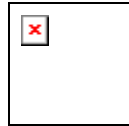


OUTSOURCING POLICY

**Lodged au Greffe on 11th May 1999
by the Policy and Resources Committee**



STATES OF JERSEY

STATES GREFFE

PROPOSITION

THE STATES are asked to decide whether they are of opinion -

- (a) to agree in principle to adopt, subject to the safeguards listed in paragraph 17 and 20 of the report dated 4th May 1999 of the Policy and Resources Committee, the policy of outsourcing as one of the means to be used to help to achieve the States Population policy, as set out in the Strategic Policy Review and Action Plan 1997 and adopted by the States on 5th November 1997;
- (b) to charge the Policy and Resources Committee, in consultation with the Establishment Committee (and employee representatives) to establish a common framework within which all departments would determine their outsourcing arrangements;
- (c) to charge the Policy and Resources Committee, in consultation with the Establishment Committee (and employee representatives) to develop the concept of “off-Island stationing” as is outlined in paragraph 23 of said report, and to report back to the States with recommendations.

POLICY AND RESOURCES COMMITTEE

REPORT

I. Introduction

1. The present consideration of outsourcing as a policy stems in large measure from the States Population Policy. In the section on Population Policy of the Strategic Policy Review and Action Plan 1997, it is clearly stated that -
 - continued population growth undermines the ability of the States to achieve their stated objective of sustainability;
 - population growth will not be controlled so long as the number of jobs continue to grow and there is an insufficient number of Island residents available to fill them;
 - for population growth to be controlled a package of policies is required;
 - fundamental to controlling the rate of job growth and thereby population growth, while at the same time maintaining a successful economy, is an increase in the productivity of the Island's work force in both the private and public sectors. In addition, the demographic trends over the next 30 years, with a decline in the number of working age, will require an improvement in the productivity of the workforce for existing service levels to be maintained;
 - improving the productivity of the Island's workforce, in concert with the other measures directed at achieving the more effective use of the Island's resources, will be an essential part of the Island's sustainable development strategy;
 - reducing the population pressures, and improving the overall quality of life, will call for changes in the aspirations of many Island residents;
 - in seeking to achieve the Population Policy objective, from which achievement all Island residents should benefit, the States should practice what they preach by limiting the demand of the public sector on the Island's workforce. The States cannot expect population growth to be controlled if the entire burden is borne by the private sector.
2. At the same time there is continued pressure for more and better public services, and in some areas (e.g. education) the public sector is having to respond to significant demographic pressures. Outsourcing, therefore, is seen as one of a number of ways of ensuring that the labour available to the public sector is used to the best effect, including ensuring that essential services such as education and health are properly resourced while limiting the extent of any increase in the public sector workforce.
3. The States in approving the recommendations of the Policy and Resources Committee, on Population and Immigration Policy in November 1997, approved the following recommendation -

“1.1 (vi) All States Committees have been required to include in their departmental business plans a statement of the action to be taken, in conjunction with the Establishment Committee, to provide for the more effective use of the workforce in the public sector without the need for compulsory redundancies, except as a last resort (e.g. the Policy and Resources Committee will be bringing forward a report on outsourcing policy which will include sufficient safeguards for the existing workforce such as ensuring fair, reasonable and comparable total remuneration in terms of employment under any new employer of the transferred workers)”.

The Policy and Resources Committee asked the then Chief Adviser to set up a working group to explore all aspects of outsourcing in consultation with interested parties.
4. The Group included officers from a number of States Departments, and was assisted by an external adviser. The Group also obtained an independent report from Arthur Andersen which -
 - identified, defined and explained the various outsourcing processes that have been utilised locally, nationally and/or internationally;
 - provided separate illustrations of their application in an operational sense and thereby identified and gave

detailed analysis on the -

- (1) short, medium and long-term benefits, and
- (2) the short, medium and long-term disadvantages

of each process in terms of the tendering or testing procedures used, and on their impact on public sector finances and manpower, service delivery, quality of service/standards and customer relations.

- compared and contrasted the examples quoted and the information obtained with the situation appertaining within the Island in terms of the political and governmental structure, the availability of labour and labour skills, industrial relations considerations, the competitive business climate etc., in order to identify those general areas where some form of outsourcing could succeed locally;
- provided advice on how these areas should be dealt with, including information on the staffing and financial implications of developing and implementing any process;
- recommended firm policy guidelines for the States to consider as part of its corporate resource strategy.

The Policy and Resources Committee have incorporated these points from the Andersen document in producing the following report.

II. Outsourcing as a concept

5. There are many different definitions of outsourcing. For the purposes of this paper, outsourcing is defined as “the conscious management decision to move internal work to an external supplier”. Furthermore, it is the continuing process whereby States Committees contract with external suppliers for the delivery of specialist or new services which cannot be provided by the existing States workforce, or where it can be shown that the use of external suppliers either from within or without the Island would lead to less of a call on the Island’s financial and/or manpower resources.
6. Outsourcing has become widely accepted and used as a valid strategy by management in both the public and private sectors around the world. The concept behind outsourcing is for an organisation to perform internally those functions and processes which are strategically important to it, and obtain external suppliers who are specialists in a particular field to perform functions and processes which are not strategically important to the organisation. Those functions and processes which are key to achieving the organisation’s strategic objectives, and which can best be done internally, are termed core competencies (i.e. core functions). Other functions and processes that may be essential for the organisation’s operations but are not key to achieving strategic aims, such as payroll processing, are not core competencies. These functions and processes, therefore, need not be done internally.
7. The Arthur Andersen report identifies a number of benefits from outsourcing but also disadvantages, and these benefits and disadvantages are referred to as follows -

Benefits of outsourcing

- *Access to skills and technology*
Outsourcing gives access to specialist skills that the organisation could not normally attract, afford or retain on its own. These skills can be drawn upon as and when needed giving a far greater degree of flexibility and cost control. In addition to access to skilled people, outsourcing can give access to technology which potentially opens up numerous opportunities.
- *Management focus*
Outsourcing as a function or process allows management to concentrate their time and effort on to those issues which are of strategic importance to the organisation.
- *Agent for change*
A third party service provider can act as a change agent, to quickly and efficiently identify and implement processing improvements using its own experience and expertise.
- *Cost control*
Outsourcing is intended to provide strategic, operational enhancements rather than simply reduce costs, and

does not necessarily save money. Nevertheless, many organisations have experienced substantial cost savings.

- *Service mentality*
By having internal work performed by an external provider, outsourcing introduces market disciplines to the internal operations of an organisation.

There are a number of other potential benefits to outsourcing, depending on the unique circumstances attached to each transaction. For example -

- ◆ outsourcing normally leads to a reduction in payroll numbers through transfer of people onto the service provider's payroll;
- ◆ outsourcing can lead to more efficient use of funds where funding constraints apply;
- ◆ outsourcing can provide greater flexibility of resource;
- ◆ in many cases the career prospects of individual employees transferring to the external service provider are enhanced as there are more opportunities for promotion within the specialist organisation than in the organisation which is outsourcing the function.

Disadvantages and barriers to outsourcing

- It is perceived that outsourcing leads to a loss of jobs or a reduction in the quality of terms and conditions of employment.
- Management may not have much experience of handling outsourcing transactions, and as a result transactions may not be well managed.
- There are concerns regarding the security of supply and ownership of data.
- Outsourcing may attract adverse publicity and pressure from trade unions.
- Exposure to sub-contractors' financial strength and profit motive, such that future years might see higher costs.
- Potential leakage of confidential information, poor performance, or adverse media that generates a loss or reduction in public confidence.
- A perceived loss of control over decision-making, resource management, and daily operational procedures harmful to the organisation's overall operation.
- Service quality from a third party provider might not reach the expected levels, or service standards could become frozen in time through embodying them in long-term contracts.
- The savings anticipated may not be achieved, or additional unexpected costs suffered.
- If there is a lack of political will to push outsourcing through, outsourcing will not work.
- The organisation might be performing functions to a higher standard and may be using more resources than would be the case in the private sector.

It must be noted, however, that many of the disadvantages of outsourcing are those inherent in any change process which can be mitigated through careful management of that process.

III. Outsourcing and the States

8. From the report prepared by Arthur Andersen, it is clear that before outsourcing is undertaken, a comprehensive process of evaluation is required to ensure that the interests of the employees, tax payers and users of public services are considered, protected and enhanced.

9. The first step in considering an Outsourcing Policy is to establish exactly what are the strategic goals of the organisation, and within that, what it is hoped will be achieved through the use of outsourcing. Outsourcing should always be seen as only one of a number of ways of achieving strategic objectives and should not be considered in isolation. When contemplating outsourcing, other alternatives should be examined to ensure that outsourcing is an appropriate way forward. Above all, outsourcing should always be viewed in a “Best Value” context. As such, a “Best Value” approach identifies and focuses on issues of quality and service, rather than just that of lowest cost.
10. Outsourcing properly implemented should -
- allow the States to focus on those areas that are of high strategic importance and contribute to the performance of its various operational roles;
 - enable the States to make the most effective use of all of its resources;
 - add value through lower cost/higher quality - better timeliness of the States services;
 - provide a mechanism for enabling the States to realise their strategic objectives.
11. In looking at the opportunities for outsourcing there are two possibilities -
- to outsource to private firms within the Island;
 - to outsource to private firms outside the Island.
12. From a population policy point of view the first of these two opportunities is likely to be the least attractive, particularly if the result is that those private firms providing the services concerned have to recruit additional staff, and can only do so by employing labour from outside the Island. This option, therefore, may be limited in its application as a population control measure per se, but may be effective if it contributes to the efficient use of manpower to the higher productivity of the Island’s workforce as a whole.
- Outsourcing back office functions to private firms outside the island would be of considerable benefit, but issues of size and scale are important, so that perhaps sharing of services, or corporate services are the most suitable options. Where outsourcing involves off Island activities, additional costs and loss of revenues to the Island may be incurred, as well as an adverse impact on service performance. Significantly, however, outsourcing off-Island does benefit the States’ population policy.
13. It is recognised that one of the most important aspects of any outsourcing transaction is to handle the human resources issues in a planned and well-managed way. Employees need to be clearly told in a structured manner what is happening and why, what are their options and the impact on them personally. Key features of treating employees well should include treating them -
- in a consultative manner;
 - sympathetically and with fairness;
 - within a framework of agreed safeguards.
14. Experience has shown that public sector outsourcing has been most successful where -
- all parties have a mutual desire to succeed and work together;
 - service specifications are output based and relevant;
 - performance is a shared objective and measured realistically against achievements, outcomes and agreed targets.
15. Public sector outsourcing has been least successful where -
- relationships are adversarial;

- service performance failures are penalised in a mechanistic way without meaning or rationale;
- service levels and aims were not clearly defined and understood by all parties;
- the service provider does not perform well, resulting in loss of customer confidence or waste of public money;
- where the “function” is forgotten over time and is not given due weight in the subsequent development of services (or, occasionally, the cost rises disproportionately to the work);
- where stripping out the key functions loses key people.

16. To ensure that the human resources issues have been properly addressed, the Working Group consulted with both the Manual Workers Joint Council and the staff side of the Civil Service Joint Council. The Policy and Resources Committee also has given these two bodies an opportunity to comment on a draft report prior to its publication. A draft report was also sent to all States Committees for comment.

17. In consulting with the employees’ representatives it has been made clear that fundamental to any outsourcing policy is the need for safeguards. Where outsourcing affects existing public sector employees, specific safeguards, possibly in the form of service level agreements developed in consultation with the employees’ representatives, should cover issues such as -

- equity;
- standardisation of wages;
- job security;
- security of tenure;
- health and safety;
- terms and conditions of service;
- the employment of local labour.

18. These safeguards touch on the natural concerns of those representing States employees. These concerns can be referred to as follows -

- Outsourcing is seen as privatisation.
- There is not a level playing field between blue and white collar workers. Outsourcing has been seen as predominantly concentrated on blue collar workers.
- Outsourcing has involved less favourable terms and conditions being offered to employees by private contractors.
- Lack of immigration control enables private contractors to employ people “off the boat”.
- Lack of training for blue collar workers to enable them to change jobs both internally and externally.
- Lack of safeguards for workers. The United Kingdom experience has shown that the so called TUPE safeguards have proved inadequate.
- There is a lack of other suitable employment for redundant public sector blue collar workers in the absence of any manufacturing base. By comparison, the white collar workers have the finance industry to fall back on.
- Concern that employees would not be fully consulted.

- Concern that outsourcing will be mandatory.
- Concern about whether the States has the expertise to manage outsourcing and ensure the safeguards are met.
- Concern that those with specialist skills would not be able to find employment in the private sector.
- Impact on public sector staff morale.
- Concern that there should be no reduction in public sector job opportunities, and in opportunities for promotion and career development.
- Problems of managing the supply of services, particularly if outsourcing is off-Island, in terms of quality and efficiency arising from a lack of knowledge and understanding of Jersey's laws, systems and conditions.
- Concern that the loss of the security of public sector employment, and a reduction in pay levels, would bring in its train social costs for the community.

19. In addressing these needs, therefore, it is incumbent on the States to not only ensure the incorporation of appropriate safeguards in any outsourcing policy, but also to encourage, develop, and implement training and skills enhancement programmes to all levels of States employees (e.g. IT training).

20. In addition to the foregoing, any outsourcing policy should also incorporate safeguards relating to "Best Value" covering: quality of service, cost, and the States' Strategic Policies generally. For example -

- where the States contract with external suppliers there needs to be proper regard for the effect of this on the revenue expenditure of the States, on the States policies on sustainability, and on the minimising of social and material deprivation;
- a condition of States contracts might be that any local supplier should employ a given proportion of persons who are residentially qualified or have been resident in the Island for five years or more, in line with the policies being pursued by the Finance and Economics Committee in applying the Regulation of Undertakings and Developments Law.

21. To help reinforce such safeguards therefore, the Finance and Economics Committee, in applying the Regulation of Undertakings and Development Law, will need to continue to have regard for States Population Policy and limit the opportunities for bringing immigrant labour into the Island to carry out tasks presently undertaken by local labour.

IV. Outsourcing and Jersey

22. In contemplating an outsourcing policy there are particular considerations unique to Jersey -

- Jersey has an excess demand for labour reflected in a higher rate of cost inflation.
- The Island has a population policy which suggests that the greatest impact of outsourcing in support of that policy will be if non core processes can be outsourced by relocating outside of Jersey.
- Outsourcing could be of benefit for the economy as a whole if, by changing the balance of public and private sector employment, more local staff are available to the private sector in support of wealth creating activities and/or in consulting work.
- Because of the limited range of the job opportunities available in a small Island, particularly for blue collar workers and those with specialist skills, the handling of outsourcing in relation to the position of those directly affected will be a key to the success of any outsourcing policy.

23. In light of the foregoing, the President of the Establishment Committee has proposed an alternative course of action which does not fall within the definition of outsourcing used in this report and which he has described as "off-Island stationing". This would involve the provision of existing public services from an off-Island location under continued direct States control. It would also involve either the existing employees moving to the new location, or new staff being recruited in the new location, and the existing employees being redeployed within the Island. The benefit of either course of action would be that existing tasks are carried out off-Island, and the demand for more public

services is more easily accommodated, without adding to the number of job opportunities and the pressure on the resident population, while retaining States control. As such, there is also no loss to the number of States jobs nor loss of direct quality control.

V. Conclusions

24. Outsourcing is not something new. It has been practiced for many years by many Departments of the States, in both the white and blue collar sectors.

25. Outsourcing, however, should be seen as a means to an end and not as an end in itself, and also as only one of a number of means of achieving States' strategic policy objectives. There are other options in support of population policy, such as "off-Island stationing" to consider. Above all, it should be recognised that if the Regulation of Undertakings and Development Law is successful in controlling population, the need for outsourcing and "off-Island stationing" is reduced or removed.

26. Outsourcing should only be used on a planned basis, with a prerequisite set of safeguards, and in a "Best Value" context.

27. The Committee supports the following policy guidelines drawn from the Arthur Andersen report -

- **Outsourcing as a potential tool for use by the States of Jersey needs to be accepted politically.**

The sensitivity attached to outsourcing in the public sector requires that if outsourcing is to be successfully employed it must be accepted that it is a valid concept that can be considered alongside other accepted initiatives throughout the public sector. Without the political will and support of the States, Committees of the States, Chief Officers and employees, outsourcing is unlikely to work.

- **Outsourcing should not be considered in isolation.**

Outsourcing is one of several avenues available to the States to help it achieve its strategic objectives. Outsourcing should not be viewed as a separate activity, but should be integrated into the States' normal reviews of internal costs and efficiencies, including the use of information technology (IT).

- **The functions and processes appropriate for outsourcing should be clearly determined.**

Having embraced outsourcing as a concept and accepted that it should be adopted where applicable, the States need to require Committees to consider which functions and processes, if any, should be outsourced. Moreover, the decisions to consider outsourcing should be based on "Best Value" to the States as a whole and not just on "Least Cost" to a particular Department.

- **All outsourcing transactions contemplated by the States should follow a common framework.**

In order to ensure that all outsourcing transactions are performed efficiently and consistently by all departments, a common framework should be utilised. Using a framework will ensure that a common approach is adopted, that appropriate experience is called upon, that risks are mitigated, and legal and fiscal implications are fully evaluated. The common framework must not be too prescriptive, or overly bureaucratic, but it should include standard conditions to be incorporated into outsourcing contracts that ensure adequate safeguards for the resident workforce.

- **Any outsourcing policy and its use should be monitored.**

To ensure that there is a consistent framework of outsourcing, overall responsibility for control of outsourcing policy and the monitoring of its use should be in the hands of one body. It is proposed that this body should be led by the Policy and Resources Committee, in conjunction with the Establishment Committee, to maintain the quality of employment relationships. The body should be chaired by the Corporate Strategy Officer, and should be made up of a team of those representing the relevant Committees of the States, and employee representatives. Committees of the States, however, should have the flexibility within the common framework to operate the outsourcing policy within their respective areas of responsibility, according to their individual needs.

- **Day to day control of individual outsourcing arrangements should be in the hands of a project team, except where the outsourcing transaction can be considered to be *de minimis*.**

The project team should include individuals with in-depth knowledge of the function or process being outsourced, and should also include representatives of all those on who the success of the outsourcing must ultimately depend.

- **Cost and quality considerations must be balanced against the requirement to secure the more effective use of public sector resources.**

The project team should make itself aware of the existing in-house costs and quality standards as a benchmark for judging external suppliers. Any potential improvements to the in-house operation should also be identified.

- **Employees must be treated fairly and with sensitivity.**

In order for an outsourcing transaction to progress smoothly, it is essential that human relations are properly handled. For every transaction, therefore, employees, and their Union representatives need to be fully informed of what is happening and how it will affect them personally. As such, a “partnership” approach is encouraged, rather than just a debate on individual transactions.

28. The Committee is of the opinion that outsourcing - and this extends also to the concept of “off-Island stationing” - is a tool that in the right circumstances and with the right safeguards, can be helpful in ensuring that the Island’s labour force is used most effectively. It is one of a number of tools that can help ensure that the demand for public services is met, without increasing the total number employed in the public sector in accordance with the States population policy. If there is a political commitment to outsourcing in principle, subject to all the safeguards that have been referred to in this report, it is proposed that the States should delegate to the Policy and Resources Committee and the Policy and Resources Department the task of taking this matter forward in consultation with all other interested parties.