

From Hubris to High Court (almost) – The Story of Southwest One

by Dave Orr

Chapter One - The Context

Apart from glorious countryside, hills and moors, rural Somerset is probably best known for a rustic blend of cider, cheese, cricket, the Wurzels and the Glastonbury Festival. Oh...we also split atoms and some whopping new nuclear reactors at Hinkley Point are coming, if only EDF and the UK Government can settle on a price. Another procurement story about negotiations going nuclear!

Somerset was an unlikely setting for a high-profile joint venture with global multinational IBM, involving a big Council (Somerset County), a small Council (Taunton Deane) and a Police Service (Avon & Somerset, with the Somerset population making up only 1/3rd of the Police patch). Adding a Police service in with two councils made it a unique joint venture, as it could now be said to be “cross-sectoral”. What do Councils and the Police have in common? Not enough to stick together is now the answer!

The procurement got started in 2005 and was led by the former Somerset County Council Chief Executive, Alan Jones. His leadership style was charismatic, high-profile, rich on hyperbolic PR and essentially autocratic. The County Council was led by the Lib Dems and characterised by a political leadership that was content to follow in the wake of Alan Jones’s executive lead.

Under Alan Jones, Somerset had become very good at passing New Labour rating exams and in 2004/05 was rated at the top 4* “Excellent” national rating for councils. Many a poor yokel across Zummerzet, sitting in the pub quaffing flagons of zider, could be heard to say “Did ‘ee know? – Them thar Countee Counceel be Four Starr now”. No they didn’t, of course, they were complaining about how high council tax was.

The County flag outside of County Hall was amended to show the 4 stars. When the top score for Use of Resources was finally attained, the Council had a + sign added to the four stars and Somerset invented a new 4*+ rating (like A* in A levels). From this high point of pass grade inflation, Alan Jones declared that Somerset would now seek to be rated as “Beyond Excellence” through a joint venture “with a World Class partner”.

The hubristic scene was now set for a wholly foreseeable disaster.

The first controversial act by Jones, was to appoint a Sue Barnes in 2005, without competitive interview, to a Director position at a salary of £90K per year in charge of procuring the joint venture. Ms Barnes led a procurement project named ISIS (Improving Services in Somerset) that eventually became the joint venture contract in 2007 with IBM for Southwest One. Barnes was then discovered to be the wife of the now retired Chief Constable Colin Port, who led the Avon & Somerset Police in the very same joint venture.

When a BBC regional news programme explored the appointment without competition and the clear potential for conflicts of interest, they were threatened with libel proceedings by the Avon & Somerset Police Authority, using Carter Ruck and £96K of public funding, before the case was eventually dropped. “Eyes Passim” as Private Eye did and would say!

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Barnes had previously led the joint venture between Suffolk County Council and one smaller Suffolk Borough Council with BT. That joint venture eventually ended unsatisfactorily as well. She had made the elemental procurement error in Suffolk of not having an EU-compliant framework agreement, so that when other Suffolk District Councils thought of joining, they found they would have to conduct a full EU tender and the joint venture would have competed in open market with fresh suppliers, simply to add a new public partner.

Somerset benefited from that expensive oversight in Suffolk and Ms Barnes did have a (4 + 2) year framework agreement available to all SW Councils and signed by many of them, to avoid the Suffolk pitfall.

Under Ms Barnes leadership, Somerset did not support the use of further independent 4Ps (remember them?) Gateway Reviews, but reverted to relatively benign paid-for consultancy reports by KPMG. They were so high-level and full of caveats, that no legal redress for any later failure would ever be possible.

The external regulator, the Audit Commission, saw Project ISiS as a new type of “strategic partnership” and in support of New Labour policy, so granted a wide leeway for the project and the joint venture, right up until failure was announced in Feb 2012. Then the Audit Commission was de-commissioned, with the same individual auditor who had failed to raise any serious concerns, retiring.

Like so many light-touch regulators, the Audit Commission repeatedly gave Southwest One positive reports, without ever qualifying the accounts, even as problems with SAP implementation mounted in 2009 and procurement savings were not being made in line with forecasts.

Chapter Two - Procurement errors in letting the contract

The year is 2005 and Project ISiS (Improving Services in Somerset) is underway, led by Somerset County Council from their 4*+ HQ in Taunton...

Were strategic errors in procurement baked into Project ISiS from the outset in 2005, leading to an inevitable partnership breakdown in 2013? Yes, they were.

ISiS only set high-level, aspirational requirements, for example:

- to help modernise and transform the overall workings of the County Council and Taunton Deane Borough Council;
- to invest in new world-class technologies to improve productivity;
- a better deal for the public – better and more convenient access to services, joined-up public services, better value for money;
- a better deal for staff – job security, career development prospects, training opportunities;
- a better deal for the authorities – better for less; delivery of customer-facing services.

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Why did Somerset County naively leave it to the winning bidder IBM, to do the detailed work, to “square the circle” of: more investment (through borrowing), better services for lower cost and a profit for IBM shareholders? The IBM solution was, utterly predictably, to implement a large and expensive SAP IT system!

ISiS had “political” timescales set by former CEO Alan Jones that bore no relation to the actual work involved. Jones set the first completion date just 12 months away from project start! That end date was progressively moved, until ISiS became Southwest One after 2 years and 6 months. Why was crucial, pre-contract work still not carried out (such as detailed service-by-service requirements and baselines)?

Council services were simply split up into Back Office (in scope) and Front Office (out of scope). That largely exempted the 90% of the out of scope frontline services (Social Care, Schools, Highways etc.) where the greatest scope for process improvement and transactional savings lay; also where the greatest beneficial impact for the residents using those frontline Council services lay.

IBM came up with savings figures for Somerset County that were questionable from the outset: Avon and Somerset Police had a modest procurement savings target of £15m by Southwest One. Yet, Somerset County, with an annual budget three times bigger than the Police, had an unbelievable procurement savings target of £192m! To win the contract, did IBM overestimate the procurement spend in Somerset County and under estimate how well it was already procured? Result: Business won, credibility lost.

The ideal of a “Strategic Partnership” relationship was elevated to avoid the need for the Council to be savvy and recognise the realities of commerce. Was the Council in denial of the need for hard contract management skills, for a complex contract, over a long 10-year term?

The contract called for transformation based upon “world-class technologies”, yet all of the IT Service was placed into Southwest One with no IT expertise back in the Somerset County client (until after a poor SAP implementation in 2009). Was the lack of retained IT skills in the Somerset County client behind the formal acceptance of a badly configured SAP implementation?

The contract was let in the boom times of 2005-07 to take the Council to something Jones hubristically called “Beyond Excellence”; a veritable “land of milk and honey”. When boom turned into bust in 2007/08 with big funding cuts in 2010/11, why was the Southwest One contract not adaptable or flexible enough, to support “less services from a lot less funding”?

Former CEO Jones was totally intolerant of all challenge to his Vision for ISiS. He insultingly labelled people who questioned the innate risks involved in a complex, long-term contract as being “Organisational Terrorists”! Did the intolerance of all challenge, lead to poor risk management?

The staff-side commissioned a report from Professor Dexter Whitfield in July 2007. His report highlighted the future outcomes for Southwest One with uncanny accuracy:

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“ISiS faces five main risks -

- Operational failure to meet the performance and investment requirements.
- Partnership failure
- Shared services failure
- Savings smaller than planned
- Inward investment lower than forecast”

You, dear reader, can sit comfortably and be the virtual juror, in the court of your own opinion, as you watch the key players being forensically cross-examined in the ITV West Eye View programme (allow 23 minutes): <http://www.youtube.com/watch?v=rmW99D-r2MQ>

Chapter Three - SAP implementation issues, disastrous reputational results and strained relationships

The year is 2009 and after several implementation delays IBM/Southwest One implement a large SAP IT system for Enterprise Resource Planning (ERP). SAP is a key component of the bid to “transform” Somerset County and Taunton Deane Borough Councils and the Avon & Somerset Police. Not only would SAP control purchasing, to direct all spend to central contracts, to aggregate spend and savings, but IBM billed it as making efficiency and further savings from “out-of-the-box” processes.

The Councils believed that they were getting a customised version of SAP by IBM from the prior Bradford Metropolitan Council contract, that was tailored to local government or at least a version based upon a local government template.

IBM used an offshore division (IGSI) in Bangalore, India to configure and assemble SAP. Were problems with inter-country communication and differing cultures, part of the problem, in what was later described by the Finance Director as a “poorly configured implementation of SAP”? Problems were still in final fix, as late as April 2013; 4 years after implementation.

A “bolt-on” scanning solution led to a large number of problems with late invoice payments, duplicate payments (£4.6m) and high levels of uncollected debts that went on into 2010/11. In 2011, the on-going duplicate payments issue led to the local newspaper in Taunton having a front page, with a scathing one-word headline: **“INCOMPETENT”**

The new Council web sites delivered by Southwest One were rated 1* (Poor) by the assessor SOCITM; and even now you cannot search and retrieve Council papers based upon content!

In May 2009, the local elections had resulted in a change of administration from Lib Dem to Conservative. The Conservatives had campaigned to “put Southwest One on a sound footing” and to tackle excessive contract secrecy.

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A Somerset Conservative MP, Ian Liddell-Grainger, fought a constant, high-profile battle of words with: Somerset CEO Alan Jones, the Lib Dem Leader Councillor Jill Shortland and Resources Portfolio Holder Councillor Sam Crabb. Liddell-Grainger ran a controversial, satirical blog called “Mogg the Blog” that chronicled all the failings, issues and problems in a derisory style.

With parliamentary privilege and immunity from libel proceedings, Liddell-Grainger made allegations of corruption, vehemently denied by all named in his Southwest One speeches and also criticised the “light-touch” regulation of the now defunct Audit Commission.

It wasn't long after the May 2009 elections, before the architect of the controversial joint venture with IBM for Southwest One, CEO Alan Jones, negotiated a deal with the new Council Leader to leave and took early retirement in a £340K deal. Then in 2010, the Conservatives commissioned a report into Southwest One, led by Audit Committee Chair Councillor John Wilkins. Ironically, the report was only published after a successful appeal for a refused Freedom of Information request, citing high public interest.

By 2010/11, it was abundantly clear that, even allowing for Government budget cuts, the promised £200m of savings forecast by IBM pre-contract, were “pie in the sky” and savings in the Councils were running far below that level. Even in 2013, more than halfway through the 10-year contract, payments to IBM and costs for Southwest One are far in excess of the so-called “assured” procurement savings returned to Somerset County Council by Southwest One.

There were controversies over the former Chief Constable Colin Port being a Director on the board of his largest supplier Southwest One. Shortly after a Home Affairs Select Committee report called “The Landscape of Policing” in 2011, Port resigned his Directorship of Southwest One.

In 2011, the Police deal to join Southwest One, was also criticised as a potential £2.17m subsidy from Somerset taxpayers to Bristol and other non-Somerset policing areas; the Audit Commission regulator denied the appeal, just before he too took retirement (as the Audit Commission itself was wound up).

In 2012, the Conservative Leader Councillor Ken Maddock, delivered a withering, public attack on Southwest One in Full Council, from which relations never recovered. In return, Southwest One threatened court action for disputed fees and a high court hearing was only avoided by the Council settling out of court, adding around £7m to the burgeoning costs of Southwest One.

Many of the transferred services and staff in Southwest One have now returned to Somerset County Council, also forcing Taunton Deane Borough Council to review services, including the return of the largest Taunton Deane service for Revenues and Benefits.

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Chapter Four - Why things went wrong, and lessons learnt

So, what can we learn from this whole sad story?

- Councils naturally want the most services (at reasonable quality) for the least cost, and conversely outsourcers (at a basic level) want the most income for the least cost of supply. This essential contradiction, means that expressions like “partnership” need to be mutually reconciled, before signing the contract!
- Southwest One essentially failed because IBM did not deliver on the extravagant promises for transformation and savings, via SAP, that were made to win the business, even though the competing BT bid was substantially lower. (That failure may not be all IBM’s fault, but the savings were not delivered).
- A good local government tailored version of SAP was NOT delivered on time in 2009 and it was plagued with faults. Continuing problems, with £4.6m of duplicate invoices and uncollected debts, running into 2011/12, fatally damaged Southwest One’s reputation. As a result of that poor reputation, no other public partner ever joined Southwest One, which substantially damaged the growth model underpinning the joint venture.
- A joining payment by prospective public partners to Southwest One founder partners was another dis-incentive. Also, calling prospective public partners “institutional chauvinists” for not joining (a quote from the increasingly desperate former Somerset County Council CEO Alan Jones) was counter-productive!
- IBM appears to have over-estimated the overall spend available for potential savings and then calculated that procurement in Councils was so bad, that savings of around 30% on that spend were achievable. Given that Councils either competitively tender or access pre-tendered national frameworks, was the £192m of savings ever a reasonable estimate?
- Large scale outsourcers over a long contract of 10 years or more require an ability to foresee the future that is simply not possible to capture in a fixed contract. In a 10-year contract, there will be three changes of national government and three changes of local government. That is a great deal of unpredictable change to cope with via a fixed, long-term contract.
- Local Government will always be at a disadvantage in resources and skills to a large multi-national contractor like IBM, when it comes to negotiating, letting and managing a complex multi-service contract. Can a local Councillor (perhaps with small business experience) working with the Council’s Head “Bean Counter”, successfully negotiate a complex contract with IBM? Or is that a local league team playing in the premier league, with inevitable results in terms of a level contract playing field?
- What was the culture of Southwest One (75% owned by IBM)? Was it private, public or a hybrid? The management culture remained firmly IBM, yet the Councils and Police workforces were seconded and remained equally firmly public sector rooted. There is such a thing as a public service ethos. In fact, Southwest One was run like a mini-IBM based upon global divisions, complete with IBM standard structures and processes. Southwest One seconded employees were not allowed anything like a full access to IBM internal systems, thus creating additional complexity, as “real” IBM employees relied entirely upon on-line systems.
- There was a multi-tier workforce (without a single set of employment Ts and Cs): IBM employees + Councils staff + Police civilian staff + Southwest One direct hires that complicated HR matters greatly and made mixed teams in a single shared service much harder to amalgamate. And this meant the IBM managers of Southwest One never really gained the sort of command & control of

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the multi-tier workforces that their bonus-oriented model needs to function. I doubt that IBM would ever again contemplate the seconded staff model over the TUPE transfer model.

- Councils run a wide variety of complex services that are being delivered at that geographical administrative level, but may have no business connection e.g. maintaining roads and delivering adult social care. So, beware simplistic approaches that simply divide a Council into so called “back” and “front” (or even add “mid”) offices.
- Somerset County Council ran with a “thin” Client management Team that, in my view, did not have sufficient expertise or enough staff resources to effectively manage this complex contract with IBM. The Councils relied upon definitions of “partnership” that meant one thing to the Councils’ side and quite another thing to IBM!
- In Southwest One, Somerset County Council handed their entire IT Service over lock, stock & barrel. Can you really consider IT as wholly a “back office” service? Many successful private Companies see IT as a strategic service to be kept under their own control.
- Councils are in different places that come with differing problems, so are meant to be “local” and different! Councils are not a set of Tesco stores to a set format that come in small, medium & large sizes! How can a one-size-fits-all IT system like SAP transform a whole Council?
- The real savings might have been found in optimising processes out in big departments (like Social Care, Education, Highways) that lay outside of Southwest One reach. The focus on IT rather than service processes was another flaw in the model. In the Councils, a Corporate Service Plan is kept up to date every year and an IT Strategy written and updated annually in support of that. Technologies are identified to support the Service Plan e.g. RFID in library books for self-service automation and out of hours return. In Southwest One, there was no such equivalent. IBM had a Target Operating Model (TOM) but that was expressed in sales terms i.e. double the business in Southwest One within 3 years.
- The lack of strategic planning in Southwest One and any real alignment with the needs of the Councils impeded the innovation and flexibility that the Councils hoped IBM would bring to the joint venture. Once the Government cuts arrived, that lack of joint alignment was painfully exposed.

So looking to the future, are large-scale multi-service outsources with a single contractor, underpinned by a complex contract and a long term, ever viable? I think not.

Is a multi-sourcing strategy with a range of suppliers preferable? I think it is.

Will we ever see the mythical hybrid combining the “best of the public sector” with the “best of the private sector”? I doubt it.

Has the failure of Southwest One had any impact in the recent Council elections or on the reputations of those Councillors involved? Sadly not, but that is another story.

Dave Orr worked in a variety of IT and Project Management roles for Somerset County Council and retired in 2010. He has investigated and analysed major outsourcing initiatives in the public sector, and in particular, as a Somerset resident, has been a leading campaigner for openness and transparency around the Southwest One process and contract.