



# Interim Critique CSO/NSO Options Appraisal

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**UNISON Barnet**

UNISON Office,  
Building 4, North London Business Park,  
Oakleigh Road South,  
London, N11 1NP  
Telephone: 020 8359 2088  
Fax: 020 8368 5985  
Email: [contactus@barnetunison.org.uk](mailto:contactus@barnetunison.org.uk)  
[www.barnetunison.me.uk](http://www.barnetunison.me.uk)

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## Interim Comments on the CSO/NSO Options Appraisal

### Key points

1. No analysis of current trends and developments and a vision for the two organisations and how this fits into the future shape and functioning of the Council and public services in Barnet. It is therefore not clear as to how it has been possible to assess the full effects of each option.
2. No assessment of costs and benefits for each service delivery model and thus no value for money.
3. No forecast of affordability and no financial projections re effect of spending cuts.
4. The absence of a risk register and analysis of risk in relation to the impacts of the different service deliveries is in itself high risk (The Council's external Auditors have previously commented on the lack of risk assessment).
5. No in-depth analysis of the options other than subjective strengths and weaknesses.
6. Equalities are of key importance for service users and staff in both CSO and NSO yet completely absent.
7. Poor understanding of outsourcing models and no recognition within the scoring to reflect those risks.
8. There is no recognition of interdependencies between services and hence the options appraisal is incomplete.
9. Concern that the Council appears to be relying on the private sector and the Competitive Dialogue procurement process to develop the CSO concept whilst undertaking transformation to consolidate CSO services within the Council.
10. There is a strong case for the exclusion of Revenue and Benefits and Finance.
11. Staff and trade union consultation only after completion of an options appraisal does not constitute genuine engagement.
12. No evidence that service users have been consulted about the design of the Customer Services Organisation despite claims to want to put 'customers at the heart of the service'.
13. No recognition or concern for democratic accountability and transparency when assessing each service delivery model. This is key issue that is not addressed in the scoring.
14. An OJEU Notice should not be considered until a Business Case has been approved by the Council and a Gateway Review has been completed as part of standard procurement practice.

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## Principles

The document sets out the principles for improving service users' access to the Council, the performance of staff assisting them and increasing opportunities for online transactions. However, this appears in a void because **there is no reference to the vision of the Council in the future**, no reference to the planned outsourcing of other services and the implications this could have for a CSO. The description of the NSO is half a page of little substance.

## Lack of organisational and operational design

The Council appears to be relying on the private sector and the Competitive Dialogue procurement process to develop the CSO concept. It is not acceptable for the Council to adopt a position that it 'does not know what it wants' and to rely on the Competitive Dialogue process to deliver a solution. The CD procurement process was not designed for this high level of dependency.

*"One of the private sector's main complaints about Competitive Dialogue is the tendency for the public sector to use the Dialogue phase as an opportunity to take advantage of „free consultancy“ from the market – allowing suppliers to come forward with suggestions during Dialogue and then using this information to tailor, and often redefine, their requirements and outcomes. Doing this at the Dialogue stage is too late”* (HM Treasury Review of Competitive Dialogue, November 2010).

At the same time the Council is planning to undertake transformation to consolidate CSO services within the Council. It is vital that the Council has a much clearer idea of the CSO model because:

- The private sector is likely to produce models that fit within their experience and interests, which may not align with those of the Council and Barnet residents.
- The lack of clarity could cause delays in the Competitive Dialogue process and result in higher procurement costs.
- The costs and benefits of each option cannot be clearly identified or fairly compared without a model to assess them with.
- Introduces additional risks into the transformation and procurement processes.

## Financial information and impact of spending cuts

There is virtually no financial information other than historic budget totals dating back to 2007/08 plus a breakdown of gross expenditure and income for each service. There is no analysis of how the budget for each service is likely to be affected by planned spending cuts for 2011/12 and subsequent years.

There appears to be some confusion between 'income' and 'income generation'. Firstly, no information is provided on the sources of income for each service and the extent to which it is internal/external and from which sources. Secondly, income generation is normally referred to as the extent to which a service can generate additional income from undertaking work from other public bodies in Barnet and/or other local authorities or from user charges. However, the low score of the shared services option appears at odds with this approach.

## Value for money

The absence of financial projections, scoping analysis and economic appraisal indicates that a value for money assessment has not been undertaken. This indicates that the options appraisal is a 'work in progress' and significant additional work is required before a business case can be completed, let alone consider procurement.

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## **Risk analysis**

The Appraisal is devoid of recognition and identification of the risks associated with each option except in a general sense in Appendices D and E. Weaknesses are not the same as risks.

The section on Strategic Partnership states "...and risk for service delivery will be transferred" (page 33). The Incremental Partnership again states, "service delivery and commercial risk is passed to the partner for all transferred services" (p33). Some risks will be transferred but not all, and new risks arise which are specific to each option. This is naïve.

## **Changing scope of the contract**

The planned outsourcing of other Council services will ultimately result in a declining scope of contract for the NSO as these contractors deliver their own HR, financial and other support services. No profiling of this scenario has been provided yet this could have a very significant impact on the viability of the NSO and the level of private sector interest in the contract. If the Council is making assumptions that the scope of NSO will not decline then it is vital that these are part of the options appraisal and are transparent before a procurement process is commenced.

## **Equalities**

It is of concern that an options appraisal for a new Customer Service Organisation for Barnet citizens and proposals affecting over 900 staff are so bereft of equalities matters.

## **Shared services**

The political and governance implications of pooling resources with other local authorities and the perceived 'letting go' of direct control attributed to shared services is almost identical for public bodies in Barnet (p43). The NHS, FE, Police and so on face the same issues.

## **Is this the reason why there is no analysis of the potential scale of a One Barnet project and the current focus on a one Council approach?**

The set-up costs for shared services, given that they are shared, are unlikely to be as high as the costs of procurement, which will be at least £1m for this contract alone.

## **Employment**

Employment data should be produced in actual numbers of jobs and not simply Full Time Equivalents (FTE). There is a more accurate indicator of the employment impact of different options and is more respectful of staff. 771.7 FTE is equivalent to about 941 full and part-time jobs.

Strategic Partnership and JVC are so close in scores as to be the same given the crudeness of the exercise – no evidence is provided as why secondment has been rejected. There is no evidence that a secondment option has been fully considered.

Several statements in Appendix E regarding the impact of the options on staff are inaccurate, for example, the "limited investment opportunity for upskilling" in both the in-house and shared services options; the "staff would go through a major transformation programme" in shared services (surely this is applicable to all the options); no recognition in the outsourcing options that new staff will be on the same terms and conditions and that a two tier workforce will be created; the statement that "staff should gain access to a wider pool of expertise" is in practice only potentially applicable to a very small number of staff and would also apply to the in-house

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consultant led and JVC options; several statements in the JVC section are very negative describing situation that could arise in all the options; and to claim that “staff confidence dip due to finite venture” is applicable to all the outsourcing options but has been omitted.

### **Strategic partnerships**

“A partnership with the private sector will be the option best able to provide investment into the service, which would not be possible through an in-house option due to the state of the council’s finances” (page 37).

This statement is incorrect. **Price and investment** in a SSP are the same thing i.e. they are both financed by the Council. The private sector may frontload some investment but this will be repaid by the Council at private sector interest rates plus financing arrangement charges. This is the same principle as PFI. Page 43 corrects the above statement but raises questions about the level of understanding that formed the basis of the appraisal.

The above statement implies that the private sector is going to ‘give’ Barnet some investment which is additional to the contract price for the service. This statement, coupled with the ‘strengths of the strategic partnership model on page 40, indicate a rosy and non-analytical appraisal of the evidence of the performance of strategic partnerships to date.

Furthermore, a Strategic Partnership is described as *“a relationship, not purely a contractual provision of service and the relationship with the partner needs to be equally focused at delivering wider aspirational targets, e.g. transformation of the customer experience”*. It goes on the claim that this model *“can make a much wider strategic contribution to the organisation by delivering additional external benefits”* (p33).

The contract will have to identify what the private sector will be expected to deliver. Extras cost money. It will be a contractual relationship, not some loose partnership. Transformation of the customer experience will be a core part of the contract and the council will have to closely monitor that it gets the transformation it has set out in the objectives and the contract. There is no reason why the unspecified ‘additional external benefits’ would not be obtained from the other five options.

We are also concerned that these assumptions about the contract could lead to underestimating the responsibilities, contract management, staffing and cost of the client function. The Audit Commission and ESSU have reported how local authorities with SSPs have frequently under-estimated client side costs, which ultimately affects the level of claimed savings. The Council’s own procurement track record includes this issue must be fully addressed as a matter of urgency.

### **Exclusion of services**

There is any equally valid case for excluding Revenue and Benefits and Finance given the scoring for legal services. Their inclusion gives the impression that have been included to create a desirable contract package rather than the needs of Barnet residents.

Revenue & Benefits and Finance should be excluded from this project. Both are high performing services. Revenue & Benefits is currently implementing a new ICT system. This service does not fit well within the CSO model it is high performing low cost any break up of this service would be a high risk to performance. The poor track record of the outsourcing of this service in London e.g. Hackney, Ealing and Southwark and nationally where this service has been returned to in-house operation. Where strategic

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partnerships have taken over Revenue and Benefits these have generally been high performing service *before* they were outsourced. In addition, government review of the benefits system could lead to this service being nationalized. This is another reason why it should be excluded from the project.

### **Procurement**

The presentation 'Changing our Support Services' include a slide (No 32) that an OJEU would be produced in April 2011 followed by the business going to CRC for approval in May 2011. This is totally unacceptable procurement practice and exposes the Council to additional risks.

### **Gateway reviews**

No reference to Gateway Reviews and how they will be included in the procurement process as part of a validating and learning process. This is further evidence of an unseemly rush to commence the procurement process with a project that is ill-defined, no consultation with services users despite the project being central to the 'new relationship with citizens', minimal scrutiny and no peer review to draw on best practice.

### **Consultation with trade unions**

The trade unions welcome the more open approach which has provided an opportunity to comment on the options appraisal before it goes to CDG and CRC. However, having an embargoed copy for the branch secretary **does not allow the trade unions to consult with the members who are affected by the appraisal**. The timetable does not give the trade unions sufficient time to adequately assess the proposals. We urge again that staff and trade unions should be involved in the options appraisal process, not simply having the opportunity to comment on the conclusions of the appraisal.

### **Benchmarking**

Page 29 Appendix A states that they analysed Baseline performance, cost and quality. There is no explanation of what this baseline was based on. Further down the page it states that a business case will provide a more detailed baseline for the preferred option. However, **this means that the options ruled out have been ruled out with partial evidence**.

### **Evaluation matrix and methodology**

**Price:** No analysis of a projected total cost of each option, nor evidence of the transaction costs for the different options.

**Investment:** Upfront investment would be low i.e. spread over the life of the contract. This would also be true if the service was kept in-house.

**Income Generation:** The ability to generate additional income is roughly an equal responsibility shared between Barnet and other local authorities and public bodies. Therefore, the **award of one point for the in-house transformation is unwarranted** and should be at least the same as a consultant-led transformation. The current marking may reflect an assumption that the private sector is more successful in generating income, **yet there is no evidence to support this**. Although a private partner may increase income generation opportunities at least half the benefits would have to be shared the contractor. Furthermore, strategic partnerships have a poor record in obtaining additional work from other public bodies and in job creation.

**Pace:** Throughout the **appraisal the scoring for in-house is the same in all services** on pace as the other options (except consultant led in-house). However on

p37 it says; “Any in-house option will deliver faster than a partnership with a private sector because there will be no requirement for a lengthy procurement process.”

**Flexibility:** This theme includes ability to work with other local partner organisations – **but there does not appear to be any interest in this.** It is given a low weighting throughout the scoring, yet flexibility is key to all other criteria.

**Performance:** Future performance is subjective based on analysis of current and past performance and evidence gathered from other local authorities. This must be based on research and intelligence, not simply benchmarking data. One criterion is a service “readily” available to deliver high performance service. What does “readily” mean? Staff morale will affect performance!

**Service transformation:** The in-house options scores low on Service Transformation (p38) because the Council has a poor track record. Barnet Council has a poor and costly track record on outsourcing and privatisation which seems to have been ignored.

**Weightings:** The weightings applied to service evaluations change from one service to the next without providing any rationale for the figures selected. E.g. the price weighting for the CSO is 15%, for Estates it’s 20%, for Finance the figure is 25% etc and yet the explanation for weighting under “consideration” for each service is the same.

### Revised Evaluation Matrix

Please find below our scoring **based on the limited information provided in the Option Appraisal process and limited to the selected evaluation criteria.** Additional criteria, such as governance and equalities, should be included in the matrix. The figure in the report are shown in brackets.

**We have not been able to consult our members who are likely to have further comments on the evaluation matrix and the appraisal as a whole.**

Theme	In-house		Public Sector Partnership	Private Sector Partnership		
	In-house Transformation	Consultant-led transformation	Shared Service	Strategic Partnership	Incremental Partnership	Private Sector Joint Venture
	Score	Score	Score	Score	Score	Score
Price	3 (3)	2 (2)	3 (2)	4 (5)	4 (4)	4 (4)
Investment	3 (1)	3 (1)	3 (2)	4 (4)	3 (3)	4 (4)
Income generation	2 (1)	2 (2)	2 (2)	2 (3)	2 (3)	2 (3)
Pace	3 (2)	4 (4)	2 (1)	2 (2)	2 (2)	2 (2)
Flexibility	4 (4)	3 (3)	3 (3)	3 (3)	3 (3)	3 (3)
Performance	3 (3)	3 (3)	3 (3)	3 (4)	3 (4)	3 (4)
Service transform.	3 (2)	4 (4)	3 (2)	3 (4)	3 (4)	3 (4)
Governance						
Equalities						
<b>Total</b>	<b>21 (16)</b>	<b>21 (19)</b>	<b>19 (15)</b>	<b>21 (25)</b>	<b>20 (23)</b>	<b>21 (24)</b>

### Reference

London Borough of Barnet (2011) Options Appraisal for Customer Service Organisation and New Support Organisation, Version 6.00, February, London.