

Improving Services in Somerset Programme

The Flawed Options Appraisal and Outline Business Case for a Strategic Service-delivery Partnership

Somerset County UNISON

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CENTRE *for* **PUBLIC SERVICES**

Research • Strategy • Planning • Evaluation

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Somerset County UNISON

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September 2005.

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The Centre for Public Services is an independent, non-profit organisation. Its is committed to the provision of good quality sustainable public services by democratically accountable public bodies implementing best practice management, employment and equal opportunities policies. The Centre was established in 1973 and operates nationally from a base in Sheffield.

The Centre has undertaken many studies of Strategic Service-Delivery Partnerships, PFI/PPPs and procurement and commissioning. It recently produced an evaluation of the Bedfordshire SSP, *Strategic Partnership in Crisis*, following which the contract with HBS Business Services was terminated. The Centre provided detailed research and analysis on Strategic Service Delivery Partnerships for UNISON branches in Kent, Northamptonshire, Newcastle, West Berkshire, Milton Keynes, Middlesbrough, Salford and Swansea.

Contents

Executive Summary	4
Introduction: Improving council services	6
Part 1	
Lack of a business case for a Strategic Service-Delivery Partnership	7
Part 2	
Critical Gateway Review	16
Part 3	
Employment issues and the local economy	18
Part 4	
The case for an in-house/public sector collaboration options	21
Part 5	
Recommendations	23
References	

Executive Summary

In the preparation for a Strategic Service-delivery Partnership the County Council has:

1. Failed to establish the business need for the project.
2. Failed to fully examine all the options – management seem intent on achieving a Strategic Service-delivery Partnership irrespective of whether this is the best option or not.
3. Based their approach on an over-optimistic view of the benefits of a Strategic Service-delivery Partnership.
4. Failed to fully assess the employment and economic consequences of the project for the local and sub-regional economy.

The Outline Business Case is fundamentally flawed for the following reasons:

- It does not fully assess current performance to identify strengths and weaknesses to ensure a Strategic Service-delivery Partnership is properly designed and targeted.
- It does not establish a business need for a Strategic Service-delivery Partnership.
- The financial case is not proven.
- The evaluation of options is not transparent and is biased against the insourcing and public-public collaboration options.
- It displays a lack of understanding of the economics of Strategic Service-delivery Partnerships.
- The high level of risk is not identified.
- There has been inadequate research into Strategic Service-delivery Partnerships and those local authorities which successfully adopted an insourcing option.

The economics of Strategic Service-delivery projects must be fully understood

Firstly, the County Council pays a private contractor an annual payment of several million pounds, the actual amount largely determined by whether staff are seconded or transferred to the contractor. **Job reductions of between 20% - 40% are common in these types of contracts.**

Secondly, **the planned investment is largely financed by the County Council from savings in employment costs** which usually account for over 90% of cost reductions in Strategic Service-delivery Partnerships.

Thirdly, **the private contractor will require a minimum level of profit** – a 7% rate of return is built into the OBC financial calculations. The contractor will also seek to enhance their profitability in various ways as described Part 1.

Fourthly, **the private contractor's investment contribution will come from the annual payment made by the County Council.** There is no such thing as 'free money' or investment. There will be no 'extra' investment from the private contractor – in other words a contractor does not sign a contract to achieve a profit and then return all or part of it to the County Council as 'extra' inward investment.

Fifthly, **the private contractor may be able to make a larger upfront investment than the County Council** because they have greater financial freedom but the cost of this in

terms of interest rates will be included in the contract price. The potential higher level of upfront investment is offset by the fact that a smaller percentage of the savings will be invested in service delivery in a contract with the private sector.

Sixthly, **the County Council is essentially buying expertise**. There are various ways in which it can do this and a Strategic Service-delivery Partnership is one option but insourcing and a public-public partnership have many advantages – see Part 4.

Finally, **several other authorities have investigated and rejected the Strategic Service-delivery Partnership model and opted for inhouse/insourcing provision**, notably Kent County Council, Northamptonshire County Council and Newcastle City Council. There is no evidence that the inhouse model has been fully investigated by Somerset County Council. If this is a feasible and viable option for these local authorities then Elected Members in Somerset have a duty to council taxpayers to more fully investigate this option as a matter of urgency.

Recommendations

The County Council should:

- **Postpone approval of the Outline Business Case and commencement of the procurement process.**
- **Undertake further investigation of the local authorities which have developed an inhouse (insourcing) approach to business process reengineering following rejection of the Strategic Service-delivery Partnership approach with the private sector.**
- **Remove the bias against insourcing and public-public collaboration in the options appraisal and reassess the options making the criteria, scoring and weighting transparent.**
- **Carry out a detailed assessment of the business need for business process reengineering including an assessment of current performance, targets and a comparator together with specific forecasts of what a Strategic Service-delivery Partnership could achieve.**
- **Make a stronger and clearer commitment to the secondment employment model if the project does proceed after the reassessment of options.**
- **Examine the scope for an Incremental Partnering model as recommended by the Strategic Service-delivery Taskforce.**

See Part 5 for a series of Questions which Elected Members should be asking about the project.

Introduction: Improving council services

Somerset County Council has embarked on developing a Strategic Service-delivery Partnership with the private sector. Financial services, ICT, human resources, customer services (Somerset Direct), property and legal services are currently in the scope of the project.

A draft OBC was issued in late August with the intention of seeking Executive approval to commence the procurement process in October. The ISIS Staff Forum and UNISON only received the draft OBC on 24 August 2005 and were given one day in which to make comments.

Status quo is not an option

UNISON believes that a status quo is, and never has been, an option. So for the OBC to include an In-house (Status Quo) option described as a 'do nothing' or 'do minimum' option is highly questionable. Furthermore, the OBC ranks the status quo option third in the scoring of options, presumably scoring better than the outsourcing and public-public collaboration options, brings into question the appraisal criteria, weighting and scoring methodology. A status quo approach would never be politically acceptable nor is it good practice public management. It also denigrates in-house service provision, presumably to help justify the planned strategic partnership.

Outsourcing and privatisation – the facts

The County Council prefers a secondment model over a TUPE transfer of some 700 staff to a private contractor. A decision on the employment model is unlikely to be taken until the negotiations with a preferred bidder have commenced unless the County Council either makes secondment a condition of contract or strongly states to all bidders that this is its preferred model. The market would get the message irrespective of the limitations of the EU procurement regulations.

If no action is taken, outsourcing will always be a possible outcome of the procurement process. Outsourcing is privatisation because service delivery and staff are transferred to a private contractor. It is also often claimed that 'partnership' is not privatisation but this is a total denial of theory and practice. A Strategic Service-Delivery Partnership is simply a brand name for a contract between the County Council and a private contractor.

Even with secondment, there is a degree of privatisation because a private firm undertakes work previously carried out by the County Council. To claim that a Strategic Service-delivery Partnership is not privatisation is playing with words. The motives behind this approach are unclear but it would appear that it is intended to play down the scope and scale of the planned privatisation to Elected Members, staff and the public.

Why UNISON commissioned this report

Somerset County Branch of UNISON commissioned this report from the Centre for Public Services in order to make Elected Members, staff, service users and the public aware of the significant shortcomings in the Outline Business Case before the County Council makes a decision to embark on a multi-million pound procurement process. The Centre has wide experience specifically of Strategic Service-Delivery Partnerships and procurement in general.

The Centre was commissioned to assess the OBC and various other ISIS documents and to prepare a report on its findings.

Structure of the report

Part 1 examines the business case for a Strategic Service-Delivery Partnership. It examines whether the business need for change has been established, financial and economic issues, options appraisal and the risks.

The second part of the report summarises the conclusions of the two Gateway Reviews carried out by the 4ps on the process and the OBC in May and August respectively.

Part 3 examines the employment options, TUPE limitations and the failure of Strategic Service-delivery Partnerships to generate new jobs and business growth.

Part 4 sets out the advantages of the insourcing and public-public collaboration options and the report concludes with a series of recommendations and suggested questions which Elected Members should be asking.

Part 1

Lack of a business case for a Strategic Service-Delivery Partnership

The Outline Business Case is fundamentally flawed for the following reasons:

- It does not fully assess current performance to identify strengths and weaknesses to ensure a Strategic Service-delivery Partnership is properly designed and targeted.
- It does not establish a business need for a Strategic Service-delivery Partnership.
- The financial case is not proven.
- The evaluation of options is not transparent and is biased against the insourcing and public-public collaboration options.
- It displays a lack of understanding of the economics of Strategic Service-delivery Partnerships.
- The high level of risk is not identified.
- There has been inadequate research into Strategic Service-delivery Partnerships and those local authorities which successfully adopted the insourcing option.
- Too much 'modernising and transforming' rhetoric

This section details the evidence to support these conclusions.

Fails to assess current performance and identify service needs

There is no assessment of current performance in the OBC other than a summary of the Corporate Performance Assessment 2004 and the Customer Access Inspection in 2004. In both cases the OBC reports the recommendations of the inspectors but does not include why they thought the authority and the customer access service is good. This gives a totally false impression of the quality of service and distorts the original emphasis of the improvement recommendations.

The OBC does not refer to Best Value inspections of several other council services, all of which have recently received a 'good service' rating. No other Best Value reviews are mentioned.

Table 1: **Audit Commission inspection of Somerset County Council services**

Service	Inspection result
Customer Services	Good Service – promising prospects for improvement
Community Planning	Good Service – promising prospects for improvement
Supporting People Programme	Good Service – promising prospects for improvement
Cultural Services re-inspection	Good Service – promising prospects for improvement
Waste Management	Good Service – excellent prospects for improvement

Source: Audit Commission 2004-05

This assessment indicates that the County Council is in a very strong position both in terms of the quality of its services and financial position to undertake further improvement and change management. Whilst the original CPA in 2002 gave the council only 2 out of 4

for capacity, the County Council has demonstrated both in its 2004 CPA rating and in Best Value Service reviews that it has the capacity (ability, skills, resources) to undertake further service improvement.

Restructuring of the Resources Directorate

Reorganisation of the Resources Directorate came into effect in April 2005. There does not appear to have been an assessment of whether this is working, the effects, the efficiencies achieved and so on. The OBC is full of aims and objectives but lacks a basic assessment of what an Strategic Service-delivery Partnership is targeted to achieve in terms of the current weaknesses in the County Council whilst enhancing its strengths and achieving a step change in service improvements. This is one of the key shortcomings of the OBC. It appears that the decision by senior managers to develop and promote the ISIS project has led to a diversion of focus and resources.

Council capacity

The 2004 Annual Audit and Inspection Letter to the County Council contained many references to the performance of the County Council:

“The Council continues to improve its capacity to deliver its priorities.”

“The Council is increasing its capacity and improving the public’s access to services by telephone and through the use of IT, in partnership with the Somerset district Councils. Its approach to e-government is particularly good practice.”

“The Council has this year improved from a ‘fair’ to a ‘good’ authority, based solely on its service scores. This is a significant step in its ambition to become ‘excellent.’”

Service and financial planning: “We were impressed with the Council’s progress in this area, as its efforts had resulted in a complete set of largely consistent departmental service plans, which had been developed within an improved corporate planning framework.” (Audit Commission, 2005)

The above comments clearly indicate that the County Council has improved its capacity since the 2002 Comprehensive Performance Assessment. It also indicates that there is justification for the County Council to re-examine its ability to directly undertake an insourcing or public-public collaboration option.

Business need for a Strategic Service-delivery Partnership not established

Guidance for local authorities in preparing an Outline Business Case states that it should include a systematic analysis of the current service:

“The OBC should be supported by a robust reporting structure that provides a structured and systematic approach to analysing the current service, setting out the evaluation criteria, examining the different project and procurement options, identifying the Best Value solution and considering key implementation issues.” (4ps, 2004)

The guidance also states that it should include:

“An overview of the existing services provided, including analysis of the existing service strengths and weaknesses, key service standards and outputs, the condition of the current assets or infrastructure, and trends in public opinion about the service.”

The OBC would thus include:

- Key policies and strategies in place.

- A profile of the assets or infrastructure used in the provision of the existing services.
- Service delivery arrangements in place for the provision of the services.
- Trends in the recent service costs and budgets, and maintenance activity.
- Performance against Best Value Performance Indicators, any Local Performance Indicators or other performance targets.

The OBC is also expected to contain an assessment of the economic benefits. This should include the impact on the local economy and impact on employment. It does neither of these.

The OBC for the ISIS programme fails to address these fundamental requirements.

Financial case is not proven

The OBC takes an example of a £32m investment, the achievement of a medium level of efficiency and a 15-year contract and shows that an insourcing option would deliver £14.39m for frontline services with the outsourcing and partnering-secondment options providing £15.21m and £17.23m respectively. We have two observations on the OBC data.

The example relates to a stand-alone Somerset County Council project but the OBC recommends a joint project with Taunton Deane BC. When the comparable figures for a joint project are extracted from the Table a different picture emerges. An insourcing option for a joint SCC/TDBC £40m investment would produce £9.58m for frontline services compared to £3.74m and £9.98m respectively for the outsourcing and partnership-secondment options (see Table x). In other words there is only a £400,000 difference over a 15-year period between the insourcing and partnership options. This is a very small difference.

The difference for a stand-alone Somerset County Council project is a relatively small £2.84m over a 15-year period.

Table 2 combines the planned investment with the contribution to frontline services for each option and for the joint and stand-alone projects. This provides an overall figure for investment in Resource Directorate services and frontline services. The gap between the insourcing and partnership-secondment options is 0.8%.

Table 2: Investment profile for a 15-year contract

Somerset County Council and Taunton Deane BC Joint Project			
Options	Investment £m	Medium level of efficiencies £m	Total investment plus contribution to frontline services
Insourcing	40	9.58	49.58
Outsourcing - TUPE	40	3.74	43.74
Partnership - secondment	40	9.98	49.98
Somerset County Council			
Insourcing	32	14.39	46.39
Outsourcing - TUPE	32	15.21	47.21
Partnership - secondment	32	17.23	49.23

Source: ISIS Project OBC, 2005.

Economic case

The OBC refers to a funding gap predicted to be “in the region of £21m” over 15 years. The 2004 Annual Audit Letter reports that the County Council’s “overall financial position is generally sound” it shows an underspending of £27.1m in 2003/04, due primarily to schools balances rising to £20.4m and an underspend in Central Services of £2.7m.

It is not possible to comment on the funding gap without further information. Elected Members need to know that local authorities which opted for an inhouse approach to business process reengineering used a combination of funding mechanisms to finance the project – reduced employment costs, leasing, prudential borrowing and government project finance.

Options appraisal biased and not transparent

Five options have been assessed but the total scores of only 3 options are shown in the OBC. No information is disclosed of how these scores were arrived at nor the scoring and weighting methodology. The score for the status quo model is irrelevant. This leaves just two scores for the insourcing and partnering options because scores for the outsourcing and public-public collaboration options are not reported.

Appendix 2 of the OBC contains a chart summarising the advantages and disadvantages of each option. Leaving aside the status quo option, the chart is a useful summary of the implications of each option except for the disadvantages section for the insourcing and public-public partnership models which are negative and inaccurate.

The disadvantages of the insourcing option are stated as:

- *“Doesn’t encourage long-term thinking about service delivery.*
- *No external access to funding.*
- *Whole life costs and risks of service not identified.*
- *Need incentives to innovate.”*

However, only the comment on access to funding has any justification. The implication is that the County Council does not think long-term, does not examine whole life costs nor does it innovate which are patently not true. The capacity to enhance all three is clearly within the capacity of the Council. Kent County Council and Newcastle City Council have demonstrated that sufficient investment funds can be obtained through prudential borrowing, leasing and savings generated by business process reengineering.

The disadvantages of the public-public collaboration option are equally inaccurate. These are stated as:

- *“Requires a commitment to work together.*
- *Local politics-impact of future changes in political control.*
- *Sensitivities around reductions in staffing levels – particularly middle management.*
- *May not deal with organisational problems.*
- *Need incentives to innovate.*
- *Potential problems of assimilating procedures and systems of partners.*
- *Potential problems of assimilating different objectives and requirements of partners.*

- *Available capital resources will not be increased without a private or voluntary sector partner.*
- *No risk transfer unless private/voluntary sector partner involved."*

Virtually all of these issues will have to be addressed in any Strategic Service-delivery or shared services partnership. It is particularly disingenuous to use the potential problems of any joint local authority project as the justification to put a negative slant on a public-public collaboration option when one of the strategic objectives is to develop a partnership approach between local authorities. There is absolutely no evidence to suggest that a private contractor will be more successful than a local authority-led initiative in securing inter-authority collaboration. Indeed the exact opposite may be true.

The economics of Strategic Service-delivery Partnerships

There are some basic facts which Elected Members, managers, staff and the public need to understand about Strategic Service Delivery Partnerships.

Firstly, the County Council pays a private contractor an annual payment of several million pounds, the actual amount largely determined by whether staff are seconded or transferred to the contractor. **Job reductions of between 20% - 40% are common in these types of contracts.**

Secondly, **the planned investment is largely financed by the County Council from savings in employment costs** which usually account for over 90% of cost reductions in Strategic Service-delivery Partnerships.

Thirdly, **the private contractor will require a minimum level of profit** – a 7% rate of return is built into the OBC financial calculations. The contractor will also seek to enhance their profitability in various ways as described below.

Fourthly, **the private contractor's investment contribution will come from the annual payment made by the County Council.** There is no such thing as 'free money' or investment. There will be no 'extra' investment from the private contractor – in other words a contractor does not sign a contract to achieve a profit and then return all or part of it to the County Council as 'extra' inward investment.

Fifthly, **the private contractor may be able to make a larger upfront investment than the County Council** because they have greater financial freedom but the cost of this in terms of interest rates will be included in the contract price. The potential higher level of upfront investment is offset by the fact that a smaller percentage of the savings will be invested in service delivery in a contract with the private sector.

Sixthly, **the County Council is essentially buying expertise.** There are various ways in which it can do this and a Strategic Service-delivery Partnership is one option but insourcing and a public-public partnership have many advantages (see Part 4).

Finally, **several other authorities have investigated and rejected the Strategic Service-delivery Partnership model and opted for inhouse/insourcing provision,** notably Kent County Council, Northamptonshire County Council and Newcastle City Council. There is no evidence that the inhouse model has been fully investigated by Somerset County Council. If this is a feasible and viable option for these local authorities then Elected Members in Somerset have a duty to council taxpayers to more fully investigate this option as a matter of urgency.

Hidden costs

The OBC financial estimates are based on a 7% rate of return for a private sector partner. However, this is misleading because although Strategic Service-delivery

Partnerships have been based on 6% - 10% rates of return this is generally based on the *operating* expenditure. The return on capital expenditure is normally about 15%.

Private contractors build additional profit into Strategic Service-delivery Partnerships by:

- High charge-out rates for management, business process reengineering and ICT consultants of up to £1,750 per day. Staff reductions will generate savings to finance investment but could impose the need for a wider use of consultants. Full-time council staff could be redeployed but are replaced by high-cost consultants.
- Designation of activities as being 'outside the scope' of the contract which will mean that their cost has not been included in the financial model.
- Enhancing off-the-shelf software packages at additional cost.
- Extending the scope of the contract to other County Council services at additional cost.

High level of risk is not identified

Dangers

There are three major dangers. Firstly, overstating the importance of customer access in the overall priorities of the Council. It is very important but so is the frontline delivery of core services.

Secondly, undervaluing and underestimating the capacity of the council and its staff to improve services and achieve significant changes in working practices and systems.

Thirdly, overstating the capacity of the private sector to achieve successful change management in the public sector more effectively at equal or lower cost than a local authority.

The specific risks of failure are not identified in the OBC. The report refers only to risk in a general sense. It is essential that Elected Members clearly understand the risks prior to commencing a procurement process.

The operational risks include:

- Failure to achieve the required level of investment.
- Unforeseen difficulties encountered in business process reengineering resulting in reduced service quality, delays and missed targets (for example termination of Bedfordshire County Council and West Berkshire Council contracts).
- Hardware/software failure or under-performance (the application of SAP failed in Bedfordshire education).
- Failure of other local authorities in Somerset to join the partnership.
- The withdrawal of Taunton Deane BC from the project.
- The private contractor has financial problems and is acquired by another firm or is forced into administration (Jarvis, Amey and Ballast examples).

In addition there are significant procurement risks for the County Council plus there are employment risks for the staff in both the secondment and transfer employment models which will need to be fully recognised in the risk register (Centre for Public Services, 2005b).

The 2004 Annual Audit and Inspection Letter to the County Council found that progress had been made in risk management but further progress is required in several key areas including:

“Risk assessment is currently undertaken principally at a high level, with most concentration, to date, on establishing effective strategic risk management arrangements. Whilst the more detailed operational risk management arrangements have been developed at a departmental level, this has not been centrally coordinated by the Council’s risk management officer. Without proper integration of strategic and operational risks, the Council is, therefore, likely to have an incomplete picture of risks and of the detailed controls and monitoring arrangements that are required.” (Audit Commission, 2005)

Inadequate research into Strategic Service-delivery Partnerships

First there was the failure of many PFI ICT contracts which led to the government to stop the use of PFI for ICT.

Now there have been the failure of two Strategic Service-delivery Partnership contracts which brings into question the validity of these types of contracts.

The research for the OBC produced a table of eight Strategic Service-Delivery Partnerships. However, it made no reference to Rotherham MBC which also has a secondment SSP with BT, and contracts in Milton Keynes, Essex, Redcar/Cleveland, Edinburgh, Thurrock, Bath and North East Somerset and Swansea. It made reference to two SSPs having been terminated but did not explain why or address whether there were any lessons were applicable to Somerset.

Table 3: Local authorities which opted for an in-house option

Local authorities which retained in-house provision	
Kent County Council	Pulled out of preferred bidder negotiations with HBS business Services. Established
Northamptonshire County Council	Withdrew during procurement process from joint partnership with Milton Keynes Council.
Newcastle City Council	Awarded to in-house bid over BT on grounds of
Salford City Council	Decided against SSP approach.
Dacorum District Council	Withdrew from preferred bidder negotiations.
Failed Strategic Service-Delivery partnerships in local government	
Bedfordshire County Council	Terminated contract with HBS Business Services in 2005 after failure to achieve key deliverables and poor performance.
West Berkshire Council	Terminated contract with Amey Group in 2005.

Source: Centre for Public Services.

Only one of the five District/Borough Councils in the county, Taunton Deane, is involved in the Strategic Service-delivery Partnership. It is likely to be more difficult to get other local authorities (Mendip, Sedgemoor, South Somerset and West Somerset) involved once the contract has commenced. The ‘partnership’ will be a contract with comprehensive terms and conditions. Other local authorities in Somerset will have little opportunity to influence the terms of the contract and may have difficulty in obtaining the specific support to meet their particular requirements. Despite all the rhetoric of Strategic Service-delivery Partnerships about winning new work and establishing regional business centres – this has not happened. So the idea that local authorities will flock to the Somerset Strategic Service-delivery Partnership after it has been established has no precedence.

Too much ‘modernising and transforming’ rhetoric

The OBC and other ISIS documents contain many references to ‘modernising’, ‘transforming’ and ‘world class technologies’ as if only a Strategic Service-delivery Partnership could provide such change. The needs of services should come first rather than the desire to being identified as a so-called ‘moderniser’. There is no evidence that Somerset corporate services need ‘world class’ technologies as opposed to best in class technologies.

There is not a shred of evidence in the OBC that corporate services require this level or type of change. It appears that the idea of a Strategic Service-delivery Partnership has been decided first, possibly for reasons unconnected to the needs of corporate services, and the OBC and other ISIS documents are an attempt to justify this decision. Hence the fundamental flaws identified in this report and the strong criticisms in the two Gateway Reviews.

The OBC admits that the project “will not provide a significant contribution to the Gershon targets” but could release efficiency savings in later years (para 2.1.6).

The OBC section on Programme Deliverables implies that a Strategic Service-delivery Partnership will meet the council’s objectives (para 2.7.1). However, there is a substantial difference between improving the quality of service and making efficiency savings. The OBC does not differentiate the methods to be used, the conflicts and difficulties. The project *may* improve the quality of service but there is no certainty.

The evidence from Strategic Service-delivery Partnerships in other local authorities indicates that there is little likelihood of attracting inward investment and there is likely to be a net loss of jobs in the County.

Nor is there any evidence that a Strategic Service-delivery Partnership will “offer better employment prospects for staff with continuation of current terms and conditions including pension rights.” It may provide better career prospects for a handful of staff but to suggest that this is applicable to all staff is not supported by evidence from any of the existing Strategic Service-delivery Partnerships.

Elected members should be under no illusion that a Strategic Service-delivery Partnership is a win-win method of achieving continuous efficiency savings, efficiency gains and inward investment. It is a high risk strategy which may achieve some of the council’s objectives.

Part 2

Critical Gateway Review

The Gateway Review process was developed by the Office for Government Commerce (OGC) and is used by public sector bodies such as 4ps to assess the preparation of project briefs, the procurement process and evaluation methodologies.

Two Gateway Reviews have been undertaken in the ISIS project to date. The 4ps carried out a business justification review between 3 - 5 May 2005 and this was followed by a desk-top review of the Outline Business Case on 15 August 2005.

Gateway Reviews are essentially about the quality of the process. The Somerset reviews were carried out by an organisation, the 4ps, which was specifically established by the government to promote and provide guidance for the PFI and PPPs. It is not an independent organisation.

Gateway Review 1

The Review team concluded that *“the project is not sufficiently prepared to proceed to procurement without considerable risk of it failing to achieve its objectives.”* The team were particularly concerned about:

- The uncertainty over the precise definitions of scope
- The robustness of the business case
- The need to investigate rigorous and strong project management disciplines.
- The need to integrate Taunton Deane more effectively, and
- The need to conduct a feasibility study on the preferred partnership structure and conduct further work on the associated employment law and practicalities of the preferred model (4ps, 2005).

The team made a number of specific criticisms on the business case including the lack of a detailed benefits appraisal, how they will be realised and the options appraisal was considered *“insufficiently robust because it does not compare risks, costs and benefits of each option adequately”*.

The review was also concerned that there was inadequate evidence for the secondment the preference.

The ISIS team have addressed many of the process-based criticisms levelled by the Gateway Review but we believe this has been at the expense of addressing the fundamental questions of justifying the business need for the project and compromising the quality of the OBC.

Gateway Review of Outline Business Case

The Review made a number of comments:

“There are far too many lists of objectives and success factors such that the real focus is lost.....”

“The overriding impression is one of an inability to capture the base position or in-house comparator. As such it becomes difficult to comment on the overall viability of assumptions, especially around funding the level of investment required, and the ability of the Council and a future partner to make the changes to services and processes necessary to enable the release of cashable efficiency savings.”

“... the manner in which the outcomes of the option appraisal is presented does give cause for concern in respect of the robustness of this process when it was undertaken.”

“The SSP option carries significant risk for the Council in a relatively immature market and it is felt that the OBC does not sufficiently address either the learning it has acquired from the soft market testing, other authorities in partnership and change agents.”

Presumably the recommendations of this review were taken into account in the further development of the OBC between 15 August and the 23 August when the draft was released to the Staff Forum and UNISON. However, many of the problems identified in this review are still not addressed in the OBC.

Part 3

Employment

This section examines the following employment issues:

- Employment options
- Number of staff within scope of the project
- Redeployment and retraining needs
- Limits of TUPE
- Job creation and business growth
- Offshoring

Employment options

Despite the ISIS project favouring the secondment of staff the likelihood of the County Council outsourcing the staff to a private contractor remains high. The OBC states that “TUPE can be a viable option” and “it is also possible that interested private sector partners may not be willing to work with the secondment model” (para 3.4.3).

UNISON is very concerned that secondment will only have the status of a preferred employment model until the end of the procurement process. An about turn could then be made by the Council and contractor in favour of a TUPE transfer model. This is precisely what happened in Swansea City Council earlier this year.

The staff have the right to feel that they are being treated as an asset and resource rather than merely as a commodity. Unless there is a clear commitment to secondment, staff could have to wait until the final contract award decision following the preferred bidder negotiations before they know whether they are to be outsourced or seconded. This will almost certainly have a negative effect on staff morale and ultimately on the improvement programme and quality of services. Some key staff may decide to seek employment elsewhere.

The County Council must avoid claims of being anti-competitive under the EU procurement regulations but this does not seem to have been a problem in other secondment contracts.

It is possible for the County Council to require the submission of private sector bids for both secondment and transfer, but make it very transparent to bidders that they favour a secondment model. Local authorities are urged to stimulate markets according to the National Procurement Strategy for Local Government (ODPM and LGA 2003) – promoting a secondment ‘market’ could be considered a legitimate activity in line with the National strategy. The market sounding undertaken by ISIS showed that five contractors had experience of both secondment and TUPE transfer (although one thought TUPE was ‘the cleanest’) and only one stated that they did not like the secondment model. It is almost certain that many other firms will express an interest in a Somerset contract on the basis of secondment or transfer. The Council has every right to set the terms of a contract and expect the private sector to respond.

If the council believes that secondment is the best option then it should make this clear to all bidders even though the OJEU Contract Notice may be less clear for legal reasons.

This is another reason to delay a decision on commencing procurement and further investigate and visit more authorities where secondment has operated.

Number of staff within scope of the project

The OBC refers to 632 Full Time Equivalent (FTE) staff in the seven services in the scope of the Strategic Service-delivery Partnership. The actual total number of staff affected will be about **700** when part-time working and job-sharing is taken into account - see Table 4.

Table 4: **The number of FTE employees in scope of the project**

Service	Budget (gross £m)	Full Time Equivalent Employees
Finance	5.1	196
ICT	7.4	126
Human Resources	8.2	118
Customer Services	1.4	41
Property Services	4.0	107
Legal Services	0.3	6
Somerset County Services	1.8	38
Total	28.2	632
Estimated number of jobs within scope of the project		700 jobs

Source: The ISIS Programme OBC, Somerset CC, August 2005.

Redeployment and retraining needs

A secondment model will require a redeployment and retraining strategy to be in place to ensure displaced staff in the resources directorate are given an opportunity of alternative employment.

Limits of TUPE

Although TUPE and the Best Value Code of Practice on Workforce Matters provide a degree of security for transferred employees, job losses usually occur in a rationalisation process running parallel to the procurement process when leaving or retiring staff are replaced by temporary staff.

The Code of Practice requires that new employees are employed on fair and reasonable terms and conditions that are overall no less favourable than those of transferred employees. However, this gives scope for a contractor to have different levels of pay rates, holidays, sick pay and other conditions so long as they are “overall no less favourable”. There is evidence of differential pension arrangements for transferred and new employees. Differences in terms and conditions may be significant at the end of a 15-year contract.

Job creation and business growth

One of the strategic objectives is “to generate economic development by attracting a partner willing to invest in Somerset” and “to provide opportunities for business growth”.

However, this is wishful thinking for the following reasons:

- Job losses in a Strategic Service-delivery Partnership are likely to be about 25% in an inhouse option and between 35%-40% for an outsourced option (forecast of

37% in Middlesbrough, 42% in Redcar/Cleveland and 32% in Newcastle bid) as a result of business process reengineering.

- The failure of the Regional Business Centre model in virtually all the Strategic Service-delivery Partnerships to date - see below.
- Private sector investment – the bulk of the investment will largely be funded by the County Council and will arise primarily from job reductions – approximately 90% - 95% of the savings will be as a reduction in employment costs.
- Additional employment may be created by investment in frontline services but this is only likely to contribute to the replacement of the jobs lost in the strategic partnership.
- Supply chains in strategic partnerships –
 - Strategic partnership private firms have their own national/international supply chains for hardware and software.
 - The private contractor will use technical and management consultants from other projects elsewhere in Britain and/or from Europe/North America.
 - Senior managers will be transferred into the County in both an outsourcing or secondment model but may not necessarily reside in Somerset.
 - The remaining goods and services which a contractor is responsible for are also likely to be sourced through its existing suppliers in order to maximise cost savings for the contractor.

The ISIS Frequently Asked Questions document refers to a question about the objective of establishing a Strategic Service-delivery Partnership. It states that in addition to modernising and transforming the overall working of the County Council to improve all services, the objectives are to:

“Attract inward investment which would otherwise be difficult to attract; and

Offer better employment prospects for our staff who work in these areas and who are vital to the front line delivery of services”

Strategic Service-delivery Partnerships have failed to attract inward investment. The previous market leader, HBS Business Services, had a strategy for 9 Regional Business Centres in 2001 but this had been reduced to 3 and then 0 by 2005. Only the Blackburn contract has succeeded in attracting significant inward investment and this was a transfer of the TV licence operation from Bristol. One authority gained at the expense of another. Some contracts have gained relatively small levels of additional work from local public sector organisations. The Regional Business Centre concept is now limited to attempting to attracting the relocation of civil service agencies from London and the south east.

The Somerset project should not build in any assumptions about inward investment into the financial model nor should it be used to ‘sell’ the potential benefits of the project to Elected Members, staff or the public.

Offshoring

An increasing number of ICT service providers are transferring work to India, China and the Philippines. Offshoring of any Somerset County Council activities would result in a direct loss of jobs in the local and regional economy. The contract should include specific clauses regarding the location where County Council work is carried out to address this issue.

Part 4

The case for an in-house option/public sector consortia

Capacity of the County Council

Part 2 referred to statements about the council's improved capacity in the 2004 Annual Audit and Inspection Letter from the Audit Commission. Additional evidence is cited below:

The Audit Commission Inspection Report on Customer Access in December 2004 stated:

"The council's HR and personnel management systems are robust. The council has an improved appraisal system and a recent staff survey indicated that 70 per cent of employees have had an appraisal and a target of 85 per cent has been set for 2005." (para 145)

"Staff capacity within the council to deliver improvements and customer access is good. Council staff are enthusiastic, well motivated and open to change." (para 146)

The Inspection Report on Community Planning (May 2005) concluded that the Council did have the *"capacity to sustain and manage change in the quality of life for local people"* (para 104).

These and other statements indicate that the County Council has significant capacity and skills to undertake major changes in the design, organisation and management of service delivery. It would clearly require, similar to most public and private organisations, additional expertise to undertake business process reengineering.

Advantages of the insourcing and public-public collaboration options

Best in class – the County Council will be able to acquire the best available hardware, software, training and business process reengineering advice. This will enable the County Council select the right partner for each issue or project, rather than being restricted to the input of one organisation.

Maximising choice and flexibility - the in-house bid avoids the constraints of relying on a single contractor for the next 15 years.

Investment can be financed through a variety of means including savings from service improvements, prudential borrowing, leasing, and new government projects likely to be launched over the next 15 years.

The same investment at lower cost: The ability to fund the necessary investment without the overheads and restrictions of third-party processes is a key advantage.

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 insourcing or public-public collaboration option.

Better value for money: Several local authorities have demonstrated that they can harness savings from business process reengineering more effectively than the private sector.

Fewer job losses will be incurred by the insourcing and public-public collaboration options.

Allows the continued development and enhancement of a public service ethos in the planning, design and delivery of council services.

There will be no requirement to negotiate with a multiple board structure of a legally separate third party in order to implement County Council policy. Significantly, the insourcing and public-public collaboration options will not be obliged to deliver or facilitate profit for shareholders.

Maintenance of direct democratic accountability and a higher degree of transparency in the delivery of the service.

Maintaining and building trust – an insourcing or public-public collaboration option is better placed to enhance service user trust in County Council services and to meet community preferences.

The involvement of other District Councils in Somerset is more likely through an insourcing or public-public option.

There is likely to be greater cooperation of staff and trade unions.

Part 5

Recommendations

The recommendations are divided into two parts. The first part sets out a number of recommendations to the County Council. The second part suggests a series of questions which Elected Members should ask the chief executive and senior management in the ISIS project.

Recommendations

The County Council should:

- Postpone approval of the Outline Business Case and commencement of the procurement process.
- Undertake further investigation of the local authorities which have developed an inhouse (insourcing) approach to business process reengineering following rejection of the Strategic Service-delivery Partnership approach with the private sector.
- Remove the bias against insourcing and public-public collaboration in the options appraisal and reassess the options making the criteria, scoring and weighting transparent.
- Carry out a detailed assessment of the business need for business process reengineering including an assessment of current performance, targets and a comparator.
- Make a stronger and clearer commitment to the secondment employment model if the project does proceed after the reassessment of options.
- Examine the scope for an Incremental Partnering model as recommended by the Strategic Service-delivery Taskforce.

It is vitally important that the issues identified in this report are fully addressed before the OBC is approved and before the procurement process commences. The latter is forecast to cost the County Council in excess of £2m.

Elected Members are being asked to sign off a process which could conclude in a 15-year contract with a private contractor. It is essential that every option has been fully investigated and the fiduciary duties fulfilled. Members should not be satisfied with the standard response commonly used in this type of project of 'we have made no decision yet'.

Questions which Councillors must ask

1. Why have officers visited selected strategic partnerships at Middlesbrough, Suffolk and Pendle but not fully investigated Kent, Northamptonshire and Newcastle where the Strategic Service-delivery Partnership was rejected in favour of in-house provision?
2. Are the elected members right in stating that the County Council will not "receive £32m investment" as stated in the Outline Business Case but this will be paid for by the County Council. Isn't it wrong to imply that is an investment by the private sector when it is financed by council job losses. And does the private sector's 7% rate of return (profit) built into the equation also amount to £30m in a 15-year contract?

3. Councillors remember the terrible problems caused by previous failed contracts, such as the CSL revenue and benefits contract and ITNET's payroll contract, and we are aware of the termination of two high profile Strategic Service Delivery Projects in Bedfordshire County Council and West Berkshire Council in the last few months. How have the risks of failure been taken into account in the Somerset project?
4. Why have the scores for only 3 options been given rather than all 5 options? Secondly why have the detailed scores for each criteria for all the options not been included in the report in the interest of transparency?
5. Why is there no review of the council's current performance in corporate services in the OBC – this is surely a starting point?
6. Why is the OBC overly concerned about “the appetite of the market” for a contract for corporate support services when it is obvious that a large long-term multi-service County Council contract is almost certain to attract wide interest? Is it not more important for the County Council to spend time sorting out what it wants to achieve with this type of contract?
7. Why rush to start the procurement process, because once commenced it gains a momentum and commitments the County Council to over £2m expenditure whatever the outcome?

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