

Local authority experience of compulsory competitive tendering

The requirement to submit local authority services to competitive tender under the Local Government Acts of 1988 and 1992 has been the subject of intense debate. A new study by Nirmala Rao and Ken Young considers the impact of enforced competition upon local authorities and finds that it has propelled authorities into a period of far-reaching change in management processes, manager behaviour and organisational 'culture'.

- f** **Moving towards a truly competitive environment has required local authorities to relinquish many long-established practices and attitudes.**
- f** **Adapting to the new CCT regime has proved difficult for some authorities. National pay rates and conditions of service have been hard to meet: in the struggle for adaptation, job losses have been accentuated and conditions worsened in the less competitive authorities.**
- f** **Where authorities have achieved productivity gains, depressed pay and trimmed back on benefits, they have competed with more success.**
- f** **The impact of competition has not been uniform. The intensity of competition has varied between services and between different parts of the country.**
- f** **There are indications that private contractors are establishing themselves more firmly and that future competition will be fiercer, particularly as white-collar work enters the market.**
- f** **Most of those interviewed, however hostile to CCT in the initial stages, now felt there had been some gains in the process. The researchers conclude that although CCT would not have been established without being imposed, it is now sufficiently entrenched in practice to make a return to non-competitive ways of working unlikely, even if the elements of compulsion were removed.**

Responding to compulsory competitive tendering

The early 1990s have seen a remarkable process of transformation in local government. Local authorities have 'shaped up', reluctantly or otherwise, for working in a competitive environment, finding new skills and adopting new working practices. Those with responsibility for purchasing have had to change from 'doers' to advisers, controllers and forward thinkers. Similarly, managers of Direct Service Organisations (DSOs) have had to acquire a whole new range of competencies while developing greater commercial acumen. Where contracts have been won in-house, DSOs have slimmed down, become more cost-conscious and responsive and have improved productivity and quality of service. But change has spread more widely as commercial approaches have come to be applied to the authority at large and to the relations between its parts.

Becoming competitive

Becoming competitive has meant confronting restrictive practices leading to over-manning and reducing staffing levels to compare more closely with those prevailing in the private sector.

Moving towards a competitive environment has also required authorities to relinquish many of their long-established practices and habits in the allocation and costing of work. These changes of approach are a prerequisite of any sustainable improvements in productivity and working practices. However, local authorities can rarely achieve the flexibility of a private contractor, who can engage and release workers on a seasonal basis as the demands of the work dictate. Councils have found it difficult to become competitive due to the constraints of national pay and conditions of service, which are more expensive than those of the competing contractor.

The effects of compulsion

Interviews for the study suggest that - while a few authorities might have continued to experiment with new models of organisation - these changes would

not have come about had local authorities not been compelled by law to submit defined services to compulsory competition under strict conditions. One officer interviewed confessed:

"The benefits were we saved money and the services were no worse. Broadly it is the same service at less cost. But we would never have done it without compulsion - it was done with a lot of pain and human cost."

However, despite the element of compulsion behind the initial changes, interviews revealed that the new disciplines of cost-conscious management which CCT imposed are valued. They have driven a process of cultural change in which customer requirements are made explicit, activities properly priced and customer satisfaction prioritised. It seems likely that the removal of the competition requirements would not see a reversal of the competitive process, as these new ways of working have become embedded in practice and their benefits are now recognised and valued.

The effects of change

A few authorities still find the process of competition disruptive and unsettling because of the degree of change involved. Others at the cutting edge of change are encountering new problems and raising new issues at the further reaches of the competitive environment, for example, where internal markets have been pushed so far that the sense of the authority's overall strategic direction becomes difficult to secure. Most, however, including some of the most hostile and reluctant entrants into the service marketplace, have begun to realise more immediate benefits. In one authority visited it was admitted that

"Street cleaning and refuse collection services used to be a disaster with members getting a lot of complaints. Since it has gone out to external contractors members are delighted with the services."

Those interviewed felt the gains have been greater clarity in lines of responsibility, the removal of confusion between service commissioning and service provision, explicitness in service specifications, heightened client awareness of performance, greater precision in performance measurement and the identification of hidden costs.

Increasing competition

The experience of the market appears highly variable between services, between different parts of the country, and over time. The trends, however, are all towards greater competition, with the introduction of CCT for white collar work already presenting a substantial and attractive market to the private sector. DSO managers are also likely to face increased competition from large, experienced and well-resourced firms, increasingly from Continental Europe, which are gearing up for the UK market.

Creating private service organisations

Some councils have explored 'externalisation' - the wholesale transfer of a service and its workforce to a private company. Externalising services by negotiation effectively places them outside the CCT arena, provided it can be effected before the appointed day. It is seen as a way of maintaining job security of staff at least in the medium term, by transferring them to a company with guaranteed contracts for a period of time, while scope for extending operations into other local authority areas provides an expanding market. A range of considerations - legal, service, political, market and organisational - underpin the moves towards externalisation.

Implications for councillors

The effect of CCT has been to enhance the power of officers at the expense of that of the councillors. Some councillors had worked within the old system for so long that they did not want change and found themselves sidelined. Others, having recently sought and won election for quite other reasons, found themselves confronted with an experience which was

unexpected and totally alien to them. It seems likely that many councillors, finding it hard to get to grips with the competitive regime, fell in with officer plans in the early stages of CCT.

The future of competition

Some councillors and officials look forward to the end of the competitive regime, and confidently expect it to disappear within the next five years. It is not just their expectation of a change in government that feeds these hopes, but the belief that price will no longer be the determining factor in the award of contracts. This belief stems from a perception that private sector management is swinging away from producing a basic product at a minimum price, towards the development of a quality product. According to this view, 'the new public management' is following yesterday's commercial conventions.

This study suggests, however, that the hard realities of competition will remain. The researchers conclude that the dynamics of competition have proved powerful beyond all expectation, and that Britain is unlikely to see the old patterns of public service management again.

About the study

This study reviews existing evidence on the impact of CCT and presents a discussion of a series of visits to ten local authorities in England, Wales and Scotland, carried out during the summer of 1994. It draws upon interviews with officers and councillors in those authorities.

Further information

This study was undertaken as part of the Joseph Rowntree Foundation's Local and Central Government Relations research programme. A full report - Competition, Contracts and Change: The local authority experience of CCT - is published by Local Government Chronicle for the Joseph Rowntree Foundation, priced £8.50.

Related *Findings*

The following Findings look at related issues:

- 23** The impact of population size on local authority costs and effectiveness (Apr 93)
- 25** The effect of Standard Spending Assessments (Oct 93)
- 30** The governance gap: quangos and accountability (Sept 94)
- 35** The membership of local appointed bodies (May 95)
- 37** The working of joint arrangements (July 95)

The following Summary is also relevant:

- 1** Charging for local government services (Feb 95)

For further details of these and other Findings, contact Sally Corrie on 01904 654328 (direct line for publications queries only; an answerphone may be operating).



Published by the
Joseph Rowntree Foundation
The Homestead, 40 Water End
York YO3 6LP
Tel: 01904 629241 Fax: 01904 620072
ISSN 0958-3823

The Joseph Rowntree Foundation is an independent, non-political body which funds programmes of research and innovative development in the fields of housing, social care and social policy. It supports projects of potential value to policy-makers, decision-takers and practitioners. It publishes the findings rapidly and widely so that they can inform current debate and practice.