to current budgets and over £15m compared to the Outline Business Case (OBC) over the life of the contract. The Variant Bid claims to save over £15m (including £9m from Property Services) compared to current budgets and over £30m compared to the OBC over the life of the contract.

Capita's proposed savings are summarised in Table 5.

Table 5: Capita's projected costs and savings

Item	Projected Saving £m	Cost to City Council £m	Investment by Capita £m
Full scope Property Services	9.0	104	
No smoothing of transition set up costs	3.4		
New Business Development Centre		13.8 Annual Accommodation cost after year 3	8.0
Human Resources, Payroll and Administration	1.9	18.8	
Local taxation and Benefits	5.6 to 11.2	37.4	
EDRMS system		3.0	
Indexation using basket of indicators	9.9		
Selected IT assets retained by Council - £19m Council buys equipment cheaper than Capita so leases it to contractor.			
Total	29.8 – 35.4	177	8

Capita Bid to Southampton City Council, 2006.

Capita proposed that if the Council appointed Capita as the preferred bidder and eliminated the planned Best and Final Offer (BAFO) stage they would "provide £200,000 of consulting capacity to the Council free of charge during the Preferred Bidder stage".

Capita claimed that this would bring forward savings to the Council by at least six months and reduce the cost of achieving the savings.

Affordability

The Financial Summary Report, Appendix B, states that the City Council has limited options of bridging the £7.2m funding gap. The report states:

“The original intention was to use Business Process Re-engineering savings to help fund the shortfall, however, these have now been taken into account as part of the budget setting process and are not available for this purpose.”

It would be possible to ask the Bidder to fund the shortfall in the early years but this would add to the cost of the project. This is estimated to cost about £4.6m thus increasing the shortfall to nearly £13m.

The original Outline Business Case (OBC) produced by PA Consulting in 2005 concluded that the Council could achieve a surplus of £19.6m over the ten-year contract period. In January 2006 this was revised down to £4.7m in a reassessment which took account of *“changes in assumptions about staffing levels and a ‘softening’ of the assumptions in respect of the back office BPR savings to reflect a higher degree of risk.”* (Para 4.2, Appendix B).

However this is justified, it is a substantial change in the Business Case for the Project – the savings are less than twenty percent of the previous OBC completed only a year earlier.

The situation has changed again with a funding gap of £7.2m in the Capita bid. Even if the Capita bid can be negotiated downwards, as claimed by the City Council’s advisers, PA Consulting, this is likely to be at the expense of service quality or provision or both.

It is very probable that the bids have been constructed to encourage the City Council to put all the services in Phase 1. This is in the interest of private contractors but it is highly questionable whether it is in the interests of the City Council.

Capacity to expand the Shared Services concept and create additional employment in Southampton

None of the bidders reveal specific ways in which they could generate additional employment. Both BT and Capita suggested ways in which they would market the services and try to attract both public and private sector clients. None provided any forecasts of additional employment. This is a more realistic position and reflects the difficulty in winning additional work which SSP projects have experienced. There are shared services projects being developed in other parts of the public sector which means that SSPs cannot assume they will win additional contracts. For example, NHS Business Services Authority has a shared services project with Xansa to provide HR and financial services to PCTs. It also means that the City Council focuses on the impact of the project on council services rather than utopian employment projections.

Employment impact of variant bid proposals

Capita refers to the 500 job creation target in Blackburn and that it generated 700 jobs in two years (page 7, Section 2, Standard Bid). They fail to describe how this target was met giving the impression that the SSP created the jobs. In fact, in December 2001 Capita was awarded a ten-year TV licensing contract by the BBC worth £500m. The work was previously carried out by the Post Office who employed 1,000 staff in Bristol and another 400 staff in enquiry offices nationally.

Capita transferred a large number of the Bristol based jobs to Blackburn in 2002. So the “new” jobs were not directly linked to the local authority contract but part of a company

strategy to relocate privatised jobs to the area. The jobs were not new but jobs relocated from another region. If Capita loses the contract on retendering in 2011 Blackburn could be suffering large job losses if another contractor adopted the same strategy.

Use of offshore services

Both BT and Serco make a commitment to the delivery of all services from Southampton.

However, although Capita state that they do not plan to deliver any services for Service Southampton offshore, they go on to state that they have a 'significant presence' in Mumbai, India and claims

“This business centre is able to recruit resources very quickly and is extremely effective at administrative processing. The business centre also has significant IT skills and expertise and could support, for example, applications support and development, remote support and so on were there to be significant difficulties recruiting staff locally.” (para 3.21, Capita Standard Bid).

Part 5

Performance of SSP contracts

Introduction

Establishing a SSP has many risks for the Council, staff, service users and not least the selected contractor. To date three SSP type contracts have been terminated only three to four years of the contract by local authorities because of poor performance. A fourth contract is being substantially reduced in scope and many staff being transferred back to the local authority. This section is a brief summary of these projects (see Table 6).

Table 6: **Failed SSP partnerships**

Failed Strategic Service-Delivery partnerships in local government	
1. Bedfordshire County Council	Terminated contract with HBS Business Services in 2005 after failure to achieve key deliverables and poor performance.
2. West Berkshire Council	Terminated contract with Amey Group in 2005.
3. Redcar & Cleveland Council	Following a 'strategic review of services' HR and Payroll, Finance and Accounting, ICT, Public Access and Business support will be brought back in-house by September 2006 after only 3 years of the 10 year Liberata contract.
4. London Borough of Southwark	Education Services contract with WS Atkins terminated because of poor performance.

European Services Strategy Unit, 2006.

Bedfordshire County Council and HBS

The Strategic Service-delivery Partnership (SSP) between Bedfordshire County Council and HBS Business Services was terminated by the County Council in August 2005. Nearly 550 staff were transferred from HBS back to the County Council.

A review of contract performance in 2005, '*Strategic Partnership in Crisis*' prepared by the Centre for Public Services for Bedfordshire UNISON, produced a HBS Scorecard which showed that several key deliverables had in fact not been delivered and quality had declined in some services.

Table 7: **HBS Scorecard in Bedfordshire**

Key Deliverables	SCORE
Best Value	Performance is down on four Best Value Corporate Health indicators
Front line services first	Quality of service declined (BVPIs)
A new partnership	New partnership created but whether it works and is necessary is questionable.
A Regional Business Centre	No evidence of centre and no reporting of new contracts or jobs.
A customer contact centre	Opened and operational
Improved accommodation	Promised £7m investment only part spent on the Contact Centre and HBS offices on the 6th floor.
Improved training provision	Maryland College closed
Financial savings	Council has incurred substantial additional costs for HBS partnership and unclear whether original savings target has been met.
Quality and competitive support services for	Quality of schools support services in

schools	decline. National Centre of Excellence delayed and may never be established. Failure of SAP pilot for schools.
Corporate issues	“The strategic partnership is not delivering improvement in services” Annual Audit and Inspection Letter, District Audit, January 2005. Failure to publish Council 2003/04 Accounts on time partly blamed on arrangements with HBS. “The Council has not yet been able to gain capacity from its strategic partnership” Comprehensive Performance Assessment, 2004, Audit Commission,

The council took over all HBS services, all the staff and assets involved in the delivery of those services. It paid HBS £6.75m to purchase assets such as IT, furniture and fittings and to acquire goodwill, contracts and services provided by HBS, including to schools and other organisations. This document sets out the rationale for terminating the contract and the terms of the agreement.

West Berkshire Council and Amey Group plc

In June 2005 West Berkshire Council terminated a £168m Strategic Service-delivery Partnership with Amey plc. The contract, for IT and corporate services, had only completed three of the ten year contract period. Amey plc agreed to pay £3m to the Council as part of the settlement agreement.

Redcar and Cleveland Council and Liberata

Following a 'strategic review of services' HR and Payroll, Finance and Accounting, ICT, Public Access and Business support will be brought back in-house by September 2006 after only 3 years of the 10 year Liberata contract. Only 120 of 650 staff will be retained by company to continue to provide Council Tax, Revenues, Housing Benefits and Consumer Direct (Government business).

The Main Overview and Scrutiny Committee decided to investigate Liberata’s IT Refresh programme in 2005. However, the Committee discovered that there was no IT asset register and that Liberata had failed to deliver on its undertaking to complete the register in February 2005. The register was a precursor to the development of an effective IT refresh programme. The Committee referred the matter to the Joint Partnership Board for urgent action.

The Children’s Services Overview and Scrutiny Committee investigated the performance of Education ICT in 2005 in response to a number of concerns expressed by Members, Head Teachers and officers. It focused on the technical support to schools. The Committee made a number of recommendations which are indicative of the problems encountered by schools as a result of a lack of strategy and poor ICT delivery.

The Committee demanded that a Children’s Services Information System strategy be developed together with an Education ICT Strategy for Schools. It also recommended that an Education ICT group of head teachers be formed to develop partnership working with Liberata, that an Education ICT Officer be appointed, a review of Education ICT is undertaken and Liberata be required to draw up a timetable of work and an inventory of equipment. Urgent action was required to ensure every school had broadband access and every school should have an Education ICT Service Level Agreement which should “include information regarding the effects of considering other providers” (Redcar & Cleveland, 2006).

London Borough of Southwark and WS Atkins

The £100m education contract to operate the Local Education Authority (LEA) was terminated after two years of the five year contract. Atkins failed to meet several key targets and claimed the contract was unprofitable. The contract termination cost Southwark Council £1.5m.

Part 6

Alternative strategy for Southampton

Introduction

There is an alternative strategy for the City Council. It should decide now to adopt an in-house approach. This section describes how this could be done together with examples of other local authorities which have stopped the procurement process for a SSP at different stages to adopt a successful in-house strategy.

Financing Southampton's Strategic Services Programme

Local authorities which rejected the SSP approach and opted for an in-house strategy have used five main sources of finance:

- Revenue savings from Business Process Reengineering – the application of ICT and changes in work systems and practices results in job reductions and savings which can in turn fund further investment.
- Prudential borrowing – good performing public bodies are allowed to increase investment based on their ability to meet loan charges.
- Leasing arrangements.
- Various government programme and project grants.
- The use of reserves to pump prime initial investment.
- The capital investment programme.

The combined use of these resources has enabled some local authorities to restructure services in-house and procure 'best in class' ICT advice, hardware and software as and when required as part of an in-house approach as an alternative to the SSP model.

Shared services strategy

The City Council should develop a public sector Solent Shared Services Strategy with Havant BC and other neighbouring local authorities. It is likely that other local authorities will be more enthusiastic cooperating with the City Council directly than joining a private sector project which they had not been involved.

The Comprehensive Spending Review 2007 Interim Report indicates that the shared services agenda will be accelerated and those authorities which have been reluctant to participate to date will be under increasing pressure to do so (HM Treasury, 2006).

The City Council should immediately:

- Merge the skills developed by the existing Business Process Reengineering team with those of the SSP project team and other relevant staff.
- Divert the expenditure planned for the SSP to this new project team.
- Plan and design an in-house strategy drawing on the experience of Kent, Newcastle and other local authorities which adopted an in-house approach. This would include:
 - an affordable implementation plan;

- a capability review to determine which elements of the programme could be obtained in-house and which require sourcing using ‘best in class’ procurement;
- A joint officer/Elected member approach to other local authorities and public sector bodies in the Solent to seek their involvement in a genuine public sector shared services strategy.
- An implementation plan which was geared to affordability and capacity to deliver to ensure that the project achieved maximum effectiveness and there is no negative impact on frontline services.

Incremental approach

An incremental approach has many advantages over the large ‘big bang’ approach favoured by the private sector. The Government’s Strategic Partnering Taskforce believed that an incremental approach reduces risk to the local authority and providers, is possibly less costly to establish for all parties, provides an ongoing incentive to cooperate and assess value for money of each project, and allows partners with differing skills and strengths.

Examples of other local authorities adopting the in-house approach

Nine local authorities have considered a SSP, and in some cases reached the preferred bidder stage in the procurement process, before deciding that an in-house approach provided value for money and was affordable (see Table 8).

Table 8: Local authorities which adopted in-house option instead of an SSP

Local authorities which retained in-house provision	
Kent County Council	Terminated preferred bidder negotiations with HBS Business Services. Established in-house improvement strategy.
Northamptonshire County Council	Withdrawn during procurement process from joint partnership with Milton Keynes Council.
Newcastle City Council	Awarded £200m to in-house service and rejected rival BT bid on grounds of value for money and quality of service improvements in 2002. In 2006 the City Council excluded ICT from the BSF project following a mandatory bid in which the in-house service scored significantly better than the BSF consortia.
Barnsley MBC	Decided not to proceed with BT bid in May 2003 because first three year payments could not be guaranteed. Risk of frontline services being cut to meet contractually-binding investment requirements.
Salford City Council	Decided against SSP approach for corporate services and did not commence procurement.
Walsall MBC	£650m project requiring transfer of 1,500 staff to Fujitsu Services abandoned in January 2006 at the preferred bidder stage. Planned to create 750 new jobs. Council said "strong service improvements" achieved by the local authority in the past few years, felt that "it is now better placed to meet the needs of local people without the joint venture."
Wakefield MBC	Decided not to pursue a SSP after research of Liverpool, Newcastle and Middlesbrough. The former Chief Executive from Middlesbrough joined Wakefield and made the case that the market had

	moved on and that Middlesbrough was able to secure a 'golden deal' at the time. However, Wakefield's healthy financial reserves meant that a mixed economy approach would be more effective.
Dacorum District Council	Withdrew from preferred bidder negotiations.
Isle of Wight Council	Decided to adopt an internal strategic transformational approach drawing on private expertise instead of outsourcing to a strategic partner.

Source: European Services Strategy Unit, 2006.

Part 7

Conclusions and Recommendations

Conclusions

The assessment of the Strategic Services Programme reveals that:

- Major questions about the affordability of the programme – there is a £7.2m gap on Capita's standard bid alone. There is less than a million pounds difference between the Public Sector Comparator and Capita's bid.
- The private sector will only invest a relatively small sum in a Regional Business Centre which they will own and operate and recoup the cost through leasing back to the City Council.
- The vast bulk of the claimed savings promised by the two leading bidders are conditional on Property Services, Human Resources and Revenue and Benefits being Phase 1 services which contradicts the City Council's decision earlier in this year for a phased approach.
- The Bidders enthusiasm for the inclusion of Property Services and the higher level of claimed savings indicates that the private contractors will also be making significant profits from the inclusion of this service.
- The ITN assumed that the Bids would allow the City Council to reduce its accommodation needs and cost. Neither the Capita or BT bids allow any savings, in fact both will involve a major accommodation exercise to relocate Council staff from Southbrook Rise and co-locate staff involved in the partnership. This will involve "considerable disruption.....across the whole council" and cost.
- The bidders are devoid of any proposals to increase employment except for vague statements.
- The bidder regeneration proposals are weak and rely solely on property-led regeneration.
- Only BT is committed to a full secondment model which the City Council believes is not a legal option. The TUPE and the 'choice' employment models impose significant and unacceptable risks for staff.
- Continuing the procurement process will have a negative impact on Council Services as detailed in Appendix F. Other important strategic work will be at a standstill. The work required in Property Services will be extensive in order to accurately estimate whether the Bids are affordable and in the Council's interest.
- We have not seen the details of the risk assessment. This usually benefits private sector bids because of the assumptions about risk transfer. The transfer of risk is frequently exaggerated as demonstrated by most PFI and SSP projects. The political risks of service failure cannot to transfer to the private sector. Elected Members should not be misled over the mathematics of risk transfer.
- The proposed exclusive negotiations with Capita cannot be justified given the above conclusions. Whilst the BT and Serco bids should not be taken further for financial/quality reasons, the Capita bid is conditional and has many limitations noted above. The option of "Abandon the process and look towards in-house improvements" in Appendix A should be taken now rather than in January 2007

after which the City Council has used more resources in the procurement process when another viable option is available to it.

- The inclusion of the Capita summary document in the report to Council and Cabinet (Appendix C) is questionable. This document presents a series of savings statements and business growth which merge the Standard and Variant bids and exclude all reference to the conditions imposed by Capita in order to achieve these benefits.

Recommendations

UNISON makes the following recommendations to the City Council:

- 5) The Strategic Services Programme procurement should be terminated and an in-house strategy should be developed as outlined in Part 6.
- 6) The City Council should develop a public sector Solent Shared Services Strategy with Havant BC and other neighbouring local authorities.
- 7) It should retain the agreed incremental approach to the project starting with Phases 1 and 2 and only progressing to other services following rigorous appraisal and evaluation.
- 8) If the City Council decides to proceed with the procurement process it should further investigate the legal implications of a full secondment model.

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