

# Strategic Partnership in Crisis

An investigation of the performance of the Strategic Service-Delivery Partnership between HBS Business Services Group and Bedfordshire County Council

**Bedfordshire UNISON**

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## Executive Summary

Bedfordshire County Council and HBS Business Services Group commenced a 12-year £267m Strategic Service-Delivery Partnership (SSP) covering financial, information technology, human resources, school support services and contracts/facilities management in June 2001. Some 550 County Council staff transferred to HBS under the Transfer of Undertakings Regulations (TUPE).

HBS Business Services Group Ltd, (previously Hyder Business Services Group) is privately owned by Terra Firma, a group of equity investors who invested £100m in HBS. The company's financial performance was slowly improving having reduced the level of pre-tax losses from £28.8m for the year ending March 2001 down to a £13.9m loss two years later as turnover had more than doubled from £43.3m to £112.1m in the same period. However, things took a turn for the worse in 2003/04 with pre-tax losses increasing 70% to £23.6m on turnover of £120.7m which only increased by 7.7%. The HBS profit margin over the last four years has been -66.6%, -17.9%, -12.4% and -19.6%. Three directors left the Board in 2003/04 and there have been a series of resignations of senior HBS staff on the Bedfordshire contract in the last year.

### The key deliverables

The partnership contract required HBS to deliver on the following:

- A Regional Business Centre in Bedford (the Strategic Partnering Taskforce case study notes that the creation of additional jobs is not a contractual requirement).
- A 45 seat Customer Contact Centre for all services.
- Investment of £7.8m in new IT, including integrated resource management system, SAP.
- £6.9m investment to improve accommodation.
- High quality and competitive support services to schools.
- A review of training facilities and a National Centre for Excellence in Education.
- Improved services to achieve upper quartile Best Value performance.
- An annual reduction in service costs of 2% (about £900,000).

HBS performance on the main deliverables is summarised in the HBS Scorecard on page 5. In addition a number of other facts underpin this analysis.

- Performance on four Best Value Corporate Health performance indicators declined in the 2000/01 to 2003/04 period when all the expectations would be that they would rise – even the percentage of invoices paid within 30 days is now below the 1999/2000 figure.
- HBS usually refer to its performance on the Key Performance Indicators (KPIs) but most of the KPIs are not measuring quality - they mainly reflect the degree to which a set of processes is carried out. The fact that a contractor can claim 100% performance for 19 out of 34 months between June 2001 and March 2004, which covered the start-up of the contract including the transfer of over 500 staff, the implementation of SAP and substantial change management, proves beyond doubt that the KPIs are simply a mechanism for payments to the contractor.
- The implementation of SAP, the integrated software system, caused severe difficulties for the Council. The pilot project to implement SAP in schools failed. The Audit

Commission's Comprehensive Performance Assessment concluded that its was "poorly planned" and caused serious problems both within and outside the council.

### HBS Scorecard

Key Deliverables	SCORE
Best Value	Performance is down on four Best Value Corporate Health indicators
Front line services first	Quality of service declined (BVPIs)
A new partnership	New partnership created but whether it works and is necessary is questionable.
A Regional Business Centre	No evidence of centre and no reporting of new contracts or jobs.
A customer contact centre	Opened and operational
Improved accommodation	Promised £7m investment only part spent on the Contact Centre and HBS offices on the 6 <sup>th</sup> floor.
Improved training provision	Maryland College closed
Financial savings	Council has incurred substantial additional costs for HBS partnership and unclear whether original savings target has been met.
Quality and competitive support services for schools	Quality of schools support services in decline. National Centre of Excellence delayed and may never be established. Failure of SAP pilot for schools.
Corporate issues	"The strategic partnership is not delivering improvement in services" Annual Audit and Inspection Letter, District Audit, January 2005. Failure to publish Council 2003/04 Accounts on time partly blamed on arrangements with HBS. "The Council has not yet been able to gain capacity from its strategic partnership" Comprehensive Performance Assessment, 2004, Audit Commission.

Source: Centre for Public Services, 2005.

### Employment conditions

The partnership contract was signed in June 2001 and was thus not covered by the Best Value Code of Practice on Workforce Matters in Local Authority Contracts which came into effect from March 2003. The project did not have the resources to survey staff about their terms and conditions but it is clear from the interviews that a two-tier workforce is operating in Bedfordshire. There are clearly some wide differentials between transferred staff and new starters employed by HBS doing basically the same job but on significantly different terms and conditions.

### Consultation with staff and trade unions

The lack of consultation by HBS management with staff was frequently mentioned by interviewees. Staff reported that it wasn't a question of poor quality consultation but none at all. They were frequently told about changes at the last minute and even when given more notice the concept of consultation with staff appeared not to be part of management practice.

### **Trade union recognition**

HBS have no recognition agreements with any local government and teaching trade unions. Bedfordshire UNISON, NUT and NASUWT locally and nationally have had meetings with HBS to try to secure an agreement but to no avail.

### **Trade unions accurate prediction of future problems**

During the procurement process in 2000/01 the trade unions expressed concern about HBS's plans and capacity to meet the contract requirements. They included:

- "HBS's ability to bring new work into the Regional Business centre and secure long term employment for all transferring employees.
- The limited 'track record' of the integrated computerised resource management information system (SAP) that is the cornerstone of HBS's proposals.
- HBS's ability to hold schools' confidence and maintain/increase school service buy back.
- The need for the County Council and HBS to determine future arrangements and allocation of responsibility in the 'Contracts and Facilities Management' service" (ibid).

**It is precisely these issues which are now at the centre of the assessment of HBS's performance.**

### **Recommendations**

- The partnership contract with HBS should be terminated and the County Council should adopt a more incremental approach to the implementation of information technology systems based on full testing before implementation and using best-in-class suppliers.
- In the interim period HBS should:
  - negotiate a recognition agreement locally and nationally with Unison.
  - eliminate the two-tier workforce with HBS agreeing to voluntarily abide by the Best Value Code of Practice on Workforce Matters.
  - agree to full participation and consultation with staff, UNISON and other trade unions.
- The Resource Stewardship and Scrutiny Select Committees should carry out a full and comprehensive evaluation of the performance of the contract, examining HBS and County Council responsibilities, as the basis for future service improvement strategies. The scrutiny of the SSP must include taking evidence from elected members, staff (including a independent HBS/County Council staff survey), trade unions, schools and community organisations.
- The County Council should improve the governance and transparency of the partnership by having all-party political representation on the Strategic Partnership Management Board.
- The County Council should immediately commence a public debate about the need, role, cost and plans for a National Centre for Educational Excellence in Bedfordshire. This must distinguish between the needs of education services and the commercial interests of HBS Business Services.
- Best Value Reviews will be carried out in 2005/06 as part of the five-year cycle (not mandatory). UNISON and other trade unions should be fully involved throughout the Best Value Review process with a rigorous and comprehensive options appraisal mainstreaming equalities and sustainability.

## Part 1

# Introduction

**Bedfordshire County Council and HBS Business Services Group commenced a 12-year £267m Strategic Service-Delivery Partnership (SSP) covering financial, information technology, human resources, school support services and contracts/facilities management in June 2001. Some 550 County Council staff transferred to HBS under the Transfer of Undertakings Regulations (TUPE).**

This study focuses on HBS's performance between June 2001 and early 2005 and the extent to which the key promises made during the procurement process and the contract agreement have been implemented. The study has not reviewed the 2000/2001 procurement process in which the trade unions opposed the SSP although the analysis draws on the key concerns of the trade unions during the process. The research has had access to very limited information on the financial performance of the partnership. Reports from the Strategic Partnership Management Board to the Bedfordshire County Council Executive contain virtually no financial information.

The study refers to 'HBS performance' because it is essentially HBS staff (and their consultants) and their chosen systems and methods which are at the core of the implementation of the contract. Of course, Bedfordshire County Council has an important role in the management of change, developing the capacity of their retained staff, jointly managing the partnership and in monitoring HBS. But the government, business organisations and contractors have heavily promoted the advantages of SSPs and how the private sector can improve local authority services. Putting aside the glossy promotional material, to what extent has a 'step-change in service quality' been achieved in Bedfordshire?

The rest of this introduction has a brief description of the characteristics of a SSP followed by the objectives and methodology of this study. It sets out the scope of the partnership and the key deliverables which form the basis of the evaluation of HBS performance. It concludes with a company profile of HBS and Bedfordshire's other partnership and contracts for which HBS is responsible for monitoring.

Part 2 of the report examines the overall performance of HBS and the County Council in terms of Best Value, Comprehensive Performance Assessment and the Key Performance Indicators (KPIs) established for the contract. It also compares Bedfordshire's performance with other HBS strategic partnership contracts in other local authorities and authorities which chose not to enter into a strategic partnership.

Part 3 is a detailed assessment of the extent to which the key deliverables have been implemented. Other performance issues and employment matters are discussed in Part 4. The report concludes with Part 5 which summarises the decline in confidence in HBS and makes a number of recommendations.

### Characteristics of Strategic Service-Delivery Partnering

The Strategic Partnering Taskforce has defined an SSP as having the following characteristics:

- Demonstrates alignment of goals between partners.
- Emphasises the importance of relationships.
- Involves the delivery of services by one body on behalf of another or through joint working.
- Aspires to deliver more value than a traditional contract.
- Incorporates sharing of risk and reward.
- Expects a change in behaviours from partners.
- Intends to be flexible and able to change in scope and nature over its lifetime.



- Demonstrates trust and good communication.
- Focuses on outcomes rather than outputs.
- Demonstrates joint working (planning, monitoring, problem-solving and decision-making through a joint strategic board) and sharing of ideas and resources.
- Is based on openness and honesty (for example open-book accounting).
- Supports continuous improvement in service delivery over its lifetime.
- Capture of corporate learning.
- Provides mutual benefit to all partners.”

(Rethinking Service Delivery, Vol. 3, 2004)

This description focuses entirely on the process and the nature of the relationship when local authorities are told to ignore ‘process’ and to focus only on outcomes. It is also significant for the absence of any reference to employment, equalities and sustainable development and to ICT related measures such as e-democracy and e-citizenship,

### Objectives of the study

The study has four main objectives:

- To assess the performance of the partnership contract.
- To identify the extent to which the main deliverables of promises made by HBS and the County Council have been fulfilled.
- To identify the cause of delays and failure to achieve some of the key promises.
- To make recommendations for further scrutiny of the partnership.

### Methodology

An evidence-based approach is essential to carry out a comprehensive and fair performance assessment of the partnership with HBS. The research had seven key stages:

1. Analysis of information on the SSP held by the Bedfordshire County Council UNISON branch.
2. Analysis of Audit Commission Best Value and Comprehensive Performance Assessment (CPA) and OFSTED Local Education Authority (LEA) inspections.
3. A search of Bedfordshire County Council’s web site for reports and minutes of the Council, the Executive, Strategic Partnership Management Board, Resource Stewardship and Scrutiny Select Committees.
4. Semi-structured interviews with a cross section of staff and trade union representatives.
5. A review of reports and technical notes published by the Office of the Deputy Prime Minister’s (ODPM) Strategic Partnering Taskforce.
6. Bedfordshire-relevant material from research reports and surveys on SSPs by the Centre for Public Services.
7. Analysis of performance and preparation of the final report.

### The key deliverables

The partnership contract included the following key deliverables:

- A Regional Business Centre in Bedford (the Strategic Partnering Taskforce case study notes that the creation of additional jobs is not a contractual requirement).
- A 45 seat Customer Contact Centre for all services.

- Investment of £7.8m in new IT, including integrated resource management system, SAP.
  - £6.9m investment to improve accommodation.
  - High quality and competitive support services to schools.
  - A review of training facilities and a National Centre for Excellence in Education.
  - Improved services to achieve upper quartile Best Value performance.
  - An annual reduction in service costs of 2% (about £900,000).
- (ODPM, 2002 and 2003)

These commitments were further developed and articulated in a report to the Strategic Partnership Special Committee, 26 April 2001, and restated in the Progress Review carried out by ODPM's Strategic partnering Taskforce in April 2003 were:

- Best Value: Best Value in service delivery, both in the short term and over the contract period, requiring application of the best value principles and improvement plans for all the services.
- Front line services first: maximising use of funding for front line services, generated through efficiency savings in support services.
- A new partnership: building a new style relationship with the strategic partner.
- A Regional Business Centre: reflecting the council's responsibilities for the well being of the County, the development of a regional business centre in the Bedford area.
- A customer contact centre: improving access to Council services in line with public expectations and government targets.
- Improved accommodation: enabling the council to acquire much needed accommodation improvements and being able to be more flexible and innovative in the use of accommodation.
- Improved training provision: seeking modern training facilities, requiring investment in Maryland to enable it to realise its full potential as a training centre.
- Quality and competitive support services for schools: under the fair funding regime ensuring schools have access to a wide range of support services, which can be marketed more widely.
- Corporate issues: commitment to and development of the Council's corporate policies and priorities.

### **Services included in the SSP**

The services within the scope of the partnership contract are set out in Table 1.

**Table 1: Services included in the SSP**

Services (expenditure in 2000/01)	
Human Resource Services (£1.7m)	Contracts and Facilities Management Group (£3.6m) Social services and special needs transport Transport entitlement and contracts Public transport policy, information and concessionary fares Community transport Highways and bridges services Transport schemes Traffic management Highways network management Road safety engineering Road safety education, training, education and training Property management Management of a range of external contracts not included above such as design and print, catering and school meals, cleaning and grounds maintenance.
IT services (£2.1m)	
Financial services (£1.19m)	
Communications	
Business Development Group	
Business planning support	
Purchasing	
Student awards	
School Support Services (£6.0m)	
Advisory services (continuing professional development) (£1.9m)	
Information Communication Technology (£0.2m)	
Technical services (£3.1m)	
LEA commissioned work (£0.5m)	
Facilities management to schools (£12m)	
Human Resource service (£0.21m)	
Business Support and Administrative Services within the Social Services Operational Group	
Business Support Services within the Business Development Group	

Source: (Beds CC, 2000).

Bidders were also required to submit proposals for an Integrated Service Delivery Plan and corporate method statements for:

- Human resources
- Sustainable development
- Social inclusion and fair access
- Environmental management
- Green travel plans
- Information management
- Open Book accounting
- Internal control

**Evaluation framework**

The ODPM’s Strategic Partnering Taskforce completed its work in early 2004 and the promotion of partnerships has been taken over by the ODPM Modernisation and Efficiency Team. The Taskforce demonstrated, at least in its publications, an obsession with the form, governance, procurement and style of partnerships. Review and evaluation of the performance of a SSP contract is covered in just four pages in all the guidance and technical notes produced by the Taskforce (Rethinking Vol. 3, ODPM, 2004). It recommends that “a formal review, involving a third party (for objectivity), every year and a more thorough review timed to link every five years with the authority’s best value responsibilities”. It suggests that a SSP review should encompass the following:

Are the business cases for projects and the SSP overall realistic?

Does the SSP continue to provide VFM and best value?

Does the SSP continue to add value to the private sector partner's business?

Does the public/private SSP continue to add value and represent VFM for all the partners?

Do the SSP and all the services provided meet the changing business need?

What is the impact of the business changes on:

- relationship management
- the client function
- services
- performance
- Are resources and continuity of management appropriate for purpose?

The Taskforce recommend use of the Gateway Review mechanism and the 4ps have been piloting Gateway Five in local government service delivery partnerships (OGC, 2004 and 4ps, 2004). Gateway Five focuses ensuring that the project delivers the benefits and value for money identified in the business case. The review is divided into six parts accompanied by 'areas to probe' and evidence expected:

- Business case and benefits management
- Review of operating phase
- Plans for ongoing improvements in value for money
- Plans for ongoing improvement in performance
- Readiness for the future – plans for future service provision
- Review of organisational learning and maturity targets

The Gateway Five review starts by questioning the validity of the original business case for the project and raises a number of key issues. However, it is essential to ensure that a review and evaluation of the SSP extends beyond the business case and partnership agenda and is used to challenge the effectiveness of investment and the contribution of ICT and call centre technology to core public service provision and in meeting social and economic needs in the County. Other key issues such as over-dependence on one supplier and increasing the capacity of the County Council are also vitally important. We have developed the following additional criteria to those in the Gateway 5 Review – see Table 2:

**Table 2: Additional review and evaluation criteria**

<b>Evaluation criteria</b>
<p><b>Outcomes</b></p> <ul style="list-style-type: none"> <li>- meeting social and economic needs</li> <li>- quality of service</li> <li>- service integration</li> <li>- employment and job satisfaction</li> <li>- local economy</li> <li>- equality and diversity</li> <li>- sustainable development</li> </ul>
<p><b>Processes</b></p> <ul style="list-style-type: none"> <li>- re-engineering service delivery</li> <li>- labour process and working practices</li> <li>- change management process</li> <li>- staff involvement and training</li> <li>- capacity building of BCC</li> </ul>
<p><b>Governance</b></p> <ul style="list-style-type: none"> <li>- participation</li> <li>- accountability</li> <li>- transparency</li> <li>- partnership working and relationships</li> <li>- monitoring, review and evaluation</li> </ul>
<p><b>Finance</b></p> <ul style="list-style-type: none"> <li>- investment and affordability</li> <li>- cost effectiveness</li> </ul>
<p><b>Organisational structures</b></p> <ul style="list-style-type: none"> <li>- public management and operational values</li> </ul>

Centre for Public Services, 2005

This study has divided the performance assessment into two parts, an overall assessment based on inspection reports (see Part 2) and an assessment of the key deliverables (see Part 3). It draws on the evaluation framework at various stages when the information is available to support the analysis. The report recommends that a more detailed evaluation be carried out by the County Council’s Select Committees which, given adequate resources and access, should combine the Gateway Five review process with the criteria noted above and the specific issues raised in this report.

The ODPM’s Partnership Assessment Tool is a “...simple, quick and cost-effective way of assessing the effectiveness of partnership working”, designed explicitly as a development tool. It will help to assess local partnership performance (ie how a partnership is working) but it does not provide a framework for assessing what a partnership is designed or contracted to deliver. The Partnership Tool is very simple, based on six partnership principles – recognise and accept the need for partnership, develop clarity and realism of purpose, ensure commitment and ownership, develop and maintain trust, create clear and robust partnership arrangements and monitor, measure and learn. Each principle has a ‘rapid partnership profile’ consisting of six statements which participants are asked to strongly agree (score of 4), agree (score 3), disagree (score 2) and strongly disagree (score 1) with. For example, participants are asked to assess the “develop clarity and realism of purpose” principle by scoring statements such as “we have clearly defined joint aims and objectives”, “these joint aims and objectives are realistic”, and “the partnership has defined clear service outcomes”. The six statements for each of the six principles are scored and totalled to provide a partnership profile.

## Company profile of HBS

HBS Business Services Group Ltd, (previously Hyder Business Services Group) a company privately owned by Terra Firma, a group of equity investors who invested £100m in HBS on the basis of a five-year business plan culminating in HBS being floated on the Stock Exchange. Terra Firma Capital Partners grew out of Nomura's (a large Japanese investment company) Principal Finance Group. The group has been "...moulded into a unique Private Equity organisation and is now made up of a team of 70 staff, including over 40 investment professionals, with offices in London and Frankfurt." Terra Firma is independent of Nomura although it advises Nomura on its existing portfolio of investments.

Terra Firm has £4.3bn of equity investment in the UK, Europe and the US since 1995. HBS is one of 16 major investments although it is the second smallest. They include:

- William Hill (bookmakers) - £736m
- Angel Trains - £690m
- Phoenix Inns - £249m
- Meridien Hotels - £2,323m
- Annington Homes (privatised MOD housing) - £1,713m
- AT&T Capital Corporation - £1,421m
- Unique Pub Co Ltd - £906m
- Hyder (previous parent of HBS) - £66m
- Waste Recycling Group - £587m
- East Surrey Holdings (water and gas) - £453m

Terra Firma "...work directly with our portfolio businesses to overhaul operations and transform strategy" (web site March 2005) – demonstrated by their role in the recent reorganisation of senior management (see below). Terra Firma targets companies that are "large, low growth, complex and out-of-favour and do not rely on market appreciation or IPO (share offer) exits to achieve profits". Terra Firma acquired Britain's largest waste management company, Waste Recycling Group for £587m in 2003 and recently acquired the landfill assets of Shanks PLC for £228m. It recently made an unsuccessful £1 billion bid for Pennon, owners of South West Water, which also has extensive waste treatment operations. Terra Firma was outbid in £2 billion deal for 80,000 German state-owned homes in summer 2004.

Guy Hands, the chief executive and driving force behind Terra Firma and Nomura's acquisition of HBS has been described in the press "as a merciless predator...even in the shark-eat-shark world of venture capital" (The Guardian September 13<sup>th</sup> 2000). He was previously with investment bankers Goldman Sachs International. Hands and his wife privately own Hand Picked Hotels, a group of 14 country house hotels. The Hands live in a house given to Winston Churchill by the nation.

### **HBS services**

HBS activities are grouped into three categories:

*Front office:* Operating call and contact centres and electronic processing of transactions.

*Back office:* The core of HBS activities which includes payroll and pensions, HR support, financial, IT, property and other support services.

*Professional services:* Includes services to schools such as managing teacher recruitment, supply of educational software and OFSTED approved inspectors.

The Lincolnshire County Council contract was negotiated whilst HBS was part of Hyder, the utilities company. Insiders agree that they were lucky to negotiate the contract *before* HBS was acquired by Nomura International, a wholly owned subsidiary of Nomura Holdings the Japanese investment bank at a time when the company was willing to negotiate a 'soft' deal so that it could enter the market.

HBS acquired Servus Holdings Ltd in June 2001. The company provided facilities management and procurement services and has been rebranded HBSfm.

### HBS has SSP contracts in:

<b>Bedfordshire:</b>	£267m – 12 years
<b>Lincolnshire:</b>	£306m – 10 years
<b>Middlesbrough:</b>	£260m – 12 years
<b>Bath and North Somerset:</b>	£50m – 10 years
<b>Milton Keynes:</b>	£200m – 12 years

### HBS failed to win the following strategic partnership contracts:

**Kent** – HBS selected as preferred bidder but County Council decided to retain in-house service.

**Northamptonshire** - HBS preferred bidder but County Council decided to retain in-house service.

**Redcar and Cleveland** – shortlisted, contract awarded to Liberata.

**West Berkshire** – shortlisted, contract awarded to Amey.

**Dacorum** – shortlisted but withdrew, the council decided to retain in-house services.

### HBS financial performance

The company's financial performance was slowly improving having reduced the level of pre-tax losses from £28.8m for the year ending March 2001 down to a £13.9m loss two years later as turnover has more than doubled from £43.3m to £112.1m in the same period. However, things took a turn for the worse in 2003/04 with pre-tax losses increasing 70% to £23.6m on turnover, which only increased by 7.7% to £120.7m. The HBS profit margin over the last four years has been -66.6%, -17.9%, - 12.4% and -19.6%.

The Return on Shareholder Funds and the Return on Capital Employed both indicate the level of profit achieved from investment. Both are negative for the four-year period, improving in the 2001-2003 period but then deteriorating significantly in 2003/04. Gearing is concerned with the relationship between the company's long-term liabilities and its capital employed. It is calculated by dividing the financial liabilities by the shareholder fund. Ideally the shareholder funds should be significantly larger than the liabilities. The liquidity ratio measures the extent to which a company can quickly liquidate assets to meet short-term liabilities. It is obtained by dividing the total value of cash and marketable securities by current liabilities. HBS's liquidity ratio has reduced from 2.38 in March 2001 to 1.4 in March 2004. Three directors of HBS resigned in 2003/04 as did the company secretary. Two new directors were appointed during the financial year.

**Table 3: HBS Business Services Group corporate performance**

<b>Financial indicators</b>	<b>03/2001</b>	<b>03/2002</b>	<b>03/2003</b>	<b>03/2004</b>
Turnover (£m)	43.3	94.8	112.1	120.7
Profit/Loss before tax (£m)	-28.8	-16.9	-13.9	-23.6
Net Assets (Liabilities)	73.3	60.8	56.6	42.4
Shareholder Funds (£m)	71.1	57.8	53.9	40.2
Profit margin (%)	-66.6	-17.9	-12.4	-19.6
Return on Shareholder Funds (%)	-40.5	-29.3	-25.8	-58.7
Return on Capital Employed (%)	-39.4	-27.9	-24.5	-55.7
Gearing (%)	40.4	40.2	33.8	6.9
Liquidity Ratio	2.38	1.91	1.66	1.4
Number of employees	1,774	2,993	2,795	2,887

Source: Jordanwatch Corporate Database, August 2004 and March 2005.

The then Deputy Chairperson John Jasper told the SPMB meeting in April that HBS's aim was to break even this year (SPMB report to Executive, 19 July 2004). Given the deteriorating financial position in 2003/4, the current financial year will have to produce a massive turnaround even to minimise the losses.

### **HBS reorganisation and resignations**

There was a cull of HBS senior management in April 2004. Chief Executive, John Jasper was moved to become Non-Executive Deputy Chairperson, Tim Lonsdale, Managing Director Northern and Chris Taft, Chief Operating Officer left the company. It would appear that Terra Firma initiated this reorganisation bringing in Joe Sinyor as Executive Chairperson. He is Terra Firma's Operational Managing Director and was previously chief executive of Trinity Mirror newspapers, Sony UK, Dillions, the bookseller, and Pepe Group (jeans). Steve Huxley became the new Chief Operating Officer having previously been Managing Director of Cleanaway, the waste management company and Balfour Beattie Infrastructure Services. The three HBS regions, northern, central and southern were reduced to two with the scrapping of the central region with its previous Managing Director, Alan Rylett taking over the northern region from Tim Lonsdale. A new Chief Executive, Peter Manning, arrived in September 2004, previously with Colt telecom. It would also appear that Terra Firma are becoming impatient with HBS's financial performance. Then in early November 2004 two senior HBS managers, Peter Duke (Partnership Director) and Terry Woodhouse announced they were leaving the company. HBS head of HR in Bedfordshire, Ann-Marie Huff, also recently left the company.

### **Bedfordshire County Council privatisation and outsourcing**

The Strategic Service-Delivery Partnership with HBS one of several outsourcing contracts, which the County Council has established in the last few years. The County Council divides them into two groups, partnerships and major contracts. HBS is responsible for monitoring the partnerships and contracts.

#### **Partnership contracts**

- Babbie Group
- BUPA – council care homes transferred
- ITNET – payroll
- Mouchel
- NCH



- Pitney Bowes
- Scholarest – school meals
- Raynesway Construction Southern – highway maintenance

**Major contracts**

- Shanks and McEwen – waste management
- Superclean – building cleaning
- Rileys – advertise vacancies
- John O'Connor/Sodexo/DSD Contracting
- Ricoh
- Energy

This report refers to the HBS partnership and to the HBS contract. Whilst the advocates of strategic partnerships make the point that the County Council has embarked on a partnership a private company and this includes a developing a different relationship than if the work was carried out under a 'traditional contract'. The 'partnership' requires a different set of non-confrontational relationships in which the County Council and HBS 'give and take' in a negotiated approach to service delivery and the management of change. Whilst a partnership approach does require different ways of working, the fact of the matter is that there is a contract between the County Council and HBS, which imposes performance requirements and financial/policy commitments made by HBS during the procurement process. A 'partnership approach' has not replaced the employment contract between staff and HBS and if anything, many staff consider they are worse off having been transferred from County Council employment.

**Fundamental review of the strategic partnership with HBS**

Following the Audit Commission's review of the strategic partnership, the Strategic Partnership Management Board agreed at its November 2004 meeting "there was the need for a fundamental review of the Partnership with consideration of what each partner needs from the relationship" (SPMB Minutes, 22 November 2004). The Council is reviewing central services, which are largely delivered by HBS. Part of Communications is being brought back in-house with some staff transferring to the Council. Other services may follow.

Transport services are being reorganised under one County Council manager in place of the current fragmented service in which the Council is responsible for transport policy and the fleet department whilst HBS is responsible for contract management and school transport entitlement. HBS has finally acknowledged that the CRM module of SAP is not suitable for school transport. ".....the system has not proved suitable for dealing with the allocation to route aspect undertaken by the transport contracts team. The CRM system is unable to pass accurate pupil information on the pupil database between the two teams. This has caused problems in transport contracts allocating pupils to the most effective form of transport and means the team is unable to assess how many children are on each school bus contract" (Investment in Schools Transport and Public Transport Information Services, Report to Executive, 21 December 2004).

The Executive agreed to purchase a new integrated transport IT system which will cost the County Council £534,344 between 2004/05 and 2007/08 for hardware/software, software support and staff, although some savings are anticipated on current costs (Investment in Schools Transport and Public Transport Information Services, Report to Executive, 21 December 2004 and The Executive, Minutes of 21 December 2004 meeting, 31 January 2005).

## Part 2

# Overall performance assessment

### Introduction

HBS performance is assessed in two parts. This section of the report focuses on an analysis of overall performance using Best Value performance indicators, an assessment of the Key Performance Indicators (KPIs) which are an integral part of the contract, and Bedfordshire’s Comprehensive Performance Assessment (CPA) and OFSTED inspection assessments.

### Best Value performance declines

Corporate health indicators – not all attributable to SSP

County councils do not collect council tax nor operate a housing benefit service.

Selected four Best value indicators:

- % citizens satisfied with overall service provided.
- % complainants satisfied with handling of their complaint.
- % of undisputed invoices paid within 30 days.
- % of interactions with public capable of electronic service delivery/E-govt types of interaction delivered electronically.

Table 4: **Best Value performance 1999-2003/04**

Indicator	Corporate Health Indicators	1999/00	2000/01	2001/02	2002/03	2003/04	Performance
BVP13	% citizens satisfied with overall service provided	N/c	52	N/c	N/c	35	down
BVPI4	% complainants satisfied with handling of their complaint	N/c	32	N/c	N/c	28	down
BVPI8/F15	% of undisputed invoices paid within 30 days	80	81	90	96	78***	down
BVPI57/F89	% of interactions with public capable of electronic service delivery/E-govt types of interaction delivered electronically	N/a	N/a	63.5**	60	57.8	down

Source: Bedfordshire County Council Best Value Performance Plans 2001/02, 2002/03 and 2003/04.

\* Based on three-yearly survey

\*\* Change in indicator after this date.

\*\*\* Originally stated to be 74 but later revised upwards to 78.

The citizen satisfaction results are for council services as a whole. HBS is only part of this. However, one of the core rationale for the strategic partnership was to make savings which would be ploughed back into services.

Payment of invoices – performance reflects the first year of operation of SAP, which went live on 1 April 2003, an integrated system which handles all the county council’s financial, purchasing and human resources processes.

The next two tables (5 and 6) compare the corporate health performance of two other local authorities, Middlesbrough Council and Lincolnshire County Council, which both have similar

strategic partnership contracts with HBS, with two councils, Newcastle City Council and Kent County Council, both of which rejected an SSP in favour of the in-house approach to investing in and improving services.

Both Newcastle City Council and Kent County Council performance in the four corporate health indicators was significantly better than HBS's performance in Bedfordshire in 2003/04 (comparing Tables 4 and 6).

**Table 5: Best Value performance in other HBS SSP contracts**

<b>Middlesbrough Council (SSP commenced June 2001)</b>							
<b>Indicator</b>	<b>Corporate Health Indicators</b>	<b>1999/00</b>	<b>2000/01</b>	<b>2001/02</b>	<b>2002/03</b>	<b>2003/04</b>	<b>Performance</b>
BVP13	% citizens satisfied with overall service provided	N/a	66.0	N/c	N/c	57.00	<b>Down</b>
BVPI4	% complainants satisfied with handling of their complaint	N/a	N/a	N/a	N/a	N/a	<b>N/a</b>
BVPI8/F15	% of undisputed invoices paid within 30 days	42.1	64.0	85.5	79.3	83.2	<b>Up</b>
BVPI57/F89	% of interactions with public capable of electronic service delivery/E-govt types of interaction delivered electronically	N/a	N/a	34.0	34.0	66.0	<b>Up</b>
<b>Lincolnshire County Council (SSP commenced April 2000)</b>							
BVP13	% citizens satisfied with overall service provided	57.0	N/a	-	-	46.0	<b>Down</b>
BVPI4	% complainants satisfied with handling of their complaint	N/a	N/a	-	-	32.0	<b>-</b>
BVPI8/F15	% of undisputed invoices paid within 30 days	67.0	71.0	87.7	83.6	90.3	<b>Up</b>
BVPI57/F89	% of interactions with public capable of electronic service delivery/E-govt types of interaction delivered electronically	N/a	N/a	N/a	10.5	41.3	<b>Up</b>

Source: Middlesbrough Council and Lincolnshire County Council Best Value Performance Plans for 1999/2000, 2000/01, 2001/02, 2002/03 and 2003/04.

Table 6: **Best Value performance in local authorities which rejected SSP and retained work in-house**

Indicator	Corporate Health Indicators	1999/00	2000/01	2001/02	2002/03	2003/04	Performance
<b>Newcastle City Council</b>							
BVP13	% citizens satisfied with overall service provided	-	59.8	-	N/a	54.3	<b>Down</b>
BVPI4	% complainants satisfied with handling of their complaint	-	36.5	-	64.0	34.0	<b>Down</b>
BVPI8/F15	% of undisputed invoices paid within 30 days	-	90.5	93.0	63.3	80.8	<b>Down</b>
BVPI57/F89	% of interactions with public capable of electronic service delivery/E-govt types of interaction delivered electronically	-	-	44.0	50.0	100.0	<b>Up</b>
<b>Kent County Council</b>							
BVP13	% citizens satisfied with overall service provided	-	58.0	-	75.0	75.0	<b>Up</b>
BVPI4	% complainants satisfied with handling of their complaint	-	90.1	-	34.0	33.0	<b>Down</b>
BVPI8/F15	% of undisputed invoices paid within 30 days	-	-	-	93.7	94.8	<b>Up</b>
BVPI57/F89	% of interactions with public capable of electronic service delivery/E-govt types of interaction delivered electronically	-	-	-	58.6	72.8	<b>Up</b>

Source: Newcastle City Council and Kent County Council Best Value Performance Plans for 1999/2000, 2000/01, 2001/02, 2002/03 and 2003/04.

## The KPI regime

The KPIs not only monitor the partnership arrangements but they are also linked directly to the payment mechanism with failure to reach a given level of performance resulting in financial deductions for HBS. It wasn't until summer 2002 that elected members expressed an interest in validating the suite of KPIs (SPMB, 2 September 2002).

Table 7: HBS performance against contractual performance indicators

2001	Jan	Feb	Mar	April	May	June	July	Aug	Sept	Oct	Nov	Dec
KPI reported in month	-	-	-	-	-	23	26	25	26	58	56	56
Number that achieved or exceeded target						22	26	25	25	58	55	56
% met						95.6	100	100	96.1	100	98.2	100
2002												
KPI reported in month	58	49	46	48	48	61	50	48	53	48	47	52
Number that achieved or exceeded target	58	49	46	47	47	61	48	47	53	47	47	52
% met	100	100	100	97.9	97.9	100	96.0	97.9	100	97.9	100	100
2003												
KPI reported in month	51	48		45	35	53	50	39	49	47	44	57
Number that achieved or exceeded target	51	47		43	35	51	48	38	49	47	44	57
% met	100	97.9		95.6	100	96.2	96.0	97.4	100	100	100	100
2004												
KPI reported in month	53	48	58									
Number that achieved or exceeded target	52	48	58									
% met	98.1	100	100									

Source: HBS Annual Report, April 2003 and April 2004.

A new system of KPIs has been introduced which ran in parallel with the then current system between April-October 2004 and replaced thereafter. This analysis is based on the KPI system in operation between 2001-2004.

- KPIs focus on process, not quality. Most of the KPIs are not measuring quality - they mainly reflect the degree to which a set of processes is carried out.
- There is no KPI which directly relates to the quality of service delivered to schools.
- The KPI regime is costly both in terms of managers servicing the regime (report writing, servicing meetings) and there is an opportunity cost because those elements connected to the contract and payment mechanism would not be needed if there was no partnership with the private sector.
- **The fact that a contractor can claim 100% performance for 19 out of 34 months between June 2001 and March 2004, which covered the start-up of the contract including the transfer of over 500 staff, the implementation of SAP and substantial change management, proves beyond doubt that the KPIs are simply a mechanism for payments to the contractor. They have little relevance to the quality of service.** No public organisation or private company can undertake such substantive change in the delivery of its services and functions without having an effect on their quality. The stark reality is that the package of KPIs is at best a partial reflection of performance. Hence for HBS, the Strategic Partnering Taskforce, ODPM and other advocates of strategic partnerships to use KPIs as testament of their 'success' is misleading.

### Financial deductions

The contract payment mechanism allowed a six-month period in which no financial deductions were incurred in the performance regime. Between December 2001 and March 2003 four failures resulted in total deduction in the unitary charge of £14,682 – see Table 8. In 2003/04 financial deductions were only marginally higher at £15,061 although the period covered was

12 rather than 22 months. However, the sums involved are a tiny fraction, ranging between 0.03% and 0.07% of the annual contract fee for the June 2001 t March 2004 contract period.

**Table 8: Financial deductions incurred by HBS**

Date	Reference	Brief description and target	Comments	Deductions (£)
<b>2001-03</b>				
Oct 2002	IT ITS100	Major failures – time taken to successfully resolve (9 head system hours)	Failure caused by corruption of MARS database. Took 18.57 hours.	1,682
2002/03	HR KPI 9B	Completion to target date/standard of service/policy development milestone	Equality Plan not delivered to standard/timescale	3,000
Mar 2003	Finance A4.1	Preparation of annual accounts for capital and revenue and accounts closed by target date with no material errors (target 30 June)	Not completed until 19 July	10,000
Sub total				<b>14,682</b>
<b>2003-04</b>				
June 2003	HR KPI	Delivery of annual work programme	Deduction reduced by 50% to reflect part delivery.	5,747
October 2003	Contact Centre	Student awards - processing of eligibility, financial assessments and transfers		5,041
December 2003	HR KPI	HR reports not delivered to specification and frequency.		2,569
March 2003	Finance	Missed target of proportion of BACS to cheque payments	Deduction reduced by 50% to reflect part delivery.	1,704
Sub total				<b>15,061</b>
<b>Total</b>				<b>29,743</b>

Source: HBS Annual Report to Bedfordshire CC June 2001 – March 2003, April 2003.

Partnership Satisfaction Surveys in 2001/02 and 2002/03 showed a marked decline in the very satisfied/satisfied category from 59% to 34% - see Table 9. Those who were very dissatisfied/dissatisfied increased from 11% to 26% in the same period.

**Table 9: Partnership satisfaction survey (%)**

Overall rating of satisfaction	2001/02	2002/03	Change between 2001/02 and 2002/03
Very satisfied	19	5	<b>Decrease of 14%</b>
Satisfied	40	29	<b>Decrease of 11%</b>
Neither satisfied nor dissatisfied	30	40	<b>Increase of 10%</b>
Dissatisfied	10	20	<b>Increase of 10%</b>
Very dissatisfied	1	6	<b>Increase of 5%</b>
Total	100	100	

Source: HBS Annual Report to Bedfordshire CC, June 2001 to March 2003, April 2003.

A customer satisfaction survey in 2001/02, limited to Group Heads, revealed that 66% were either very or fairly satisfied with transferred services. No additional information is available concerning the views of the remaining 34%. In 2002/03 a much larger group of 270 managers

and staff were surveyed although the response rate was only 27%. The annual customer survey is a contract requirement. Respondents were asked to rate the quality of service on a scale of 1 (very dissatisfied) to 5 (very satisfied). The results of the survey, with an average score of 3.25, are shown in Table 10.

Table 10: **Customer satisfaction survey 2002 (%)**

<b>Overall Satisfaction Rating</b>	<b>2002/03 (%)</b>
Very satisfied	11
Satisfied	54
Neither satisfied nor dissatisfied	28
Dissatisfied	0
Very dissatisfied	0
<b>Average score</b>	<b>3.25</b>

Source: HBS Annual Report to Bedfordshire CC, June 2001 to March 2003, April 2003.

The 2003/04 Customer Survey produced an average score of 3.25 but the result were presented in a different format – see Table 11.

Table 11: **Customer satisfaction survey 2003**

<b>Service area</b>	<b>Overall score</b>
IT Services (include the Help Desk)	2.87
Customer Contact Centre	3.05
Business Planning	3.05
Financial Services	3.13
Contracts and Facilities Management	3.34
Communications	3.36
Social Service/Business Support	3.39
Human Resources	3.78
<b>HBS average</b>	<b>3.25</b>

Source: HBS Annual Report to Bedfordshire CC, April 2003 to March 2004, April 2004.

## **CPA Bedfordshire performance**

In December 2002 the County Council received a Comprehensive Performance Assessment (CPA) from the Audit Commission which received an overall rating of 1 in 4 (poor) for the way it is run. The assessment consists of four parts – what is the council trying to achieve?, how has the council set about delivering its priorities?, what has the council achieved/not achieved? and what does the council plan to do next? In December 2003 the Audit Commission reviewed core service performance and Bedfordshire received an overall rating of 2 out of 4. By December 2004 the County Council had moved from a 'poor' to a 'weak' rating – see Table 12.

**Table 12: Comprehensive Performance Assessment rating**

Service	December 2002	December 2003	December 2004
<b>Overall</b>	<b>Poor</b>	<b>Poor</b>	<b>Weak</b>
Current performance			
Education	3	3	3
Social Care (Adults)	2	2	2
Social Care (Children)	1	1	1
Environment	1	2	3
Libraries and Leisure	3	3	3
Use of resources	3	3	3

Source: Audit Commission, 2005. 1 = lowest score/ 4 = highest score.

The 2002 CPA report referred to the councils commitment to the strategic partnership with HBS with “strong corporate leadership for the delivery of major projects that are part of the contract” but expressed concern that this was at the expense of service improvement elsewhere:

*“.....in addition to the day-to-day service delivery responsibilities the council also has urgent service improvement agendas in areas of education, social services and environmental services. A corporate focus and drive in these service improvement areas is less evident. There is slippage against some key service improvement plans and an acknowledgement in some areas of the council that it is only achieving incremental improvements and is failing to drive the wider improvement agenda” (Audit Commission, 2002).*

Many of these problems were caused by outsourcing. The CPA included strong criticism of Bedfordshire’s outsourcing strategy:

*“Some past procurement decisions are limiting the flexibility of the council to make improvements in some areas. The council launched its partnership programme in 1997 believing that through closer working with the private sector it could improve the quality of its services. Whilst short term goals of transferred risk and reduced costs have been met in some cases significant service improvements have not been achieved. The 25 year waste management contract is not yet delivering significant improvements in recycling rates. Highway repairs and road safety schemes are a particular source of dissatisfaction at district and parish council levels and with residents. Property maintenance has been a source of dissatisfaction to some schools. Initially weak performance monitoring frameworks for some contracts have had to be strengthened. The council has included monitoring and day-to-day management of these contracts in the HBS partnership and is completing a review of arrangements to discuss with service users and partners. However partners are concerned that the addition of HBS to the arrangements is adding an extra layer of complexity to resolving complaints. In relation to highways works they see no evidence of improved performance to date” (Audit Commission, 2002).*

The CPA report concluded:

*“The HBS partnership is already delivering performance data on those areas included in the agreement and some improved transactional services such as the payment of invoices. It is guaranteed to produce cumulative annual savings of 2 per cent over 12 years. However, it is too early to judge whether it will deliver the culture change the council is aiming for” (ibid).*

**Comprehensive Performance Assessment in 2004**

The CPA assessment, carried out in October 2004, provided further evidence of problems with the strategic partnership. However, although the contractor was named, wrongly by using its previous name, the focus of criticism is on the authority because the CPA is based on the



authority’s performance and not that of its contractors. Hence it provides a very narrow and one-sided assessment.

The assessment makes a number of points:

*“...the council has not yet been able to gain capacity from its strategic partnership with Hyder (sic)”*

*“...a wide number of services, including the management of some partnerships, were transferred without sufficient consideration of the impact on client capacity and the realities of day-to-day management. As an example, the contract covered performance assessment support, which has caused line management confusion, and external communications, a key area for the council’s identity and external relationships. A large number of staff transferred, taking with them expertise and knowledge which has in some cases been lost to the council as staff moved to other sites. Although the partnership has met the key performance indicators (KPIs) that were agreed, and has provided significant investment in IT, it is not yet giving the service that the council needs.”*

*“The council has expended further capacity in dealing with problems created by poor management of the partnership relationship. The key example is the introduction of the SAP computer system. Implementation was poorly planned and has caused serious problems both within and outside the council” (ibid).*

**Comparison of CPA scores**

The comparison between Bedfordshire’s performance and two other HBS strategic partnership authorities, Lincolnshire and Middlesbrough, and two authorities which rejected a SSP, Kent County Council and Newcastle City Council, is continued in the CPA – see Table 13. The services for which HBS are responsible are only part of the overall assessment. However, the assessment shows that the three authorities with HBS SSPs were rated poor, fair and good whilst the two authorities, which rejected the SSP model at the end of the procurement process, were rated good and excellent. This comparison is only indicative and demonstrates that the SSP model, although still in the early phase (3.5 years in Lincolnshire and 2.5 years in Bedfordshire and Middlesbrough when the CPA assessment was carried out in December 2003) had limited impact.

**Table 13: Comparison of CPA scores in 2003 with other HBS SSP authorities and non-SSP authorities**

Local authority	Core service performance	Council ability	Overall performance
Bedfordshire County Council	2	1	<b>Poor</b>
Other HBS SSP authorities			
Middlesbrough Council	3	3	<b>Good</b>
Lincolnshire County Council	3	2	<b>Fair</b>
Local authorities which rejected SSP and retained work in-house			
Newcastle City Council	3	3	<b>Good</b>
Kent County Council	3	4	<b>Excellent</b>

Source: Audit Commission, 2004.

An evaluation of new ways of working in LEAs in 2002 reported *“scepticism and uncertainty”* by staff and stakeholders in Bedfordshire over the HBS contract (Bantock Consulting, 2003). They concluded that HBS would fail to meet its business case without a sufficiently high take-up of SAP across schools. Their evaluation also commented that *“HBS had less expertise in education than had been thought but that has now been rectified”* (Ibid).

## **OFSTED report**

The March 2002 OFSTED report of the inspection of the LEA included an assessment of services to schools. *“The effectiveness of services to support school management was found to be unsatisfactory overall in the last inspection, with weaknesses outweighing strengths across the range of services provided”* (OFSTED, 2002). The 2002 inspection found *“service performance is now more consistent”* (ibid). In addition to particular strengths in many aspects of education, the inspectors referred to strengths in human resources and financial services to schools. In contrast certain weaknesses remained from the 1997 inspection which included property and payroll services – both these services are outsourced to Mouchel and ITNET respectively.

Human resources support to schools is *“good”* with *“...schools being highly satisfied with the advice and the quality of casework support”* (ibid). The inspectors also refer to the *“relationship between schools, the LEA and trade unions in dealing with personnel matters are considered a strength by all concerned”* (ibid). However, it is clear from the interviews of officers and trade unions for this research that there has been a decline in the quality of services to schools and trade union representatives are highly critical of HBS performance and approach. There is evidence that schools are purchasing fewer services from the LEA, which is a clear sign of dissatisfaction with the quality of service. This is supported by interview findings.

Bearing in mind that HBS started in June 2001 and the inspection report was published in March 2002, the findings reflect the improvements achieved by the County Council since 1997 and those of HBS. Given the short time it would be an injustice to credit HBS neither with positive nor negative effects on the overall performance of these services to schools in such a short timescale.

Services for ICT in administration were considered satisfactory *“...although development in a number of areas has lacked pace”* (ibid).

## **Best Value reviews during procurement**

In summer 2000 Bedfordshire County Council UNISON commissioned the Centre for Public Services to prepare an analysis of the council's approach, critique the strategic partnerships proposals and to recommend an alternative strategy. The report was published in October 2000 and a presentation made to the Council in the same month. The report was critical of the merging of the Best Value review process and procurement for a strategic partnership. It concluded:

*“We consider that there is sufficient evidence that the County Council has not met the statutory requirements of the Best Value legislation and statutory guidance issued by the Department of the Environment, Transport and the Regions. We recommend that the District Auditor and the Best Value Inspectorate carry out urgent an investigation into:*

- a. County Council compliance with its statutory duties to consult with users, community organisations and the public in the preparation of Best Value service reviews.*
- b. County Council compliance with the requirements of Best Value service reviews, particularly the Consultation, Challenge, Compare and Competition elements.*
- c. The failure to make information available to the public with regard to the performance of County Council services and comparison with other comparable authorities in the course of service reviews.*
- d. The merging of Best Value service reviews with a multi-million procurement process and the impact this has on options appraisal.*
- e. The extent to which the County has mainstreamed equity and sustainability in the Best Value reviews as required by Circular 10/99.”*

The report also highlighted a degree of confusion between acquiring e-government technology and outsourcing support services for cost-cutting objectives, the danger of a technological lock-in and dependency culture developing with a single contractor interwoven with council services, and referred to job creation through a regional business centre as 'wishful thinking'. It recommended that the council adopt a step-by-step approach to ICT investment, training and implementation with services and staff retained in-house.

### **Audit Commission Inspection**

The Audit Commission carried out an inspection of the Strategic Partnership reporting in late June 2001. The inspection assessed the procurement approach, the best value review process, and quality of the improvement plan and whether the council will deliver the improvements.

***"We recognised that the Council had not conducted a complete best value review"** (our emphasis) reported the inspectors who also noted that "KPMG have certified that the in-house reference project was a robust comparator based upon a realistic interpretation of how in house resources could provide for meeting Specification 1 and 2 of the ITN."*

*"Whilst the Council feels they undertook considerable comparative work done during specification generation, including sharing information with customers and bidders, **the approach was not comprehensive** (our emphasis). As a result it is possible that the specifications on which the tendering process was based have not been sufficiently scrutinised to ensure the council continue to require those services."*

*"We did identify that the review process as a whole suffered from a lack of external benchmarking. We note that the Council meeting in October 2000 did receive information on the benchmarking done, but this was only for a restricted range of services."*

*"In addition the Council consulted very late in the process with the public on the detail of the proposal to form a partnership. Public consultation was first carried out in 1999 as part of the Community Vision Consultation. This revealed an acceptance of the concept of partnership working. **It was not however until a decision had been made on a preferred bidder that a specific process of consultation on the partnership took place**" (our emphasis).*

*"The concern we have is that the Council struggled to make the consultation relevant to local people and missed an opportunity to build in further challenge to the way services are currently delivered."(ibid)*

A Best Value review will normally conclude with a Service Improvement Plan identifying how and when improvements will be achieved. The Audit Commission examined the contract schedules and the specification and noted that the improvement plan contained in specification 2 was "very detailed". However, they identified a range of weaknesses:

*"We found that within specification 1 only approximately a third of the processes indicated levels of current performance. Less than a third of the processes identified in specification 1 are public facing and therefore any improvements will have little or no impact on the public's perception of an improved quality of service overall.*

*In specification 2, we found that of the improvements listed, only approximately a quarter are directly related to the public, a half have "real" quantifiable improvements, and therefore only a quarter will improve public services.*

*We are therefore concerned that specification 2 is not sufficiently stretching as an agenda to deliver real improvement to the public. We note that the Council will be the leader in this process, but it is not clear how service areas will achieve top quartile*

*performance in the absence of stretching targets, despite the contractual commitment for HBS to achieve this.*

*We also noted the absence of a resourced plan to achieve eGovernment targets under the future 10-year contract and as part of the improvement plan within specification 2.”*  
(ibid)

The Audit Commission concluded that the council had conducted “...a thorough, open and well managed process and selected a preferred partner”(ibid). They concluded that the council provided a ‘fair’ (one star) service. In terms of whether the service will improve or not,

*“.....we found that the Council still needed to be clearer on what the Partnership will do to improve services for the Public both in the short term and over the life of the contract. To ensure this, it needs to invest in contract monitoring and business transition resources to achieve change and to create key performance measures that can be reported to the public.*

*We concluded that if the council did this the services covered by the Partnership will **probably improve**”* (ibid).

Hardly a ringing endorsement for a £250m contract.

## Part 3

# Implementation of the key deliverables

This section focuses on the particular promises made in the negotiations of the strategic partnership which form the key deliverables noted in Part 2. It also examines key issues of employment conditions and public management. This section draws on interviews with HBS and County Council staff (UNISON members) and trade union officers in the education. It also draws on HBS and County Council reports.

The key deliverables are:

- A Regional Business Centre in Bedford.
- A 45 seat Customer Contact Centre for all services.
- Investment of £7.8m in new IT, including integrated resource management system, SAP.
- £6.9m investment to improve accommodation.
- High quality and competitive support services to schools.
- A review of training facilities and a National Centre for Excellence in Education.
- Improved services to achieve upper quartile Best Value performance.
- An annual reduction in service costs of 2% (about £900,000).

Each deliverable is examined to assess the extent to which it has been implemented and the cause of any delays or failures. It is important to note that the partnership is only in the fourth year of a 12-year contract. However, all of the key deliverables were expected to be partly or fully implemented in the early years of the contract.

## Regional Business Centre

HBS claims to have established a Regional Business Centre (RBC) on the Bedford site selling services to other local authorities and public sector agencies. They claim to have won “*significant new work*” from the Probation Service, The Police Authority, NHS and Social Services Partnerships, the London Borough of Barnet and Crawley District Council (revenues and benefits) although no information was provided on the size/value of these contracts or the number of people employed (HBS Annual report 2001-2003). However, HBS’s annual report for 2003/04 did not even mention the Regional Business Centre. Furthermore, none of the SPMB reports to the Executive over the last three years have mentioned the Regional Business Centre.

When HBS bid for the Bedfordshire contract in 2000/01 it had a strategy of creating ten regional business centres in Britain. The number later fell to three as the firm created three operational regions – northern, central and southern. The regions reduced to two, northern and southern, following the April 2004 reorganisation of HBS.

The RBC model is based on using a strategic partnership with one authority to win contracts with neighbouring councils and public bodies to create a ‘business centre’ and ‘additional’ jobs. The theory is that local authorities and public bodies will get cheaper services, HBS will make bigger profits and the host authority will gain more jobs. The fact that this means job losses elsewhere is usually brushed aside. The model did not take account of the other changes such as wider use of the internet for transactions, automated telephone services and increased outsourcing (offshoring) to low wage economies in Asia and Africa.

**“Creating a winning business”**

This is the title of an email from John Jasper, HBS previously Group Chief Executive and now Deputy Chairperson, announcing the launch of Agile national business units on 1st April 2004 with two additional “customer-aligned national business units” combining operations and sales and headed by Partnership Directors. They will be supported by newly appointed Service Stream Directors *“whose task it will be to grow a new National Service Stream business through product development and marketing”* (email to HBS staff from John Jasper, 24 March 2004).

*“All services will be combined under one of six national service stream businesses – HR, Finance, IT, Management Services, Property/FM and Education. Any new strategic partnerships such as Milton Keynes will be moved into this new structure when appropriate”* (email to HBS staff from John Jasper, 24 March 2004).

Staff were told that *“you will continue to deliver services and resolve issues locally but you will now become part of a national team.”* It is interesting to note the timescale – HBS senior managers were told about the plans on the 23 March 2004, staff were informed by email the next day, with the plan coming into effect six working-days later. Consultation with staff was clearly not a priority.

Agile was launched in June 2003 and is essentially about creating centres of excellence in HBS and facilitating cross business working. An Agile Bulletin (November 2003) provides little information about the concept although it is clear that it is an internal HBS system to increase *“working efficiencies”*, improving services and *“creating substantial growth within our current partnerships and from new business”* (HBS, 2003)

Is this the end of the HBS regional business centre model?

**Interviews**

*“There is little sign of HBS winning new work.”*

*“HBS has no vision of education, nor does it have a concept of educational services which do not make money.”*

*“There is no evidence of enhancing, enriching and improving services.”*

HBS staff

HBS increased its Middlesbrough Revenues and Benefits team to 82 staff by January 2004 and is providing remote processing services to 9 local authorities. Middlesbrough’s revenues and benefits service had a high performance rating *before* the contract was signed with HBS.

**Comment**

HBS did not appear to fully understand the complexity of local government and the differences in systems, policies, values, priorities and approaches between local authorities. They thought that lessons and economies of scale would be more readily transferable between councils. This underpinned the Regional Business Centre (RBC) model. When the additional contracts failed to materialise and the application of SAP and other systems in Bedfordshire, Lincolnshire and Middlesbrough was far more difficult and costly than anticipated, the RBC model was shelved and replaced by Agile. The demise of the RBC model combined with the complexity and cost of implementing the partnership commitments in Bedfordshire, Lincolnshire and Middlesbrough have driven HBS into the Agile model to identify best practice that can be shared between each council, or from a commercial perspective, less focus on



gaining third party contracts and reduce the cost of implementing the current partnership contracts.

HBS have shared and transferred experience in Lincolnshire and Middlesbrough with Bedfordshire particularly on SAP, and document management systems (SPMB Questions and Answers, 3 September 2003). Consequently HBS proposals for additional work in Bedfordshire frequently include the time and cost of researching the approach in Lincolnshire and Bedfordshire.

### **The job numbers game**

Strategic partnerships usually result in a loss of jobs over the contract period. For example, in Middlesbrough HBS forecast a 42% job loss over four years, and in neighbouring Redcar & Cleveland a 37% job loss over ten years was forecast (Middlesbrough - Best Value Inspection Service, Sept 2001: Redcar & Cleveland – Chief Executives Report to Mapping the Market Advisory Panel, June 2002). Thus any 'growth' will first have to replace these jobs in order to claim a genuine increase in employment.

### **Contact Centre**

The Centre in Bedfordshire went operational from August 2002 and went public in November that year which also commenced a second phase to increase capacity to 49 seats. The Centre provides front line services for council services including help desks for highways, trading standards, bus and public transport information. A number of services have been transferred to the Centre including Student Awards and Schools Transport.

*".....celebrated its first anniversary in June 2002, is delivering similar gains. Following our major investment of over £6million, which included establishing a new £1million contact centre and the introduction of new systems and processes, the council made savings of 10% in the first year which have been passed on to local people. A new 45-seat contact centre is the first of a two-phase implementation due to be completed early in 2003. The centre is a key element in Bedfordshire County Council's plan to meet the government's 2005 deadline for putting all services online for public access.*

*Dick Wilkinson, the authority's Chief Executive, says with more than 360,000 people living in Bedfordshire it is vitally important to use emerging technologies to understand their needs. The new contact centre will help the authority provide its communities with greater choice and more flexible and efficient services.*

*Technically innovative, the centre is designed to field calls automatically to the relevant department, route calls directly to the most qualified council staff member and to monitor calls so that agents can be allocated according to peak or off peak call frequencies. The installation is also enabling the County Council to expand its remote working capabilities to help support the role of supply teachers in the local community. Calls can come in at any time requesting a supply teacher for the next day, so easy access to up-to-date and accurate information is essential. The introduction of Internet Protocol (IP) means remote teachers can economically and securely log on to the council network from home and access information, like lesson plans, as if they were in the office. HBS's experience of introducing SAP technology to large and often complex organisations has been crucial, enabling Bedfordshire to provide stability, standardization and timeliness to essential back office services like financial account management, and to end duplication.*

*The result is a more effective service and greater customer satisfaction, and for the people who have to operate the systems internally, it has signaled the end of outdated, and often incompatible systems and processes, and the beginning of invaluable new learning experiences and opportunities. Dick Wilkinson says the difference between HBS and others who had bid to become the authority's partner was its ability to come forward with deliverable proposals. "HBS was prepared to go that extra mile in listening*

*to what we wanted and in trying to understand Bedfordshire. We felt confident that their proposals would actually deliver what we were trying to achieve for the region,"*

(HBS newsletter, 2003)

## **Integrated resource management system - SAP**

SAP is an integrated software system encompassing financial services, human resources and procurement information. The implementation of SAP was a fundamental part of the partnership contract.

It is important to set out the specific objectives of SAP:

*"To obtain a mutual benefit for both parties to replace existing systems that have suffered through under-investment, and are now inappropriate to current needs and labour intensive to operate.*

*To increase the operational effectiveness of all parties through the use of a new SAP system, giving visibility and control to key operations. This will allow concentration on core activity within a framework of efficient administrative control.*

*For HBS, to derive productivity gains and increased effectiveness of service delivery to BCC and to enable competitive advantage through:*

- *Lower cost transaction processing, resulting from process improvement.*
- *Rationalisation of multiple systems to a single common solution.*
- *Replacement of the existing system functionality without unnecessary overheads.*
- *Adopting best practice and procedures.*

*For the County Council to achieve:*

- *Financial control: complete visibility across the organisation of the financial status against plan in a single system.*

*Human resource management:*

- *devolved access to appropriate personnel and management data*
- *input of data direct into SAP reducing the need for paper forms*
- *removal of multiple paper trails through standard electronic workflows*
- *data to be entered, maintained and sourced in one corporate database*

*Procurement:*

- *a view of procurement activity across the organisation to highlight possible savings that can be made through increased use of cross organisational contracts*
- *the ability subsequently to monitor and actively manage procurement activities against these contracts such that the full buying power of the County Council can be leveraged to maximum advantage*

*General:*

- *improvements in efficiency across the organisation and enabling front line staff to concentrate on core activity*
- *a potential to reduce bureaucracy of non-value-added activity caused through inefficient processes*
- *supporting the measurement of key performance indicators."*

(Bedfordshire County Council SAP Project Initiation Document – Update 3, 01/05/2002)



The implementation of SAP had five stages:

1. Scoping Study (December 2001 – April 2002) which involved staff involved in workshops with consultants to discuss their requirements of the system.
2. Business Blueprint which drew up a specification detailing how the County Council will operate within the SAP system.
3. Realisation – SAP requirements translated into a working system supported by staff training which commenced January 2003.
4. Final preparation – testing of system and transition from old to new system.
5. Go live and support – commence operation of the system.

Several members of HBS staff told us that they considered the SAP system had been rushed in to meet the terms of the contract and to avoid HBS incurring financial penalties. Although the system is slowly being embedded there were initially a large number of problems, which affected service delivery. Many of these are still being ironed out and many problems remain.

HBS met the target date of April 1<sup>st</sup> for SAP going 'live'. The SPMB and Select Committees were regularly updated on SAP progress.

*“Select Committee was informed that the project (SAP) was on target.....Members were informed that SAP would be able to deal with the business requirements without significant problems”*

(Resource Stewardship Select Committee, Minutes of Meeting 11 September 2002).

Six months into implementation the story was somewhat different. A report to the Strategic Partnership Management Board in October 2003 included an update on the payment of invoices referring to the *“unacceptable level”* in the payment of invoices. The report stated that *“The first few months of go live saw the backlog in the payment of invoices increase to an acceptable level (around 10 – 12 days)”* which was reduced by the input of additional resources but had increased to 15 days when the report was written. The increase was due an *“...influx of invoices”* from schools on the return in September from the summer holiday. The causes were identified as *“non-compliance”* with the SAP purchase order process and the processing of orders in Exchequer Services, which resulted in incorrect input of invoices, delays in posting invoices, loss of discounts from suppliers, inaccurate commitment accounting with a consequential effect on the quality of budget forecasting. It also forecast *“...likely poor performance in the payment of invoices BVPI”*, which in fact plummeted 22 percentage points from 96% to 74% (SPMB, 15 October 2003).

Action to remedy this situation included the recruitment of four additional staff in Exchequer Services, immediate additional short-term support to reduce the backlog and continued training and information on SAP. This would indicate that Exchequer Services was understaffed before SAP went live.

We have gone into some detail to demonstrate that there was a clear and definite reduction in the quality of service. Yet KPI performance in May, September, October, November and December was 100%. **The dramatic fall in the BVPI and the deterioration in the quality of service was not reflected in the KPI scores nor were any financial deductions made.**

Implementation of SAP in the first few months was described as *“particularly acute”* with *“...geographical dispersion, allocation of licences, complex purchasing requirements (particularly in relation to commissioning of care)”* being part of the 'problem' together with SAP implementation (ibid). The risks of overspending and the need to ensure accurate budget monitoring and forecasting made it *“imperative”* that SAP be made to work effectively in Social Services.

Eight months after SAP went 'live' the County Council faced many serious problems in the implementation and embedding of SAP. A progress report from the SAP team to Resource Stewardship Select Committee in December 2003 identified the following:

- *Budget forecasting:* Business is unable to produce accurate forecast expenditure leading to uncertainty over expenditure strategy for the remainder of the year, managers unable to recognise budgets in SAP, non-pilot schools expressing concern, impact particularly acute in Social Services.
- *Late payment of invoices:* see above.
- *Mis-posting of Payroll information:* undermines accuracy of accounts through mis-posting.
- *Income not being posted to budgets:* budgets show income understated leading to indication of overspend.
- *Social Services not operating successfully with SAP:* lack of budgetary control and low confidence in SAP outputs.
- *Support infrastructure not operating sufficiently well:* lack of support for users experiencing difficulties.
- *SAP for schools pilot not progressing:* see below.

The Resource Stewardship Select Committee in December 2003 agreed to undertake a study of the implementation of SAP and established a Member Task Group of five members. County Council and HBS officers attended meetings. The study focused on the implementation of SAP, not its technical functionality. It included two case study investigations on the effects of SAP in non-pilot schools and the payment of foster carer allowances. The MTG consulted widely with SAP experts involved in implementation. The report was presented to the County Council on 23 September 2004.

The report makes it clear that there was a fundamental problem arising from the fact that the County Council had chosen SAP by selecting HBS as their partner. The fact that staff were not involved in selecting the system became a key factor.

The draft report makes a number of important conclusions:

*“The first major learning point would be that if the County Council wishes to enter into partnership agreements in future, they should not tie in the implementation of specific IT infrastructures to the agreement. It may have been preferable for all involved to agree the partner and then work in partnership to agree the best IT solution, however the urgency to update the IT infrastructure was the driving force behind the original decision.”*

**Business Processes:**

*“Ideally major systems should be installed in phases”.*

*“The objectives set at scoping stage were largely qualitative and reflected the objectives of the partnership of seeking improved support services. Although they may be achieved in the long term, there were no targets set within the project plan as to when the objectives may be achieved.”*

*“When using consultants to implement a large-scale system, they must have in-depth knowledge and understanding of the organisation and how it is affected by legislation and internal decision-making flows. This affected the implementation of SAP substantially”.*

*“The complexities of purchase ordering within Social Services were not fully appreciated.....Had experts been trained from within Social Services further in*

*advance of the system go-live, it may have been possible to address some of these issues earlier, preventing problems from arising in the first place.”*

**Change Management:**

*“Knowledge management plays an integral part in change within an organisation. Investing in knowledge management systems or approaches could have helped to understand the processes in place which would be affected by SAP and understanding how the organisation might react to change.”*

*“Despite there being concerns from staff, they must be commended on their resilience and ability to adapt to the new system. Although they may still be experiencing difficulties, staff have formed user groups and have founded their own communications channels and support networks. These channels could have been formed prior to go-live to assist those who were struggling, however it is encouraging to see that these are now being formally recognised.”*

*“It must be realised that it takes time to embed such a radically new system (although the system is used world-wide, it was 'radically new' in the context of the way in which the County Council had been working), and benefits do not arise until it is fully embedded. The project plan for the implementation of SAP appeared to end at go-live without much reference to post-go-live support from the consultants and continued management support from both County Council and HBS management. It was not made clear that once the system was implemented, the project was not ended, but that it was only a phase in the project. Communications, support and training became crucial post go-live.*

*“Although it was felt at the time that not enough discipline had been instilled within the organisation, measures to counteract change involving 'naming and shaming' were not handled appropriately.”*

**Training:**

*“The training that was provided did not fully meet the needs of all staff. Generic workshops held to introduce the package to users (and non-users) was useful, however training for the various roles was also quite generic. Staff felt that it would have been more beneficial to have had focused training, particularly in 'non-standard' areas such as Social Services. This is now being addressed by HBS and the County Council.”*

*“The training period of the project plan needed to allow for some members of staff to become 'experts' in the system before go-live.”*

*“Trainers need to have a good understanding of how the County Council functions. Recruiting trainers from within the authority was useful and could have been even better had the trainers been made aware of how specific processes would work in the non-standard areas.”*

**Other conclusions**

*“Where the County Council relies on other organisations or individuals to deliver core frontline services on its behalf (such as the payment of foster carers), it should ensure that it can pay for these services as a priority to prevent the service from being lost or reduced due to non-payment. Before the system went live it should have been a priority to establish that the most urgent payments could and would be paid on time.”*

*“More effort could be taken to ensure that when learning from other authorities, this is done in a robust manner and should include, wherever possible, examples from the family of authorities. It is accepted that because of the links that HBS have with Lincolnshire and that they had recently finished a SAP implementation, that this would play a predominant role in the authorities used as a benchmark. However, it is prudent*

*to ensure that more than one example pertinent to the technology being implemented is used to benchmark with before a decision is taken.”*

What the report does not say directly, but certainly implies, is that, despite all HBS's claims about their experience of SAP projects elsewhere, there appears to have been a major lack of awareness and understanding of the implications of the implementation of SAP in the County Council. There appears to be a lack of understanding about the needs and systems of the County Council and the cultural change required to move to an entirely new system. Of course any new system is going to produce teething problems and difficulties in managing the changes to working practices. However, the County Council could expect that a company to which it is paying £267m over 12 years and is implementing the same SAP system (in use worldwide) in two other local authorities, would have anticipated many of the problems encountered in Bedfordshire. Had the reverse been the case, then the 'failure' of Bedfordshire County Council would have been front-page news and the Council flooded with inspectors of one kind or another. The alternative is that the SAP system is not appropriate for a local authority providing a range of often complex services – several staff interviewed by the MTG clearly believe this to be the case.

## **SAP for schools**

A pilot project was set up in 2002 consisting of nine schools to assess and test the application of SAP for schools. The plan was to work with these schools until 1 April 2003 after which the programme would be widened to other schools. However, this strategy failed because of the problems of SAP implementation. Four schools withdrew from the pilot.

Elected Members were expressing their concern about schools in 2002. A Resource Stewardship Select Committee was told “...SAP would supplement, rather than replace, existing systems such as SIMS or Key Solutions. SAP would be available to schools, without obligation, at commercially attractive rates” (RSSC, 19 June 2002). The minutes of the Select Committee also refer to previous problems in accessing information about charges for the Music Service and “were pleased to learn that, through SAP, financial information would be readily available and considered that this would be available” (ibid). The Select Committee were informed in response to questions about the cost of SAP, that an improved support service was part of the partnership agreement with HBS and the onus was on them to ensure that they were available throughout the 12 year contract. The County Council would incur additional costs if it wanted additional functions included in SAP. “Members expressed the view that the system was financially orientated and may not extend to project plan management for example.” (ibid).

A SAP position statement to the Strategic Management Board in October 2003 reported that at the last review meeting held in September 2003 “...the schools clearly stated that at that stage they would not be prepared to recommend the SAP solution to other schools as they had no confidence in the use of the system or in the information it was providing” (Agenda Item 4, SPMB, 19 October 2003).

The same report stated that “HBS has prepared an evaluation report which concluded that it would **not be commercially viable** (our emphasis) for the solution to be rolled out to schools without an enhanced contribution from schools and/or the County Council” (ibid). In other words, HBS were demanding additional payment to make SAP available to schools.

At the December 2003 SPMB meeting the Board stated that the “...successful embedding of SAP was essential to the Partnership” (SPMB report to Executive 26 January 2004). It was recognised that implementation problems were part system and part cultural. The Board was assured that a vigorous programme of action to promote compliance was underway. An update on the implementation of SAP in schools was requested for the next meeting. A report

on the implementation of SAP to the Resource Stewardship Select Committee in the same month stated “BCC to review the contractual position” (RSSC 10 December 2003).

HBS reported to the SPMB meeting in April 2004 that they “understand BCC’s disappointment in the failure of the SAP for schools pilot and are continuing to develop the product for use by schools in the background, approaching schools only on a consultative level.....HBS has not lost sight of the original objective of having a single integrated system throughout Bedfordshire” (SPMB report to Executive 19 July 2004). The Board agreed to HBS extending the pilot together with a full analysis of costs and benefits.

## **District Auditor’s Audit and Inspection Letter – strong criticism of the effects of SAP**

Each year the District Auditor issues a report for elected members which summarises the conclusions and significant specific issues which arose during the annual audit and inspection programme, as required by the Local Government Act 1999. The Audit and Inspection Letter for 2002/03, issued in February 2004, makes specific comments on the council’s systems of internal financial control. It is also significant that the report was issued some ten months after the implementation of SAP.

*“Over the past year the council has been implementing a fundamental reorganisation of its internal processes, including the introduction from April 2003 of SAP, a new integrated resource management and reporting system. The implementation phase of this project has been more difficult than initially forecast and a number of key aspects of good internal financial control have lapsed. Some of the key weaknesses are:*

- *inability to provide accurate budget monitoring information in certain key service areas.*
- *Failure to complete proper bank reconciliations.*
- *Inability to develop a robust interface between the payroll and general ledger systems.*

*Internal Audit remains a cornerstone of the internal finance control framework. Whilst we have satisfied ourselves that Internal Audit continues to provide a high quality service and that we can place reliance on its work where appropriate, the current position is such that Internal Audit is finding it difficult to form a view as to the effectiveness of key financial systems.*

*The council has recognised the urgency of the above situation and has put in place several projects to address the shortcomings” (Audit Commission, 2004).*

The need to “...restore robust budget monitoring systems” is also discussed in relation to the council’s ability to manage its budget. Interestingly, there is no mention of HBS in the report. In effect the client (Bedfordshire County Council) gets the blame whilst the contractor (HBS) avoids criticism and protects its commercial reputation.

### **‘Strategic partnership is not delivering improvement in services’**

That is the conclusion of the Annual Audit and Inspection Letter 2004 drawing on a Audit Commission review of the strategic partnership in spring 2004 (Audit Commission, 2005). The Annual Audit and Inspection Letter made a number of comments::

**“We found that whilst key performance indicators were being met in accordance with the partnership contract, relationships were strained, accountabilities blurred and resources on both sides of the partnership were over stretched”**

**“Overall, the partnership was not delivering improvements in services and increases in capacity originally envisaged: key factors contributing to the position were:**

- **lack of vision and strategic direction for the partnership beyond its initial three years;**
- **lack of focus on service improvement;**
- **key personnel changes within HBS impacting upon the management input required to run the partnership;**
- **poor contract management arrangements and**
- **implementation of the new main accounting system (SAP) absorbing considerable and unexpected levels of resources on both sides of the partnership.”** (Audit Commission, 200, our emphasis)

It is clear that there is an accumulation of evidence from different sources which demonstrates that the strategic partnership is not delivering the original objectives and key deliverables as required by the partnership contract.

### **Failure to publish Council Accounts**

The Council failed to publish its 2003/04 statement of accounts by 30 November 2004 as required by the Accounts and Audit Regulations 2003. The District Auditor had issued a Section 11 Notice under the Audit Commission Act 1998 requiring the council to produce an acceptable action plan to enable the accounts to be completed and verified. The Council's Executive had a presentation from the District Auditor on 31 January 2005 outlining the problem. The minutes include the following statement:

*“Action must be taken to restore financial management and control. However, there were barriers to achieving this aim. The extent and nature of the problems were not currently clearly understood by the Council but included problems arising from the arrangements with HBS, weaknesses in financial systems; and the audit of the 2003/04 accounts”* (Executive Minutes, 31 January 2005).

The strategic partnership with HBS is again at the centre of Council performance.

### **Improved accommodation**

Investment of £6.9m for the improvement of County Hall has been regularly cited as one of the key deliverables and a contract requirement. However, this is not the case. Elected Members on the Resource Stewardship Select Committee (11 September 2002) were informed by the then chief executive (who was previously the SSP project manager) *“...the deal with HBS was not a contractual agreement that committed either HBS or the County Council to a particular route. The deal with HBS set the framework to take forward the issue of accommodation.”*

The *“broad agreement”* with HBS required them to assess the suitability of continuing to use County Hall for both County Council and HBS accommodation requirements. Time limits were placed on the preparatory work and contingency arrangements included if agreement was not reached. The council feared that County Hall could be ‘half-empty’ if HBS chose an alternative location. Members were informed that *“current accommodation costs were not included in the unitary charge to HBS”*, in other words HBS had rent free accommodation. Any new proposal would require the County Council to meet the accommodation costs of transferred (HBS) and County Council staff although HBS would pay the market value of accommodation for the Regional Business Centre and staff not engaged on County Council work.

Refurbishment of County Hall was estimated to cost between £15m-£20m with HBS to raise £7m of the capital required with the remainder being raised through PFI. However the PFI route was no longer an option due to changing government priorities and the County Council were examining whether *“HBS will provide a greater proportion of capital to take the project forward”* (ibid).

HBS appointed consultants to investigate all the accommodation options and the SPMB were promised an “*evaluation report in the new year*” (SPMB report to Executive, 28 January 2002). Little has been reported on the County Hall accommodation issues since later 2001. It is interesting to note that the Annual Report of the Select Committee Chairpersons to the County Council for 2001/02 includes a statement from the Resource Stewardship Select Committee that periodically revisited the Strategic Partnership to ensure that accommodation and electronic service delivery were delivered and had received updates in July 2001, December 2001 and February 2002 but only in relation to SAP.

The options appraisal was still ongoing at the time of the SPMB meeting in April 2002. This meeting agreed that it might be necessary to convene an extraordinary meeting of the board at a future date.

A Member/Officer Board investigated various option in 2003/04 and finally reported in October 2004 that they had decided to prioritise Council resources towards improving services and rebuilding public credibility following the poor results in the customer satisfaction survey. Quite where this leaves HBS’s commitment to a £6.9m investment in County Hall is uncertain.

## Services to schools

According to HBS, 98% schools buy back the HR service (SPMB Agenda item 8, October 2003). However, further analysis reveals that this is only a headline figure masking:

- increasing dissatisfaction of schools because of declining quality of service: Between 1992 and 2003 the service was highly regarded by schools and OFSTED with less than a handful of formal complaints in the 9-year period. Since September 2003 there have been at least 15 formal complaints and Head Teachers set up a Working Party to examine how the service could be improved.

Despite the 98% schools buy back they no longer buy all the HR services. The level of buy back has been very high since at least the early 1990s when they used the full range of HR services to schools. This is no longer the case. Schools will usually buy back contracts for staff, payroll and advice on terms and conditions but advertising and recruitment, appointment of Head Teachers and newly qualified staff will often be done by the school.

### **Interview comments**

*“Services to schools, with HR as the ‘jewel in the crown’, received praise from OFSTED inspectors in 2002 but this will not be the case the next time. HBS are fritting away a good quality service because they cannot make money out of it.”*

*“Complaints from Head Teachers have soared since in the last year compared to only a handful of complaints in the last decade.”*

*“HR services to schools was the jewel in the crown – it was highly rated by Head teachers and by OFSTED but not any longer, thanks to HBS.”*

HBS staff



## Review of training facilities and the proposed National Education Centre of Excellence

The proposed National Education Centre of Excellence has yet to be established despite frequent HBS undertakings that it will be delivered. E&DS prepared a business plan for an Education Centre of Excellence for the HBS Executive in October 2002 (Minutes of Strategic Partnership Steering Group, 18 October 2002). Accommodation was reported to be essential and HBS were awaiting the outcome of the consultation on Maryland. The minutes report that *".....recruitment to the technical team has already taken place and services are being delivered already in Luton and soon in Cambridgeshire. Once the business plan is finalised more information will be made available. HBS FM (formerly Servus FM) have a national presence and schools PFI experience."*

HBS confirmed to the SPMB July 2002 meeting that a business plan was being prepared for the National Education Centre and they would be seeking input from the County Council. *"The business plan will aim to provide resolution to all the detailed points in the partnership contract in terms of expectations and aspirations for a national education centre"* (SPMB report to Executive 2 September 2002).

By October 2002 a business plan for a national centre for educational excellence had been prepared for the HBS Board. A Note of the Strategic Partnership Steering Group on 18 October 2002 stated that accommodation for the centre was a problem and HBS were awaiting the outcome of the future of Maryland. It also stated that *"recruitment to the technical team has already taken place and services are being delivered already in Luton and soon in Cambridgeshire."*

The SPMB meeting in April 2003 had another presentation and update on the National Centre. HBS were reported to undertaking an *"internal review of the various options open to them and used the session to commence consultation with the board on these options. It was agreed that there needed to be more focused and detailed discussions and that these to be actioned and a report to be presented to the next board meeting in July"* (SPMB, report to Executive 28 April 2004). But the July meeting received only another update on the review which stated that *"nationally this sector was facing difficult trading conditions"* (SPMB report to Executive, 8 September 2003).

Six months later an HBS review of the Education and Development Services (E&DS) was prompted by a *"downturn in performance for the E&DS business"* which necessitated a *"restructuring of the organisation"* (HBS, 2003). This had been completed by October 2003 but *"further work is required to stabilise the operational management of the business" and "the concept of the National Education Business needs to be revisited"*.

*"Poor financial performance against targets" in the first half of 2003 led to "the need for a reduction in costs"*. The review identified a number of factors which had affected the service:

- The National Agenda has changed the face of Education and this has impacted on the financial performance of the E&DS business;
- There has been a significant reduction in buyback in Covercard and CPD.
- There has been a significant reduction in buyback of consultancy services.
- Adult Education has a substantially reduced number of viable courses.
- Luton continued their reduction in buyback, due to locally funded delivery teams and contracts.
- Increase in inadvertent competition from Bedfordshire County Council.

The first phase of the review led to recommendations which were implemented *"without detriments to school service delivery"*. They included terminating third party supply



agreements, streamlining administrative support, the termination of some temporary staff contracts, reallocating commercial staff to other parts of HBS and ceasing certain functions such as residential adult education provision. A second phase included changes to administration practice and a complete review of accommodation requirements. A third phase of the review is expected to examine the strategic positioning of the National Education Business, a “*commercial review of the Education components of the Strategic Partnership*” and an examination of “the potential to create a Bedfordshire based ‘Community Learning and Skills Centre’.

The SPMB meeting in December 2003 received an update on the National Centre but the minutes only refer to “*HBS and BCC working closely to agree an action plan to define and develop a National Education Business based within the County with strategic positioning for a Centre of Excellence*” (SPMB, report to Executive, 26 January 2004).

A joint report from HBS and the Director of Learning was submitted to the April 2004 SPMB meeting. “*The Education Business has been refocused to meet the need for school improvement*” (SPMB report to Executive, 19 July 2004). The minutes refer to the ‘freeing’ of the Russell House site and relocation to Kingsland in October 2004. No mention was made of the National Centre.

HBS appears to be using delaying tactics with respect to the National Centre in the hope that the County Council will reduce its interest or that conditions will prevail which will clarify the viability of the centre one way or the other.

### Closure of Maryland College

HBS reported to the SPMB December 2003 meeting that the closure of Maryland had been completed and staff relocated to Russell House. But the original plan was to retain and invest in Maryland to create “*modern training facilities*”. HBS evidently initially thought that Maryland was an asset, which could be transformed into a national conference centre. So how did training provision undertake a complete policy reversal and where are the modern training facilities?

The contractual arrangements with HBS were for 18 months ending in December 2002 during which time options for the future of the college would be examined. The County Council launched a public consultation on the future of the college.

In June 2002 an HBS review of training and personal development for BCC retained staff had concluded that the College should be closed, should relocate the adult education programme and should find alternative venues for the council’s continuous professional development programme.

The college closed on the 31 March 2003. The minutes of the April 2003 SPMB meeting noted that “*...adult education courses had been adversely affected by the closure of Maryland*” and that discussions were underway to examine the way forward (SPMB report to Executive, 28 April 2003).

### ICT investment

HBS are committed to a 4-year rolling PC refresh programme. The 2002/03 refresh programme of 417 replacements was amended to take account of SAP requirements. By January 2003 it transpired that some 600 SAP users required a higher specification computer, of whom two thirds would need new PCs and the remainder an upgrade. This led to a new refresh programme to meet the April SAP launch date but meant that non-SAP users would have to wait longer for a PC refresh.

## Financial savings

The contract and payment mechanism is based on a Unitary Charge which takes account of the cost of the services provided by HBS and anticipated savings. The reduction of the annual cost of current services by £10.8m (Net Present Value) over 10 years including 2% efficiency savings (Audit Commission inspection report, 2001). The cost of the services in 2000/01 was £19.8m.

However, the County Council has substantial additional costs, for example, the implementation of SAP and additional work, which the County Council has commissioned from HBS, which requires additional payment. HBS bore the capital cost of SAP and this is included in the Unitary Charge but the County Council had a £300,000 budget provision in 2002/03 for the payment of staff seconded to the project. Further additional costs were expected from in staff time supporting its implementation (Resource Stewardship Select Committee minutes of meeting 13 February 2002). The minutes note that the “...savings generated by the implementation of SAP were reflected in the unitary charge, which took account of HBS’s investment costs”, in other words the savings were already accounted for although additional savings may be possible if the full capabilities of SAP were utilised by County Council staff. This has not been achieved with the failure to implement SAP in schools.

At various stages the County Council has commissioned HBS to carry out additional work at additional cost. For example, after SAP went ‘live’ in 2003 it commissioned HBS to identify where improvements and savings could be achieved in:

- the Performance Management Unit and the Information and Research Unit
- Improving children’s foster care arrangements
- Homecare services in Adult Services
- An analysis of 115 databases in Social Services

This cost the County Council an extra £95,000 above the unitary charge. Potential savings of up to £617,000 and £976,000 were identified for 2004/05 and 2005/06 respectively (Minutes, Resource Stewardship Select Committee, 12 November 2003).

There are many key financial questions which need to be answered:

- Have the annual savings of nearly £1m been achieved?
- How much has Bedfordshire County Council spent annually on managing and supporting the SSP?
- What is the annual level of expenditure on new projects and additional BCC work undertaken by HBS?

## HBS Scorecard

HBS's overall performance is summarised in the following Scorecard.

Table 14: HBS Scorecard

Key Deliverables	SCORE
Best Value	Performance went down on four Best Value Corporate Health indicators
Front line services first	Quality of service declined (BVPIs)
A new partnership	New partnership created but whether it works and is necessary is questionable.
A Regional Business Centre	No evidence of centre and no reporting of new contracts or jobs.
A customer contact centre	Opened and operational
Improved accommodation	Promised £7m investment only part spent on the Contact Centre and HBS offices on the 6 <sup>th</sup> floor.
Improved training provision	Maryland College closed
Financial savings	Council has incurred substantial additional costs for HBS partnership and unclear whether original savings target has been met.
Quality and competitive support services for schools	Quality of schools support services in decline. National Centre of Excellence delayed and may never be established. Failure of SAP pilot for schools.
Corporate issues	<p><b>"The strategic partnership is not delivering improvement in services"</b> Annual Audit and Inspection Letter, District Audit, January 2005.</p> <p><b>Failure to publish Council 2003/04 Accounts on time partly blamed on arrangements with HBS.</b></p> <p><b>"The Council has not yet been able to gain capacity from its strategic partnership"</b> Comprehensive Performance Assessment, 2004, Audit Commission,</p>

Source: Centre for Public Services, 2005.

## Part 4

# Other deliverables, accountability and employment

### Democratic accountability

Strategic Partnerships established in context of Cabinet system of governance only serve to further marginalise elected members from power and influence in local government decision making. The County Council created a structure with a Strategic Partnership Management Board (SPMB) with 7 representatives from the County Council (Leader and 4 other members, the Chief Executive and the Director of Operations) plus 5 senior managers/directors from HBS. The Strategic Partnership Management Board (SPMB) first met in July 2001 and held monthly meetings for the rest of the year moving to a quarterly basis thereafter. Pre-meetings are held with trade unions at which agenda items are discussed and reports made available.

The Scrutiny Select Committee discussed the “perceived secrecy” of Strategic Partnership Management Board meetings in November 2003. This issue had arisen at previous meetings of the Committee. One Elected Member stated “the secrecy appeared arbitrary, unjustified by commercial considerations over most of the Board’s discussions and profoundly detrimental to the public interest” (Scrutiny Select Committee, 24 November 2003). Another Member noted that SPMB agendas rarely, if ever, contained written reports, which added to the perception of secrecy. Minutes of Board meetings were “wholly unsatisfactory”. The chief executive “explained that papers considered at meetings of the board were private and confidential but that the reports of Board meetings which were presented to the Executive were considered in public” (Ibid). The Labour Group leader called for the Board to be representative of all three political parties.

#### Interviews

*“Most Elected Members are locked-out of the partnership. They know little about it.”*

*“HBS has lost its public sector roots. It is increasingly ruled by financial investors and the profit motive. A public service ethos has gone.”*

### Recognition of changed relationships

There are some key aspects of an SSP which impose fundamental changes in the relationships in a public organisation, which were not fully considered or taken into account in the project design and/or procurement process. Firstly, an SSP changes the relationship between Elected Members (including between Executive and backbench members), staff, trade unions and a contractor and their consultants. Secondly, an SSP or partnership contract creates different relationships compared with a ‘traditional’ contract. Both make relationships more complex, require two organisations with different values systems to work together, and create the conditions where conflicts may arise between public and private interest.

Table 15: Structural changes in relationships

Changing relationships between participants	Operational differences which are particularly evident in partnership contracts
Between County Council and contractor, HBS both in terms of the contract/agreement and in terms of new projects and possibly bidding for retendered contracts.	Joint decision-making process between County Council and private firm.
Between Elected Members, chief executive and HBS directors/senior management.	Dual workforce with different employment practices and career structures.
Between ex County Council staff and the new private sector employer.	County Council accountable to Bedfordshire public and ultimately accountable for the services delivered by HBS. HBS accountable to Terra Firma Capital Partners who invested in HBS for a financial return.
Between retained and transferred staff.	Differences in transparency – County Council more open, HBS close and privatized (including employment matters such as staffing levels, salaries).
Between trade unions and HBS.	Differences in values – County Council operating with public service ethos, HBS has commercial values which are more evident when working jointly on a large project covering a wide range of services and functions.
Between County Council and other partnerships and contracts because HBS is responsible for monitoring.	Partnership contractor can propose and undertake additional work – acting as internal consultant, and in advantageous position in bidding for new or retendered work.
Between the County Council and consultants directly employed and accountable to partnership contractor.	

Source: Centre for Public Services, 2005.

Some of the differences and problems have been tackled by the County Council and HBS in the course of the partnership since June 2001, for example, developing a working relationship in the SPMB. Some remain to be resolved such as the relationship between HBS and the trade unions, the dual workforce and the structural position of HBS within the council regarding the commissioning of new work and the retendering of contracts. The differences in values, interests and accountability cannot be eliminated, only ameliorated.

## Employment

### Interviews

*“HBS want transferred staff to leave so that they can employ new people at lower rates – up to £4,000 less than council rates. In other cases, experienced staff leave and the work has to taken on by the remaining staff.”*

*“HBS want staff to be flexible but they are far from flexible themselves.”*

The partnership contract was signed in June 2001 and was thus not covered by the Best Value Code of Practice on Workforce Matters in Local Authority Contracts which came into effect from March 2003. The project did not have the resources to survey staff about their terms and conditions but it is clear from the interviews that a two-tier workforce is operating in Bedfordshire. There are clearly some wide differentials between transferred staff and new starters employed by HBS doing basically the same job but on significantly different terms and conditions.

**Interviews**

*“There are staff working next to each other in the Contact Centre doing the same job, taking the same type of calls but with huge differences in their wages amounting to several thousand pounds.”*

*“Experienced staff have left but HBS try to replace them with clerical admin staff on much lower wages”*

**Consultation with staff and trade unions**

The lack of consultation by HBS management with staff was mentioned by interviewees. Staff reported that it wasn't a question of poor quality consultation but none at all. They were frequently told about changes at the last minute and even when given more notice the concept of consultation with staff appeared not to be part of management practice. One trade union official described HBS consultation as “dire”, all the more so since HBS claims to be a ‘people-based company’.

**Trade union recognition**

HBS have no recognition agreements with any local government trade unions. Bedfordshire UNISON has had meetings with UNISON national officers with HBS to discuss a national recognition agreement but these talks have been stalled for the last two years. The NUT and NASUWT had a meeting with Caroline Roberts, HBS HR Director to discuss a recognition agreement at NASUWT national office in April 2003. The trade unions wrote a letter outlining their understanding about what had been agreed but have never had a reply from HBS. The trade unions were always careful to make it clear that negotiation of a local recognition agreement would not imply national agreement status.

Trade union officials reported that ‘negotiation’ was not a term recognised by HBS management, they only believed in consultation.

The lack of progress in trade union recognition agreements at local and national levels indicates a deep seated opposition to trade unions with HBS doing the minimum necessary in order to win contracts. HBS staff interviewees and trade union officials believe this is not simply a local problem or one caused by the recruitment of new HBS staff with anti-union attitudes but within the organisational culture of HBS established at the corporate centre. Whether the recent reorganisation bringing in a new chief executive will make any difference remains to be seen.

**Comparison with HBS contracts in Lincolnshire and Middlesbrough**

Two of the key issues to arise in the evaluation of HBS performance in Bedfordshire, consultation and the quality of training, have also been key issues in HBS's two other strategic partnership contracts in Lincolnshire and Middlesbrough. Table 17 summarises some of the main findings. In both cases the response to questions about whether staff were consulted

about the reorganisation of their department (only 37.3% and 40.9% said yes in Middlesbrough and Lincolnshire respectively) and the introduction of new working practices (only 21.6% and 34% said yes in Middlesbrough and Lincolnshire respectively) mirrored the strength of comments from staff and trade union representatives interviewed in Bedfordshire.

This appears at odds with the claims on HBS’s website that “HBS is our people”.

UNISON members employed by HBS strategic partnerships with Lincolnshire County Council and Middlesbrough Council were surveyed in 2002/03 by the Centre for Public Services as part of a national UNISON project on strategic partnerships. The surveys were distributed by UNISON, in the case of Middlesbrough mailed to member’s home address and distributed at the workplace in Lincolnshire. The Lincolnshire survey was based on 159 respondents, 13.5% of the 1,088 HBS workforce in finance, ICT, property, personnel and catering. The Middlesbrough survey was based on 47 staff, representing 17% of the UNISON membership in the 1,045 staff transferred to HBS in a similar range of services.

**Table 16: Summary of Middlesbrough and Lincolnshire HBS staff views**

Question	Middlesbrough	Lincolnshire
<b>Consultation:</b> Consulted about reorganisation of department?		
Yes	37.3	40.9
No	58.8	49.1
Consulted about new working practices after transfer?		
Yes	21.6	34.0
No	70.6	56.0
<b>Job satisfaction:</b> Less, the same or more satisfied with your job compared with the council?		
More	8.3	8.5
Less	14.6	34.9
Same	77.1	54.3
<b>Job security: Transferred staff - Is your job more, the same or less secure?</b>		
More	4.1	4.7
Same	14.3	41.1
Less	81.6	52.7
<b>Training and career development:</b> Do you feel you have had adequate training from HBS?		
Yes	27.5	32.1
No	58.8	62.2
Do you feel the training was better, the same or worse than that provided by the local authority?		
Better	10.7	10.1
Same	57.1	50.4
Worse	32.1	18.6
<b>Service quality:</b> Is the service offered by HBS better, the same or worse than that provided by the council?		
Better	6.3	17.2
Same	12.5	28.9
Worse	81.3	50.0

### Partnership and contract monitoring

HBS has expressed interest in bidding for property services and payroll when the BCC contracts are retendered in 2005. The client functions have or will be returned to the County Council in order to prevent HBS having a privileged position which could otherwise jeopardise the procurement process and limit the number of bidders.



## Additional work undertaken by HBS

HBS have been commissioned to carry out additional work for the County Council as part of the partnership arrangements. Although this report makes reference to a few examples of the cost of additional work, there appears to be no logging of this information. SPMB reports to the Executive neither indicate the extent of this additional work, the cost nor the outcomes.

In addition to the £300,000 additional SAP work, HBS produced a project proposal for a review of existing partnerships and contracts in November 2001 at a cost of £26,400. The management of the partnership contracts was transferred to HBS at the start of the contract in June 2001. A year earlier, consultants PricewaterhouseCoopers had also carried out a study on contract management for the County Council. We have been unable to determine whether the HBS study went ahead and what the findings and recommendations were.

## Partnership Development Action Plan

The revised Partnership Development Action Plans were approved by the Board in April 2004 and they also agreed to revise the Partnership Principles. "Members of the Board conveyed their disappointment that there were not more ideas coming from HBS." Members thought this may be due in part to the Council's tight budget situation but confirmed that it welcomed new ideas.

## Scrutiny

The Resource and Stewardship Select Committee work programme for 2004/05 includes the SAP implementation study, monitoring the HBS partnership, and continuing to assess accommodation needs.

Whilst particular aspects of the strategic partnership with HBS have been examined, there has been no comprehensive scrutiny of the performance of the contract as a whole. Now in its fourth year, and the failure on key deliverables, it would seem an opportune time for a comprehensive and rigorous evaluation of the HBS contract.

## The ODPM/Strategic Partnering Taskforce Bedfordshire case study

The case study listed eight achievements but three of these are clearly not achievements. The contract had already been running for 15 months when the case study was published.

*"HBS have established an operating base at Bedford"* – is hardly an achievement given they transferred 500 staff, operate from County Hall in Bedford and received £25m per annum in the process. The list also includes agreeing a *"robust framework of KPIs .....linked to payment mechanism"* which is an essential part of the procurement process and can hardly be claimed as an achievement by the contractor. *"There is a long term expectation that third party revenue will be generated by the Regional Business Centre and this will benefit both partners"* is stated as another 'achievement' – but how can an expectation be judged an achievement.

This report clearly demonstrates that the KPI framework is significantly less than 'robust' and there is no evidence that the Regional Business Centre has increased jobs or revenue (particularly for the County Council).

Another achievement was the extensive refurbishment programme for all PCs, networks and e-mail and *"about to start"* – in other words non-completed contract requirements are termed achievements.

The remaining achievements cover *"...a new business vision for back office services.....now being designed"*, £700,000 per annum efficiency savings, the completion of service reviews on training, admin support, social services systems and contract management and that the County Council had begun to take a more strategic view of its role as community leader (this was being more widely promoted in local government generally).

One of the ODPM Strategic Partnering Taskforce review findings concerned “...*managing the risks to the Partnership’s credibility of the potential delay or even failure to deliver fundamental issues such as the accommodation improvements, the Education Centre of Excellence and the HBS Regional Business Centre*”. The reality, in the fourth year of the contract, that all three have yet to be delivered. Whether there are further delays which turn into complete failure later in the contract remains to be seen. The continued delays on the National Centre for Educational Excellence do not instil confidence.

### **Statements about SSPs**

A number of claims have been made for strategic service-delivery partnerships.

Public Private Partnerships “*may eventually amount to the end of outsourcing in the traditional sense*” claimed the LGC Public Sector Market Intelligence Report (LGC, 2001).

“*Many private sector organisations have reported the view that local authorities are not necessarily open and honest in their approach, particularly on staffing matters*” claimed the Strategic Partnering Taskforce (ODPM, 2003).

*“there are fewer ‘big bang’ partnering opportunities cropping up within the market, and more ‘incremental’ partnerships that start small in scope but are capable of extension to new areas and functions as the situation evolves and the relationship matures” (ODPM, 2003). “The contracts that HBS has signed with Lincolnshire County Council, Bedfordshire County Council and Middlesbrough Council have brought benefits in excess of £100 million, along with a performance regime and culture where achievement of defined targets is highly visible to the public servants” (HBS Evidence to House of Commons Select Committee on Public Administration, 2003).*

### **HBS practice in Bedfordshire**

Evidence from reports and interviews with staff indicate that HBS has adopted the following practices in Bedfordshire:

- Not replacing staff who leave or retire for several months which puts remaining staff under pressure but saves HBS money. Examples were given to us of HBS deliberately waiting up to 8 months to fill a vacant post in a service not being reviewed or restructured.
- Increasing the responsibilities of teams, which increases workloads but in many cases means they are no longer providing a dedicated service. This inevitably leads to a reduction in service quality, particularly if the service was under-resourced before transfer.
- Focus on ‘good practice’ for the council but not for the staff.
- Minimum level consultation with staff on ‘need to know’ basis.
- Communication – to trumpet HBS success such as new contracts or hitting KPI targets but very poor at communicating with staff about other matters. HBS Intranet at Bedfordshire has very limited information.
- Failure to recognise trade unions.

### **An alternative approach**

HBS now place more emphasis on winning smaller contracts, such as revenues and benefits, and then ‘growing the business’ by adding additional services by stealth, otherwise known as ‘incremental strategic partnering’ by the Strategic Partnering Taskforce (ODPM, 2004). The initial enthusiasm for the substantial, long-term, multi-service strategic partnership contracts based on a ‘big-bang’ approach appears to be waning. Of course neither the government, the

business lobby, contractors nor local authorities with SSPs will never admit to this change of heart or that there are fundamental flaws with SSPs.

The Taskforce promote incremental strategic partnering in its final report and produced a technical paper outlining this option and the legal issues. An incremental strategic partnership “involves working with a strategic partner or partners but without, initially, a long-term commitment to a partnership covering arrange of core activities” (Technical Note No 9). “In the right circumstances incremental partnering secures many of the advantages of SSPs without the same degree of risk and process costs” (Taskforce report, 2004). Authorities have the option of different contract models for incremental strategic partnering:

- A single contract model, divided into different phases with the commissioning of each phase dependent on meeting performance and other pre-conditions.
- A Framework Agreement between one of more contractors with a pricing schedule but no fixed scope of work – these are ‘drawn down’ as and when required.
- A Multi-contract model allows an authority to award a series of different contracts at different times to one or more partners.

The Technical paper also acknowledges that an authority could operate a separate tendering exercise for each package of services as an when required. This is the approach which the UNISON Bedfordshire branch and the Centre for Public Services recommended that the County Council should take during the SSP procurement process (UNISON, 2000).

The UNISON report recommended:

*“A. The Council acquires new ICT hardware, software and the required level of expertise and training for the use of the equipment and application of software from the private sector. ....This is a viable, practical and cost effective method of improving quality and access, maintaining continuity of service and minimising disruption and insecurity.....*

*B. A step-by-step qualitative implementation of ICT should be planned learning the lessons from each phase and permitting genuine consultation with trade unions, user and community organisations.*

*C. Staff remain employees of the County Council and the transitions to new systems are negotiated with the trade unions and service users.*

*D. This strategy has significant advantages because it:*

*\* affords maximum protection for the quality of service whilst new systems are introduced and to maximise the potential for service innovation;*

*\* minimises risk by dividing projects into sections that can be delivered and managed independently.*

*\* maximises County Council control, co-ordination and ability to respond flexibly;*

*\* maximises responsiveness to community needs;*

*\* maximises the opportunity for the County Council to implement its corporate policies;*

*\* gives staff greater security and enables the County Council to be a quality employer;*

*\* provides for trade union co-operation to make changes required to improve services to the community;*

*\* maximises potential for continuous improvement both in the quality of services and the quality of staff providing services.” (UNISON, 2000)*

## Part 5

# Strategies and recommendations

### The strategic partnership decision

The council leader in 2000, the late Phillip Hendry, is reported to have told trade union representatives that the council had decided to outsource services via a strategic partnership and the only issue was 'which contractor'. This dogmatic approach is opposite to the one adopted by another Conservative controlled county council, Kent, which decided not to proceed with a strategic partnership following preferred bidder negotiations with HBS.

### Trade unions accurate prediction of future problems

During the procurement process the County Human Resource Officer undertook to provide Elected Members with feedback from trade unions and employee group representatives on their views. The letter referred to the Employment Charter providing reassurance with the proposed TUPE transfer of staff but stressed that this document needed to be further developed to maintain employee confidence in their future employment arrangements (Letter from County Human Resource Officer to Members, 12 December 2000).

Significantly, the letter stated that staff were anxious to discuss detailed service delivery plans and were concerned about:

- "HBS's ability to bring new work into the Regional Business centre and secure long term employment for all transferring employees.
- The limited 'track record' of the integrated computerised resource management information system (SAP) that is the cornerstone of HBS's proposals.
- HBS's ability to hold schools' confidence and maintain/increase school service buy back.
- The need for the County Council and HBS to determine future arrangements and allocation of responsibility in the 'Contracts and Facilities Management' service" (ibid).

So Elected Members were made aware of trade union and staff concerns and **it is precisely these issues which are now at the centre of the assessment of HBS's performance.**

### Reasons underpinning the decline of confidence in HBS

The analysis of the SPMB and Select Committee reports, combined with the performance evidence and comments made in the semi-structured interviews, indicates that there has been a loss of confidence in the strategic partnership with HBS. This is because of the following:

- change in leadership of council (council leader at time of partnership approval sadly died in 2003 and the project manager who became chief executive, retired in 2004)
- lack of evidence of transformation
- lack of confidence in HBS methodology and approach particularly over SAP
- failure to engage and involve staff, a majority of whom supported the HBS bid and were willing to give another approach and the private sector an opportunity.
- changes in HBS strategy – the plan for 10 regional business centres, then 3, then the switch to Agile and national business streams.
- failure to deliver regional business centre and additional jobs
- performance less than convincing

- HBS employment and human resource policies, particularly the two-tier workforce, resulting in the replacement of existing staff or new jobs on much lower salary levels.

The combination of these factors amounts to a significant change of opinion and lack of confidence in the partnership to achieve the key deliverables as agreed at the start of the contract in June 2001, which were also the basis on which HBS bid and were awarded the contract..

SSP projects are structured so that investment and change are normally concentrated in the early part of the contract. Companies are 'compensated' by being able to make higher levels of profit in the later years of the contract. With some significant investment commitments yet to be fulfilled in Bedfordshire, for example the £7m for improved accommodation plus the establishment of the National Centre for Educational Excellence, the County Council will need to be very vigilant to ensure that investment is made and that excessive profits are not made.

### **Failure to negotiate national agreement with UNISON**

HBS has failed to mainstream consultation and develop a positive attitude to working with trade unions. This has extended from headquarters to local managers.

This has been exacerbated by HBS employing some managers who do not have a public sector and/or trade union ethos. There does not appear to be an ethos in HBS which says that 'we must consult with the trade unions' – instead the attitude appears to be 'just do it and see if we can get away with it'. Managers appear not to want to recognise the rights and power of trade union representation as an integral part of public management practice.

HBS has favoured having a Works Councils and staff representatives. A Works Council was established in Middlesbrough in part because UNISON is a minority union representing only about a third of staff with TGWU representing the majority. In addition, there was a lack of council wide JCC structures and New Labour chief executive who supported the HBS proposal.

### **Recommendations**

- The partnership contract with HBS should be terminated and the County Council should adopt a more incremental approach to the implementation of information technology systems based on full testing before implementation and using best-in-class suppliers.
- In the interim period HBS should:
  - negotiate a recognition agreement locally and nationally with Unison.
  - eliminate the two-tier workforce with HBS agreeing to voluntarily abide by the Best Value Code of Practice on Workforce Matters.
  - agree to full participation and consultation with staff, UNISON and other trade unions.
- The Resource Stewardship and Scrutiny Select Committees should carry out a full and comprehensive evaluation of the performance of the contract, examining HBS and County Council responsibilities, as the basis for future service improvement strategies. The scrutiny of the SSP must include taking evidence from elected members, staff (including a independent HBS/County Council staff survey), trade unions, schools and community organisations.
- The County Council should improve the governance and transparency of the partnership by having all-party political representation on the Strategic Partnership Management Board.
- The County Council should immediately commence a public debate about the need, role, cost and plans for a National Centre for Educational Excellence in Bedfordshire.

This must distinguish between the needs of education services and the commercial interests of HBS Business Services.

- Best Value Reviews will be carried out in 2005/06 as part of the five-year cycle (not mandatory). UNISON and other trade unions should be fully involved throughout the Best Value Review process with a rigorous and comprehensive options appraisal mainstreaming equalities and sustainability.

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