

ATTITUDES TO EXTERNALIZATION AND REFORM IN LOCAL AUTHORITY PROJECTS

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Both the expansion of Compulsory Competitive Tendering in the Local Government Act of 1992 and the Best Practice policy of the 1997 Labour administration have driven local authorities to externalize services to the open market. However, despite the initial compulsion and later encouragement towards externalization by central government, apathy exists amongst local authorities and their employees to the perceived benefits of these initiatives, in an area of the economy that accounts for a significant proportion of construction industry spending. Beginning with a review of the historical context of externalization, the paper then continues by using quantitative data from engineering consultants and observational data from a local authority in-house team to deliver a preliminary case study on the execution of projects within a maturing professional services contract, between an in-house team and their engineering consultants. The paper explores if the long-term commercial provision of externalized services through a consultant undermines the skills, responsibilities and commercial viability of local authority engineering teams. It also identifies how complex factors within the 'partnered' project teams of local authority engineers and their consultants may result in the paradoxical situation whereby project success leads to a worsening of relationships and potential contract failure. Crucially, in examining these issues the paper goes on to discuss this apathy to public service reform and the ongoing reform of the construction industry. It explores how, when this apathy is considered alongside a relative lack of exposure to commercial pressure, in-house engineering teams could be considered as not only stifling the effective procurement and execution of construction projects, but also the reform of the construction industry. The paper also identifies further research upon the subject, and raises issues to be considered when assessing the potential for further reform of the construction industry and the role of public service clients.

Keywords: competition, consultant, externalization, reform, public services.

INTRODUCTION

Comprising 10% of the UK GDP (KPMG 2010) and 40% of construction industry work in 2009 (The Guardian 2010), public sector spending and service provision could now be considered big business. Subjected to extensive competition reforms since the Conservative government of 1979, local authorities have been either compelled or encouraged by all central government administrations since to externalize a wide range of services, with the expectation that there will be a resultant increase in skills, resources and cost savings applied to these services (Office of the Deputy Prime Minister 2004). However, empathy exists within local authorities towards the expected benefits of competition through externalization (Entwistle 2004)

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and that it is recognized nationally that "It is clear that the procurement culture needs to change" (Audit Commission 2002: 18) and "Councils generally lack sufficient people with the procurement, risk or contract management skills to make effective use of market mechanisms" (Audit Commission 2007: 7).

The externalization of white-collar technical services, brought about by the expanded remit of Compulsory Competitive Tendering (CCT) (Local Government Act 1992), has seen a significant increase in the number, size and scope of multi-disciplinary consultants stepping in to provide technical specialist engineering services for local authority clients; in the first five years alone following the act, 58 white-collar externalizations were completed, involving 3,270 members of staff and an estimated total value of £231 million (European Services Strategy Unit 1997). Keen to maximize the returns that the competitive potential of CCT and Best Value made available, the commercial mechanisms of the consultants have matured, although this has generated discontent with public service union representatives and the creation of what is viewed as a two tier workforce (Unison 2008).

This study seeks to explore if the apathy of local authorities towards competition and commercial exposure could be considered to adversely affect the execution of local authority schemes, and creating a lack of objectivity within the project execution teams of local authority staff. Most importantly, the paper questions if, when the documented lack of local authority reform is contrasted with the Latham and Egan led reform agenda of the construction industry, local authorities stifle the effective procurement and execution of their construction projects and industry reform.

THE CONTEXT OF EXTERNALIZATION

With the passing of the Local Government, Planning and Land Act (1980), the Conservative government began the process through which local authorities would be forced to procure an increasing number of their services through competitive tendering. CCT was further expanded with the requirement for a wide range of white-collar services to be competitively tendered being introduced in the Local Government Act of 1992. The intention was that CCT would provide the means through which local authorities would be driven to demonstrate value for money:

"Public sector services are usually financed, at least partly if not wholly, from taxation, which means that people do not have a choice about whether or not to pay. Consequently, if value for money is to be ensured, then some additional mechanism is required to see that public sector organizations have incentives to cost-effectiveness" (Frederick 1994).

Although the Labour administration of 1997 believed in the encouragement rather than compulsion of public services to engage with the free market, they sought to instigate "radical change needed to modernize local government – democratic renewal, best value in service delivery, a new ethical framework, and aspects of the local government finance system" (DETR 1998), bringing about the implementation of the Best Value policy in 1999, which has been supplemented further with policies such as the refinement of the Private Finance Initiative, and Public-Private Partnerships (Office of the Deputy Prime Minister 2003).

The impact of competition and externalization

Research upon the increasing implementation of competition through external providers has identified cost savings and service improvements to public services (Domberger and Rimmer 1994, Local Government Association 1999, Audit

Commission 2002), with recent research identifying that reform in public sector procurement, shared services and outsourcing could save £25 billion per annum (Institute of Directors 2010).

Research has however also identified that the proposed benefits of exposing public services to competition do not always come to fruition, or at least the deliverables are not what may have originally been expected (Hart *et al.* 1997, Savas 2000, Cox 2003). However, in considering the impact of Best Value, Wills (2000) identifies that the successful implementation of open market initiatives requires the application of good management practice by the client. This includes fostering better customer relations; getting to grips with true direct costs; evaluating productivity; confronting overheads and recharges for which there is no justifiable return; manage and monitor the business as well as any private sector concern. "The problem is that these skills need to be developed because, all too frequently, they have been ignored, deliberately. Traditional practices in local government are antipathetic to good management and positively discriminate against all that best value seeks to achieve" (Wills 2000).

Negativity towards externalization

There has been a significant body of academic, industry and government research upon the ongoing apathy and a defensive attitude towards the benefits of externalization. Key supporting data is available from the Audit Commission; "A third of inspections raise concerns over the failure to properly review competitiveness or challenge current ways of working" (2001); "70% of councils appear to lack commitment to competitive procurement" (2002); "members and officers do not always adopt a pragmatic approach to using market mechanisms" (2007).

Opposition to the application of market mechanisms to local authority services is both politically and economically motivated (Szymanski 1996). In Entwistles' 2005 study of apathy towards externalization in local authorities five primary reasons were identified; Good and big' [the need to be a secure] employer; Public service ethos; Control; Supply-side problems; and core competence (Entwhistle 2004). These are supported further by a perceived reduction in service standards (PSPRU 1992), the belief that the transaction costs (Williamson 1985) associated with externalization will always favour internal arrangements over the free market, or that cost reductions are only achieved through the creation of a two tier workforce with lower remuneration and poorer conditions (Unison 2008).

METHOD

The first subject group was comprised of local authority engineering staff involved in the design, procurement and construction of capital and maintenance projects, typically with varying volumes and degrees of input from their engineering consultants. The second subject group was comprised of white-collar engineering consultants working upon a range of local authority contracts throughout the United Kingdom. The initial methodology had intended to use questionnaires to generate quantitative data from both subject groups for subsequent comparison, which would be supplemented by qualitative observational data from the local authority subject group; the time and logistical constraints of part time research meant that observational data could not be gathered from the consultant subject group. Due to the developing political situation in 2010 with regards to the apparent need for public service cutbacks, and that this research was deemed sensitive, permission was retracted at a late stage for the use of the local authority quantitative data; this did not allow the comparison of data that was originally intended, or the opportunity for the

subject group to engage in the debate and potentially contextualize their response. Data from the local authority subject group was therefore limited to unobtrusive, informal observation, which focussed upon the opinions and actions of the subject group pertaining to their interaction with their consultants. To supplement this, narrative account observations were made upon pertinent aspects of the project design and delivery processes within the subject offices during the preparation of two schemes, referred to as Sc1 and Sc2. It is recognized that a high degree of engagement can potentially compromise the role of the researcher, however subject engagement was limited to engineering duties and enabled a degree of 'real life' observation to be performed to ascertain what the subject group actually did, rather than say they did (Robson 2002). The results of both observational methods were subsequently coded using a constant comparison approach to minimize bias (Gibbs and Taylor 2010), as it is recognized that researcher bias may be introduced during the generation of codes, particularly when an existing theory is being applied to the analysis of the data (Dey 1999). Themes were subsequently generated and applied within a model of nodes, thus enabling the visualization of connections between themes; the greater number of direct or lateral children to the node, the more important the theme has been considered within the research.

The consultant subject group was comparable to the local authority subject group, comprised of individuals from technician to lower management level, though with some previously externalized staff with local authority experience. The space constraints of this paper do not allow the questionnaire to be represented fully, however it was broadly focussed upon their perceptions of the local authority / consultant relationship, the role of the consultant in the execution of local authority projects, what they perceive to be the causes of delay/failure of local authority schemes and how they perceive the success of local authority clients to work within the expectations of a modern, competitive construction industry. Furthermore, there was opportunity for the subjects to briefly comment upon local authority /consultant organization relationships, and the relationships within the local authority /consultant project delivery teams. Question design was such that stimulus equivalence (Oppenheim 1992) was sought whilst seeking to minimize researcher bias, however it is recognized that there is likely to be some bias within the results of the consultant subject group and differences in the process of responding (Oppenheim 1992). These issues were sought to be mitigated through the comparison of the results with external data sources, to ascertain any correlation or deviation.

The contract between the two parties could be considered as mature within the history of modern competitive tendering and externalization, and is in its second term with the same consultant organization.

RESULTS AND DISCUSSION

Consultant organization/local authority relationship results

When studying the relationship between the consultant organization and a local authority, it could be considered from the results in Table 1 that the consultant subject group consider the relationship between the two organizations to be productive, and that there is value in joint working. There are a number of results that may not be considered a surprise; consultants offer comparable or better value for money than local authorities (72%); consultants are essential to project delivery (72%); or that externalization has been a beneficial and productive policy (64%). What may be considered surprising is that these do not affect the perceived validity of client in-

Table 1: Dominant responses by Consultant subject group to Consultant/Local Authority (L.A.) relationship questions

Question	Subject Response
Joint working beneficial to project delivery	72% agree or strongly agree
Comparable or better value for money than L.A.	72% agree or strongly agree
Jeopardize in-house teams	79% disagree or strongly disagree
L.A. empathize with commercial pressure	64% disagree or strongly disagree. No respondents agree or strongly agree
L.A. clients strengthen engineering teams	50% neither agree nor disagree. 36% agree.
Consultants undermine in house teams skills	86% either disagree or strongly disagree. Only 7% agree.
Consultants essential to project delivery	72% agree or strongly agree
Externalization beneficial policy	65% agree or strongly agree. Remaining 36% neither agree nor disagree.

house teams by the consultant subject group; 86% disagree or strongly disagree that consultants undermine the skills of in-house teams, and 79% disagree or strongly disagree that the use of in-house teams is jeopardized by consultants. It is worth noting that none of the consultants felt that local authority clients empathize with commercial constraints;

"The client seems to have little appreciation of financial pressures the consultant experiences. This is typified with multiple requests for minor edits that can then be seen to be petty if covered by [additional work fee requests]" (Subject 3, Consultant subject group).

Discussion of results

In assessing the impact of the long-term provision of engineering consultants upon in-house teams, it is interesting to see that the consultant subject group do not consider their role or activities as a threat to local authority engineering teams, despite the results of Table 2 indicating significant perceived shortcomings in the project input of the in-house staff. However, threat to job security was the highest ranked theme found within the nodal model of the local authority subject group. In reviewing the themes recorded, it could however be considered that should the other themes not have such a dominant role, perhaps job security would be a less dominant issue with regard to poor project performance.

Once again referring to Wills (2000) commentary upon best value and open market initiatives, a number of the themes found in Table 3 could also be considered as highlighting a lack of good management and key skills deemed essential to successful project execution. An example of the impact of these shortcomings can be found within the observed project Sc1, a scheme designed and project managed by the in-house team with consultant input limited to a supplemental role. During the design process, flaws were introduced because the most appropriate skills were not available. When subsequently identified by the consultant and a solution proposed, no timely decision was made on the implementation of the solution as it involved a greater use of consultant resources, frequently considered a last resort as it is deemed to highlight the error and show the in-house team in a poor light.

Table 2: Dominant responses by Consultant subject group to Consultant/Local Authority (L.A.) project execution questions

Question	Subject Response
L.A. always issue timely brief	92% disagree or strongly disagree
L.A. make decisions and feedback in timely manner	78% disagree or strongly disagree
L.A. offer proactive support as and when required	36% agree, 36% neither agree nor disagree, 28% disagree
L.A. teams place greater emphasis on personal reputation than project success	50% agree, 43% neither agree nor disagree
L.A. teams offer input likely to increase project success	43% neither agree nor disagree. 28% agree or strongly agree, 28% disagree or strongly disagree
Consultant better placed to input to project than comparable level L.A. staff	42% agree or strongly agree, 36% neither agree nor disagree

Table 3: Dominant themes identified within nodal model of in-house team observations

Theme	No. of connections
Threat to job security	5
Lack of accountability for poor delivery	4
'Pass the buck' culture	4
Protecting own dominion	4
Poor project management	4
Utilizing consultant skillset is a last resort: it only emphasizes need for improvement within in-house team	4
Conflicting agendas (Political, Personal, maintaining status quo)	4
'Make do' attitude: skills available may not be most appropriate	4
Insular behaviour and experience stifles innovation as historical success means no need to change	4

Finally, the 'pass the buck' culture and lack of accountability to the final client (a separate department within the local authority) meant the design went to tender with the design issues unresolved, ultimately leading to a Compensation Event from the contractor valued at over £80,000 (approximately 14% of the total tender value). It is reasonable to deduce that if performance such as this is typical, to any significant degree, of the in-house team input to schemes (albeit no doubt of varying severity), any comparison by these teams of their input to that expected within a free market, competitive environment, could offer a potential explanation for the threat to job security being the most dominant theme of those recorded. It is interesting to consider that this concern occurs despite strong representation from public sector trade unions, with noted concerns towards externalization and the exposure of public services to competitive environments (Unison, 2008).

A review of the data also identifies that these factors likely have a negative impact upon the execution of partnering contracts, based upon their deviation from key areas within the construction industry reform body of thought. As per the recommendation within 'Constructing the Team' towards increasing use of the NEC ECC (Latham 1994), the contract within this research is the NEC 2 Professional Services Contract, which states as a contractual duty that the parties shall "...act as stated in this contract and in a spirit of mutual trust and understanding" (Engineering and Construction Contract, 1995). Furthermore, we should consider two principal benefits of partnering as being improved project outcomes in terms of cost, time and quality, and increased opportunity for innovation and value engineering (Construction Industry Institute

Australia 1996). The dominant factors reported within Tables 2 and 3 contrast to these expectations, supported by feedback from the consultant subject group such as "Quite often L.A. clients view it [the working relationship] as master and servant arrangement, even when badged up as partnering" (Subject C4) and "Client will always moan about the price and it will always be the consultant fault if things go wrong" (Subject C11). This departure from the spirit of partnering may be demonstrated further by two noted observations within the in-house subject group; "I do wonder what it will be like next year [2011] when we have no money to spend. That's the problem with parasites." (Subject L4) and "In will come [consultant organization] and charge four times as much for poor quality work" (Subject L5).

Although for commercial and ethical reasons it is not possible to discuss specific details, finances or contractual performance within this paper, limited access to the performance records of the contract within the 18 months preceding the research has identified that substantial savings have been made by the local authority as a result of consultant input. In addition, key multi-million pound capital schemes have been delivered on time and budget, with innovative technology and performance monitoring policies having been successfully introduced by the consultant organization to the local authority during this same period. Finally, the consultant has performed successfully enough to re-win the contract in the past. These factors could typically be associated with the successful execution of the contract, and all have been formally recognized and documented by the local authority within the performance mechanism of the contract. Yet, despite this apparent ongoing success, a defensive attitude towards the consultant organization can still be found, as evidenced by the themes present in Table 3 and comments such as those recorded from Subjects L4 and L5 and reported above. Furthermore, the themes within Table 3 are supplemented by activities of the in-house teams that could be considered against the spirit of partnering, for example that agency staff may be used at the expense of the partnered consultancy staff. The research was not able to ascertain any reason for this policy, as the consultant staff can be drawn upon as a pool of technical skills in a similar manner to agency staff, and in contrast to agency staff they are likely to have a long-term interest in achieving project success not only for commercial reasons (as performance may reflect upon the rebid for the term contract), but also due to the accountability that should ideally come with working for clients over a sustained period and the establishment of productive partnerships. It may be deduced that by limiting direct comparisons with peers working in industry, this is potentially another mechanism through which the threat to in-house job security could be mitigated.

Comparisons between construction industry and public service reform

The issues discussed above gave rise to a consideration of this behaviour with regard to the ongoing reform of the construction industry. The initiatives pioneered by the publication of 'Constructing the Team' (Latham 1984) and 'Rethinking Construction' (Egan 1998) have driven the construction industry to strive towards significant reform. Whilst the degree of success to which this has been achieved is outside the scope of this paper, it is recognized that there is still significant progress yet to be made; "We could have had a revolution and what we've achieved so far is a bit of improvement." (Egan 2008); "What has been achieved? More than I expected but less than I hoped" (Latham 2009). However, the Key Performance Indicators and Demonstration Projects of the Egan Task Force support that varying degrees of reform has been achieved in a number of areas that Egan identified (Wolstenholme 2009).

Table 4: Summary of drivers for change in Rethinking Construction (Wolstenholme, 2009)

Key driver for change	Summary
Committed Leadership	Management believing in and being totally committed to performance improvement and communicating the necessary cultural and operational changes
A Focus on the Customer	Providing a product that the customer wants, when they want it and at a price which reflects its value
Integrated Processes and Teams	Delivering value to the customer efficiently and eliminating waste
A Quality Driven Agenda	Getting it right first time with zero defects, on time and on budget. Innovating and stripping out waste. Reduced cost in use and after-sales care
Commitment to People	Decent site conditions, fair wages, a commitment to health and safety and training and development for staff. Also, a 'no blame' culture based on mutual interdependence and trust

If the data in Tables 2 and 3 are reviewed alongside the five key drivers for change identified by Egan and summarized in Table 4, it could be considered that the subject group do not appear to adhere to the progressive philosophy desired by the construction reform body of thought.

Furthermore, in the recent Constructing Excellence review of reform progress since Rethinking Construction, amongst the four key blocks to progress are the business and economic models currently being used, and it is noted that "the public sector...has yet to emerge as a coherent champion of the Egan agenda" (Wolstenholme 2009). If these findings are considered alongside the previously discussed Audit Commission data and the Institute of Directors report, as well as a number of the issues identified within this research, the case for reform is strengthened; "The reality overall is that the public sector should have gone out of business years ago" (Institute of Directors 2010).

FURTHER RESEARCH

As a preliminary case study, it would be beneficial for the findings of this research to be tested upon a broader range of local authority and consultant partnerships, to ascertain the influence of different business models upon contract execution. Furthermore, it would be beneficial to include leading contractors as a subject group, to explore instances where competitive mechanics may work effectively. Finally, it would be beneficial to review how the cuts to public sector funding (HM Treasury, 2010) impact upon the reform agenda of public services; though no doubt painful to most project stakeholders within the construction industry, can the recession be exploited to force reform when the industry is not cushioned by a healthy economy?

CONCLUSION

This research concludes that the procurement and execution of local authority construction projects and contracts may be hindered by the defensive and apathetic behaviour of in-house teams towards externalization and related competition mechanisms. It is recognized that there are a number of dominant themes influencing in-house team interactions with their engineering consultants, with the greatest being a threat to their job security, although the majority of the consultant subject group do not consider themselves as a threat to their clients. Upon subsequent consideration of the identified themes to the findings of external sources, it was also identified that the in-house teams do not appear to be aligned with the key drivers for change deemed necessary for construction industry reform.

In summary, subject to substantial further testing, it could be considered that the dominant themes identified in this research, and their likely influence upon project execution, jeopardizes project success and wastes tax payer funding to support the job security of in-house teams. Furthermore, in considering the apparent apathy and defensive attitude of in-house teams towards competitive reform, these teams could be considered poorly placed to manage their projects within the expectations of a modern construction industry seeking reform. Finally, given the size of public service input to the construction industry, substantial reform of competitive public service procurement and project execution may lead to further construction industry reform, and that the construction industry may never achieve substantial reform when a potentially significant proportion of its clients have not.

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