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Briefing on

Strategic Service-delivery Partnerships

and

Outsourced Shared Services Projects

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

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European Services Strategy Unit

(Continuing the work of the Centre for Public Services)

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The **European Services Strategy Unit** is committed to social justice, through the provision of good quality public services by democratically accountable public bodies, implementing best practice management, employment, equal opportunity and sustainable development policies. The Unit continues the work of the Centre for Public Services, which began in 1973.

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Executive Summary

Strategic Service-delivery Partnership **(SSP)** is a long-term (usually ten year with option for further five years) multi-service, multi-million pound contract between a pubic body and a private contractor. Strategic Partnership contracts range from £50m-£600m over ten years, financed from the authority's revenue budget. Private finance may be used to front load investment but this is usually only a small percentage of the contract.

Between 50 - 1,000 staff transfer to a private contractor or a Joint Venture Company (JVC) established between the local authority and contractor, or staff may be transferred to a JVC. The range of services usually include IT and related services such as human resources, payroll, revenues and benefits, financial and legal services, property management and other professional services (highway management, technical services).

Shared services projects range from collaboration and shared procedures between two or more public bodies. corporate consolidation within a public sector organisation at regional or national level, lead authority on behalf of a group of public bodies, jointly managed services between a group/consortium of public bodies at subregional or regional level, a strategic partnership or joint venture with the private sector or outsourcing and offshoring.

Finance, savings and investment

Savings in the fourteen Audit Commission case studies were between 1.0% and 15.4% of the contract value with a mean of 8.3% (Audit Commission, 2008). This is significantly below the figures claimed for SSP projects at the options appraisal and procurement stage. SSP procurement costs are substantial, often between £1.0 and £2.5m depending on the size and complexity of the contract. Management costs, including backfilling posts, and consultants and adviser's fees account for the bulk of these costs. In addition, there are hidden operational costs.

Governance – accountability and transparency of JVCs and Partnership Boards

A local authority usually has a 20% stake in a Joint Venture Company (JVC) with the private contractor having the remaining 80%. This is also reflected in the Board of Directors. SSPs often have a three-level governance arrangement with a Partnership or JVC Board, together with Strategic and Operational Boards.

Elected Members and staff must not be seduced by partnership rhetoric. SSPs and outsourced shared services projects are first and foremost legal contracts which have to be procured, negotiated, scrutinised, managed, monitored and reviewed. Private contractors operate a number of practices to try to weaken trade union organisation.

Southwest One, the JVC shared services and strategic partnerships between Somerset County Council, Taunton Dean District Council and Avon and Somerset Police Authority with IBM, refused to provide a copy of the Staffing Agreement until the contract had been signed, a weaker staffing agreement for the police allows direct recruit by the JVC on different pensions, the JVC will not recognise UNISON to represent and negotiate on behalf of new staff and IBM and the local authorities imposed blanket 'commercial confidentiality' refusing to release even basic information about the contract.

SSPs projects are driven by senior management who engage management consultants, legal and financial advisers. The level of independent scrutiny is extremely limited. Gateway Reviews are constrained in scope and purpose to assessing the degree of rigor and comprehensiveness of the chosen approach but do not challenge the policy decision. There have been a few examples of service user and public consultation.

Performance – terminations/contract reductions

The Government's Strategic Partnering Taskforce and subsequent reports and case studies by the 4ps and New Local Government Network suggested that SSPs were a win-win scenario. Yet the recent Audit Commission report hardly gave resounding support for SSPs, no SSPs were mentioned in the Transformational Government Annual Report 2007 (Cabinet Office, 2008) and no local authorities with SSPs were in the 16 case studies selected by the Front Office Shared Services (FOSS) programme (Cabinet Office, DCLG, IDeA and LGA, 2007). Four SSPs have 'failed' – two contract have been terminated, Bedfordshire County Council, West Berkshire, and two – Redcar and Cleveland Council and Swansea City Council - have been significantly reduced in scope.

The Department for Transport's (DfT) shared services contract with IBM was heavily criticised in a recent investigation by the National Audit Office. The Outline Business Case forecast £57.0m savings by 2015 but these had vanished by March 2008 and were replaced by a forecast of £81.1 additional costs. The original estimate of the technical contract was £16.5m, yet the Department had paid IBM over £54m by the end of March 2008 plus a further £18m to other contractors. The project had a poor performance record and low staff morale.

Fifty seven percent of outsourced public sector ICT and corporate services contracts in central government, NHS and local authorities had an average cost overrun of 30.5% (a total of £9bn), a third of contracts had major delays and 30% were terminated.

High-risk strategy

An SSP or outsourcing of shared services are high-risk strategies. Risk transfer is frequently exaggerated. Whilst some risks may be shared between the authority and a private contractor, the buck ultimately rests with the Council, which bears the risk of procurement or contract failure, operational problems, financial and/or partnership failure, failure to generate new jobs and achieve social and economic transformation.

Employment and job creation

The four employment options - retention of in-house employment with current terms and conditions and pensions; secondment to a Joint Venture Company (JVC) established by the Council and a private contractor; transfer to a new employer under the TUPE regulations or TUPE Plus arrangements; or a 'choice' model in which staff have the option to TUPE transfer to the new employer or choose to be seconded by the council.

Of the 34 SSP contracts covering ICT and corporate services, seven have seconded staff to a JVC (representing 32% of the total number of staff), two authorities transferred staff to a JVC (5% of staff), twenty three authorities transferred staff to a private company (60% of staff) and two authorities used the choice model (3% of staff) (ESSU, 2008).

The Best Value Code of Practice on Workforce Matters is supposed to protect the terms and conditions of staff working for contractors on public service contracts, including new starters. However, there is no evidence that the government, local authorities, private contractors or trade unions are monitoring the Code thus it is impossible to say whether staff are in fact being protected.

Job creation and/or savings are the main reason why SSPs and shared services projects receive political support. However, all but one SSP have failed to meet the job creation targets to date and most appear unlikely to achieve them. Most local authorities stipulate that services must be produced from within their boundary. However, many contractors, for example, Capita, Capgemini and IBM, increasingly offshore work to Asia or Eastern Europe.

Capability of the council to transform services

At least ten local authorities have opted to transform ICT and corporate services in-house and procure 'best in class' ICT advice, hardware and software as and when required. They include Newcastle City Council, Kent County Council, Northamptonshire County Council, Salford City, Wakefield MBC, Walsall MBC and North East Lincolnshire Council.

Only one authority, Newcastle City Council, allowed an in-house bid in the procurement of an SSP. The in-house option gave better value for money, provided the same investment at lower cost, provided the same Service Improvement Plan, required fewer job losses and the in-house option demonstrated it could achieve the required changes. The commitment and cooperation of the staff and trade unions was also an important factor. A new division, City Service was created and has since successfully transformed ICT and corporate services and achieved the required savings.

The key contractors

Eleven private firms dominate the local government strategic partnership/shared services sector, six companies with 33% of contracts by value, are foreign owned – Arvato (Germany), Capgemini (France), IBM (US), Steria (France) plus Liberata and Vertex which are owned by US private equity groups.

Introduction

This Briefing Paper provides an overview of the key issues concerned with Strategic Service-delivery Partnerships (SSPs) and shared services projects. It begins with a brief definition of these projects.

Strategic Service-delivery Partnership **(SSP)** is a long-term (usually ten year with option for further five years) multi-service, multi-million pound contract between a pubic body and a private contractor. Strategic Partnership contracts range from £50m to £600m over ten years, financed from the authority's revenue budget. Private finance may be used to front load investment but this is usually only a small percentage of the contract.

Between 50 - 1,000 staff transfer to a private contractor or a Joint Venture Company (JVC) established between the local authority and contractor, or staff may be transferred to a JVC. The range of services usually include IT and related services such as human resources, payroll, revenues and benefits, financial and legal services, property management and other professional services (highway management, technical services).

There are currently over 50 SSPs in Britain. Thirty-four provide ICT and corporate services with a total contract value of £7.5bn with over 15,000 staff transferred or seconded to private contractors or Joint Venture Companies (JVC). Some SSPs involve private sector takeover of local authority maintenance departments.

The first SSP tranche of contracts were awarded in 2000/01 with Lincolnshire CC in April 2000, Cumbria in February 2001 followed by Blackburn, Bedfordshire and Middlesbrough in June 2001 and Liverpool in the same year.

The Government established the Strategic Partnership Taskforce in September 2001, which ran in parallel with the development of the national procurement strategy for local government. The Taskforce ran for about two years and published five 'Rethinking Service Delivery' reports plus a series of technical notes.

The combination of the initial SSP contracts and the Strategic Partnership Taskforce created an impression of innovation and 'the only show in town' and 'there is no alternative'. This was fuelled by local government organisations such as the New Local Government Network and other private contractor supported bodies which enthusiastically promoted SSPs. The 4ps produced case study reports which advocated the SSP approach. However, the initial claims have not been proven and reporting of their performance has declined markedly.

The Audit Commission published a study of SSPs and some of the findings are referred to in this briefing (Audit Commission, 2008). A critical assessment of the report found fundamental flaws ranging from inadequate methodology, no evidence base, employment issues ignored, no audit of private sector investment and no comparison of an alternative in-house approach. The Commission's claim that the information on which its findings are based was "commercially confidential" make a mockery of transparency, performance management, democratic accountability and community engagement.

Shared services projects range from collaboration and shared procedures between two or more public bodies. corporate consolidation within a public sector organisation at regional or national level, lead authority on behalf of a group of public bodies, jointly managed services between a group/consortium of public bodies at subregional or regional level, a strategic partnership or joint venture with the private sector or outsourcing and offshoring.

ICT and corporate objectives

SSPs and shared services projects are intended to increase access to public services and transform the delivery and management of services under the E-government programme. But this is only aspect of ICT transformation – there are four other 'Es' - E-education, E-democracy, E-citizenship and E-commerce (plus growth of www2 social networking).

E-education or learning has a key role in role in formal education, (re)training and adult life-long learning. Improved accessibility alone does not necessarily improve learning and ICT training must extend beyond the immediate needs of business.

E-democracy could inform local area decision-making and improve access to basic information for participation and consultation, There have been few attempts to use ICT for genuine and innovative change to improve accountability and transparency, other than the limited E-voting role.

E-citizenship - offers the potential to enhance participation in civil society and political life. ICT can support information sharing and communications networks between community organisations, trade unions and civil society organisations. A community information/organising portal could assist in organising and developing alliances, capacity building and empowerment.

SSPs have a history of missed opportunities because they have made little attempt to address the other 'E's, excluding E-commerce. It is too early to assess shared services projects on these terms.

Not all SSP projects proceed

Six local authorities commenced the SSP procurement process and were in negotiations with a preferred bidder when they decided not to proceed with the project. Another three local authorities examined the option of an SSP but decided not to commence procurement. All these authorities decided to implement ICT and transform services using in-house staff and a mixed economy approach drawing on external suppliers on a 'best in class' basis. Newcastle City Council commenced procurement and submitted a successful in-house bid, one of the largest-ever in-house wins in British local government.

Finance, savings and investment

Economics of SSPs

SSPs and shared services projects are financed by the local authority and other participating public bodies. Like Private Finance Initiative projects, they are financed from revenue budgets. A private contractor may finance the front-loading of investment, for example to build a contact centre, but will receive payment for this investment over the contract period. The local authority will have to pay the higher interest charges borne by the private contractor. Private contractor's capital investment varied between 2.3% and 15.0% with a mean of 7.0% in fourteen case studies covering a range of different services (Audit Commission, 2008).

The transformation of services, including new hardware and software, is financed by monthly contract payments. Reductions in staffing levels, efficiency savings in procurement and other functions provide the finance and contractor's profit.

Most of the new jobs will also be publicly funded if the project succeeds in obtaining new contracts or shared services partners.

A private contractor may propose building a business centre from which they will operate the council services and other contracts. However, it will only do so if it can forecast continued growth. It will own and operate the building.

Value for money

Savings in the fourteen Audit Commission case studies were between 1.0% and 15.4% of the contract value with a mean of 8.3% (Audit Commission, 2008). This is significantly below the figures claimed for SSP projects at the options appraisal and procurement stage.

The Commission were critical of the methods used to calculate savings. "Many have compared the annual charge paid to the contractor to the previous cost of providing the same service. However, this approach does not account for additional efficiencies that may have been achieved from in-house provision, or the change in outcome specification that the contractors are tasked with delivering" (Audit Commission, 2008).

SSPs and outsourced shared services projects usually forecast large savings over a ten-year period but they cannot be assured until after the contract has been completed. You don't judge a building when it is half completed so neither can service delivery be judged successful and value for money obtained until delivery has been completed. The degree to which value for money is ultimately achieved will depend upon the quality of the management and monitoring of contract performance. Council's must overcome a series of operational, financial, performance and organisational challenges over the life of a contract before they can claim value for money.

High transaction costs

SSP procurement costs are substantial, often between £1.0 and £2.5m depending on the size and complexity of the contract. Management costs, including backfilling posts, and consultants and adviser's fees account for the bulk of these costs.

Contract management costs

The Office of Government Commerce recommends that contract management should account for 2% of the contract value and the Audit Commission refers to about 3% for PFI contracts and up to 7% for ICT contracts. However, The of the five examples in the Audit Commission's research on SSPs only one authority allocated more than 1.5% of the contract value to management and monitoring.

For example, Somerset County Council's 'lean' team to manage the Southwest One joint venture consists of seven officers and two support staff (the original plan was for only five officers) -about a third of the resources needed to achieve the three percent best practice ratio.

Hidden costs and profits

SSPs and outsourced shared services projects have hidden costs. Large contracts can rarely completely cover all aspects of services, investment, responsibilities and so on. But gaps or vagaries are turned in variation orders and additional costs. In addition, private sector partners usually identify additional projects for inclusion in the transformation programme and bring more services within the scope of the partnership.

- The additional use of technical and/or management consultants;
- The extension of technology and transformation to out of scope services;
- The cost and timing of agreeing property deals for new accommodation and/or regeneration such as land acquisition, site preparation, design, development and construction may be subjected to delays and escalating costs;
- The use of the Change Control/further services mechanism.
- Interface problems between in-house and outsourced and between those in/out of scope.

No contract is perfect and it is inevitable that omissions and changes in the scope, quality, volume and outputs will incur additional costs.

Governance – accountability and transparency of JVCs and Partnership Boards

Organisational arrangements and key issues

Joint Venture Company (JVC) - A local authority usually has a 20% stake in the company with the private contractor having the remaining 80%. This is also reflected in the Board of

Directors. In most cases, secondary partners or sub-contractors do not have Board representation. SSPs often have a three-level governance arrangement with a Partnership or JVC Board, together with Strategic and Operational Boards. A Partnership Board in an outsourced contract normally includes the Council Leader, main portfolio holder and the Chief Executive with directors from the private contractor. Other Boards have other senior management representation. The Partnership or JVC Board will report directly to the cabinet or executive. Few councils disclose the agendas and/or minutes of these Boards.

Staffing agreements – lack of a common agreement between the JVC and participating authorities spell dangers for staff and UNISON. The Southwest One JVC has a joint staffing agreement with Somerset CC and Taunton Deane DC but when Avon and Somerset Police Authority joined the JVC, a separate and weaker staffing agreement was negotiated. There are two principle differences. Firstly, new staff recruited for council services will be employed the local authorities and seconded to the JVC however new staff for police services will be directly recruited and employed by the JVC. Secondly, new police staff will have separate pension arrangements to seconded staff. Thus elements of a two-tier workforce have been built into the JVC from the beginning.

Partnerships – Elected Members and staff must not be seduced by partnership rhetoric. SSPs and outsourced shared services projects are first and foremost legal contracts which have to be procured, negotiated, scrutinised, managed, monitored and reviewed. Private contractors are usually the first to resort to the contract and they are often adept at understanding what is or isn’t in the contract.

Reserve matters form part of the contractual conditions and allow the partners to revisit them later in the contract. They usually cover expansion of the ‘business’, changes in the ownership or structure of the JVC and the location of contact and operational centres. This means that whilst there is a current commitment to carry out the work within the authority, it allows the contractor to raise this matter at a later date when they could offer other ‘inducements’.

Contract practice – Private contractors operate a number of practices to try to weaken trade union organisation. For example, they may demand that staff have a separate UNISON branch and may refuse to negotiate with branch officials who are not employed in the SSP. Capita forced all members to re-authorise their trade union deductions after transfer in Southampton in 2007 leading to a loss of members although some were persuaded to renew their membership.

Staff and trade union participation – It is common practice for local authorities procuring SSPs or outsourced shared services contracts to establish staff forums, ostensibly to ensure non-union members are consulted, however, they are often used to divide and rule. They often continue within the SSP or JVC.

JVC problems in Somerset

Southwest One, the JVC shared services and strategic partnerships between Somerset County Council, Taunton Dean District Council and Avon and Somerset Police Authority with IBM, has:

- Refused to provide a copy of the Staffing Agreement until the contract had been signed (forthcoming Employment Tribunal).
- The agreement states that the proportion of seconded staff working on Authority business within the JVC cannot fall below 70% at any time during the life of the contract. Originally IBM wanted to directly recruit new staff to Southwest One, which would have further reduced the effectiveness of the secondment model.
- IBM has stated that it will not recognise UNISON to represent and negotiate on behalf of new staff who join the JVC.

- There are two different staffing agreements – one for the local authority staff and a weaker version for Police staff.
- IBM and the local authorities imposed blanket 'commercial confidentiality' refusing to release even basic information about the contract and how the JVC will achieve its 'social' objectives.

Scrutiny

SSPs projects are driven by senior management who engage management consultants, legal and financial advisers and are often supported by the 4ps (Public Private Partnerships Programme). The complexity of projects, lack of knowledge and workload levels means that it is frequently difficult for elected members to achieve the required level of rigorous scrutiny.

The Gateway Review process examines a project at critical stages in its lifecycle to provide assurance that it can progress successfully to the next stage. The level of independent scrutiny is extremely limited. Gateway Reviews are constrained in scope and purpose to assessing the degree of rigor and comprehensiveness of the chosen approach. In other words, it assesses the quality of the work undertaken in implementing a particular policy option, it is not designed to challenge the policy decision or select an alternative option.

Commercial confidentiality

'Commercial confidentiality' is extensively used to limit the amount of information on proposals, bids, costs and impacts available to UNISON branches and the public. Signing information agreements may give access to more information but there are major constraints on how this information can be used. There are major limitations to relying on Freedom of Information (FOI) requests because branches need information *before* decisions are made. The FOI process can be drawn out if the authority decides to delay and/or dispute the release of information.

Loss of public sector values and principles

Outsourcing and partnership contracts with private companies usually erode public sector principles and values. Yet they have an essential role in the implementation of policies and programmes to improve community well being and sustainable development.

Limited participation

Participation and consultation in the procurement of SSPs and JVCs is usually limited to internal consultation with clients, for example schools and arms length bodies. There have been a few examples of area committee, service user or public involvement. For example, Oldham had the SSP on the agenda of six area meetings in July 2006 but this *after* the Council decision to appoint Mouchel as preferred bidder. Neither the Local Government Act 2008 nor the recent 'community empowerment' White Paper address participation and access to information in the procurement process.

Performance – terminations/contract reductions

The Government's Strategic Partnering Taskforce and subsequent reports and case studies by the 4ps and New Local Government Network suggested that SSPs were a win-win scenario. Yet the recent Audit Commission report hardly gave resounding support for SSPs, no SSPs were mentioned in the Transformational Government Annual Report 2007 (Cabinet Office, 2008) and no local authorities with SSPs were in the 16 case studies selected by the Front Office Shared Services (FOSS) programme (Cabinet Office, DCLG, IDeA and LGA, 2007).

Four SSPs have 'failed' – two contract have been terminated, Bedfordshire County Council, West Berkshire, and two – Redcar and Cleveland Council and Swansea City Council - have been significantly reduced in scope.

Table 1: **Terminated and significant change in SSP partnerships**

Local authority	Change in contract
1. Bedfordshire County Council	Terminated contract with HBS Business Services in 2005 after failure to achieve key deliverables and poor performance.
2. West Berkshire Council	Terminated contract with Amey Group in 2005.
3. Redcar & Cleveland Council	Following a 'strategic review of services' HR and Payroll, Finance and Accounting, ICT, Public Access and Business support will be brought back in-house by September 2006 after only 3 years of the 10 year Liberata contract.
4. Swansea City Council	£83m ICT contract with CapGemini. Phase 1 savings reduced from £26m to £6m and Phase 2 abandoned.

Source: European Services Strategy Unit.

The Audit Commission examined 14 case studies of which three contracts had been terminated. “Three of the councils in our sample, that were among the first of those to enter an SSP, have terminated their contracts because anticipated benefits had not materialised and there was little confidence that they would” (Audit Commission, 2008).

IBM’s shared services contract with department for Transport

The Department for Transport’s (DfT) shared services contract with IBM was heavily criticised in a recent investigation by the National Audit Office. The project commenced in April 2005 to create a centralised Shared Services Centre in Swansea for the departments and its agencies such as the Driver and Vehicle Licensing Agency (DVLA) and the Driver Standards Agency (DSA). However, by 2008

- The Outline Business Case forecast £57.0m savings by 2015 but these had vanished by March 2008 and were replaced by a forecast of £81.1 additional costs.
- The original estimate of the technical contract was £16.5m, yet the Department had paid IBM over £54m by the end of March 2008 plus a further £18m to other contractors.
- IBM had to issue several credit notes of £435,000 and £145,000 because it had duplicated chares to the Department.
- As costs escalated, IBM got approval to develop some of the software offshore. However, “the reduction was not as great as had been envisaged because of delays and additional costs associated with complying with the stringent government security accreditation requirements regarding software development abroad. Neither IBM nor the Department have been able to supply figures for the cost reduction which resulted from this exercise, including the effect of increased security accreditation effort (NAO, 2008).
- Poor performance of the Shared Service Centre with delays in the availability of some services and delays in payments to suppliers. The cost per invoice processed is more than four times that of invoices processed by the NHS and Prison Service shared services centres.
- Operational consequences for customer service and prompt payment at the Driving Standards Agency and the Driver and Vehicle Licensing Agency.
- The NAO commissioned WS Atkins to carry out a customer satisfaction survey and focus groups of staff prior to their work. The NAO then conducted nine focus groups as part of their investigation. Both studies revealed users had low confidence in the current system, including concerns over data security; were concerned over the quality of training provided for the new system; had a low opinion of the quality of service provided; and the responses to requests for help were poor (NAO, 2008).

The Department was heavily criticized for the use of an existing framework agreement for the project and its management of the implementation process.

Capita's missing invoices in Birmingham

In February 2008 Service Birmingham, the joint venture between Birmingham City Council and Capita Group plc, had over 18,000 unpaid invoices 'stuck' in its new SAP based system. By May, six months after the system went live, the backlog remained with over 10,000 unpaid invoices (Computer Weekly, 4 February and 15 May 2008).

Key Performance Indicators

Private contractors and many local authorities counter any questions about performance by referring to how Key Performance Indicators (KPIs) will be used to ensure 'world class' quality of service. However, KPIs focus on processes, not the quality of service, and ensure the contractor obtains a regular income from the completion of tasks. They never measure the quality of employment and contribute little or nothing to accountability and governance of the project.

Performance of outsourced ICT contracts

Across the public sector poor performance. The government stopped the use of the Private Finance Initiative (PFI) for ICT projects in July 2003 following a series of failures. But the catalogue of failures has continued.

A ESSU Research Report identified 105 outsourced public sector ICT contracts in central government, NHS, local authorities, public bodies and agencies with significant cost overruns, delays and terminations in the last decade (Whitfield, 2007). It draws on the performance of a range of contract models including outsourcing contracts, Public Private Partnerships (PPP), Private Finance Initiative (PFI) and Strategic Service-delivery Partnerships in central and local government, the NHS and other public bodies. It excludes medium/small contracts. Many examples of ICT contract cost overruns, delays and service delivery problems have been excluded because they were relatively small projects ie under £5m.

There are many outsourced ICT projects that are delivered on time and within budget. It is clear that some of then problems encountered by ICT projects are a result of over-ambitious projects, a lack of design and development before procurement, and pressures for efficiency savings overtaking the ability to deliver. The technical complexity of projects is also often under-estimated.

The research revealed:

- 105 outsourced public sector ICT projects had significant cost overruns, delays and terminations.
- Total value of contracts is £29.5 billion.
- Cost overruns totalled £9.0 billion.
- 57% of contracts experienced cost overruns.
- The average percentage cost overrun is 30.5%.
- 33% of contracts suffered major delays.
- 30% of contracts were terminated.

The main ICT companies with contract cost overruns, delays and terminations are EDS – 13 contracts, Liberata (8), Fujitsu and IBM (6 each), Accenture, Atos Origin, Capita, ITNET (now Serco) and Siemens (5 each) and BT (4).

High-risk strategy

A SSP or outsourcing of shared services are high-risk strategies. Firstly, the authority retains the political risk of problems or failures in service delivery. For example, it retains the risk that service quality is adversely affected during the transformation process, changes in the level and timing of savings and benefits, contract management and monitoring, early termination costs and the financial consequences of cuts in other budgets in order to meet contract obligations. It also retains its statutory duties.

Risk transfer is frequently exaggerated. Whilst some risks may be shared between the authority and a private contractor, the buck ultimately rests with the Council.

Local authorities are confronted by many risks:

***Procurement failure**:* Many local authorities have embarked on the procurement process only to find that they cannot obtain adequate terms and conditions and have to abort the process. A delay in preferred bidder negotiations and contract signing could lead to significant additional costs because of continuing management consultancy and legal fees and officer time.

***Contract failure**:* Two SSP contracts have been terminated and a further two have been significantly reduced in scope – 13% risk of failure (based on 31 contracts excluding five contracts commenced in 2007/08)

***Operational problems**:* failure by the contractor to meet the performance and investment requirements and targets.

Financial failure: **Savings** may be smaller than planned because business process re-engineering takes longer and/or is more costly, procurement savings are lower than forecast and other system difficulties could significantly affect the affordability and viability of the contract. There may also be unforeseen operational or contract termination cost increases.

***Partnership failure**:* Both JVC and outsourced contracts are dependent on establishing good working relationships between the authority(s) and contractor and between the main contractors and junior or subcontractors.

***Shared services failure**:* Other local authorities and public bodies decide not to join a shared services project or establish separate projects. The decision making process in other authorities may take much longer than expected. This could delay or postpone the establishment of a promised Business Centre.

***Job creation failure**:* The failure to create replacement, let alone additional jobs, has been endemic in SSPs.

***Social and economic transformation failure**:* There is little evidence to date of social and economic transformation.

Industrial relations disputes: The failure to fully engage staff and trade unions in the transformation process, proposals to offshore work, policies which create a two-tier workforce and/or reduce trade union recognition and facilities are likely to have a knock-on effect on staff morale and quality of service.

Employment and job creation

The four employment options

1. **Retention of in-house employment.** Current terms and conditions and pensions would continue.
2. **Secondment in which staff remain employed by the Council but work for, and are managed by, a Joint Venture Company (JVC)** established by the Council and a private contractor or by a group or consortium of public sector bodies. Staff remain employed by the Council and there is no change to terms and conditions, pensions and trade union recognition. Staff would work for, and be managed by, a Joint Venture Company (JVC).
3. **Transfer to a new employer under the TUPE regulations or TUPE Plus arrangements**. The Best Value Code of Practice on Workforce Matters applies to new starters and requires that contractors (and sub-contractors) employ new staff working alongside transferred staff on “fair and reasonable terms and conditions which are overall no less favourable than those of transferred employees.” Contractors must consult with trade unions to agree the terms and conditions for new starters. The Code must be included in the contract between the public sector and the contractor.
4. **A ‘choice’ model in which staff have the option to TUPE transfer to the new employer or choose to be seconded by the council.** This model is promoted by a few private contractors such as Capita and Serco. There are many disadvantages of a ‘choice’ employment model. Secondment gives staff a transitory status because there is an expectation that they will eventually transfer to the contractor’s terms and conditions. It potentially creates a three-tiered workforce consisting of seconded, TUPE transferred and new starters with differences in pensions provisions. Seconded staff would remain in the LGPS, TUPE staff may or may not be the LGPS but new starters are likely to be in the contractor’s own pension scheme.

Of the 34 SSP contracts covering ICT and corporate services, seven have seconded staff to a JVC (representing 32% of the total number of staff), two authorities transferred staff to a JVC (5% of staff), twenty three authorities transferred staff to a private company (60% of staff) and two authorities used the choice model (3% of staff) (ESSU, 2008).

TUPE Plus

The standard TUPE transfer does not provide adequate security and protection of terms and conditions for staff. TUPE Plus transfers are supposed to guarantee that TUPE will last for the length of contract (the regulations do not specify a time period) with new starters on the same/very similar terms and conditions. The contractor will obtain Admitted Body Status to the Local Government Pension Scheme (LGPS) for the length of the contract; implement annual local government pay awards; not impose restrictions on staff promotion; be committed to equal opportunities, work-life balance, whistle blowing and health and safety policies at least equivalent to the Council’s employment and corporate policies; have an approved workforce development, education and training plan; maintains the current trade union recognition and facilities agreement unless changed by agreement; and undertakes not to offshore any work relating to the contract.

The Council establishes a system to monitor the employment policies and practices of the contractor as an integral part of the performance management and reporting process.

Employment risks

TUPE transfers and the Best Value Code of Practice on Workforce Matters do not provide any guarantees. Outsourcing means that the local authority is transferring a series of risks to their existing staff. However, many managers and elected members conveniently assume that staff are protected by TUPE and the Code of Practice. Reality is different.

Staff are confronted with a series of risks such as changes to terms and conditions of service, staff consultation and representation and to workplace conditions.

The Employment Risk Matrix (www.european-services-strategy.org.uk) identifies the range of risks, which are borne by staff in the employment models. The Matrix assesses the level of risk of changes in four categories of risk - changes to terms and conditions of service, pensions arrangements, changes to staff consultation and representation and potential problems with secondment agreement. It reveals that:

- 100% of the risks for the in-house and secondment models are in the none/low risk category.
- The transfer model has 80% of the risks for employees in the high and medium risk categories and only 20% in the none/low risk category.
- 84% of the risks in the ‘choice’ model are medium and high risks with 16% in the none/low risk category.

Two-tier workforce

The Best Value Code of Practice on Workforce Matters is supposed to protect the terms and conditions of staff working for contractors on public service contracts, including new starters, and to provide a negotiating framework for branches facing outsourcing.

A number of local authorities have also included ‘TUPE-plus’ clauses in their contracts. TUPE-plus agreements build on TUPE rights, guaranteeing that there is no deterioration in pay and conditions during the life of a contract. They may build in trade union bargaining rights for all staff, including new starters. In particular, they extend protection to groups of staff not covered by TUPE, including those employed after transfer. The Greater London Authority (GLA) has introduced a fair employment clause into its contracting procedures.

However, there is no evidence that the government, local authorities, private contractors or trade unions are monitoring the Code thus “it is not possible to say whether these measures are successful, either in preventing a two tier workforce or stopping the driving down of pay and conditions” (UNISON, 2008).

The situation is further complicated because the government arbitrarily made some sectors and types of institution exempt from the codes, for example, academies and large scale voluntary transfers unless the employers and unions agreed to apply them; some categories of staff are not covered by any agreement, for example, social care where spot purchasing is used; some contractors refuse to apply the Code; some local authorities are deemed to comply with the code despite not implementing it - as long as they have given due consideration to the code, they are then free to allow contractors to pay market rates, which are generally set at the level of the minimum wage, arguing that this is “Best Value”.

The Codes are predicated on there being at least one employee working on the contract who is a TUPE transferee still on public sector terms and conditions. This is self-limiting, since, unless a contract is taken back in-house, eventually all the original staff will have left or retired and the codes will no longer apply.

New jobs?

Job creation and/or savings are the main reason why SSPs and shared services projects receive political support – see Table 2. However, all but one SSP have failed to meet the job creation targets to date and most appear unlikely to achieve them. For example, HBS did not create any additional jobs in Bedfordshire and has created only 137 after 6 years in Middlesbrough despite a target of between 487 and 750 new jobs. IBM’s bid in Somerset originally included a commitment to “500 new jobs in Taunton created by IBM and our partners" but this disappeared during preferred bidder negotiations (Staff Summary, IBM, 28 November 2006). A new figure of 200 'new' jobs appeared eight months into the contract.

Only the Blackburn SSP achieved the job creation target of 500 new jobs in the borough over five years (2001-6), with 100 jobs being created in the first year. Capita claimed "400 new jobs have been created through additional work generated by Capita" (Capita Annual Report 2001). But in 2001 Capita won a ten-year TV licensing contract by the BBC worth £500m. The work was previously carried out by the Post Office who employed 1,000 staff in Bristol and another 400 staff in enquiry offices nationally. Capita transferred a large number of the Bristol based jobs to Blackburn in 2002. The "new" jobs were not directly linked to the local authority contract but part of a company strategy to relocate privatised jobs to the area.

Implementing new technology usually means a loss of jobs so to create additional jobs means that SSPs have to win substantial additional contracts from other local authorities and public bodies.

The ratio of 'new' jobs to be created by the SSP compared to the number of staff transferred or seconded varies from 371% in Pendle to a low 14% in Somerset/Taunton Deane/Avon & Somerset Police – see Table 2.

Table 2: **Job creation targets**

Local authority/contractor	No. of jobs transferred or seconded	No. of 'new' jobs to be created	Percentage of 'new' jobs to No. of staff transferred or seconded
Blackburn/Capita	470	500	106
East Riding/Arvato	600	600	100
Middlesbrough/Mouchel	1,045	487 - 750	47 - 72
Oldham/Mouchel	400	290 - 475	72 - 119
Rochdale/Mouchel	350	1,300	371
Pendle/Liberata	185	300	162
Sandwell/BT	500	450	90
Somerset, Taunton, Avon & Somerset Police/IBM	1,430	200	14

Source: European Service Strategy Unit

The creation of regional business centres was a key part of the SSP model considered by private contractors and the governments Strategic Partnering Taskforce (ODPM, 2003). For example, HBS Business Services, the early market leader, had a strategy to create ten regional business centres around Britain, this was reduced eventually to three and the model was eventually abandoned. The regional business centre model has been replaced by the 'shared service centre model'.

Local authorities are reluctant to outsource services to a private contractor in another local authority. There is widespread reluctance, particularly in local government, to accept the provision of services from outside of the authority boundary. This is rooted in the principle of democratic accountability and economic development and regeneration policies. Each authority faces political pressure to maximise public and private economic benefits in the locality.

Furthermore, authorities may have recently invested in different IT systems and software and may be reluctant to have to fund further investment. Elected Members are often concerned about losing a degree of control over the provision of services, particularly if these are likely to be delivered in another authority. Different organisational cultures are also a barrier.

Offshoring

Most local authorities stipulate that services must be produced from within their boundary. However, many contractors, for example, Capita, Capgemini and IBM, offshore work to Asia or Eastern Europe. Capita plans to 'grow the offshore business' and have 3,000 staff (over 10% of its workforce) employed in three business centres in Mumbai and Pune, India by the end of 2008 (Capita Group plc Annual Report and Accounts 2007).

Impact on the local economy

Job creation figures are often used in the same way as savings figures, creating a win-win scenario. However, ICT and Business Process Reengineering usually lead to a reduction in employment of between 15% - 35% so it is important to determine whether 'new jobs' are actually additional in the local economy or substitute for job losses.

- How many 'new' jobs replace those lost in the transformation process and how many are genuinely new jobs?
- Are there changes in the skills profile and thus the grade of the new jobs?
- What is the job loss in authorities which outsource or join the JVC – additional jobs in the host authority could be accompanies by job losses in the contracting authority – thus impacting on the subregional or regional economy?
- Have any of the 'new' jobs already been announced and counted as part of other projects?
- Are plans for new jobs or 'social and economic transformation' supported by specific proposals or are they merely aspirational?
- If the contractor proposes to transfer some existing contract work to the new project, from which location and with what effect?
- What are the economic and employment conditions in the contracting authorities – do they have higher levels of unemployment?
- What is the local effect of changes in the supply chain of goods and services – contractors normally use their established national supply chains?
- What will be the effect if some work is transferred offshore?
- If the project is outsourced a proportion of the contract price will be profit, which will be exported from the local economy – what effect will this have?

Public sector job losses have a knock-on impact on jobs in the private sector because of lower spending in services (shops, entertainment, leisure) – economic analysis shows that one private sector job is lost for every four public sector jobs lost.

Capability of the council to transform services

Authorities which adopted in-house strategies

At least ten local authorities have opted to transform ICT and corporate services in-house and procure 'best in class' ICT advice, hardware and software as and when required. They include Newcastle City Council, Kent County Council, Northamptonshire County Council, Salford City, Wakefield MBC, Walsall MBC and North East Lincolnshire Council.

Financing an alternative

Local authorities which opted for an in-house strategy have financed transformation from revenue savings from Business Process Reengineering – the application of ICT and changes in work systems and practices, leasing arrangements, the use of reserves to pump prime initial investment, prudential borrowing – good performing public bodies are allowed to increase investment based on their ability to meet loan charges, the authority's capital investment programme and various government programme and project grants.

Newcastle in-house success

Only one authority allowed an in-house bid in the procurement of an SSP. In September 2002, Newcastle City Council Cabinet accepted a £250m ten year Information Technology and Related Services (ITRS) in-house option and rejected a proposal from BT to establish a Joint Venture Company with the City Council. The in-house option gave better value for money, provided the same investment at lower cost, provided the same Service Improvement Plan, required fewer job losses and the in-house option demonstrated it could achieve the required changes. The commitment and cooperation of the staff and trade unions to the in-house option was also an important factor.

A new division, City Service was created and has since successfully transformed ICT and corporate services and achieved the required savings. It now forms the core of a council-wide transformation strategy. (Newcastle City UNISON and Newcastle City Council are shortly to publish a report of the highly successful ITRS story).

Customer access/contact centres

SSPs and corporate services shared services projects focus on improving access to services, widening the choice of communication methods and increasing the coordination/joined up delivery of services. The relative importance and allocation of resources to ‘customer access’, relative to the needs of frontline service delivery, is a concern.

The quality of customer service/call centres are ultimately only as good as the quality of education, social care, housing and other services and functions provided by the Council. Furthermore, there are many questions over the future role of customer service/call centres in implementing the choice agenda – with the danger of centres being used in rationing and brokering – thus limiting their contribution to community cohesion. Improved customer access may only marginally improve people’s perception of local government, particularly if they are regularly transferred or referred to trusts, arms length companies and contractors.

Counter claims about ‘producer interests’

Public sector trade unions are sometimes said to represent ‘producer interests’, in other words they are only interested in safeguarding their jobs and conditions of service. This is a myth because UNISON branches:

- consistently raise issues about the scope and quality of services and the interests of service users and community organisations.
- are committed to improving public services by the effective use of ICT and sustainable improvement programmes.
- want to participate and be engaged in the planning and implementation of improvement programmes and service delivery.
- want comprehensive and rigorous impact assessments of the effect of policies and projects on the local economy and sustainable development.
- wish to work with local authorities, public bodies and community organisations to ensure democratic governance and accountability in the public interest.
- those who claim ‘producer interest’ usually represent narrow business, economic and political interests.

The key contractors

Eleven private firms dominate the local government strategic partnership/shared services sector, six of which are foreign owned with 33% of contracts by value (see Table 3). Liberata and Vertex are owned by US private equity groups. HBS was the early market leader but was sold to Mouchel in 2007 by its private equity owner Terra Firma following years of financial losses.

Table 3: **Summary of operational SSP market share**

Private contractor	**No of contracts**	**% share by value**	**% share by number of staff**
Agilisys (owned by Netdecisions and Jarvis)	1	1.6	0.8
Arvato Services (Bertelsmann AG, Germany)	1	2.7	4.1
BT Group PLC, UK	6	19.0	19.0
Capgemini (France)	1	1.4	0.8
Capita Group PLC, UK	7	24.0	20.6
IBM (IBM Corporation, USA)	2	10.1	10.7
Liberata – previously CSL (76% owned by US private equity group General Atlantic)	4	8.8	8.7
Mouchel Group PLC, UK (acquired HBS)	8	18.6	26.4
Serco Group PLC, UK (acquired ITNET)	1	3.6	1.9
Steria (Groupe Steria, France)	1	1.2	0.2
Vertex (owned by a consortium of three US private equity firms - Oak Hill Capital Partners, GenNx360 Capital Partners and Knox Lawrence International)	2	9.0	6.8
Total	**34**	**100.0**	**100.0**

Source: European Services Strategy Unit, PPP Database, 2008. This Table excludes the terminated contracts at Bedfordshire CC and West Berkshire Council. Excludes secondary partner or subcontractors: Agilisys – Rochdale and Oldham, Mouchel – Somerset/Taunton Deane, Liberata – Sandwell and Serco – Bradford.

Contractor's commercial interests

Many ICT/managed services companies are already involved in the delivery of a wide range of public services, for example, Capita and Serco, and see corporate services strategic partnerships and shared services projects as means of consolidating and widening their market position. Participation in Partnership Boards and JVCs provide them with a unique opportunity to increase intellectual knowledge and capability of public service delivery.

Many of the more recent SSPs have included other technical and professional services – in effect extending property services into other regeneration, transportation and highways and the design and planning of other infrastructure projects.

Although the regional business centre strategy largely failed, it has taken a new focus with the shared services agenda with contractors keen to establish regional centres.

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