

Newcastle ITRS

CENTRE for PUBLIC SERVICES

Research • Strategy • Planning • Evaluation

Analysis of In-House Bid

July 2002

Introduction

The following is an analysis of the In-House Option for Newcastle ITRS. It has used key ITRS evaluation criteria. However, time and resources have not permitted a fully-fledged evaluation. This report should be read in conjunction with *the Briefing Paper on the Analysis of BT's Proposals* (June 2002) and the report *No Corporate Takeover of Council Services*.

The analysis is based on the following evaluation framework:

Main criteria

- Savings
- Investment
- Change management
- Added Value

Additional criteria

- Risk
- Corporate policies
- Democratic accountability
- Financial transparency
- Service Improvement Plans
- Ability to deliver
- Customer Vision
- Staff participation
- Organisational structure
- Capacity building
- Employment
- Human Resources
- Partnership proposals
- Business Centre
- Trade union and workforce commitment

Savings

The potential savings of £39m are over four times the £9m available from the BT bid. The Summary of Affordability Option A shows clearly that the bulk of the savings - £35.650m (93%) of the £38.467m are staffing cost reductions. BT's bid has a staff reduction of 177 which is equivalent to a £41.242m saving in their bid, yet the city council will only have access to £9m of these savings. The question, therefore, is what happens to the remaining £32m in of staff savings in their bid?

The cost of hardware and applications software in the In-house bid is some £17.3m less than that in the BT bid, which still leaves some £14.7m, unaccounted for. BT's £10.4m profit accounts for part of this but still leaves £4.3m unaccounted for.

Importance of the additional savings

The additional savings produced by the in-house option are even more important when the additional costs of ITRS transformation are taken into account. They will be borne by the city council but are not included in either the In-house or BT bids (see Briefing Paper on BT bid). The additional savings in the In-house bid will cover these costs and still leave substantial savings to the city council. However, these costs will have to be deducted from the BT savings to make a true comparison with the In-house bid, which will reduce BT's planned £9m savings.

The difference between the In-house and BT bids is substantial in terms of the potential **net** savings ie. after the transformation costs borne by the city council are taken into account. These were estimated to be a minimum of £1.4m for the BT bid and about £1m for the In-house bid because of the lower level of job losses. Both these figures are considered to be minimal figures and actual costs may be higher.

Net savings available to the city council:

In-house bid	£38.5 - £1.0m	= £37.5m
BT bid	£9m - £1.4m	= £ 7.6m

This means that the In-house bid will provide the city council with £30m of **additional** savings, which can be used for investment and improvements in other council services. In contrast, the BT bid will provide only £7.6m savings. These figures demonstrate that not only does the In-house option use BT's planned £10.4m profits for community investment but the construction of the In-house bid provides additional savings for community investment.

Investment

The In-house bid accepts BT's proposed investment in hardware and applications software. However, the investment plans differ in two respects. Firstly, the In-house bid is based on thin-client architecture with a 5-year refresh cycle thus saving £3.5m. Secondly, the Agile Office element and its associated server are excluded on the grounds that they are unnecessary.

The in-house bid contains proposals for £20m capital investment funded via leasing arrangements with a total cost over the 11 years of £24.8m. If the differences, noted above, in the two bids are taken into account the cost of the same hardware and applications software is about £29m for the In-house bid compared to £42.1m in BT's bid. Thus BT is charging an additional £13.1m for similar hardware/software.

Change management

A comparison of the In-house and BT approaches to change management indicates little difference in the overall content. It mirrors much of the methodology proposed in the first part of UNISON's report (No Corporate Takeover of Council Services). The In-house bid sets out the process and success factors for change management. The bid also includes examples of the successful implementation of projects within the city council. However, the In-house bid has a distinct advantage over the BT bid because of the planned involvement of staff and managers in the change process, which is crucial for the successful implementation of the ICT and Customer Services Strategy whilst

avoiding a negative impact on the quality of service delivery (see section on Staff Participation).

The proposed Business Development and Transformation Team will play a key role in implementation and will co-ordinate the procurement and use of external resources in the change process. The In-house bid includes 600 consultancy days per annum in the first three years of the project. These are costed in the Generic Change Management Skills budget.

The In-house bid recognises that change management across services has been less successful than that contained within a single management. The combination of bid proposals such as the City Service organisational structure, the focus on the customer service strategy, increased staff and management involvement in change management together with the approach and resources allocated to change management should ensure that an integrated and comprehensive approach is adopted across the board.

Added Value

The In-house bid provides added value in a number of ways:

Maximising choice and flexibility – given the distinct lack of added value in BTs bid, avoiding the constraints of relying on a single contractor for the next 11 years, together with the inevitable disputes between the city council and BT over what is or is not ‘in scope’, means that the In-house bid has clear advantages.

Public service ethos – allows the continued development and enhancement of a public service ethos in the planning, design and delivery of council services. It avoids the danger of the watering down of public service ethos by having a commercial company delivering council services. The private sector attempts to separate services into ‘frontline’ and ‘back office’ categories which is intended to create an outsourcing market and to prioritise the former over the latter so that they can justify private sector employment practices.

Transferring benefits to other council services – the application of ICT, service improvements, new ways of working and the lessons learnt will be transferred to other council services faster and more effectively by the In-house service, thus avoiding the constraints imposed by the commercial interests of BT.

Maintaining and building trust – service users have regularly expressed a preference for council services to be delivered directly by the city council. The quality of the In-house bid and the advantages it has over the BT bid will enable the city council to enhance service user trust in council services and to meet community preferences.

Risk

There are substantial risks with an 11 year contract with BT compared to the lower level risks associated with the In-house option. The traditional approach of identifying the different elements of risk and seeking to transfer these to the private sector is both crude and costly (risk transfer is a charge in contracts with private firms). Furthermore, service users and Elected Members suffer the consequences of service failures rather than the private contractor or local authority, which may have the responsibility for different elements of risk. There is also increasing evidence that risk is rarely transferred to the private sector - it ultimately remains with the public sector.

The In-house bid identifies a number of principle strategic risks to the City Council accompanied by additional explanation of the risks and comments on how they will be minimised. This, in effect, forms a risk management plan which could be further developed prior to the start of the project. The risks identified are:

1. The new organisation is not established in time to deliver change to the timetable required.
2. Management does not deliver change and improvement.
3. Improvement occurs too slowly and does not produce results by March 2006.
4. Anticipated financial benefits are not realised.
5. Anticipated performance improvements are not delivered
6. Staff do not adapt to the changed environment and do not adopt change as part of normal operations.
7. Technological developments do not deliver the anticipated benefits, in particular relating to mainframe migration.
8. Other councils in Tyne & Wear and nationally do not enter into partnerships with Newcastle to the extent expected.
9. The financial model operates unfavourably for the Council.

All these risks are equally applicable to the BT bid.

There are other risks such as the risk of economic recession resulting in increased demand for housing benefit and council tax rebates at the same time as the implementation of change management. External conditions, which lead to increased demand for services, are permanent risks borne by the city council, indeed, it has a core responsibility to be able to meet changes in social need.

The £30m difference in financial savings means that the In-house service could sustain a failure rate of 67% and the savings will still exceed the savings guaranteed by BT.

Corporate policies

Given the complexity of change it will be essential that corporate policies and priorities be mainstreamed throughout the change process. Elected Members will have a key role in ensuring that the application of ICT and change management is targeted to maximise the social and economic benefits to service users and the community. Resources will need to be prioritised to meet social need and secure investment which supports sustainable economic growth. It will be necessary to steer away from ICT investment becoming a panacea.

The In-house bid is best placed to maintain corporate policies and priorities over the 11-year period and to mainstream equalities in service provision and employment. The application through separate organisations/partnerships such as JVCs or private companies is usually more difficult and less effective. The in-house bid is committed to ensuring that all external suppliers and advisers fully implement corporate policies and will monitor accordingly.

Democratic accountability

Given the planned scope and scale of change within the city council there is a very strong argument that Elected Members should have direct control over the implementation programme for the following reasons:

- Full and open scrutiny and the need to ensure fast and effective responses to scrutiny findings.
- Direct influence in the speedy application of systems and lessons learnt and their transfer to other council services.
- The need for transparency of public policy decision-making without the burden of the four JVC Boards in the BT option.
- Service users, community organisations, staff and trade unions involved and/or affected by the change management process and the application of ICT will need to be able to directly influence the policy-making process. This requires direct communication with Elected Members who in turn are directly involved in public policy-making process.

Financial transparency

The In-house bid has produced a clear financial model which identifies the different cost elements and savings. This is in stark contrast to BT's bid - its lack of financial transparency was identified as a major weakness (see Briefing Paper on BT's bid).

Service Improvement Plans

There is no significant difference in the Service Improvement Plans in the In-house and BT bids although we have not done a detailed comparison. In other words, BT's does not offer any added value over what the in-house bid contains with respect to the scope and content of Service Improvement Plans.

Ability to deliver

This is a major concern for the city council.

Abilities required include:

- Leadership
- Vision
- Technical skills
- Change management
- Cultural change
- Project management
- Innovation
- Negotiating new working methods

The In-house track record, evidenced on pages 105-118 of their bid, provides examples of leadership, vision, service improvement and modernisation, innovation, cost reduction, change management and project management. Their bid recognises the need to supplement in-house expertise with external advice and support, resources to adequately fund the change management process including staff involvement, and resources for staff training and development.

BT's bid indicates its ability to implement change and it has experience of similar work in Liverpool, Edinburgh and other authorities.

However, the private sector has a limited track record in change management in the public sector and detailed implementation of radical ICT changes. All the Strategic Service-Delivery Partnerships are at a relatively early stage of development (the oldest has been in operation for just over two years and most have been operating for about a year).

Service user Vision

This is a strong vision emphasising the integration and continuity of the Base package with the Customer Services Strategy and the seamless development of Customer Relationship Management (CRM). It emphasises the reconfiguration of services to meet customer demands and preferences but also the city council's obligations to meet social and economic needs.

Neither bid has developed the potential for e-democracy and e-citizenship. Whilst they were not part of the ITN requirements there will be significant opportunities to harness ICT for community benefit (see No Corporate Takeover of Council Services). However, the In-house bid provides a significantly better platform from which the city council can work with community, civic and trade union organisations to develop these opportunities.

Staff participation

The In-house bid makes it clear (in the chapters on the Organisational Proposal and Transformation Management) that staff will be consulted and involved throughout the change management process. The bid states that new ways of working cannot be imposed from the outside and that staff and managers must be involved throughout the process. It recognises that insufficient resources have been allocated to allow for staff and management involvement in the past and that a sum of £3.43m has been allocated for Generic Change Management Skills.

The In-house bid is committed to staff involvement *and* reskilling to increase staff capacity to manage and implement change whereas BT's emphasis is on the latter. BT initially refer to 'empowering staff' but change this to 'enhancing staff'. Their bid is centred on enhancing staff ability to transform services with "empowerment of the individual to do their job better"

Organisational structure

The proposal to establish a new City Service organisation for ITRS services has a number of advantages over the BT proposal for a Joint Venture Company (JVC):

- clarity of relationship with other council directorates and departments.
- fewer disputes over responsibilities and what is in/out of scope.
- easier transfer of lessons and applications to other services.
- council has sole responsibility and can focus on maximising the contribution from its chosen external suppliers engaged to assist in the change management process and application of ICT.

- avoids additional bureaucracy of the Supervisory, Board, Management Board, Service Management Board and a Transformation Board planned for the JVC.

In addition, the proposals for business development, team working, use of external expertise to support change management and performance assessment will enhance the ability to implement the ITRS changes.

Capacity building

It is in the longer-term interests of the city council to increase its technical, organisational and managerial capacity. This should include accessing private sector know-how and ensuring the effective transfer of skills and experience through the city council's new procurement policy and improved monitoring and evaluation of external suppliers and advisers. The In-house bid is designed to increase the capacity of the city council whereas the commercial interests inherent in the BT bid will lead to a much-reduced level of internal capacity building.

Employment

The In-House bid proposes has a maximum job loss of 153 jobs by March 2006 compared to 177 in the BT bid, the difference being entirely within ICT Services and ICT Print/repro. The fact that the In-house contains fewer job losses and includes 29 applications development staff to progress systems priorities reduces the risk of delays and/or reduction in savings.

Human Resources

The In-house bid makes a clear commitment to staff consultation and involvement in the transformation process.

Partnership proposals

The In-house bid summarises a number of Tyne & Wear and regional ICT initiatives in which the city council could have an important role such as the development of a regional Extranet in Tyne & Wear and joint web site development. We previously highlighted the potential lost opportunities and risks of 'going it alone' with BT:

- The likely response from other Tyne & Wear authorities to partnership proposals if the city council had a contract with BT.
- BT's commercial interests would affect Newcastle's involvement in further regional and Tyne and Wear ICT initiatives.

Business centre

The In-house bid details the current and potential proposals for partnership working with other public bodies in the region. It does not make any claims to expand employment by seeking contracts to carry out for other local authorities or public agencies. The emphasis is on organic growth via joint working on ICT projects.

BT's original proposals contained plans for 'growth' through the establishment of a regional business centre and winning contracts from other local authorities in the region

and London Boroughs. However, BT's latest bid has substantially reduced the claims for 'job growth' and has downplayed the role of a regional business centre.

These changes have been forced on BT because:

- The claims for 'growth' and 'job creation' were essentially hype and not sustainable.
- Evidence that Strategic Service-Delivery Partnership contracts in other local authorities had failed to win additional work from other public sector organisations in their region. Only a handful of SSPs have gained additional contracts and most of the 'new' jobs are a result of transferring work from one region to another.
- Most of the additional jobs are call centre jobs paying minimum wages and having limited beneficial impact on the local economy.
- Call centre employment is in decline nationally – it is forecast to reduce by 250,000 jobs in the next five years – and BT is closing 53 call centres, hardly the context for making claims about job creation.
- The job 'growth' figures promoted by the private contractors include temporary construction jobs in the building of business/call centres plus retail jobs created in letting adjacent shops thus inflating the 'success' of business centres.

On this basis there must be a clear preference for the In-house option whose proposals are realistic, achievable and sustainable and will make a more substantive contribution to Going for Growth than BT's bid.

Trade union and workforce commitment

The In-house bid has the support of UNISON and the workforce. UNISON is committed to the In-house bid and to "working with the City Council to use information and communications technology for social and economic advantage" (No Corporate Takeover of Council Services). Recent In-house workshops demonstrated the commitment of staff to corporate working, service improvements, new ways of working and the e-government modernisation agenda. UNISON has consistently argued for cultural change which values the important contribution of staff and develops methods of harnessing their ideas and experience.

This commitment will be essential for the effective and efficient implementation of radical change in ITRS without any deterioration in the level or quality of existing services and the implementation of the city council's ambitious plans for the Customer Services Strategy and other projects beyond the Base package.

Conclusion

BT claims a competitive advantage by proposing a faster rate of investment than an in-house service would normally be able to afford and a change management capacity via a contract which has traditionally been more enforceable than in-house operations. However, both these competitive advantages have been superseded by the Newcastle's ITRS In-house bid.

Firstly, it contains a broadly comparable investment programme with the same timescale but at lower cost, thus eliminating BT's advantage. Secondly, the degree of

'enforceability' is not relevant because change will be stymied without the full co-operation and involvement of staff, managers and trade unions in the change management process. The In-house bid has demonstrated that it has a clear advantage over the BT option in this respect.

In summary, the In-house option has clear advantages for the city council in terms of:

- Financial savings – £30m additional savings compared to the BT option. These can be invested in service improvements and other projects to stimulate economic growth.
- Implementation of corporate policies and priorities and maximising community benefit from ICT investment in Newcastle and through partnerships with other local authorities and public bodies in Tyne & Wear and the region.
- Reduced risk of failure of not meeting service performance targets and achieving financial savings.
- Virtually the same hardware/software as the BT bid, but at lower cost, applied to virtually identical Service Improvement Plans.
- Added value through more choice and flexibility, strengthening the public service ethos, ability to speedily transfer benefits to other council services, meeting service users preference for direct provision of services and thus building trust.
- Staff and UNISON support which is widely accepted in good management practice as a pre-condition for successful implementation of information and communications technology and new working methods.