

**SCRUTINY COMMITTEE**

**TASK GROUP REPORT NO. 4**

**OUTSOURCING FEASIBILITY**  
**PROJECT**

***APRIL 2000***

## **SCRUTINY TASK GROUP**

### **OUTSOURCING FEASIBILITY PROJECT**

#### **1. The Brief**

To scrutinise the process by which the outsourcing feasibility project was conducted from its inception to the presentation of Capita's recommendations to Resources Committee on 11 October 1999.

#### **2. General Introduction**

At their first meeting in June 1999, the Scrutiny Committee established a Task Group to undertake a review of DSO Operations, comprising Councillors Cornwell (Chairman), Carthew, Mackenzie, Parsons and Whittall. It was agreed however that the specific brief should be subject to the recommendations of the external consultant's review, due to report shortly. In the event, the recommendations of the Capita report on outsourcing were submitted to the Resources Committee in October 1999. In December, the Scrutiny Committee agreed to a change in the Task Group brief, the first stage being to scrutinise the process by which the feasibility project was managed and make recommendations as to the management of any future such projects.

#### **3. Methodology**

##### **3.1 The Task Group met on 9 occasions and interviewed 13 witnesses (listed alphabetically):**

Steve Cowan	Staff Side Secretary
Bill Dyke	Head of Construction and Property
Robert Hancock	Director (Opportunities for All); former Acting Chief Executive
Cllr Serge Lourie	Resources Committee Chairman and Deputy Leader; former Policy and Resources Committee Chairman
Tony Lubman	Associate Director, Capita (Project Director)

Cllr Keith MacKinney	Resources Committee Vice-Chairman; former Contracts Sub-Committee Chairman
Martin McDonald	Best Value and Business Planning Manager
John McGuire	Senior Consultant, Capita (Lead Consultant)
Gillian Norton	Chief Executive
Bob Sainsbury	Acting Director of Finance
David Streeter	Head of Environmental and Operational Services
Philip West	Building Planning Officer, Education
Wyn Williams	Principal Officer, Best Value and Business Planning.

All co-operated fully with the Task Group and gave full and frank answers to sometimes difficult questions. Our thanks go to all of them.

### 3.2 Written evidence was also sought and received. Key documents included:

- Draft brief and other Executive Board papers 20.1.99
- Specification and terms of reference 19.2.99
- Director's report to Policy and Resources Committee 22.2.99
- Bid from Capita 5.3.99
- Letter to Chairman recommending appointment of Capita 8.3.99
- "Review of Position" 21.4.99
- "Review of Position" 12.5.99
- First Draft Overview Report 12.6.99
- "Healthcheck Review" 25.6.99
- Final Draft Overview Report 29.7.99
- Final Report 8.9.99
- Summary Report 8.9.99
- Director's report to Resources Committee 11.10.99.

## 4. FINDINGS

### 4.1 Background to the Study

We accept that the Modernising Local Government agenda and its emphasis on Best Value was the key driver which led to the decision to revisit the question of outsourcing, a subject that the administration had traditionally and by general consent shrunk away from. Particular problems had been

identified during 1998, including refuse collection, street cleaning and construction/property services generally, which led to the Executive Board recommending that Environmental and Operational Services and Construction and Property Services should be the services to be subjected to an outsourcing feasibility study. In this connection, it is interesting to note that the former Chief Executive and Director of Finance commissioned some work on this from the Head of Environmental and Operational Services in September of that year, but little attention was paid to his findings from what we could gather.

***Clearly, this exercise was not undertaken in the context of a Council-wide modernisation strategy and does not appear, overtly at least, to have been sufficiently Member driven.***

Given the need to make a move in this direction, we accept that the services chosen were probably the right ones and that the use of external consultants to give an added credibility to the exercise was appropriate, enabling all the options to be considered.

There is, however, little evidence that other services were considered seriously and we would expect that in an ideal world there should be a more transparent process surrounding that choice. The Best Value regime has arguably now overtaken the need for a repetition of this sort of study. However, we feel that, particularly in the interests of those who work in the services concerned, a more open process would be beneficial. It is noted that the report to Policy and Resources Committee on 22 February 1999 seeking authority to appoint consultants made no attempt to explain how the identified services had been selected. The terms of reference adopted by the Committee seem to have been interpreted satisfactorily by the consultants, though ***it is fair to say that the first one “to propose a whole Council strategic direction on insourcing/outsourcing” seems not to have been addressed at all.***

***Although some concerns were expressed that the outcome of the investigation had been predetermined, we found no evidence of this.***

## 4.2 Selection of Consultants

Some confusion surrounds the way in which the consultants were chosen. We understand that interviews were held with a range of possible contractors during the first two weeks of February. Invitations to tender were then despatched on 19 February (a Friday) before the Policy and Resources Committee met on Monday 22. Although it is clear that discussions with both the administration and opposition parties had led to there being confidence that the recommendation to proceed would be agreed, ***we cannot accept that it is good practice to anticipate the Committee decision to appoint consultants in this way.*** Little time would have been lost if the tender invitations had been posted the morning following the Committee.

We continue to be quite unclear about the way in which the tenders were evaluated; it appears that no detailed “CCT type” procedure was adopted and we can only assume that the officers involved were able to satisfy themselves as to the probity of the bid by other measures. ***We believe that a more codified process would be appropriate.***

The cost was estimated in the Committee report at £50K; in fact, the second lowest tender was accepted at £59K after the Chairman had been satisfied that the lowest tenderer’s bid was not properly comparable in scope. The excess costs do not seem to have been reported to Members and Standing Orders do not, we are told, require that this should happen (because Contract Standing Order C20 does not apply to the appointment of consultants). The date on which the Chairman agreed the appointment of Capita is not recorded.

## 4.3 The conduct of the study

Policy and Resources Committee was told on 22 February that the consultants’ report would be ready by early May. We take the view in the light of the evidence that this was wholly unrealistic and find it hard to believe that it could have ever been seen to be achievable. Capita were not finally appointed until 16 March; they started work on 24 March leaving only some six weeks to complete what was an enormously detailed task. We find it

strange that no interim report was given to Members (other than the Leadership) on the progress of the study. The first draft report was received on 15 June; it was clear at that stage that the finished report would not be available until just before the summer break and no report on progress was made even to the 12 July 1999 Policy and Resources Committee.

The study seems to have proceeded according to the plan that was agreed between the consultants and the Acting Chief Executive. We heard no evidence that their work was thought to be incomplete although there were concerns about the way in which some evidence attributed to individuals was reported without any attempt to check back that it accurately reflected witnesses' views.

There was evidence that the problems of gaining accurate and reliable financial information, which was crucial to the success of the study, had not been anticipated. Numerous discrepancies were identified between the information provided locally (by one of the Departments) and centrally (by the Finance Department). It appears that this may have arisen because Capita requested figures independently from the two Departments at a time when final figures were still being prepared and pending a meeting between the two Departments to agree final figures. There was also some (disputed) evidence that Construction and Property in particular had poor financial controls in place – possibly a reflection of the inadequate resources made available at the time the service was created. Difficulties also arose because the consultants were hard at work all through the period of closing the books at the end of the financial year and this occasionally led to misunderstandings and unnecessary duplication or re-examination of work.

#### **4.4 Consultation issues**

Although in the main, the consultants felt that their consultation with staff had gone well, we were made aware of some unhappiness from certain quarters, as outlined below. The Unions clearly felt that they had been excluded from the process; in fact, apart from their leaders (or some of them) having been present at the February 1999 Policy and Resources Committee meeting and therefore having the opportunity to hear of the matter there, they were formally notified of Capita's appointment and the start of the project on 17

March. There does seem to have been little attempt either on their part to get involved or indeed on management's part to involve them in the process. It appears to us on the other hand that staff consultation was reasonably successful where it took place and that the consultants received the level of support that they were entitled to expect.

***However, we think that greater Departmental managerial involvement in the preparation of the consultants' brief would have been particularly helpful and that greater account should have been taken of their observations throughout the project.*** Although the former might have extended the pre-contract phase, the project was not time critical, as we were assured that it was not instigated as a cost-cutting exercise.

We were surprised to discover that no elected Members were interviewed during the course of the study and we heard evidence that, on reflection, that had been a mistake. ***Equally surprising was the discovery that there was no formal Officer/Member steering group set up to monitor the progress of the work. If such a group had existed, it is possible that many of the subsequent frustrations about the report that came from staff might have been avoided or at any rate ameliorated.***

#### **4.5 Production of the report**

The final draft report was received on 29 July and sent to Leading Members and the Executive Board. Comments were requested from the two Heads of Service. We have been told that insufficient attention was given by the consultants to one of those responses and that the final report suffered as a result of inaccuracies, which could have been avoided. It is hard for us to tell at this stage whether or not this was so but, so long as the officer concerned felt that it was, a more open and inclusive approach might have avoided the sort of reaction that eventually was provoked by the report's publication. The final report was received on 8 September together with an executive summary; it was arranged that there should be a presentation from Capita to Members and that the staff and Unions should have the report immediately thereafter. Committee consideration of the report was deferred from the Special Resources Committee meeting which had been arranged for 29 September, until 11 October to allow for staff consultation. The presentation

to Members was generally felt not to have been a success. The Executive Summary too was poorly written, although the final report was generally well regarded. The storm of protest that ensued from the staff, particularly in Construction and Property, served only to underline the difficult nature of investigations such as these.

The Resources Committee ended up with a report from officers proposing that most of the recommendations in the report be implemented. Work on the implementation is beyond the current remit of this Task Group.

## **5. CONCLUSIONS AND RECOMMENDATION**

Although we identified a number of weaknesses and areas of concern, as highlighted above, none of them are felt to compromise the report's validity. Nevertheless there are 4 specific issues which should be addressed:

- the need to ensure that future such exercises are undertaken within a clear strategic context
- the benefits of greater openness with Members and officers and better staff consultation
- the desirability of establishing a Member/Officer Steering Group
- the need to have a formal and objective process in place for the assessment of consultants' tenders.

Accordingly, we **RECOMMEND** that a protocol be developed for the conduct of any future such reviews, taking account of the issues raised above and the key findings outlined in Section 4.

***Cllrs David Cornwell, Nick Carthew, Liz Mackenzie, Pat Parsons, Trevor Whittall***