

Bedfordshire: Failing Best Value

The implications and alternatives to
strategic partnership

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Executive Summary

1. The County Council is preparing a multi-million pound contract procurement for business support services and services to schools. It is simultaneously claiming that it is undertaking Best Value reviews of the same services under the Local Government Act 1999. The proposed strategic partnership includes financial and ICT services, human resources, transport and facilities management, business and administrative support together with school support services. The current value of the work is £26m per annum provided by over 500 staff.

This report provides evidence that the Council is failing in its statutory duties under this Act, both in terms of the content and process of Best Value reviews (DETR Circular 10/99) and the statutory duty to consult. It has merged Best Value into the procurement process. The reviews do not meet the statutory requirements because the Council has already made decisions, which preempt full and proper consultation and the evaluation of options.

The principle of the local authority seeking to obtain information and communications technology expertise from the private sector is not in question but the methodology by which this is achieved and the concept of strategic partnership is challenged by this report.

Best Value options appraisal is null and void

A procurement process and a Best Value review process cannot be carried out simultaneously whilst at the same time meeting the statutory requirements of the Local Government Act 1999 and DETR Circular 10/99. The options appraisal is null and void because the County Council preempted the consideration of options by starting the procurement process before the Best Value review.

Failure to meet statutory requirements for consultation

The County Council has a duty under Section 3 of the Local Government Act 1999 to consult widely in relation to the way they fulfill their duties to secure Best Value and Section 5 places consultation obligations with respect to the way in which Best Value reviews are carried out. Because consultation has been focused on the contracting process and has been narrow in scale and scope, we consider that the County Council has not fulfilled its legal obligations.

Failure to carry out full Best Value reviews

No evidence or documentation of the challenge, compare, consultation and compete sections of the review of those services within the strategic partnership have been made available to the public or to staff and trade unions. Information contained in the

specifications falls far short of that required to satisfy the requirements of Best Value.

Publishing the Best Value reviews for services contained in the contract

Since the County Council claims to have carried out Best Value reviews for many of the services contained in the proposed contract, it should be within its capacity to immediately make these reviews publicly available. They should form an important part of the evaluation and assessment of the strategic partnerships proposals. Failure to publish these reviews will constitute another failure to meet the duty of Best Value.

Failure to implement County Council's Best Value corporate framework

The County Council is also failing to implement its own corporate policy for Best Value. The Bedfordshire Best Value Framework has been only partially applied in the services within the proposed contract, which have been subjected to Best Value reviews.

Failure to mainstream equity and sustainability

The lack of involvement and failure to provide information relating to the 'Best Value reviews' has also meant that the County Council has not provided any evidence that it has considered, let alone mainstreamed, equity and sustainability in the review process, as required by Circular 10/99. This is another substantial failure in the compliance with the Best Value requirements and would also appear to be a failure to address the County Council's own corporate policies.

Five-year review bonus for private firms

The services outsourced will not be subjected to a Best Value review for another five years because the County Council has already revised its five-year programme to bring certain reviews forward. This is in effect a bonus for the private firm and clearly not in the interests of service users because quality, cost and equality will not be assessed along with user views for this period.

Basis for Judicial Review?

The failure to carry out the various requirements of Best Value and the merging of Best Value review process into procurement as documented in this report have major local and national implications. These failures may constitute sufficient grounds for application for a Judicial Review into the County Council's failure to meet the statutory requirements of Best Value.

Education now marginalised

Although the decision to outsource originally centred on education support services, the size of the contract has more than quadrupled to £26m per annum. Education services are now a minority service within the overall contract.

Teachers and social workers next

The boundary of the strategic partnership will not be fixed and it is highly likely that the core teaching and social services functions will be next on the agenda. Firms such as Capita (which already owns two large teacher placement agencies) are equally interested in the provision of core services.

Contract designed by the private sector for the private sector

The scope and content of the contract has been largely determined by the private sector. The contract reflects private interests rather than the specific needs of individual services, community and the public interest. The private contractor will be in a powerful position to add other County Council services to the contract.

Confusion between acquiring e-government technology and outsourcing support services for cost-cutting objectives

The strategic partnership is a 'dogs breakfast' - confusing the acquisition of technological expertise to implement e-government with the outsourcing of support and back-office services for reasons of dogma.

Failure to heed government ICT advice

In the year since the County Council agreed to proceed with the strategic partnership, the House of Commons Select Committee on Public Accounts and other Select Committees have produced a series of reports detailing major technological, financial and management problems with central government ICT partnership contracts (details in Part 3). Furthermore, there has been a catalogue of failures in local government revenue and benefits services provided by the private sector. The Government has produced two reports drawing out the lessons to be learnt from these projects and to establish best practice. However, the scope and content of the County Council's strategic partnership remains virtually the same as it was a year ago.

Technological lock-in and dependency culture

The council will be locked into a relationship with a private firm, whatever the quality of service. It is not the same as a single service CCT contract, which could be terminated relatively easily. Instead the contractor will be interwoven with council services, which will be extremely difficult and costly to unravel. This is not in the interests of services users, Elected Members, staff or council taxpayers.

The savings myth

Savings will only be projected estimates, which are usually exaggerated and rounded up for presentational purposes. Few details are provided to substantiate the claims. They do not take account of the fact that the private firm will use the partnership to

charge for new and additional work over the ten-year period, which will make a mockery of these claims. Tendering under CCT was supposed to achieve 20%-25% savings but the only three research studies showed that they were 6%, 8.6% and negative (DoE 1993, 1997 and EOC 1995).

The job creation myth

The partnership is being sold to staff as the only means of protecting jobs because there will be investment for in-house services. This is not reality. The County Council could continue to invest via its revenue and capital programmes. The claim that a strategic partnership will create additional employment in the County is largely wishful thinking. We calculate that the strategic partnership will result in the loss of between 90 - 120 jobs so any 'new' jobs must first replace these job losses.

The private sector strategic partner will create a call or business centre in the County but the more successful this, particularly if it wins contracts in other local authorities, public bodies and private firms in Bedfordshire, the greater the job loss in the county or neighbouring area as a whole. The firm will already have a core staff and economies of scale will mean that it will require fewer additional staff every time it wins a new contract. Hence there will be compulsory redundancies elsewhere resulting in a net job loss in the County or sub-regional economy.

The call centre will increasingly be a generic business centre in which the County Council's work is of decreasing importance and priority. The private firm is simply using the County Council as a cheap investment vehicle to establish a call centre from which it will use as a launch pad to try to win other work. It will not be dedicated to County Council work.

Information and communications technology failures

The report summarises a long list of central and local government ICT and related services contract failures by the leading private firms. This track record of private firms which claim to be at the forefront of the information and communications technology revolution and the 'knowledge economy' is very disturbing. They have had a major impact on service users. Savings have been evaporated overnight in many contracts.

Lessons for Bedfordshire

1. The failures cited above are not just start-up problems, many have occurred several years after the start of the contract.
2. There is a substantial reality gap between the business and technology promotion and propaganda of the ICT industry, particularly the ability of companies, and the provision of good quality public services in local authorities.
3. The Cabinet report recognised that the private sector has often failed to fully

understand the needs of public services, have responded slowly to emerging difficulties, managed subcontractors ineffectively and have not communicated well.

5. Problems have occurred in a wide range of authorities, large and small under different political control, in different types of authorities with traditional, partnership and PFI contracts. Hence the form of contract does not appear to have a significant effect.

6. The problems have occurred in contracts operated by the leading firms - EDS is the largest ICT services company in the world, Capita and CSL have a major share of the British market. They claim to have high quality management and the latest information and communications technology at their disposal.

7. ICT is not the panacea that it is made out to be. Technology must fit closely with the demands of the public and with new working practices. Staff are crucial to the successful application of ICT.

8. Cross cutting initiatives in which ICT is implemented across a wide range of services are particularly difficult and are unproven.

9. A 'strategic partnership' approach will not avoid these problems.

Virtual Elected Members

The outsourcing contract is likely to have several effects on Elected Members. Democratic accountability will be severely weakened because the partnership will create a separate, privatised and 'commercially confidential' unit in the council - a government within government. A strategic partnership is a major step towards creating an enabling or virtual council in which services and activities are provided mainly by private contractors and the voluntary sector. This means 'Virtual Elected Members' because there will be a much reduced role for democratic accountability with fewer Elected Members.

Users will bear the brunt

Users who are very dependent on the quality and consistency of council services will bear the brunt of any failures, delays, cost overruns and lower quality services.

Lack of corporate impact assessment

The Council has failed to assess the corporate impact of the 'strategic partnership' particularly the power of the private partner within the authority to influence public policy and identifying further services for outsourcing and transfer. The firm will be in a key position and have a vested interest in determining the conditions for other contracts and services because they will impact on their own contract. Contractors will be monitoring each other, the County Council will be forced into refereeing conflicts and possibly collusion between private firms.

Recommended action

We recommend that the County Council:

1. The County Council should first subject the three bids to comprehensive and rigorous evaluation, assessment and detailed scrutiny (see Appendix 1). Second, it should make the results of this evaluation publicly available (taking account of commercial confidentiality). Thirdly, it should draw up an alternative proposal which focuses on resourcing specialist information and communications technology expertise and equipment from the private sector and substantially reduces the outsourcing content of the contract. Fourthly, carry out a full consultation with Elected Members, users, community organisations and trade unions on all aspects of the evaluation and proposals.
2. Immediately publish all the Best Value reviews for the services included in the strategic partnership contract, irrespective of whether these are interim or draft reports so that there can be a full discussion of the key service issues.
3. Prepare an alternative proposal, which consists of accessing specialist ICT expertise and equipment and retaining the direct provision of support services.
4. 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.
5. Request that the Audit Commission investigate the working relationship between the District Auditor and the County Council and the possibility that an uncritical working arrangement has emerged, which is not in the public interest.

An alternative proposal

We recommend that an alternative proposal is drawn up to provide the basis for a comprehensive options appraisal and evaluation of partnership proposals. We propose that:

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 and that services remain with the County Council. The capital expenditure element is not a significant part of the costs. Furthermore, the Government is planning to reform the capital finance regime and abolish or relax credit approvals. This is a viable, practical and cost effective method of improving quality and access, maintaining continuity of service and minimising disruption and insecurity.

"The implementation of an IT system is not an end in itself.....Training of staff can take up considerable resources, often a significant proportion of the overall cost of the project. Training must address the needs of users and of those operating and maintaining the system." (House of Commons Select Committee on Public Accounts)

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 transition 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.

Introduction

Proposed strategic partnership in Bedfordshire

Bedfordshire County Council is preparing to outsource business support services and support services to schools in a £250m 10-year contract. At the same time it is claiming to have carried out Best Value reviews of the services it plans to outsource.

“The Council is committed to a strategic partnership approach” (Modernising Support Services: A Strategic Partnership - Information Memorandum, para 9.9, p19)

Table 1.1: **The scope of the contract**

Business Support Services (£20m per annum)

Financial Services

- * management accountancy
- * exchequer services
- * pensions administration
- * financial systems

Information technology services

- * application development and support
- * technical support
- * mainframe and server operations
- * forms handling
- * operations security
- * help desk

Human resource services

- * human resource policy development
- * human resource operational support
- * employee and industrial relations
- * employee training/development
- * pay performance and benefits
- * recruitment and selection
- * equality of opportunity advice and support
- * health, safety and welfare including occupational health
- * Early Birds workplace nursery
- * Training Centres (Barton and Maryland)

Contract and facilities management

- * transport services
- * highways
- * property
- * facilities management

Business and administrative support

- * general business and administrative support
- * services business and administrative support to front line services eg social services
- * elements of facilities management
- * communications and marketing

- * student awards

School Support Services (£6m per annum)

- * advisory services
- * continuing professional development
- * information communication technology
- * technical services
- * local education authority commissioned work
- * facilities management to schools
- * human resource services
- * personnel services to and for schools
- * statutory personnel responsibilities

Source: Modernising Support Services, Bedfordshire CC, 2000.

Shortlisted contractors

The County Council shortlisted three firms with bids due to be submitted in October 2000:

1. Capita Group PLC
2. Hyder Business Services
3. Ensign (Tribal Group and Group 4)

Objectives of this study

The purpose of this study is to provide a detailed critique of the County Council's approach both to Best Value and to a strategic partnership and to propose a viable and effective alternative to strategic partnership.

Methodology

The report has been compiled through detailed examination of information and documentation on strategic partnership and Best Value made available to the trade unions, examination of council minutes and reports, and research of the ICT sector including House of Commons and Cabinet Office reports and discussion with UNISON branch officials and Elected Members. The work was carried out in July-September 2000.

Government targets for local government ICT

The government has set central government targets of 25% electronic (internet, telephone, fax) service delivery capability by 2002 and 100% by 2005. A target of 90% by value of low value procurement has been set for March 2001. However, each local authority is required to set its own electronic service delivery target, as far as practical, within this target. Bedfordshire has already made strides in the application of ICT and is under less pressure than many other local authorities to meet the targets. The County Council cannot justify its ICT strategy on wholesale outsourcing.

Part 1

Merging Best Value and contract procurement

Best Value reviews

The County Council's intention to merge the procurement of services with a Best Value review is explained in the minutes of the Executive Committee, 3 April 2000:

"The County Council has also endorsed the recommendation of the Professional Support Services Working Group that the potential for partnerships with others should be considered in the context of Best Value and potential synergies between activities should be considered as part of that project. In September 1999 the Executive Committee had authorised officers to explore options for the continuing provision of services to schools including any necessary steps to identify a partner. This followed an earlier decision of the Council in December 1998 that it did not want to be a provider of these services. A subsequent advertisement of this proposal and discussions with private sector organisations suggested that there was potential benefit to the County Council from exploring a strategic partnership for schools, direct services and business and professional support services in general, as part of a Best Value review as envisaged by the Professional and Support Services Working Group. In view of the time-scales involved with complying with the EC Public Procurement regime, a procurement process for both Business Support Services and School Support services have now been commenced."

The comment concerning the EC procurement timescales is not relevant to the Best Value process and is only significant in that having chosen to start the procurement process **before** the Best Value reviews, the County Council is required to adhere to certain timescales set out in the procurement regulations. The Pre Information Notice was published in the Official Journal of the European Community (OJEC) in November 1999 followed by a Contract Notice in March 2000, the same month that the County Council produced its Performance Plan with a five year programme of reviews, already hopelessly outdated.

The County Council stressed that it had the right not to proceed with procurement if it did not deliver the required outputs and outcomes. However, this applies to all procurement. More importantly if the County Council did decide not to proceed, it would not have a contingency plan because the entire procurement and Best Value process (with no in-house bid) is geared to outsourcing. It will, as a result, not have an action plan for in-house service delivery as required by Circular 10/99.

A report to the Best Value Monitoring Group on 16 June 2000 by the Assistant Chief Executive (Performance) explicitly states the fusion of Best Value service reviews and the Strategic Partnership procurement process.

“There are 19 reviews in Year 1 of the Council’s five year programme of Best Value reviews. These functions were selected for early review based on a number of criteria including contract end dates, legislation and policy changes, service performance (indicators, links to medium term priorities and timing of other reviews or inspections.

The subsequent implementation of the Strategic Partnership Project as a Best Value Review has significantly increased the Year 1 programme for the County Council. However, the project encompasses some of the 19 reviews and therefore the work required for these reviews will be undertaken as part of the Strategic Partnership Project.

There are 15 Year 1 Best Value Reviews currently underway, including those being conducted as part of the Strategic Partnership Project.”(our emphasis)

(Best Value Reviews: progress and Learning, Report of Assistant Chief Executive (Performance) to Best Value Monitoring Group, 16 June 2000)

Merging Best Value into the procurement process

The same report includes a chart reporting progress, which clearly states that the Strategic Partnership is classified as a Best Value Review and notes progress under the 4C’s. Under Compete it merely states ‘the project’ and under the project end date heading it refers to “preferred partner to be discussed at County Council on 29/9/00” (see Appendix A of this report).

Despite these reports and statements there is no evidence of:

- Best Value review documentation such as a service or baseline profile;
- evidence of the examination of issues under the challenge section;
- the benchmarking information provided in the draft specifications does not satisfy the requirements of benchmarking in Circular 10/99. For example, there are no details of comparative performance with similar authorities so that Bedfordshire can judge the relative performance of the existing service. This makes the targets contained in the specification of dubious value.
- consultation on this evidence and issues with the trade unions and staff.

There are, however, draft specifications for various services included in the Strategic Partnership indicating a contract arrangement.

Further evidence of the integration of Best Value and the procurement process is provided below:

* A Modernising Support Services bulletin (undated but early 2000) stated that “the council is undertaking a Best Value review of its support services as an integral part of the process. This involves consulting the support services’ customers, both internally and externally, as well as benchmarking our performance in these areas against similar authorities around the country.”

* The above bulletin was included in a ‘Keeping You Informed’ pack, which included details about transferring to a partner organisation, TUPE, protecting your pension and other information, which was entirely focused on procurement and transfer.

* The Strategic Project and lead Best Value officers are the same people providing further evidence of the merging of the two separate processes.

* Another Modernising Support Services bulletin containing ‘questions and answers’ stated the following in response to: How does all this relate to Best Value? “This project will be a Best Value project conducted in accordance with the latest government guidance on Best Value - as set out in DETR Circular 10/99. This has been confirmed with the District Auditor who is responsible for overseeing local authorities work in implementing Best Value. **The review and the search for a possible partner are being carried out together**” (our emphasis). A report to the Executive Committee in April 2000 referred to the Best Value process being “dovetailed into the procurement process once candidates have been shortlisted” (Best Value Review of Business Support Services and Possible Strategic Partnership, 3 April 2000).

1. A procurement process and a Best Value review process cannot be carried out simultaneously whilst at the same time meeting the statutory requirements of the Local Government Act 1999 and DETR Circular 10/99.

- The options appraisal is null and void because the County Council preempted the consideration of options by starting the procurement process before the Best Value review. The shortlisting of three contractors in March 2000 and selecting a preferred contractor in the autumn 2000 does not constitute an options appraisal. The County Council has assessed the market only in one dimension - a multi-million pound long-term contract. Users, staff, Elected Members have no choice other than to be either for or against the planned contract.

- The statutory requirement to consult the community throughout the service review process has not been complied with. The County Council has carried out a very narrow and limited consultation and has not subjected its outsourcing decision to public debate.

- There is no evidence or documentation of the challenge, compare, consultation and compete sections of the review of those services within the strategic partnership have been made available to the public or to staff and trade unions.
- No justification for the scope of the contract, the services were selected immediately prior to the Best Value service review process.
- The County Council is failing to meet its own statutory Performance Plan. Published in March 2000, the Council was failing to meet its obligations and work programme within weeks of its publication.

Failure to comply with the duty to achieve Best Value

The District Auditor commented on the preparation for Best Value and the council's partnership programme in the 1999 Management Letter. This was prior to the publication of the Government's Best Value guidance and the County Council's strategic partnership procurement process. The District Auditor reported in September 1999 that the County Council had established a Best Value Steering Group, draft corporate objectives, was preparing a methodology for service reviews and preparation of a Best Value Performance Plan was in progress. The Auditor concluded that:

*"As the requirements of Best Value legislation become clearer there will be a need for **Members to ensure that the Council monitors and assesses progress regularly to ensure compliance**"* (our emphasis). The Local Government Act 1999 came into effect on 1st April 2000 imposing a legal duty on the County Council to achieve Best Value in the performance of its functions. The same District Auditor report stated that many Members who are not office holders "feel disenfranchised, although to some extent this is an inevitable result of modernisation."

The merging of Best Value into the procurement process has occurred as a result of one or more of the following:

1. with the knowledge of the cabinet;
2. by officers not fully reporting their approach and progress in implementing Best Value;
3. the District Auditor has either provided the wrong advice to the County Council or is unaware of the extent to which they have failed to adhere to the requirements of Best Value. This raises questions about the scope of reporting by the County Council to the District Auditor and monitoring of the County Council.

Lack of public consultation

The District Auditor's Management Letter 1998/99 issued in December 1999 set out the

key issues to be addressed by the County Council, mostly related to Best Value, and “will impose a considerable workload on the County Council” (para 4). “Perhaps the greatest challenge with Best Value will be to inspire service users in order to convince them of its benefits. Developing ‘two-way’ communications to capture the expectations of the community and to publicise the achievements resulting from Best Value initiative will prove crucial” (para 5).

The leader of the Council made the following incredulous statement admitting that there had been no public consultation on the letting of a £250m contract.

“There has been no public consultation and the District Auditor has assured us it is not necessary, given the broad shape of the partnership. The public itself is well aware of what is going on, partly through the Council’s own paper and partly through the newspaper which comes through their door on a Sunday”
(Philip Hendry, Leader, Conservative Party, Bedfordshire County Council, Bedfordshire on Sunday, 23 September 2000).

The County Council has established a Citizens Panel and focus groups, which have been consulted over the planned strategic partnership although we have no information regarding what issues were presented and how and whether any alternative strategies were discussed. However, there is no evidence that the Panel or the focus groups have been involved in the Best Value reviews. Furthermore, the involvement of the panel and focus groups should be regarded as minimalist consultation for the purposes of Best Value and does not represent good practice. The Best Value process must engage directly with user and community organisations, which is not the function of the panel of focus groups.

Distinguishing between consultation in procurement and Best Value processes

The County Council has involved the trade unions in the procurement process. They have been involved with meetings with officers and interviews with contractors but these have been solely about the procurement process. They have provided draft copies of specifications (although sometimes requiring comments within two days, an unacceptable timetable by any standards) and invited representatives to visit sites of the three bidding contractors. These are minimum levels of involvement to be expected in a procurement process.

However, this form of consultation should not be confused with good practice consultation and involvement in the Best Value service review process. The County Council has a duty under Section 3 of the Local Government Act 1999 to consult widely in relation to the way they fulfil their duties to secure Best Value and Section 5 places consultation obligations with respect to the way in which Best Value reviews are carried out. Because consultation has been focused on the contracting process and has been narrow in scale and scope, we consider that the County Council has not fulfilled its legal obligations.

The County Council has ignored the National Joint Council Framework Agreement on Best Value negotiated between the National Employers and the recognised trade unions UNISON, GMB and TGWU.

Requirement to make information publicly available

Since the County Council claims to have carried out Best Value reviews for many of the services contained in the proposed contract, it should be within its capacity to immediately make these reviews publicly available. They should form an important part of the evaluation and assessment of the strategic partnerships proposals. Failure to publish these reviews will constitute another failure to meet the duty of Best Value.

Equity and sustainability

The lack of involvement and the provision of information concerning the 'Best Value reviews' has also meant that the County Council has not provided any evidence that it has considered, let alone mainstreamed, equity and sustainability in the review process, as required by Circular 10/99. This is another substantial failure in the compliance with the Best Value requirements and would appear to be a failure to address the County Council's own corporate policies.

Evaluation of strategic partnerships

Comprehensive and rigorous evaluation is essential. This should not be rushed because the contract is long term, affects all the key activities and functions which the County Council relies on in order to deliver services, affects the livelihoods of 500 staff and the private firm will be a very powerful position within the County Council.

Monitoring

The track record of the County Council, together with many other local authorities, is not particularly good in monitoring and assessing the performance of private contractors. A strategic partnership is in a different league to CCT and other contracts. A partnership committee or panel specifically for the contract should only be one part of the monitoring, assessment and accountability arrangements. Best Value reviews will not be carried out for another five years according to the County Council's timetable. Hence a fully resourced performance assessment plan must be considered at the bid evaluation stage.

Other key issues

There is little evidence of consideration of the corporate impact of the planned contract and the longer-term implications for the local authority. Users, Elected Members and staff should expect to be provided with an assessment of the planned contract and its implications. This should include assessing:

- the effects on the capacity of the Council in terms of financial, IT and technical skills, expertise, negotiating skills - the loss of intellectual capital
- the effects on important services such as human resource policy development and communications.
- the full implications of such a large contract on remaining council services;

Democratic accountability

This should assess the impact on Elected Members and democratic accountability - they will find pursuing constituents complaints more protracted, more arms length and less effective.

Crude vision

It appears that the County Council is proceeding in a rush without full and proper discussion of the vision for the County Council and a proper dialogue with other local authorities in the County. There is a distinct lack of vision for the what will remain of the County Council if the strategic partnership proceeds - will there be more strategic partnerships in education and social services until there is no directly provided services?

Partnership mean privatisation

The contractor will be working to private sector vision, values and ethics, providing most services from their own premises and it is misguided to believe that they will be 'partnering' or 'sharing' the same values.

Conclusion

This section has provided evidence, which indicates that the County Council has failed in its statutory duties with regard to Best Value and has also failed to carry out meaningful public consultation on a £250m strategic partnership, which could radically impact on services, democratic accountability and the management and organisation of the County Council.

Part 2

A critique of strategic partnerships

The concept of strategic partnership

A wide range of services will be outsourced to a private contractor who will be required to enter into a partnership agreement with the County Council. In theory, a strategic partnership involves the council and the contractor 'working closely together' and 'planning' future business strategy.

The reality is somewhat different if the partnership rhetoric is peeled away. What is left is a very large, long-term contract for a private firm. Because it is in the region of £250m over 10 years, the firm can afford to agree to provide some fringe benefits in return for the contract such as agreeing to a partnership board and will probably provide some 'community benefits' which represent a tiny fraction of the contract price.

Strategic partnership is presented as joint decision-making by the private contractor and the County Council but the outsourcing of such a wide range of key services is likely to deskill the local authority and reduce its competence and power within the partnership. Some senior managers may genuinely believe that they will be able to safeguard the public interest. However, economic reality and the interests of the private firm will more often prevail.

The strategic partnership has been planned and executed with minimum democratic accountability. What confidence can users and the community have that this will change once the contract starts? Partnership will mean that key decisions are made by a small group of senior managers from the contractor and the County Council, legitimised by a handful of Elected Members. There will be little room for critical comment and assessment or counter views. Elected Members will discover that 'commercial confidentiality' will be used to prevent full reporting and disclosure of information. Strategic partnership is another step in the privatisation of government.

The planned strategic partnership in Bedfordshire is essentially a large outsourcing contract in which the provision of information and communications technology has a less than central role. Strategic partnership has in fact been used as a trawl net for outsourcing.

Education now marginalised

The outsourcing contract commenced with a decision in 1997 not to continue to provide

support services to schools (value £6m per annum). However, the contract has since been extended by the inclusion of information and communications and central support services. The size of the contract has more than quadrupled to £26m per annum. Education services are now a minority service within the overall contract.

Furthermore, the scope and content of the contract has been largely determined by the private sector. It has been expanded because private firms argued that the County Council would 'benefit' if a wide range of services were included. The contract reflects private interests rather than the specific needs of individual services, community interests and the public interest.

The current package of services will not be static. The contractor will inevitably seek to add other services currently provided by the County Council and/or return some services, which they find unprofitable or do not wish to provide. The contractor may also seek County Council approval to subcontract the work to another firm.

The County Council has tried to separate support services from core functions such as teachers and social workers. This is a false division. Firms such as Capita (which already owns two large teacher placement agencies) are equally interested in the provision of core services. The boundary of the strategic partnership will not be fixed and it is highly likely that the core teaching and social services functions will be next on the agenda.

Confusion between acquiring e-government technology and outsourcing support services for cost-cutting objective

The strategic partnership is a 'dogs breakfast' combining an attempt to acquire technological expertise to implement e-government with the outsourcing of support and back-office services. Local authorities are clearly not in a position to develop and apply information and communications technology single-handedly and must draw on expertise from the private sector. However, Bedfordshire has constructed a strategic partnership contract, which is primarily a support services contract on terms dictated primarily by the private sector.

* The contract does not have to include back-office support or facilities management services.

* A clear distinction must be made between obtaining strategic technological advice and equipment and the delivery of support services irrespective of whether they have ICT content or not.

* The quest for income generation through selling local government information to the private sector, promoting joint public/private portals, selling advertising on council websites and third party use (private sector use of public facilities) in PFI/PPP projects can, superficially, 'sell' contracts and contractors now. But they have major long-term ramifications for users and public services.

* The claim that the partnership will stimulate innovation and economic development in the local economy is false because it is wholly dependent on the private sector winning other major contracts. The track record of such 'promises' is poor.

Government advice on ICT contracts

In the year since the County Council agreed to proceed with the strategic partnership, the House of Commons Select Committee on Public Accounts and other Select Committees have produced a series of reports detailing major technological, financial and management problems with central government ICT partnership contracts (details in Part 3). Furthermore, there has been a catalogue of failures in local government revenue and benefits services provided by the private sector. In response, the Government has produced two reports drawing out the lessons to be learnt from these projects and to establish best practice. This was followed by a Cabinet review and further report in May 2000 containing 30 recommendations to improve the planning and performance of ICT projects.

However, the scope and content of the County Council's strategic partnership remains virtually the same as it was a year ago.

"IT initiatives should be broken down into manageable projects, with each successive one being considered in the light of the outcome of the earlier ones. An incremental, as opposed to big bang approach to IT projects should be adopted, with regular milestones, each delivering an auditable business benefit" (House of Commons Select Committee on Public Accounts).

It is also vitally important to keep the IT revolution in perspective. Whilst it is transforming communications and user access to the County Council and the way the council collects income and pays its bills, it only facilitates the delivery of core services and the range of support services included in the contract. Many of these are dependent on highly skilled staff supported by training and ICT.

Technological lock-in

The council will be locked into a relationship with a private firm, whatever the quality of service. It is not the same as a single service CCT contract, which could be terminated relatively easily. Instead the contractor will be interwoven with council services, which will be extremely difficult and costly to unravel. This is not in the interests of services users, Elected Members, staff or council taxpayers.

No corporate impact assessment

The transfer of important support services and over 500 jobs to the private sector will inevitably have a knock-on effect on other council services, particularly on unit costs and economies of scale. However, we have no evidence of any assessment having been

carried out, either at the time of the original decision to outsource or when the decision was made to proceed with the strategic partnership, to determine the corporate impact of outsourcing. It is poor management practice if an evaluation has not been prepared.

The impact assessment should have included the impact on departmental unit costs, the scope and cost of reorganisation required as a result of the transfer of services and jobs and the organisation and cost of a new client structure to manage and monitor contracts.

No in-house bid

The County Council has embarked on a strategic partnership and has excluded the possibility of an in-house bid or a combination of in-house and external partner(s). An in-house bid would have the following advantages:

- Serve to regulate market prices by comparing local authority costs with those of other public bodies and the private sector and providing a benchmark price, which generally ensures more competitive pricing.
- Reflect local authority principles, values, policies and key service priorities for the future.
- Retain intellectual capital, skills and experience within the local authority to better maximise expertise and specialist work provided by the private sector.
- Reflect services, which are organised and operated within the local authority's corporate policies of meeting social needs and fulfilling statutory duties.
- A more effective way of controlling the quality of services and ensure that they are driven by service needs, not profit objectives.
- Improve the accountability of services to users and the local community.
- Maximise the integration and coordination of services through joined-up government and continuous service improvements.
- Mainstream equalities, democratic accountability, environmental, social and economic sustainability across all County Council services and activities.
- Involve harnessing the ideas, experience and knowledge of local authority managers and front-line staff delivering local services.
- Include provision for better working conditions and employment practices than the private sector.

Privatising human resource and personnel services

The contract includes outsourcing the entire human resources or personnel function including policy development, operational support, employee and industrial relations, employee training/development, pay performance and benefits, recruitment and selection, equality of opportunity advice and support, health, safety and welfare including occupational health, the Early Birds workplace nursery and Training Centres (Barton and Maryland).

The attempt to impose a client-contractor split in this important function is likely to prove disastrous because enforcing such a distinction is very difficult in this particular service. Human resources has not been outsourced in local government except for some training provision and payroll in a minority of local authorities.

Outsourcing is an attempt by some Elected Members and senior managers to off-load their employer responsibilities to a contractor, often motivated by attempts to ease the 'burden' of responsibility for staff and to distance themselves from redundancies and other employment change.

Claims and assertions

The County Council claims that a strategic partnership will:

- *Invest in new business systems to support front line service delivery;*
- *Protect the interests and future development of employees;*
- *Secure access to skills, expertise and specialisms;*
- *Maximise economies of scale by working with and through others;*
- *Create new employment opportunities in Bedfordshire through the development of a regional business centre."*

(Modernising Support services, Bedfordshire County Council, 2000)

But there is not a shred of evidence has been provided to support these claims.

Firstly, there is no evidence that the partnership will invest any additional money for council services than the County Council could achieve using both its revenue and capital budgets over a ten year period, particularly given the planned freedom proposed in the recent Green Paper *Modernising Local Government Finance*.

Secondly, the County Council could obtain equal or better skills, expertise and specialisms by not being tied to one contractor for ten years and seeking the best quality advice from the private sector as a whole as and when required.

Thirdly, the private company will be the main beneficiary of any economy of scale because it will use the County Council contract to underpin tenders for other private and public sector work.

Fourthly, all reference to savings are only projected savings (see section on savings

analysis).

Finally, what happens in 10 years time when the contract will, in theory, have to be renewed. The danger with strategic partnerships is that a cosy, high dependent relationship develops between the County Council and the private firm so that retendering will be delayed through contract extensions and other firms are reluctant to bid against a firm already embedded within the County Council.

Dependency culture

The strategic partnership will require the County Council to place heavy reliance on one company in a highly fluent and rapidly changing sector. This does not make good business sense. Have Capita, Ensign or Hyder outsourced an equivalent range of their own support services? Of course not.

The savings myth

‘Savings’ will almost certainly be claimed as one of the advantages of a strategic partnership.

However, the County Council cannot claim that strategic partnership is driven by financial considerations. The District Auditor reported *“the Council’s financial standing is sound. While financial pressure inevitably remain, the financial position has strengthened over the last two years.”* The level of balances (the County Fund and earmarked reserves including schools) almost doubled from £14.6m at March 1997 to £26.3m by March 1999. It is important to consider the following:

1. Savings will only be projected estimates, which are usually exaggerated and rounded up for presentational purposes. Few details to be provided to substantiate the claims.
2. They will cover a ten-year period but the distribution over this timespan is also important.
3. They do not take account of the fact that the private firm will use the partnership to charge for new and additional work over the ten-year period, which will make a mockery of savings claims.
4. It will be claimed that the ‘savings’ will invested into frontline services but there is no guarantee that this will happen, particularly since claims by the contractor for new and additional work will erode the value of any savings.
5. Tendering under CCT was originally claimed to produce 20%-25% savings. However, these were discredited by the Conservative government’s own research which showed that savings were between 6% and 8.5% (DoE, 1993 and 1997) and by the Equal Opportunities Commission research which concluded that there were no savings and the government had subsidised CCT when the full public sector costs were taken into account (EOC, 1995).

The job creation myth

The County Council and the private firms also claim to create new employment opportunities in Bedfordshire through the development of a regional business centre. The claim that a strategic partnership will create additional employment in the County is largely wishful thinking for the following reasons:

- * It is dependent on winning other contracts in the public and/or private sector.
- * The private sector strategic partner will create a call or business centre in the County but the more successful this, particularly if it wins contracts in other local authorities, public bodies and private firms in Bedfordshire, the greater the job loss in the county or neighbouring area as a whole. The firm will already have a core staff and economies of scale will ensure that it will require fewer additional staff every time it wins a new contract. Hence there will be compulsory redundancies elsewhere resulting in a net job loss in the County or sub-regional economy.
- * The call centre will increasingly be a generic business centre in which the County Council's work is of decreasing importance and priority. The strategic partnership is not creating a call centre dedicated to County Council work but the private firm is simply using the County Council as a cheap investment vehicle to establish a call centre from which it will use as a launch pad to try to win other work.
- * The contractor will reorganise staffing levels and working practices. Only a proportion of staff will be fully dedicated to Bedfordshire services and it will therefore be difficult to determine the employment impact particularly in the later stages of the contract.

Client side costs and ability to control and monitor the partnership

The client function of any partnership of the size proposed will be crucial. This raises a number of important questions such as: What are the client side staffing and resources required to monitor all aspects of the work and partnership? What are the resources needed by the County Council to be an effective partner? What mechanisms will be in place to achieve probity, safeguard the public interest and ensure fiduciary duties are fulfilled? Elected Members must have clear answers and evidence before they process with any form of partnership.

Part 3

Review of ICT contract performance

This section examines current developments and trends in the development of e-government. A number of national ICT projects carried out by major providers such as Andersen Consulting, Siemens and EDS have caused a catalogue of major delays, processing backlogs, cost increases and service failures. There have also been a series of major failures in local government revenue and benefits contracts. There is an increasing credibility gap between the potential of ICT, the marketing claims from the ICT industry and the performance of contracts in central and local government.

It is vitally important to keep the ICT revolution in perspective. It is transforming communications and user access to the County Council and the way the council collects income, pays its bills, provides information, encourages public consultation, and facilitates the delivery of education, community care and other services. However, ICT can only complement and facilitate the delivery of many core services such as education, social services, human resource management, planning and transportation.

This part of the report is divided into three parts. The first summarises the problems in local government ICT and business support services. The second summarises the wide range of problems experienced in central government ICT contracts and the third section highlights Bedfordshire's recent track record in outsourcing services.

Local government ICT and business support service failures

At least 14 financial services and housing benefit contracts have experienced major problems within the last two years, three of which have been terminated and the work brought in-house. This track record of private firms which claim to be at the forefront of the information and communications technology revolution and the 'knowledge economy' is very disturbing. Table 1 summarises the contract failures in the fourteen authorities.

Table 1. Local government ICT and business support service failures

Authority	Service	Contractor	Summary of failures
Contract terminations			
Kingston upon Thames	Revenues & benefits	EDS	Council terminated £1.5m per annum contract in 1999 which had been operating for three years. It was plagued with performance problems, the council claimed that EDS employed too few staff.
Taunton Deane	Revenues & benefits	CSL	£3.5m contract terminated in March 2000 and the work brought in-house following a £500,000 shortfall in council tax collection and a seven-ten week backlog in housing benefit claims. CSL had commenced the contract a year earlier and had been forced to take on an extra 20 staff because it had under-resourced the bid.
Wandsworth	Revenues & benefits	EDS	£3.2m pa. contract started July 1996, promised savings of £1m below the in-house bid. 140 staff were transferred under TUPE. EDS announced need to reduce staffing levels - 30 people took voluntary severance or early retirement in July 1997. Defaults of £200,000 built up in a year as waiting lists soared and service declined. In October 1998, an agreement was reached to transfer the service back in-house.
Contract failures			
Brent	Revenues & benefits	EDS	Major problems occurred four years into the contract when EDS upgraded its IT system. A five month backlog in housing benefit claims in 1999 resulted in the company having to pay a six figure financial penalty and send letters of apology to 30,000 residents.
Croydon	Revenues & benefits	CSL	Management reorganised and additional staff had to take on work from other contracts (customer service staffing was increased by 50% to cope with workload plus overtime working). CSL introduced new contracts - new staff have inferior terms and conditions.
Hackney	Revenues & benefits	ITNET	In March 2000, thirty housing associations in Hackney demanded immediate and dramatic action by ITNET and Hackney Council in order to reduce the £3m delayed housing benefit payments.
Islington	Revenues & benefits	ITNET	A long-running dispute between ITNET and the Council was finally resolved in 1999 when Council agreed to pay ITNET £95,000 for

			'defects' in the Council IT system. Council expressed grave concern at performance to date and failure to reduce the backlog of claims.
Lambeth	Revenues & benefits	Capita	In April 2000, with 40,000 unprocessed claims, the Council decided to return some services in-house leaving Capita to concentrate on fewer duties. The new arrangements, including additional staff, cost Lambeth £1.5m. 584 complaints to Local Government Ombudsman in 1999/2000.
Newham	Revenues & benefits	CSL	In December 1999-January 2000 Newham was providing only an emergency service because CSL was dealing with a large backlog.
Tenants			complaints over delays in benefits payments.
North Somerset	Revenues & benefits	CSL	Council imposed financial penalties for poor performance in November 1999. The % of documents taking over 10 working days to process increased from 0.07% at the end of August to 51.8% by the end of October. £2m contract since 1995 with benefits added 1999.
Sheffield	Revenues & benefits	CSL	£400,000 financial penalty for poor performance and mounting complaints from tenants. CSL were required to produce a second rectification plan. The Council engaged PricewaterhouseCoopers (PwC) to "test the robustness of the plan and advise the Council on the measures to be taken to deliver the specified service." Failed to meet August 2000 claims backlog improvement deadline, given another chance by council.
Southwark	Revenues & benefits	CSL	Backlog of 40,000 items in spite of additional finance and in December 1999 CSL was assessing only 5.4% of new claims within fourteen days.
Torridge DC	Revenues	CSL	Council imposed substantial penalties in 1999 after CSL failed to improve performance.
Westminster	Benefits	Capita	In 1999 Capita failed to meet the target of processing 90% of housing benefit claims within 14 days in seven of the first nine months of its ten year £40m contract. 10,000 claims still outstanding in July 2000.

Table 2: **Private contractor performance**

Contractor	No. of authorities reporting poor performance	Contracts terminated
CSL	7	1
Capita	2	0
EDS	3	2
ITNET	2	0
Total	14	3

The Local Government Ombudsman received 2,353 complaints in 1999/2000 relating to housing benefit, the largest source of complaints. One commissioner received 1,669 housing benefit complaints of which over 60 percent were from four authorities, Lambeth, Hackney, Islington and Southwark, all of whom had outsourced housing benefit administration. The Commissioner reported that “all four accept that the performance of their benefit services has been unacceptable” (Commission for Local Administration in England, 2000).

The Chair of the Commission reported that despite meeting Lambeth Council and Capita in April 1999 and receiving assurances that the level of complaints would fall, they in fact doubled in 1999/2000. He had a further meeting in May 2000 with Lambeth Councillors and Chief Officers and was informed of drastic action planned by the council to remedy the situation.

National ICT contracts

The performance and financial crisis in several ICT government projects led the House of Commons Select Committee on Public Accounts to carry out a detailed investigation into outsourced ICT contracts. Their first report in January 2000 identified a string of major problems and a series of recommendations.

Further reports of the Committee have focused on specific contracts such as the Passport Agency (Siemens), National Insurance (Andersen Consulting), Immigration and Nationality Directorate (Siemens), the Inland Revenue’s strategic partnership with EDS, the Ministry of Defence projects (BT and GEC) and ICT strategies in the NHS.

The findings and recommendations for urgent action from the Select Committee forced the government to produce two important reports, E-government: a strategic framework for public services in the Information Age (April 2000) and E-GOVT: Electronic Government Services for the 21st Century (September 2000). Both reports made series of recommendations to improve the planning and procurement of ICT services in public bodies. The recommendations are equally applicable for the procurement of ICT services in local government.

Table 3: ICT failures in central government departments

Department/contract	Contractor	Problems/costs
National Insurance	Andersen Consulting	Delays and renegotiation of the contract. Andersen absorbed most of the additional costs. 172,000 potential cases of underpayment of pensions. Compensation paid to pension providers and pensioners for late rebates.
Passport Office	Siemens	£120m contract for digital scanning, waiting times tripled, penalised £127,000 but further £275,000 penalties waived. Unit cost of passport £15.50 compared to £12.00 target. Processing times reached 50 days in July 1999. Operating in only two out of six offices by 1999 start date.
Immigration & Nationality	Siemens	£100m computing contract Large backlog 76,000 asylum cases and 100,000 nationality cases. Contractor penalised £4.5m.
Northern Ireland Vehicle Licensing Agency	EDS	Abandoned in March 1996, £3.7m written off, projects estimated 71% above forecast.
Benefits Agency/Post Office payment card	ICL	Long delays and project overtaken by new technology
National Air Traffic Services		Lockheed Martin £623m including £300m overspend, six years late.
Student Loans Company		Payment system wrongly set up in 1990 - advisers Price Waterhouse, lateness in paying students, £1m overspend on £9.9m contract.
Metropolitan Police	EDS	Delivered 4 years late, cost £20m including £3m overspend

Sources: Select Committee on Public Accounts, Improving the Delivery of Government IT Projects, First Report, 2000. Computer Weekly (various).

Other ICT contract failures

* A recent National Audit Office report recently criticised CSL for a breakdown in financial controls at the Public Health Laboratory Service Board.

* A National Audit Office report in January 2000 revealed further problems with IT projects. The Ministry of Defence had lost £29.7m after abandoning two IT projects which failed to deliver.

Example of strategic partnership

The Inland Revenue has a strategic partnership with EDS dating from 1994, in contrast

to more traditional procurement arrangements, based on both parties agreeing, adopting, and maintaining common objectives in relation to the work of the Department and their contribution to it. Both the Select Committee on Public Accounts and the National Audit office have carried out detailed investigations and audits of this strategic partnership/PFI project. Table 2 summarises the troubled performance of this contract. Equally significantly, the cost of the contract has soared from £1,033m to £2,426m, a 135% increase in just six years. The increased costs were due to new work and projects (£533m), capital expenditure (£409m) and post contract verification adjustment (£203m) which represented additional workload in Inland Revenue arising between the invitation to tender and the transfer of staff and commencement of the contract (Twenty-Eighth Report, Select Committee on Public Accounts, July 2000).

Strategic partnerships provide new opportunities for private firms win contracts by bidding low to win the contract with the knowledge that they will be able to issue claims for additional work. A fixed price contract is no protection either because the contractor will provide the County Council with, at best, with what is in the specification, which would negate the supposed advantage of strategic partnership. Clearly, non-fixed priced strategic partnerships leave the County Council open to continued claims for every aspect of additional work, revisions and new projects.

The private sector is in a position to win other work elsewhere but the County Council will be tied to one supplier in a long-term contract in a sector experiencing rapid change. This will mean that the power relations within the partnership will not be equal. Although the County Council will be paying the contractor, and will therefore have a degree of control, the private contractor will be in a stronger position because the County Council will be dependent on the contractor for the continued supply of services. The council could in theory terminate the contract but this is usually more of a threat than a reality. Lambeth, Sheffield and other authorities with badly performing revenues and benefits contracts have found the cost and dislocation of contract termination and retendering more onerous than putting up with poor services.

Summary of main recommendations

"IT initiatives should be broken down into manageable projects, with each successive one being considered in the light of the outcome of the earlier ones. An incremental, as opposed to big bang approach to IT projects should be adopted, with regular milestones, each delivering an auditable business benefit" (House of Commons Select Committee on Public Accounts, January 2000).

"Departments should consider carefully whether projects are too ambitious to undertake in one go."

"The implementation of an IT system is not an end in itself.....Training of staff can take up considerable resources, often a significant proportion of the overall cost of the project. Training must address the needs of users and of those operating and maintaining the system."

“It is essential that organisations learn lessons from the projects undertaken.”

“Decisions about IT are crucial to the development and success of the business of public bodies and cannot be treated in isolation from other aspects of their work. Failure to deliver an IT system can have a profound effect on an organisation’s ability to provide services to its customers.”

ICT industry comment

“Big strategic outsourcing contracts - like those at the Inland Revenue, National Savings, Lambeth Council and the Stock Exchange - may seem a good idea at the time, provided that you don’t mind being locked into the supplier, whatever the quality of service.” (Computer Weekly, 13 April 2000)

Reporting on Lambeth’s problems with Capita and other IT contracts, Computer Weekly concluded that Lambeth had a “powerful contractual weapon. And it is all but useless. The Council cannot dispense with Capita’s services. There are many reasons: the time and costs involved in finding a new supplier, and unravelling the control of processes that operate across departmental boundaries (Capita runs a range of council services). Disruption of the relationship means disruption of the service. The council has found itself locked into a supplier whose activities are too closely interwoven with the council’s services”.

Lessons for Bedfordshire

1. The failures cited above are not just start-up problems, many have occurred several years after the start of the contract.
2. There is a substantial reality gap between the business and technology promotion and propaganda of the ICT industry, particularly the ability of companies, and the provision of good quality public services in local authorities.
3. The claims of the private sector must be continuously challenged. It is unwise to accept their claims or competence at face value. The Cabinet report recognised that the private sector has often failed to fully understand the needs of public services, have responded slowly to emerging difficulties, managed subcontractors ineffectively and have not communicated well.
5. Problems have occurred in a wide range of authorities, large and small under different political control, in different types of authorities with traditional, partnership and PFI contracts. The form of contract does not appear to have a significant effect.
6. The problems have occurred in contracts operated by the leading firms - EDS is the largest ICT services company in the world, Capita and CSL have a major share of the British market. They are not minnows. They claim to have high quality management and

the latest information and communications technology at their disposal.

7. ICT is not the panacea that it is made out to be. Technology must fit closely with the demands of the public and with new working practices. Staff are crucial to the successful application of ICT.

8. Cross cutting initiatives in which ICT is implemented across a wide range of services are particularly difficult and are unproven.

9. A 'strategic partnership' approach will not avoid these problems.

Bedfordshire County Council's experience with outsourcing

The County Council has a poor track record in managing contracts with the private sector. This has included a lack of monitoring and evaluation of contracts with the private and voluntary sector and a lack of information on contract performance made available to Elected Members, staff and the public. The lack of information relating to the performance of existing single service contracts does not bode well for the reporting of the performance of a strategic partnership. 'Commercial confidentiality' is likely to be used by both the contractor and the County Council to ensure that only selected and minimal information is made available. Rather than increasing access to information on service and financial performance, a strategic partnership is likely to result in the release of only superficial performance data.

Below we summarise the performance of some of the existing outsourced contracts:

Payroll contract (ITNET): ITNET are penalised on a monthly basis for failure to deliver the specified service (failure to make proper payments, missed payments). They have had over 50% turnover of staff and are currently relying on agency staff. There has been a stream of complaints from UNISON members regarding payments and ITNET have stopped subs, refused to deal with members complaints, failed to recognise the union and resisted all attempts to proper consultation. Some schools have withdrawn from the contract and set up their own payroll.

Property services (Mouchel): Some schools are unhappy with the quality of service and report poor procedures in removal of asbestos and other health and safety concerns. There is evidence of inadequate monitoring of the contract by the County Council. The firm has refused to implement the Single Status Agreement.

School meals (Initial): Operates two-tier workforce with new staff on lower terms and conditions and virtually no sickness benefits. The contractor has continuously sought to erode the terms and conditions of transferred staff.

Residential care: Carefirst (BUPA): Substantial differences between transferred and new staff with reduced pay rates, no recognition for new staff, no weekend

enhancements, no full holiday entitlement with only four weeks (including bank holidays) and high turnover of staff. Recently refused to allow UNISON members to have proper representation and have attempted to overturn the facilities agreement.

National Childrens Homes: Initially refused to pay certain benefits to transferred staff and new staff have reduced pay and conditions. Trade union recognition only for representation and lack of cooperation and information sharing by the organisation. High turnover of staff including the project manager.

The County Council also has contracts with Superclean, Balfour Beattie, Raynesway, Thorburn Colquhoun and Babtie.

Part 4

Impact assessment: The consequences for Bedfordshire

Elected Members

The outsourcing contract is likely to have several effects on Elected Members. Firstly, they, and not the contractor, will take the brunt of any service failures. Secondly, democratic accountability will be severely weakened because the partnership will create a separate, privatised and 'commercially confidential' unit in the council - a government within government. Thirdly, it is likely to lead to further privatisation and transfers who will further devalue the role of local Councillors. Decisions regarding the scope and quality of services will increasingly be made by managers. Finally, elected members will have their options to take appropriate action curtailed by the complexity of contracts and the vested interests of the private contractor.

The 'virtual' local authority

A strategic partnership is a major step towards creating an enabling or virtual council in which services and activities are provided mainly by private contractors and the voluntary sector. What is not made clear, is that this model is also structured on 'Virtual Elected Members' because there will be a much reduced role for democratic accountability and hence fewer Elected Members. The Council will only need the cabinet to award contracts and partnerships.

Users and the community

Users who are very dependent on the quality and consistency of council services will bear the brunt of any failures, delays, cost overruns and lower quality services. It is the continuing delivery of quality services which is important, not access to a call/business centre to lodge complaints or access information.

Staff

TUPE protection limited

The evidence from transfers of staff is that employers have generally exploited TUPE regulations to achieve savings. Whilst existing pay and conditions of service would transfer to a new employer on day one, there is great uncertainty about the length of time TUPE would apply. Most private firms believe that they are legally entitled to harmonise terms and conditions of employment within months of a contract starting. Once a transfer takes place, the new employer, not the council has complete responsibility for jobs, pay and conditions.

Abolish vacant/temporary posts: A new employer is likely to abolish most vacant or temporary posts.

All new staff on reduced terms and conditions: Many private firms create a two-tier pay structure from day one. New staff are not covered by TUPE.

Two-tier wage structure: Virtually all private firms operate a two-wage structure, one for transferred staff and another lower rate with inferior service conditions for new starters. Over time, staff turnover ensures that transferred staff are increasingly undermined by the increasing proportion of staff on different terms and conditions.

Career progression requires transfer to firm's contract: Some firms operate a system which requires staff being promoted to transfer to the firm's own employment contract.

Reduce and/or eliminate payments for weekend and unsocial hours: These payments are likely to be the main target of a new employer.

Sick Pay: Sick pay entitlements are likely to be reduced as part of changes to terms and conditions of employment.

Pensions: The TUPE regulations require a 'broadly comparable' pension to be provided by the new employer. Transferring staff can now remain in the local authority pension scheme. Employers often require new staff to be employed for a minimum period before they can join and often exclude part-time staff by imposing a minimum number of hours requirement.

Health and safety

An increasing range of health and safety problems are being documented at call centres. They include stress, hearing damage, voice loss and aches and pains including headaches, eyestrain, repetitive strain injuries and back pain.

Staff are often required to work long periods without a break and since call centres

operate on a 24-hour, 365 day basis, are often required to work unsocial hours. Shift working often makes a mockery of family friendly employment policies. The work is often tedious with little opportunity for skill or career development and call centres generally have a high staff turnover.

Corporate impact on the Council

The Council has failed to assess the corporate impact of the 'strategic partnership' particularly in terms of the power of the private partner within the authority to influence public policy and identifying further services for outsourcing and transfer. The firm will be in a key position and have a vested interest in determining the conditions for other contracts and services because they will impact on their own contract. The Council does not appear to have carried out a risk assessment of the consequences of service failures.

Contractor monitoring contractor

The strategic partnership will require the main contractor to monitor the work of other contracts already let by the County Council. The County Council will be forced into refereeing conflicts and possibly collusion between private firms.

Other council services

Outsourcing a large range of services in one contract to a single supplier is a high-risk strategy. It will make the council very vulnerable because there is a high risk of IT and service failure. The contractor will be in a very powerful position with unprecedented access to the rest of the Council to enable them to identify and recommend other services to come within the scope of the contract. This has occurred in other local authorities. It will create insecurity and uncertainty across the council and will almost certainly be reflected in the quality of services.

A private firm will become an internal partner, jointly delivering services with the County Council. They will be in a powerful position to propose and to bid for the contract to be extended to other services. Experience shows that once firms are in this position, economics dictate that they continuously search for ways to build their business. So it is almost inevitable that other County Council services will be outsourced or privatised.

The remaining part of the education service, including teaching, will be particularly vulnerable. Capita Group PLC have recently established an Education subsidiary with the acquisition of two leading teacher placement agencies. The idea that Capita, Ensign and other firms vying to expand in the 'education market' will be limited to support services is political and economic naivety. Such firms will eventually be seeking to takeover teaching, training and full education services including the management and operation of schools.

The local economy

We estimate that the strategic partnership will result in the loss of 15%-20% of jobs, between 75 - 100 jobs as the contractor restructures services, seeks economies of scale and integrates the Bedfordshire contract with other current contracts and the firms own support services. Such a reduction will cause the further loss of an additional 15 - 20 jobs in private services in the local economy (based a multiplier of 0.20 - 0.25 calculated in previous research and social and economic audits for the Equal Opportunities Commission and other local authorities). So any reference to the strategic partnership generating additional employment by winning contracts elsewhere, must first replace the 90 (75 + 15) -120 (100 + 20) jobs lost in the local economy.

Regional economy

Given the pressures to improve employment opportunities in the local and regional economy, it is understandable that Elected Members are attracted by proposals, which appear to promise new jobs. However, a strategic partnership and regional call/business centre will reduce regional employment rather than increase it. This strategy assumes that the successful contractor will be able to win additional public and/or private sector work in the region. If it does win this work, for example from other local authorities in Bedfordshire and neighbouring counties, this work will, in theory, be transferred to the Bedfordshire call/business centre and integrated with existing contracts to achieve further economies of scale. But the contractor will require a much smaller proportion of staff from these other local authorities. The result will be a net job loss. Furthermore, other local authorities are likely to have to finance a higher level of voluntary retirements and/or compulsory redundancies because the contractor will require fewer staff under a TUPE transfer. Capita already operates a call centre for Hertfordshire County Council.

A third factor to be taken into account is the quality of employment. The partial replacement of local authority jobs by call centre jobs with inferior temporary terms and conditions will result in an overall reduction in the quality of employment. The quality of jobs and working conditions have been the subject of many trade union campaigns and investigations, particularly over health and safety issues. The construction of a call/business centre will provide very limited short-term employment because the buildings are essentially building shells with minimal facilities and are thus relatively quick and cheap to construct. Call centre costs are mainly for labour and IT with limited chains of supplies to support their operation and will therefore support few additional jobs in the local economy. They have few other related services within the call centre and thus support few jobs in the local economy. The longer-term prospects for call centres are limited because of the rapid expansion of the internet. Centres can readily be closed and the assets transferred elsewhere.

Losses rather than gains

Far from being an engine of job creation, the strategic partnership is more likely to

systematically reduce the level and quality of employment in the County and region.

Community strategy

The Local Government Act 2000 places a new duty on local authorities to promote the economic, environmental and social well-being of their area and to prepare a community strategy. This replaces the requirement to produce an economic development strategy. Although the government is still at the consultation stage with proposals regarding the content and process of preparing these strategies, the County Council should take account of these requirements, albeit they are in draft form, because of the size of the proposed partnership and its implications for public services and the local economy.

Part 5

Alternatives and recommendations

Recommended action

We recommend that the County:

1. Receives the bids from contractors and subjects them to the following detailed scrutiny before deciding whether to select a preferred bidder or to approve an alternative approach:
 - a. Carry out a rigorous evaluation and assessment using Best Value and other criteria - see Appendix 1 for details - the results of which are publicly available for the consultation outlined below.
 - b. full consultation with Elected Members, users, community organisations and trade unions. Prepare a Public Consultation Plan, which will involve full consultation on all aspects of the contract across the County.
2. Immediately publish all the Best Value reviews for the services included in the strategic partnership contract, irrespective of whether these are interim or draft reports. This should be accompanied by the full public sector comparator, which the local authority has claimed it has produced.
3. Prepare an alternative plan, which consists of accessing specialist ICT expertise and equipment and retaining the direct provision of support services.
4. 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 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.

5. Request that the Audit Commission investigate the working relationship between the District Auditor and the County Council and the possibility that a uncritical working arrangement has emerged, which is not in the public interest.

An alternative strategy

We recommend that an alternative strategy is drawn up to provide the basis for a full options appraisal and evaluation of partnership proposals

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. The capital expenditure element is not a significant part of the costs. Furthermore, the Government is planning to reform the capital finance regime and abolish or relax credit approvals. This is a viable, practical and cost effective method of improving quality and access, maintaining continuity of service and minimising disruption and insecurity.

"The implementation of an IT system is not an end in itself.....Training of staff can take up considerable resources, often a significant proportion of the overall cost of the project. Training must address the needs of users and of those operating and maintaining the system." (House of Commons Select Committee on Public Accounts)

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 transition 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.

Appendix 1

Evaluation criteria

The evaluation and assessment of the strategic partnership should include the following criteria:

Best Value

- Quality of service
- Continuous improvement
- Implementation of corporate policies
- Improving democratic accountability and community consultation
- Increasing cost effectiveness
- Valuing staff and training
- Mainstreaming equity, equalities and environmental sustainability

Education

- Implications for schools
- Longer term impact on teaching and education services
- Implications for LEA strategic responsibilities

Information and communications technology

- Contribution to ICT strategy
- Renewal and replacement of systems over 10 years
- Interface between support and core services

Added Value

- Service improvements
- Higher quality service
- Innovation in service delivery
- Additional planned investment
- Resources for corporate policies
- Additional training
- Quality of employment and new jobs
- Quantification of financial savings

Community plans

- Contribution to the social, economic and environmental well-being of the County
- Consultation

Social Inclusion

- Local economy impact
- Social inclusion proposals
- Health impact assessment

Corporate impact

- Assessment of impact on democratic accountability
- Client resources required for partnership, monitoring and evaluation
- Knock-on effect on other services
- Knock-on effect on management and organisational structures

Risk analysis

Employment

Commitment to TUPE for length of contract
Commitment to maintaining staffing levels,
Commitment to Single Status agreement
Commitment to maintain terms and conditions
Redundancy and early retirement terms
Comparable pension benefits
Local trade union recognition agreement
Trade union facilities and representation
Training/career development
Workplace conditions
Equal opportunities policies
Health and safety policies and practices
Recruitment practices
Additional benefits

Partnership

Contractor's contribution
Ownership of assets and intellectual capital
Who and terms of involvement
Parity of the partners
Ability and track record of partnership companies working together
Contribution to partnership
Clarity of objectives and targets
Resource implications
Implications for performance assessment

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