Barnet UNISON

'Future Shape'
'easyCouncil'
'One Barnet'
= Failure

How the London Borough of Barnet was stopped from becoming the capital of outsourcing and privatisation

Plus

Action plan for remunicipalisation

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

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April 2018

Acknowledgements
Many thanks to John Dix: Mr Reasonable - http://reasonablenewbarnet.blogspot.ie/

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40+ YEARS | Rigorous Research
Public Policy Analysis
Alternative Strategies

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The **European Services Strategy Unit** is committed to social justice, by the provision of good quality public services by democratically accountable public bodies. The Unit continues the work of the Centre for Public Services, which began in 1973. Research and strategic advice for public bodies, trade unions and community organisations includes analysis of regional/city economies and public sector provision, jobs and employment strategies, impact assessment and the effects of marketisation, privatisation, public private partnerships and transformation.

Contents

Abbreviations

ADM	Alternative Delivery Model
ASC	Adult Social Care
ALMO	Arms-Length Management Organisation
BC	Borough Council
CADDSS	Campaign Against Destruction of Disabled Support Services
CC	County Council
CSG	Customer Services Group
DIO	Defence Infrastructure Organisation
ESSU	European Services Strategy Unit
FTE	Full Time Equivalent
HR	Human Relations
IOBC	Initial Outline Business Case
ICT	Information and Communications Technology
ITDR	Information Technology Disaster Recovery
KPI	Key Performance Indicator
LATC	Local Authority Trading Company
MBC	Metropolitan Borough Council
MoD	Ministry of Defence
NAO	National Audit Office
NHS	National Health Service
OBC	Outline Business Case
OFSTED	Office for Standards in Education, Children's Services and Skills
OJEU	Official Journal of the European Union
PFI	Private Finance Initiative
PF2	Private Finance 2
PLC	Public Listed Company
PPP	Public Private Partnership
PwC	Price Waterhouse Coopers
RE	Regional Enterprise Limited
SCB	Strategic Commissioning Board
SLA	Service Level Agreement
SPV	Special Purpose Vehicle (usually a Company)
TBG	The Barnet Group
TPR	The Pensions Regulator
TUPE	Transfer of Undertakings (Protection of Employment) Regulations 2003
YCB	Your Choice Barnet

Foreword

John McDonnell, Shadow Chancellor of the Exchequer

I want to salute the tenacity and resolve of Barnet UNISON who have fought a decade-long heroic struggle against outsourcing by the London Borough of Barnet. The 'Future Shape', 'easyCouncil' and 'One Barnet' programme is effectively dead as a result of Barnet UNISON. The last four services subjected to the alternative delivery model assessment all remained in-house.

The Branch has a strategy of consistent critical analysis of the Councils proposals and making the case for in-house provision, supported by the incisive and unerring work of the European Services Strategy Unit, combined with building community support and selective industrial action. The Branch produced briefing papers, critiques of the One Barnet programme, analysis of options appraisals, business cases and contract awards, critical analysis of the transfer of services to the Local Authority Trading Company and other reports made the case for good practice transformation and procurement.

This report charts the performance and financial risks of outsourcing. It exposes the hype and empty promises that pervade the private sector. The government's neoliberal and austerity policies have reduced the capability of the public sector and were also overstated by outsourcing firms and management consultants in their quest for contracts.

Barnet Council has two large corporate services and planning/regeneration contracts with Capita plc which has its own self-made financial crisis. It is evident that both contracts have significant performance flaws and even the Barnet Council's recent reviews were not a ringing endorsement.

Capita's financial crisis means that they will have an even stronger focus on financial extraction from contracts to fund the £420m loss in 2017, a £220m transformation programme, £175m cost savings by 2020, and a £500m investment in its own infrastructure. And not forgetting the £21m of free shares allocated to incentivise 150 executives and senior managers.

This report explains explicitly why further outsourcing has to be stopped. It is time for local authorities to draw on the valuable lessons from Barnet.

Under a Labour Government the default position for the delivery of public services will no longer be outsourcing. A Labour Government will place our trust in the public sector to deliver public services.

John McDonnell, Shadow Chancellor, Labour Party

Executive summary

Failure of Future Shape, easyCouncil and One Barnet transformation

First, the Council ignored the relationship between quality of employment and quality of service.

Second, Options Appraisals were consistently flawed by the selection of 'status quo' or 'business as usual' in-house options that were designed to fail. They were followed by Business Cases that were equally flawed because of over-optimistic income generation forecasts.

Third, the Council equated increased efficiency with cost cutting, but the latter usually results in reduced productivity and increased expenditure in commissioning, consultants and management costs at the expense of front-line services.

Fourth, the Council became obsessed with the neoliberal Commissioning Model which requires the separation of client and service provider functions.

Fifth, the Council has focused on outcomes, but paid limited attention to the quality of inputs (quality of staff and equipment), processes (working methods, participation) and outputs (for example the quality of houses).

Sixth, the Council relied heavily on neoliberal management consultants who provided questionable advice and colluded with the Council for a decade, accounted for the bulk of the £24m One Barnet programme costs and reduced the Council's capabilities.

Seven, exploitation of labour has led to loss of income and benefits, insecurity, loss of pension provision in some services and loss of skills that has impaired the Council's capabilities.

Finally, the Council has marginalised the treatment of equalities for both service users and staff relying on basic Equality Impact Assessments at the contract decision-making stage whilst failing to rigorously apply economic and social impact assessments at the Options Appraisal and Business Case stages when it really matters.

The nature and scope of the reconfiguration or transformation of public services has been largely determined by neoliberal ideology over the last four decades.

But a radically different transformation is possible that recognises the importance of public provision of public goods and services and good quality jobs in a participative, equitable and democratically accountable process.

Barnet Councils flawed commissioning model

- it separated the client/policy and service delivery functions which led to a loss of frontline knowledge and experience by the client. Instead of working together, commissioning separated staff that led to vested interests emerging and it created a degree of duplication.
- the main objective was to outsource irrespective of the performance of the in-house service.
- the subsequent Business Case prepared by the Council suffered from optimism bias because they made sweeping assumptions that private contractors or arms-length companies would 'transform' service delivery without service user and staff involvement.
- the Council systematically refused to recognise all the risks inherent in the commissioning model and in outsourcing public services.
- the **cost of commissioning in Barnet has increased a staggering 356% in the four years** between 2014-15 and 2017-18, rising from £7.7m in 2014-15 to £35.4m in 2017-18 (projected outturn).

Commissioning is an integral part of neoliberal public management and intended to divide local government, the NHS and other public bodies between purchasers and providers or clients and contractors. This was intended to accelerate the financialisation, marketisation and privatisation of public services. It led to:

- A blind faith in competition and contestability despite the fact that much of the private sector seek to avoid competition whenever possible.
- Failure to recognise that all contracts are incomplete, particularly those in the public sector because demand fluctuates and changes in legislation and regulatory frameworks impose new contractual requirements.
- A misconception in the ability of the private sector to provide public services by applying private sector practices.
- Alternative Delivery Models such as Local Authority Trading Companies and Social Enterprises are not the magic bullet and are often mistakenly assumed to achieve the same objectives as outsourcing.
- Private sector contract wins were often perceived as 'growth' instead of liabilities that had to be fulfilled in order to receive payment, whilst the acquisition of smaller companies increased risks and the need for integration.
- Austerity accelerated financialisation, marketisation and privatisation, but the focus on competition to drive costs savings was a major objective before the 2008 global financial crisis.

In reality, commissioning is a barrier to progressive and radical public management and must be abolished as a matter of urgency.

Judicial Review launched to challenge lack of consultation

A Judicial Review was launched to challenge Barnet's Council's failure to carry out a formal consultation process under the Best Value regulations of the Local Government Act 1999. It was heard in the High Court on in March 2013 before Lord Justice Underhill.

> ***"...it is clear in the present case the Council did not make any attempt to consult on the specific question of whether the functions and services covered by the NSCSO [CSG] and DRS [RE] contracts should be outsourced"*** (para 74 of the Judgement) - our emphasis.

Although the case was 'lost' because it was out of time, Barnet Council was effectively given notice that it had to consult with the public and service users on future decisions regarding the provision of public services.

Barnet Council Outsourcing since 2010

- ICT and corporate services (Capita plc)
- Planning, regeneration and highways (Capita plc)
- Education & Skills and Catering (Mott MacDonald)
- Parking Service (NSL)
- Transferred Housing Service to a Local Authority Trading Company (LATC)
- Transferred Disability and Learning Service to the LATC
- Legal Service - Shared service with Harrow LBC
- Leisure Services - extended contract (Greenwich Leisure)

This involved the transfer of 1,428 staff plus 360 Full Time Equivalent posts.

One Barnet programme and management consultant costs

The One Barnet programme has cost at least a staggering £23.66m to date, a substantial part of which was paid to management consultants engaged to legitimate Barnet Council's outsourcing strategy.

Impact on services

Capita CSG contract

Payroll and pensions: Capita was a year late in 2016 submitting Barnet Council's pension scheme return to The Pensions Regulator and was fined. CSG agreed a service improvement plan with the Council in August 2017 but performance deteriorated in November and December that year with five out of nine criteria revealed a significant decline in performance. An Internal Audit of pensions administration found further shortcomings. Members experience long delays, in many cases up to 18-24 months, to get basic information about their pension.

The Council's Internal Audit has undertaken five service reviews and made recommendations relating to 12 high risks, 19 medium risks and 4 low risks.

Internal user satisfaction: Survey results were not statistically valid in 2014-15 because of low response rate and were "universally poor" the following year and failed to meet the target of upper quartile customer satisfaction.

The CSG review officers and elected Members believe the Council "***does not appear to have benefited from the injection of innovation and forward thinking that was anticipated from links with the broader Capita organisation."***

Capita Regional Enterprise (RE) contract

There were conflicting statements in the review ranging from 'some excellent outcomes' to 'acceptable' and 'reasonable good quality' performance. Benchmarking reports were solely focused on demonstrating Barnet had the lowest unit cost compared with all London local authorities and neighbouring authorities. But this was primarily a financial analysis and had little to do with quality or inequalities.

The Mayor of London refused planning permission for next stage of the Grahame Park estate on the grounds that "*it was a classic example of how not to do estate regeneration."*

Your Choice Barnet (YCB)

The Disability and Learning Service was transferred to the LATC but projected budget surpluses in the first year turned into significant losses leading to a £1m bailout from the LATC. The financial crisis was predicted by Barnet UNISON following critical analysis of two quite differing business plans for YCB. In fact YCB incurred significant losses for three of the five years it has been operating. YCB deleted posts and replaced some workers on a lower salary grade. The service users Campaign Against Destruction of Disabled Support Services demanded consultation on all future proposals for the services.

Education Skills and catering

Mott MacDonald preselected ISS as its catering contractor, leaving Barnet Council no choice in the matter (London Borough of Barnet, 2015a). We described the catering service as 'the jewel in the crown' because it was a highly successful in-house service that generated an annual surplus of £241,770 before it was outsourced. Evidently all but one of the original senior catering staff have left, ISS is losing school meals contracts in Barnet and there is no evidence that it has won any new catering contracts locally. Furthermore, it is apparent that some schools have withdrawn from the Schools HR service supplied by CSG on the grounds of a lack of trust in Capita.

Children's services

Critical OFSTED reviews in April and May 2017 concluded that Barnet's services for children were "inadequate" in all reported categories and graded 'requires improvement'. The Secretary of State appointed a Commissioner for Children's Services in the London Borough of Barnet in August 2017 and concluded that *"...services have deteriorated significantly over the last five years"* and identified flaws in the management of children's services and the commissioning model. The Commissioner concluded *"...the best way forward for children in Barnet is for the Council to retain control of its services, operating with Essex as their Improvement Leadership Partner."*

Street Scene

Seven options were eventually reduced to the in-house option in 2017. Street Scene was restructured in November 2017 with the deletion of 71.5 posts, a 19% cut in the workforce, but no redundancies were required because the posts had been filled by agency workers. The service is also severely constrained by having to operate from two depots, including one in Harrow, after the Council sold the Mill Hill depot for development.

Public Libraries

The Council has drastically reduced staffing hours in Barnet Libraries by 70.4% or 446.5 hours per week, despite wide opposition from library users and staff. Ninety percent of the planned technology supported opening hours will have no staffing or volunteer support. The ten Core and Core Plus libraries have lost an average of 28.3 staffed hours per week and four Partnership libraries are primarily run by volunteers and open only for a minimum of 15 hours per week.

Adult Social Care

It was agreed that a new operating model was required for Adult Social Care but six outsourcing options plus in-house were identified to deliver the new model. Barnet UNISON produced a detailed critical analysis of the approach to the new operating model, the alternative delivery model, planned cuts and made a series of recommendations.

By March 2016 the options had been reduced to three - a reformed in-house services, a shared service with the NHS and a public service mutual.

A public consultation of the three options took place between May and early August. The in-house option had the strongest support (50% overall) with significant opposition to a mutual/social enterprise (14% overall). The service remained in-house with continuing cooperation and integration with NHS organisations.

Strategic risks

Barnet Council failed to recognise the risks in outsourcing which we highlighted in every options appraisal and business case (see list at Appendix 2). Barnet Council believed that awarding a contract to a FT100 company like Capita was a good 'insurance', but that strategy has dramatically proved worthless.

The Councils ICT service is provided through the CSG contract and covers hardware, networks, data-storage, third party software and core functions some of which are hosted or owned by Capita or owned by third parties. Several services are provided elsewhere in the UK. Termination of the contract, irrespective of reasons, is almost certain to impose greater costs on Barnet Council to ensure service continuity and to recruit new staff in London and make others in other cities redundant as there will be little likelihood of these staff being able to afford to move to London.

Financial savings?

The two Capita contracts were reviewed but were not audited. The current savings forecasts for Barnet Council are £46.97m and £39m for the CSG and RE contracts respectively, total savings of £85.97m. However, although CSG contractual payments from 2013-14 up to 31 December in 2017-18 were £142.04m the Council paid Capita £214.66m, an additional £72.62m. RE contractual payments for the same period were £69.20m but Capita were paid £108.92m, an additional £39.72m.

In summary, Capita had received an additional £112.34m for both contracts only 4.75 years into the 10-year contracts, a figure that exceeds the forecast savings by £26.37m!

Gainshare

The Capita contracts permit gainshare between the Council and Capita when certain benefits are achieved. Capita received £8.3m gainshare over the four-year period 2013-14 to 2016-17. A £1.26m gainshare payment was paid on the Comensura interim and agency staffing contract, £500,000 on the London Highways Alliance road repair contract and a £313,000 saving on gas and electricity. However, the legitimacy of gainshare is hotly disputed because any savings from current service providers should be directly available to Barnet Council through normal procurement channels.

Capita's financial market crisis and status

Capita share price plummeted 100% from a high of 1,338.15p in 2015 to a 20-year low below 135p on 4 April 2018. A trading update in January 2018 suspended a final dividend to shareholders and a plan to raise up to £700m from a share issue later this year. It hopes to sell a further £700m of assets on top of the near £900m sold late last year. Barnet Council wanted to outsource to a Financial Times Stock Exchange 100 Index company, but that strategy is now worthless because Capita were excluded from the Index in March 2017.

Furthermore, Capita has been losing contracts, not winning new ones, and a National Audit investigation into its already widely criticised performance of the NHS England Primary Care Support contract in May 2018 is likely is expected to be highly critical. Internal documents about Capita's performance in security vetting services for public sector bodies and multinational companies has also been exposed as failing to meet standards.

Capita's financial crisis means that they will have an even stronger focus on financial extraction from existing and new contracts with very significant implications for Barnet service users, staff and the local authority. It had a £535m pre-tax loss in 2017 and £90m the previous year; plans a £220m transformation programme; £175m cost savings by 2020; a £500m investment in its own infrastructure; has net debt of £1.1bn and a pension deficit of £406.8m; will increase dividends for shareholders - £216.6m paid in 2017 and will give £21m of free shares to incentivise 150 executives and senior managers.

Power and opportunities to terminate contracts

The CSG and RE contracts are part of 67 PPP Strategic Partnerships nationally. These contracts have a track record of 19.4% terminations, 7.5% of projects where local authorities returned some services in-house and 3.0% which have experienced significant problems, an overall performance rate of 30% which is extremely poor. Capita had two contract terminations and another with significant problems *before* Barnet Council awarded the CSG and RE contracts. In addition, Capita's West Sussex contract has recently returned some services in-house.

Barnet's poor employment record

In addition to job losses from austerity policies, outsourcing and restructuring in-house services, Barnet Council uses agency staff on an industrial scale, spending nearly £20m in 2016-17 alone on a contract with Comensura Limited (Impellam Group plc).

The chairperson of Impellam is Lord Ashcroft, former Deputy Chair of the Conservative Party who launched Mediclean Limited in 1982 to scoop up NHS cleaning contracts whilst his Hawley Group aggressively acquired cleaning and waste contractors and Compulsory Competitive Tendering contracts in the Thatcher era.

Barnet Council's LATC created TBG Flex Limited to exploit deregulation and the LATC and Barnet workforce by the imposition of inferior terms and conditions on new permanent and temporary staff. One Barnet's objective of "a successful London suburb" has not involved sustaining good quality local government jobs. It relied on setting income generation targets for contractors but believed the quality of jobs was not their responsibility.

Action plan for Barnet

- a commitment to in-house provision and client/contractor integration will require the abolition of the commissioning model;
- the priority should be to stop the flow of contracts reaching the procurement stage, where they are inevitably outsourced. This will significantly reduce the need for Options Appraisals, Business Cases and a procurement process.
- abolish the Alternative Delivery Model (ADM) concept and further transfer of services to arms-length organisations.

- terminate outsourcing proposals that are at the planning, options appraisal, business case or early stage of the procurement process.
- review contract monitoring and commence more intensive and rigorous monitoring and fully impose financial deductions for performance failures.
- significantly reduce the hire of temporary and interim agency staff because it is expensive, evades employment rights and is an ineffective means of increasing the capability and capacity.
- The Barnet Group subsidiary, TBG Flex Limited, should cease operating immediately and be wound up.
- develop a strategy to increase the Council's internal capability and capacity and significantly reduce its reliance on the use of management consultants.

Remunicipalisation of local public services

A drastic reduction in outsourcing accompanied by a radical change in in-house provision requires 21 changes in operational and organisational change, future service planning and employment policies in local government. This is a selection of the recommendations - see pages 47-48 for further details.

Operational and organisation changes
Make in-house provision the preferred option for all public goods and services.
Terminate the split between commissioning and service provision and replace it with integrated teams of client and service provider functions.
Review and subject contract performance to public scrutiny, financial assessment, financial deductions and wider impact of outsourcing on local economy, equalities, environment and employment practices to determine scope for concluding or terminating contracts.
Local authorities and public bodies should develop strategies to increase in-house capabilities. Consultants should only be considered in exceptional circumstances with a democratically approved brief, contract and subject to rigorous monitoring and scrutiny.
Future service planning
Each service should have a Public Service innovation and improvement Plan (PSiiP) that will assess current and future community needs; prioritise early intervention and prevention; plan innovation and improvement; increase in-house capabilities; identify resources and investment. PSiiPs will be reviewed every three years.
Service users and staff and their representative organisations should participate in the preparation and review of PSiiPs for frontline services as part of a more democratised and accountable service planning process and provision. Service protocols should be negotiated to establish the scope and process of continuous participation.
An options appraisal should only be considered if the service consistently fails to meet quality performance targets or service needs.
The options appraisal must include a comprehensive forward looking in-house option prepared with service user, staff and trade union representatives.
The options appraisal should be assessed on best practice guidelines and include a full economic, social, equality and environmental impact assessment, employment options and criteria, sensitivity analysis and optimism bias (Whitfield, 2007). Appraisals should assess the combined effects of inputs, processes, outputs and outcomes.
In-house staff should have a statutory right and resources made available to them to prepare an in-house bid which is fully and equally evaluated alongside any other bids.
Employment policies
Contractors providing public services must provide comparable terms and conditions to public employment with trade union recognition and negotiating rights for the length of the contract.
The creation of subsidiary companies solely to employ staff engaged staff in the delivery of public services should be made illegal and any existing companies should be wound up with immediate effect.

Part 1
Failure of Future Shape, easyCouncil and One Barnet concepts

The Future Shape and One Barnet programmes (dubbed 'easyCouncil' by the media) were centred on some grandiose objectives. In effect a new model for the local state was proposed:

> "...there is growing emphasis on the role of local authorities as strategic commissioners, securing "*the best outcomes for their local communities by making use of all available resources – without regard for whether services are provided in-house, externally or through various forms of partnership"* (London Borough of Barnet, 2008).

The programme was divided into three streams:

Developing capacity, shrinking the organisational scale: Looking at what the issues and constraints are around what a council 'has to do', as well as the capacity that it would need to deliver these changes.

Transformation of service delivery: Looking at alternative models to delivery of services which may not necessarily need to be delivered directly by a local authority.

Resourcing the future: Looking at how the council and any potential alliances could be resourced in the future and any issues or constraints which might be faced (London Borough of Barnet, 2008). A Future Shape interim report to Cabinet the following year set out the three prime aims: a new relationship for citizens; a one public sector approach; and a relentless drive for efficiency (London Borough of Barnet, 2009). But a decade later an assessment of these objectives paints a bleak picture (Table 1).

Table 1: **Assessment of One Barnet's objectives and outcomes**

One Barnet objectives	Barnet UNISON's Evidence of impact
A new relationship with citizens	**Failure** Service user and staff views and their proposals frequently ignored
A one public sector approach	**Failure** Barnet Council fractured by outsourcing, transfers and privatisation
A relentless drive for efficiency	**Reduced** by Council's cost cutting culture and extensive use of management consultants
One Barnet outcomes	**The effect on Barnet residents**
Better services with less money	**Decline** in quality of service after outsourcing, big spending cuts and closures
Sharing opportunities, sharing responsibilities	**Cuts** in scope and quality of services for Barnet residents **Cuts** in jobs, terms and conditions for lower-paid Council staff
A successful London suburb	**Meaningless** statement after a decade of outsourcing and austerity budget cuts

Source of One Barnet Objectives and Outcomes: London Borough of Barnet, 2009, 2010 & Corporate Plan, 2011-2013

Flaws in Barnet Council's transformation strategy

First, the Council ignored the relationship between quality of employment and quality of service. Irrespective of the onset of Coalition and Conservative government austerity policies since 2010, Barnet Council was de-facto committed to austerity policies two years earlier.

Second, Options Appraisals were consistently flawed by the selection of 'status quo' or 'business as usual' in-house options that were designed to fail. They were followed by Business Cases that were equally flawed because of a simplistic belief in private sector ability to 'transform' public services and over-optimistic income generation forecasts from winning new contracts and increased usage, the basis of which were never evidenced. But these twin processes ensured procurement would be limited to private contractors (Barnet UNISON 2010a and 2010b).

Third, the Council equated increased efficiency with cost cutting, but the latter usually results in reduced productivity and increased expenditure in commissioning, consultants and management costs at the expense of front-line services.

Fourth, the Council became obsessed with the neoliberal Commissioning Model which requires the separation of client and service provider functions. We warned of the dangers and costs of this approach in Barnet UNISON (2012a and 2012b). The cost of commissioning has soared 356% in four years and 257% as a percentage of the Council's net expenditure (Table 2).

Fifth, the Council has focused on outcomes, but paid limited attention to the quality of inputs (quality of staff and equipment), processes (working methods, participation) and outputs (for example the quality of houses) despite the fact that the quality of public services is determined by the quality of inputs, processes, outputs and outcomes.

Sixth, the Council relied heavily on neoliberal management consultants who provided questionable advice and colluded with the Council for a decade, accounted for the bulk of the £24m One Barnet programme costs and reduced the Council's capabilities.

Seven, exploitation of labour has led to loss of income and benefits, insecurity, loss of pension provision in some services and loss of skills that has impaired the Council's capabilities.

Finally, the Council has marginalised the treatment of equalities for both service users and staff relying on basic Equality Impact Assessments at the contract decision-making stage whilst failing to rigorously apply impact assessments at the Options Appraisal and Business Case stages when it really matters.

The Future Shape and One Barnet mass outsourcing proposals were very similar to the US 'contract city' model adopted by some small towns. But the idea that Barnet Council (and more recently Northamptonshire County Council) were going to provide a new template to reconfigure public services was merely an illusion of neoliberal ideologues.

Barnet Council's mass outsourcing programme was halted by a combination of increased industrial action by UNISON members, stronger public opposition expressed via the Barnet Alliance for Public Services and in public consultation, plus there was no sustainable and financially effective Alternative Delivery Model applicable for the remaining services of Street Scene, Libraries, Family Services and Adult Social Work.

Whose transformation?

The nature and scope of the reconfiguration or transformation of public services has been largely determined by neoliberal ideology over the last four decades. The first phase of neoliberal transformation of public services in the UK began in the 1980s and was dominated by the privatisation of national utilities and state-owned corporations and sale of council housing to tenants.

A second phase began in the early 1990s with increased emphasis on competition, commercialisation and quasi-markets in public services. Public infrastructure was increasingly designed, financed, built and operated by the private sector; performance management, 'best value' and public service consumerism became dominant themes.

The third phase of neoliberal transformation began with a new emphasis on creating markets in public services. Commissioning and contestability became paramount together with a rapid increase in arms-length public/private organisations, such as academy schools, management organisations in council housing and urban regeneration companies. Strategic partnerships, essentially large multi-service contracts for ICT and corporate services, such as Barnet's CSG and RE contracts, emerged in this phase. Austerity policies led to deep cuts in public spending which reinforced neoliberal transformation. In 2010 we set out why One Barnet was *The Wrong Approach to Transformation* and exposed the flaws at an early stage - see Appendix 1 (Barnet UNISON, 2010a).

But a radically different transformation is possible that recognises the importance of public provision of public goods and services and good quality jobs in a participative, equitable and democratically accountable process.

Barnet Councils flawed commissioning model

The commissioning model was flawed because:

Firstly, it separated the client/policy and service delivery functions which led to a loss of frontline knowledge and experience by the client. Instead of working together, commissioning separated staff that led to vested interests emerging, particularly when Barnet exaggerated the importance of commissioning. It also created a degree of duplication. During the CSG and RE procurement processes there was much talk within the Council about a 'thin client' model. Barnet UNISON produced a Briefing *'Why a 'thin client' is a bad policy'* (Barnet UNISON, 2012a). But commissioning has gone to the other extreme and has been turned into a bloated organisation.

Secondly, the main objective was to outsource irrespective of the performance of the in-house service. But to get to the procurement process and selection of a private contractor, the Council had to carry out an Options Appraisal and produce a Business Case for outsourcing. Hence, the Options Appraisal selected 'business as usual' or 'status quo' in-house options that were **designed to fail** to ensure a procurement process was undertaken or the service was transferred to an arms-length organisation. Every Options Appraisal was systematically assessed by Barnet UNISON and a report submitted to the Cabinet or relevant Committee with exactly the same negative response.

Thirdly, subsequent Business Cases suffered from optimism bias because they made sweeping assumptions that private contractors or arms-length companies would increase income generation by attracting additional service users and by winning new contracts in other local authorities.

Finally, the Council systematically refused to recognise the high risks inherent in the commissioning model and in outsourcing public services.

Critical analysis of Barnet's commissioning and soaring costs

Barnet UNISON (2012b) published a critical analysis of the Council's plan to become a 'commissioning council' and forecasted that service reviews and improvement plans would be replaced by with Options Appraisals, Business Cases and procurement and that procurement and contracting would be mainstreamed across the Council.

The reality is that the cost of commissioning in Barnet has increased a staggering 356% in the four years between 2014-15 and 2017-18 (Table 2). Commissioning expenditure increased from £7.7m in 2014-15 to £35.4m in 2017-18. Similarly, commissioning accounted for 3.5% of net expenditure in 2014-15, but rose to 12.5% in 2017-18 based on Quarter 3 projected outturn.

Table 2: **The soaring cost of Commissioning** - (Actual expenditure - £000)

	2014-15	2015-16	2016-17	[1]2017-18	% change between 2014-15 & 2017-18
Commissioning Group	7,760	21,019	20,200	35,440	+356.7
Services Net Expenditure	223,139	280,293	283,298	283,847	+27.2
Commissioning as a % of Net Expenditure	3.5	7.5	7.1	12.5	+257.1

Source: Statement of Accounts, London Borough of Barnet (accessed April, 2018a) [1] Q3 Projected Outturn, Quarter 3 2017/18 Performance Monitoring Report, February 2018b.

The reasons for such a large increase in the cost of commissioning has been sought from the Council and are awaited. One reason may be increases in already very high salaries of senior commissioning staff (Table 3), duplication between senior posts in commissioning and service delivery, and fuelled by the high cost of the One Barnet programme (Table 5) that included management consultants on high salaries.

It is equally likely that the cost of commissioning has soared because the Council miscalculated the costs of contract management and monitoring. A long history of ineffective contract monitoring and weak scrutiny has been evident in local government since the days of Compulsory Competitive Tendering (Centre for Public Services, 1991).

Table 3: **Senior Commissioning staff pay rates March 2018**

Job Title	Annual pay (£)	Grade
Strategic Director for Commissioning	148,464	2
Commissioning Director, Environment	142,000	3
Commissioning Director, Adults & Health	142,000	3
Commissioning Director, Growth & Development	113,846	5
Interim Assistant Director	107,200	P
Adults & Health Programme Lead	79,457	7
Strategic Lead, Ent Barnet & Welfare Reform	73,000	7
Assistant Dir. Community Safety & Regulatory Services	79,457	7
Strategic Lead Children & Young People	79,457	7
Assist Director, T & H Commissioning	79,457	7
Highways Lead for Network & Infrastructure	65,000	8
Lead commissioner LD and PD	65,000	8
Head of Strategy & Performance (Housing)	65,000	8
Strategic Lead Sport & Physical Activity	65,000	8
Adults & Health Programme Lead	65,000	8
Electronic Document Management Project	65,000	8
Head of Children's Joint Commissioning	65,000	8
Total	**1,499,338**	

Source: Workforce and senior salaries, March 2018, London Borough of Barnet, 2018c

'Commissioning for the future'

> ***"I am often asked what my view is on the council as a commissioning organisation. My response is that commissioning is not about organisational form, structure and bureaucracy. It is about the best outcomes for residents and about planning well for the future. It is about reimagining how public services can best meet the aspirations of residents and businesses for the next decade and beyond"*** (John Hooton, Chief Executive, London Borough of Barnet, Municipal Journal, 1 September 2017).

This is a contradictory statement because the neoliberal model of commissioning is not intended to deliver what is best for residents, but to create competition and market forces to drive down the cost of services and labour. This is clearly evident in the CSG and RE reviews (see Part 2). Furthermore, outsourcing constrains future planning and the reliance on 'outcomes' ignores the critical role of inputs, processes and outputs in the quality of public services.

Fundamental flaws

Commissioning is an integral part of neoliberal public management and intended to divide local government, the NHS and other public bodies between purchasers and providers or clients and contractors. This was intended to accelerate the financialisation, marketisation and privatisation of public services. It led to:

- A blind faith in competition and contestability despite the fact that much of the private sector seek to avoid competition whenever possible.

- Failure to recognise that all contracts are incomplete, particularly those in the public sector because demand fluctuates, changes in legislation and regulatory frameworks impose new contractual requirements.

- A misconception in the ability of the private sector to provide public services by applying private sector practices.

- Alternative Delivery Models such as Local Authority Trading Companies and Social Enterprises are not the magic bullet and are often mistakenly assumed to achieve the same objectives as outsourcing.

- Private sector contract wins were often perceived as 'growth' instead of liabilities that had to be fulfilled in order to receive payment whilst the acquisition of smaller companies increased risks and the need for integration.

- Austerity accelerated financialisation, marketisation and privatisation, but the focus on competition to drive costs savings was a major objective before the 2008 global financial crisis.

In reality, commissioning is a barrier to progressive and radical public management and must be abolished as a matter of urgency.

Judicial Review launched to challenge lack of consultation

A Judicial Review was launched to challenge Barnet's Council's failure to carry out a formal consultation process under the Best Value regulations of the Local Government Act 1999. How Barnet Council believed they could develop "a new relationship with citizens" by resisting public consultation on the award of such important contracts, beggars belief.

The case was heard in the High Court on 19, 20 and 21 March 2013 before Lord Justice Underhill between the claimant Maria Stella Nash and defendant Barnet London Borough Council (Capita plc, EC Harris LLP and Capita Symonds were interested parties). Three quotes from the Judgement summarise the outcome:

> *"...there is no real dispute that it did not constitute consultation about outsourcing as such. "Alternative service provision was mentioned in the materials supplied, at least for the latter year; but no relevant information was supplied, and in the exercises were plainly not designed to elicit views about it"* (para 66).
>
> ***"...it is clear in the present case the Council did not make any attempt to consult on the specific question of whether the functions and services covered by the NSCSO [CSG] and DRS [RE] contracts should be outsourced"*** (para 74) - our emphasis.
>
> *"It follows that if the application for judicial review had been made in time I would have held that the Council had not complied with its obligations under sector 3 (2) of the [Local Government Act] 1999 Act in respect of the decisions taken in 2010/11 to outsource the performance of its functions and services, covered by the proposed NSCSO and DRS contracts"* (para 76) (R (on the application of Maria Stella Nash) v Barnet London Borough Council, 2013).

Although the case was 'lost' because it was out of time, Barnet Council was effectively given notice that it had to consult with the public and service users on future decisions regarding the provision of public services.

Outsourcing in Barnet

Table 4 charts the scale of outsourced and transferred services in Barnet under the Future Shape and One Barnet programmes and the later shift to in-house provision.

Table 4: **Outsourced, transferred and in-house services in Barnet**

Service	Date	£m value	Contractor	No of staff at transfer
Customer & Support Group Finance, ICT, HR including Pensions and Safety, Health & Welfare, Customer Services, Revenues & Benefits, Procurement, Estates, Corporate Programmes	01/09/2013 10 years	322.0	Capita Group plc	538
Regional Enterprises Ltd (RE) joint venture Planning & Development Management, Regeneration, Strategic Planning, Building Control, Land Charges, Environmental Health, Trading Standards, Cemetery & Crematorium, Highways	01/10/2013 10 years	154.0	Capita Group plc	276 (FTE)
Education, Skills & Catering	01/04/2016 7 years	70.4	Cambridge Education (Mott McDonald)	336
Parking Service	01/05/2012	21.5	NSL Limited & RR Donnelly	83
Your Choice Barnet	Nov 2011 new 5-year agreement 01/02/2017	25.0	The Barnet Group	145
Housing Service	01/02/2012 01/04/2004	32.7	The Barnet Group ALMO	84 FTE 290
Leisure services	01/01/2003 1/10/17 new 10-year contract	100.0	Greenwich Leisure Limited	n/a
Legal services	01/07/2012 renewed further 5 yrs	16.6	Shared with Harrow LBC	36
Total		[1]**1,642.2**		**1,428 + 360 FTE**
In-house services				
Libraries	01/04/2017	1.41	In-house service with Bibliotech - self-service machines & access to unstaffed hours; Capita provide other libraries ICT and property management	139 to 84
Street Scene	11/05/2017		In-house service	482 less 71.5 posts deleted
Family Services	25/01/2017		In-house service	n/a
Adult Social Work	19/09/2017		In-house service	363 less 46 FTE

Sources: Wide range of Cabinet/Committee reports in references.
[1] Total cost of contracts covering different periods. n/a = not available

The Barnet Group Limited is a Local Authority Trading Company (LATC) with several subsidiary companies: Barnet Homes Limited - management of Barnet's housing stock since April 2004; Your Choice (Barnet) Limited - also an LATC to deliver care and support services to adults with physical and learning difficulties; TBG Flex Limited - the Group's preferred vehicle for employing new permanent and temporary staff which started trading in February 2016; and TBG Open Door Limited - registered provider of social housing since March 2017.

The Barnet Group also has what it calls 'sub-brands': PA Choices - provides personal assistants for people needing additional care; Assist - alarm and telecare services; and Let2Barnet - a lettings agency to match tenants with private landlords.

One Barnet programme and management consultant costs

Future Shape commenced in late 2008 and was rebranded as the One Barnet programme from late 2010. Table 5 charts the costs of the programme and management consultants.

Table 5: **Cost of Future Shape and One Barnet programme and consultants**

Consultant	Directorate	Function and date	Cost £
PricewaterhouseCoopers	Council-wide	2008: Future Shape programme, Alternative organizational vehicles and procurement review (1)	500,000
Trowers & Hamlins LLP	Council-wide	2008: Advice on Future Shape policies (3)	25,000
PricewaterhouseCoopers	Council-wide	2009: Strategic management consultancy framework contract – 3 years (2)	2,000,000
European Services Strategy Unit	Future Shape	2008: Strategic advice to trade unions on Future Shape proposals	8,800
Sector Treasury Services (Capita Group plc)	Housing & Environmental Health	2008: Hendon Crematoria Options Appraisal	30,000
Habanero Business Consulting	Housing Service	2009: Lean Review (7)	80,000
Impower	Council-wide	2009 Future Shape programme	43,000
Agilisys	Planning, Housing & Regeneration	2010: Development & Public Health services to support Impower with project implementation, delivery of Competitive Dialogue, contract award and monitoring – 3 years (4)	500,000+
Impower	Planning, Housing & Regeneration	2010: Development & Public Health Services Options Appraisal (5)	67,000
n/a	Adult Social Care	2010 Lean systems review	60,000-100,000
ThinkPublic design agency	Adult Social Services	2010: Prototyping Life Coaches and Right to Control Trailblazer	66,800
Care and Health Solutions	Adult Services	Adult Social Services Provider Services Options Appraisal	22,400
Sub-total		**2008-2010**	**3,336,067**
One Barnet Wave 1	**Programme cost**	**2010 - 2014**	**11,678,000**
One Barnet Wave 2	**Programme cost**	**2011 - 2014**	**8,644,000**
Total			**23,658,067**
Later commissions			
OPM	Education	Education, Skills & Catering	n/a
FMG Consulting		Advice on leisure contract 2016-2017	n/a
Oaklawn Consulting Limited		Financial impact to bring parking service in-house	n/a

Sources: (1) PricewaterhouseCoopers, Delegated powers, Cabinet Member for Resources and Performance, 16 December 2008: (2) PricewaterhouseCoopers, Strategic Management consultancy, Cabinet Resources Committee, 8 December 2009: (3) Trowers & Hamlins, Cabinet Member for Policy & Performance, 6 November 2008: (4) Agilisys, Delegated powers, Cabinet Member for Resources and Performance, 27 July 2010: (5) Impower, Delegated powers, Cabinet Member for Resources and Performance, 29 June 2010: (6) Law firms panel, Cabinet Resources Committee, 15 June 2009: (7) Lean Review Housing Service, Head of Housing and Environmental Health, 13 July 2009: CCMPS Ltd supply AD Commercial Assurance officer, 15 February 2011, Commercial Director: (8) One Barnet Programme Highlight Report, Budget & Performance Overview and Scrutiny Committee, 13 March 2014 and Appendix 1.

Barnet UNISON has raised many concerns about the Council's costly reliance on the use of management consultants. It was evident that management consultants:

- were used to legitimate Barnet Council policies;
- colluded with 'business as usual' in-house options that were designed to fail because they were based on the status quo and lacked innovation and improvement strategies - and they ignored constant trade union criticism of the approach;
- reinforced the flawed commissioning model that split client and contractor;
- diverted resources from frontline services;

- reduced the capability and capacity of the Council.

The NHS has a similar pattern of reliance on management consultants and a new study of the impact of consulting advice on efficiency of the NHS concluded:

> *"Our principal finding, however, is that despite these costs, the use of management consulting is not statistically associated with improvements in efficiency. On the contrary, our results appear to suggest that higher levels of spending on management consultants have had a statistically negative effect on two separate indicators of efficiency ('operational' and 'adjusted cost')"* (Kirkpatrick et al, 2018).

These findings reinforce our analysis.

Part 2

The negative impact on services

This section examines the impact of outsourced, arms-length and services that have been retained in-house despite strenuous efforts to apply the Alternative Delivery Model.

Capita performance: Customer and Support Group (CSG)

Pension fund

Barnet Council outsourced administration of the Pension Fund to Capita as part of the CSG contract. The Pensions Regulator (TPR) issued a scheme return notice on 9 July 2016 requiring its submission by 12 August 2016. It investigated the Council's failure to submit its 2016 annual return and issued the first fine on a public sector pension fund for this failure. Table 6 details the timeline.

Table 6: **Timeline of Capita's flawed responses to The Pension Regulator**

Date	Communications
9 July 2016	TPR issued a scheme return notice to the scheme manager, requiring the scheme return to be completed by 12 August 2016.
20 September 2016	The scheme manager called TPR to confirm they had access to the scheme return online and would return it within a week.
29 September 2016	TPR issued a notification of failure to the scheme manager, requiring them to complete the scheme return by 14 October 2016.
18 January 2017	TPR issued a warning notice to the scheme manager, explaining our intention to ask the Determination Panel to issue a penalty notice to the scheme manager for failing to submit the scheme return.
24 February 2017	The scheme manager had not provided the scheme return and TPR's case team referred the matter to the Determination Panel.
8 March 2017	The Panel decided to impose a fine of £1,000 against the scheme manager in accordance with TPR objectives as the scheme has nearly 23,000 members and had appeared to have done nothing to secure compliance.
13 April 2017	Penalty notice issued after the 28 day window for the scheme manager to refer the determination to the Upper Tribunal had expired.
9 June 2017	The scheme manager paid the penalty.

Source: The Pensions Regulator, 2017.

The Council issued CSG with a contractual remedy notice on 25 August 2017 and agreed a service improvement plan with CSG. Capita Employee Benefits (CEB) reported an improved compliance of 96.29% against the Service Level Agreement target of 95% between November and December 2017. *"However, when scrutinising the performance for each month in the period officers have identified a deterioration in service between November and December against key case groups"* - see Table 7 (London Borough of Barnet, 2018d). **Five of the nine criteria reveal a significant decline in performance, even more remarkable in the context of the implementation of a Service Improvement Plan.**

Table 7: **Capita's Local Pension Board Performance November-December 2017**

Case Group	November SLA %	December SLA %	Change in performance
Enquiries	100	100	no change
Request for benefits	96.10	99.45	**+3.35**
Leavers	93.22	88.64	**-4.58**
New starters	85.71	80.43	**-5.28**
Retirements	75.00	73.91	**-4.70**
Transfers In	-	100	no change
Transfers Out	100	100	no change
Bereavements	100	83.33	**-16.67**
Other	98.72	97.48	**-1.24**

Source: Local Pension Board, London Borough of Barnet, 2018e

An Internal Audit of pensions administration revealed:

- *"...85% of records created before June 2010 containing missing information compared to a target of 95%*
- *We also found that there were issues in the data provided to CSG by employers for 60% of the employers reviewed and 2 that there was no reporting on the nature and extent of data quality issues noted. This increases the risk of inaccurate data being held by the scheme and delays in preparing annual benefits statements not being identified.*
- *We found that contract monitoring meetings held to monitor the pension administration section of the CSG contract were not formally recorded by the Council and that the employer targets for the scheme administration strategy are not monitored. This could lead to the Council not identifying breaches of laws and regulations.*
- *The scheme does not follow up on new joiners identified outside of the usual notification process and there were duplicate records.*
- *A large number of records were created and authorised outside of the timespan stated in the scheme administration strategy"* (London Borough of Barnet, 2018e).

Barnet's pensions service is delivered from Darlington where Capita operates the Teachers' Pension scheme. It no doubt used this fact in the procurement process to emphasize its pension administration experience, but in practice this has proved of little, if any, value to members of the pension fund and Barnet Council.

Prior to the Capita contract, pension fund members could download their annual pension fund statement, but can no longer access this information. Members who become an employee of an academy school are treated as a new employee, but their employment history with Barnet, which might go back twenty years, is lost and they end up with an inaccurate pension record. Members also experience long delays in receiving responses to simple queries, sorting out transfer ins and processing retirements - in many cases up to 18-24 months of longer (Table 8).

Table 8: **Aged Breakdown of Outstanding Pensions Cases**

Case Group	**3 months**		**3-6 months**		**6-12 months**		**12-18 months**		**18-24 months**	
	Capita	3rd Party	Capita	3rd Party	Capita	3rd Party	Capita	3rd Party	Capita	3rd Party
Change of details	10	0	0	0	0	0	0	0	0	3
Enquiries	30	32	7	10	0	20	0	9	0	25
Request for Estimate of Benefits	15	33	8	19	3	19	0	6	0	7
Leavers	30	75	3	44	0	96	0	267	0	103
New Starters	47	1	1	0	13	150	0	2	1	22
Retirements	10	56	0	12	0	19	0	14	0	8
Transfers In	1	9	2	4	1	7	1	6	1	13
Transfers Out	4	1	5	3	0	9	0	0	0	0
Bereavements	9	38	0	19	1	28	0	10	0	21
Other	80	101	118	103	401	181	24	81	3	80
Total	**236**	**346**	**144**	**214**	**419**	**529**	**25**	**395**	**5**	**282**

Source: Capita Report to Local Pension Board: 1st November 2017 - 31 December 2017 - London Borough of Barnet 2018e

Capita's Primary Care Support contract with NHS England (see Part 3) is also heavily criticised for pension delays that have worsened since NHS England withdrew a management team tasked with improving the service. *"Pension payments are deferred pay, and for GPs who have given years of service to the NHS, any delays in receiving these due to clear failings of the administrative system are nothing short of scandalous"* (Dr Ian Hume, British Medical Association in Bostock, 2018).

Internal user satisfaction

A standard CIPFA survey was used to assess internal user satisfaction: 2014-15 survey results ***"...were not statistically valid due to insufficient response rate"***

2015/16 results were ***"...universally poor, with all services failing to meet the target of upper quartile customer satisfaction"*** (London Borough of Barnet, 2017a).

Service credits to a total value of £116k have been applied in respect of these KPIs.

The survey *"...provides no qualitative information on which to base improvement planning*". The Council is in discussion *"...with CSG to develop a method of defining and measuring internal customer satisfaction KPIs that provides more meaningful information"* (London Borough of Barnet, 2017a). This is astonishing - Capita does not appear to have had even basic template of KPIs that provide meaningful performance information (unless they are designed and charged to each contract!).

Internal audit findings

The Council's Internal Audit has undertaken a number of reviews of services and functions outsourced under the CSG contract. The five reviews made recommendations relating to 12 high risks, 19 medium risks and 4 low risks (Table 9).

Table 9: **Internal Audit findings of CSG services and risk categories**

Year	Service	Function	High	Medium	Low
2017-18	**Accounts Payable**	Potential Duplicate payments	1		
		BACs Reconciliation	1		
		Policies, procedures & process		1	
2017-18	**Accounts Receivable**	Unallocated receipts account	1		
2017	**Transformation Programme**	Benefits identification & definition	1		
		Benefits monitoring & measurement	1		
		Benefits handover & realisation	1		
2016	**Health & Safety - Estates**	Performance reporting	1		
		Inspections		1	
		Remedial works		1	
		Contracts		1	
		Schools compliance schedule		1	
		Service programme work plan			1
		Policies and procedures			1
2015	**IT Change Management Review**	Process lifecycle	3		
		Change Testing & Validation	2	3	
		Result of Sample Records Testing		4	1
		Continuous Service Improvement		2	
		Governance of IT Change Manage		2	
		Expectations Management			1
Total			**12**	**19**	**4**

Sources: London Borough of Barnet 2016b, 2017b, 2018f, 2018g

In addition, Internal Audit carried out an audit of Information Technology Disaster Recovery (ITDR) in 2015 that examined the adequacy and effectiveness of controls in governance, alignment of BCM requirements with ITDR capability, ITDR technical recovery capability and Interim IRDR capability. They issued four Priority 1 recommendations concerning the adequacy and effectiveness of controls (London Borough of Barnet, 2016c).

Innovation limited

"A particular concern amongst the council's senior management and Members of the Working Group has been ***the perception that the Council does not appear to have benefited from the injection of innovation and forward thinking that was anticipated from links with the broader Capita organisation"*** (para 1.60, London Borough of Barnet, 2016a). The Council's response in the review is vague to say the least *"...a programme of activities to encourage and raise the profile of innovation arising out of the operation of the partnership. It will also drive modifications to the Strategic Partnership Board agenda, enabling more time for horizon-scanning and consideration of innovation."*

The fact that the Council even considered extending Capita's 10-year contract after only three years beggars belief (para 1.64). Again, obtaining more savings was the rationale and not surprisingly, Capita were keen!

Ten Key Performance Indicators failures

Three services, Finance, Human Resources and Customer Services **had service credits of £236,949 applied as a result of failure of ten KPIs** in the period 2013-14 to 2016-17 (London Borough of Barnet, 2016a).

Capita performance: Regional Enterprise (RE) - Regeneration, Highways and Regulatory Services

The Council undertook a 4-year review of the RE contract in 2017 concluding with a report and appendices to Performance and Contract Management Committee in November 2017 (London Borough of Barnet, 2017b and 2017c).

"The service has delivered some excellent outcomes for Barnet and continues to do so"

Yet the Committee report merely says overall performance is:

> *"acceptable"* (para 1.40)
>
> *"reasonable good quality"* (para 1.47)
>
> *"relatively good"* (para 1.62)
>
> *"it has proved difficult to obtain sufficient information to conclude whether or not total project costs represent good value for money"* (para1.90)
>
> *"There are concerns about resource levels, including the lack of a head of service, which have impacted particularly on the town centre agenda, although there have been recent improvements."*

The IMPOWER report (London Borough of Barnet, 2017d, para 1.89) revealed another problem:

> ***"... resource mix varies across providers, with RE's appearing to be bottom-heavy and relying more on "support" staff than on "graduate resource" in particular".***
>
> *"The regeneration agenda has changed significantly since the contract was let and there is a clear disconnect between the service that was defined by the output specification and KPIs at the time and the council's current requirements."*

Barnet Council decided to commission Impower to undertake a market analysis to *"...ascertain whether LBB is receiving value for money for its special projects in the regen and highway areas".* They contacted 13 companies and got three replies. It was naive to believe that competitor companies are going to divulge their cost basis to a competitor. The Impower report provided partial information from other companies and struggled to make any meaningful comparison with RE.

The Council's auditors, then Grant Thornton, were commissioned to benchmark RE's performance in regulatory, highways and planning and development management in Barnet with all London Boroughs and with its ten nearest neighbours. In the ten nearest neighbour local authorities benchmarked in the three services - 27 out of 30 services were delivered in-house. This was primarily a financial analysis focused on prices, charges, net expenditure, price per head and price per kilometre of road. Even the sections supposedly about standards were all based on costs. The benchmarking of the ten nearest neighbours was against in-house services and not with competing private sector firms London Borough of Barnet, 2017e).

Barnet came bottom of the table of 33 London authorities for expenditure on the benchmarked services of regulatory, highways and planning and development management in 2012-13 and was bottom again in 2015-16 after the award of the RE contract in 2013 (ibid).

It was also bottom of the table for London authorities and its ten nearest neighbours for highway services; for planning and development it was 20th in the London-wide table and 5th in the ten nearest neighbour table; and for regulatory services it was bottom or 30th in the London-wide table and bottom in the nearest neighbour table (ibid).

This approach emphasised Barnet's status as one of the lowest spending Councils in London and a very narrow perspective that evades key issues about the quality of services, the extent to which inequalities and injustices are being addressed and whether the needs of Barnet residents and businesses are being addressed.

The Performance and Contract Management Committee review of RE concluded with an incredulous unsupported statement (para 5.13): *"The equalities implications of proposals have been considered as part of the Review process and no specific implications have been identified in relation to the proposals outlined in this report"* (London Borough of Barnet, 2017b)

Internal audit reviews of RE services

The Council's Internal Audit undertook two reviews of RE services and functions which made recommendations in relation to 3 high risks, 2 medium risks and 3 low risks (Table 10).

Table 10: **Internal Audit findings of RE services and risk categories**

Year	Service	Function	High	Medium	Low
2017	Benefits Realisation	Benefits identification and definition	1		
	2 Nov 2017	Benefits monitoring, measurement and realisation	1		
2017	Highways Programme	Performance management	1		
	20 April 17	Issue management		1	
		Inspection sheets		1	
		Complaints protocol			1
		Quality policy statement			1
		Resident notification letters			1
Total			**3**	**2**	**3**

Sources: London Borough of Barnet, 2017f and 2017g

Regeneration Planning application rejected

Barnet Council approved a planning application in the further regeneration of the Grahame Park estate in Colindale. However, a month later the Mayor of London refused permission on the grounds that it was ***"...a classic example of how not to do estate regeneration".*** The Barnet Council and Genesis Housing Association scheme planned to demolish 630 existing residential units, build 1,083 new homes and a community hub. The Mayor refused permission on the grounds of a net loss of 257 affordable homes as 692 social housing units would be replaced with 435 homes. The application also failed to provide a minimum of £840,000 for additional bus capacity and alternatives to private car use.

> *"I have asked Barnet Council to work constructively with the applicant on alternative plans with greater density, which do not result in the net loss of affordable homes. Given its recent record in this area, I hope the council recognises the need to replace what would be lost at Grahame Park"* (Mayor of London, 2017).

Both the CSG and RE reviews, particularly the latter, make no attempt to take account of service delivery and regeneration that would have happened without the contracts having been awarded (known as 'deadweight loss' and defined as the extent to which projects generate impacts that are not additional to what would have occurred in the absence of such provision). For example, "*The Council has spent £24m on projects from 2014 to 2017 with RE*" (London Borough of Barnet, 2017h). This implies this was new spending as a result of the RE contract and no attempt was made to identify what part of this was new and additional to what would have been spent by the Council in this period without the contract and taking its own initiative to win additional work.

Adults with physical and learning difficulties - Your Choice Barnet flawed from the start

Two business plans were prepared for the Local Authority Trading Company and both were fundamentally flawed as Barnet UNISON demonstrated in two detailed reports (Barnet UNISON, 2011 and 2012c).

The YCB financial forecast switched from a surplus of £80,556 after four years in the May 2011 Business Plan to a staggering £1,983,780 in the same period in the January 2012 Business Plan. This was a 2,363% increase in just six months!

The losses of £330,367 in the first two years in the May 2011 forecast were replaced by forecasted surplus of £561,524. In addition, the surplus for years three and four was increased from £249,810 to £1,422,256, a 469% increase. The sudden switch in forecasts ***"…reflects due diligence undertaken by senior managers in both LBB and Barnet Homes"*** (London Borough of Barnet, 2012). Both forecasts were rubber-stamped by the Cabinet Resources Committee.

A summary of the first year of YCB's performance included a financial crisis with a projected loss of £70,118 instead of a forecasted £85,338 profit leading to a £1m bailout from Barnet Homes; a service, management and employment restructuring launched March 2013, but this was planned in summer 2012 – the agenda for the 12 September 2012 Board meeting included *"…the restructure proposals outlined in Item 7 which concern all staff;"* and a failure to obtain new 'business' (CADDSS, 2013).

YCB incurred significant losses for three of the five years it has been in operation (see Table 8).

Job losses, regradings and pay cuts

The YCB Consultation Paper proposed:

- Divide existing services into two sub-divisions, Specialist Services (Rosa Morrison, Flower Lane and Valley Way) and Community Services (CommunitySpace, Barnet Independent Living Service (BILS) and Supported Living) including a merger of CommunitySpace and BILS.
- Deletion of 11.5 Full Time Equivalent (FTE) Team Leader posts and replaced by 8 Community Service Coordinator posts at a higher pay grade.
- Deletion of 8 (FTE) Support Workers and 4.8 (FTE) Night Support Workers and replaced with 20.5 Assistant Support Workers on a 23% lower salary grade.
- Loss of 5 Independent Living Facilitator posts and 2 Assistant Independent Living Facilitator posts.
- Deletion of enhanced payments for all staff and introduction of a 7-day week.
- Benchmarking of terms and conditions with market rates, which could result in 30% wage cuts, and the introduction of a new salary structure.

Barnet UNISON published a separate critical response to these proposals (Barnet UNISON, 2013). The YCB Board announced a series of decisions on 17 June 2013. The planned co-location of CommunitySpace and BILS did not proceed; changes in Supported Living and Valley Way are on hold pending consultation with carers and families; the removal of enhanced payments was also put on hold; senior and middle management changes to proceed as planned.

The cost of wages has declined by £1,553,000 or 35% comparing 2013 and 2017 annual reports, yet the number of employees is virtually the same after a sharp decline between

2014-2016. Expenditure on agency staff increased 158% between 2013 and 2017 (Table 11).

Table 11: **YCB staff costs 2013-2017 (£000)**

Year	Revenue	Profit/loss	Wages	Social security	Pension costs	No. of employees	Agency costs
2012-13	7,099	-241	4,485	342	883	155	347
2013-14	5,331	-1,019	3,736	217	910	137	701
2014-15	5,523	16	2,635	165	597	122	650
2015-16	5,631	111	2,657	168	715	133	584
2016-17	6,029	-113	2,932	234	673	159	897

Source: YCB Annual Reports. Directors fees are recharged to Barnet Homes

The Care Quality Commission rated the YCB Barnet Supported Living Service 'inadequate' in March 2015 following an inspection in August 2014 (page 17 Barnet UNISON, 2015a).

The Council renewed the Yours Choice Barnet contract for a further five years in 2017 which included further cuts of £1.2m over four years (London Borough of Barnet, 2017i and 2017j).

Education, Skills and Catering

The contract was awarded to Mott MacDonald Limited, trading as Cambridge Education, after two other bidders withdrew from the early stages of the procurement process resulting in no competition in the remaining stages. Mott MacDonald preselected ISS as its catering contractor, leaving Barnet Council no choice in the matter (London Borough of Barnet, 2015a).

We described the catering service as 'the jewel in the crown' because it was a highly successful in-house service (Barnet UNISON, 2015b and 2015c) that generated an annual surplus of £241,770 before it was outsourced (London Borough of Barnet, 2015b).

We understand that all but one of the original senior catering staff have left, that ISS is losing school meals contracts in Barnet and there is no evidence that it has won any new catering contracts locally. Furthermore, it is apparent that some schools have withdrawn from the Schools HR service supplied by CSG on the grounds of a lack of trust in Capita, hardly surprising with the problems in payroll and pensions described in Part 2.

The Quarter 3 2017-18 Performance Monitoring Report refers to the Cambridge Education budget position and performance of the key indicators, but is bereft of similar information about ISS's catering performance (London Borough of Barnet 2018b).

Services that remained in-house despite the Alternative Delivery Model

Children's Social Care Services suffered from Barnet's structural flaws

Critical OFSTED reviews in April and May 2017 concluded that Barnet's services for children were "inadequate" in all reported categories and graded 'requires improvement'. The Barnet Safeguarding Children Board was judged to be inadequate too. The Secretary of State appointed a Commissioner for Children's Services in the London Borough of Barnet in August 2017 and made recommendations (Sulke, 2018). The Commissioner concluded that *"...services have deteriorated significantly over the last five years"* and identified flaws in the management of children's services and the commissioning model.

The Director of Children's Services reported to the Strategic Director for Commissioning whilst a Family Services Director reported to the Chief Executive. Another Director ran the Education Delivery Unit, which was fully outsourced in April 2016. The Strategic Commissioning Board (SCB) had a *"...remit to provide overall management and leadership of the Council",* but Directors running services in the Delivery Units were excluded. Furthermore, *"...the SCB focused its attention mainly on transformational and strategic change issues"* (ibid), rather than service delivery.

The Commissioner identified many strengths in Barnet's Children's Services, but found barriers to improvement including: "shortcomings in leadership, and particularly a lack of experience and understanding of how to lead the 'turn-around' of failing, complex children's services to secure impact; poor use and analysis of performance and management information to drive improvements and to monitor progress and impact for children, and a lack of in-depth understanding of services; poor engagement and communication with staff leading to a serious disconnect between children's senior management and the front line; ensuring that governance adds value to the safeguarding of children in Barnet resourcing issues; and shortcomings in systems to secure good front-line practice" (ibid). Silo working, slowness to address capability and capacity issues, a process-heavy organisation and cultural issues were also identified. The latter focused on the commissioning/delivery split:

> ***"Because the focus of SCB had become higher level transformational and strategic change issues, day to day 'business as usual' matters began to be seen as less important and were not normally discussed at top level. In addition, Family Services had become particularly siloed within SCB which meant it did not benefit to the full from corporate support. SCB's culture has not been one of collective problem solving or understanding about the quality of the delivery of basic services"*** (ibid, para 4.7.3)

The Commissioner reported *"...a serious disconnect between senior managers in children's social care and the front line."* Furthermore, the *"...lack of purposeful and systematic engagement with staff in Barnet leads to a lack of clarity and understanding about what is required of them. Equally, staff do not feel that they have the opportunity to contribute their expertise to developments – they are ' receivers' of change rather than agents of change. Many staff report frustration about the lack of follow-up when suggestions or requests are made"* (ibid, para 4.12).

The Commissioner concluded that given the work being underway, supported by Essex CC, Trust or social enterprise company models *"...are likely to have a negative impact on the pace of improvement."* In addition, Elected Members and senior officers in Barnet recognise *"...that such arrangements are not appropriate or desirable for children's service in their current context as they will prove a distraction and a detraction from the improvement work already in hand"* (ibid, para 6.12). Therefore, *"...the best way forward for children in Barnet is for the Council to retain control of its services, operating with Essex as their Improvement Leadership Partner"* (ibid, para 6.13).

Street Scene remains in-house

The Council began a review of Street Scene in August 2012 pending the expiry of the May Gurney recycling contract in autumn 2013 and initially considered in-house rationalisation, a share service and outsourcing (Project Brief including Strategic Outline Case). This process began again in September 2015 with the launch of Alternative Delivery Model process to consider future provision of the service and initially considered seven options:

- In-house (pre-December 2015)
- In-house (with management support from The Barnet Group)
- Local Authority Trading Company (The Barnet Group)
- Outsourced
- Shared Service
- Employee Mutual, Social Enterprise, and Trusts
- Joint Venture and Partnerships (London Borough of Barnet, 2016k)

Barnet UNISON produced a detailed analysis of what appeared to be another constructive dismissal of the in-house option using a 'business as usual' model and criticised the six criteria selected to assess the options. *"The criteria assume a level of knowledge that can only be obtained from a procurement process and bids. They are hypothetical questions or criteria, which invalidates their use in the IOBC process"* (Barnet UNISON, 2016a). The scoring of the options was fundamentally flawed and significant risks were not identified. The report called for urgent changes in the options appraisal and business case processes.

Public consultation between November 2016 and January 2017 were asked a series of questions about priorities and which of four options then being considered - In-house (with management support from The Barnet Group, Local Authority Trading Company, (The Barnet group), outsourced and a shared service. 159 respondents strongly supported the in-house option, followed by 110, 20 and 47 for the other three options respectively. Only 22 respondents strongly opposed the in-house option compared to 260 respondents who strongly opposed outsourcing (London Borough of Barnet, 2017l).

A further report to Environment Committee in March 2017 had reduced the options to three - in-house (with management from The Barnet Group), transfer of the service to The Barnet Group and outsourcing (London Borough of Barnet, 2017i). Three months later a further report finally recommended *"Street Scene Delivery Unit services including; recycling and waste, street cleansing, and green spaces maintenance (Lots 1-3) to revert to a full In–House service"* which was approved by the Committee (London Borough of Barnet, 2017m). The additional option without any support from The Barnet Group had been introduced and had transformation costs £2.5m lower than the other two options between 2017-18 and 2019-20.

Street Scene was restructured in November 2017 with the deletion of 71.5 posts, a 19% cut in the workforce, but no redundancies were required because the posts were filled by agency workers (London Borough of Barnet, 2017n). The service is also severely constrained by having to operate from two depots, including one in Harrow, after the Council sold the Mill Hill depot for development.

Public libraries - large staffing cuts

The Council embarked on drastic reduction in the staffing of Barnet Libraries, despite wide opposition from library users and staff.

- Staffed hours at libraries have been reduced by 70.4% or 446.5 hours per week.
- 90% of the planned technology supported opening hours will have no staffing or volunteer support.
- The ten Core and Core Plus libraries have lost an average of 28.3 staffed hours per week.
- The four Partnership libraries have employed a few paid staff in management roles, but none with any prior public library experience. These libraries are primarily run by volunteers and open only for a minimum of 15 hours per week (Barnet UNISON, 2014, 2015d and 2016b).

'Transformation' for public library users in Barnet has meant significantly reduced user access to staffed hours, health and safety risks in access during non-staffed hours, a big reduction in the quality of service and increase reliance on self-service. Currently, private security guards are employed at libraries for a 'transition period' whilst the access technology is not being used, although this may change after the local elections in May 2018.

For library staff it has meant significant job losses, deskilling of staff, low morale and increased pressure during staffed hours because users come to the library when they know staff will be present. The plan relies heavily on volunteers, but there are indications that the Council is having difficulty recruiting the required numbers.

Work has been undertaken to install new technology access system, CCT and other works to accommodate the planned changes. However, Barnet Council only produced Fire Risk Assessments (FRA) for the North Finchley, Golders Green and Osidge libraries 73, 38 and 51 days respectively after library staff and the public were admitted to the libraries. The list of remedial action included:

- Replacing Fire Doors at some libraries with doors with the required level of fire Resistance.
- Fire Refuge Area communication system not working at a number of sites.
- The Emergency Lighting untested at a number of sites.
- No record of the five yearly structural inspection of the external fire escapes at a number of libraries.
- Incomplete Fire Safety signage missing at a number of sites.
- Smoke seals needed for doors at a number of libraries.
- Insufficient numbers of fire extinguisher at one site.
- Fire extinguisher incorrectly mounted at a number of sites.
- Fire door not closing correctly at one library.
- Basement area at one library requiring upgrading to required level of fire resistance.
- Width of staff exit at one site below recommendations.
- Confirmation needed that there is fire separation in the roof void between the library and the commercial use area at one site.

Capita are responsible for estates, health and safety and project management and a lack of action by the Council led to Barnet UNISON reporting their concerns to the Health and Safety Executive. Library space has been dramatically reduced as space was reconfigured to be used for rentals. Most of these spaces remain unlet.

Adult Social Care - new in-house operating system

A new operating model for Adult Social Care was outlined in a Strategic Outline Case in November 2015 (London Borough of Barnet, 2015c). The Committee Report stated unequivocally: *"The second stage is to identify the best alternative delivery model to deliver it"* (ibid). Predictably, the options included:

- Reforming and delivering the service in-house.
- Extending the services provided through the council's Local Authority Trading Company, Your Choice Barnet.
- Sharing services with public sector partner(s) such as other London boroughs or local NHS organisations.
- Establishing a social enterprise or employee-led mutual organisation.
- Creating a partnership or joint venture with a third party supplier.
- Outsourcing to a third party supplier.

A Business Planning report to the same Committee proposed 46 job losses and included *"...reviewing management roles, skills mix (i.e. reducing qualified social workers and having more unqualified social workers) and back office efficiencies"* (London Borough of Barnet, 2015d).

Barnet UNISON produced a detailed critical analysis of the approach to the new operating model, the alternative delivery model, planned cuts and made a series of recommendations (Barnet UNISON, 2015d).

By March 2016 the options had been reduced to three - a reformed in-house services, a shared service with the NHS and a public service mutual (London Borough of Barnet, 2016e). A further report criticised the analysis of financial savings, the apparent preference for a mutual/social enterprise model, the lack of a risk register and lack of recognition of equalities issues (Barnet UNISON, 2016c).

A public consultation of the three options took place between May and early August. The in-house option had the strongest support (50% overall) and least opposed (26% overall). A shared service with one or more local NHS organisations had 41% overall support and 30% overall opposed. There was significant opposition to a mutual/social enterprise as it had only 14% overall support compared to 63% opposed overall - 38% strongly opposed (London Borough of Barnet, 2016f). The mutual/social enterprise model was abandoned by the Adults and Safeguarding Committee. It became evident that this model would incur start-up costs of £750,000 and financial savings would not be achieved until a minimum of four years after start-up (Barnet UNISON, 2016d).

Final recommendations on the new operating system in-house Adult Social Care were reported in September 2017 together with continuing cooperation and integration with NHS organisations (London Borough of Barnet, 2017o).

Capita focus on financial extraction

Financial savings

The relationship between 'guaranteed savings', gainshare, investment targets, service credits, variation orders and cost increases is complex and much is shrouded by confidentiality and redaction of documents. The current savings forecasts are £46.97m (Table 12) and £39m (Table 12) for the CSG and RE contracts respectively, total savings of £85.97m.

The contract requires Capita to *"demonstrate to the satisfaction of the Authority that such savings have been achieved"* (para 4.3.1). If the savings or investment targets are not achieved, the Council is legally entitled to levy deductions and/or terminate the Partnering Agreement (paras 4.3.1 and 4.3.2).

Table 12: **CSG contract's guaranteed savings for Barnet Council**

Contract year	Authority Share of Net Guaranteed Savings (£m)
2013-14	
2014-15	0.62
2015-16	5.92
2016-17	2.63
2017-18	3.39
2018-19	4.23
2019-20	4.76
2020-21	5.32
2021-22	6.19
2022-23	6.69
2023-24	7.22
Total	**46.97**

Source: CSG Partnering Agreement, para 4.3.1

The CSG three-year review was not an audit of the contract and was not undertaken by internal or independent audit officers. The Council's press release at the conclusion of the review, *'Capita contract delivers £31 million savings'* (London Borough of Barnet, 2016g) represents the views of the elected members and officers who awarded Capita the contract.

RE contract

Whilst the annual cost of the contract has increased by £1.2m, the savings arise solely from increased annual income of £5.1m (Table 13). Furthermore, statement that *"...the RE contract is set to deliver £39m of guaranteed financial benefits to the council over the 10 year term"* (para1.11) **is a forecast that is dependent on maintaining at least the same level of annual income over the next years of the contract.**

Table 13: **RE contract savings forecast**

	Pre-contract £m	Post-contract £m	Difference £m
Gross annual cost of services	14.2	15.4	+1.2
Less annual income	9.7	14.8	+5.1
Net cost of services	**4.5**	**0.6**	**-3.9**

Source: Year Four Review of RE Contract, 2017, para 1.10

The RE review was also not audited.

Another factor is the difference between the contractual payments paid to Capita and the actual payments made by the Council (Table 14). CSG contractual payments between 2013-14 and up to 31 December in 2017-18 were £142.04m, but in fact the Council paid Capita £214.66m, an additional £72.62m. RE contractual payments for the same period were £69.20m but Capita were paid £108.92m, an additional £39.72m.

In summary, **Capita had received an additional £112.34m for both contracts only 4.75 years into the 10-year contracts, a figure that exceeds the forecast savings by £26.37m!**

Table 14: **Differences between contractual and actual payments**

Capita CSG	2013-14 (£m)	2014-15 (£m)	2015-16 (£m)	2016-17 (£m)	2017-18 Year to Dec (£m)	Total (£m)
Contracted	35.96	24.48	26.67	29.48	25.45	**142.04**
Actual	46.68	37.02	41.85	75.16	13.95	**214.66**
Difference	10.72	12.54	15.18	45.68	-11.50	**72.62**
Capita RE						
Contracted	8.61	14.85	15.08	15.31	15.35	**69.20**
Actual	8.61	14.76	24.45	29.90	31.20	**108.92**
Difference	0	-0.09	9.37	14.59	15.85	**39.72**

Source: Mr Reasonable, 2018

Gainshare

The Capita contracts permit gainshare between the Council and Capita in relation to a benefit calculated in accordance with Schedule 4 (Payments and Performance Mechanism) or in regard to a business case under Schedule 15 (Special Projects Approval Procedure). Capita received £8.3m gainshare over the four-year period 2013-14 to 2016-17. Specifically, they received £815,000 for achieving reductions and contractor costs; £334,000 for additional Council Tax income; £1,275,000 for additional income and £5,922,000 for procurement savings.

A £1.26m gainshare payment was paid on the Comensura interim and agency staffing contract, £500,000 on the London Highways Alliance road repair contract and a £313,000 saving on gas and electricity. As Mr Reasonable explained, *"Capita have claimed a saving of £942,000 made up of actual annual energy savings of £111,071 plus £202,420 of "corrected overcharges". They then gross up the three years of potential savings and send Barnet a bill for £313,000 as their share of the savings. To my mind this is a serious manipulation of the actual savings that could be justified given that if a procurement department was doing their job properly overcharges would get picked up in the normal day to day review of invoices"* (26 September 2017).

Strategic Risks

Barnet Council failed to recognise the risks in outsourcing which we highlighted in response every options appraisal and business case (see list at Appendix 2). Barnet Council believed that awarding a contract to a FT100 company such as Capita plc was a good 'insurance', but that strategy has dramatically proved worthless.

Barnet Council's deputy leader, Dan Thomas, commenting after the release of Capita's late annual report and accounts for 2017 and share issue, that the Council's contingency plans *"...are in place, but they are not needed now"* and added *"...unlike Carillion, Capita is almost 'recession-proof' because a major chunk of its income come from the public sector"* (Times, Barnet, 2018). This reflects wishful thinking rather than economic analysis.

A report to Performance and Contract Management Committee in late February 2018 on contingency planning arrangements did not set out any new plans and merely described the various contract clauses that are intended to protect the Council's interests (London Borough of Barnet, 2018h). But it did highlight two aspects of the CSG contract that are more complex in the case of the termination of the contract.

Firstly, the Councils ICT service is provided through the CSG contract and covers hardware, networks, data-storage, third party software and core some of which are hosted or owned by Capita or owned by third parties.

Secondly, several services are provided elsewhere in the UK - Payroll (Belfast and Carlisle, for schools), Customer service centre (Coventry, together with some local provision) Revenues and benefits (Blackburn, Bromley and some local provision) and Pensions administration (Darlington).

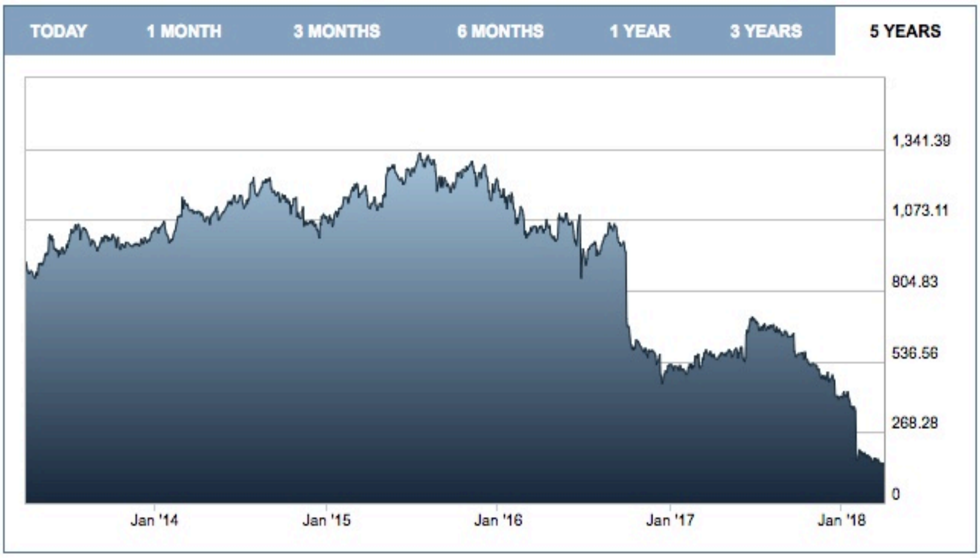
The performance of payroll and pensions administration continue to experience major problems. Given the context of potential additional complexities in the event of a termination it makes the decision to agree the CSG contract with these arrangements highly questionable. Furthermore, termination of the contract, irrespective of reasons, is almost certain to impose greater costs on Barnet Council to ensure service continuity and to recruit new staff in London and make others in other cities redundant as there will be little likelihood of these staff being able to afford to move to London.

Part 3
Capita's financial market crisis and status

Capita Group plc financial situation

Barnet Council wanted to outsource to a Financial Times Stock Exchange 100 Index company of the top 100 companies listed on the London Stock Exchange. If this objective was intended to minimise risk, the strategy fell apart on 1 March 2017 when Capita fell out of the FTSE 100 index and shows no sign of a return (BBC News, 2017).

Figure 1: **Capita share price plummeted 100% from a high of 1,338.15p in 2015 to a 20-year low below 135p on 4 April 2018**



Source: London Stock Exchange, 2018

Capita completed the sale of Capita Asset Services (provision of financial outsourcing services) to Link Administration Holdings Limited in November 2017 for £888m to raise cash to reduce bank debt. Goldman Sachs International was appointed Joint Corporate Broker (with Citigroup Global Markets Limited) by Capita in January 2018 and will receive the bulk of the £39m fee in arranging Capita's £701m share issue (£662m net).

Capita's recent contract losses and problems

Prudential Financial announces Capita has been replaced as administrator its life and pension business, which contributed about £80m revenue to Capita in 2017 (Capita, 2018a)

A Financial Conduct Authority investigation found that Capita's operation of the Connaught Income Series 1 Fund between April 2008 and September 2009 failed to meet regulatory requirements. Capita agree to further £66m payment in addition to an earlier £18.5m settlement to compensate investors (Capita, 2017).

Capita began the provision of 7-10-year primary care support services contract for NHS England in September 2015. The plan was to coordinate services and create a single national provider for Primary Care Support England. However, Capita closed local centres and left three national hubs followed by over two years of service failures and headline demands:

'GPs call on NHS England to strip Capita of support services contracts'

(PULSE, 10 November 2017)

'GPs missing 400,000 clinical letters due to Capita handover'

(PULSE, 2 February 2018)

'BMA seeks reassurance over 'shambolic' Capita following share price drop'

(PULSE, 31 January 2018)

Capita had earlier won a £27m seven-year payroll, human resources and recruitment contract from eight NHS Trusts in the north west. As savings plummeted and Trust complained over-and under-payment of staff and data protection breaches. By summer 2014 seven Trusts had brought services in-house or moved to another provider (Whitfield, 2015).

Capita had obtained a third of the 64 PPP strategic partnership contracts award by the end of 2013 (Whitfield, 2014). However, two contracts in Sefton MBC and Blackburn & Darwin Council had been terminated and more recently West Sussex Council had taken some service in-house and although Birmingham City Council had earlier extended its Capita contract, it has since suffered significant problems (See Part 5).

Defence estate contract to end in June 2019 five years into a 10 year contract

In 2014 the Ministry of Defence selected Capita as a strategic business partner to run the Defence Infrastructure Organisation (DIO) *"...and help it achieve savings. However, this overall model has not worked. Roles and responsibilities are unclear, governance arrangements are confused and DIO still does not have the skills and capabilities it needs"* (National Audit Office, 2017).

Armed Forces recruitment contract

Capita delivered just £2.73m savings against a MoD target of £104.3m for last six years of the ten-year £440m contract signed in 2012 (Bond, 2018). A succession of media articles blamed Capita for a failed ICT system to enable armed forces applicants to apply online and for recruitment shortfalls. Annual recruitment has fallen well below targets leaving the armed forces being "hollowed out" (Independent, 2017).

Capita trading update

A trading update in January 2018 announced the suspension of a final dividend to shareholders and a plan to raise up to £700m from a share issue later this year. The new chief executive reported:

" We are now too widely spread across multiple markets and services"

" Capita has underinvested in the business and there has been too much emphasis on acquisitions to drive growth"

" Capita is too complex, it is driven by a short-term focus and lacks operational discipline and financial flexibility" (Capita, 2018b).

The trading statement outlook for 2018 stated *" ...we have continued to experience delays in decision making and weakness in new sales. The divisional plans indicate that there is likely to be a significant negative impact upon profits from contract and volume attrition"* (Capita, 2018b).

Capita were reported early March 2018 to be organising a £700m fire sale of assets to further reduce debt. Assets up for sale include ParkingEye, a car park management business and the Constructionline database. *"...Capita is planning to cut its reliance on Britain and expand overseas as part of a strategic overhaul"* (Plimmer, 2018a). Capita was hoping to win call centre contracts from British Airways, but the centres in Newcastle and Manchester will remain in-house (Reuters, 2018).

Further bad news is expected in mid-May with the publication of a National Audit Office investigation into Capita's heavily criticised performance in NHS England's Primary Care Support contract.

Significant problems emerged in Capita's security vetting services according to documents seen by Private Eye. Its Security Watchdog employee vetting service, used by public bodies and major corporations, has very low attainment of service level agreement standards and the identity verification service is failing to comply with Disclosure & Barring Service standards. A rapid turnover of directors and senior staff was leading to a *"loss of tremendous corporate knowledge"* (Private Eye, Issue 1,467).

The UK was the worst performing outsourcing market in Europe, Middle East and Africa (EMEA) in Quarter 1, 2018. The value of outsourcing contracts in the UK had a dramatic 60% decline compared to an overall 20% decline according the International Services Group

(Budd, 2018). Capita has not been awarded any central government contracts since its profits warning issued in January 2018 (Plimmer, 2018b).

Capita's financial situation is summed up as:

- the £535m pre-tax loss in 2017 and £90m the previous year;
- a £220m transformation programme;
- £175m cost savings by 2020;
- annual free cash flow of at least £200m by 2020;
- a £500m investment in its own infrastructure;
- a continuing sale of assets over the next three years;
- net debt of £1.1bn;
- pension deficit of £406.8m at 31 December 2017;
- increase future dividends for shareholders - £216.6m paid in 2017;
- the £21m of free shares allocated to incentivise 150 executives and senior managers (Capita plc, 2018c and 2018d).

Capita's financial crisis means that they will have an even stronger focus on financial extraction from existing and new contracts that could have very significant implications for Barnet service users, staff and the local authority.

Who owns Capita plc?

The disclosed shareholders of Capita with more than 3% of the voting shares consist of three US investment management companies - Blackrock which claims to be the world's largest, Invesco and Vanguard and four UK investment management companies. All seven are manage funds on behalf of institutional investors (pension funds, insurance companies), companies and wealthy individuals.

Table 15: **Largest shareholders in Capita plc**

Shareholder	% of voting rights
Veritas Asset Management LLP (UK)	13.3
Woodford Investment Management LLP (UK)	10.0
Investec Asset Management Ltd (UK)	9.5
Invesco Ltd (USA)	9.1
Blackrock Inc (USA)	6.6
Marathon Asset Management LLP (UK)	3.3
Vanguard Group (USA)	3.1
Total	**54.9**

Source: Capita plc 2017 Full Year Results 2017: Shares held on 18 April 2018

Part 4

New developments, threats and opportunities

Carillion liquidation and consequences

Many other construction companies such as Interserve, Costain, Laing O'Rourke and Skanska have revealed financial losses in addition to falling share prices.

Capita and other outsourcing companies in crisis

There are several causes of the current crisis:

- The length of contracts has increased hence they are more vulnerable to changes in the economy.
- Some outsourcing contractors tend to rely on growth by winning bids and the acquisition of other outsourcing firms rather than internal investment. Acquisitions also tend to increase debt and interest charges.
- Competitive bidding drives down profit margins, labour practices and quality of service and leads to loss leader bids in order to gain market share.
- Outsourcing profit margins are relatively low between 6%-12% with many at the lower end of this range which makes them vulnerable to economic and market change.
- Contractors bid in services where they had little or no experience and there has been an increase in multi-service contracts.
- Most contractors bid for both public and private sector contracts and tend to apply a common ideology and business practice.
- A run on the share price of a few firms listed on the stock exchange usually results in the performance of other firms in the sector being challenged.
- Lack of open book accounting being common practice in public sector contracts.

In the case of the collapse of Carillion the main problems were rooted in its construction sector and corporate behaviour and inevitably impacted on its outsourced contracts. Large construction companies previously provided certain facilities management services but entered the outsourcing market because PFI projects opened the door to a new market of long-term support and maintenance contracts in addition to core construction contracts. Increased outsourcing by Conservative, Coalition and Labour governments over nearly four decades also widened the market.

These failures came on top of the Grenfell Tower fire disaster of flawed cladding and construction, the multi-million-pound Serco and G4S scams of the Ministry of Justice and the Olympic Games failure of G4S when military personnel had to be brought in to staff the Olympic Park.

More PFI contract terminations

In the last year there have been more contract terminations and major problem contracts to add to the 74 buyouts, terminations and major problem contracts already identified (Whitfield, 2017). They include the termination of the Greater Manchester Waste Authority plant and another contractor seeking termination of the Dumfries and Galloway waste contract; further fire prevention flaws in hospital and school projects; further school construction defects in Scotland; disclosure that the Sheffield highways contract with Amey plc will cut down half of the city's 36,000 street trees;

PFI nationalisation plans

The Labour Party committed to signing no new PFI deals and to nationalise the PFI companies (Special Purpose Vehicles) in September 2017. A Labour Briefing proposed:

- Consultation on amending or repealing legislation which provides government underwriting of unitary payments to PFI companies whilst ensuring the sustainability of public sector budgets reliant upon previous forms of PFI credits and payments.
- Consultation on appropriate methods for returning the ownership and responsibilities of SPVs [special purpose vehicles] to the public sector, with shares-for-bonds

nationalisation (via an Act of Parliament) the presumed preferred approach. Shares held in countries deemed tax havens may be compensated at a different rate from others. Differential compensation rates for equity held by pension funds will also be considered.

- Ownership of assets and responsibilities for services will be returned to the bodies who have been paying for them, and who no longer need to make unitary payments.
- Develop a new public sector design/construction model based on public investment that enhances public sector capabilities to plan, design, manage and operate public infrastructure. Examples we will consider include the USA's construction management at-risk. Our intention is not just to take over existing assets but to build the capacity to deliver projects better in future.
- Enshrine the rights of staff to have rights kept or enhanced to comparable public sector standards on transfer to public sector bodies.
- End the UK government's financial and advisory support for similar projects overseas.

This means that provision of hard and soft facilities management services such as support services, repairs and maintenance will again become the responsibility of local authorities and NHS Trusts.

New opportunities

The nationalisation of SPVs would open up new opportunities for local authorities and NHS Trusts to achieve cost reduction in the provision of support services and to improve employment conditions.

Secondly, it opens up opportunity to examine new ways of managing public services and to build resistance to neoliberal public management that has done untold damage to the quality of public services and to employment conditions.

Thirdly, it opens up opportunities for significantly greater citizen, service user and staff participation in the planning, design and delivery of public goods and services.

Negative impact of Brexit

London is forecast to sustain a 2% decline in growth if the UK gets a free trade deal, 3.5% in a no deal scenario, and just 1% if the UK stays in the single market. But other regions will take the brunt of Brexit with the North East losing 16% of regional economic growth, 13% in West Midlands and 12% in Northern Ireland (Eigot et al, 2018).

In addition, there are potentially major changes in re-regulation and deregulation if the Conservative agenda succeeds in leaving the leaving EU and Single Market. There have been many references that imply changes to amending UK law to take account of being outside of the EU. But this could mean rewriting of staff transfer, procurement and a raft of other regulations

Part 5

Powers and opportunities for local authorities to terminate contracts

Track record of other PPP strategic partnerships

Capita performance in large-scale local authority and other public sector contracts includes two contract terminations, one where the local authority reduced the scope of the contracts by returning some services in-house, and one local authority which plans to terminate the contract in the next few years.

The performance record of PPP Strategic Partnerships shows a track record of 19.4% terminations, 7.5% of projects where local authorities returned some services in-house and 3.0% which experience significant problems, an overall performance rate of 30% which is extremely poor (Table 16).

It should be noted that it was usually local authorities, not contractors, that identified services should return to in-house provision, for example, West Sussex Council (Capita), Somerset County Council and Taunton Deane District Council (IBM), Redcar & Cleveland Council (Liberata) and Rochdale MBC (Agilisys).

Table 16: **Performance of PPP Strategic Partnership contracts**

Contract performance	No. of contracts	% of 67 contracts
Contract terminations		
HBS (Bedfordshire CC)	1	
Amey Plc (West Berkshire Council)	1	
BT (Essex CC, Sandwell MBC, Cornwall CC, Liverpool City Council, Lancashire CC)	5	
Capita (Sefton MBC and Blackburn & Darwin MBC)	2	
Mouchel - later Kier (Milton Keynes Council & Bournemouth Council)	2	
Oxfordshire CC (Carillion and Capita Symonds)	1	
Serco (Thurrock Council)	1	
Sub-total	**13**	**19.4**
Reduced scope of contract		
Capgemini (Swansea Council)	1	
Liberata (Redcar & Cleveland Council)	1	
IBM (Somerset CC and Taunton Deane BC)	1	
Mouchel - later Kier (Rochdale MBC)	1	
Capita (West Sussex Council)	1	
Sub-total	**5**	**7.5**
Significant problems		
Capita (Birmingham City Council)	1	
Mouchel - later Kier (Oldham MBC)	1	
Sub-total	**2**	**3.0**
Total	**20**	**29.9**

Source: European Services Strategy Unit, PPP Database, 2014 updated to March, 2018

Contract performance was calculated on 67 PPP Strategic Partnership contracts signed since 1998. Two additional contracts were signed since the 2014 edition of the PPP Strategic Partnership contract database (Whitfield, 2014, Table 1). Burnley Council agreed a ten-year £34m corporate services contract with Liberata in 2015 and Trafford Council signed a 15-year £235m contract for property services, commercial and domestic waste collection, street cleaning, grounds maintenance and highways services from July 2015 with the transfer of 250 staff to Amey plc.

Birmingham City Council sold its stake in Service Birmingham to Capita/Service Birmingham in November 2017 which ended the joint venture. The City Council has approved a financial plan to achieve £43.2m of new ICT savings by 2020/21, has approved ICT & Digital Strategy to transition to a new ICT Operating Model and the Capita contract will conclude in 2021 (Birmingham City Council, 2018).

It is very revealing that PPP Strategic Partnerships like Birmingham are now labelled *"old-style monolithic outsourcing arrangements"* (Bicknell, 2018).

The Barnet UNISON critique of the RE options appraisal recommended an alternative approach that *"...would harness and value the skills and experience of its staff and engage them in a process that fundamentally challenges the way in which services are delivered."* This could include new methods of service delivery, operational and organisational efficiencies, service integration, joint delivery and shared services opportunities and benchmarking using verifiable and audited performance information (Barnet UNISON, 2010).

In fact, this incremental approach was advocated in all the critical analyses of strategic partnerships undertaken by the Centre for Public Services (now ESSU) for other UNISON branches. For example, *"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"* (Somerset UNISON, 2007).

Finally, the critics are proved right, but not until significant opportunities have been wasted, £15bn paid to outsourcing firms and nearly 30,000 local authority jobs transferred to private contractors or joint venture companies (Whitfield, 2014).

Low cost of termination

There is no evidence financial agreements at termination consisting of anything other than the purchase of equipment being used in the transferred services, such as IT equipment, and payment of outstanding invoices. For example, Conservative-controlled Bedfordshire County Council terminated a £267m contract with HBS and transferred 550 staff in-house in August 2005 (Centre for Public Services, 2005). The County Council paid a one-off sum of £6.75m consisting of £4.7m to purchase assets such as IT, furniture and fittings acquired by HBS to provide services to the Council and £2.05m to acquire goodwill, contracts and services provided by HBS, including to schools and other organisations (Bedfordshire CC, 2005).

Returning services in-house and reducing the scope of contracts

Barnet Council should explore whether there are sufficient reasons to immediately return certain services to in-house provision. It should also:

- increase the rigor of monitoring and ensure legitimate financial deductions are imposed to the maximum extent within the terms of the contract;
- Issue improvement notices within the terms of the contract;
- Improve democratic accountability of contract management by changing the governance arrangements;
- increase disclosure by making contract performance more publicly available, for example by summaries available on a designed section of the Barnet website.

The transfer of services and staff back in-house at any stage of a contract must be justified by setting out the reasons which could include:

- poor performance
- increase ability to fulfil statutory duties
- reduce cost overruns and/or delays
- integrate service delivery
- improve the quality of services
- need for increased council control
- significant changes in the level of demand
- achieve financial savings

Transfer proposals should identify the options considered, consultations undertaken, implications and the equality impact assessed. This process is important to avoid any potential counter claims by contractors. It would also form the basis of the contract price reduction.

Somerset County Council reduced scope of Southwest One joint venture IBM

Somerset decided to return several services to in-house provision in March 2013 in order to *"achieve further savings", "simplify the contract"* and *"bring some services and functions back to direct SCC control"* with 160 seconded posts transferred to the County Council from the joint venture (Somerset County Council, 2012).

- Pensions Administration
- Health and Safety
- HR Advisory,
- HR Development
- Learning & Development
- Financial Advisory
- Shared Accounting
- Business Development

West Sussex contract with Capita

The Council operates a Multi-Agency Safeguarding Hub (MASH) as part of a critical 'front door' to provide triage and decision making for safeguarding and child protection. Capita delivered back office support functions and IT services.

The Council *"...confirmed that there are areas for improvement in the MASH. In addition, the split ownership of the service means there is limited flexibility and agility in work allocation, how processes are designed and how the County Council responds to fluctuations in demand. The County Council is unable to meet its statutory decision-making timescale requirements whilst the current arrangement is in place"* (West Sussex Council, 2017).

The Council decided (Cabinet Member for Finance and Resources) to transfer under TUPE regulations 15.5 FTE administrators and 1 FTE Administration Manager to employment by the County Council to ensure: is able to meet their statutory function, as outlined in *Working Together 2015*, and provide decisions on referrals within 24 hours; is solely accountable for dealing with matters of children's safeguarding; able to identify, manage and action any safeguarding risks through prioritisation and direction of resources without having to operate through a contract; look at options for increasing integration of the two functions in order to increase resilience and flexibility in responding to variable demand.

Highly successful in-house solution

In 2001 Newcastle City Council began a procurement process for ICT and corporate services. Part way through the process the City Council agreed that an in-house bid should be prepared. Senior management organised a series of workshops with staff and trade unions to examine how services could be improved and reorganised and new ICT systems should be introduced. The Council gave a commitment to fully engage with staff in the affected services and to involve trade unions.

An in-house bid was prepared by a group of senior officers. In September 2002, the City Council Cabinet accepted a £250m ten-year Information Technology and Related Services (ITRS) in-house bid and rejected a bid from BT, which included a proposal for a joint venture company with the City Council (Centre for Public Services, 2002). The in-house option was chosen because it:

- Gave better value for money
- Provided the same investment at lower cost
- Provided the virtually the same Service Improvement Plan
- Required fewer job losses
- Demonstrated it could achieve the required changes
- Contained a commitment and cooperation from staff and trade unions to in-house transformation.

City Service transforms services

A new division, City Service, was created and has since successfully transformed ICT and corporate services and achieved the required savings. It now forms the core of a council-wide transformation strategy. Staff and trade unions have been engaged in the design, planning and implementation of each service improvement initiative and the introduction of new ICT systems (Wainwright and Little, 2009). A retraining and redeployment strategy meant there were no compulsory redundancies.

City Service successfully bid for and implemented the Information and Communications Technology £16.5m contract for the City Council's Building Schools for the Future PFI contract in 2006. In the first five years City Service achieved net savings of £28.5m, projected forward over an 11-year period. Additional savings have been achieved.

Every area of service improved significantly, ranging from the speed and accuracy of benefit payments to the high levels of satisfaction with the new call centre and the 'one stop shops' for all council services.

Part 6
Barnet's poor employment record

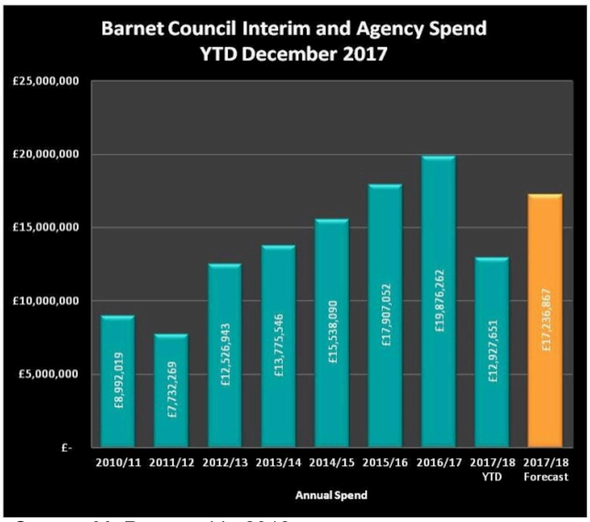
Impact on staff

Barnet Council outsourced 1,428 staff and 360 FTE posts and imposed job losses in the arms- length company and services retained in-house. For example, staffed hours at libraries have been reduced by 70.4% or 446.5 hours per week and Street Scene was restructured with the deletion of 71.5 posts, as discussed in Part 2.

High cost of agency staff in Barnet

Comensura Limited has had a contract for many years to supply agency staff to Barnet Council. In 2010-11 Barnet Council spent £9m on interim staff and agency staff, but annual payments have soared from £13.8m in 2013-14 to £19.9m in 2016-17 under the Capita CSG contract - see Figure 2.

Figure 2: **Barnet Council spending on Interim and Agency staff 2010-11 to 2017-18**



Source: Mr Reasonable 2018

Comensura staffing agency Xmas loan from Barnet Council

In December 2014 the Council agreed to make an advance payment to Comensura of £1.25m. A Freedom of Information response to Mr Reasonable stated: *"The Comensura payment prior to Christmas was to ensure business continuity and cover payment to agencies for provision of a temporary workforce during the Christmas closure period. This was offset by a credit note in the first week of January by Comensura to LBB."*

But the need for temporary or interim staff during the Christmas closure is minimal and the payment is equivalent to an entire monthly payment. Furthermore, the company's accounts for 2014 show it had an annual spend under management of £378.5m. Yet Barnet Council gave the company a £1.25m interest free loan!

Comensura Limited is owned by Impellam Group plc. **The chairperson of the Impellam Group is Lord Ashcroft, former Deputy Chairman of the Conservative Party and dual citizen of Belize.**

> *"Our markets - in particular healthcare and blue collar - have seen disruptions around caps on rates for doctors and nurses and the continuing impact of the minimum and living wage. Despite this, our robust portfolio of Managed Services and Specialist Staffing businesses has ensured we have delivered a good set of results"* (Lord Ashcroft, Impellam Groups plc Annual Report and Accounts 2015). Group revenue in 2016 was £2,140.2m.

Ashcroft launched Mediclean Limited in 1982 to bid to NHS contracts whilst his Hawley Group aggressively acquired cleaning and waste contractors - Victorian values: Victorian wages summed their approach (Hawley Group Briefing, SCAT Publications, 1985).

TBG Flex Limited - TBG's employment agency

This is a shameless attempt to exploit deregulation of employment and exploit the YCB workforce more systematically than the policies adopted in 'restructuring' the workforce in 2014. It is similar to the model now being considered by a few NHS Trusts to transfer their workforce and assets to a subsidiary company as part of establishing the conditions for privatisation.

> *"TBG Flex Limited will be the Group's preferred vehicle for employing new permanent and temporary staff, when needed, and will be fundamental to making our business growth strategies commercially viable in the future"* (TBG Flex Annual Report, 2017).

It had 53 employees by 31 March 2017 - 22 in Barnet Homes, 16 in Your Choice (Barnet) Limited and 15 in the London Borough of Barnet.

TBG charges other members of the Barnet group a 4% annual fee for the employment of staff, although the London Borough of Barnet is charged a one-off fee of £500 per new employee. It plans to increase staff by the conversion of agency staff and permanent appointments from 122 in 2017-18 to 217 by 2021-22 (Ibid).

UNISON responded to the proposals arguing that the imposition of inferior terms and conditions within the Barnet Group will be disadvantageous, creating a divided two-tier workforce and *"...which will ultimately be counter-productive to the Barnet Group's intention of engendering a productive and equal working environment and contradicts the stated guiding value of 'One Team"* (Barnet UNISON, 2017). TBG Flex would exacerbate current staff recruitment and retention difficulties, pay increases will be dependent upon individual performance and business performance and affordability. UNISON called on the Barnet Group to reinstate Local Government Terms and Conditions and the Pension Scheme for all staff.

Barnet Council evades employment responsibilities

A pattern emerged in Barnet Council's 'One Barnet' programme that the Council believed that outsourcing and transfer services to an arms-length organisation would absolve them of any responsibility for jobs and employment practices after transfer to a contractor. This meant that the Council adopted a minimalist approach to jobs and employment in option appraisals, business cases and procurement. The Council's practice is still evident in the documents published in regard to the renewal of the Your Choice Barnet contract 2017-2022. No Equality Impact Analysis for staff was undertaken either by The Barnet Group or the Council.

This approach ignored the fundamental relationship between quality of service and quality of employment which we highlighted on many occasions and in detail in Barnet UNISON (2012).

One Barnet's objective of "a successful London suburb" has not involved sustaining good quality local government jobs. It relied on setting income generation targets for contractors but believed the quality of jobs was not their responsibility. Options Appraisals and Business Cases were bereft of impact assessments of the effect of outsourcing on the local economy and labour market. In fact the Council has exported outsourced jobs out of London and currently uses agency staff on an industrial scale.

There are an estimated 3.3 million UK workers employed by outsourcing contractors, 615,000 by franchise businesses and at least 1 million by recruitment agencies and personal service companies. Many of whom do not receive their basic employment rights, such as the minimum wage and paid holiday entitlements (Trades Union Congress, 2018). Fragmentation of the labour market leads to confusion and misinformation about the employer, loss of collective bargaining, deteriorating terms and conditions and restricted access to employment rights.

Trade union organising

Despite the Council's mass outsourcing programme, but because of the organising and action strategies adopted by the branch, Barnet UNISON is the fourth largest UNISON branch in the London Region.

Part 7
Action plan for Barnet and remunicipalisation

Findings and conclusions

The Council has a poor outsourcing track record which includes: the £10.3m additional cost of the Catalyst care home contract plus £100,000 legal and management costs incurred in the renegotiation of the contract; (London Borough of Barnet, 2011a); Fremantle Trust drastically reduced the terms and conditions of staff in care homes; legionella in three care homes in 2011; the £12m Aerodrome Road Bridge replacement contract almost doubled to £23m; the Council spent £1.36m over five years with MetPro Rapid Response, a not fully licensed security firm; a loss of £1.4m to the Council's pension fund because it failed to notice that the bond for Connaught Partnership had expired before it went into liquidation in 2010 (Barnet UNISON, 2012b).

It is clear that there are very significant performance failures in Capita's CSG contract and the review of the RE contract was described as 'reasonable' but was obsessed with achieving lowest cost and had little concern for quality.

The Council keeps on referring to savings. But Capita received an additional £112.34m for both contracts only 4.75 years into the 10-year contracts, a figure that already **exceeds the forecast savings by £26.37m**!

Capita's financial crisis, its new 'transformation' plan and the likely continuing decline in the outsourcing sector as a result of the Carillion/Capita crises, continuing austerity policies and the potential economic impact of Brexit will impose additional financial and operational pressures and threats to Capita's existing contracts.

Barnet Council's Capita contracts were high risk when they were awarded - now they are very high risk. Now is the time for Barnet Council to take back control.

Immediate action by the London Borough of Barnet

We recommend the following action:

First, a commitment to in-house provision and client/contractor integration will require the abolition of the commissioning model as a matter of urgency. This is essential to jointly plan innovation and improvement; minimise the need for options appraisals, business cases and procurement; develop more effective measures to reduce inequalities; increase quality of inputs, processes, outputs and outcomes; engage users and staff in continuous needs assessment and service planning. In-house provision of all public goods and services should be the standard public policy.

Second, the priority should be to stop the flow of contracts reaching the procurement stage, where they are inevitably outsourced, whilst recognising the procurement process can be improved and made more transparent and participative. This will significantly reduce the need for Options Appraisals, Business Cases and a procurement process that have become a default mechanism solely to increase marketisation and privatisation (see below).

Third, abolish the Alternative Delivery Model (ADM) concept and further transfer of services to arms-length organisations.

Fourth, terminate outsourcing proposals that are at the planning, options appraisal, business case or early stage of the procurement process.

Fifth, review contract monitoring and commence more intensive and rigorous monitoring and fully impose financial deductions for performance failures. This approach can provide the evidence and justification for termination of a contract or return a package of services to in-house provision, as occurred in many other local authorities with similar contracts.

Sixth, the Council should significantly reduce the hire of temporary and interim agency staff because it is expensive, evades employment rights and is an ineffective means of increasing the capability and capacity.

Seventh, The Barnet Group subsidiary, TBG Flex Limited, should immediately cease operating and be wound up.

Finally, develop a strategy to increase the Council's internal capability and capacity and significantly reduce its reliance on the use of management consultants.

Opportunities for remunicipalisation

The collapse of Carillion and crises in Capita and other outsourcing companies and contracts has increased criticism of and proposals to curtail outsourcing. However, most proposals make amendments to the conditions of outsourcing, better protect pay and conditions and improve or centralise public sector procurement. None recognise that the root of the problem lies in the commissioning model, which has separated client and provider functions and mainstreamed procurement. Similarly, there are few proposals to radically improve in-house service planning, provision and management.

A drastic reduction in outsourcing accompanied by a radical change in in-house provision requires a series of national changes in operational and organisational change, future service planning and employment policies.

National action plan for remunicipalisation of local public services

	Operational and organisation changes
1	Make in-house provision the preferred option for all public goods and services.
2	Terminate the split between commissioning and service provision and replace it with integrated teams of client and service provider functions.
3	Review and subject contract performance to public scrutiny, financial assessment, financial deductions and wider impact of outsourcing on local economy, equalities, environment and employment practices to determine the scope for concluding or terminating contracts.
4	The role and performance of arms-length and trading organisations should be reviewed to consider the potential benefits of their re-integration with other Council services.
5	Reassess contract monitoring and how it can be improved and made more rigorous with performance more widely publicised.
6	Local authorities and public bodies should develop strategies to increase in-house capabilities. Consultants should only be considered in exceptional circumstances with a democratically approved brief, contract and subject to rigorous monitoring and scrutiny.
	Future service planning
7	Each service should have a Public Service innovation and improvement Plan (PSiiP) that will assess current and future community needs; prioritise early intervention and prevention; plan innovation and improvement; increase in-house capabilities; identify resources and investment. PSiiPs will be reviewed every three years.
8	Service users and staff and their representative organisations should participate in the preparation and review of PSiiPs for frontline services as part of a more democratised and accountable service planning process and provision. Service protocols should be negotiated to establish the scope and process of continuous participation.
9	An options appraisal should only be considered if the service consistently fails to meet quality performance targets or service needs.
10	The options appraisal must include a comprehensive forward looking in-house option prepared with service user, staff and trade union representatives.
11	The options appraisal should be assessed on best practice guidelines and include a full economic, social, equality and environmental impact assessment, employment options and criteria, sensitivity analysis and optimism bias (Whitfield, 2007). Appraisals should assess the combined effects of inputs, processes, outputs and outcomes.
12	If this requirement is not fulfilled staff/trade unions and service user organisations should have a right of challenge to the relevant scrutiny committee.

13	If an options appraisal recommends a procurement process to select a new service provider a full business case must be prepared and approved before this process commences.
14	In-house staff should have a statutory right and resources made available to them to prepare an in-house bid which is fully and equally evaluated alongside any other bids.
15	The procurement process must include comprehensive evaluation criteria such as further economic, social, equality, employment, environmental and sustainable development impact assessment which are legitimate under existing procurement regulations and the HM Treasury's *Green Book*.
16	Freedom of Information must be applicable to all providers of public services.
17	All public sector contracts should be publicly available and it should be made unlawful to redact any part of the clauses relating to contract monitoring, performance assessment and deductions for poor quality and non-availability.
18	An immediate end to austerity policies and a rapid increase in revenue and capital spending in local government services.
	Employment policies
19	Contractors providing public services must provide comparable terms and conditions to public employment with trade union recognition and negotiating rights for the length of the contract.
20	The creation of subsidiary companies solely to employ staff engaged staff in the delivery of public services should be made illegal and any existing companies should be wound up with immediate effect.
21	Local authority staff training programmes should be developed to address the new and additional skills that will be required to effectively implement these proposals.

Appendix 1

One Barnet:
The Wrong Approach to Transformation

November 2010

We reprint a key section of this Briefing because it demonstrates that the trade unions identified the major flaws in the Council's transformation strategy at an early stage. Barnet Council can never claim that it was not warned about the consequences of adopting the wrong approach to transformation.

"The following comments on Barnet Council's transformation programme are based on detailed examination of key documents and the submission of over twenty reports by the trade unions in the last two years.

1. **Failure to undertake Comprehensive Service Reviews** engaging staff and service users to identify innovation, efficiency and new ways of working.

2. **Options Appraisals to date are fundamentally flawed** because the treatment of in-house options is not credible, they contain sweeping assertions and assumptions, which are not supported by empirical evidence, have superficial risk assessments, are devoid of equality matters and do not ensure the Council achieves value for money.

3. **The lack of evidence** in the Options Appraisals, and particularly the Cabinet reports for Transport Services and Parking Services, is stark. They contain rough estimates from unidentified sources, lack basic business forecasts and open the Council to further significant financial risks.

4. **Plans to commence the formal procurement process** with an OJEU Notice before an Options Appraisal has been carried out or Business Case has been approved is little short of reckless management practice.

5. **The Council has ignored government best practice** by not having Gateway Reviews to assess the effectiveness of preparation for the procurement process and meeting the Council's objectives.

6. **Failed to carry out meaningful Oversight and Scrutiny reviews** of the projects.

7. **Failed to address major shortcomings** in contract management and to take action recommended by two separate reviews of corporate procurement policies in 2008 by PriceWaterhouseCoopers and Barnet Trade Unions.

8. **The option appraisals pay scant regard to equalities**. The Project Initiation Document for the Development & Public Health Services options appraisal did not make any reference to staffing or equalities. The appraisal report merely reported the number of staff.

9. **An erratic approach to shared services and joint delivery** – this approach was marginalised in the Development and Public Health Services options appraisal but promoted in Transport Services but without an options appraisal.

10. **The Hendon Cemetery and Crematoria options appraisal** concluded that retaining and investing in in-house provision was by far the most advantageous option. To outsource the service, which is almost certain to be subcontracted to one of the firms that took part in the earlier options appraisal, is a little short of perverse

and falls well below good financial practice.

11. **Staff and trade unions have been excluded from the options appraisal process**. The Council have shown little concern for the interests of employees despite these immediate proposals affecting over 500 staff and a further 1,500 – 2,500 staff in later tranches of the transformation programme. The Council rejected trade union proposals for Options Appraisals to consider TUPE Plus and secondment employment options.

12. **Failure to respond over two years to a series of proposals** from staff and trade unions on transformation and procurement policies and proposals.

13. **Preparation of Business Cases is not a fall-back position** – the lack of rigorous evaluation in Options Appraisals means that business cases are built on the same faulty foundations. This could result in the local authority being challenged on due process and value for money grounds.

14. **There is no evidence of an overall vision** of the future shape or organisational structure to demonstrate how the Council will govern and manage several strategic service-delivery partnerships and other contracts. It has failed to engage citizens or staff in basic transformation processes and has made no progress in the establishment of a 'citizen centred organisation' (One Barnet Framework, 2010).

Creating new risks, failing to recognise others

Revenue risks are under-estimated. Parking and the Hendon Cemetery and Crematoria are vitally important sources of revenue for the Council that will be transferred to a private contractor thus increasing the risk of dilution of resources available to the Council.

The Council is ill prepared to start a complex procurement – it is widely accepted that the Competitive Dialogue process requires greater preparation and skills than other procurement models. This raises new risks for the Council that have not been recognised.

In addition, the One Barnet Framework fails to identify:

- **Financial risks** – failing to achieve savings, increased costs because of poorly designed contracts and/or high level of variation orders. The Council's experience with the Catalyst/Fremantle contract is apparently regarded as a one-off despite the same risks being prevalent (in later contracts).
- **Decline in quality of service** – and failure to meet the social needs of Barnet residents is not recognised as a risk.
- **Effect on staff** – no mention is made of the risks borne by staff in transfer to private firms.
- **Impact on the local economy** – the risks of loss of business and jobs on the local economy have also been ignored."

Appendix 2

Links to **Barnet UNISON Reports 2008-2018**

A unique collection of reports and briefings produced by ESSU with Barnet UNISON between 2008-2018 in opposition to Barnet Council's plan for mass outsourcing. Completion of the plan has finally been thwarted by the in-house retention of four important services. Click on any of the titles to download reports.

2008

*Briefing No 1: **Assessment of Strategic Hub Proposals**, September*

*Briefing No 2: **Public Service Principles and Values**, September*

Briefing No 3: ***Employment Charter***, September

Briefing No 4: ***Scope of Contract Reviews***, September

Briefing No 5: ***Service Transformation***, September

Briefing No 6: ***The 'shrinking by outsourcing' models - implications for staff***, September

London Borough of Barnet: Failure to Assess Options for Future Shape of the Council, November

Future Shape of the Council: The Flaws in Barnet's Commissioning and Procurement Policy, December

2009

Future of Hendon Cemetery and Crematorium: Implications for Future Shape, April

Future Shape of the Council: Comments on Phase 2 Cabinet and Interim Reports, July

Draft Corporate Procurement Strategy for the London Borough of Barnet, October

2010

Draft Protocol: Service Review, Options Appraisal & Procurement, January

Good Practice Transformation Toolkit, March

Briefing No 7: ***The impact and performance of management buyouts, social enterprises and mutual models***, March

Future Shape Questions, June

Frequently Asked Questions about Barnet's Council's Future Shape, July

The Economic Case for In-House Options and Bids, July

Critique of Barnet Council's Options Appraisal of Adult Social Care In-House Provider Services, August, (transfer of Learning and Physical Disability Services to YCB)

Barnet Trade Union Strategy, August

Critique of the Development and Public Health Services Options Appraisal, November,

One Barnet Critique, November

Barnet UNISON Briefing: **The easyCouncil model**, November

One Barnet: The Wrong Approach to Transformation, November

2011

CSO/NSO Options Appraisal: Trade Union Response, March

Analysis of Development and Regulatory Services Business Case, March, (RE contract)

Barnet Competitive Dialogue Protocol, May

Analysis of Business Case for Local Authority Trading Company: Future of Adults Social Services In-House Provider Services Project, May

Analysis of Business Case: New Support & Customer Services Project, June, (CSG contract)

Briefing No 8: ***One Barnet programme: Hendon Cemetery and Crematoria - UNISON supports capital investment but not outsourcing***, September

Briefing No 9: ***One Barnet Programme: Greenwich Leisure contract to be reviewed***, November

2012

Proposed Transfer of the Housing Service to Barnet Homes and the Barnet Group, January.

Local Authority Trading Company (LATC) Business Case for Adult and Housing Services, January

Assessment of the Customer Services and New Support Services Business Case Update, February

Why a 'thin client' is a bad policy, September.

Briefing: ***Failures, delays and soaring cost of Barnet's Council's Street lighting PFI Contract***, September

Barnet UNISON Briefing: ***25% failure rate of strategic partnership contracts***, October

Barnet 10-point Plan, November

Costs and consequences of a One Barnet Commissioning Council: Analysis of the London Borough of Barnet's reorganisation proposals & commissioning practice, December

2013

The way out of financial crisis: Analysis of Consultation Paper, Your Choice Barnet Limited, July, (CADDSS report)

2014

The Future of Barnet Libraries: Key issues for options consultation, October

Education & Skills and Catering: Update Report for UNISON Members, December

2015

Education & Skills and Catering: Analysis of Options Appraisal, January,

Education & Skills and Catering: Threat of large-scale subcontracting, June

Barnet's Future Library Service: Library Review No 2, October

Outsourcing, Cuts, Job Losses & New Operating Model: Adult Social Care in Barnet, November

Catering Services: 'Jewel in the Crown' - Privatisation of Education & Skills and Catering in Barnet, November

2016

Direct and Collateral Damage to the Future of Barnet Libraries, March

An Improved and innovative in-house service: Adult Social care in Barnet, March

In-House service rejected? Options for the future of Street Scene in Barnet, September

In-house service, the way forward: Adult Social Care in Barnet, September

2018

'Future Shape', 'easyCouncil', 'One Barnet' = Failure: How the London Borough of Barnet was stopped from becoming become the capital of outsourcing and privatisation, April

Other Barnet UNISON reports

2013

Task and Finish Group Review: Your Choice Barnet, September

2017

UNISON response to TBG Flex Reward Strategy, May

2018

UNISON report on the results of our Family Services Survey 2018

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