

**A CRITICAL EVALUATION OF COMPULSORY COMPETITIVE
TENDERING AND ITS IMPACT ON FINANCE PROFESSIONALS AND THE
FINANCE FUNCTION IN LOCAL GOVERNMENT**

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ABSTRACT

In the United Kingdom, between 1979 and 1997, successive Conservative governments sought to reduce the size of the public sector and to expose to competition those activities which remained within it. In the case of local government, a key Conservative policy was compulsory competitive tendering (CCT). In introducing CCT, the Conservatives sought to improve the way in which local authority services were delivered, partly by increasing private sector involvement but also by effecting a cultural change amongst local authority personnel, at the very core of which are finance professionals. Traditionally, the finance function has been central to all local authority activity. Because of this, in considering the effect of the Conservative era, 1979-97, on local government, insights may be gained by evaluating the policy of CCT and its impact on finance professionals and the finance function. This thesis considers these issues and does so by focusing on the North West of England, the composition of which, politically and professionally, is broadly representative of the situation nationally. The thesis presents the findings of original research into, first, the views of finance professionals on CCT and related issues and, second, local authority preparations for financial services CCT. The findings are then placed within the context of new public management literature. Models of change are evaluated, leading to the development of, first, a typology of responses to change and, second, a new model of change. The typology and model are presented to facilitate analysis and management of change as local authorities respond to the Labour Government's 'best value' initiative. In summary, the thesis contributes to knowledge by: establishing and explaining, first, the views of finance professionals on CCT and related issues and, second, the extent to which local authorities were prepared for financial services CCT; developing a typology of local authority responses to change and a model against which change in local government may be assessed; presenting original work to supplement the body of literature and empirical evidence on CCT. The empirical evidence is currently very limited not only in the case of white collar CCT in general and financial services CCT in particular but also in the case of the success or otherwise of CCT as an agent for driving cultural change in the provision of local authority financial services.

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LIST OF ABBREVIATIONS

ACCA	Association of Chartered Certified Accountants
ACFO	Assistant Chief Financial Officer
ADLO	Association of Direct Labour Organisations
BIGS	bought-in goods and services
CBI	Confederation of British Industry
CBT	cross boundary tendering
CC	county council
CCAB	Consultative Committee of Accountancy Bodies
CCT	compulsory competitive tendering
CFO	Chief Financial Officer
CIMA	Chartered Institute of Management Accountants
CIPFA	Chartered Institute of Public Finance and Accountancy
CIPFA, NI	CIPFA (see above), Northern Ireland
Cm	Command
COSLA	Convention of Scottish Local Authorities
CSS	central support service
CTC	competitive tendering and contracting
DCFO	Deputy Chief Financial Officer
DETR	Department of the Environment, Transport and the Regions
DFM	devolved financial management
DLO	direct labour organisation
DMT	Domberger, Meadowcroft and Thompson
DoE	Department of the Environment
DSO	direct service organisation
DSS	Department of Social Security
EC	European Community
EEC	European Economic Community
EOC	Equal Opportunities Commission
ESRC	Economic and Social Research Council
EU	European Union
GDP	gross domestic product
GP	general practitioner
ICAEW	Institute of Chartered Accountants in England and Wales
ICM	International Communications & Marketing Research
IMF	International Monetary Fund
IPD	Institute of Personnel and Development
IPF	Institute of Public Finance
ISR	International Survey Research
IT	information technology
LGIU	Local Government Information Unit
LGMB	Local Government Management Board
LMS	local management of schools
MBO	management buy-out
NAO	National Audit Office
NHS	National Health Service
NPM	new public management
NSR	New Suburban Right

List of Abbreviations contd.

NUL	New Urban Left
OECD	Organisation for Economic Co-operation and Development
PFF	Public Finance Foundation
PSE	public service ethos
PSO	public service orientation
PSPRU	Public Service Privatisation Research Unit
RAF	Royal Air Force
SLA	service level agreement
SOLACE	Society of Local Authority Chief Executives
SPSS	Statistical Package for Social Sciences
SSSC	Statement of Support Service Costs
SWOT	strengths, weaknesses, opportunities and threats
TEC	Training and Enterprise Council
TUC	Trades Union Congress
TUPE	Transfer of Undertakings (Protection of Employment)
UK	United Kingdom
US	United States
USA	United States of America
VCT	voluntary competitive tendering
VFM	value for money

CHAPTER ONE

INTRODUCTION

Chapter Structure

1.0	<i>Introduction</i>
2.0	<i>Scope</i>
3.0	<i>Methodology</i>
4.0	<i>Objectives</i>
5.0	<i>Contribution to knowledge</i>
6.0	<i>Author's publications relating to the thesis</i>
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1.0 *Introduction*

Between 1979 and 1997 successive Conservative governments sought to reduce the scale and change the nature of public sector activity in the United Kingdom (UK). An economic and political agenda was pursued involving a broad range of measures, *viz* privatisation, internal markets, compulsory competitive tendering (CCT) and contracting-out, designed to improve efficiency and service quality through a reduction in the size of the public sector and the introduction of competition to public service provision. This agenda, which has been an international and not merely domestic phenomenon, has in turn contributed to the development of a new form of management within public services, involving the replacement of traditional public administration by 'new public management' (NPM) (Hood, 1991; Dunleavy and Hood, 1994). This change can be characterised by a number of features but a key one is that of an emphasis on the preferences of the consumer.

The related objectives of public sector contraction and competition, augmented by NPM and the emphasis on the consumer, have been given specific expression in local government in the concept of the 'enabling authority'. Here, the intention was that local authorities would be less involved in direct service provision but would, rather, enable services to be provided, *ie* they would steer rather than row (Osborne and Gaebler, 1992).

All of these related features - contraction, competition, new public management, consumerism and enabling - led to a situation in which:

The overwhelming impression is one of change and the creation of a new agenda for the public sector. Conventional wisdoms have been undermined and a fundamental re-assessment has taken place concerning the functions, scope, size, processes and people within the public sector.

Lawton and Rose (1991, p147).

Central to this 'new agenda' was CCT. It was first implemented in 1988 and was initially applied to blue collar services, including refuse collection, grounds maintenance, vehicle maintenance, street cleaning and hospital laundry services. However, in 1991 it was announced that it was to be extended to white collar services, including finance.

The extension of CCT to the finance function within local government is the subject of this thesis. The subject was chosen for three main reasons.

First, CCT represents a major and radical aspect of policy towards the public sector, and particularly local government, pursued by successive Conservative governments between 1979 and 1997. The policy was designed to effect not only improvements in service delivery but also a cultural change amongst local authority personnel.

Second, the extension of CCT to white collar services, particularly finance, threatened the traditional nature of a local authority. In ceasing directly to provide what could be regarded as peripheral activities, such as refuse collection or vehicle maintenance, local authorities were confronted with a radical departure from the status quo, but their organisational integrity remained intact. However, the possibility that core, central services would cease to be directly provided fundamentally threatened the very nature of a local authority. Transferring core functions, of which finance, in the view of the author, was the most important, to the private sector would undermine the existence of a local authority as a discrete entity. The finance function is perhaps the most important of all local authority central services. The scale of its activity and influence have traditionally had a direct impact on the nature and cost of front-line services. It is believed that finance professionals are of pivotal importance in facilitating and/or obstructing change, as Clarke and Cochrane (1989, p44) state:

Local governments (sic) are complex organisations and the balance between departments, professions and councillors will vary between them but, even allowing for that variation, it is clear that finance departments play an important role in all of them, and the message which they carry with them helps to determine the ways in which decisions are made throughout the organisation.

In addition, CCT could justifiably be said to be 'perhaps the most formidable of the many challenges facing financial services' (Audit Commission, 1995a, p6).

Third, despite its significance as a policy, white collar CCT, unlike blue collar, has been the subject of very little research. Insufficient research has been conducted on the implications of CCT, and the broader issue of the enabling role, for white collar services, particularly finance. This is perhaps unsurprising as the policy had not been fully implemented at the time the Conservatives were defeated in the general election of May 1997. In addition, the former Conservative government had only recently (November 1996) determined the precise framework governing professional services CCT, including a definitive statement as to the proportion of each professional activity that had to be exposed to competition. However, the Audit Commission (1995a) concluded, on the basis of a survey of 39 authorities in England and Wales, that local authorities generally were not well-placed to meet the challenge of competition for financial services. The Commission stated that 'All authorities need to complete the transformation from administration to management if they are to thrive and survive in the new environment' (Audit Commission, 1995a, p6) and goes on to say: 'More fundamentally, managers and members should review the purpose of the accountancy function in a modern authority' (p10).

The apparent lack of preparation for financial services CCT, as reported by the Audit Commission, perhaps reflected a general reluctance on the part of local authorities to accept and respond to the changes which had been introduced into the public sector by successive Conservative governments since 1979. Rao and Young (1995, p45) believed that, although local authorities were confronted with what is 'without doubt, the most dramatic set of changes in the history of British local government', they appeared to be singularly ill-prepared for the changes. Specifically with regard to CCT, Rao and Young (1995, p17) stated that 'The implementation of CCT in a number of areas remains shrouded in uncertainty and clouded with ambiguity.' This thesis aims to establish, *inter alia*, the extent of the uncertainty and ambiguity with regard to financial services in the North West of England and also to establish whether the North West authorities' arrangements for the delivery of financial services are as inappropriate for the modern world as the Audit Commission's findings would appear to indicate. In addition, by

focusing on a specific professional group, *ie* accountants, the thesis builds upon the work of Barlow and Harkin (1996), University of Central Lancashire, who state (p17):

Detailed examination of specific professional groupings would throw up illuminating analyses.

The research is also undertaken in full agreement with the view of Pratchett and Wingfield (1996, p639) (both at De Montfort University):

Underpinning contemporary analysis of change....is an almost implicit assumption that the bureaucracy of local government, and the people who staff it, have remained passive participants in the relentless process of change. Little attention has been paid to the effects of recent changes on the perceptions and values of local government employees.....It is surprising....that analyses of local government reform have tended to ignore the extent to which the changing organisational environment and culture of local government is altering the core beliefs and values of employees.

This thesis, focusing on finance professionals, contributes to an exploration of the perceptions and values of a particular group of local government officers in addition to considering what it is that authorities have actually done in preparing for financial services CCT. It is contended that the process of CCT produces change amongst finance professionals even though the policy itself may be opposed or reluctantly implemented and that such change which does occur facilitates future change because it has altered the 'core beliefs and values' to which Pratchett and Wingfield refer, as given above. Any such change needs to be modelled to assist authorities respond to the new 'best value' agenda (DETR, 1998), as introduced by the Labour Government following its election in May 1997, and a suggested model is given in Chapter Six.

2.0 Scope

The thesis evaluates the policy of CCT within the context of the broad programme of measures pursued towards the public sector, particularly since 1979, and reviews the empirical evidence relating to both blue collar and white collar services. The context involves an assessment of the changed political and economic environment. In addition, particular emphasis is placed on the managerial changes which have taken place within the public sector and the fundamental changes to which local government has been subjected. It is considered essential for any analysis of CCT, as applied in local government, to be evaluated within the broader political, economic and managerial context.

The thesis presents the findings of original research into white collar financial services CCT based upon information obtained via a questionnaire from qualified accountants working within local government in the North West of England and

interviews with officers drawn from a sub-sample of the authorities contacted. The findings are then used as a basis for modelling change in local government management.

3.0 *Methodology* (Please refer to Chapter Four for detailed discussion)

Research findings are based on:

- quantitative data derived from a questionnaire distributed in September 1996 to approximately 300 professionally qualified accountants employed by 17 local authorities, from a total of 32 initially identified, in the North West region of England
- qualitative data derived from semi-structured interviews with an officer (Director of Finance or senior accountant nominated by the Director of Finance) from 11 local authorities chosen from the original 32 conducted in the two months August to September 1996.

4.0 *Objectives*

Objective 1:

To investigate, and draw conclusions from, three independent but potentially-related hypotheses:

Hypothesis One

Professional personnel within the finance function of local authorities in the North West of England oppose:

- (i) blue collar CCT
- (ii) non-finance white collar CCT

because they believe that the process of CCT does not lead to:

- (a) reduced costs or improved efficiency
- (b) improvements in the quality of service delivery.

Hypothesis Two

Professional personnel within the finance function of local authorities in the North West of England oppose the extension of CCT to financial services because they believe that:

- (a) financial services are unsuitable for CCT
- (b) it will not lead to reductions in costs or improvements in efficiency
- (c) it will not lead to improvements in the quality of service delivery
- (d) the broader context of the Conservative governments' policy towards local government, to which CCT was central, was unacceptable, representing, as it did, a threat to the traditional role of local government and that these beliefs not only stem from subjective concerns over their own job security but are rooted in their public service background and training which act as a cultural barrier to the adoption of commercial practice.

Hypothesis Three

Local authorities are inadequately prepared for financial services CCT because, irrespective of the timing and likelihood of having to expose services to competitive tender, the traditional local authority culture is prevalent and leads to a reluctance, on the part of financial services, to respond to the commercial environment within which local authorities now generally operate.

Objective 2

To consider the findings in respect of Objective 1 to establish whether the evidence supports the view that the management of local authorities has fundamentally altered or whether local authorities have simply assimilated change and, in so doing, to develop a typology of responses to change and a model by which past and future change may be gauged.

5.0 Contribution to knowledge

The thesis contributes to knowledge by (see Chapter Seven):

- establishing the views of finance professionals on CCT and related matters in local government in the North West
- establishing the extent to which local authorities are prepared for financial services CCT
- offering explanations for each of the above.
- assessing the impact and permanence of change, specifically in relation to financial services, *vis-a-vis* the assimilation of change

- critically evaluating research findings against specific models of managerial change in local government with a view to developing, first, a typology of local authority responses to change and, second, a model against which past and future change may be gauged
- presenting original work to supplement the body of literature and empirical evidence on CCT. This evidence is currently very limited not only in the case of white collar CCT in general and financial services CCT in particular but also in the case of the success or otherwise of CCT as an agent for driving cultural change in the provision of local authority financial services.

6.0 *Author's publications relating to the thesis*

The following publications stem directly from the thesis and relate to Chapters Two, Three, Five and Six:

Wilson, J. (1993a). 'Privatisation' in Wilson, J. & Hinton, P. (Eds) (1993). *Public Services & The 1990s: Issues In Public Service Finance And Management* (Eastham: Tudor) pp81-101.

Wilson, J. (1994a). 'Competitive Tendering and the UK Public Services' *Economic Review* Vol 11 No 4 pp31-35.

Wilson, J. (1994b). *Economics of Competitive Tendering: An Analysis of Economic Theory and Empirical Evidence* Working Paper Series, No A2 (1993-94), Dr J Thompson (Ed), Liverpool Business School, Liverpool John Moores University.

Wilson, J. (1995). 'Competition and Public Service Provision' in Wilson, J. (Ed) (1995). *Managing Public Services: Dealing With Dogma* (Eastham: Tudor) pp37-57.

Wilson, J. (1999a). 'Compulsory Competitive Tendering and Local Government Financial Services: An Analysis of the Views of Local Government Accountants in the North West of England' *Public Administration*. Forthcoming.

Wilson, J. (1999b). 'Local Government Management: A Model for the Future?' In Osborne, S. (1999). *Public-Private Partnerships in International Perspective* (London: Routledge). Forthcoming.

Wilson, J. & Doig, A. (1998). 'Bureaucratic to Business-like: Modelling Change in Local Government Management' in Montanheiro, L. et al (Eds) Public and Private Sector Partnerships: Fostering Enterprise (Sheffield: SHU Press) pp667-684.

The following publications stem indirectly from the thesis to date but draw from Chapters Two and Six:

Wilson, J. (1993b). *Politics of Public Service Provision* Working Paper Series, No 17, Dr S Tombs (Ed), Liverpool Business School, Liverpool John Moores University.

Wilson, J. (1994c). 'Thatcher, Major and the Public Services' *Talking Politics* Vol 6 No 3 pp147-153.

Wilson, J. (1998). 'The new management of public services' in Wilson, J. (Ed). (1998). *Financial Management for the Public Services* (Buckingham: Open University Press). Forthcoming.

7.0 Conclusion

The thesis focuses on financial services CCT and the degree to which CCT has driven permanent cultural change in the delivery of local authority financial services. In considering these issues, the rationale and policy measures of CCT are considered, within the context of the broader Conservative commitment to competition in public service provision (Chapter Two). Empirical evidence is evaluated (Chapter Three)

and a particular research methodology is adopted (Chapter Four) against which to assess the research findings in respect of: the views of finance professionals; local authority preparedness for CCT; the deeper cultural significance of the policy (Chapter Five). The research findings are placed within the broader context of change in local authority management. A typology of responses to change is developed and a new model of change is proposed (Chapter Six). Overall conclusions are then drawn (Chapter Seven).

CHAPTER TWO

COMPETITION AND COMPULSORY COMPETITIVE TENDERING: RATIONALE AND UK POLICY

Chapter Structure	
1.0	<i>Introduction</i>
2.0	<i>Reform through competition: a rationale</i>
3.0	<i>CCT: definition</i>
4.0	<i>CCT: pros and cons</i>
5.0	<i>CCT Policy</i>
6.0	<i>Conclusion</i>

1.0 *Introduction*

This chapter evaluates the rationale and implications of competition through internal markets and competitive tendering and outlines UK CCT policy. It draws on the author's previously published work (see Wilson, 1993a, 1994a, 1994b, 1995).

2.0 *Reform through competition: a rationale*

2.1 Political and economic background

The Conservative emphasis, post-1979, on the merits of privatisation (to 'roll back the frontiers of the state') (for a discussion on the background to privatisation see Swann, 1988, pp222-238; see also Marsh, 1991) and competition had its roots in overlapping political and economic beliefs, which, *inter alia*, entailed a rejection of the post-1945 consensus (Addison, 1975). This consensus essentially involved a commitment to the creation of the welfare state, itself constructed on the Beveridge Report (Cm 6404, 1942) and Keynesian economics. The latter involved a rejection of classical economic orthodoxy and advocated state intervention to manage demand in the economy, particularly for the purposes of achieving a 'high and stable' level of employment. For some economists and politicians, Keynesianism, combined with the welfare state, represented an inflationary and economically damaging soft option which did nothing to address the real causes of unemployment but which offered a simplistic, outdated, monocausal explanation, *ie* demand deficiency. It encouraged, it was believed, industrial militancy and also economic and political expediency as politicians, particularly as elections approached, sought to benefit from an engineered, short-term and inflationary economic upturn. Added to this

was the expansion of the welfare state. This, it was believed, created a 'dependency culture' which was both personally reprehensible and economically harmful. It discouraged enterprise, demotivated those in work whose remuneration was not much greater or possibly less than it would be if they were unemployed and discouraged those who were unemployed from seeking employment. It also added to the sustained growth in public expenditure and which needed to be financed by those in work but ultimately could only be financed by taxation of the wealth-creating private sector. 'Tax and social welfare systems are seen not as instruments of social cohesion and public purpose; rather as burdens in the fight for competitiveness' (Hutton, 1996, p16). Public expenditure, public expectations, public sector activity, trades union power, inflation, inflationary expectations, political ambition and the true, underlying rate of unemployment (the rate which would prevail in the short-term if the economy were to be competitive rather than characterised, as some believed, by overmanning and poor productivity) were collectively self-generating and self-reinforcing and spiralled upwards. For many, Keynesianism and post-war socio-economic policies were discredited.

There developed a 'free enterprise solar system' (Kavanagh, 1990, p111) of a wide range of right wing groups to propagate the above beliefs. Some of the groups were newly-established - *eg* Adam Smith Institute (founded in 1977), Centre for Policy Studies (founded by Sir Keith Joseph in 1974), Social Affairs Unit (founded in 1980) - but others found that perhaps their message would now at last be heeded - *eg* Institute of Directors (founded in 1906), Aims of Industry (founded in 1942) and the Institute of Economic Affairs (founded in 1957). The intellectual attack on Keynesianism was mainly and variously rooted in the work of Friedrich von Hayek (1944, 1960), Milton Friedman (1962) and a body of largely American literature which became known as public choice theory. Collectively, it constituted what has become known as a New Right agenda, a neo-liberal critique of both Keynesian social democracy and traditional paternalistic conservatism (Leach, 1991). Such labels are not ideal. They may suggest a uniformity or purity within each ideology which simply does not exist, obscure areas of overlap across the different ideologies and fail to reflect the eclecticism of individual viewpoints and political manifestos. However, they do help illustrate that there exists a collection of literature which embodies sufficient common themes to justify a designation as a particular school of thought.

Public choice theory is the application of economic methods of analysis to the study of political decision-making. In essence, public choice theory postulates that politicians, bureaucrats, interest groups and individuals are motivated by self-interest and act accordingly. To a certain extent the self-interest may be reconciled in that, for instance, politicians may continue to be elected by incurring expenditure on projects which are electorally popular. In the same way, bureaucrats may seek to enlarge their own empire, and, in so doing, enjoy greater prestige and power, by persuading politicians to devote more resources to their own particular departments on the grounds that the electorate demands it (Niskanen, 1971). However, although interests may, to a degree, be reconciled, resources are limited and conflicts of interest occur. Because resources are finite, the opportunity cost of devoting resources to one bureaucrat, interest group or public expenditure project is the utility foregone by those associated with an alternative allocation. Nonetheless, although utility cannot be universally maximised, the central relevant point made by public choice theorists is that certain individuals and groups have a vested interest in the growth of public expenditure and, because of that, unless countervailing policies are adopted, as have been in the UK and USA designed to reduce public expenditure, 'The whole system of public spending and public services is geared to expansion' (Flynn, 1990a, p12) and the 'inherent bias of representative democracy to over-produce public services' (Hood, 1995a, p5) results in an allocation of resources which is economically damaging in that it diverts resources from the private sector. The situation is exacerbated by the apparent irreversibility of the expansion and the propensity for service providers to become detached from service recipients:

Interest groups have managed to capture government support, particularly when their cause was in the public eye, or during a cyclical downturn, and have then secured continuation of that support for indefinite periods. Once provided, programmes become 'captured' by those who work in them or with them; and they become less and less responsive and responsible to those whose interests they are intended to serve.

(Freebairn *et al*, 1987, as quoted in Flynn, 1990a, p12).

The arguments, as given above, are essentially pro-market and anti-bureaucracy. The economic justification for competition hinges upon two assumptions. First, that the utilisation to which finite resources are put is best determined by market forces rather than politicians or bureaucrats; second, competition guarantees that the private sector is inherently more efficient than the public sector. There are two broad exceptions to these

assumptions. The first concerns the state provision of public goods and merit goods; the second concerns natural monopolies (or natural oligopolies). To operate on a minimum efficient scale, a firm may have to be so large relative to the market that there is only room for one such firm in the industry. Such a firm is able to produce at a lower cost than could be achieved by many small firms. Abuse of such position is preventable through regulation (or nationalization).

In the main, however, competition is believed to be the dynamic which ensures the attainment of allocative efficiency (*ie* outputs are consistent with consumer preferences), productive, or technical, efficiency (*ie* output is produced at maximum efficiency thereby minimising cost) and ensures that cost of production determines market price.

The discipline of competition applies to the private sector and should, the New Right believes, apply to the public sector. However, bureaucratic governmental agencies, *eg* local authorities, have no real incentive to ensure allocative or productive efficiency, for four reasons as summarised by Flynn (1990a, pp78-79):

- there are no clear signals between consumers and producers leading to the possible production/provision of goods/services which consumers do not want (or vice versa)
- the myriad transactions that take place within a market place, reflecting consumer preferences, cannot possibly be assimilated and interpreted correctly by a system based on planning
- there is no incentive for improved performance because the possibility of rewards is unlikely to be present and, more importantly, the threat of bankruptcy, liquidation and loss of jobs is non-existent
- a further disincentive stems from the inherently monopolistic nature of public bureaucracies which deters initiative and technological innovation.

To the above can be added the difficulty of actually measuring public sector output and performance and the adverse effects of budget-maximising tendencies of bureaucrats (Niskanen, 1971) - for a critique of this view, see Dunleavy, 1986 - and vote-maximising behaviour of politicians (Downs, 1957, 1967). Together they lead inexorably to excessive expenditure and over-supply. The antidote to all of this is to expose public bureaucracies

to competition, to introduce market forces so there is a clear distinction between policy decisions and service provision. In short, to see the role of government and governmental agencies as steering rather than rowing (Osborne & Gaebler, 1992, pp25-48). With regard to local government - the services of which are, according to Butler (1985, p6), 'classic examples of the public choice problem' - the intention of the Conservatives was to create enabling authorities.

Public choice arguments are hardly conclusive. The assumptions upon which the case is based are suspect (Dunleavy, 1986; Boyne, 1998), particularly perhaps those concerning rational behaviour generally and the behaviour of bureaucrats in particular. However, the literature (*eg* Downs, 1957, 1967; Niskanen, 1971, 1973; Tullock, 1974), became increasingly influential in the late 1970s and throughout the 1980s and, combined with the work, in particular, of Hayek and Friedman, provided a powerful intellectual legitimisation for reducing the scale of the public sector and introducing competition to the remaining parts of the public sector and, where possible, competitive tendering.

Certain public sector activity, however, was considered inappropriate to be subject to a tendering process although the benefits of competition were still applicable. In welfare services, therefore, bureaucratic resource allocation was replaced by an internal market, or *quasi-market* (Enthoven, 1985; Le Grand, 1991; Glennerster, 1991) (non-marketed forms of competition have also been established, *eg* performance indicators, school league tables *etc*; see Barlow, 1997). Internal markets were established, for instance, in the National Health Service, involving *inter alia* the creation of Trust hospitals and General Practitioner fundholding, and also in local government, largely through the creation of a purchaser-provider split in various services, *eg* social services.

Quasi-markets differ from conventional markets in terms of both supply and demand. On the supply side, competing organisations are not necessarily privately-owned nor are they likely to pursue the objective of profit maximisation (their objectives may in fact be unclear; Le Grand, 1991, p1261). On the demand side, the consumer may be represented in the market by agents rather than having a direct input (*eg* General Practitioners in the NHS internal market). In addition, consumer purchasing power may be in the form of vouchers rather than cash (*eg* vouchers which may be exchanged for health care or education).

The differences between conventional and *quasi*-markets increase the difficulties in applying economic principles to public services. The public service *quasi*-market does not approximate to the textbook model, though it is often overlooked that neither does the conventional private sector market. The main conditions - consumer choice of service and provider; consumer knowledge of the options to enable them to make a rational decision; sufficient information on the options; freedom for providers to attract consumers via price, quality *etc*; sufficient numbers of purchasers and providers to enable genuine choice and to prevent either consumer or producer being able to dictate the price - are not all evident.

Common *et al* (1993, pp14-20) point out that, at the minimum level, a market reform simply divides an organisation into two - purchaser and provider - and nothing fundamental will occur *eg* social services are now divided into purchasers and providers but service users are still dependent on the department to gain access to the services which are funded by them. In this case, there is no choice to customers. A number of possible outcomes are identified:

- 'Playing at shops', *ie* divide the organisation into two but still have monopoly provider and monopsony purchaser. A variant of this is to have a monopoly provider but numerous purchasers.
- 'Monopsony/Competitive market', *ie* single purchaser but numerous providers *eg* community care where a local authority is sole purchaser but there are numerous providers.
- 'Competitive internal market', *ie* numerous purchasers and providers, including providers from outside the public sector; the providers are able to seek out customers *eg* community care, NHS Trusts.

In the above, choice is enhanced where there is considerable involvement by the private sector and not simply rival public sector bodies. However, it is also critical to appreciate the role played by the consumer. Consumers actually have little choice in a whole range of services supplied on their behalf. They cannot choose the contractor to empty their bins or clean their streets. They cannot dictate to their GP to refer them to a hospital, though they can choose which purchaser to be with (*ie* GP fundholder or non-fundholder). For this reason, as Parker and Hartley (1990) point out, competitive tendering does not

necessarily enhance consumer choice or allocative efficiency given that officials still determine what is supplied, services are still funded out of taxation and there is an absence of choice concerning alternative levels of service. The counter-argument, however, is that politicians, not officials, make the key decisions and the political composition of the council will reflect consumer preferences. In turn, this argument is hardly a strong one given the tenuous link between the wishes of the electorate, however defined, and the balance of party political representation.

Another crucial difference to that of a 'real' market concerns the fact that the total level of funding available is still determined by government, either central or local:

In 'real' markets, the amount of cash is determined by a series of choices by individuals about how to spend their own income. An analysis of the new markets without recognising this would be an illusion: we should not expect managers to adopt competitive behaviour by influencing consumers and purchasers without having regard to the ultimate source of funds.

Common *et al* (1993, p18).

This gives rise to a fourth possible outcome:

- 'Competitive market with politics', *ie* the total size of the market is ultimately determined by politicians.

Each of the possible outcomes has specific consequences but it is important to appreciate that there are counter-arguments to the pro-market, anti-bureaucracy case and a fundamental one concerns equity. The output and final distribution of goods and services will, in a market economy, largely be a function of the prevalent distribution of income and wealth. Without governmental provision, involving no charge or minimal charge, some people may be denied access to certain services (*eg* health care - dental treatment and eye tests being particularly relevant - education, public transport *etc*).

However, a political decision approving provision of a particular service does not necessarily mean that a public agency should supply it. Williamson (1975, 1985) focusing on both public and private sector organisations, has analysed in-house or direct provision in order to establish why some services are provided by the market (externally) and others hierarchically (internally). The most advantageous form of provision is dependent on the level of transaction costs.

In everyday language, transaction costs include risk factors relating to the viability and trustworthiness of the contractor, the chances and potential costs of service disruption, the feasibility and cost of the information requirements necessary for contract monitoring, the

feasibility and effectiveness of penalties for non-compliance and the availability of alternative sources of supply.

Bailey (1995, p372).

Where these are high, reflecting a complicated service, hierarchical organisations may be most efficient.

However, low transaction costs do not automatically mean that a service should become subject to a contracting regime. This would only be appropriate if it promoted service objectives, whether in terms of cost reductions or in securing wider benefits. Hence transaction cost theory does not provide a mechanistic cost-based formula from which to derive definitive rules and decisions. There is a large element of subjective assessment and discretion in reaching decisions.

Bailey (1995, p372).

Key factors relating to transaction costs include bounded rationality (most commonly associated with Simon, 1947), uncertainty, opportunism, asset specificity and small numbers problem (see Nichols, 1995 for a practical application of these concepts).

The problem of bounded rationality refers to the limited ability of individuals to receive, assimilate and communicate information. Uncertainty reflects the fact that decisions have to be made about the future on limited information. Contracts cannot be written to cover all eventualities. Opportunism involves 'interest seeking with guile' - the practice of 'loss leading' is consistent with this concept - *ie* individuals are selfish and will pursue their own interests at the expense of others. In the context of a contract, a private contractor, for instance, may deliberately fail to comply with a specification, or act outside the spirit of a loosely defined specification, in order to increase profit margins. Asset specificity involves the acquisition of specialist resources - including human - in order to undertake the work relating to a particular service. The specialist resources cannot easily be transferred to other activities and, by virtue of their specialist nature, few alternative suppliers will exist and *quasi*-monopoly advantages accrue to the contractor who has made the investment. The practical consequence of this is that once a contractor has been selected, it is relatively expensive to terminate and re-tender a contract. This is linked to the small numbers problem, whereby only a few actors participate in the exchange:

Even though a small numbers condition does not obtain at the outset, this condition tends to evolve as the contractual partners invest in *transaction-specific capital* and acquire *transaction specific skills*. This process makes maintenance of the contractual relation all the more important for the parties to the contract, as the consequences of termination become severe.

Lane (1993, p181). [Emphasis in original].

These key factors help in determining whether a service should be provided in-house or not. Most blue collar services have relatively low transaction costs and, given a high level of competition between alternative suppliers, the services can be provided by private contractors. This is not necessarily the case, however, with professional services given the difficulties involved in identifying, measuring and evaluating the quality of their outputs. These difficulties may invite opportunistic behaviour by private companies, though it must also be recognised that 'it is an act of faith to assume that public servants are completely devoid of self-serving behaviour' (Bailey, 1995, p373) (see the arguments of public choice theorists, viz utility-maximising behaviour as suggested by Niskanen, 1971).

Williamson (1975, as summarised in Ascher, 1987, pp254-255) has identified five situations where internal provision has advantages over contracting in the market:

1. where flexible sequential decision-making is needed to cope with uncertainties in the environment
2. where only a small number of competitors are present, there is a likelihood of opportunistic and predatory behaviour
3. where a divergence of expectations is likely to occur between the internal purchaser and the external seller
4. where operational or technological information gained from experience is likely to give one external supplier a strategic advantage over all others, thereby reducing competition
5. where a transaction-specific 'calculative-relation' between parties is inappropriate and 'quasi-moral involvement' between those supplying and organising the service is necessary to effective provision.

Williamson believes that the existence of one or more of these conditions may result in a preference for internal provision even if it is less cost-effective than contracting-out, or 'outsourcing' as it is today often referred to when a private sector organisation externalises work. This is because it involves greater flexibility and less risk in the longer-term over quality and security of supply.

The validity of Williamson's argument will partly depend upon the nature of the market. The threat of entry to a market by potential rivals reduces the possibility of anti-

competitive behaviour. It should also help eliminate concerns over the security and quality of provision. In addition, reliance on in-house provision can lead to what Leibenstein (1976) has called 'X-inefficiency' which occurs where firms do not maximise efficiency in the use of factors of production, *ie* inputs, to create outputs. This again is largely the result of the absence of competition.

Williamson also identified four specific 'biases' associated with internal provision which largely correspond with the summary provided by Flynn (1990a) as given above.

The biases are:

1. internal procurement bias (reluctant to undertake cost comparisons with external providers)
2. internal expansion bias (inherently expansionist tendencies of bureaucracies, largely the result of ambitions of bureaucrats)
3. programme persistence bias (unjustified continuation of existing services)
4. imperfect communication bias (use of imperfect or inappropriate information for decision-making).

These biases, though they relate to both public and private sector organisations, reinforce the New Right anti-bureaucratic viewpoint that stresses the inherent microeconomic merits of competition. As a result:

A variety of market mechanisms have been proposed and adopted for the reform of state bureaucracy, apart from outright privatisation. The first is the introduction of pricing and charging for public services.....There have been attempts to give the users of public services the ability to act as customers with choices through the use of vouchers. There has been extensive development of pricing and charging within public service organisations, involving a move from 'hierarchies' to 'hierarchies with markets'. There is a process of internal privatisation. The second and most fundamental mechanism for changing public service management is the development of contract.....The public service is becoming a 'nexus of contracts', rather than a bureaucratic hierarchy.

Walsh (1995a, ppxvii-xviii).

A key development within this context in the UK was the introduction of CCT.

3.0 *Compulsory competitive tendering*

3.1 CCT: definition

CCT refers to the process by which certain services traditionally provided in-house by public service organisations became subject to competition from private contractors.

Competitive tendering is the process by which private contractors have traditionally competed with each other in an attempt to be awarded a particular contract. Under the Conservatives, however, many services normally provided by public sector organisations were subject to competitive tendering. This involves an in-house team competing against private contractors, or other public sector contractors, for the award of a contract to deliver a service it previously provided free from competition. The term 'competitive tendering' is sometimes used interchangeably with the term 'contracting-out'.

Contracting-out, however, may refer to a political decision to transfer a service to a private contractor irrespective of the cost *vis-a-vis* in-house provision. Competitive tendering implies the existence of an in-house tender.

The aim of CCT was to improve efficiency:

The purpose of compulsory competitive tendering is to stimulate greater efficiency and secure better value for money by requiring full and fair competition between [public service organisations'] own in-house teams and private contractors.

DoE (1996a).

However, the policy was not simply about economic efficiency. It was central to Conservative attempts to change the nature of local authority activity, and public sector activity generally, by making local authority practices, culture and structure more like the private sector.

4.0 CCT: pros and cons

The introduction of CCT has led to the proliferation of contracts, as referred to by Walsh (1995a) above, but, in a sense, public service provision has always been a form of contract, particularly in the case of local government. The nature of the contract, however, has perhaps changed:

British local authority services might be described in general as corresponding to a welfare contract: the local authority agrees to supply particular public services to local people, who in return agree to provide financial support for those services. At the centre of this contract sits the elected member, who is held responsible for overseeing the provision of appropriate levels of service, and is accountable to local taxpayers through the electoral process. But this traditional model of local service provision has recently come under challenge from a market-oriented model which has come to be known as 'contracting-out'. The notion is that local authorities should treat the welfare contract as a commercial contract, buying the service, or the management of a service, direct from the bidder who offers the best delivery. This implies the introduction or extension of a mechanism central to many commercial transactions: the device of tendering for service.

Minogue and O'Grady (1985, p35).

The supporters of CCT believe that it leads to improved efficiency, as per the public choice arguments given above. Carnaghan & Bracewell-Milnes (1993, p24) state:

The primary purpose of competitive tendering is to obtain better value for taxpayers' money by reducing expenses, improving services or both. The biggest impediment to efficiency is monopoly, which in the context of local government can bring complacency, insufficient regard to costs and an overall disregard for value for money.

A number of arguments can, in fact, be put forward for and against CCT (see Parker and Hartley, 1990). Vinten (1992, p10) lists the 'pros and cons' of contracting out. See Box 2.1 below.

Box 2.1 The Pros and Cons of Contracting Out	
For contracting out	Against contracting out
Private firms are in a competitive market-led situation, and so need to be lean in structure and fully responsive to market demand.	There may be less competition, particularly in near-monopoly situations.
Private firms have a cost discipline, and the ever present possibility of bankruptcy.	Private firms can be lackadaisical, and company failure is not unknown in this sector.
Efficiency increases.	Poor quality has sometimes resulted, with the resultant penalty sums exceeding the income.
Cost reduction results	Cost reduction could be at the expense of consumer satisfaction.
Periodic re-contracting introduces flexibility as service levels and standards may be reviewed.	The authority has the hidden overheads of contracting to bear, such as evaluation and monitoring.
Accounting is done on a similar basis, and so the best decision may be made.	Conditions of service may deteriorate for the labour force.
Experience gained elsewhere may benefit the authority.	Management buy-outs may benefit the management rather than the electors.
Source: Vinten (1992). Table 1.1, p10.	

However, a number of points may be added. With regard to the case for contracting, it can be said that, 'competition leads to new ideas, modern equipment and changes in traditional methods of working' (Hartley & Hooper, 1994, p432); innovation, in other words.

To the case against may be added the point that there may be evidence of 'loss leading' or 'lowballing': 'contractors use low bids to buy into attractive contracts and eliminate in-house capacity so that public authority (*sic*) becomes dependent on a private monopoly' (Hartley & Hooper, 1994, p432), which can then raise prices (loss of a contract may be irreversible for a public authority given the laying-off or transfer of staff and the disposal of equipment which is likely to ensue). However, the threat of rival private contractors entering the market acts as a barrier to any such monopoly

developing. It must also be noted that public sector organisations can also bid too low in an effort to maintain a contract.

To the points made by Vinten (1992) and Hartley and Hooper (1994) concerning contracting out, the following can be added as being arguments in favour of CCT:

Microeconomic

- The likelihood that CCT will lead to contracting out and it may be assumed that commercial organisations provide an improved and more economical service as they compete with each other.
- Even where services are retained in-house, the process of tendering compels public authorities critically to consider the cost, level and quality of existing service provision and forces public managers to adopt a more commercial approach. Flynn (1990b, p36), drawing on the work of Slatter (1984), says that, in their responses to CCT, many local authorities 'displayed classic elements of private sector corporate turnaround strategies', including: change of management; stronger financial control; product-market reorientation; improved marketing; costs reduction; asset reduction; finally, investment. In short, CCT has led to more streamlined organisational structures and a cultural change recognising the need to be competitive and customer-focused (see also LGMB, 1993a, as reported in *Public Finance and Accountancy*, 7 May; Walsh, 1991; Fenwick, Shaw and Foreman, 1993; Nichols, 1995). Ironically:

One of the unintended consequences of [CCT] has.....been a strengthening of local authority management, accomplished to some extent at the expense of government hopes for larger scale contracting out.

Greenwood and Wilson (1994, p412).

Macroeconomic

- CCT may lead to private company employees being substituted for direct labour, thereby reducing the level of public sector manpower and imposing pressure on the workforce to adopt flexible working practices and accept sensible pay awards (which may also lead to lowering of wage expectations facilitating control of inflation).

- CCT may also act as a stimulus to private sector activity, thereby helping to stimulate the economy. This may be regarded as having a net economic benefit if it is assumed that resource utilisation by the private sector, rather than public sector, is more likely to lead to economic growth. Enterprise was regarded by the former Prime Minister John Major as ‘the spark of economic growth’ (Conservative Party, 1992, Foreword) and, as such, should be encouraged:

Market testing the delivery of services, and contracting out where appropriate, brings commercial disciplines to bear and stimulates private sector activity.

Cm 2563 (1994, p17).

- Control of public expenditure, particularly local authority expenditure, is also helped as a result of efficiency savings and direct, or indirect, reductions in wage inflation.

Political

- CCT also had significant political appeal for the Conservatives. In addition to being a means of reducing public sector manpower, it can also weaken the influence of trades unions, whether operating in the public sector (loss of members and therefore inability to protect take-home pay) or the private sector (fragmentation of members across numerous firms reducing bargaining strength or, perhaps, leading to non-recognition) (see Foster, 1993). The link between CCT and weakening unions was made explicit by Nicholas Ridley, formerly Secretary of State for the Environment, in 1989:

The root cause of rotten local services lies in the grip which local government unions have over those services in many parts of the country....Our competitive tendering provisions will smash that grip once and for all. The consumer will get better quality services at lower cost.

as quoted in Painter (1991, p193).

- The councillors role may be enhanced, in that they will have:

....more say in service standards than before and, once contracts are let, the monitoring process works to ensure that standards are maintained. The process also arguably frees up councillors from detailed concern with matters of operational detail thereby allowing more time for them to focus on their policy making and representative roles.

Greenwood and Wilson (1994, p418)

It is debatable whether the policy was initially inspired by the assumed economic or political benefits, though it is relevant to note that the Government could have chosen mandatory contracting-out as opposed to CCT had it been motivated exclusively by

dogma. There are, however, arguments against competitive tendering, though they do not all relate to the process *per se* but rather to the way policy has been implemented nor do the arguments negate the validity of competitive tendering where there can still be demonstrated a net gain to the authority:

Microeconomic

- Private contractors may achieve savings by offering lower wages, worsening working conditions and cutting jobs. The extent to which they are able to do this will depend upon statute and European law (Kerr & Radford, 1994; see para 3.4 below) but public authorities are likely to begin the process at a disadvantage given the labour-intensive nature of many services and their commitment to nationally-determined wage levels. In other words, savings to the local taxpayer, for instance, may be at the expense of poorly-paid members of society. This raises fundamental economic questions of equity and income distribution though these issues should be addressed by central government by other means, *eg* fiscal transfers.
- There may be serious reservations about the reliability and quality of certain private contractors. Doubts may be eliminated, or at least alleviated, by specifying certain quality standards as conditions of tendering, *eg* BS 5750 or international equivalent, and by careful vetting of contractors - perhaps inviting only certain ones to tender - but statutory requirements may circumscribe public authority freedom in this respect. This practice also increases the difficulties of new firms entering an approved list. However, once a contract is awarded, the quality of service should be monitored against the specification. The local authority should insist that any large scale contract be covered by the posting of a performance bond. Monitoring the service involves an on-going cost but this may also be incurred even if the contract was retained in-house. Failure to meet the contractual standards should lead, if necessary, to the contract being re-tendered. To this end, it should contain a termination clause:

There is of course a possibility that the contractor will repudiate the client's verdict and oblige the latter to sue. But here again, an arbitration clause within the contract could reduce the cost of litigation.....For if an independent arbitrator defined in the contract.....were to find against the contractor, that would make it more difficult for him to win any subsequent court battle; and his intransigence would also expose him to heavier damages.

Minogue & O'Grady (1985, p47).

- There is also the danger of collusion and, for some, ‘businessmen have long shown a remarkable propensity for seeking monopoly, protection and government subsidies leading to on-the-job leisure and a quiet life’ (Hartley and Huby, 1985, p23). This may or may not be true and, as Carnaghan and Bracewell-Milnes (1993, p50) point out, it is not new (they quote Adam Smith, *The Wealth of Nations*, 1776, who observed that ‘People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices’). In a number of industries, particularly the construction industry, cartels have been found to operate, to the detriment of local authorities, and that the danger of such practices occurring is enhanced under competitive tendering (see, for instance, Willson, 1991) but it seems reasonable to assume that more openness concerning the results of bidding would help safeguard against collusion, with details of successful and unsuccessful bids being made available (see Hartley and Huby, 1985). In addition, it also needs to be recognised that there may be anti-competitive practices on the part of the local authority. This can take many forms, including, for instance, combining contracts in such a way as to make them so large as effectively to exclude private sector competition, writing specifications to favour the in-house team and demanding excessive performance bonds.
- There is the danger of fraud, or corruption. Although this has been exposed in the past, again it may be more likely to occur under competitive tendering; ‘contracting is the locus classicus of the political pay off’ (as quoted in Osborne & Gaebler, 1992, p88). However:

Corruption is difficult when a contracting system meets four criteria: the bidding is truly competitive; the competition is based on hard information about cost and quality of performance; the contractors are monitored carefully; and a relatively nonpolitical body is set up to perform these tasks.

Osborne and Gaebler (1992, p89).

The four criteria given above may be theoretically valid but are not particularly meaningful; phrases such as ‘truly competitive’, ‘hard information’, ‘monitored carefully’, ‘relatively nonpolitical’ are extremely vague and are not explained.

However, even if it is accepted that there is an increased risk of corruption, it does

not invalidate what are assumed to be the inherent benefits of competition but it does place greater responsibility on local authorities to minimise the risks involved.

- There are one-off costs incurred in-house in specification preparation (tender evaluation and monitoring costs are identified in Box 2.1 above).
- There is the potentially adverse impact on the morale of the in-house workforce in the interim and following the transition to contract-based services (*eg* Kerley and Wyn, 1991, p48, comment on ‘demoralization and demotivation’).

Macroeconomic

- Insofar as competitive tendering results in lower wages and, perhaps, unemployment, the cost in terms of public finances and economic activity also needs to be considered and quantified, taking into account transfer payments (unemployment and related benefits), reduced tax revenues (direct and indirect), impact upon private sector activity *etc.* However, where unemployment has resulted, the economic justification is that in the long-term the unemployed should secure employment at a wage and in industries where demand for their labour exists.

Political

- The point is made by Minogue and O’Grady (1985, p46) that ‘When commitment to contracting out arises from strong ideological or political views it is doubtful whether a competent and unbiased verdict can emerge’, though they fail to concede that objectivity is, perhaps, just as unlikely to be present if there is a strong ideological commitment to retain services in-house.
- CCT may undermine political accountability with councillors having less responsibility for service provision and where ‘service deficiencies are the result of contractor failings rectifiable through default procedures or even termination’ (Greenwood and Wilson, 1994, p417).

- It is also said that it undermines the autonomy of local government and increases central control. This may be a valid point in principle but, in practice, it would have more validity if there was evidence of wholesale contracting out but, in the UK, there is not (see Chapter Three). However, the importance of the point will also vary with the degree of local autonomy within any country's political system. This is actually illustrated within the UK, *ie* Northern Ireland. In addition to the fears of paramilitary involvement (an extreme form of corruption):

....the imposition of CCT on local government was perceived as a threat to its current restricted role at a time when there are very encouraging moves towards power sharing, economic development and the improvement of community relations.

Knox (1993, p223).

Though there may be unique problems in Northern Ireland, the above point illustrates the need to appreciate the wider political context before implementing a policy on the grounds of its assumed inherent merits.

Despite the counter-arguments, the Conservatives remained committed to the policy of reducing state activity, creating markets and increasing competition, notably through CCT in the case of local government.

3.0 *CCT Policy*

From 1979, Conservative competition policy affected all parts of the public sector. Within central government, emphasis was initially placed on reducing the size of the civil service and improving its efficiency. An Efficiency Strategy was inaugurated in 1979, initially supervised by Sir Derek (now Lord) Rayner, followed by the launch of the Financial Management Initiative (in May 1982), both of which were concerned with improving resource utilisation and increasing managerial accountability, partly by the adoption of explicit measures of performance (Metcalf and Richards, 1990). A key feature of these initiatives was that of delegation of decision-making facilitated by decentralisation, a policy which was extended by the Next Steps initiative which began in 1988. This involved the large-scale creation of executive agencies to undertake substantial parts of the administrative work of the civil service. The policy has been accompanied by the introduction of CCT, referred to as market testing when applied to central government.

Insofar as the 'mechanism' of tendering has led to private sector involvement in public services (see Chapter Three), this, of course, is not new and can be seen within the context of public procurement policy, *ie* public sector purchases of goods and services from the private sector. In the UK, in 1991-92, 43.9% of general government consumption was attributable to government purchases from the private sector (an increase from 39.9% in 1979-80). This is considerably in excess of the average of OECD (Organisation for Economic Cooperation and Development) countries which purchase just over one-quarter of total government consumption from the private sector (see OECD, 1993, Table 17, p35).

For many years the NHS has been purchasing pharmaceutical products and hi-tech medical equipment from private companies; similarly, the Ministry of Defence purchases a vast range of equipment and services from the private sector. Local authorities have extensively contracted-out work in the past, examples being construction projects for roads, houses, swimming pools *etc* which are too large for the in-house Direct Labour Organisation (DLO) - now normally known as Direct Service Organisation (DSO) - to undertake. In relation to buildings and maintenance services provided by DSOs, works contracts above a certain amount have to be put out to tender as per the Local Government Planning and Land Act 1980. A certain amount of professional services have also been bought-in, examples being architectural and legal services (*eg* conveyancing). Robertson (1992, p54), for instance, estimated that 10% (approximately £19m at the time) of the total legal costs of local government is bought-in. There are also European directives (see Digings, 1991, pp20-38), which were particularly important in preparation for the single market in 1992, to which there must be adherence:

.....to give effect to fundamental articles of the EEC Treaty by removing restrictions and coordinating widely divergent national procedures. The Commission saw discriminatory technical specifications, inadequate advertising, and varying criteria for the selection of tenderers and the award of contracts as the principal issues to be tackled.

Digings (1991, p20).

Prior to the Local Government Planning and Land Act 1980, competitive tendering measures were essentially pragmatic, *ad hoc* responses to identified needs. From 1980, however, a systematic attempt was made to impose competitive tendering, note 'compulsory' in CCT, on central government departments, the NHS and local authorities. With regard to central government, it is also important to note the need to

achieve reductions in manning levels. In the case of the Ministry of Defence, for example, 'the primary stimulus for contractorization was not estimated cost savings *per se*, but Government-imposed Civil Service manpower targets' (Uttley, 1993, p55). With regard to local authorities, impetus was given to the process by the Local Government Act 1988.

Prior to this, some authorities had voluntarily put services out to tender. The *Municipal Yearbook 1985* and *1989* show an increase from 190 to 223 in the number of local authorities which had 'privatised' at least one service. Statistics which show the total number of services privatised may be misleading as:

....a small number of mainly Conservative authorities have contracted out services well beyond the confines of recent legislation and that aggregate data presented in surveys needs to be tempered in the light of substantial deviations from the norm in certain localities.

Greenwood and Wilson (1994, p411).

Examples of the above included Southend, Berkshire, Westminster, Bromley, Rochford, Rutland and Wandsworth. Overall, however, there was little interest in taking up tendering voluntarily and this led the Conservative Government to introduce compulsion.

The policy of tendering, therefore, became politicised in that it was part of a broader ideological intention to reduce the size of the public sector and, 'the essential feature [was] the introduction of a competitive challenge to *established and inherited patterns of buying services*' (Minogue and O'Grady, 1985, p37) [emphasis in original].

This represented a considerable threat to the in-house providers because, unlike commercial companies which may be able to withstand the loss of a contract or the failure to win one, the in-house provider's existence is likely to depend on the outcome of the tender. The loss of a service need not inevitably mean loss of jobs for the in-house staff (the new contractor may prefer, or be compelled as a condition of the contract, to re-employ some of the in-house labour force) but it is likely to do so. For those who may be re-employed, a deterioration in conditions of employment is a likely outcome. 'Hence although formally similar, it is wrong to look at contracting out as an integral part of the traditional local government function of procurement or service contracting' (Minogue and O'Grady, 1985, p38). Rather, it represented a radical innovation and one to which local authorities had to respond.

3.1 *Blue Collar CCT: policy*

CCT has affected central government, the NHS and local government (see Ascher, 1987, pp22-53 for a detailed account of policy development). Within central government, market testing evolved from the Rayner scrutinies initiated in 1979. For the NHS, CCT was introduced in 1983 (Circular HC (83) 18, *Competitive Tendering in The Provision of Domestic, Catering and Laundry Services*) and, thereafter, was gradually expanded by means of circular rather than legislation. The main services affected have been the 'hotel' ones, *ie* catering, cleaning and laundry. The relevant legislation for local government is the 1980 Local Government Planning and Land Act, the 1988 Local Government Act and the 1992 Local Government Act. In addition, the Conservatives published two consultation documents in 1991 to accompany the Local Government Bill which was enacted in 1992, *ie Competing for Quality: Competition in the Provision of Local Services* (DoE, 1991); *Competing for Quality: Buying Better Public Services* (Cm 1730, 1991). The Conservatives also published *The Citizen's Charter: Raising the Standard* (Cm1599, 1991).

The 1980 Local Government Planning and Land Act, Part 111, required local authorities to adopt competitive tendering for a proportion of construction and maintenance work on buildings and highways. To win a contract, the local authority DLO (subsequently known as DSO) had to submit the lowest tender, thereafter a financial rate of return specified by the Secretary of State had to be achieved. Whenever a local authority DLO was successful, a separate trading account had to be kept for each defined activity.

Throughout the 1980s, competition was extended. The 1985 Transport Act, for instance, required local authority undertakings to operate on a commercial basis. 'Authorities were allowed to secure the provision of socially necessary or desirable services by tender. The Government also extended the requirement to operate on a commercial basis to some local authority run airports' (Walsh, 1991, p10).

However, the extension of competition on a voluntary basis was, for the Conservatives, inadequate. They believed that competition arising from the 1980 Act had been successful and sought to build upon it. A consultation paper was published in 1985 (DoE, 1985) and this was followed by the Local Government Act 1988.

The 1988 Act listed 'defined activities' which must be subject to competitive tendering. The list was subsequently extended. For instance, sports and leisure management was added by Order on 1 July 1988 and, in June 1994, it was announced that on-street parking, security and vehicle management were also to be subject to CCT. For each service, minimum and maximum contract periods were established. Each authority was allocated to a competition group and a timetable specified by which each group had to let contracts. The timetable specified the services that had to be subject to competition at six-monthly intervals between 1 August 1989 and 1 January 1992; the phased approach helped to ensure the market was not saturated with local government work.

In subjecting work to competition, authorities were prohibited, with one exception, from having regard to non-commercial matters in awarding contracts. The exception allowed authorities to ask prospective contractors six approved questions specified by the Secretary of State to fulfil the duty placed on them by the Race Relations Act 1976.

The extension of competition needs to be seen within the context of other relevant legislation, notably the 1988 Education Reform Act, 1989 Local Government and Housing Act and the NHS and Community Care Act 1990. The 1988 Act, *inter alia*, introduced Local Management of Schools (LMS). The 1989 Act was concerned, *inter alia*, with the introduction of new regulations on revenue and capital expenditure and the conduct of local authority business. It also built upon the 1988 Housing Act which gave the right to public sector tenants to change their landlord, *ie* it was intended to 'send signals to tenants about the performance of the council housing service' (Mallinson, 1990, p140). The 1990 Act gave a greater role to local authority social services departments but it was intended that they act as 'enablers', achieving value for money by purchasing services from a range of competing providers in the public, voluntary and private sectors.

The introduction of competition must be seen not only in the context of developments in the use of market processes, but also that of major management change in local government more generally.

Walsh (1991, p11).

By the end of 1992, the total value of work under contract was approaching £2bn (see Audit Commission, 1993, p6). Though, initially, CCT was confined to 'blue collar'

activities, the Government believed the success of the policy justified its further extension to professional services. Writing in *Municipal Journal* in 1992, Michael Howard, then Secretary of State for the Environment, stated:

Competition has always been at the heart of this government's approach to service delivery. I know the compulsory element in our approach has not always been popular. But the government is convinced that without compulsion many authorities would have lacked the will to face up to the management challenges of competition and underestimated the capacity of those who work for them to manage change successfully.....The results have been impressive.....the optimism of those of us who advocated competition and the enabling approach has been borne out. In proposing the extension of competition to white collar services, it is vital we do not underestimate what can be achieved. I want to ensure that the success of this new round of competition matches that of earlier initiatives.

Howard (1992, p10).

Consequently, the 1992 Local Government Act sought to increase competition by extending the principle of CCT to a range of professional services including direct public services, *eg* libraries, theatre management, construction-related professional services, *eg* architecture, engineering, property management, and internal services, *ie* finance, legal, personnel and information technology.

The total value of local authority work subject to CCT in England and Wales was approximately £6bn a year. This would have been increased by a further £6bn a year had the extension of CCT to white collar services, housing management and other blue collar work been fully implemented (DoE, 1996b).

3.2 *White Collar CCT: policy*

General proposals on the extension of CCT to white collar services were contained in the consultation document of 1985 (DoE, 1985), but detailed plans did not emerge until the *Competing for Quality* consultation document was published (DoE, 1991). The 1992 Local Government Act extended and modified the CCT framework. White collar services were now to be subject to competition, but only in specified proportions:

....I have decided a rigorous requirement to seek greater competition was the best way of securing greater efficiency while guaranteeing a high standard of service to local taxpayers.....But I recognised there were some areas where a requirement for *compulsory* competition could bring into question the corporate identity of an authority, or prejudice its ability to act as an informed client. So CCT will apply to only a proportion of an authority's spending on each of the main areas of white collar work. It will be for each authority to decide for itself how to meet those requirements and which elements of the work are best suited for competition.

Howard (1992, p10) [Emphasis in original].

Authorities were also free to decide upon the relative merits of tenders and, though not necessarily compelled to choose the lowest priced, they were expected to be able to demonstrate that they had their own procedures for fair and even-handed tender evaluation on the grounds of quality as well as price. There was a lack of clarity on the weight which could be attached to quality in tender evaluation, but was eventually explicitly acknowledged as a legitimate criterion (as Fair, 1995, reported in *Local Government Chronicle*). From the local authority viewpoint, however, there remained the problem of balancing their own perception of even-handedness with the former Government's perception of anti-competitive behaviour. Section 9 of the 1992 Local Government Act gives the Secretary of State power to determine what is or is not anti-competitive behaviour (see Cirell and Bennett, 1993).

From 1992, there were changes in the percentages to be exposed to competition and in the overall CCT regime, particularly in relation to the various credits which could be offset against competition requirements, despite local authority representations to the contrary. Finance, for instance, has been subject to various changes. See Box 2.2 for details of the original and revised (proposed and actuals) percentages, including the latest change as introduced by the Labour Government (DETR, 1997).

Box 2.2					
White-collar services and proportions subject to competition					
	Original	Revised	Revised	Revised	Revised
	(DoE, 1991)	(DoE, 1994a)	(DoE, 1996c)	(LGC, 1996)	(DETR, 1997)
Housing Management	100	95	95	95	95
Information Technology	80	70	80	40	40
Construction and Property	90	65	65	65	55
Legal	33	45	45	45	45
Financial	25	35	65	50 40% in English County Councils	40
Personnel	25	30	40	40	40
Corporate and Administrative	15	nil	nil	nil	Nil

In addition to forcing authorities to expose a proportion of their services to competition, it was also decided that any work which an authority chose not to put out to tender should be subject to pressures of a commercial nature. To this end, accounts for the main areas of white collar work needed to be published - Statement of Support

Service Costs (SSSC) - in order to encourage the development of an internal market and to bring more transparency to support services costs (DoE, 1994b).

In achieving the minimum competition requirements, local authorities were allowed to credit work against the amount that had to be subject to tender. The rules on this were unclear, particularly given the consultation paper published in May 1996 (DoE, 1996c) but, essentially, work performed by private providers and work for other services which had been subject to CCT could be classed as having been subject to competition. There is also a *de minimis* level specified for each service, below which competition is not required.

The decision to increase the competition requirements and to reduce significantly the scope for using credits to be offset against the competition requirements followed accusations (see Wild, 1996a, 1996b, 1996c) that councils were not acting within the spirit of the white collar legislation. These accusations were fuelled by a paper submitted by the Housing Management Contractors Association alleging anti-competitive practices by more than 20 councils which were supposedly hostile to bids from the private sector. This also needs to be seen within the context of research commissioned by the Dept of the Environment to establish the views of the private sector on blue collar CCT (DoE, 1995a; see also DoE, 1993). Though there were some positive views expressed, two thirds of private contractors considered they had grounds for complaint against a local authority on some aspects of a tender and more than one-third had made a complaint. There were also concerns about the complexity of tender documentation and the fairness of tender evaluation. In response to these concerns, new anti-competitive guidelines were published by the DoE (DoE, 1996a).

The local authorities refuted the allegations of anti-competitive practices and drew parallels with blue collar CCT, saying that markets take time to develop. The Conservative Government, however, decided to increase white collar competition, though this was actually against the wishes of the Business Services Association which surprisingly called for the then Government to abandon CCT in favour of voluntary arrangements (Pike, 1996a; see also Pike, 1996b). The director-general of the Association, which represents leading companies providing cleaning, catering and similar services, stated that 'Many public sector managers go into the process with their minds already made up in favour of the *status quo*' and, though the market would be a little

smaller if tendering became voluntary, it would be 'populated by willing players' (see Pike, 1996a).

In addition to the changes in competition requirements, there were also changes in the timetable for CCT, not least because of the local government review in England and the reorganisation of local government in Scotland and Wales. Current timetabling details relating to financial services only are provided in Box 2.3. Please note these are the details as announced by the Labour Government in November 1997 and, together with the changes in percentages (see Box 2.2 above) and other details relating to the CCT regime, the intention was 'to amend the existing framework for [CCT] to make it more flexible and encourage local authorities to move to a Best Value-based approach to service delivery in advance of a statutory framework for Best Value' (DETR, 1997). In other words, it is highly unlikely that the CCT regulations will be implemented by the Labour Government.

Box 2.3 Timetable for commencement of white-collar CCT contracts for financial services	
Authority Type	Date
London boroughs and metropolitan districts	January 1999
Status Quo authorities	April 1999
Unitaries starting 1/4/96	April 1999
Unitaries starting 1/4/97	April 1999
Unitaries starting 1/4/98	April 1999
Source: DETR (1997). Annex A.	

3.3 *Financial Services CCT: policy*

The Conservative Government's consultation documents (DoE, 1991, 1994a, 1996c) raised the competition requirement for financial services from 25% to 35% and then to 65%. In raising it from 25% to 35%, the Government had:

.....taken account of the fact that certain work is not necessarily suited to compulsory competition because it: represents key client side tasks which authorities would wish to retain in-house.....; represents key strategic or advisory tasks which authorities wish to retain in-house to provide advice to members and officials; relates to the performance of the corporate or democratic functions of an authority; involves the exercise of a statutory responsibility of an authority.

DoE (1994a, p5).

Despite this, however, the initial increase proposals caused considerable concern because, for the first time, they included the extension of CCT to housing and welfare benefits and education and student grants. The proposed inclusion of benefits and grants was particularly problematic, not least because there was actually ambiguity as to whether they could be contracted out. For instance, the DSS, in a letter to local authorities sent two weeks after the publication of the consultation documents, stated that benefit determination could not lawfully be contracted out under social security legislation. However, in order to meet the competition requirement, particularly an increased competition requirement of 35%, whilst protecting activities newly-included in the proposals, authorities would increasingly have to risk exposing key services to competition, *ie* those recognised by the Government as being ones which authorities would wish to retain in-house. As CIPFA stated in its response:

The late inclusion of these services will cause local authorities to rethink their competition strategy, at a time when authorities in the metropolitan areas should be commencing the tendering process.....The inclusion of extra front-line services.....considerably increases the quantum for finance services. This will force local authorities to consider key core and client services as potential areas for competitive tendering.

CIPFA (1995a, p2).

This example of inconsistency and ambiguity was not unique. There were, and are, problems in defining finance, not least given the functional overlap between finance and information technology (IT). This leads to confusion over 'double counting', *ie* the extent to which authorities were able to double-count support services, such as IT, in their CCT percentages for both the service itself (IT) and the function where used (finance). Closely related to the issue of double-counting is that of BIGS, *ie* bought-in goods and services, and whether or not expenditure on contracted-out or bought-in services can be included in calculating whether the required percentage has been met (of which expenditure on IT would be extremely significant). Likewise, there were problems in relation to the organisation of the finance function within authorities. An aim of the consultation paper was not to influence this, but as CIPFA (1995a, p4) stated:

Devolution of financial management is recommended by the Audit Commission and is consistent with Government philosophy. The more devolved the financial arrangements, the more difficult it will be to manage a contract and the more likely an authority will be forced to subject core finance services to CCT, or recentralise the devolved activities.

The Conservative Government published what was taken to be its final decision in May 1995 and, *inter alia*, confirmed that 35% of activity was to be exposed to competition and £300,000 was the *de minimis* level, ie the minimum value of work below which councils are automatically exempted from CCT. This came as something of a disappointment to CIPFA which wanted the percentage to be reduced, the *de minimis* level raised and a minimum contract value be established of £500,000. However, the Institute welcomed the apparent compromise over benefits and awards. Education benefits and awards were excluded from CCT and housing and council tax benefits work would remain within the defined activity for CCT but if councils did end up having no choice but to expose their benefits operation to competition, ministers would 'consider sympathetically any request they may put forward for a specific exemption' (see *Public Finance* 26 May 1995). The 1996 proposals, however, revealed that the Government had concluded that there should be no special case for benefits work and that the competition requirement should be increased accordingly (DoE, 1996c, p10).

Similarly, although confusion remained particularly on the matters of double-counting and BIGS despite, or perhaps because of, a circular published by the Dept of the Environment in July 1995 (DoE, 1995b), the 1996 proposals sought to simplify matters, but largely by abolishing the allowances. In doing this, and by increasing the competition percentage, the sweeping changes proposed in May 1996 were designed to increase significantly the proportion of finance work to be exposed to competition.

The proposals followed 'indications that the early implementation of white collar CCT was not going well' (DoE, 1996c, p2) and were based on a review of CCT policy. With regard to financial services, the review revealed (DoE, 1996c, p3):

...many of the larger Metropolitan authorities appear not to need to put any work out to competition and the prospect is that few authorities outside London will be required to put any work out to competition.

The consultation document published in May 1996 proposed raising the competition requirement from 35% to 65% (see Box 2.2 above). The proposals were greeted with disbelief by local authorities (see 'Apocalypse now' *Public Finance Supplement* 24 May, 1996) but, following the consultation period, the regulations were marginally relaxed (LGC, 1996). They were further relaxed by Labour (DETR, 1997) though have continued to cause considerable concern to local authorities which were hoping for a swift end to the CCT regime.

3.4 *Transfer of Undertakings (Protection of Employment) Regulations (TUPE)*

There is an important European dimension to CCT. EU (European Union), formerly EC (European Community) directives on contracting for supplies and works have important implications for public bodies in that they lay down procedural rules which must be followed. An issue of fundamental importance concerns the extent to which employment rights and remuneration are protected when public services are contracted out to the private sector. The debate centres on the scope of the TUPE regulations. The TUPE regulations (1981) incorporated, in 1983, into UK law the EC Acquired Rights Directive 1977. This was framed essentially with company takeovers in mind but a series of judgements has confirmed the directive's application to a wider range of circumstances. In relation to CCT, this fundamental legal issue is causing considerable confusion and has yet to be resolved (see, for instance, Rice, 1997; Pike, 1996c, 1998; see also Kerr and Radford, 1994; Wilson, 1994b, pp12-14). The significance of the issue was further highlighted in November 1997 when the Government accepted, in a hearing in the High Court, that its predecessor acted unlawfully, between 1983 and 1993, by failing to protect the employment rights of public sector workers (as reported in *Public Finance* 21 November 1997 p7). The European directive had been intended to protect all workers. The Conservatives moved to include public sector workers in 1993 after the Transport and General Workers Union won a test case on behalf of refuse collectors from Eastbourne. This matter could yet lead to compensation being paid to health service and local authority employees whose jobs were privatised under CCT by the Conservatives.

4.0 *Conclusion*

Despite the ongoing legal confusion over TUPE, the Conservatives remained committed to the policy of CCT, particularly in relation to central and local government. This commitment was reflected in the radical decision to extend the policy to white collar professional services and the determination to increase the proportion of work to be subject to competition. This in turn reflected their belief that the policy was desirable in principle and had proved to be so in practice. It is necessary to consider whether the Conservative view could be substantiated. The empirical evidence is assessed in Chapter Three.

Chapter Three

Competition, Market Testing and Compulsory Competitive Tendering: Empirical Evidence

Chapter Structure	
1.0	<i>Introduction</i>
2.0	<i>Introduction of markets</i>
3.0	<i>Market testing</i>
4.0	<i>Blue collar CCT: empirical evidence</i>
5.0	<i>White collar CCT</i>
6.0	<i>Finance Function</i>
7.0	<i>Summary of evidence</i>
8.0	<i>Original research</i>
9.0	<i>Conclusion</i>

1.0 *Introduction*

This chapter considers the empirical evidence relating to the introduction of markets in public service provision. It considers the results of the market testing programme within central government but then specifically focuses on CCT and an evaluation and summary of the international and domestic empirical evidence.

2.0 *Introduction of markets*

In considering the policy of introducing *quasi*-markets, Le Grand and Bartlett (1993) have concluded that, though the changes in welfare provision - health, social care, housing and education - since 1988 have been monumental, their initial goals have not been achieved. After a two-year study funded by the Economic and Social Research Council (ESRC) as part of its Functioning of Markets Research Programme, Le Grand concludes:

Even if you start off with a lot of competition, the research shows after a few years in hospitals or personal social services, it settles down after a while to a cosy cartel between the purchaser and the provider.

ESRC (1994, 1st page: note: pages unnumbered).

Le Grand and Bartlett (1993) identify four aims the changes were meant to achieve:

- Efficiency
- responsiveness
- choice
- equity

and five conditions which were pre-requisites for the attainment of the aims:

1. Market structure - genuine competition amongst purchasers and providers within a rigorous market in which the usual conditions apply, including closure for those unable to compete.
2. Information - sufficiently detailed and comprehensible to enable informed decisions to be taken
3. Transaction costs and uncertainty - costs must be less than those incurred under the previous system but it is recognised that uncertainty concerning future demand for services adds an element of risk and may increase costs.
4. Motivation - there must be incentives for providers to act in part on the basis of financial considerations and for purchasers to listen to consumers.
5. Cream-skimming - it needed to be recognised at the outset that more expensive/dependent consumers, *eg* the elderly or mentally ill, may be discriminated against by purchasers or providers.

These aims and conditions constituted the framework within which Le Grand and Bartlett undertook their research into health, social care, education and housing. Different conclusions were reached for each service but:

.....the evidence in health and social care shows that few competitive bidders are entering the market. That in itself could undermine social policy. It also shows that the purchasers get little access to the information that providers have. Competition exists in housing and education, but there is a real danger that the most dependent consumers will suffer. The quasi-markets have not failed but there are problems particularly with competition, information and cream-skimming...

ESRC (1994, 8th page: note: pages unnumbered).

These problems may be reduced but it is difficult to see how they can be eliminated given the nature of welfare services and certain client groups within them. This also reflects the importance of the prefix *quasi* in the expression *quasi-market* used throughout this chapter. The disciplines of a fully-competitive market cannot be applied within the context of welfare provision. This inherent tension is succinctly expressed by Ranade and Appleby (1989, as quoted in Hudson, 1992, p141):

The imperatives of the market may still clash with the imperatives of a public service - centrally funded, cash limited and politically highly sensitive. The 'market' must either be regulated to prevent politically unacceptable variation in access and standards, and will therefore be unable to achieve what a natural market does, or it must be freed from restraint still further. Ultimately, at what point does regulation essentially become planning?

This tension is reflected in the fact that the measures introduced have less to do with market creation and more to do with contract negotiation. Mackintosh (1993, p134) provides examples of this switch to contract including the development of the 'purchaser/provider split' and the associated internal contracts and service agreements within local authorities for directly-provided services subject to CCT. Another example is the switch from operating budgets to service contracts as the main form of NHS internal funding:

These changes have been associated with, and have facilitated, the growth of external private contracting for the provision of publicly funded services. Contracting, then, is what public service managers implementing 'internal market'-type reforms actually do.... Whether cost accounting plus contracting produces a market in practice - and what kind of market - is another matter, and one which can become obfuscated rather than illuminated by the language of commerce and customers.

(Mackintosh (1993, p134). [Emphasis in original]

This is true but it is little consolation to those who have been disadvantaged by the changes to know that they are victims of contracting rather than the creation of a market.

Le Grand and Bartlett's research was part of a 5 year research programme into contracting within the public and private sectors and between them. The programme was completed in 1997 and Milne (1997) provides a summary of the findings (see also: Deakin & Michie, 1997; Nolan, Saundry & Sawyer, 1997; Williams & Flynn, 1997; Richards, 1997; Domberger & Jensen, 1997; Kennedy, 1997; Deakin & Wilkinson, 1997). The conclusions are quite scathing. Richards (1997, p140), for instance, in reviewing the evidence from the NHS and local government, states: 'We have the worst of both worlds – higher transaction costs and less innovation.' Other findings reveal that, insofar as efficiency gains have been made, these have simply been the result of cutting wages (Kennedy, 1997), and the general effect on staff has been adverse, actually undermining loyalty, commitment and, ironically, the creation of an environment which encouraged risk-taking.

3.0 Market testing

The Citizen's Charter Second Report (Cm 2540, 1994, p93) states that, by the end of 1993, £1.1192bn of work covering 25,000 posts, out of an intended programme of £1.5bn and involving 44,000 posts, had been exposed to competition. A total of 389

individual market tests had been completed. The private sector was awarded over £855m of this work. Of this, £768m was contracted out with no in-house bid, and of this £525m was accounted for by two reviews - the Atomic Weapons Establishment in the Ministry of Defence and the Inland Revenue Information Technology Services (IR/IT). Overall, the process resulted in savings of over 25% where comparisons were possible and an overall average gross saving of over 22% (approximately 20% net). The report confirmed the former Government's commitment to complete the first programme and to carry out a new programme of £830m involving 35,000 posts.

The programme, however, has not been without its critics. The Treasury and Civil Service Committee in 1994 stated it had not been conducted effectively by the former Government, had not won the broad support of the civil service and the Committee expressed its astonishment at the small number of in-house bids permitted (see *Financial Times* 25 November 1994). The Defence Committee (1995) highlighted the pitfalls of contracting out when it reported the damage to RAF Tornado fighters caused by outside contractors, probably costing more than £100m to repair (see *The Guardian* 15 November 1995). The Labour Party, when in Opposition, criticised the expenditure involved on consultants who advise on privatisation and market testing, amounting to over £318m between 1979-1995 on official figures but this was just the 'tip of the iceberg' as many departments refused to make public their consultancy costs (see *The Guardian* 18 September 1995). Similarly, Flemming and Oppenheimer (1996) question the extent to which contracting-out has resulted in savings and claim that the policy has led to questionable efficiency gains and may have reduced quality in some services.

In addition to the criticisms relating to financial matters, however, concern has also been expressed on the impact of the market testing programme on the morale and efficiency of the civil service. More fundamentally, when seen within the context of the Next Steps initiative, there are concerns over the implications for ministerial accountability:

.....outside contractors may provide some of the services currently directly under the control of civil servants and therefore ministers. The usual methods of parliamentary accountability (in so far as they continue to exist) no longer apply. Instead a system of accountability by contract exists, whereby departments and agencies contract with private firms for the purposes of performing the tasks specified. Where firms operating under such contracts abide by the requirements of freely negotiated contracts it is clear that no minister or civil servant would be able to intervene in the operation of those firms, even where individual citizens may be affected.

O'Toole (1995, p67).

This raises questions over a range of issues, including redress of grievances, confidentiality, equity of treatment, personal safety *etc.* (see O'Toole and Chapman, 1995) and, though the counter-argument is that there is accountability to 'customers', this again raises the question as to who is the customer of a public service.

The former Government, however, was committed to extending the market testing programme, as it was with CCT.

4.0 CCT: empirical evidence

4.1 International evidence

Competitive tendering and contracting-out take place in numerous countries around the world, but only in the UK was there systematic compulsion. The policy reflected central government's frustration at the minimal level of contracting-out in the UK, in contrast to other countries, and its ideological commitment to reducing the scale of public sector activity.

Ideology is also a factor in Europe. Digings (1991) refers to the ideological commitment of both right and left wing governing parties to use contracting and tendering to achieve their aims. For instance, in the Netherlands, throughout the 1980s the government was committed to reducing public expenditure and promoting privatisation, whilst the socialists in Spain 'have used private contractors to achieve political ends of a very different kind: the most rapid possible extension of public services to the shanty towns ignored by Franco' (p16). However:

.....in the majority of cases contracts tend to be let to private contractors for purely pragmatic reasons with no ideological undertones. The degree of privatisation might ebb and flow slightly with changes in administration, but it generally remains a fundamentally unpoliticised issue.

Digings (1991, p16).

With regard to specific countries, excluding the UK, obtaining accurate data is very difficult but certain evidence, summarised by Bailey (1995) and drawn from OECD (1993) and Parker (1990), is presented in Box 3.1.

Box 3.1**Cost savings from Competitive Contracting: International Evidence**

Country	Activity	Reported Savings
Australia	Water supply	Estimated potential cost savings of 15%
Canada	Refuse collection	Public collection up to 50% more costly
Denmark	Fire services	Public provision almost three times more expensive than private contractors
Germany (West)	Office cleaning	Public sector provision 44-66% more expensive
Japan	Refuse collection	Municipal collection 124% more costly
Sweden	Road and park maintenance, water supply, sewerage	Cost reductions of 10-19% in several municipalities
	Waste collection	Average cost reductions of 25%
	Leisure activities	Cost reductions of 13-15%
	Child care	Cost reductions of 9-15% in nurseries
Switzerland	Refuse collection	Costs of private contracts 20% cheaper
USA	Refuse collection	Savings of 29-37%
	Street cleaning	Savings of up to 43%
	Office cleaning	Savings of up to 73%
	Federal government	Cost savings of up to 35% with an average saving of around 20%
	Mass transit	Potential savings of 20-50%

Source: Bailey (1995) Table 15.1, p370.

Additional information is provided by Digings (1991). He estimates, for instance, that Germany (pp49-50) has contracted-out 60% of grounds maintenance, anywhere between 45% to 75% of refuse collection, 20% of street cleaning, 90% of window cleaning. In France, examples of contracting-out include 60% of refuse collection and 7% of school catering. As for Italy:

While [it] has one of the most extensive systems of municipal enterprise anywhere in Europe, it has at the same time witnessed some sweeping attempts at privatisation, and these have invariably been linked with political intrigue and scandals.

Digings (1991, p73).

In the Netherlands (pp121-122), almost half the municipalities had privatised grounds maintenance, over 40% had contracted-out building cleaning, more than a third had

privatised the management of sports centres and up to 40% of municipalities employ private firms to collect domestic refuse, but, 'Despite their claims, waste management contractors are not generally perceived by the larger municipalities to offer significant cost advantages' (p122). In Belgium, the City of Liege awarded a 10 year contract for refuse collection to a joint venture between a Belgian and French company. Portugal has a tradition of direct administration and provision of public services. Similarly, very few services are privatised in Ireland. Denmark contracts-out 15% of all public sector cleaning.

Generally speaking, Danish local authorities are a bastion of direct employment, but there is evidence that privatisation has been making inroads into services like refuse collection, cleaning, canteens, ground maintenance, meals on wheels, laundries, sewage treatment and the like. Others, like firefighting, have been contracted-out for some time.

Digings (1991, p141).

He says that in certain parts of Europe, close relationships have grown between construction and civil engineering firms and local authorities, relationships which have formed the basis for further collaboration in service provision, marked by diversification. This is not the case in the UK. He says (p19), but no evidence is offered to support the assertion, that:

Compulsory competitive tendering in the UK with its cut-throat price competition has effectively destroyed the basis for constructive relationships between public authorities and the private sector.

There are undoubtedly differences in contracting cultures across Europe, but (p18):

The large workforces.....employed by UK local authorities to meet their own needs in construction, maintenance and civil engineering mark us out from the rest of Europe.

In New Zealand, significant efforts have been made to transform the nature and scale of public service provision, constituting 'the most thoroughgoing public sector reforms of the English speaking world' (Domberger and Hall, 1996, p140). In addition to blue collar services, New Zealand has contracted out a range of voluntary social welfare services. Areas subject to market testing include services for the mentally handicapped, women's refuges and sexual abuse and rape crisis support (Domberger and Hall, 1996, p141). In Australia, competitive tendering has been extensively applied and, in 1994, became compulsory in the state of Victoria which is also considering CTC (competitive

tendering and contracting) for welfare services (Domberger and Hall, 1996). Savings of approximately 20% have been calculated as a result of tendering out areas such as catering, cleaning and laundry in hospitals in New South Wales. In Victoria, savings of 37.7% have been reported following the introduction of CTC, including its application in the water and electricity industries. The threat of competition has led to substantial savings for the New South Wales Health Department and the Department of Education in Western Australia. In general, quality of service has not been adversely affected.

Domberger, Hall and Li (1995), in a study of 61 cleaning contracts in New South Wales (22 offices, 6 hospitals and 32 schools), reported savings of between 13% and 50% which, in some cases, were accompanied by a significant improvement in quality. The findings also provide 'indirect evidence of the dominant influence of competition rather than ownership on prices and quality' (p1468).

In Canada, private waste collection contractors were said to cost, on average, 29% less than in-house teams (McDavid, 1985) and, in some cases, up to 50% less expensive. In the United States, Lavery (1995) reports that, of nearly 500 cities in California, 116 are 'contract cities', which have their origins in Lakewood, established as a contract city in 1954 (Lakewood, a city 20 miles south of Los Angeles, had a population of 70,000 in 1954 and 80,000 in 1995). He identifies 5 differences, other than the obvious one of scale, in contracting between the contract cities and UK local authorities:

1. Complete versus partial and multiple contracting

UK authorities often contract for an entire service with one supplier. Contract cities, as a means of safeguarding against dependence on a monopoly supplier, regularly contract out either part of a function, retaining some in-house capability, or they contract with more than one supplier.

2. Flexibility

Contracts are more flexible than in the UK; it is usually possible to extend a contract without going through formal competition for many years and it is also possible to terminate a contract at short notice.

3. Sacrosanct services

In contract cities, all services are eligible for contracting out, including emergency services (see Lavery and Woodgate, 1995). In some cities in the United States, however, there is a reluctance to contract out certain services. For example, Common (1995), though based on a 'haphazard survey', reports that Suffolk County, New York, was reluctant to subject social services to competitive tendering.

4. Inter- versus intra-governmental contracting

Many of the contracts are with other governments; cross boundary tendering (CBT) is limited in the UK (see below).

5. Ideology and home rule

Decisions in California tend to be made on pragmatic rather than ideological grounds. There is no compulsory competitive tendering and cities are proud of their 'home rule' - they decide on which services to provide and how, as well as their form of government (how many politicians should there be; should there be an elected mayor *etc*). Lavery (1995), writing in the *Financial Times*, points out, however, that the cities do employ significant numbers of staff, provide some services directly and much of their contracting is with other public agencies. Nonetheless, they are regarded as a success, 'Per capita spending for basic city services by contract cities is less than half the level of their full-service counterparts. Yet.....quality of life is at least as good as in service cities.'

Research by Poole (1980) and Savas (1977, 1987) has revealed substantial savings could be obtained by substituting private for public provision in a range of services, including police, fire, grounds maintenance, public transport, refuse collection and education (see Carnaghan and Bracewell-Milnes, 1993, pp131-140).

Kodrzycki (1994) concluded that one third of all general-purpose local governments in the United States had contracted out at least one service:

On the whole, local governments were more likely to contract out for services that are commonly offered by the private sector or other levels of government. Conversely, they tended not to contract out for services that are commonly the responsibility of local government. For example, fire protection, sewerage systems, and water.....

Kodrzycki (1994, p34).

The conclusion of Ascher (1987, p17), in considering the American research evidence, remains valid today:

None of [the] studies.....can be considered either comprehensive or authoritative. Despite considerable media coverage of contracting out in American local authorities, the number of all municipalities that has shifted from internal to external provision has remained small.

In commenting on the available evidence, Osborne and Gaebler (1992, p81) say:

.....in most cases, private firms deliver services more economically than public organizations. But where public and private organizations (of similar size) function in the same marketplace - as in health care and electrical utilities - their costs and quality are roughly the same. If anything, publicly-owned utilities are cheaper. Where private service providers do not have to compete, on the other hand, they are just as inefficient as public monopolies.

Similarly, in summarising the international evidence, Parker (1990, p659) says:

In general, the international evidence.....supports the [Conservative] Government's view that competitive tendering can lead to considerable cost savings in the provision of local public services. The international evidence further suggests, however, that it is competition rather than private ownership which matters.

4.2 Domestic evidence

In the UK, the lack of definitive evidence has not prevented claims being made, for and against the policy. Its supporters believe it has resulted, *inter alia*, in significant savings in service provision, removal of restrictive practices and an emphasis on service level and quality, whereby the process of recontracting ensures that the service provided is consistent with what consumers want rather than that which bureaucrats or politicians wish to supply. Against these claims, opponents believe that claimed savings have been greatly exaggerated and, insofar as they can be substantiated, they tend to be reversed after a number of years as contracts are retendered. In the interim, however, any savings will have been made at the expense of the pay and working conditions of the employees. On all these matters, the evidence is mixed.

In examining the evidence, it is necessary to relate it to the arguments for and against as given in Chapter Two. However, for analytical ease, the arguments are brought together in a framework based on the work of Chaundy and Uttley (1993). Their research, involving a survey of refuse collection, focuses on three main subject areas and addresses six specific questions. See Box 3.2.

Box 3.2

CCT Subject Areas and Questions as per Chaundy and Uttley (1993)

Subject	Question
Technical efficiency and the role of competition	Has CCT resulted in genuine competition, or is there evidence of anti-competitive behaviour?
	Have cost-savings been achieved and to what extent have transaction costs affected the post-tendering costs of service provision?
	Where private and public sector concerns operate under similar relationships of either competition or monopoly supply, is private operation more efficient <i>per se</i> than public?
CCT and allocative efficiency	Does the evidence suggest that the service quality has been adversely affected as a result of CCT and contracting?
	To what extent do monitoring costs affect the overall cost of service provision after competitive tendering?
Labour market and trade unions	Insofar as CCT has led to a reduction in service costs, is the reduction the result of a deterioration in the conditions of worker employment or greater flexibility and productivity of labour and equipment?

Source: Chaundy and Uttley (1993) pp27-30.

For presentational simplicity, and to prevent over-fragmentation of the analysis of available evidence, the first and third subject areas above have been combined and the six questions refined to four. In addition, Chaundy and Uttley (1993) identify transaction costs, concerned with regulating and administering CCT, and monitoring costs. The former are categorised under 'technical efficiency' and the latter under 'allocative efficiency', though they are combined in the main analysis. Because they both relate essentially to technical efficiency, they have been categorised accordingly and combined. The subjects and questions, given in Box 3.3, form the framework within which evidence relating to CCT generally will be critically evaluated. The evidence is then summarised in para 4.3 and Box 3.6.

Box 3.3

Framework for critical evaluation of CCT empirical evidence

Subject	Question
CCT and technical efficiency	<p>Has CCT resulted in genuine competition, or is there evidence of anti-competitive behaviour?</p> <p>Have cost-savings been achieved, taking into account transaction and monitoring costs, and, insofar as CCT has led to a reduction in service costs, is the reduction the result of a deterioration in the conditions of worker employment or greater flexibility and productivity of labour and equipment?</p> <p>Where private and public sector concerns operate under similar relationships of either competition or monopoly supply, is private operation more efficient <i>per se</i> than public?</p>
CCT and allocative efficiency	<p>Does the evidence suggest that the service quality has been adversely affected as a result of CCT and contracting?</p>

Source: adapted from Chaundy and Uttley (1993) pp27-30.

4.2.1 CCT and technical efficiency

The advocates of CCT believe that tendering reduces X-inefficiency. The gross financial savings which tendering yields equates with the X-inefficiency of pre-CCT services; net financial savings equate to gross financial savings less the transaction costs of regulating and administering CCT. Gross or net, however, financial savings need to be generated by competition if the view of the advocates of CCT is to be upheld.

Question 1: Has CCT resulted in genuine competition or is there evidence of anti-competitive behaviour?

It may actually be more accurate to ask whether the *legislation* relating to CCT has resulted in competition, as any lack of competition could be attributed to statute rather than the principle of CCT. For instance, focusing on building services and the Local Government Planning and Land Act 1980, Minogue and O'Grady (1985, p46) state that the provisions of the Act, 'do much to turn advantages towards the private sector competitor'. Two examples given - the fact that DLOs are prevented from tendering for Housing Association projects funded by local authorities and that private contractors, unlike DLOs, are not bound to confine any surplus earned to that part of their organisation which earned it - are valid, but a third example, and the first in their

argument, is debatable. This relates to the requirement of DLOs to make a particular rate of return on its capital over three consecutive years, a rate which represented the average achieved in industry. They state (p46) that, 'the local authority is committed *by policy* to the road or building project under construction' [emphasis in original] and that the question of how much it could have earned by investing funds elsewhere, rather than 'lending' them to the DLO, is 'really not material' as long as interest charges are included in the DLOs accounts. This however, appears to miss the point that the policy commitment is not undermined, on the contrary it could be better fulfilled, by resorting to private contractors who, theoretically, may be able to complete the job, to the specification required, more cheaply and achieve a higher rate of return, thereby ensuring a more efficient use of resources.

However, a broader point can be made, developing the first example given above, which is that:

While a private contractor can be selective about the work (both public and private) for which it decides to tender, the DSO can only bid for the public sector contracts. This gives the private contractor a sizeable advantage over its in-house rival. DSOs cannot bid for work in the private sector, whereas private firms have the choice of which work to bid for, thus obtaining greater variety, continuity and spread of work. The private contractor can use one successful contract to keep costs down in another, and when two contracts are in adjacent authorities, the private contractor can reduce costs further by sharing facilities and depots. Thus each contract won by a private contractor helps to keep costs down for the next tender.

Rao and Young (1995, p31).

It needs to be added, however, that DSOs can compete for other public sector work, known as cross boundary tendering (CBT). However, CBT has been a matter on which there has been legal confusion over a five year period but was officially sanctioned in December 1995 following a new legal ruling from the DoE (reported in the *Local Government Chronicle*, see Dimbylow, 1995a). Given the legal confusion it is perhaps unsurprising that CBT provokes mixed reactions amongst public sector personnel. In a study of the experiences of 23 authorities in the four years after the 1988 Act, Shaw, Fenwick and Foreman (1994) found that in only 2% of cases did CBT lead to contracts being won by other councils, and 'several rural councils had a gentlemen's agreement with neighbouring authorities not to indulge in CBT' (p207). The survey, however, focused on authorities in the North of England and, as such, inter-authority cooperation

borne of hostility towards CCT was not unexpected as 15 of the 23 councils were Labour controlled.

The advantages of economies of scale are, of course, important, not least for productive efficiency, but, owing to legislative constraints, the opportunities for public sector economies of scale are restricted, though it is also recognised that, beyond a certain point, diseconomies of scale may result, due to rising administrative costs.

Against this, contractors complain that they are disadvantaged not only by the scale of many contracts, perhaps deliberately packaged effectively to preclude private sector competition other than from the largest companies, but also by the cost of DSO redundancies, which local authorities can take into account when comparing DSO and outside contractors' bids.

The legislation, however, was meant to foster competition, but there is a fundamental anomaly. Though a stated aim of the 1988 Act was 'to secure that local and other public bodies undertake certain activities only if they can do so competitively', there is no requirement for competition if a council simply decides to privatise a service, there is only a requirement to undergo tendering procedures if a council wishes to try to retain services in-house. Again, this in theory discriminates in favour of the private sector, though even the most pro-CCT authorities do not appear to have taken advantage of this anomaly.

The legislation may or may not favour local authorities, but, in their response to it, they must ensure they do not behave anti-competitively though accusations have been made; this also applies to white collar CCT. In response to this, new anti-competitive guidelines were issued in 1996 (DoE, 1996a). One aspect of anti-competitive behaviour concerns the non-acceptance of the lowest bid, though local authorities have got some flexibility to judge tenders according to quality and not just price; in fact, as far as white collar CCT is concerned, quality should rank equally with price (see Broom, 1994a, the then editor of *Public Finance*). In an analysis of voluntary competitive tendering, prior to the 1988 Act, Hartley and Huby (1985) found that, of 75 local authority contracts, nearly 25% had not been awarded to lowest bidder. This contrasts with the findings of Chaundy and Uttley (1993), in a study of refuse collection, where 14% of contracts had not been awarded to the lowest bidder, though their conclusion that this suggests 'the stipulations

of the 1988 Act have enhanced competition' (p32) is suspect given the limited scale of their research.

Walsh (1991), in a study of 40 authorities, found that, of a total of 182 contracts, 15 bids (8%) were accepted when they were not the lowest:

Overall there have been few instances of local authorities accepting bids that were not the lowest and, where this has been done, it has usually been for technical reasons.

Walsh (1991, p42).

The incidence of competition, however, varies between activities, perhaps reflecting the expertise which exists in the private sector. LGMB (1991) revealed that catering (education and welfare) was the least competitive, averaging 1.2 tenders per contract with the DSOs winning 72.8% of contracts without competition. In contrast, refuse collection was the most competitive averaging 3.4 tenders per contract with only 10% being won by the DSOs without competition. LGMB (1995a) revealed similar variations but building cleaning had become the most competitive activity, with 5.0 tenders per contract and only 10.1% won by DSOs without competition, and sports and leisure management was the least competitive, with only 1.8 tenders per contract and 57.2% won by the DSOs without competition.

Another anti-competitive practice relates to contract size, making them so large as to rule-out private competition:

Such stratagems amount to deliberate destruction of local value - because the supposed interests of DLO employees are placed above those of the authority's customers or its ratepayers.

Audit Commission (1987, p7).

The 1988 Act gave the Secretary of State powers to intervene if there was evidence of anti-competitive behaviour. An explanation can be required of an authority's actions with regard to tendering, Section 13, and re-tendering can be instructed with or without an in-house bid, Section 14. The failure of some authorities to divide contracts into more appropriate sizes has led to Section 13 notices being issued. Doncaster, for instance, was asked to explain how four building contracts had been packaged (Section 13) and was subsequently ordered to re-let one of the contracts (Section 14). Similarly, a notice was issued to Liverpool City Council over a multi-million pound grounds maintenance contract awarded in-house. Shaw, Fenwick and Foreman (1994, p206; see also Fenwick, Shaw and Foreman, 1993) reveal that, in their sample:

.....several of the authorities...have used gaps in the legislation to make it difficult for private companies to tender. This partly involved dividing contracts up into large 'packages' beyond the capacity of private sector operators to deliver....and also to discourage the private sector by making specifications as complicated and as detailed as possible.

Abbott *et al* (1996), in a study based on 40 interviews with private contractors, councillors and senior local authority personnel between April and September 1993 in 4 local authorities in Greater London, conclude:

The biggest barrier to undertaking CCT was the tendering process. It was viewed by small-firm owners as expensive, time-consuming, bureaucratic and rigid. The chances of winning a contract was (sic) often seen as low and therefore the investment in time and resources in tendering was unlikely to be worthwhile. The large size of the contract and their sometimes multi-functional character also deterred smaller businesses from tendering.

Abbott *et al* (1996, p86).

DoE (1996b) reveals that, in 1995, from a total of 66 cases of alleged anti-competitive behaviour, twelve Section 13 notices and seven Section 14 directions were issued, against twenty and nine respectively in 1994.

Authorities may also attempt to restrict bidding through inadequate publicity, but there is no evidence that this occurred. On the basis of their own research, Chaundy and Uttley (1993, p32) conclude, 'Subject to verification by a larger data set, these findings refute the suggestion that DSOs have obtained contracts because of authorities' attempts to restrict bidding.'

However, in evidence published by the Public Contractors Association (see *Financial Times* 09.10.95), it was actually claimed that Conservative-controlled councils do not embrace the spirit of competitive tendering and are less receptive to the private sector than Labour councils. According to the Audit Commission (1995b), only 30% of authorities make 'positive efforts' to encourage competition and two-thirds of contractors claim to have grounds for complaint against local authorities.

DSOs have been very successful in winning contracts, but there is evidence that CCT effected a shift of service provision from the public to the private sector, though this was not dramatic. Research by the Joint NHS Privatisation Unit (1990) revealed that health authorities won approximately 77% of all contracts put out to tender since 1983. Similarly, the Local Government Management Board (LGMB, 1991, as reported in *Financial Times* 13 May) showed that local authority DSOs won 69.7% of a survey of 2558 contracts - equivalent to 84.3% of contract value - in the first four rounds of CCT in

England and Wales. This was confirmed by an updated report of the LGMB (1992, as reported in *Public Finance and Accountancy* 27.11.92), drawn from a database of approximately 3900 contracts since August 1989, which showed that contracts valued at £1.9bn had been tendered, of which £1.6bn had been awarded to local authorities' DSOs. By 1994, however, the LGMB (1994a) revealed that the percentage of DSO success had been reduced to 62% of contracts, equivalent to 82% of total contract value of £2.2bn. This had been reduced further as revealed by figures published in December 1995, see Box 3.4 below, from LGMB (1995a) and based on information on 7,374 contracts for England and Wales. In a total market estimated to be worth approximately £2.5bn *per annum*, DSOs had gained 59.5% of contracts, equivalent to 74.9% of contract value, ie £1.87bn *per annum*. In Scotland, DSOs are extremely successful but, for services excluding building cleaning, ground maintenance and vehicle maintenance, only summary information is provided by LGMB (1995a), based on that supplied by COSLA (Convention of Scottish Local Authorities), as the number of contracts and private sector success is so small (figures for Scotland were first included in the LGMB surveys in November 1993).

Box 3.4
DSO Success Rates By Activity

Activity	England and Wales		Scotland	
	DSO Success % of contracts	DSO Success % value won by DSOs	DSO Success % of contracts	DSO Success % value won by DSOs
Building Cleaning	42.0	71.8	89.8	98.0
Refuse Collection	61.4	65.0	88.7	99.9
Other Cleaning	62.6	73.7	100.0	100.0
Vehicle Maintenance	76.7	80.6	91.7	98.4
Catering (Education and Welfare)	74.6	80.5	91.1	97.6
Catering (Other)	61.9	73.6	27.0	88.0
Ground Maintenance	56.0	74.3	87.0	96.9
Sports and Leisure Management	84.5	92.6	98.2	99.4

Source: LGMB (1995a) p11,80,81,82

Focusing on England and Wales, as can be established by referring to Box 3.4, DSO success rates varied with activity, with the private sector being most successful in building

cleaning, grounds maintenance and refuse collection. For instance, private contractors won 58% of all contracts awarded in respect of cleaning buildings, though its share of the total market by value is much lower, at 28.2%. The Institute of Public Finance (IPF) (1993a) has also reported that CCT has failed to have much impact with respect to catering. Local authority contracts form only 1.4% of the £2.4bn contract-catering market and 6% of contracts put out to tender have been won by private contractors.

LGMB (1995a) also revealed marked regional variations, excluding Scotland, which actually corresponded to councils' political control. For example, in Labour-dominated Wales and also Yorkshire and Humberside the DSOs won 96.7% and 83.3% respectively of refuse collection contracts (the number of contracts was 29 and 20 respectively). This contrasts with 41.7% and 43.5% in the Conservative-inclined South East and South West respectively (the number of contracts was 40 and 20 respectively).

The LGMB (1991, 1995a) findings are consistent with those of the IPF (1993b). Commenting on the IPF (1993b) research, specifically relating to building cleaning, Authors (1993) states:

Regional variations are marked, with the private sector accounting for 53% of contracts in the south-east and 49% in London, but only 6% in Wales and 12% in the northernmost counties of England. Conservative councils are far more likely to award work to the private sector than Labour authorities, where 91% of cleaning contracts stay in-house.

Despite the evidence of in-house success and the fact that DSOs have won 74.9% of the value of work tendered (as per LGMB, 1995a), it is still significant that 25.1% has been won by the private sector. Any shift from the public to the private sector may be said to be of importance. This point is reinforced by the assumed efficiency gains which result from the process even if the contract remains in-house, considered below. Despite this in-house success, note that the main economic objective of CCT was to improve efficiency rather than transfer contracts to the private sector.

With regard to collusion and corruption, for some the risks of both are greater under contracting out. Minogue & O'Grady (1985, p48), for instance, refer to 'the inexorable tendency towards collusion amongst those in the game of offering services for tender.' The phrase 'inexorable tendency' can be said to be an overstatement, and Minogue and O'Grady go on to state that there is no evidence of the operation of local cartels or rings or cover pricing - 'in which firms who do not want the job nevertheless enter deliberately high quotes for the benefit of the contractor that does, on the

understanding that they will be similarly benefited when their turn comes' (p48) but, quoting the example of the waste disposal industry, they say that an environment can be created in which 'administrative coexistence, rather than competition, becomes the motif for the industry' (p48). The PSPRU (1996, p10) has reported on 'ample evidence of cartels operating in UK public service contracts', particularly refuse collection and ground maintenance. The Restrictive Practices Court found 11 ground maintenance contractors guilty of operating a secret agreement to fix prices on contracts worth more than £10m pa over a period of fifteen years. International evidence is also supplied, including that drawn from France, USA and Canada. The argument presented is that UK public services have been delivered into the hands of a small group of multinational companies, and this inevitably leads to corruption. For instance, one company, Lyonnaise des Eaux, through its subsidiaries, is responsible for supplying school meals in Bromley, water in Newcastle, refuse collection in Bristol, water and sewerage services in Buenos Aires and building roads in the Czech republic. It has also been prosecuted for bribing the former mayor of Grenoble in France to win the water concession. Corruption has been reported, again by the PSPRU (1994, 1996) and provides evidence of 52 cases from around the world (1996, p23-26) (see also Doig, 1995).

Conclusion

- CCT has resulted in real competition but there is some evidence of anti-competitive behaviour on the part of local authorities and private contractors
- The majority of contracts have been retained in-house but there is evidence that DSO success is decreasing, though again this varies across services.

Question 2. Have cost-savings been achieved, taking into account transaction and monitoring costs, and, insofar as CCT has led to a reduction in service costs, is the reduction the result of a deterioration in the conditions of worker employment or greater flexibility and productivity of labour and equipment?

In considering the evidence and the interpretations placed upon it, notably by politicians, it is true to say that, 'A healthy scepticism is.....needed when examining financial data' (Greenwood and Wilson, 1994, p413). This can be illustrated by referring to the

conflicting claims concerning savings as revealed by Cope (1995). In his examination of the decision by Kent County Council in 1984-85 to contract out school cleaning, the costings of 'savings' are summarised (p35) and vary from a reduction in expenditure of £1, 389,760 to an increase of £425,000. The matter was complicated by the fact that the Education Committee secured a loan from the Council's Efficiency Fund to offset redundancy payments to in-house staff and, because of this, was able to present the decision to contract out school cleaning as a significant spending reduction of £1m. The trade unions believed this was a 'paper saving' as the real costs of privatisation were hidden by the Efficiency Fund contribution. Allowing for this, and including the contribution from the Efficiency Fund, 6 different figures were put forward from various sources - including unions and private contractors - purporting to be the amount saved. Each of the 6 estimates may well have been based on valid assumptions, but, given the importance of the decisions taken, for employees and customers alike, it demonstrates the difficulty of reaching a consensus even on the figures, let alone the final political decision or tender evaluation. Marsh (1991, p466) correctly states:

[The] studies do have major problems: different methods are used to calculate savings; often the studies assess expected savings rather than measuring actual ones; and sometimes the data are collected from interested parties, councils with an ideological commitment to privatize or even contractors who have won contracts.

To which can be added trades unions with a commitment to retain services in-house.

However, although using budgeted savings runs the risk that they will not materialise:

With contracting out this danger is minimised because the local authority, notwithstanding any extraordinary circumstances (eg contract termination), will pay no more than the bid of the successful private contractor. The budgeted savings are, therefore, the actual savings.

Cope (1995, p40).

This assumes, of course, that the budget is accurate. It also ignores the point, actually illustrated by Cope, that budgets can be formulated on different assumptions. Walsh and Davis (1993) show that out of a total of 88 observations, 40 showed an increase between estimate and outturn, 36 a decrease and in only 12 cases were there no differences. 'The only plausible reasons for outturn prices being lower than tenders are cuts in the service and deductions for failure' (LGIU, 1994, p10).

An 'early' research study is that reported by Hartley and Huby (1985) which revealed yearly savings to local authorities and health authorities averaging 26%. This is

significant given that the average contract value was £1.3m for local authorities and £846,000 for health authorities. A variety of factors were said to have contributed to the savings, including: reduced employment; increased use of part-time staff; fewer fringe benefits; modern equipment; better management and organisation. There was evidence, in 14 out of 25 local authority and NHS contracts, of lower wage rates being paid by the contractor than by the in-house unit. They stated that the average cost of tendering was £10,000 (less than 1% of the average contract value) for a local authority and, for private contractors, between £1,000 and £3,000 when bidding for NHS contracts and £4,000 and £5,000 in competing for local authority contracts. These figures do not include costs relating to monitoring post-tendering.

Domberger, Meadowcroft and Thompson (DMT) (1986), using data from over 300 local authorities for 1984 and 1985, estimated that CCT had reduced the cost of refuse collection services by an average of 20% irrespective of whether contracts are awarded in-house or to private contractors and that there was no evidence to suggest that the cost savings resulted in a deterioration of service quality or of loss-leading behaviour. Similarly, the findings of Cubbin, Domberger and Meadowcroft (1987, p55), in a follow-up study to that of DMT (1986):

.....do not support the view that the bulk of the recorded cost savings arise from lower wages and fringe benefits. Greater productivity of labour and vehicles appears to lie at the heart of the efficiency gains.....there remains the question of whether an increase in efficiency and corresponding reduction in costs will result in an overall welfare improvement to society as a whole. To the extent that the resources thereby released are allocated to the supply of goods and services whose value to consumers exceeds their cost, the answer is an affirmative one.

On the basis of their findings, and those of DMT (1986) and the Audit Commission (1984), they conclude that the 'scope for providing highly valued services to the community with the savings generated by competitive tendering could be very considerable' (Cubbin, Domberger and Meadowcroft, 1987, p55).

Two key factors are identified as sources of the efficiency gains. First, the removal of the restrictive 'task and finish' payment schemes, whereby payments were made on the basis of the estimated time required to complete a particular round. Over time, because rounds tend to be completed faster, following changes in routes or a reduction in the number of houses in the round, but payments remain the same, the effect is to raise labour costs above the minimum required to collect a fixed volume of refuse. Second, more efficient use of crew and vehicle size between rural and urban areas, taking

into account seasonal demand fluctuations and adoption of flexible rostering. The importance attributed to these two factors as sources of technical efficiency gains was consistent with three earlier-published studies, Audit Commission (1984) and Gears (1984) in the UK and McDavid (1985) in Canada.

DMT (1987) conclude that achievable cost reductions in respect of hospital domestic services are likely to be approximately 20%. However, their findings reveal a statistically significant difference between contracts awarded pre- and post- March 1984, with average cost savings of 44% and 27% respectively when awarded to private contractors. They calculated savings of 18% when contracts were awarded in-house. They state:

It seems implausible to suggest that all of these cost savings could be achieved through improved efficiency. Rather, it seems more likely either that some of these contracts proved to be loss-making to the companies concerned, or that service standards had been reduced.

Domberger, Meadowcroft and Thompson (1987, pp49-50).

It needs to be remembered that the service under discussion is that which includes hospital cleaning and any potential reduction in service standards is more important than, perhaps, it would be under a cleaning contract for, say, an office building. However, their findings were reinforced by those of the National Audit Office (NAO) (1987).

Milne (1987), in an analysis of 6 of the first contracts put out to tender by a regional health authority, calculated average savings of 44%, though real savings were in fact greater as account was not taken of inflation. For 5 of the 6 contracts, the reductions in expenditure are 'massive' (p153) but (p153):

In three of the five contracts a major reduction in total expenditure arose from a change in specification.....the introduction of competitive tendering was used as an opportunity to introduce other changes, usually resulting in the 'rationalization' of services. This was the case for three contracts.....The point - that these three contracts [cover] only.....staff, not patient services - should perhaps not be lost.

In other words, 'The introduction of competitive tendering was used by management as a device to alter services that were thought had long needed changing' (p154) (eg in the catering contract, one of two kitchens was closed; in the domestic contract, services to staff were reduced, eg nurses were now to clean their own rooms). He also notes (p159) the concern of district management that, 'poorly paid staff give poor quality service,

which *no* amount of monitoring will satisfactorily control. In such cases, going for the lower priced tender may well represent a false economy' [emphasis in original].

Thompson (1990), in a study of refuse collection, showed that where services have been tendered costs are approximately 22% and 17% lower where they are awarded to private contractors and in-house units respectively. Efficiency gains from higher productivity in the use of labour and vehicles accounted for 17 of the 22% savings in the contracts awarded to the private sector; for the in-house units, only 7 of the 17% was attributed to higher productivity and no explanation was given for the remaining 10%.

Walsh's (1991) survey, on behalf of the Dept of the Environment, of a sample of 40 authorities (5 of which were in the North West), was limited in that only 24 were able to provide useful information on the financial consequences of competition and only 10 were able to supply information on preparing for competition. However, the returns indicated that the average first time preparation cost was 10.7% of annual contract size, falling to about 2.5% as a proportion of total contract value, though much of the preparation work (estimated by officers to be about 50-60%) will not need to be repeated.

The *Local Government Chronicle* (supplement 06.07.90) provides information on 476 contracts let after the Local Government Act 1988. The results of the survey are given in Box 3.5.

Box 3.5
***Local Government Chronicle* Survey of Competition**

Service	Total Contract Value £m	Total Net Saving £m	Saving %
Refuse collection	410.9	42.6	40.4
Street cleaning	46.2	1.41	3.1
Building cleaning	94.4	14.2	15.0
Catering	297.0	0.5	0.2
Vehicle maintenance	127.1	6.62	5.2
Grounds maintenance	278.2	8.2	2.9
Other cleaning	64.6	0.9	1.4
Total	1318.4	74.4	5.6

Source: *Local Government Chronicle* Supplement 06.07.90, as summarised in Walsh (1991) Table 13.1 p123.

Milne and McGee (1992), analysing catering and domestic services in the NHS and using data for 1984-85 and 1985-86 financial years, suggest that the results of DMT (1987) and the NAO (1987) have been misinterpreted and the savings understated. For instance, in the case of domestic services, Milne and McGee calculate cost savings of 48% for 1985-86. This contrasts with the 27% of DMT (1987) in the case of contracts won by a private contractor and 18% when awarded in-house - though the sample size was 200 hospitals compared with DMT's 1,457 - and with the NAO's estimate of 24%. In the case of catering, Milne and McGee's estimated saving of 14% contrasts with the NAO's 10%, and, 'it was principally labour costs which adjusted in the face of CCT' (Milne and McGee, 1992, p101). With regard to 'management costs', expressed as a proportion of the total original cost spread over three years, the life of most first round contracts (the period from 1983-86), they estimate these as 4.1% for domestic and 0.7% for catering. These estimates are actually based on local authority CCT for 'building cleaning' and 'school and welfare catering', as these are 'the closest counterparts to hospital domestic and catering contracts' (p102). Including these figures in the analysis, however, makes no material difference, 'we still find non-trivial cost savings from CCT for both services' (p102). They question the wisdom, however, of imposing competition and adopting a 'blanket approach' (p106) irrespective of geographical differences in private sector interest in particular services.

Szymanski and Wilkins (1992) have analysed the results of the application of CCT to refuse collection for the period 1981-88, basing their conclusions on data relating to the five-year period 1984-88:

Our estimates of the saving in cost per unit for contracted out services are very similar to those of DMT; on average contracted out services were 20% cheaper than the equivalent service provided by the local authority. This implies that if all refuse collection services had been privately contracted over the period 1984-88 this would have reduced costs in England and Wales by over £100m per year. Although one might be cautious about the estimates [they] are striking and robust.....The striking feature of [the findings] is that competitive tendering appeared to have no effect on the cost per employee, implying that there were not significant wage cuts. On the other hand there were significant reductions in the number of employees per unit for contracting out authorities. Thus in these cases a smaller number of people were able to carry out the same job. This means either they were working harder and longer hours, or that they were better organised. Whilst it is probably impossible to determine the extent to which either or both of these stories were true, the fact is that the gains did not appear through direct pay cuts.

Szymanski and Wilkins (1992, pp107-108).

They also state that 'the administrative costs of local authorities post-CCT.....could reasonably be as much as 10%' (p110), but this still leaves overall savings of 10% on average.

It is difficult to see why Szymanski and Wilkins should conclude that it is 'probably impossible' to determine whether employees were working harder or longer, or whether they were better organised. However, it is also unclear as to whether employees were paid a weekly wage or hourly. Assuming it was the former, then clearly they would have experienced a 'direct pay cut', calculated on an hourly basis, if they were working more hours for the same weekly wage. This point is one they actually concede in another report on their research in which they state (Szymanski and Wilkins, 1993, p128), 'it may be that the productivity increases involved a fall in the effective hourly wage rate.' They also note (p128) that although savings from contracting initially appear to rise, there is evidence that the trend is reversed after four years. 'Since this is about the time that most of the initial contracts were renegotiated, we believe this is evidence that underbidding - deliberate or accidental - was taking place.' However, they conclude (1992, p112):

....the introduction of competitive tendering has shown that competition is feasible in areas which had been considered (at least in the UK) the exclusive domain of the public sector prior to the 1980s.

The savings identified (an average of 20%) are in fact lower than those which Szymanski had separately calculated, 27%, and which were reported separately (see *Financial Times* 9 July 1993) but which do not take into account the cost of monitoring contracts which he suggests is around 3 or 4%, but again he attributes the cost reduction to improved efficiency rather than lower wages.

Chaundy and Uttley (1993), focusing on refuse collection conducted a postal survey of 403 authorities in England and Wales, to which 37 (9.2%) responded. Of the respondents, 46% (14) provided comparable pre- and post-tendering data (for the remaining authorities, cost data were not available or were not comparable, because of changes in collection methods or service standards). Deducting annual post-tendering contract values from the cost of the service in the year prior to tendering suggested average gross savings of 22% from CCT in nominal terms, indicating real savings of 29.5% after allowing for inflation. However, the range in post-tendering costs is considerable, varying from minus 44.9% to plus 0.3%. They highlight that the

calculations are based on tender values rather than actual service costs, and quote Walsh (1991, p125):

....outturn cost for performing the service, whether by DSO or contractor, may be very different from the estimated cost, based on tender price, because of variations and other unforeseen circumstances.

Average costs of organising and administering CCT were calculated to be 4.6% of winning tender values and 3.6% of the previous year's service costs, giving net financial savings of 18.4% (*ie* 22% less 3.6%). 'Consequently, administrative costs of implementing CCT do not outweigh savings from competition' (Chaundy and Uttley, 1993, p34). With regard to monitoring, these averaged 5.8% of the annual cost of refuse collection budgets in the year prior to competition but were actually reduced to 4.3% of average contract values in the year after CCT. 'Furthermore, no evidence emerged to suggest higher monitoring costs where contracts were operated by private companies' (p35).

CIPFA, NI (1996), in a survey on the impact of CCT conducted with the Chief Executives' Forum, considered 27 case studies of CCT and market testing in Great Britain. The findings reveal that in most cases savings are greater than costs over the life of the contract and, in the majority, the quality of the services also improved. Competition, or even the threat of competition, acted as a stimulus to management and staff to reduce costs and improve quality, but shows that competitive tendering is often preceded by reorganisation and staff reductions, making it difficult to separate cost savings brought about by CCT and those made during the preparations for tendering. Savings ranged from 5% to 50%, the largest being made by central government bodies in market testing exercises.

The DoE (1997), on the basis of 'a representative sample of 38 authorities' (p3), reported savings in blue collar services as a result of CCT, of 9% on average in the second round and 6.5% in the first round, though, in a third of contracts, no savings were recorded. Average annual client side costs were reported to be below 5% of contract value.

However, the Audit Commission (1993) has calculated much lower savings than some of those given above, identifying savings between 6.5% and 7%, covering the whole range of contracted-out services and which include the cost of monitoring

contracts. A report commissioned by Manchester City Council (see Enforced Tendering Team, 1989) identified significant administrative costs associated with CCT which practically halved the savings resulting from the exercise. Costs of £45m were incurred putting 448 contracts out to tender in fifteen months up to November 1989. These costs reduced the gross savings from £94m to £49m; the total value of the contracts was £750m. The tendency for tendering processes to lead to high transaction costs was also identified, though not quantified, by Abbott *et al* (1996). The report commissioned by Manchester City Council also concluded that the savings had been achieved through wage cuts and poorer standards of service. This is reinforced in a report by the Local Government Information Unit (LGIU) (1994) which concludes that savings, insofar as they have occurred, have been achieved through poorer conditions of employment and at the expense of service quality. The LGIU also maintain that CCT and the 'contract culture' it creates is democratically harmful as it distances councillors from the services being provided and reduces accountability.

Other economists have expressed reservations about the impact of CCT. Ganley and Grahl (1988) challenge the conclusions of DMT (1986) by suggesting the cost reductions have been overestimated, important losses ignored, loss leading may have taken place, contractors' bids may have been distorted downwards in the short run through inheriting DLO facilities at a cost that permits a price below long-run equilibrium and that there is evidence of deterioration in working conditions and reductions in service quality. They also query the 'source' of the cost reductions *eg* losers among the workforce, loss-leading and reductions in the level of service, and further query the conclusions of Cubbin, Domberger and Meadowcroft (1987) concerning the net societal gain. They state (p84), '...pecuniary savings arising from improvements in microeconomic efficiency have to be weighed against the possibility of losses arising from a poorer quality service and worsened employment conditions.' Although this is only a net loss if a poorer quality service is provided at the same cost as before, they also point out that the phrase 'To the extent that the resources thereby released are allocated to the supply of goods and services...' is a 'major concession that large-scale unemployment and labour market disequilibrium compromise the potential benefits of cost-cutting operations.' In a reply, however, DMT (1988) reiterate the validity of their findings and, drawing a comparison

with the deregulation of airline services in the United State, state their belief that tendering has led to more efficient production methods.

The view of Hartley (1987) may still be valid in that savings are often the result of lower employment, reduced pay and fringe benefits and greater use of part-time staff, though he acknowledges the contribution of better organisation and more modern equipment. It must also be pointed out that lower employment may mean increased productivity assuming there has been no reduction in output.

Walsh (1991), taking into account the point made above that only 24 out of 40 authorities were able to supply meaningful information, identifies lower costs, on average 5.7% annually but with considerable variations ranging from an increase in estimated cost of 25.9% to a decrease of 48.9%. Refining the data to take account of such factors as redundancy payments, income from sale of equipment *etc* the average result was a saving of 7.0%, with a range of +14.6 to -49.7%. He concludes that:

The clearest result to emerge....in line with the findings of other studies, is that the major savings are to be made in building cleaning. Our findings would suggest, also, that street cleaning costs have risen because of increasing standards, and that few savings have been made in schools and welfare catering as a result of competition because of the efficiency improvements made in the 1980s. Some officers suggested to us that vehicle maintenance had experienced significant efficiency improvements, particularly following Audit Commission studies in the 1980s, and that there were less savings now to make. The figures for other services suggest savings on average of between 0 and 10 per cent on annual service costs. The most common result is a saving of between 0 and 20 per cent.

Walsh (1991, p128).

With regard to the sources of savings, the most commonly quoted reason was changed productivity. In relation to the sources of the productivity gains, Walsh states:

The major changes for staff have been in reductions in manual staff levels, reported for 57 per cent of the cases where contracts had been let. Reductions in staffing levels were particularly significant in refuse collection (16.9 per cent), street cleaning (25.7 per cent) and building cleaning (18.5 per cent). National minimum pay and conditions had been adhered to in all the panel authorities. Productivity had been increased in many cases by a combination of changed work methods and increased mechanisation.

Walsh (1991, p6).

However, Walsh does not reach any firm conclusions on the merits of CCT, though he does say that competition has led, *inter alia*, to major changes in the monitoring of services and a more entrepreneurial and cost conscious approach among DSO managers.

In a follow up study, Walsh and Davis (1993), report that the average overall reduction in service costs was 6.5%.

Painter (1991) obtained information from 362 of the 514 authorities in Britain, of which 63 were exempt from CCT under the *de minimis* rule, leaving 299 councils in the survey. These councils put 438 services up for tender. Painter makes the point (p197) that this is not the same as the number of contracts as two or more services, for instance, may be combined into one contract or, conversely, one service may be divided into a number of contracts, but later makes reference to 438 tenders (p197). However, of the 438 services, 74.4% were won by DSOs, 21.5% by private contractors (this category includes MBO - management buy-out) and 4.1% by a mixture, as the services had been divided into a number of contracts. With regard to the terms and conditions of the contracts, information, 'is much less comprehensive and the data....should be treated with caution' (p197) but he proceeds to conclude (p208) that:

In some cases, budget reductions may have been enabled by genuine improvements in work organisation or cuts in unnecessary overheads. All too often, however, it is clear that they have meant cuts in jobs, hours worked or pay and conditions. When this happens, it is often women workers who bear the brunt.

The findings of Painter were strengthened by a report of the Equal Opportunities Commission (EOC) (1995). The research involved 39 local authorities and considered four services, *ie* building cleaning, education catering, refuse collection, sports and leisure management, and two areas of community care, *ie* residential and home care services. The findings revealed that CCT had led to widening inequality and job losses, with a disproportionate impact on women, who accounted for 96% of the net job loss. The report also states that for every £1m 'saved' the cost to the Government, that is, the taxpayer, is £2m. For the four local authority services analysed, job losses were calculated at 12, 587, equivalent to 74,010 nationally. Savings to the local authorities were put at £16.4m but these were outweighed by costs of £41.2m, a net cost of £24.9m, equivalent to a net national cost of £126m. Applying these costs since the start of CCT, August 1989, gives a net cost over the six years to August 1995, for four services only, of £755m (based on 1993-94 prices). The analysis of public costs was, it was claimed, based on 'conservative estimates'.

These findings were reinforced by a later report (EOC, 1996) which focused on Northern Ireland. The investigation was based on an analysis of 20 out of a total of 86

contracts in the ancillary services of catering, domestic service, linen and grounds maintenance in Health and Education Boards. Interviews were also held with management in Boards, Trusts and private companies and with trade union members and officials:

The investigation found that competitive tendering has had an adverse impact on female employment, and cited two key factors. First, most services selected for tendering were female dominated. Secondly, there was a gender differential in the reduction of employment, hours of work and wages brought about by the process. Competitive tendering resulted in a higher rate of job loss, a greater reduction in working hours and a larger decrease in wages for women than for men.

Centre for Public Services (1996, p1).

The report recommended a suspension of CCT in Northern Ireland pending a review of policy in the light of the findings.

Conclusion

- CCT has resulted in cost savings, net of the costs of the process and post-tendering monitoring, though these vary widely (and may be offset by the wider economic costs to the taxpayer)
- The savings have been generated from improvements in efficiency, varying across services, but there is evidence that, mainly, they are associated with reduced staff levels and worsened conditions of service, particularly for female employees.

Question 3: Where private and public sector concerns operate under similar relationships of either competition or monopoly supply, is private operation more efficient *per se* than public?

In the context of CCT, the view of Poole (1983, as quoted in Carnaghan & Bracewell-Milnes, 1993, p48) is valid today fifteen years on:

In empirical studies comparing the costs of public services, the most important factor generally is *not* whether the providers are public or private but whether the service is provided under competitive or monopolistic conditions. [Emphasis in original].

Domberger, Meadowcroft and Thompson (1986, pp79-80) likewise state that 'It is the introduction of competition, rather than awarding contracts to private firms, which is the

critical factor in lowering costs....' This point was made by Parker (1990) in his review of international evidence and also confirmed in the studies of the Audit Commission (1984, 1987). Similarly, Chaundy and Uttley (1993, pp36-37) conclude that their results:

.....if verified by a larger sample group, appear to support the observation that competition rather than ownership is the primary variable affecting economic performance. *First, the evidence suggests that the tendering process is the primary factor accounting for post-tendering cost reductions. Second, the data do not confirm that under competitive conditions, private provision is inherently cheaper than former in-house organisations.*

Shaw, Fenwick and Foreman (1994, p207) also provide 'Evidence, perhaps, of competition - or contestability (Uttley and Hooper, 1993, p42) - being the key catalyst of change rather than contracting-out.' Domberger, Hall and Li (1995) also emphasise the significance of competition rather than ownership.

Conclusion

- Competition is more important than ownership

4.2.2 CCT and allocative efficiency

Question 4: Does the evidence suggest that the service quality has been adversely affected as a result of CCT and contracting?

The impact on services will depend on two factors:

Firstly.....the content of the specification. This is largely determined by officers and members of the councils. In some circumstances councils may choose to use the specification mechanism to raise the level of service above what was provided in the past. In others, the specification may be used to simply maintain, or even to reduce the quantity and/or quality of council services. The second factor is the extent to which the specification is followed. This in turn depends on the capacity and willingness of the contractor or DSO to implement the specification, and (crucially) on the diligence with which the specification is monitored by the client department.

Painter (1991, p206).

A development of the above point is that a theoretical benefit of CCT concerns the service improvement which should result from a greater responsiveness to customer needs, in terms of both level and quality of service. For this to be realised, however, local authorities should not simply decide upon a specification and invite tenders; rather, they should encourage alternative specifications (this point is not explicitly made by Painter). Hartley and Huby (1985) stress the importance of this flexibility, not least as a means of helping to secure allocative efficiency. It is also important in that the level of 'cost

savings might be further affected if competition was extended to embrace different levels and quality of service' (p25) (see also PFF, 1989). CCT has forced authorities critically to consider these matters. Kerley and Wynn (1991, p50), on the basis of initial experiences in Scotland, state that:

The exercise of writing a client specification, normally for the first time, has proved most valuable in concentrating minds on authority objectives in service delivery. Writing the client specification under CCT has forced authorities to examine critically, and freed from internal sectional interests, what precisely they wish to deliver by way of services.

They go on to say (p50):

A.....major area where CCT has had some beneficial effects....is that of management systems.....CCT forces authorities to be concerned with customer feedback, best practice of alternative suppliers and productivity rather than just basic cost.

Chaundy and Uttley (1993) reported that, out of 36 authorities, 20 council officers estimated that refuse collection service quality had improved, 12 that pre-tendering service levels had been maintained and 4 indicated that it had declined. CIPFA NI (1996), in its research based on 27 case studies, concluded that in most instances the standard of service had been maintained or even enhanced. However, the Audit Commission (1993), in a survey of 150 schools revealed significant dissatisfaction with the provision of services such as cleaning. In answer to the question, 'how well do you feel the present contract meets your needs' nearly a third of respondents answered 'badly' or 'not very well'. Note, however, the question refers to the contract, as opposed to the performance of the contractor - the contractor may have been absolutely complying with the contract - a point not made by the Audit Commission in the context of its own research but it does make the point, in the same report, in its summary of a survey undertaken by LGMB (1992) on the impact of Local Management of Schools which reported headteachers' views on the quality of site management services. Though it does not report the degree of satisfaction/dissatisfaction pre-CCT, it reveals that over a quarter judged services to be 'poor' or 'very poor' post-CCT. The LGIU (1994, p18) believes that:

Where budgets are tight and monetary considerations uppermost in the evaluation of tenders, there is inevitably a conflict between cost and quality. Where work has been privatised, contractors will always look for ways to maximise profits and cut corners. Work is often performed by less skilled and inexperienced staff. CCT encourages minimum quality standards rather than quality improvements.

A report of the PSPRU (1992) is cited as evidence which showed that, in an analysis of over 5000 local government and health service contracts, 10% of those awarded to the

private sector had been terminated and 23% of contracts awarded to private contractors have 'suffered problems' (p18).

Greenwood and Wilson (1994) state that by mid-1993 83 contracts had been terminated for reasons other than Section 14 notices and related mainly to building cleaning and ground maintenance. Of the 83, 29 were held by DSOs (19 in building cleaning); 21 of the terminations were due to company receiverships; others were terminated because of poor performance:

The withholding of payments, usually for poor standards of service delivery, had, by mid-1993 occurred in 6% of DSO contracts and 8% of private sector contracts. Winning the contract, it seems, is only part of the problem; efficient provision of services is often more problematic.

Greenwood and Wilson (1994, p414).

Despite this, there is evidence of an increased emphasis on quality. The LGMB (1995a, p78) survey reveals that, up to April 1995, 17% of authorities in England and Wales (54 in number) either had a contractual requirement that the contractor should achieve certification under BS EN ISO 9000 (the international quality standard) or now require the contractor to operate a Quality Management System and would prefer BS EN ISO 9000. 20% of authorities operate, or require contractors to have, a Quality Management System and would accept systems other than BS EN ISO 9000, though it must be noted that such standards/systems are concerned with processes rather than outputs.

Davidson and Bailey (1996) undertook research into quality assurance in relation to blue collar services, sport and leisure management and housing management. The survey involved a detailed questionnaire and a 57% response rate was obtained. They conclude (p26) that, though CCT has clearly improved economy and efficiency:

It is still open to doubt, however, that CCT has improved effectiveness. It certainly seems to be the case.....that quality is better managed as a process but that does not necessarily mean that it has improved because quality has not been comprehensively addressed neither in conceptual terms nor in its implementation. [Emphasis in original].

However, with regard to customer awareness, very much part of the new public management (see Chapter Six), Shaw, Fenwick and Foreman (1994) reveal that, although in 25% of the 23 authorities in their sample, the 'customer approach had been slow to develop', there was, in the half the councils, 'evidence of a more discerning attitude being developed' (p213). In the remaining 25%, these were 'pioneering' authorities who had

developed a customer focus independently of the need to comply with CCT, very much part of the public service orientation (see Chapter Six, para 4.0).

Conclusion

- CCT has resulted in improved internal management and greater attention to levels and quality of services
- There is, however, evidence of deterioration in quality of services
- Termination of contracts is more associated with private contractors than with DSOs.

4.3 Summary of blue collar evidence

Given all the evidence, it might be expected that definite conclusions can be drawn in respect of the four questions asked. This is not, however, the case, as the evidence is, to some extent, conflicting. Boyne (1998), for instance, concludes that:

....the evidence on competitive tendering in UK local government is sparse and methodologically flawed. The measures of expenditure and quality are poor operationalisations of the theoretical constructs, and a majority of the studies fail to control for other influences on spending and efficiency. More comprehensive and accurate evidence on the impact of competitive tendering is clearly required....For the present, however, it must be concluded that neither the initial imposition nor the likely abolition of CCT can be traced to a solid foundation of theoretical or empirical support.

Nonetheless, the broad conclusions already given and the initial questions are brought together in Box 3.6.

Box 3.6

Summary of Blue Collar Empirical Evidence

Question	Conclusion
1. Has CCT resulted in genuine competition or is there evidence of anti-competitive behaviour?	<p>1.1 CCT has resulted in real competition but there is some evidence of anti-competitive behaviour on the part of local authorities and private contractors.</p> <p>1.2 The majority of contracts have been retained in-house but there is evidence that DSO success is increasing, though again this varies across services.</p>
2. Have cost savings been achieved, taking into account transaction and monitoring costs, and, insofar as CCT has led to a reduction in service costs, is the reduction the result of a deterioration in the conditions of worker employment or greater flexibility and productivity of labour and equipment?	<p>2.1 CCT has resulted in cost savings, net of the costs of the process and post-tendering monitoring, though these vary widely (and may be offset by the wider economic costs to the taxpayer).</p> <p>2.2 The savings have been generated from improvements in efficiency, varying across services, but there is evidence that, mainly, they are associated with reduced staff levels and worsened conditions of service, particularly for female employees.</p>
3. Where private and public sector concerns operate under similar relationships of either competition or monopoly supply, is private operation more efficient per se than public?	<p>3.1 Competition is more important than ownership.</p>
4. Does the evidence suggest that the service quality has been adversely affected as a result of CCT and contracting?	<p>4.1 CCT has resulted in improved internal management and greater attention to levels and quality of services.</p> <p>4.2 There is, however, evidence of deterioration in quality of services.</p> <p>4.3 Termination of contracts is more associated with private contractors than with DSOs.</p>

5.0 *White collar CCT*

5.1 Impact of blue collar CCT on white collar services

There are greater difficulties in applying CCT to professional services than to manual services. Reasons for this include problems of definition and the measurement of quality, for instance the quality of professional advice. In addition, and linked to the issue of

definition, there is a much greater degree of interaction between purchasers and providers than was the case with manual services; these were more easily separated, often involving a physical separation and location at a depot away from the main council offices. For professional services, however, complex organisational relationships can result from ever-greater numbers of inter-related contracts:

There is not a simple distinction between clients and contractors; the client for one service is likely to be the contractor for another. The impact of contracts must, therefore, be understood in the context of their embeddedness in the organisation.

Walsh (1995b, p16).

This leads to problems of accountability, viz responsibility for contract failure may be difficult to apportion unless considerable care has been taken in formulating the contract, and letting individual contracts, eg the volume of work a contractor may receive may be dependent on the outcome of other contracts (eg poor levels of debt collection by, say, the finance contractor, may lead to more debt recovery work for the legal contractor; degree of success of in-house bids is likely to influence the workload to be specified in a personnel contract *etc*).

Despite the differences between manual and professional services, certain observations can be made from the blue-collar experience, which:

.....led to radical reviews of the way that services are provided, with consequent increases in efficiency and productivity. The changes have resulted, to some extent, simply from working people harder, but there have also been genuine changes in working patterns, for example different hours of work in summer and winter. There are also likely to be radical changes in the way that staff are managed. The same can be expected to result from white collar CCT. Research on the impact of competition in local government has shown that external providers are seen as managing staff in a quite different way from the local authority, with far more emphasis on achievement, and differential reward according to performance. Even without externalisation we should expect significant change.....the experience of CCT for manual services has shown that internal markets and trading can have at least as much effect as tendering.

Walsh (1995b, p15).

The Audit Commission's evaluation of local authorities' response to blue-collar CCT was generally positive about the way authorities had adjusted to the need for a client-contractor split, even though no contract culture previously existed in the majority of cases. Insofar as certain authorities were less successful, the reasons were:

- poorly-defined and, in some cases, over-defined specifications
- unenforceable contract conditions

- inadequate tender evaluation procedures
- inefficient contract monitoring
- bureaucratic contract administration.

According to the Audit Commission (1993, p1), 'Many of these shortcomings stem from one single cause - the failure adequately to involve the consumers of the service in the contract process.'

There are, therefore, certain lessons that can be learned from the experience of CCT for manual services and certain outcomes which may be expected to arise from the process of CCT for professional services. However, the fact that manual CCT preceded professional CCT has meant that changes have already occurred to the professional service environment. CCT for manual services, combined with other externally-driven changes (see Chapter Six), has meant that its application to white collar services is not a revolutionary policy being applied to a traditional local government structure, one which is perhaps bureaucratic, departmental, hierarchical and with unaccountable support services. On the contrary, there have already been fundamental changes to the way in which central services are provided, changes that reflect the new contractual environment within which local authorities operate.

5.2 Central services: the changed environment

Walsh (1995b) identifies three reasons for the changes to the way in which central services are provided, *ie* the impact of:

- competition for manual services on the operation of support services
- managerial change in local government
- market-oriented thinking and approaches.

The need for manual services to be competitive and to achieve required rates of return led directly to greater transparency of support service costs and, in some cases, to DSOs providing their own support services. As Walsh (1991, p90) stated four years earlier:

The impact of competition on central support services was that they themselves had to behave as if they were up for competition, and therefore had to market themselves to their internal customers and prove their value.

In turn, this led to managerial change in local government, not least in the internal management of support services as they had to become more accountable for what they

did and to justify the allocation of their costs to DSOs. This development led to much greater use of time recording systems and trading accounts and the emergence of Service Level Agreements (SLAs), *ie* a business contract agreed between the provider of a central support service and the user/client aimed at specifying the service requirements of the client, the services to be provided to meet those requirements and the basis of the charge for the provision of those services. SLAs are extremely significant given the 'macro' scale of central support service (CSS) activity. The Audit Commission (1994) states that over 50,000 staff are employed in local authorities in England and Wales to provide support functions and an additional 30,000 'central' support services staff have been decentralised to front line service departments; the total cost of CSS is in excess of £2bn (of which, approximately 50% is attributable to financial services), including overheads such as IT equipment, which represented nearly 4% of the gross revenue budget of English and Welsh local authorities.

The above developments were occurring within the context of radical managerial changes driven by the decentralisation of operational services and, to an ever-greater extent, decentralisation of support services, given particular impetus by the introduction of Local Management of Schools:

In the past, central committees and their associated departments controlled the detail of resource deployment. No post could be created, job description changed or staff upgraded without the approval of the personnel committee. Similarly, no budget could be changed without the approval of finance; all IT budgets were centralised and front-line services queued as supplicants for a share of the central pot. Such centralism has been undermined by the devolution of service provision - notably, local management of schools (LMS); by the creation of 'internal markets' for the provision of support services; and by the impact of CCT for 'blue-collar' services. It will now be further challenged by the Government's requirement to identify support costs explicitly by white-collar CCT and then by the extension of CCT to housing management.

Audit Commission (1995c, p3).

Within the context of decentralisation, devolution of budgets (Elliston, 1993, as Executive Director of Central Services in Brent. describes Brent's experience in devolving budgets), the need to justify charges to service departments and to respond to their requirements, the shift in emphasis from control of inputs to the delivery of service outputs and the reorganisation of internal structures often involving the creation of service teams and internal business units (Wells, 1993, then Head of Financial Services, Kent CC, describes the transformation of Kent's Finance Department into a Financial Services Business Unit), it can be said that a revolution in central support services (Audit

Commission, 1994) has occurred and it is one which has compelled local authorities to consider issues which are also central to the wider issue of CCT. One such issue is that of the creation of a client-contractor (or purchaser-provider) split:

A clear client-contractor split supposedly clarifies roles and facilitates operational effectiveness. Contracting units deal with client-side functions, namely contract preparation, tendering processes, tender evaluation and contract management. Contractors' roles are concerned with tendering and fulfilling contractual work commitments.

Bailey (1995, p377).

Such a split, particularly in the case of professional services, has its critics. Walsh (1991, pp83-84) reported feedback received which identified cost, organisational complexity, inexperience on the client side and antagonism between client and contractors as disadvantages of a client and contractor split (though they need not be regarded as intrinsic). Although, on balance, the need for such a split was accepted in relation to blue collar services, the disadvantages of such a split as identified by Walsh have been found elsewhere, including Rao and Young (1995). Other criticisms have been voiced by Werry, Chairman of the CIPFA-sponsored Joint Competition Committee. He states (1993, p12) that local government administration will become:

.....an endless continuum of contractual relationships. We will soon have building maintenance DSOs which employ operational accounting, which employs IT, which employs internal audit, which rents offices, which need building maintenance DSOs, and so on ad infinitum.

Similarly, Stewart (1993, p10) states:

.....a public organisation...is responsible for the activities of both client and contractor. The organisational separation appears to deny that overall responsibility, breaking the organization into its constituent parts. Clearly, the separation has its strengths, but it also has its weaknesses, preventing the organisation from realizing its full potential. It limits relationships in the same organisation, even where organizational effectiveness could be enhanced by close working relationships. Organizational learning can be restricted, because learning belongs to the contractor or the client and may not be shared; yet organizational learning is at the heart of government as it responds to the needs of a changing society.

Stewart's view is valid - though the lack of responsiveness of local authorities, as conventionally structured, to the needs of a changing society was a key criticism made by the New Right (see Chapter Two) - and lead him to raise the issue of accountability (also raised by the DoE, 1992), and asks whether a governing body can retain overall responsibility and accountability for the full range of activities carried out in its name. Despite the implications for accountability, the split between client and contractor is one that is meant to be made, though, according to the Audit Commission (1994, pp38-39),

only a small proportion of authorities have done so for professional services (for examples of those that have established splits in respect of financial services, see Taylor and Gale-Sides, 1992, respectively Strategic Services Manager and Assistant City Treasurer, Bath District Council; Spink & Forbes 1993, respectively County Treasurer and Financial Control Manager, Lincolnshire CC).

Finally, the third reason for change, as identified by Walsh (1995b), is the impact of market-oriented thinking. This can be seen in the number of ways authorities have sought to externalize central services, including voluntary competitive tendering (VCT), management buy-outs (Paddon, 1991), partnerships with private sector companies (with a view to securing collaborative advantage rather than experiencing an adversarial relationship which some see as inherent in competition, eg Martin, Gaster and Taylor, 1995) and facilities management agreements, particularly in the case of information technology. Pre-empting the former Government's proposals by adopting a policy of externalisation (see *Public Finance* 3 June 1994 pp43-46), helps to counteract the internal procurement bias identified by Williamson (1975). However, the numbers are small. In a survey of all authorities in England and Wales conducted by the Audit Commission (1994, pp14-15), to which 76% responded, 16% of respondents had let contracts with external suppliers in excess of an annual value of £50,000 since April 1991. The total value of white collar contracts entered into voluntarily was in the region of £100m per year, of which 43% related to financial services, mainly internal audit. The average value of the contracts was around £850,000 per year.

Other authorities have continued with internal provision but only after informally 'market testing' their internal prices in comparison with external providers:

These comparisons...have been carried out by both providers and users of support services - providers to assess the scale of competition and users to obtain a stronger bargaining position.

Audit Commission (1994, p14).

To varying degrees, therefore, authorities have been preparing for white-collar CCT and, according to Alexander and Orr (1995), there was increasing evidence that VCT was expanding and that financial rather than political considerations were determining how services were sourced. For instance, Labour-controlled authorities such as Southampton and Brighton have pursued VCT for white-collar services.

This trend was also confirmed by research undertaken by the accountancy firm KPMG for the DoE (DoE, 1996b, p18; see also DoE, 1996d). A questionnaire was sent to all local authorities in England, to which two-thirds responded, to collect factual data on preparations for the introduction of CCT to professional services and on the extent to which these services had, voluntarily, been exposed to the market. See Box 3.7.

Box 3.7

Local Authority White Collar Services and Exposure to The Market - Key Findings

- The extent of exposure of services to market forces varies with service area and authority type. Activity was most common amongst London boroughs.
- Forces behind the exposure of services include the scope for improved service delivery; the opportunity to secure additional investment for services; and safeguarding staff interests.
- Different methods have been used to expose services. Approaches range from voluntary competitive tendering ahead of CCT deadlines, to benchmarking in-house provision against external suppliers and monitoring in-house competitiveness.
- Procedures have been characterised by cooperative dialogue between the authority and suppliers, and formal competitive procedures supplemented by some form of negotiation.
- The maturity of the market varies for each service. Information Systems/Information Technology, finance, construction and property services represent the most mature markets. External providers tend to be large national and international firms. Firms involved in providing legal and personnel services are smaller and more specialised. The market for housing management is developing and includes housing associations as well as private sector providers.

Source: DoE (1996b, p18).

However, despite the developments to date and the validity of the reasons for change identified by Walsh (1995b), the degree of change, organisationally and attitudinally, needs to be considered.

5.3 Central services: empirical evidence

Fenwick, Shaw & Foreman (1993) conducted a total of 130 interviews with officers, members and trade union representatives between November 1991 and April 1992 in a sample of 23 authorities in the North of England, of which 15 were Labour controlled. They identified 5 responses to the introduction of CCT: hostility; fear; pragmatism; neutrality; enthusiasm. Almost three-quarters of responses were located between the

'pragmatic' and 'neutrality' categories, which *prima facie* was surprising given that CCT has produced strong opposition from Labour and strong support from Conservatives and, in a later article based on the same research, they say (1994, p204):

Hence, a more extreme set of reactions could have been expected. That this tended not to occur within the sample can be partly explained with reference to four factors. First, the moderate nature of many of the ruling Labour groups in the sample. It is important to note here the relative absence of a 'New Urban Left' [Note: see Chapter Six, para 4.0] in much of the region..... Secondly, the existence of a 'depoliticised' style of politics in rural councils where Conservatives and Independents dominated. Thirdly, in many authorities the response to CCT was framed by the senior officers leading to a more 'bureaucratic' response. Fourthly, since around a third of the councils had already begun to push through changes (both in management structures and in the delivery of services), CCT was viewed as much as an opportunity as a threat.

Fenwick, Shaw and Foreman (1993, pxxv) stated that:

The movement of new attitudes into local authorities has increased in momentum partly as a result of CCT, but in many councils the development remained uneven; DSOs often remaining as 'islands of commercialism' within a 'sea' of traditional local government values. In some authorities there were signs of a more general espousal of a commercial ethos. However, such cultural change was both supported and rejected: evidence that CCT's introduction will always be problematic, impinging as it does on vested interests and on deeply-held views on the nature of local government and the function of local services.

Shaw, Fenwick & Foreman (1994) state that the introduction of CCT had led to close examination of the role of central services, and two particular issues were identified. First, it was observed that 'some officers (including several chief executives) argued that the centre had not yet come to terms with the fact that the authority no longer revolved around them' (p209). DSO managers in particular believed themselves to be competitive and efficient in contrast to central services which had continued to grow and, because of this, several welcomed the extension of CCT; others, however, were more sceptical given that only a percentage was to be subject to competition. Second, the largest source of criticism (again, from DSO managers) 'was aimed at the cost, level and timing of central service charges':

Many found it hard to accept that while they were forced to work in an increasingly competitive environment, they were unable to influence the activities of the centre, which they accused of: overcharging for certain services due, for example, to the centre's inability to cost adequately their services; charging the DSO for services they did not use or need; providing a poor quality service and confronting them with a final level of charge that was revised or decided at the end of the financial year.

Shaw, Fenwick & Foreman (1994, p209).

This criticism was also a feature of the findings of Walsh (1991, p87):

The major change in the way that central services are dealt with as a result of competition is in the way that central establishment charges are allocated to and recovered from DSOs. This has

been an area of controversy in the way that competition is managed in the majority of authorities. DSO managers are likely to feel that marginal costs are likely to make the difference between success and failure in tenders. The major complaint of DSO managers has tended to be that they are required to pay for central services with little control over what they receive or the cost.....The problem is not only that the DSO is not able to control the costs of central services, but that they are normally added into the accounts at year end. The DSO manager, in order to be able to price accurately, and control total DSO costs, needs to know central costs at the beginning of the year and, indeed, at the beginning of the contract.

In response to such criticisms, Shaw, Fenwick & Foreman (1994) reported that some central service officers felt that often DSO managers did not know what services they wanted, did not appreciate the costs of service provision or the extent of the service provided and did not fully appreciate the responsibility of central services to promote the corporate interests of the authority. In addition, they felt that DSO managers were reluctant to admit they were happy with at least some aspects of the support services because this might weaken their 'bargaining' position.

Shaw, Fenwick & Foreman (1994) go on to say that, despite these 'differing strands of opinion on the role of central services important changes were being introduced' (p210). In a third of the sample authorities there was a move to a more precise system of central service charges, with charges based on actual usage. In principle, there are two main approaches, *ie* time charging and service level agreements. 'The purpose is that support service charges become a controllable element within the budget of the DSO' (Walsh, 1991, p89). In the work of Shaw, Fenwick & Foreman, it was reported that in a third of authorities SLAs had been or were about to be introduced. However, it can also be said, therefore, that in two-thirds of sample authorities in April 1992, four years after the 1988 Local Government Act and one year after the publication of the white papers indicating an intention to extend CCT to white collar services, accurate recharges for support services or SLAs had not been introduced (for more recent figures, see LGMB, 1997a, below).

However, progress would appear to have been made in relation to customer needs. For instance, Fenwick, Shaw & Foreman (1993, p xv) state:

There was considerable evidence of CCT persuading councils to focus more on the needs of their 'customers'. Once again, however, there was (*sic*) differing interpretations of the exact approach to be followed: some officers and members preferring the notion of 'citizen' to that of 'customer'. In a group of larger councils the development of such an approach pre-dated CCT, and suggested a more proactive response underpinned by a commitment to a 'public service orientation'. [note: see Chapter Six].

However, the findings of Chaston (1994), University of Plymouth, found less evidence of increased customer-orientation. His study focused on 4 county councils and 22 district councils in the South West of England and involved a questionnaire mailed to 208 named individuals at chief or assistant chief officer level responsible for an aspect of central services provision in their organisations. He also, for comparative purposes, sent the questionnaire to 108 named individuals in manufacturing companies. He found that local authorities place much lower emphasis on the philosophy of being customer-orientated organisations and that private sector organisations use a much wider range of techniques to acquire information on the needs of their customers.

Rao and Young (1995), in a study of 10 local authorities (6 English, 2 Welsh and 2 Scottish), found that competition was changing attitudes and assumptions as to how authorities operate, with a third claiming that 'CCT has facilitated a whole culture change' (p42). They say (p39) that 'Competitive tendering looks set to breed a new style of public sector manager' and go on to say (p45) that:

At least in those authorities visited, the new disciplines which CCT imposed are valued.....The spread of the influence of these disciplines throughout the local authority organisation appears to have pushed beyond the threshold at which change could be reversed.....it would be fanciful to suppose that any kind of reversion to the pre-CCT era is possible.

They report that in a majority of authorities visited, initial resistance to compulsory competition had been replaced by a more positive approach. However, some of the Labour councils persisted in adopting an approach described as 'reluctant compliance' (p9). 'Political outlook.....had a marked effect on authorities' initial responses to competition' (p10). They also noted tensions on the client side and actual and potential problems in the strategic management of the authorities and state (p43):

There were....indications that regrouping the authority around a set of trading units exposed the lacunae in the overall strategic management of authorities.....In one authority it was recognised that while certain aspects of central service provision would be carried out externally, such as payroll, accountancy, legal and personnel advice, and personnel records, the authority should seek to retain a significant proportion of the central support services 'to enable the client and regulatory services to carry out its statutory, strategic and democratic functions'.....a major local authority has to face wider issues than the effective management of competition, even where - perhaps especially where - it is more concerned with strategies for service delivery than the retention of the in-house functions. In the past chief officers directed service-providing departments and gave strategic advice to members. The pressure of CCT is to develop capacities which are perhaps at odds with these traditional roles. But members in particular may feel dissatisfied with the quality of advice tendered by heads of client functions as too narrow in scope. The skills and requirements of contract management and strategic oversight are quite different. Accordingly, some authorities are beginning to ask whether it is wise to have these two distinct functions in the same place. It appears that the question of the location and form of the strategic role in the competitive local authority has yet to be fully thought through.

The need to ensure sound strategic management within a local authority, existing and perceived as a single entity, was, in principle, recognised by the former Conservative Government, as reflected in the fact that only defined proportions of professional services were to be subject to competition. However, such percentages, combined with the structural impact of blue collar CCT, perhaps undermine central strategic management. Nonetheless, local authorities need to find ways of reconciling strategic and devolved management, and political accountability, though the evidence indicates that they have not yet been successful.

Significantly, Rao and Young (1995, p45) conclude with a prediction, taking into account their own findings and available empirical evidence:

The dynamics of competition have proved powerful beyond all expectation, and we shall not see the old familiar patterns of public service management again.

This is an unequivocal prediction and reflects their belief in the permanence of change brought about by the Conservatives.

The findings of Rao and Young (1995), given above, are largely consistent with those of the Audit Commission (1994). It found confusion in 'many councils' (p1) between the support role of central departments and strategic management at the core of the authority and said the issue should be clarified:

The corporate core is composed of the elected members, assisted by a small corps of senior officers. In general terms its role is to define the objectives of the authority, to reconcile priorities, assign budgets, monitor overall performance and evaluate effectiveness. It does not derive its authority from day to day control over services, but from its overarching strategic role.

Audit Commission (1994, p1).

The report goes on to say (pp1-2):

While accepting the authority's statutory and regulatory role, the traditional *control* role of CSS [central support services] has no future. But the revolution to replace it with a *support* relationship has so far been rudimentary.....CSS users show frustration at not getting the support they need and the control that CSS providers still try to exercise. They resent paying high central overheads when budgets are constrained, forcing cuts in front line services. They also resent paying high charges to CSS providers which are not justified in relation to the service provided and where the basis of charging is often crude. The revolutionary moves to arms length service delivery and the freedom given to schools and care managers, are creating an 'internal market'. Some councils have adapted well to this changing environment; others have not, and there is increasing tension between users and providers. The development of an internal market has potential dangers. For instance, it needs to be regulated to ensure that the authority as a corporate body does not fragment.....authorities should develop a corporate framework....to govern the trading relationships between [central support services] providers and users.....Development of the framework will emphasise the distinction between the regulatory role of the corporate core and the support role of central departments.....Authorities should also develop service level

agreements (SLAs) to put user-provider relationships on a rational basis. SLAs should define the parties to the agreement, the cost of the service to be provided, the level and nature of the service to be provided and the mechanism for redress in the event of service failures. An SLA therefore acts as a 'quasi-contract' within the corporate framework. [Emphasis in original].

Though the extreme application of SLAs has its critics, see, for instance, Werry (1993) and Stewart (1993) above, their formulation forces providers to consider the needs of users and helps authorities prepare for CCT. However, commenting particularly on the lack of progress on establishing SLAs, the Audit Commission (1994, p26) says that the evidence 'forms a disturbing picture':

Many [SLAs] are poorly developed: inadequately thought out at one extreme and bureaucratic at the other. Some are simply statements of services to be provided, with no detail of costs..... Existing SLAs vary from under a page of often merely wishful thinking.....to, at the other extreme, 50 or 60 pages of over-detailed specification which may be impossible to deliver or monitor in practice.....One authority admitted to having over 300 SLAs in a single department - each section of the department had an agreement with almost every other section, creating a bureaucratic merry-go-round of nightmare proportions.

Audit Commission (1994, p24).

Doug Edmonds, speaking in his capacity as the Audit Commission's associate director of local government studies, rightly observed that 'What is an SLA today is a CCT contract tomorrow' (*Public Finance* 28 July 1995, p6).

However, in a follow-up study based on 387 local audits, the Audit Commission (1995c, p20), concluded:

The messages emerging from [the] findings suggest that many authorities and many providers of central support services have a long way to go if they are to establish satisfactory relationships between providers and users and put themselves in a position to meet the challenge of white-collar CCT.

According to the Audit Commission (1995c, p4) 'The results of the local audits suggest that many authorities have much to do before they can adequately identify their support service costs' and, despite the scale of central support activity and the imminence of CCT: only 23% of authorities were judged by their auditors to have adequate corporate arrangements in place (ranging from 57% of London boroughs to 16% for shire districts); less than a quarter of authorities have SLAs in place (22% in the case of Finance) - though it is acknowledged that this conflicts with earlier findings which showed 54% had established SLAs (ADLO, 1995), possibly because a stricter definition of a genuine SLA had been adopted by the Audit Commission; only 10% of users substantially control the service they receive. Given that Statements of Support Service Costs (SSSC) are

intended to provide the basis for the introduction of CCT, and that SLAs would already be in place had local authorities embraced the managerial changes which have taken place, it would appear that many authorities were ill-prepared for CCT. Though the Audit Commission (1994) has identified a revolution in central support services, it is 'a revolution with which no authority has yet come to terms' (p7). To some extent, this conclusion is supported by the findings of the LGMB. In a major study of change in local government, the LGMB has published three reports (1997a, 1996 and 1993a) which consider changes over time. The findings of the first two reports are based on a survey of 205 local authority chief executives who responded in both 1992 and 1994 and reveal, *inter alia*, less certainty over time in the benefits of CCT:

Their judgments are either less certain - sharp drops in the proportions believing competition to have changed the culture of the authority or to have transformed its management processes - or they are strikingly more negative, for example in their assessment of the impact upon morale, or in judging that CCT has failed to propel elected members into a longer term view.

LGMB (1996, p24).

However, the report goes on to say (p25):

The general trends revealed in these figures are by no means all in one direction.....For if chief executives are now taking a more chastened view of the impact of CCT upon the authorities they serve, they remain remarkably upbeat about the benefits in terms of their authority's approach to service delivery.

The 1997 report (based on 143 responses, out of 413 responses in total, who had previously responded in 1992 and 1994) states (LGMB, 1997a, p48):

....the responses indicate a steadily widening acceptance of competitive tendering. Perhaps the most striking finding here is the fact that seven in every ten chief executives judge that their authorities would engage pragmatically in voluntary tendering in the absence of compulsion.

Against this, views as to the impact of CCT on costs remain divided. See Boxes 3.8 and 3.9.

Box 3.8**The impact of competition on organisation processes**

	Strongly Agree/Agree		
	1992 %	1994 %	1996 %
The impact of competition has been limited to those services subject to competition	28	30	21
Competition has required the development of new staff skills	95	90	96
Competition has reduced morale	34	49	54
Competition has changed management processes across the authority	91	84	87
Competition has changed the culture of the authority	80	69	69
Competition is leading members to take a longer term view	32	21	20
Competition is encouraging cross-departmental working	52	51	55

Source: LGMB (1997a) Table 20, p29.

Box 3.9**The impact of competition on service delivery and cost structure**

	Strongly Agree/Agree		
	1992 %	1994 %	1996 %
Competition has increased concern for quality	72	73	71
Competition has increased concern for customer satisfaction	68	77	69
Competition has raised service standards	46	55	46
Competition has reduced the costs of service provision	59	57	65
Competition has reduced pay and conditions of service	53	57	60

Source: LGMB (1997a) Table 18, p28 & Table 19, p29

However, this rather more positive view of CCT is consistent with the findings of research reported by Barlow and Harkin (1996) and the DoE (1996e; see also DoE 1996f; DoE 1996g). Barlow and Harkin (1996), based on findings drawn from 34 authorities in the North West of England, state that (p20) 'There is no doubt that internal markets and the techniques that underpin them, such as SLAs, time-recording, bench-

marking are all having a significant impact throughout the organisations surveyed' and that their research overwhelmingly supports the view that competition has resulted in financial savings and improved public services (Barlow and Harkin, 1997). With regard to the DoE (1996e), a survey was commissioned and was jointly undertaken by the Society of Local Authority Chief Executives (SOLACE), Newchurch & Company and the *Local Government Chronicle* in November 1995. It sought the views of (an unspecified number) of Chief Executives on a variety of issues. With regard to CCT, it was reported that:

- 48% felt that CCT would deliver better services, whilst 45% felt that it would not
- 41% believed that the overall impact of white collar CCT on their organisations would be a positive one, while 24% believed it would be negative and 33% stated it would have a neutral impact
- Construction and Property Related Services (46%), IT (43%) and Financial Services (40%) were the white collar activities that were most likely to show savings from CCT.

However, consistent with the findings of the Audit Commission (1995a), the LGMB (1996) survey also provided evidence that authorities were not as well prepared for white collar CCT as may be expected. In response to the statement 'The authority is prepared for the extension of CCT to professional services', 55% either strongly agreed or agreed and this represented an increase from 46% in 1993. However, two years on (responses were given in 1992 and 1994) 'another two years' experience might have been expected to prepare rather more authorities to face the competitive future' (LGMB, 1996, p24).

The fact that a large proportion, 45%, of chief executives in 1994 did not believe their authorities' were prepared for white collar CCT is reinforced by their responses to questions concerning the extent to which key central services have been placed on a *quasi-commercial* basis. Although 45% stated that central services, including finance, are now provided by means of SLAs, and this was an increase over two years from 37%, this still meant that, in 1994, 55% of authorities did not have SLA-based service provision. This situation had changed somewhat by 1996 in that, in the case of financial services, 57% had SLAs (LGMB, 1997a, p32). Similarly, in answer to the question 'Central

services have been decentralised to departments, retaining only basic strategic functions at the centre', only 15% in the 1996 survey (16% in 1992 and 1994) stated that this was the case.

In short, there is evidence that authorities were taking more seriously the contract culture spreading through the sector, though not, perhaps, as seriously as they should, and this was particularly true of the finance function.

6.0 Finance Function

6.1 Definition and scale

The finance function is one of the most significant of local authority white collar services. Unlike any other local authority department, it fulfils a key role in quantifying the cost of ongoing and planned activities of all departments and is significantly involved in final resource allocation decisions. With the exception of County Councils, which have no responsibility for tax collection, finance departments have three roles: corporate services; support services; revenue services. The component parts of these services are not precisely defined and they can be grouped in different ways (see Audit Commission 1994, p3; 1995a, p3; 1995d, p1.2; CIPFA, 1995b) but, in order to facilitate subsequent questionnaire analysis, elements are grouped mainly on the basis of CIPFA (1995b). See Box 3.10. The traditional emphasis was on the corporate role, the other two roles being essentially administrative in nature. However, the devolution of financial services, the growth of DSOs and the advent of CCT have raised the profile of all aspects of financial services, particularly their cost. See Box 3.11.

Box 3.10**Finance Department Roles***Corporate*

- Corporate financial management

Central Support Services

- Budgeting and Accounting
- Audit
- Cashiers
- Sundry Income Collection
- Payroll
- Creditor Payments

Revenue Services (Front Line Services)

- Administration of Local Taxation
- Benefits Payments

Other

- Pensions Administration
- Pension Fund Management
- Treasury Management
- Insurance

Source: Based on CIPFA (1995b).

Box 3.11**Expenditure by Local Authorities in England and Wales on Financial Services 1993-94**

Financial Service	Expenditure £m	
Accountancy	420	}
Debtors and Creditors	200	} Corporate
Payroll	140	} and
Audit	100	} Support
Cashiers	100	} Services
Corporate	100	}
Other	60	}
Total	1120	
Revenue Collection	520	} Revenues
Benefits	360	}
Total	880	

Source: Audit Commission (1995a). Exhibit 2, p5.

The management of financial services has, along with the management of local authority services generally, supposedly changed from a traditional, centralised approach with little recognition of customer needs to one which emphasises decentralisation, the needs of the customer, economy and efficiency and which focuses on all three roles identified above and not simply the corporate role. Particularly important in driving this transition has been CCT and, in anticipation of which, certain authorities (see 5.2 above and 6.2 below) have voluntarily subjected certain parts of the finance function to competitive tender.

6.2 VCT

In anticipation of CCT, and in an attempt to achieve savings, a number of authorities, as stated above, have pursued a policy of VCT in respect of financial services. Well-publicised examples include East Cambridgeshire, Bromley, and South Oxfordshire. East Cambridgeshire became the first local authority to contract out its entire revenues and benefits activity (Hardy, 1992, the authority's Chief Executive explains the rationale). Bromley was the first London borough to contract out most of its exchequer department 'in the largest outsourcing contract signed for local government financial services' (Willman, 1992). South Oxfordshire was the first English County Council to contract out a large part - representing more than a third of the value of the county's finance function and which covered payroll processing, pensions administration and revenue collection - of its finance department 'in what will be seen as a landmark for the government's competitive tendering policy' (Owen and Adonis, 1993). In all cases, the authorities believed the services could be provided more efficiently by private companies.

It is difficult to determine the extent of financial services VCT. *Public Finance* (Wild, 1996d) reported one consultant's estimate that councils had let 39 finance contracts worth about £47m covering 95 services. The principal service to go out so far is revenues (£12.5m), followed by benefits (£11.3m) and payroll, business rates, accounting and pensions. In a special supplement to *Local Government Chronicle*, (CCT focus 2, 18 April 1996, p17), it was reported that 42 authorities had let 70 contracts with an overall value of £53.9m per annum.

Despite these developments, there is evidence that finance departments have not readily accepted the new, commercial environment and are ill-prepared for CCT.

6.3 Empirical evidence

The Audit Commission (1995a) has indicated that finance departments have failed to embrace the new culture, are insufficiently client-focused and are in fact uncompetitive, with only the cheapest 25% of in-house providers able to match the private sector. This should be a cause of concern to finance personnel for two reasons. First, it means they are potentially vulnerable when faced with competition.

Some officers are sceptical as to whether or not the competition will actually materialise. For instance, Bundred (1995), Director of Finance and Deputy Chief Executive, Camden LBC, states that:

A likely outcome.....is that for many authorities there will be no external bidder, while those contracts won by the private sector will be in councils which would have been willing to externalise in any event. This is the pattern already emerging for CCT in housing management. It cannot have been what the DoE intended, but is an inevitable consequence of the cumbersome CCT process that no-one else wants. Huge costs in management effort, legal and professional advice and tendering have been incurred, and authorities have been preoccupied for months with this issue to the exclusion of other priorities. But the outcome is likely to be a damp squib. What a waste.

The above view may be valid, though it is difficult to reconcile the alleged level of 'preoccupation' with the evidence of the Audit Commission, but it may also be complacent. Dimbylow (1996), for instance, reporting for the *Local Government Chronicle*, revealed that four of the biggest privatised utilities (United Utilities, London Electricity, Yorkshire Water and Southern Water) are preparing to bid for councils' white collar work and are particularly interested in finance and IT. There are also large private sector firms, including Capita, CSL and P-Sec which have expressed interest in increasing their share of the market, in some cases in joint ventures with major companies, eg Capita and Yorkshire Water (Dimbylow, 1996). LGMB (1994b) identifies the main potential private sector competitors and concludes that 'competition with the in-house service will remain stiff' (p32).

The second, and more fundamental, cause for concern over the Audit Commission's findings is that they indicate significant inefficiency compared with the private sector and a failure to change to meet the new environment. According to the Audit Commission (1995a, p6) 'Authorities need to complete the transformation from administration to management' and can do so by 'adopting a more decentralised approach, aligning financial management with operational management and giving service

departments responsibility for budgetary control' (p10). More fundamentally, however, '*managers and members should review the purpose of the accountancy function in a modern authority*' (p10) [emphasis added], involving, *inter alia*, an emphasis on core accountancy tasks and a clear distinction between core tasks and the provision of support services. See Box 3.12.

This recommendation to review the very *raison d'être* of the accountancy function reflects the fundamental changes to the public service environment within which financial services are provided. Traditional structures need to be changed and attitudes jettisoned. With regard to the former, decentralisation has been a significant feature of organisational change. The Audit Commission (1994, pp4-5), for instance, reveals that over 50% of personnel staff now work outside central departments; the equivalent figure for finance staff is 20%. However, the client-contractor split, discussed above, takes organisational change a stage further but poses particular problems, not least for finance:

Box 3.12

Approach to accountancy services as recommended by Audit Commission

Shift in emphasis for accountancy from detailed financial control to core accountancy tasks, support work and corporate strategy

Core tasks should be tightly defined and specified and differentiated from the provision of support services

Accountancy support work should focus on provision of expert financial advice for service managers, particularly in relation to management of change

Accountants should facilitate achievement of strategic objectives, through medium term financial planning, efforts to obtain domestic and European grants and advice on partnerships with the private sector

Source: Audit Commission (1995a) pp10-11

The division between client and contractor in the case of financial services raises more significant questions since both clients and, particularly, DSOs are likely to be heavy users of financial services. Only in the very largest authorities are the problems likely to be solved by the DSOs being wholly self-sufficient in financial expertise.... The tendency in larger authorities is to reorganise the accountancy division in the finance department along client and contractor lines. Smaller authorities saw this as impossible because of the level of duplication that would be involved. Whatever pattern is adopted, the authority's chief finance officer is likely to feel the need to have an overseeing responsibility for both client and contractor sides....

Walsh (1991, p80).

Again, authorities need to consider how these problems are to be resolved.

With regard to changing traditional attitudes, these need to be replaced by a 'more business-like culture' (Audit Commission, 1995a, p22) and local authorities, in deciding which aspects of financial services should be exposed to competition, should, according to the Audit Commission (1995a, p19), ask four questions of each aspect:

- Is it strategic?
- Is it specifiable?
- Is there a market?
- Is the in-house service (potentially) competitive?

Thereafter, 'contractors' should address certain fundamental areas, including: business planning; critical evaluation of services and scope for improvements (use of customer satisfaction surveys, for instance); analysis of costs and implications for pricing; trading accounts; performance measures; SSSC; the activities in which to compete; and formulation of specification. 'Clients' should define their requirements and seek appropriate SLAs. They will also need to establish how contracts are to be monitored. This is more problematic for white- than blue-collar activities given the inherent difficulties in monitoring quality (*eg* of advice, service provided) rather than quantity.

Serious consideration needed to be given to these, and other, technical matters (see LGMB, 1995b) if local authorities were to respond successfully to white-collar CCT generally but, in the case of financial services, they appeared to be ill-prepared.

Additionally, they need to address the human relational problems which exist. Staff training issues need to be addressed on the part of both contractor and client, though it must also be recognised that the costs of training represent an overhead.

It would appear that there are also substantial motivational and morale problems to overcome. It is unsurprising that CCT was not welcomed in local government given the perceived threat to jobs and livelihoods which inevitably existed. Increased resource constraints and the review into local government structure have added to the total uncertainty facing local government personnel.

A survey conducted by *Local Government Chronicle* and Accountancy Personnel, see Dimbylow (1995b), revealed that the proportion of finance directors who felt a sense of job security had declined from 55% to 34% in two years, and only 20% felt their jobs would be safe in two years time. 43% believed that CCT was a waste of time

and resources, against 34% who welcomed the introduction of CCT and 11% who said they regarded it with indifference.

A major survey of public sector accountants (including CIPFA and non-CIPFA accountants) was conducted jointly by *Public Finance* and Robert Walters Associates (see Broom, 1994b). Based on 1650 responses, though what percentage response rate this constitutes is not given:

Its findings represent the first statistically sound test of opinion among public service accountants on the major issues of the nineties: competition, reorganisation and the preservation of the uniqueness of the public service ethos.

Broom (1994b, p10).

CCT and market testing provoked the strongest reactions, with only 27% of all public sector accountants supporting the policy and 46% strongly opposed:

However, reactions varied sharply according to sector. In local government 60% of accountants oppose CCT and only 16% are in favour. In Whitehall the picture is reversed with 60% supporting market testing while 20% oppose it. In health too there is support, though much less marked. The principle of market testing is supported by 32% with 28% opposed and 40% unwilling to take sides. One of the principal justifications of CCT is that it improves value for money. Yet only 9% of local government accountants think it is the best way of improving value and 73% think it brings little improvement in value for money. Across the profession as a whole 18% think CCT brings improved value while 60% believe it does not. A surprising 19% want CCT applied to their own department and even in local government 13% of accountants would welcome its arrival at their door.

Broom (1994b, p12).

Views also varied according to length of service and political views:

Among accountants with less than five years service only 43% oppose CCT compared with 70% of their more experienced colleagues.....Among Labour voters, 22% expressed support for the policy while none of the Tory supporters was positively in favour, perhaps illustrating how professional judgements can override political instincts. Perhaps those who see benefits from competition are driven to support it even though it may conflict with the policy of their chosen party.

Broom (1994b, p12).

Though it could also be added that perhaps those who see few benefits from competition are driven to oppose it even though it may conflict with the policy of their chosen party.

Finally, the survey revealed widespread job insecurity. Across the sector as a whole, 89% felt that job security was under threat. In local government, 97% felt that job security was poor, though the level of this response raises questions as to its validity, compared with 80% in central government and 72% in the NHS. The review into local

government structure would undoubtedly have contributed to the insecurity, but Broom (1994b) also reported that 48% of accountants in local government supported the review (44% were against and 8% were neutral) even though 'few believed it will improve services or cut costs' (Broom, 1994b, p10).

The findings are similar to those published in *The Observer* on 14 April 1996 (Ghazi and Bevins, 1996). The poll, conducted by ICM, of almost 2,000 civil servants revealed that: 92% believed that morale was quite or very bad; 73% would not advise the next generation to join the civil service; 91% felt that the Government had gone too far in privatising and contracting-out civil service functions and 85% felt these changes had produced worsening public services.

The above findings, insofar as they relate to support or otherwise for CCT, appear to contradict the view of Brooke (1991). In commenting on the need for all activities and departments to behave competitively, he says (p528), apparently of both central department managers as well as DSO managers:

From my own observation, local government officers seem to have taken to this culture surprisingly well. They are full of praise for the advantages that the discipline of contracting imposes on the organization....Given this enthusiasm, the future for the contracting process in local government seems relatively robust.

Similarly, Rao and Young (1995, p45) say that:

At least in those authorities visited, the new disciplines which CCT imposed are valued, even where the competition that produced them is not.

However, it is unclear from Rao and Young's study whether the above conclusion also relates to white collar CCT. With regard to Brooke, it is doubtful if his views were representative in 1991. Walsh (1991, pp26-27) says:

The introduction of competition was seen as requiring a radical change in the attitudes of officers and members.....The level of change required by competition is bound to cause difficulties, requiring fundamental change in procedures, structures and attitudes. The general attitude of those interviewed was that change would take a long time because attitudes and basic values and approaches were difficult to change.

Similarly, Keenan (1991), in a survey for the *Local Government Chronicle*, asked chief executives of 523 authorities in Britain their opinions on the extension of CCT. Of the 283 who replied, 81% did not think the costs of contracting-out central services would be offset by savings.

Martin, Gaster and Taylor (1995), in a study of 8 local authorities involving an unspecified number of interviews with officers and members and the study of key documents, found that CCT was seen to be beneficial in bringing about 'clearer costings of central and service departments and of clarity about functions' (p22) but, overall, it was seen to be a 'diversion from more direct and relevant strategies for improving organisational effectiveness and management performance' (p10). More fundamentally:

Pure market models and language have not done justice to the complexities of implementation, and have been widely acknowledged to be inappropriate to a service environment. There is a strongly-shared frustration with the 'compulsory' aspects of policy which is widely seen as failing to offer either a level playing field, or a fair recognition of the capacity of public sector management. Authorities felt that the gains made in efficiency, effectiveness and value for money could have been achieved in other ways, possibly without the costs of tensions with service quality, organisational stress and democratic accountability. The current frameworks within which the client role has to be implemented raised constant questions about the viability of local government activity, and about equity and probity.

Martin, Gaster & Taylor (1995, p25).

The above view is consistent with the views of Stewart (1989) and Stewart and Walsh (1992) which highlight the dangers of applying private sector models to public service delivery.

Though the views of Brooke (1991) and Rao and Young (1995) and the findings of Walsh (1991), Keenan (1991) and Martin, Gaster and Taylor (1995) are not necessarily contradictory, they appear to indicate different degrees of enthusiasm for CCT. Given the experiences of CCT in the interim, the extension of the policy to white collar services, numerous other demands (abolition of Community Charge, introduction of Council Tax, local government reorganisation, Care in the Community, Local Management of Schools, performance indicators, Citizen's Charter *etc*) and given the findings of, for instance, Fenwick, Shaw and Foreman (1993), Audit Commission (1995a, 1995c), LGMB (1993a, 1996) and those reported by Dimbylow (1995b) and Broom (1994b), it appears reasonable to conclude that senior officers' approach could at best be described as something between 'reluctant compliance' and 'neutrality/pragmatism', though there is also evidence of a recognition of the benefits of competition (LGMB, 1996; 1997a), with a considerable degree of opposition lower down the organisation.

This is significant in that CIPFA, NI (1996), in commenting on its findings on CCT and market testing, believes that councils' opposition has been one reason why the former has produced less efficiency gains than the latter. The project manager, David

Nicholl, commented that 'It cannot be over-emphasised that the commitment of senior personnel in the bodies concerned is a vital ingredient' (*Public Finance* 12 April 1996 p11). The report states (CIPFA, NI, 1996, p15):

.....there is undisguised hostility on the part of local government to the "imposition" of CCT....and a political dimension which results in pressure on officials to ensure that services stay in-house and competition is minimised....

It also includes examples of councils seeking to prevent private bidders succeeding and, thereby, frustrate the aims of CCT (pp158-159).

Such a background, however, contains its own dangers in that, culturally, structurally and technically, authorities are likely to be inadequately prepared for white collar competition. This would have posed even greater dangers if the former Government had changed the 'rules' under which competition was to be implemented, particularly in relation to the percentages to be exposed to competition.

7.0 *Summary of evidence*

The evidence supporting the introduction of competition through *quasi*-markets, market testing and CCT is not definitive. The direction of policy under the Conservatives, however, was clear. The application of market principles was something to which they were committed. CCT was to be extended, particularly to central government and to professional services, though the wisdom of such policies was not, however, universally accepted. Nove (1993) argues the case against the dogmatic imposition of markets on public services and states that tendering leads to fragmentation of closely related ancillary services: 'Separation of responsibility and payment creates extra work in monitoring and accountancy, so that savings become more apparent than real'. He also states that internal markets lead to increased transaction costs and obstruct cooperation; the greater stress on the bottom line leads to less stress on purpose; CCT ignores such factors as loyalty and commitment, which affect quality and reliability, and increases job insecurity for millions of people.

After researching the areas of health and social services, Hudson (1992, p141) has stated 'It is difficult to avoid the conclusion that the benefits of a *quasi*-market in both health and social care have tended to be *asserted* rather than *demonstrated*'. [Emphasis in

original]. This conclusion is perhaps generally applicable to the introduction of markets and CCT though, on CCT, there are opposing views:

In one, the emergence of the 'new' public sector management [see Chapter Six] would have occurred in any case, without the pressures of CCT. The legislation (at best) accelerated a process of change that would have happened anyway.....From this point of view CCT was viewed as a costly, heavy-handed and demoralizing mechanism for pushing through changes that may have occurred anyway or which could have been encouraged more effectively through a more specific and voluntaristic emphasis on promoting quality services and customer involvement.....The second strand of opinion saw CCT as a necessary mechanism for overcoming strong resistance to key changes in the management of local services.....Drawing overall conclusions about the particular impact of CCT remains problematic mainly due to the existence of mutually exclusive opinions on CCT within the same organisation.

Shaw, Fenwick and Foreman (1994, p215).

It is difficult to isolate the impact of CCT on professional services from the wider changes which have taken place affecting the management of local government. This point is made by Fenwick, Shaw and Foreman (1993, p58):

.....many of the perceived effects of CCT can also be seen to be influenced by other contemporary changes.....Firstly, the combined effects of Poll Tax/Council Tax and reduced Standard Spending Assessments have forced local authorities to review the operation of services, look for efficiency savings and implement 'budget-driven' cuts. Secondly, such initiatives as [LMS] and Care in the Community have heralded the development of new contractual relationships which also enshrine the idea of the enabling authority. Thirdly, the focus on being 'closer to the customer' and the pursuit of quality services has not only been given a boost by the Citizen's Charter but had also been separately developed by local councils committed to developing a public service orientation [see Chapter Six].

However, on the strength of available empirical evidence, it seems reasonable to propose that certain authorities have, with some degree of enthusiasm, restructured their white collar services and attempted to adopt a more commercial approach to their provision. In part this has been in response to blue collar CCT but also, in part, it reflects an acceptance of the need for change and a recognition of the benefits of the new managerialism. In particular, blue collar CCT placed considerable pressure on central services to justify the level, quality and costs of the services provided for manual services subject to competition. In response to this, and within the context of the wider changes, authorities have, to varying degrees, embarked upon decentralisation, devolution, reorganisation of internal structures including, for some, the creation of client-contractor splits and SLAs. There is evidence of more market-oriented thinking, as manifested by VCT and market testing and increased awareness of customer needs on the part of central services.

However, there is also evidence that, in general, the degree of change is not as great as it should be and the responses to CCT can, in the main, be located in 'pragmatic'

and 'neutral' categories. In particular, central services are not as responsive to users as they would be had they truly undergone a commercial transformation. Much still needs to be done to place central services on a genuinely *quasi*-commercial basis, although there is conflicting evidence relating to the impact of CCT.

Rao and Young (1995), for instance, adopt a 'heroic' view and believe it has effected a whole cultural change and led to irreversible changes. Similarly, Walsh and Davis (1993, pvi) state that 'The impact of competition on the way that local authorities were managed was seen to have been fundamental'. However, when the focus is more closely shifted to professional services, the evidence is not so clear-cut. From the research of the Audit Commission (1994, 1995a, 1995c) and the LGMB (1996; 1997a), it may be concluded that a cultural transformation has not taken place nor, in many cases, have the frameworks been put in place to facilitate or reflect such a cultural shift. The necessary degree of, for instance, decentralisation or establishment of SLAs, is not evident. There is, however, evidence that the merits of CCT are being increasingly questioned (LGMB, 1996; 1997a) though, at the same time, the beneficial impact of competition on, for instance, service quality, is recognised. There are, however, significant human relational problems, though again, these will not necessarily be entirely directly attributable to CCT.

On the basis particularly of the findings of the Audit Commission (1995a, 1995c), it would appear that all of the above points apply *a fortiori* to financial services. Though there is evidence that finance departments have moved in a commercial direction, in the main, however, the evidence would appear to suggest that they have been slow to change, both structurally and culturally. Although the former could be addressed in the short-term, the latter could not. Structural change without cultural change implies imposition of organisational structures and concomitant lack of ownership on the part of finance personnel. This perhaps need not have precluded a thorough, and ultimately successful, preparation for CCT but it increased the difficulties likely to be experienced in formulating a strategic response to CCT and in ensuring that any in-house bid is competitive. Longer term, subject to any changes in central government and CCT policy, even if an in-house bid was successful, the lack of cultural change would jeopardise contract implementation and renewal. It could also leave departments vulnerable to a change in local political control if councillors were elected who were committed to competition and its voluntary application. Perhaps more fundamentally, however,

particularly given the introduction of 'best value' (DETR, 1998) by the Labour Government and the continued willingness to resort to CCT, a perpetuation of the cultural *status quo* would do little to improve the efficiency and effectiveness of central services or their relationship with each other; nor would it improve the relationship between central services and DSOs and, most importantly, between central services and local taxpayers. In short, though CCT may not have unleashed forces which are irreversible, there is an argument that perhaps it should have done so.

However, to gauge the extent to which financial services may lag behind other departments, or finance departments lag behind each other when compared across authorities, in the acceptance of the new managerialism and in preparation for CCT, more research is required which focuses specifically on the finance function. Similarly, in order to establish how deeply-rooted are actual or potential commercial developments within finance departments, the views of Chief Financial Officers and professionally qualified personnel need to be established. It is believed that the lack of survey evidence relating to the views of professionally qualified finance staff in local government and, in particular, Chief Financial Officers represents a gap in existing knowledge. In addition, and consistent with this general point, there is no published survey evidence of financial services CCT based exclusively on the views, experiences and intentions of finance personnel, including CFOs, of local authorities in the North West of England.

8.0 Original Research

To address the gap in existing knowledge and to add to the literature on CCT generally and white collar financial services CCT in particular, original research has been undertaken to investigate the hypotheses as defined in Chapter One.

The research, based on local authorities in the North West of England, will establish:

- the views of professionally qualified finance staff, including Chief Financial Officers, on CCT and wider cultural and managerial issues and the reasons for them;
- the degree of preparedness of local authorities for financial services CCT;
- the degree to which the situation in the North West is consistent with available empirical evidence.

The thesis then focuses on the issue of change in the management of local authority services. A typology of responses to change is developed and a model of change is postulated against which past and future change may be assessed.

9.0 Conclusion

There is little doubt that the management and delivery of public services have changed over the last two decades and have resulted in changes in organisational structures. This is particularly true of local government. However, although it is possible to identify the main drivers of change, including CCT, it is difficult to isolate their individual impact. With regard to CCT, the evidence relating to experiences to date is mixed and that relating to likely future impact of white collar CCT, including financial services, was limited. This is surprising given its potential significance whilst the Conservatives were in power. For this reason, research was undertaken into CCT, focusing specifically on financial services CCT and the views of finance professionals. The findings will contribute to knowledge on the impact on local government of the 1979-97 Conservative era and indicate the extent to which local authorities in general and finance professionals in particular can be expected to respond successfully to the 'best value' initiative. The research methodology (Chapter Four) and research findings (Chapter Five) are now considered. The findings are then used to evaluate local authority responses to change, from which a typology of change and a model by which past and future change may be gauged are developed (Chapter Six).

Chapter Four

Research Methodology

Chapter Structure	
1.0	<i>Introduction</i>
2.0	<i>Methodology</i>
3.0	<i>Conclusion</i>

1.0 Introduction

This chapter discusses the research methodology which was adopted. Three hypotheses about the behaviour of qualified accountants in local government were formulated for investigation. The hypotheses are as follows:

Hypothesis One

Professional personnel within the finance function of local authorities in the North West of England oppose:

- (i) blue collar CCT
- (ii) non-finance white collar CCT

because they believe that the process of CCT does not lead to:

- (a) reduced costs or improved efficiency
- (b) improvements in the quality of service delivery.

Hypothesis Two

Professional personnel within the finance function of local authorities in the North West of England oppose the extension of CCT to financial services because they believe that:

- (a) financial services are unsuitable for CCT
- (b) it will not lead to reductions in costs or improvements in efficiency
- (c) it will not lead to improvements in the quality of service delivery
- (d) the broader context of the Conservative governments' policy towards local government, to which CCT was central, was unacceptable, representing, as it did, a threat to the traditional role of local government

and that these beliefs not only stem from subjective concerns over their own job security but are rooted in their public service background and training which act as a cultural barrier to the adoption of commercial practice.

Hypothesis Three

Local authorities are inadequately prepared for financial services CCT because, irrespective of the timing and likelihood of having to expose services to competitive tender, the traditional local authority culture is prevalent and leads to a reluctance, on the part of financial services, to respond to the commercial environment within which local authorities now generally operate.

The investigation of the hypotheses will then be built upon by considering how change in local authority management and the provision of financial services can be modelled. The thesis contributes to knowledge by:

- establishing the views of finance professionals on CCT and related matters in local government in the North West
- establishing the extent to which local authorities are prepared for financial services CCT
- offering explanations for each of the above.
- assessing the impact and permanence of change, specifically in relation to financial services, *vis-a-vis* the assimilation of change
- critically evaluating research findings against specific models of managerial change in local government with a view to developing, first, a typology of local authority responses to change and, second, a model against which past and future change may be gauged
- presenting original work to supplement the body of literature and empirical evidence on CCT. This evidence is currently very limited not only in the case of white collar CCT in general and financial services CCT in particular but also in the case of the success or otherwise of CCT as an agent for driving cultural change in the provision of local authority financial services.

In order to investigate the hypotheses, the research methodology adopted involved a questionnaire and semi-structured interviews. The objective of the questionnaire (see 2.4.1 below) was to establish factual information on respondents' backgrounds (type of professional accountancy qualification held, type of authority for which they work, previous experience of working in the private sector, seniority) and their views on CCT and reasons for them. This would then enable analysis to be undertaken as to whether the views expressed are influenced by differences in background. The semi-structured interviews were conducted with Chief Financial Officers. This enabled information to be obtained as to their personal views on CCT, supplementing that obtained via the questionnaire, but also enabled authoritative information to be obtained concerning the authority's experience of blue collar and non-finance white collar CCT and also the nature and extent of preparation for financial services CCT. This chapter discusses the reasons for and practical issues arising from this approach.

2.0 Methodology

2.1 Objectives

The initial objectives of the research were defined in terms of three hypotheses, as given in para 1.0 above, and originated in the lack of survey evidence on, first, the views of qualified accountants on CCT and, second, the degree of preparedness for CCT of local authority finance departments. In addition, the hypotheses were formulated to facilitate subsequent assessment of the impact of the Conservative era, 1979-97, on local government in general and financial services in particular.

2.2 Scope

The focus was placed on qualified accountants and local authorities within a specific geographical region. This focus was adopted because it was assumed that accountants were most likely to be directly affected by financial services CCT and able to provide informed, authoritative and, insofar as it was possible in the circumstances, objective feedback on CCT generally and financial services CCT in particular. With regard to geographical region, the North West was chosen because:

- professionally, it is representative of the situation nationally, *ie* it was assumed that local authority accountants within the region were predominantly members of CIPFA and, through activities and networks, partly facilitated by the CIPFA regional branch, it was further assumed that, essentially, local government finance professionals constitute a discrete grouping
- politically, it is representative of the situation nationally insofar as Labour is by far the dominant party but there are also 5 authorities where there is no overall control. See Box 4.1. In addition, of the Labour authorities, one was traditionally Conservative-controlled up until May 1995 and three others had no overall control until Labour became the ruling party in May 1996; of the authorities with no overall control, in one authority the Conservatives are by far the largest party (with Ratepayers the second largest)
- there is no available empirical evidence which relates specifically to financial services CCT in the North West

and it was assumed that:

- organisations, in general, are more likely to support research conducted by a 'local' university and this was assumed to be particularly true in the case of local authorities, many of which send their staff, and not least their finance trainees, to the Business School for education and training purposes (One CFO actually wrote: 'I would be prepared to assist the research by one of our local universities')
- research is more likely to be supported by organisations which have experience of the individual(s) or 'organisation' conducting the research, providing they are not continually being asked to do so. This point is indirectly supported by the experience of Chaston (1994, p227), though he emphasises the importance of confidentiality as a factor in determining response rates:

Previous experience of research concerning the public sector by Plymouth Business School has revealed that adequate response is more likely to occur if respondents have experience of the research organisation and hence are already confident that their desire for anonymity will be respected in any subsequent publication of results.

Having chosen the North West, the region was defined, for the purposes of the research, as encompassing 32 local authorities, of which 17 agreed to participate in the questionnaire survey. In addition, one authority agreed to participate in the interview but not the survey. A detailed breakdown of the region and participating authorities (as at the time of the questionnaire survey, September 1996, and conduct of interviews, August and September 1996) is as given in Box 4.1. National figures are also given (note: Box 4.1 excludes Scottish and Welsh unitary authorities and London boroughs).

Box 4.1								
Local Government Profile and Research Participants								
Regional and National Profile								
	County Council		District Council		Metropolitan District		Total	
Political Control	NWest	National	NWest	National	Nwest	National	NWest	National
Labour	1	7	11	116	14	32	26	155
Liberal Democrat	-	3	1	43	-	-	1	46
Conservative	-	1	-	10	-	-	-	11
Independent	-	-	-	11	-	-	-	11
No Overall Control	2	24	2	94	1	4	5	122
Total	3	35	14	274	15	36	32	345
Participating Auths. - Questionnaire								
Political Control								
Labour	1		4		8		13	
Liberal Democrat								
No Overall Control	1		2		1		4	
Total	2		6		9		17	
Participating Auths. - Interviews								
Political Control								
Labour	1		2		4		7	
Liberal Democrat								
No Overall Control	2		2				4	
Total	3		4		4		11	
Source: Municipal Yearbook 1997								

2.3 Research Techniques

Two specific techniques were adopted for the empirical research:

- questionnaire survey
- semi-structured interviews.

There are advantages and disadvantages associated with individual research techniques and it was decided at the outset that the data required to test the hypotheses were more likely to be reliable by adopting two particular techniques: questionnaire and semi-structured interviews.

Quantitative data derived from questionnaires could be analysed using SPSS (Statistical Package for Social Sciences) and would facilitate comparisons, as appropriate, with existing research evidence. Meaningful analysis, however, would depend on the quality of the questionnaire and the volume and quality of the data subsequently obtained. In order to minimise the potential problems associated with questionnaires, considerable effort was expended in design and distribution, see 2.4.1 and 2.4.2 below.

The intention was to place the evidence obtained from the questionnaire within the broader context of the qualitative data obtained from the interviews. Interviews would enable more in-depth exploration of the issues associated with CCT and its extension to financial services. They also allowed for more detailed consideration of the policy adopted by individual authorities towards financial services CCT.

Such an approach, it was believed, would help overcome the inherent problems associated with research when based exclusively on quantitative or qualitative data. The dual approach was also adopted in full agreement with the view of Blackman (1993, p243) (Newcastle upon Tyne City Council):

It is important that the growing commitment to research in the public sector is not restricted to more surveys and statistical work. The capacity to conduct qualitative research is essential to any serious research enterprise in the public services.

Of the techniques which can be adopted in qualitative research, including participant observation, focus groups, field experiments (*eg* 'mystery customers'), *etc.*, the interview method was chosen as the best means of obtaining the views of CFOs, though it is acknowledged that other techniques would also have generated relevant data. Group discussions, for instance, would have been useful to conduct but it is unlikely that CFOs would have been willing to allow their accountants to participate in such exercises, even had individual accountants been willing and able to do so, given the total staff time it

would have involved. In addition, had the CFOs been included in such discussions, they may either have felt inhibited in articulating their true views/intentions (more inhibited, perhaps, than in a one-to-one interview) in the presence of 'junior' colleagues, or their presence may have inhibited others in expressing their true views or influenced the views expressed. It may also have been possible to obtain approval to observe meetings of officers or members discussing CCT but this was not pursued as such discussions would almost certainly have been regarded as strictly confidential; the sensitivity of the issue was apparent from the interviews which were conducted and possibly influenced the non-participation of certain authorities in the questionnaire survey.

Given the practical constraints associated with other techniques and the lack of survey evidence of CFO views, the interview was chosen as the most appropriate qualitative tool.

The main advantage of qualitative techniques is that they 'can generate rich data about people's knowledge, attitudes and preferences' (Blackman, 1993, p246) and, with regard to interviews:

....the flexible and responsive interaction which is possible between interviewer and respondent(s) allows meanings to be probed, topics to be covered from a variety of angles and questions made clear to respondents. Areas where respondents have a lot to say can be given special attention, those where they have less to say played down.

Sykes (1991) as quoted by Blackman (1993, p249).

Though there are disadvantages, including the fact that they are time-consuming, data may be difficult to analyse, interviewees may not necessarily believe or act in a manner consistent with their responses, the interviewer and the fact of the interview may influence responses (Tombs, 1993) *etc*, it is believed by the author that the advantages outweigh the disadvantages if all research stages associated with interviews - pre- and post-interview and interview - are properly conducted.

Hellgren and Macdonald (1996), respectively from Linköping University, Sweden, and the University of Sheffield, provide a very interesting discussion of the 'benefits' and 'costs' of interviews in management research. One of the benefits is that 'often...the interview is the only means by which the researcher can secure certain information'. The author's research provides an example of how interviews can prove invaluable in that two key individuals, neither of whom allowed the questionnaire to be distributed within their authorities, though one of whom did allow two to be

completed by staff of his choosing, did, however, consent to be interviewed. This meant that the interview method enabled access to be gained to two particular organisations that would otherwise have been, in effect, inaccessible.

2.4 Questionnaire

The initial intention was to distribute the questionnaire to all qualified accountants in 32 local authorities in the North West region. The reasons for this were as follows:

- there is no published information on the views of accountants on CCT in the North West nor is there any published information on their preparedness for financial services CCT
- questionnaires were only to be distributed once approval to do so had been obtained from the CFOs and, as stated in 2.2 above, it was assumed that CFOs within the region would be more likely to participate in the research than those who were not based in the North West
- following on from the above point, it was further assumed that individual accountants within the region, a large number of whom would actually have attended Liverpool Business School to study for their professional qualification, would be more likely to participate and return the questionnaire than those who were not employed 'locally'.

Although all 32 authorities did not participate in the research (see Box 4.1 above and section 2.4.2 below), findings are actually based on quantitative data derived from a questionnaire distributed in September 1996 to approximately 300 professionally qualified accountants employed by a total of 17 local authorities in the North West region of England (a copy of the questionnaire, giving the number of responses to each question, and the covering letter sent with the questionnaire, are provided in Appendix A).

2.4.1 Questionnaire Design and Pilot

In designing the questionnaire, simple, practical points made by Bell (1995, pp75-90, pp127-150), concerning question type, wording, layout, piloting and also, in the design stage, interpretation of evidence (*eg* use of Likert scales) were found to be extremely useful.

The questionnaire was designed, at the outset, on the assumption that it would primarily be used for the purposes of investigating Hypotheses One and Two and have only limited relevance in the investigation of Hypothesis Three, which would be based mainly on interview findings.

This approach was partly driven by the need not to ask too many questions as this would lead to inappropriate length and possibly increase the incidence of non-response. It was also driven by the mix between 'attitudinal' and 'factual' questions, the former being related to Hypotheses One and Two and the latter being related to Hypothesis Three and the belief that the latter could perhaps be more accurately answered by the CFO or nominated officer by means of interview.

However, the questionnaire was revised several times following feedback from individuals involved in pilot tests. The viewpoint that 'It is harder to produce a really good questionnaire than might be imagined' (Bell, 1995, p75), is consistent with the experience of the author, but the process of piloting was invaluable.

Piloting the questionnaire was a two-stage process. The first stage involved obtaining feedback from a variety of internal sources, including my research supervisors and academic colleagues (specialists in accountancy, statistics, public service management and also questionnaire design and analysis) in the Business School, a number of whom have substantial practical experience gained in local government.

The feedback was extremely useful and led to a revised questionnaire being produced. Changes were made presentationally but the most important substantive change was to the balance between factual and attitudinal questions, with the former being emphasised much more in the revised version.

The second stage of the piloting process involved asking three CFOs of district councils (two in the South and one in the Midlands) to complete the revised questionnaire and to provide feedback concerning content, presentation and consistency with the hypotheses being investigated. The CFOs were all known personally to the author as we are all members of CIPFA's Quality Assurance Board. The questionnaire was again revised following feedback received from the CFOs. The feedback helped in that certain questions were identified which may have been interpreted in ways not intended.

In general, the first and final versions of the questionnaire were the same in that they were based on 6 sections:

- General
- Blue Collar Competition
- Non-Financial Services White Collar Competition
- Financial Services Competition
- Financial Services And Your Authority
- General Perceptions On CCT/Competition

However, the questions included within the sections were modified following the feedback received and a re-assessment of the use to which the questionnaire could be put in investigating Hypothesis Three.

As part of this feedback, it was suggested that more questions concerning Hypothesis Three could be asked and, to prevent the questionnaire being too lengthy, they could be accommodated by removing questions to which the answers were predictable. An example of a question which could be expected to lead to a 'predictable' response was given as Q24 in the original version and which asked whether the respondent believed that the proportion of financial services activity which had to be exposed to competition (at that time the proportion was 35%) was too high, too low or about right. This question was removed as the answer 'too high' was one which could reasonably have been anticipated.

The rationale of the questionnaire was to establish:

1. Factual information on the respondent, including type of employing authority, accountancy body of which he/she was a member and period of membership, previous experience of private sector, status and type of work currently undertaken.
2. The respondent's knowledge and views on blue collar, non-finance white collar and financial services CCT, at both national and employer level, and the extent to which knowledge and views are consistent with each other and with empirical evidence.
3. The extent to which views vary with the factual information provided re 1. above.
4. The respondent's views on the actual and likely environment within which local authority's actually and may operate.
5. Possible reasons for the views held.
6. Consistency with existing knowledge as contained in published literature.

In order to establish the above, certain questions drew on available literature. For instance, in the final version, given in Appendix A, certain questions/statements are drawn from specific sources. These are discussed in more detail in Chapter Five where research findings are evaluated within the context of existing knowledge. However, to illustrate how the available literature influenced the questionnaire content, the following examples are given:

Question 1.7 In which ONE of the following categories do you do most of your work?

Question 4.4 Irrespective of your support or otherwise for CCT and the type of authority for which you work, please indicate, for each of the following categories, your view on their suitability for CCT.

Both questions include the same categories, *eg* accounting, audit, payroll *etc* and are drawn from CIPFA (1995b).

Question 5.26 Please indicate if your authority has undertaken the following for any or all aspects of financial services activity in or throughout the last two years.

The activities (efficiency review, SWOT analysis *etc*) are largely drawn from Audit Commission (1995d). In addition, the question was not included in the first version of the questionnaire but was included in the final version.

2.4.2 Questionnaire Survey

The intention was to send a named questionnaire to all qualified accountants, the vast majority of whom, in local government, are members of CIPFA as opposed to any of the other three bodies of accountants in England and Wales. For information, CIPFA had a total membership as at 1 January 1996, excluding registered students, of 12,368 (CIPFA, 1996, p7). The other three bodies and membership figures as at 1 January 1996 (taken from CIPFA, 1996, p7) are:

<u>Accountancy Body</u>	<u>Membership as at 01.01.96</u>
Association of Chartered Certified Accountants (ACCA)	47,230
Chartered Institute of Management Accountants (CIMA)	41,634
Institute of Chartered Accountants in England and Wales (ICAEW)	109,233.

CIPFA is a much smaller body than the others with members primarily employed in the public services. Its annually-published list of members (see, for instance, CIPFA 1996) provides a breakdown of members based on employing organisations. For this reason, the most up-to-date information could be obtained for the purposes of the survey.

In order to obtain the names and employers of non-CIPFA accountants, ACCA, CIMA and ICAEW were contacted. Unfortunately, neither ACCA nor ICAEW could provide the information required as they did not have a database of members based on employing organisations. This was unsurprising given that the great majority of their members will be located in the private sector and in private practice. In addition, their respective published lists of members do not include employing organisations. However, even if they did, no material value would have been added by trawling through over 150,000 names (see above) simply to identify a handful of individuals employed in the participating authorities. With regard to CIMA, an unpublished list of members broken-down on employer basis was available and the information was provided, but only after CIMA had: considered the reason why the information was requested; examined a copy of the questionnaire; contacted the individuals involved, 28 in total, requesting their approval to release the information. Only 1 member objected. Such information was useful because, though the number of CIMA-qualified local government officers is small in comparison with CIPFA, it is nonetheless the second most numerically important professional accountancy qualification in the sector. CIMA was very interested in the research, requested a copy of the research findings and invited the author to present a paper to the CIMA Local Government Forum (Wilson, 1997).

It would also have been possible to approach the participating authorities to request a list of qualified accountants. To an extent this was done in that, in the case of those authorities where interviews were conducted and approval had been obtained to send the questionnaire, the interviewee was asked to confirm the accuracy of the CIPFA list of members published in 1996 and, if possible, to provide the names of any non-CIPFA accountants who may be employed by the authority. For the smaller authorities, *ie* district councils, this was straightforward because non-CIPFA accountants either were

not employed or the one or two individuals involved were easily identified. However, for the larger, metropolitan, authorities, it was more problematic because the interviewee did not always know the body to which qualified staff belonged. It also needs to be remembered that not all accountants are located in the CFO's department, and the lack of detailed knowledge of accountancy personnel was not simply a function of greater numbers.

It was decided, however, not to ask for a definitive list of qualified accountants as this would have involved a workload, irrespective of whether it was large or small, resulting directly from approval to send the questionnaire. This may have reduced the goodwill involved.

Because of this, the survey involved the distribution of named questionnaires based on information:

- contained in CIPFA (1996)
- provided by CIMA
- obtained from individual CFOs where possible.

At the end of May 1996, a letter was sent to a named CFO (whose titles vary but, in the main, are Directors of Finance or Treasurer) of each of the 32 local authorities in the North West, together with a copy of the questionnaire and a draft covering letter intended to be sent with the questionnaire when distributed to all qualified accountants. Each CFO was asked if he/she would approve and/or obtain approval for the questionnaire to be sent to all finance professionals (not all of them will work in the Treasurer's department, as stated above). It was stressed that the questionnaires were anonymous, individual authorities could not be identified and stamped-addressed envelopes would be supplied with the questionnaire. It was also stated that feedback from the survey would be made available to anyone who was interested, whether their authority participated or not. CFOs were also requested either to be interviewed or to be included in a list of potential interviewees. See 2.5 below.

It would have been easier to send the questionnaire direct to all qualified personnel, where known, without seeking the approval of the CFOs. However, there were a number of reasons why this course of action was not followed:

- Out of courtesy, it was felt that approval should be sought
- There was little point in running the risk of antagonising the CFOs given that cooperation was required for interview purposes
- It was important not to run any risk of antagonising them given that many send their CIPFA trainees to Liverpool John Moores University and a very good relationship has evolved over several years with local employers
- Cooperation for other research may be requested in the future, either by the author or colleagues (known or unknown to the author)
- Some of the CFOs were personally known to the author and, again, this reinforced the intention to be open about the research
- Obtaining their approval would enable a statement to be made in the letter accompanying the questionnaire (a draft copy of which was sent to the CFOs so they could see what was intended to be said) that approval had been obtained and it was felt that this would help in maximising the response rate.

However, it is also true to say that although some concerns were held as to the possible response rate from qualified personnel, this concern was not extended to the matter of obtaining the approval of the CFOs. This was despite the sensitivity of the subject matter and the timing (June 1996), which, unfortunately, coincided with the then Government publishing another consultation paper on white collar CCT which particularly affected financial services and which, in effect, completely overturned the previous established policy which was meant to be final. However, it became clear that the anticipated extent of CFO consent had been optimistic. Summarised information is given in Box 4.2.

Box 4.2**Survey: Summary Information**

CFOs contacted for approval to send questionnaire	32
Number responded	27
Number not responded	5
Number responded	27
Of the above:	
Number agreeing to participate	17
Number not agreeing to participate	10
Number agreeing to participate	17
Of the above:	
Number agreeing to participate fully	15
Number agreeing to participate partially	2
Number agreeing to participate fully	15
Of the above:	
Number of District Councils	6
Number of Metropolitan Authorities	9
Number agreeing to participate partially	2
Of the above:	
Number of County Councils	2
Number of questionnaires sent	296
Of the above:	
Number returned incorrectly addressed	5
Number assumed correctly addressed	291
Number assumed correctly addressed	291
Of the above:	
Number of completed questionnaires returned	164
Response rate (completed questionnaires as % of number assumed correctly addressed)	56%

As can be seen from Box 4.2, of the original 32, 27 responded but, despite a follow-up telephone call and letter, 5 did not respond in any way. Of the 27 that did respond, 15 agreed to participate, 2 felt that it was my decision whether or not to distribute it and that it was not up to them to 'approve' it, and 10 did not agree to participate (see para 2.6 below). In the case of the 2 where the CFOs felt it was not up to them to 'approve' its distribution, the questionnaire was distributed (these are included within the 15 authorities

shown as ‘Number agreeing to participate fully’ in Box 4.2). This meant that 17 authorities participated and 15 did not. Of the 17 participants, 15 authorities, *ie* 6 district councils and 9 metropolitan authorities, gave approval for the questionnaire to be sent to all their accountants and 2 county councils gave approval for it to be sent to a very small number of their accountants.

It is important to note that the CFO of the county council who did not give approval for any questionnaires to be distributed did agree to be interviewed, which means that 18 authorities participated in some way in the research. Of the 2 participating county councils, one CFO gave approval for two questionnaires to be sent directly to him and he would choose and request two senior staff to complete them. Approval to distribute to all accountants was not granted as the CFO felt that such a survey would raise the profile of the issue and this was undesirable given that it was not a priority for the authority (because of the timescale relevant to county councils) and the fact that staff had recently had to cope with the considerable uncertainty surrounding the review of local government’s organisational structure. The other CFO initially consented to the questionnaire being sent to all accountants but, following the response from the other two county councils, the CFO was informed and he expressed a certain degree of unease that his own authority would, for all practical purposes, constitute the ‘county council’ response within the survey, with the exception of the two sent to the other authority. The CFO said that he did not wish to backtrack on his original approval but his preference was that the approach should be similar to that now being adopted by the other participating county council. For this reason, and recognising that the original approval had been given in good faith and on the assumption that the other two county councils would participate, it was decided to send only 6 questionnaires.

This meant that, in total, only 8 questionnaires were sent to accountants within the three county councils, with one council not represented at all. Had full participation been obtained, it is estimated that approximately 150 county council accountants would have been included in the survey. It is, however, pleasing to note that, of the 18 ‘participating’ CFOs (*ie* the 17 participating in the questionnaire survey and 1 where an interview was granted), 7 have requested copies of the research findings.

A total of 296 named questionnaires were distributed, as against an estimate of approximately 600 (see Chapter Five, Box 5.3) had cooperation been obtained from all 32 CFOs.

The questionnaires were distributed in September 1996 and a deadline date, three weeks after distribution, was specified.

Of the 296 questionnaires, 5 were returned with an accompanying note stating that the individual to whom it was addressed had retired or left. This left 291, which it can only be assumed reached their intended recipients.

Of the 291, 164 were returned, a response rate of 56%. All returned questionnaires were correctly completed and could be used (with regard to non-respondents, see section 2.6 below).

2.5 Interview

In the letter sent at the end of May (see 2.4.2 above) to 32 CFOs, 16, chosen mainly on the basis of authority type, geographical spread, budget size (which would also reflect accountancy staff numbers) and political control, were asked if they would agree to be interviewed by the author during the period August-October (though interviews were subsequently conducted August-September), interviews lasting no more than one hour and taped if possible. A summarised list of 'Issues for Discussion' was supplied, given in Appendix B. The duration of the interview was particularly important given the seniority of the intended interviewees and the time pressures upon them. It was felt that one hour was the maximum that could reasonably be asked; any longer would almost certainly have been refused, but much less would have run the risk of not yielding useful information.

The 16 CFOs not asked at the outset if they would agree to be interviewed were, however, asked if they would agree to be included in a list of possible interviewees. This was to safeguard against significant non-cooperation from the 16 originally chosen.

Of the 16 interviews requested, 9 approvals were obtained. Of the 9 approvals, 8 interviews were conducted as one potential interviewee subsequently went on long-term sick leave and it was not possible for the authority to find a replacement. Of the 16 who were requested to be included in a list of possible interviewees, 3 agreed and interviews were held. In total, therefore, 11 interviews were conducted and, of these, 9 were with CFOs and 2 with the recognised deputy of the authority's CFO. However, for consistency and to preserve anonymity, the interviewees will be referred to as CFOs.

Information concerning type and political control of the 11 authorities where interviews were granted is given in Box 4.1 above.

The number of interviewees represents just over one-third of all CFOs in North West local authorities (*ie* 11 out of 32), drawn from all three categories of authority. The authorities within the 11 also provided a good geographical spread (for instance, of the metropolitan authorities, 2 are in Merseyside and 2 are from Greater Manchester) and political mix (*ie* 7 were Labour-controlled and 4 were authorities with no overall control, see Box 4.1 above). For these reasons, it is felt that the findings are likely to be representative of the views of CFOs in the North West.

Each interviewee was requested to allow the interview to be taped. All except one agreed. It is recognised that there are advantages and disadvantages with recording interviews. Tape recording may be regarded as intrusive and present a barrier to the free-flow of discussion. No matter how strongly the interviewer may stress confidentiality, an interviewee may be inhibited and less likely to speak openly and honestly because of concerns that there will be a taped record of the discussion. It may also be possible that an interviewee may 'play to' the tape and inadvertently make exaggerated statements. There may also be the technical problem of the tape recorder failing to pick-up the discussion. Finally, there may be a practical problem of transcribing tapes. However, taping can provide a detailed record of an interview and one which is more accurate than that which could be obtained through note-taking.

The disadvantages of taping may in part be overcome by requesting approval to tape (clearly a matter of courtesy also) and then, if permission is granted, by stressing confidentiality and requesting that the interviewee verify the accuracy of the transcript.

All of these points were adhered to in conducting the interviews and, in addition, notes were taken as a safeguard against technical failure and also as an additional record of the interview. This was also useful in noting comments made after the tape had stopped but whilst the interview was still taking place.

These precautions were useful not least because, of the 10 taped interviews, 1 did not tape well at all and this was anticipated throughout the interview because of the external noise and the fact that the interviewee spoke extremely quickly and softly, and 6 of the interviewees did not wish to check the accuracy of the transcript. In the case of the CFO who did not wish the interview to be taped, the notes taken were written-up the

same day and sent to the CFO for verification, which was obtained with only minor changes.

Prior to conducting the interviews, a pilot interview was held with a Director of Finance of a district council in Somerset and who was known to the author. The pilot interview was 'successful' in that the Director of Finance felt that all areas he expected to be covered had been included in the provisional list of 'Issues for Discussion' and that the time taken to deal adequately with the issues was approximately one hour.

It would have been possible to seek interviews with officers below the rank of CFO, who would possibly have been more able and willing to devote more time to being interviewed. Hellgren and Macdonald (1996, p3.24) make the following observation:

Those who interview are commonly keen to talk to the most senior people in the organisation, and are commonly triumphant when they succeed. They explain that the more senior the individual, the more the individual will know about the organisation. The organisation hierarchy is taken to be the information hierarchy. This empirical practice is in conflict with a great deal of experience and theory indicating that top management may not know most about what is going on in an organisation, that middle management is likely to be better informed, and that junior management may be most knowledgeable about specific matters.

Although an element of 'triumph' was felt when 12 CFOs agreed to be interviewed (reduced to 11 through unavailability, see above), it is nonetheless felt that it was appropriate to focus on CFOs. Given that the intention of the interview was not only to establish personal views but also to establish facts on the authority's experience of blue collar CCT and the approach to and preparation for financial services CCT, it is believed that authoritative information could in fact best be supplied by the CFO. In addition, there is no available published evidence exclusively devoted to the views of CFOs on CCT.

However, as stated in 2.2 above, it is recognised that different perspectives would have been expected had the same questions been put to officers outside the finance department and also inside it, for instance relating to the quality of service provided by the finance department.

2.6 Questionnaire Survey: Non-Participants and Non-Respondents

In assessing the research methodology, and ultimately in analysing research findings, it is useful to consider, first, the degree to which certain CFOs refused to allow their organisations to participate in the research ('non-participants') and, second, the extent to which individuals did not return the questionnaire ('non-respondents').

Excluding the 5 authorities which did not respond at all, of the 27 respondents, 10 refused to participate.

Of the 10 non-participants, 3 did not give a reason for non-approval. One of the three replied in writing and simply stated:

In reply to your letter of 31st May I regret that I am unable to participate in your research project. Of the remaining 7, 1 stated that the very recent retirement of the Director of Finance and the appointment of a new Chief Executive had led to a considerable degree of uncertainty and that, because of this, it was not felt appropriate at that stage to participate in the research.

The remaining 6 non-participants all stated that non-approval was because of pressure on staff time. Examples of written responses include non-approval due to:

.....internal resourcing problems.....rather than any problem with your research content.

and:

I am at present trying to determine how the Authority can deal with the practical workload implications of the increased percentage for financial services being exposed to CCT. It would be ludicrous to take on additional work required by your questionnaire when we are considering what tasks can remain undone for the next twelve months.

and:

I am sorry, because of pressure of work, particularly Unitary Status, we are unable to participate in this survey.

finally:

I regret that neither I nor my staff are able to participate in your research project because of pressure of work, brought about in part by the topic you wish to research.

It was disappointing to receive these responses given that each individual accountant was free to choose whether to complete the questionnaire and that, of those who may have chosen to do so, they could have completed them in their own time, eg lunch-break or at home. It is acknowledged that the majority of those who may have chosen to complete them may well have done so during 'work time' but the likelihood of this is not, in the opinion of the author, a particularly strong reason for non-approval. It was also disappointing not to receive any response from 5 of the authorities, despite follow-up requests.

With regard to the questionnaire non-respondents, as shown in Box 4.1 above, 56% responded and, therefore, 44% did not. This is regarded as a very good response rate but it was not possible to improve upon it by sending reminders to non-

respondents as these could not be recognised. Anonymity had been guaranteed, individually and organisationally, and this meant that individuals could not be contacted and requested to complete the questionnaire. It would have been possible to send a general reminder but it was felt that the cost of doing so, financially and in terms of time, was not likely to be justified by the increased number of returns.

3.0 Conclusion

In implementing the chosen research methodology, the problems and pitfalls of questionnaire design were experienced but the process of piloting helped in their identification and elimination. The experience of conducting interviews was also a useful one given the discipline it imposes if useful information is to be obtained in the time available. However, although not all authorities participated, the co-operation of 17 authorities for questionnaire purposes, a 56% response rate to the questionnaire and the approval to interview 11 CFOs would all have been acceptable at the outset.

Chapter Five

Research Findings

Chapter Structure

1.0	<i>Introduction</i>
2.0	<i>Questionnaire Respondents: General Information</i>
3.0	<i>Interviewees: General Information</i>
4.0	<i>Research Findings: Hypothesis One - Blue Collar CCT</i>
5.0	<i>Research Findings: Hypothesis One - Non-Finance White Collar CCT</i>
6.0	<i>Research Findings: Hypothesis Two</i>
7.0	<i>Research Findings: Hypothesis Three</i>
8.0	<i>Conclusion</i>

1.0 Introduction

This chapter presents general information on the respondents, as obtained from Section 1 of the questionnaire, and interviewees. The research findings in respect of the hypotheses to be investigated are then presented. A copy of the questionnaire, containing responses to each question, is included as Appendix A.

2.0 Questionnaire Respondents: General Information

As stated in Chapter Four (para 2.3.2, see Box 4.2), 296 questionnaires were distributed, of which 164 were completed and returned, from which data were obtained as given in Box 5.1.

For analytical ease, a number of categories of responses as given in the original questionnaire have been merged. This applies to certain information as given in Box 5.1, including Employing Organisation, which is now simply in two categories, *ie* metropolitan and non-metropolitan authorities, and accountancy qualification, which is now simply CIPFA and non-CIPFA (note: the questionnaire refers to 'CCAB qualification', which means membership of the Consultative Committee of Accountancy Bodies).

The information contained in Box 5.1 has been further analysed to provide more information as to the 'typical' respondent, see Box 5.2, but more detailed analysis is not provided as further sub-divisions contained too few respondents.

Box 5.1		
General Information on Respondents		
Questionnaire Refs. Qs1.1, 1.2, 1.3, 1.4, 1.5, 1.6, 1.7		
	Number	%
<i>Employing Organisation:</i>		
Metropolitan Authority	126	77
Non-Metropolitan Authority	37	22
No response	1	1
<i>Total</i>	<i>164</i>	<i>100</i>
<i>Political Control:</i>		
Labour	139	85
Non-Labour	16	10
No response	9	5
<i>Total</i>	<i>164</i>	<i>100</i>
<i>Accountancy Qualification:</i>		
CIPFA	136	83
Non-CIPFA	27	16
No response	1	1
<i>Total</i>	<i>164</i>	<i>100</i>
<i>Post-Qualification Experience (Years):</i>		
5 or less	43	26
6-10	24	15
11-15	22	13
16-20	32	19
More than 20	42	26
No response	1	1
<i>Total</i>	<i>164</i>	<i>100</i>
<i>Experience of Working Full Time in the Private Sector:</i>		
Yes	43	26
No	120	73
No response	1	1
<i>Total</i>	<i>164</i>	<i>100</i>
<i>Status:</i>		
CFO / DCFO / ACFO / equivalent	53	32
Non-CFO / DCFO / ACFO equivalent (see below)	108	66
No Response	3	2
<i>Total</i>	<i>164</i>	<i>100</i>
<i>Non-CFO / DCFO / ACFO equivalent: section worked in:</i>		
Accounting	66	40
Audit	18	11
Other	24	15
<i>Total</i>	<i>108</i>	<i>66</i>

Box 5.2	
Respondents' Profile	
Category 1:	Number
Metropolitan Authority / Labour-controlled / CIPFA-qualified / Not previously worked in the private sector full time	79
Category 2:	
All respondents not included in Category 1 above	65
<i>Total</i>	<i>164</i>
Breakdown of Category 1:	
CFO / DCFO / ACFO or equivalent	19
NOT CFO / DCFO / ACFO or equivalent	60
<i>Total</i>	<i>79</i>

2.1 Employing Organisation

It can be seen that the majority of respondents (77%) (Box 5.1) are employed in metropolitan authorities. For information, of the 37 respondents employed in non-metropolitan authorities, 30 were employed in district councils and 7 in county councils. This compares to a total estimated population of 600 (derived from sources as discussed in Chapter Four, para 2.4.2) as given in Box 5.3.

Box 5.3			
Questionnaire Survey: Numbers of Accountants and Responses			
	Estimated number of qualified accountants in the 32 North West authorities	Number of questionnaires distributed	Number of responses
County Council	150	8	7
District Council	100	42	30
Metropolitan District	350	246	126
Not identified			1
<i>Total</i>	<i>600</i>	<i>296</i>	<i>164</i>

However, please note, as per Box 5.3, only 8 questionnaires were actually distributed to county council accountants. Inevitably this means that the survey is strongly influenced by the views of accountants within metropolitan authorities and this could be significant as

they were the ones most immediately affected by CCT. At the time the survey took place (September 1996) the regulations stipulated that 35% of financial services had to be subject to CCT by April 1997 in the case of the metropolitan authorities but, also at the time of the survey, the proposals on which consultation was then taking place (announced in May 1996) involved increasing the percentage to 65%, with the timescale remaining the same (see Chapter Two, Box 2.2). It seems reasonable to conclude that the views of accountants generally may have been influenced by the proposals under consideration at the time of the survey and that this particularly applies to the accountants within metropolitan authorities. However, it could also be reasonably concluded that, had the survey taken place earlier, accountants may have been more complacent about or supportive of CCT in the knowledge that they were, in reality, unlikely to be affected. It was this potential lack of impact, with authorities exploiting the regulations at the time in force, which led the former government to introduce the sweeping changes being considered at the time of the survey.

Although the majority of respondents are employed in metropolitan authorities, the response rate from those in district councils is good, representing an estimated 30% of the total population (*ie* 30 out of 100 – see Box 5.3).

2.2 Political Control

The situation in the North West reflected the national domination of English local authorities by the Labour Party. 85% of respondents work in Labour-controlled authorities (Box 5.1), reflecting the fact that 13 of the 17 authorities which participated in the survey were Labour-controlled (see Chapter Four, Box 4.1).

2.3 Professional Accountancy Qualification

In much the same way that the Labour Party is pre-eminent politically in local government, nationally and locally, so CIPFA is pre-eminent as the main professional accountancy qualification in the sector and, again, this is reflected in the responses, with 83% of respondents being CIPFA qualified (Box 5.1).

Please also note that, of the 164 respondents, 4 held more than one professional accountancy qualification but each was CIPFA qualified. For analytical purposes, these have been categorised as non-CIPFA, justified on the basis that those with non-CIPFA qualifications have, by definition, been exposed to a greater level of commercial

accountancy practice than someone who is CIPFA qualified only, and this is not negated when dual qualifications are held. Such an exposure to commercial practice could be expected to mean a greater sympathy with the thrust of changes to which local authorities have been subjected.

2.4 Post Qualification Experience

The responses indicate a good spread of experience, with 26% being qualified for 5 years or less and 26% being qualified for more than 20 years. The question was based on the assumption that those with most experience could be expected to be less likely to welcome change than those relatively recently qualified. The question helps explore the extent to which accountancy personnel in the North West were brought up in, and perhaps nostalgic for, a completely different, non-commercial, local authority environment than that which arguably prevails today, *ie* an environment in which accountancy practice was unique and only recently has been forced to conform to 'best commercial practice' (see Wilson, 1996a).

However, post-qualification experience is not simply a matter of chronology. More recently-qualified accountants will have undertaken their education and training having studied different subjects and been involved in different work-based tasks. For instance, with regard to professional syllabi, it is not simply a question of different topics being covered under the same subject headings, but actually different subjects now being studied. An example of this is the fact that CIPFA-registered trainees now study Business Strategy as a discrete, separately-examined subject within the context of a specific sector of the trainee's choice (*eg* local government, National Health Service). This change was introduced in 1993 and was additional to a fundamental syllabus change in 1990, which was the first change since 1975. These changes reflect the pace of change within the public service environment and the increasing sectoral overlap between public and private sectors.

It was assumed that those who had most recently qualified, having been exposed to a more 'private sector' education syllabus, would be more sympathetic to CCT than those who, perhaps, had qualified many years ago and who had been subject to a conventional public sector education and training learning experience.

2.5 Experience of Working Full Time in the Private Sector

As with the point made under 2.4 above, the question is based on the assumption that accountants with private sector experience would be more likely to be supportive of CCT, or at least less antagonistic towards it, and less likely to view it as a threat to job security and established patterns of working. This, it is further assumed, is because they may be used to more flexible working patterns and less likely to regard traditional public sector job security as something which should not be threatened. However, it may also be the case that any movement from private to public sector was for reasons of enhanced job security, possibly at the expense of higher private sector salary levels, and any threat to this could trigger an even greater degree of antagonism to CCT in that it undermines the very reason for the job change.

2.6 Status / Category of Work

The questionnaire, Q1.6, asks whether the respondent is a Chief Financial Officer (CFO), Deputy CFO (DCFO), Assistant CFO (ACFO) or equivalent with responsibility for one or more of the categories listed in the next question, Q1.7, which should only have been answered if the answer to Q1.6 was 'No'.

Of the respondents, 53 (32%) stated that they were a CFO, DCFO, ACFO or equivalent. Of those who were not, 66 worked in Accounting, 18 in Audit and 24 in one of the Other sections (*eg* payroll, creditor payments *etc*), representing 40%, 11% and 15% respectively of total respondents.

For information, the 24 working in Other sections did so as follows:

<u>Section</u>	<u>Number</u>
Sundry Income Collection	1
Administration of Local Taxation	1
Treasury Management	1
Insurance	2
Service Department	9
Other (<i>eg</i> DSO but not always specified by respondent)	10
Total	24

The sections listed in Q1.7, as stated in Chapter Four para 2.3.1, were taken from CIPFA (1995b).

The spread of the respondents is good between those answering ‘Yes’ and ‘No’ to Q1.6, and predictable in the responses given to Q1.7, *ie* the majority of accountants work in accounting or audit.

3.0 Interviewees: General Information

A total of 11 CFOs were interviewed. Summarised information is given in Box 5.4. (see also Chapter Four, Box 4.1).

The 11 interviewees are all CIPFA-qualified, with 5 (45%) having between 16 and 20 years experience, all in the public sector. Of the 11, 7 are in Labour-controlled authorities and 4 are in authorities where there is no overall control.

Box 5.4		
General Information on Interviewees		
	Number	%
<i>Employing Organisation</i>		
County Council	3	28
District Council	4	36
Metropolitan District	4	36
<i>Total</i>	<i>11</i>	<i>100</i>
<i>Political Control</i>		
Labour	7	64
No Overall Control	4	36
<i>Total</i>	<i>11</i>	<i>100</i>
<i>Accountancy Qualification</i>		
CIPFA	11	100
<i>Total</i>	<i>11</i>	<i>100</i>
<i>Post-Qualification Experience (Years)</i>		
5 or less	0	-
6-10	1	9
11-15	2	18
16-20	5	45
More than 20	3	28
<i>Total</i>	<i>11</i>	<i>100</i>
<i>Experience of Working Full Time in the Private Sector</i>		
YES	-	
NO	11	100
<i>Total</i>	<i>11</i>	<i>100</i>

4.0 *Research Findings: Hypothesis One - Blue Collar CCT*

Hypothesis One is as follows:

Professional personnel within the finance function of local authorities in the North West of England oppose:

- (i) blue collar CCT
- (ii) non-finance white collar CCT

because they believe that the process of CCT does not lead to:

- (a) reduced costs or improved efficiency
- (b) improvements in the quality of service delivery.

In order to test the hypothesis, a number of specific questions were included in the questionnaire and interview. The responses are analysed below in paras 4.2 to 4.4 inclusive, following discussion of authorities' overall approach to blue collar CCT (para 4.1 below).

4.1 Blue Collar CCT: Local Authority Policy

From the interviews with CFOs, it was established that all 11 authorities had adopted an approach towards CCT which could be defined as 'pragmatic' or 'neutral' (see Fenwick, Shaw and Foreman, 1993), in that, although there was a general tendency to support in-house provision, the emphasis was on 'winning fairly'. There were examples of: services being put out to tender voluntarily (*eg* refuse collection); in-house tenders being lost (*eg* building cleaning); examples of less in-house success as contracts, let under the first round of tenders, were re-tendered and competition increased; but, overall, there was a general commitment to retain services in-house. Perhaps surprisingly, however, there was a general inability on the part of the CFOs to state unequivocally, or to locate, a specific policy statement to that effect. Although local authorities would not explicitly adopt a policy statement which contravened their legal obligations, it would be perfectly reasonable for local councils to adopt a policy which, for whatever reason, involved a commitment to externalise work or to retain it in-house. In some cases it was stated that there is a specific and explicit committee minute stipulating the council's wishes but, in general, there appeared to be an absence of a clear policy statement and, though this was not entirely unexpected, it served to illustrate how policy may be assumed or be allowed to develop piecemeal.

Insofar as authorities were committed to retaining services in-house, some may have been more willing than others to explore all possibilities to ensure this was achieved. However, in general terms, the policy adopted by the councils whose CFOs were interviewed was to comply with the legislation but not to go beyond statutory requirements. Again, in some instances, this may have been 'reluctant compliance' as typified by the Labour councils in the survey of Rao and Young (1995, p9), but could not have been described as dogmatic non-compliance. As with the study of Fenwick, Shaw and Foreman (1994, p204) this could perhaps be explained by the absence of a strong left-wing element in North West councils, a significant point given the number of Labour-controlled authorities within the interview survey (7 out of 11, see Chapter Four, Box 4.1).

It is important to note, however, that a wish to retain services in-house is not the same as opposing CCT. The latter may naturally follow from the former but need not necessarily do so. Retaining services in-house is an outcome, possibly also a policy objective, whereas CCT is a process. It is possible to use the process to achieve the objective and the two should not be confused.

The following comments are typical of the ones given. Please note that each CFO has been given a specific reference from 1 to 11.

CFO 5

The general approach has always been one of wanting to win in-house but mainly because the members actually, and I would say the Officers, believe the in-house service is actually better. There are advantages. You can change the contract during the contract when it is in-house. You can actually get quite a lot of added value out of having your own people. So there is a real belief that in-house provision is right. Secondly, the approach was always one of complying with the law. Whilst, maybe, some politicians didn't like the requirement of the law and, in many ways, wanted to resist it, they always complied with what was needed. So, when we went out to tender, we did everything we could to make sure we won but in a fair way and within the legal requirements, which I know is not necessarily the sort of stance others have taken but we always felt that was the right way.....We did actually have a policy and, I suppose, it is currently somewhere but don't ask me to put my hand on it; but we also had [a number] of priorities or key principles which basically encompass that [policy] but it is also [designed] to look after staff. [Members] felt [staff had shown] loyalty, people had worked here a long time, and they felt they owed the staff something out of all this. [The policy] started off being.....much more [about] winning and looking after staff; [however, very quickly it changed, to have just as big a focus on customers, service delivery. The final [policy] we ended up with, over three years ago, also included a principle that we would look to other forms of other service provision if it was thought that it gave the best overall approach. It might be working with a partner or it could even be to externalise in certain situations. So I would say [policy] developed over the blue collar services from being very, very strong in-house only, to being much more balanced but it was always within those original principles of being within the law.

CFO 8

The authority's stance throughout the blue collar regime.....is to retain all contracts in-house. We have done whatever possible legally to do that. [The policy is not formally defined but has] evolved.

CFO 9

There is actually a written policy but I am struggling to put my finger on exactly what it's part of. It is not a behind the scenes, unofficial assumption. The members have categorically stated that they expect [the Council] to support its in-house [workforce] to ensure that they are as competitive as possible to succeed in the competitive market place. That has been explicitly stated.

This preference for in-house provision provides the regional context within which views were expressed by means of questionnaire and interview.

4.2 Questionnaire Survey: Views on Blue Collar CCT

Q2.2 of the questionnaire asked respondents to indicate which of 5 statements summarised their views on blue collar CCT. The results are given in Box 5.5.

Box 5.5		
Views on Blue Collar CCT		
Questionnaire Ref. Q2.2		
Statement	No.	%
I have never supported blue collar CCT and still do not [line 1]	59	36
I have always supported blue collar CCT and still do [line 2]	37	23
I was opposed to blue collar CCT but now support it [line 3]	23	14
I supported blue collar CCT but now oppose it [line 4]	9	5
I do not have views for or against blue collar CCT [line 5]	34	21
No response	2	1
<i>Total</i>	<i>164</i>	<i>100</i>
Summary from above responses:		
Support [line 2 plus line 3]	60	37
Oppose [line 1 plus line 4]	68	41
Neutral [line 5]	34	21
No response	2	1
<i>Total</i>	<i>164</i>	<i>100</i>

These findings are in sharp contrast to those reported by Broom (1994b) which revealed that, in local government, 60% of all accountants opposed CCT and only 16% were in favour (see Chapter Three, para 6.3). Though it is not entirely clear whether accountants, in the survey reported by Broom, were asked their views on CCT in general or

specifically in relation to blue collar, white collar or financial services, it would seem reasonable to interpret Broom's findings as relating to CCT in general. However, the degree of support for white collar CCT in general (see para 5.2 and Box 5.10 below) and financial services in particular (see Box 5.18) is much lower.

Within the figures given in Box 5.5, 19% had changed their mind on CCT, *ie* 14% now supporting it having previously opposed it and 5% experiencing the reverse. Those who had changed their mind were requested to indicate why they had done so. The following comments, taken from the completed questionnaires, are typical of those given to indicate why blue collar CCT is now supported, although, in places, they also indicate opposition to the compulsory element of CCT. Please note that each respondent has been given a specific reference from 1 to 164:

Respondent 6

Created an environment in which change could be brought about, to parts of the organisation were (*sic*) costs had not been contained and service delivery could be improved.

Respondent 28

There is no doubt that efficiency gains have been made which would not have otherwise occurred.

Respondent 37

There have been significant net financial advantages which would not have been realised to the same extent without CCT.

Respondent 44

My views changed after recognising that negotiating away restrictive practices with blue collar trade unions would never have succeeded without the discipline of CCT.

Respondent 45

The refuse collection service has improved enormously in the authority where I live now that the contract has been won by a private sector organisation.

Respondent 47

The disciplines imposed by the process have enabled positive changes to be made.

Respondent 49

It has, unfortunately (*sic*), been the one measure that has forced many authorities to look at what they do and how they do it. Restrictive practices *etc* have had to go. More multi-skilling.

Respondent 67

Originally opposed because I saw it as an attack on Local Government at that time - however from a pragmatic and cost point of view there have been obvious benefits to council taxpayers.

Respondent 76

Increased value for money, measured in terms of £s rather than quality.

Respondent 81

The effects of blue collar CCT have been to focus attention on specification, quality and productivity and to that extent I support it. However, I am concerned that the “level playing field” does not apply with obvious advantages to the private sector.

Respondent 97

It has helped improve efficiency/management within the department.

Respondent 114

Wasn't violently opposed, because was (*sic*) inexperienced when it was first implemented. It appears to have been successful in terms of efficiency, although overheads to account for it and comply with legislation are a cost.

Respondent 120

Initially involved a lot of preparation and/or possibility of redundancies. I now believe it forces authority (*sic*) to examine costs and has resulted in cost savings at a time when resources are severely constrained by capping regime etc.

Respondent 131

Blue collar CCT forced authorities to critically review operating costs/procedures in [blue collar] areas which have (*sic*) led to efficiency and cost savings.

Respondent 134

CCT has given managers the opportunity to manage activities more effectively than previously. I am against compulsory competition [emphasis in original].

Respondent 140

I believe blue collar CCT has been of benefit to local authorities in terms of VFM [Value for Money] but still oppose the 'compulsory' element and associated bureaucracy.

Respondent 151

More thorough understanding of principles behind adoption of CCT when working in the field.

Respondent 155

CCT has forced employers to address (if not wholly successfully) some of the managerial problems inherent in blue collar services.....and thereby attempt to improve service and quality of work.

Given below are examples of comments to indicate why the policy is now opposed, though it can be seen that, in places, opposition is actually based on a belief that the policy has succeeded to the extent that, for instance, it is believed that no further efficiency gains can be found. The comments also indicate that the policy is not necessarily opposed in principle but the way it is being implemented is causing concern:

Respondent 1

The original cost savings from overstaffing have now been achieved and now costs of administration *etc* exceed any savings produced - particularly client side costs and costs of seeking and evaluating tenders.

Respondent 4

There was no doubt that value for money was not being delivered by council services. However, in typical British over-reaction legislation introduced over the years has produced a bureaucracy of officers to ensure that value for money is delivered! Competition is one-sided in favour of the private sector.

Respondent 41

The inaccessibility to other markets for Direct Service Organisations gives competitors a long-term advantage. Emphasis on price has not led to the reinvestment of any savings made because the Government has maintained a continuous tight control of Local Government spending.

Respondent 69

I do not oppose CCT in principal (*sic*) but in the way it is imposed. Increasing restrictions in DLO tendering along with the recent advice to 'create' a market means that the odds are stacked against an in-house DLO.

Respondent 77

Continual financial squeeze is unnecessary and counter-productive. Worked well for initial savings/efficiency measures but contracts now being let are unworkable.

Respondent 80

Major financial savings were achieved during first round of CCT. Usefulness of a second round of tendering (with TUPE) is questionable.

Respondent 108

Not allowed to roll forward profits or losses from previous years, as a private sector company would be. Expected to adhere to all aspects of the contract - yet the service clients are not.

Respondent 137

Blue collar CCT produced financial savings and quality improvements which have been beneficial. Once these have been achieved, the continuing process thereafter is inflexible, bureaucratic and inequitable and results in additional costs. Budget pressures are sufficient to ensure previous savings are not lost.

Respondent 154

Bureaucratic approach - more inefficiencies created!

Despite the fact that certain respondents had, over time, come to oppose the policy, the findings reveal that 58% are unopposed (*ie* 37% support and 21% are neutral). See Box 5.5 above. It is believed that the significance of this finding is enhanced given the nature of the respondents. As professional accountants, it is assumed that all would be able to provide well-informed feedback and this assumption is reinforced by the fact that, of total respondents, a third were a CFO, DCFO, ACFO or equivalent (see para 2.6 and Box 5.1 above). In addition, in answering Q2.1, which asked: 'Have you had a direct involvement in blue collar CCT?', 44.5% responded 'YES' and 55.5% responded 'NO'. The fact that nearly half (44.5%) had experienced a direct involvement reinforces the view that well-informed feedback is being provided.

Statistical analysis, using SPSS cross-tabulations, revealed a significant relationship between views held and responses to Q2.1 (chi-square value 12.21935; chi-square probability: 0.01579). See Appendix C. The results indicate that where respondents had experience of a direct involvement in blue collar CCT, they were more

likely to oppose it having previously supported it. However, there is one 'expected' frequency below 5 (see Appendix C, 'Supported now Oppose', expected frequency is 3.9) and so the chi-square value is an approximation here. Further statistical analysis of the responses revealed that there were no significant relationships between the background of the respondent (*ie* responses as given in Section One of the questionnaire and summarised in Box 5.1 above) and their views on blue collar CCT. See Appendix D. This is interesting in that it indicates that views on blue collar CCT are not influenced by previous private sector experience, type of accountancy qualification, status within the organisation *etc.*

The total level of non-opposition (58%, see Box 5.5, *ie* 37% support and 21% neutral combined) was also reflected in the interviews with the CFOs, see para 4.3.2 below. Reasons for this level of non-opposition are now considered.

4.3 Costs

4.3.1 Questionnaire Survey

Questions and responses re the above are as given in Boxes 5.6 and 5.7.

Box 5.6								
Blue Collar CCT: Costs in Respondents' Employing Organisations								
Questionnaire Ref. Q2.3.								
Question	Increased		No effect		Reduced		Don't Know	
	No	%	No	%	No	%	No	%
What impact do you believe the process of CCT has had on the overall <u>costs</u> of blue collar services for <u>your authority</u> ?	14	8	13	8	119	73	18	11

Box 5.6 shows that 73% of respondents believe that CCT has reduced the costs of blue collar services within their own authorities. Views on the impact of blue collar CCT nationally are given in Box 5.7.

With regard to the impact of CCT on the costs of blue collar services, respondents believe that the experience of their employing organisations is consistent with the trend nationally, *ie* they believe it has resulted in net savings locally (73%, see Box 5.6) and nationally (69%, see Box 5.7, *ie* 6% 'strongly agree' plus 63% 'agree'). This is a larger proportion than that reported by the LGMB (1997a) survey of local authority chief executives (see Chapter Three, Box 3.9) which reported that, in 1996, 65% believed that competition had reduced the costs of service provision.

Box 5.7												
Blue Collar CCT: Perceived Impact on Costs Nationally												
Questionnaire Refs. Qs2.5, 2.6, 2.7, 2.8, 2.9												
	Strongly Agree		Agree		Disagree		Strongly Disagree		Don't Know		No Response	
Statement	No	%	No	%	No	%	No	%	No	%	No	%
It has resulted in net savings to local authorities nationally	10	6	104	63	36	22	3	2	10	6	1	1
It has resulted in greater productivity of labour	6	3	116	71	30	18	1	1	10	6	1	1
It has resulted in greater productivity in use of equipment	7	4	93	57	24	15	38	23	-	-	2	1
It has resulted in reduced levels of employment	41	25	109	66	10	6	3	2	-	-	1	1
It has resulted in deterioration in conditions of employment	33	20	92	56	26	16	2	1	10	6	1	1

The findings also contrast with those reported by Broom (1994b) (see Chapter Three, para 6.3). Although it would appear that there are differences in the precise wording of the questions, Broom (1994b) reported that only 9% of local government accountants in a national survey thought that CCT was the best way of improving value and 73% thought it resulted in little improvement in value for money. In linking savings with value for money, however, it is necessary to consider quality - see para 4.4 below.

The source of the cost savings is believed to be improved productivity through more efficient use of equipment and, in particular, labour. However, although 74% (*ie* 3% 'strongly agree' plus 71% 'agree', see Box 5.7) believe it has resulted in greater productivity of labour, 91% (*ie* 25% 'strongly agree' and 66% 'agree', see Box 5.7) believe it has also resulted in reduced levels of employment. 76% (*ie* 20% 'strongly agree' plus 56% 'agree', see Box 5.7) believe it has resulted in a deterioration in conditions of employment, and this contrasts with 60% reported by LGMB (1997a) (see Chapter Three, Box 3.9). In other words, it appears reasonable to conclude that respondents do not believe efficiency gains have been achieved through more productive use of all the pre-CCT workforce but rather through, first, its reduction and, second, a deterioration in conditions of employment for those who may remain.

4.3.2 Interviews

With regard to the impact of blue collar CCT, all CFOs acknowledged that it had forced a review of structures and operational efficiency and they all agreed that

examples could be given where service costs had been reduced (particularly true of refuse collection). However, 2 CFOs were sceptical as to the net savings:

CFO 1

... we have gone through a lot of work and I am doubtful as to the end product, certainly on the blue collar side. There may be some cost savings but I don't think they're overwhelming.

CFO 7

In the main one has to say that blue collar CCT and, no doubt, white collar CCT causes you to look at the way in which you are organised and causes you to look at the costs you are incurring and to see whether, in fact, there are ways in which things can be done cheaply without affecting quality and without affecting service levels or pay levels or conditions of employment and so on. As a general rule, I honestly have to say, that whether the costs of creating the client side operation and the tendering function have been matched by savings from the tendering exercise is difficult to prove one way or the other. The one clear area where there has been a spectacular saving is refuse collection.

However, 9 out of 11 CFOs stated that it had undoubtedly resulted in increased efficiency and financial savings for local taxpayers. Though this was particularly true of refuse collection, it also applied to other services. There was an understandable reluctance to quantify the level of savings, given that they vary with services, but the fact that they had been achieved was a common feature of the responses. Examples of comments include:

CFO 2

I think certainly on the savings side it has produced an overall financial benefit for the authority even when you take the extra client's costs into account.

CFO 3

In general, I am not averse to [CCT]. It has forced certain issues to be addressed which otherwise would not have been. Where I am unhappy, however, is that even if you play by the rules, if the end result is that you do not externalise there seems to be an assumption by the [former] Government that you have not behaved properly. I don't know why they just do not say that you have to put work out. Mainly for this reason, I have become more cynical over time..... Certainly resulted in savings. For instance, with regard to refuse collection, initially we had 17 rounds and in excess of 100 men; now we have 6 rounds and 57 men, mainly as a result of ending the 'task and finish' practice.

CFO 4

With regard to the financial impact of CCT, there is no doubt that the authority has achieved substantial savings as a result of CCT....refuse collection for instance, I always remember the previous Chief Officer responsible for it, having put improvements in place when the service was entirely in-house prior to having been exposed, it had saved the authority about £100,000 a year, which was considerable and in terms of the budget for refuse collection it was a remarkable achievement. When we exposed the service to tender, we achieved a further ¼ of a million on top of. Now I am not certain that if CCT....had not been required, whether we'd have gone any further than a £100,000.

CFO 5

I think I have to be fair and say it has resulted in savings.....

CFO 6

For refuse collection it was abundantly clear that it was costing us about £7 million a year and the private contract was about half that. There is a suspicion that the private

contractor is losing money substantially but it is certainly saving the...Council a substantial sum of money. So there can be no doubt that CCT forced the local authority to put the work out to tender and it reaped substantial financial savings as a result of that. In other areas I think it is less clear.

CFO 9

.....undoubtedly there have been financial benefits from going into competition.

CFO 10

.....costs have been shaken out, both direct costs and overheads....we have saved on things like depot rationalisation and so on.....

CFO 11

Personally, with regard to blue collar CCT, I was agnostic on the issue. I now think it has proved worthwhile for blue collar services in terms of cost reductions (the reductions would not have happened without CCT - I remember one of my predecessors being told that engineering was working to maximum efficiency and that there was no fat - this, of course, turned out to be wrong). So, as a financial exercise it has proved to be a success.....

One of the 9 CFOs stated that, although savings had been achieved, these could have been greater had the policy not been compulsory - all CFOs expressed disagreement with compulsion - in that it forced authorities to subject certain services to competition, eg vehicle maintenance, involving considerable compliance costs, even though it was predictable that there would not be any private sector interest:

CFO 8

[Savings vary] very much with service [but] undoubtedly there have been savings in the blue collar area. In terms of our success on blue collar tendering, we are finding, on the re-tenders, there is more and more competition. So a lot of the tenders that we won first time round, we are struggling to hold this time. We have lost one of the grounds maintenance tenders. The competition is getting more acute. We have made savings.....but [they] have to be offset against significantly higher management and administration costs for the whole of the tendering and assessment and monitoring procedure. Any belief that monitoring costs are the same, whether it is in-house or external, is just rubbish because if it is an in-house tender and they are under the same Chief Officer then he just knocks a couple of heads together and says 'look sort this out' and that doesn't happen with an external contractor. You need a much bigger monitoring unit. The net effect is that savings exceed the costs but if we had been given encouragement to go along this line but it hadn't been compulsory, and we had been able to select which services went out then we could have had a greater net gain because there were some where there have been no net savings, just increased costs, and they were fairly clear what was going to happen. We have had a number of tenders where we have had no competition. Not because we have been particularly aggressive to potential tenderers but just simply there wasn't anybody around to do the job. It may well be that, as the private sector gains experience, that prospective tenderers will emerge in future.

However, consistent with the findings of Martin, Gaster and Taylor (1995) (see Chapter Three, para 6.3), 3 CFOs stated that CCT was, in effect, a distraction and actually hindered the process of improving services. For example:

CFO 6

I think the whole process of CCT has a significant cost and overhead attached to it which is often forgotten and if it doesn't result in a major improvement in the efficiency of the service, then there is a net cost. The net can be in terms of additional staff that might be needed to run the process or the cost could be felt as an opportunity cost, when things that otherwise would have been done are not now done and, from my own point of view, there are things I would have liked to have done.....Yet my time has been spent on dealing with CCT issues.

Though such a view was not generally expressed in relation to blue collar services, it was more frequently expressed in relation to white collar (see para 5.3.2 below).

The source of the savings was generally attributed to improvements in productivity, but this in turn had involved reductions in the size of the workforce and in terms and conditions of employment:

CFO 8

[The source of savings has been] broadly improvements in productivity.

CFO 9

[CCT has] without a doubt resulted in savings, but there is a price to be paid and I guess to some extent that price is paid for by the workforce because there have been circumstances in which the....Council, in order to make its in-house units viable, has had to review the terms and conditions of the workforce to place them on a more level playing field compared with the private sector.

CFO 10

.....these are employee intensive businesses rather than capital intensive, particularly on things like cleaning and catering. Generally speaking it leads to savings in employee costs rather than anything else.

However, one CFO believed these developments were, in part, corrections to an imbalance which had been allowed to develop over time, but which may have taken place anyway without CCT given the changes occurring in the market place:

CFO 5

In some areas we have definitely reduced terms and conditions so people are being paid a lot less [but] CCT...came at a time when.....the economy was going downhill. There was more unemployment, the market place for pay was going down. Now CCT gave us the tool to negotiate, with the employees, a reduction more in line with market forces, and so it came about; but maybe we would have achieved that anyway as the market place changed.....I think attitudes were changing anyway amongst the workforce but there is no doubt CCT was a very strong catalyst. My view is that, if you go back in time, we had to pay more. You couldn't get people to empty the bins. You couldn't get people to cut grass. You ended up having to pay more and introducing bonus schemes to pay people enough to attract them. If you go back, probably to the 70s and early 80s, pay wasn't over the top but by the late 80s, it probably was because the market had changed.

In summary, it was generally accepted that savings had been achieved. However, it was also necessary to consider whether they had been achieved at the expense of quality.

4.4 Quality

4.4.1 Questionnaire Survey

Questions and responses re the above are given as in Boxes 5.8 and 5.9.

Box 5.8								
Blue Collar CCT: Quality in Respondents' Employing Organisations								
Questionnaire Ref. Q2.4.								
Question	Increased		No effect		Reduced		Don't Know	
	No	%	No	%	No	%	No	%
What impact do you believe the process of CCT has had on the overall <u>quality</u> of blue collar services for your authority?	69	42	35	21	47	29	13	8

Box 5.8 shows that a majority of respondents (63%, *ie* 42% + 21%) believe that CCT has resulted in an improvement in quality (42%) or with no effect on quality (21%) in their own authority. Views on the perceived impact nationally are given in Box 5.9.

Box 5.9												
Blue Collar CCT: Perceived Impact on Quality Nationally												
Questionnaire Ref. Q2.10												
Statement	Strongly Agree		Agree		Disagree		Strongly Disagree		Don't Know		No Response	
	No	%	No	%	No	%	No	%	No	%	No	%
It has resulted in improvements to service quality	1	1	65	40	67	41	18	11	12	7	1	1

The survey revealed that 41% (*ie* 1% 'strongly agree' and 40% 'agree', see Box 5.9) believe that service quality has improved nationally and this is consistent with 42% who believe it has done so locally (see Box 5.8), though the findings contrast with LGMB (1997a) which reported that 46% of respondents believed that competition had raised service standards and 71% believed it had increased concern for quality (down from 55% and 73% respectively in 1994, as reported in LGMB 1996b) (see Chapter Three, Box 3.9). However, other respondents believe that quality has been reduced, but more so nationally than locally *ie* 29% believe it has reduced service quality locally (Box 5.8) but 52% (*ie* 41% 'disagree' and 11% 'strongly disagree', see Box 5.9) believe it has done so nationally.

In the main, the responses with regard to the perceived impact locally are consistent with the available empirical evidence on the impact of blue collar CCT (as summarised in Chapter Three, Box 3.6). However, in the case of quality nationally, the respondents' perception differs from the evidence. The proportion of the respondents who 'disagree' or 'strongly disagree' (52%, see Box 5.9) with the statement that CCT has resulted in improvements to service quality is high when compared not only with the perception of its impact locally but also when compared with the empirical evidence. Empirically, there is evidence nationally of deterioration in service quality (see Chapter Three, Box 3.6), but this is not universal and is offset, wholly or partly, by the evidence of improved internal management and greater attention to levels and quality of service. This need not be contradictory in that CCT has forced a review of service levels and associated costs and, consequently, has also led some councils to make a definite decision to offer a lower level of service but one which is consistent with local preferences. This point is made by a number of the CFOs in the interviews, see 4.4.2 below.

4.4.2 Interviews

It was believed by 2 CFOs that quality of service had been maintained as specifications had been formulated to reflect pre-CCT service levels and were being satisfactorily delivered:

CFO 7

[In terms of overall quality], as far as I am aware, it is pretty much the same as [before].

CFO 11

In terms of quality, I would doubt that there has been a reduction given that specifications have been tightly drawn.

However, 2 CFOs believed that, though specifications reflected pre-CCT service levels, there were examples where the quality of service had been reduced:

CFO 3

In terms of quality, there have been no disbenefits as far as refuse collection is concerned. However, for other services, particularly grounds maintenance, the quality of service has reduced dramatically. The specification for the service was supposedly the same as the service initially being provided, but it was much more poorly delivered. The result is that savings have actually been made through financial penalties being incurred by the contractor.

CFO 8

We have had major problems with street cleaning contracts. The public are not happy with the state of the streets. Whether that is because we have not been sufficiently tight in

tender specification, or whether contractors are just failing to match it is a mute point. We are in legal dispute with at least one contractor.

In general, however, 9 CFOs (including CFOs 3 and 8 as quoted above) believed that quality of service had been reduced but that this was, in some cases, appropriate in that CCT had resulted in a review of actual levels and true cost of service provision which, in turn, led to a level of service which was consistent with, rather than exceeded, local taxpayers' preferences:

CFO 2

On quality, I think that is questionable in that there is no doubt that DSOs prior to going out to tender, provided a service they had been providing for the last 10-15 years without actually specifying. It wasn't specified; they just went out, emptied the bins and did a good job, but when the contract came in it was apparent that, the first time round, they didn't really work to the specification, they carried on working like they had always done. The second time round we had to reduce the workforce and it became more difficult and now I think the service is less, quality wise, than it used to be but it is as per the specification and perhaps the service in the past was too good, in a strange way, for the tax payers.

CFO 3

Savings have also been made through a reduction in the level of service specified. For instance, in leisure management, when all activities were costed, the value was considerably in excess of the budget allocated, resulting in the level of activity being reduced.

CFO 4

With regard to the impact of CCT on quality, the authority has always been committed to the provision of quality services and the attainment of value for money. Consequently, contracts have been framed with this in mind. Under CCT, these principles have been further applied and where possible, specifications have been tightened to ensure that quality services are delivered cost-effectively. As an example, there is a general emphasis on output measures rather than input measures.

CFO 8

We try to maintain the same quality. I think whether there has been marginal improvements or marginal deterioration will vary from contract to contract.

CFO 9

I couldn't consciously say that we all are aware of a quality improvement but what competition has done for the first time is to make people sit down and consciously think about what they are paying for, to make them consciously think about specifying the work that they are doing and to make them consciously monitor whether they get what they ask for and what they are paying for. Now, when we talk about quality, it may well be that because we are now so much more conscious about costs because of competition and because we do go to the trouble of writing a [specification], we may well have reduced the [specification] to live within the resources we have got. So I don't think I would subscribe to any conclusion that says quality has improved because of competition. If quality has changed, it has changed because somebody has made a conscious decision about what they actually want to pay for.

CFO 10

[Savings have only been achieved at the expense of service quality] where that has been built into the specification. I think generally though the view has been that CCT has probably enforced a clearer definition of what the service standards are and should be,

whether they're service level agreements or detailed specifications. I think, compared with 10 years ago, it has probably led to something which is more precise and clear than was there before. Whether it's more appropriate, I am not sure. It's probably more precise.

However, irrespective of the perceptions of national impact re quality and levels and terms and conditions of employment, although there is not enormous support for blue collar CCT (37%), the level of opposition is relatively low (41%), with the balance (21%) being neutral (1% did not respond) (see Box 5.5 above).

The above responses concerning blue collar CCT are summarised in para 5.6 below. The part of hypothesis one concerned with non-finance white collar CCT is now considered.

5.0 Research Findings: Hypothesis One - Non-Finance White Collar CCT

Hypothesis One is as follows:

Professional personnel within the finance function of local authorities in the North West of England oppose:

- (i) blue collar CCT
- (ii) non-finance white collar CCT

because they believe that the process of CCT does not lead to:

- (a) reduced costs or improved efficiency
- (b) improvements in the quality of service delivery.

5.1 Non-Finance White Collar CCT: Local Authority Policy

In the interviews, it was confirmed that, in general, the policy pursued by the various authorities towards blue collar CCT would apply to white collar, *ie* in the words of CFO 3, 'in-house provision won fairly'. However, CFO 9 stated that the council had actually externalised the work of the architects' department in the belief that savings and improved quality would result. He stated that 'Members are not frightened of voluntary competition. They won't just wait for the compulsion of legislation'. CFO 5, referring to members, commented, :

CFO 5

I think, interestingly, probably in general terms, there isn't actually quite as much sympathy for the workforce in white collar as there is in blue collar.

This was explained with reference to the differentials between the salaries of white collar staff and those of blue collar staff and members themselves. CFO 7 commented:

CFO 7

....I think it is fair to say that the members would prefer for the services to be provided directly but equally.....they would say to us that we don't expect that to be a licence to be running inefficiently or not cost-effectively.

In addition, and particularly in the case of the district councils, the CFOs stated that, under previous CCT proposals, the calculated assumption had been made that they would be *de minimis* and that additional aspects of white collar work would not need to be exposed to competition. In the words of CFO 1, however, the proposals under discussion at the time of the interview (*ie* those announced in May 1996 and involving an increase in the competition percentage for financial services from 35% to 65%) 'came as a bombshell' and new calculations were having to be made.

5.2 Questionnaire Survey: Views on Non-Finance White Collar CCT

Section 3 of the questionnaire was concerned with non-financial services white collar competition, *ie*:

- Construction and Property Services
- Information Services
- Legal Services
- Personnel Services

Questions and responses are shown in Boxes 5.10, 5.11 and 5.12.

Box 5.10 reveals that 70% of respondents do not accept the principle of CCT when applied to non-finance white collar services. This contrasts with 41% who opposed blue collar CCT (see Box 5.5 above). Insofar as 30% accept the principle, this again contrasts with the findings reported by Broom (1994b) (see para 4.2 above) whereby only 16% of respondents were in favour of CCT.

Box 5.10				
Non-Finance White Collar CCT				
Questionnaire Ref. Q 3.1				
Question	Yes		No	
	No.	%	No.	%
Do you accept the <u>principle</u> of <u>compulsory</u> competitive tendering for <u>some or all</u> non-finance white collar services?	49	30	115	70

The questionnaire invited those who stated that they accepted the principle of non-finance CCT to indicate the service(s) where CCT should apply. Of the 49 who accepted the

principle (see Box 5.10 above), 30 indicated the services they felt should be subject to CCT (see Box 5.11 below). Most support was for CCT to be applied to construction and property services, with least support for its application to personnel.

Box 5.11				
Non-Finance White Collar Services: Support for CCT				
Questionnaire Ref. Q3.1				
<i>Note: 49 respondents supported non-finance white collar CCT (see Box 5.10) but only 30 respondents answered the supplementary question as to the services which should be subjected to CCT</i>				
	Construction & Property Services	Information Services	Legal Services	Personnel Services
	No.	No.	No.	No.
Support for application of CCT out of 30 responses	28	22	18	15

The significance of the findings needs to be placed within the context of the answer to Q5.13, which asked: ‘Have you had a direct involvement in white collar CCT?’, to which 59% (97 out of 164) responded ‘YES’ and 41% (67 out of 164) responded ‘NO’ (the corresponding proportions for blue collar were 43% and 55%, see para 4.2 above). See Box 5.12.

Box 5.12				
Non-Finance White Collar CCT: Principle and Involvement				
Questionnaire Ref. Q3.1, 5.13				
Question		Do you support the principle of compulsory competitive tendering for some or all non-finance white collar services?		
		YES	NO	
Have you had a direct involvement in white collar CCT?	YES	29	68	97
	NO	20	47	67

In other words, it is reasonable to assume that respondents are able to provide informed feedback. However, the relationship between responses to Q5.13 and views on non-finance white collar CCT (responses to Q3.1, see Box 5.10 above) were not statistically significant (chi-square value: 0.00004; chi-square probability value: 0.99493). Further statistical analysis of the responses revealed that there were no significant relationships between the background of the respondent (*ie* responses as given in Section One of the

questionnaire and summarised in Box 5.1 above) and their views on non-finance white collar CCT. See Appendix E. However, the level of opposition (70%) is seemingly inconsistent with responses to other questions, as given in para 5.4 below and Boxes 5.16 and 5.17. See below.

5.3 Costs

5.3.1 Questionnaire Survey

See Box 5.13.

When asked to comment on the likely impact on their own organisations of non-finance white collar CCT, 30% of respondents stated that it would reduce net expenditure (note the wording of the question in Box 5.13, it refers to the authority's 'net expenditure' in order to establish the likely impact on the 'bottom line', *ie* the amount to be financed by taxpayers is the important figure, as it would be possible to reduce the costs of individual central support services simply by reallocating overheads but this would result in an equivalent increase in the costs of other support services, with no net effect on the 'bottom line' and, consequently, no net gain to local taxpayers).

Box 5.13										
Non-Finance White Collar CCT: Costs in Respondents' Employing Organisations										
Questionnaire Ref. Q3.2										
Question	Increase		No effect		Reduce		Don't Know		No Response	
	No	%	No	%	No	%	No	%	No	%
Irrespective of tendering outcomes, what impact do you believe the <u>process</u> of CCT for non-finance white collar services will have on your authority's net expenditure?	32	20	61	37	50	30	18	11	3	2

It is interesting to note that there was a significant relationship between responses to this question (Q3.2 on the questionnaire) and those who had previously worked full-time in the private sector (Q1.5 on the questionnaire), (chi-square value: 8.62493; chi-square probability: 0.03472). See Box 5.14. Those with previous private sector experience were more likely than those who had not previously worked in the private sector to say that the process of CCT would have no effect on net expenditure; conversely, those who had not previously worked in the private sector were more likely to say that net expenditure would reduce. This is surprising and is not consistent with the initial assumption that

those with private sector backgrounds were more likely to see merits in CCT; it may, however, be the case that, insofar as they had any private sector experience or knowledge of competitive tendering in a white collar context, they had become more sceptical as to its actual impact on expenditure.

Box 5.14						
Private Sector Experience and Views on Impact on Costs Locally of White Collar CCT						
Questionnaire Ref. Qs 1.5, 3.2.						
	Full Time Private Sector					
	Yes		No		Total	
Net Expenditure:						
	Observed	Expected	Observed	Expected	Observed	% of total
Increase	7	8.6	25	23.4	32	32
No effect	24	16.1	36	43.9	60	37.5
Reduce	9	13.4	41	36.6	50	31.3
Don't Know	3	4.8	15	13.2	18	11.3
<i>Total</i>	43	26.9	117	73.1	160	100
Missing Cases					4	
	Value		Probability			
Chi-square	8.62493		0.03472			

Where respondents stated that service costs would be affected by CCT, they were also invited to indicate the service(s) likely to be affected and whether costs would increase or reduce. Only 7 respondents provided such an indication, and of those:

- 4 identified construction and property services, 2 said costs would increase and 2 said they would reduce
- 6 identified information services, 5 said costs would increase and 1 said they would reduce
- 5 identified legal services, 3 said costs would increase and 2 said they would reduce
- 4 identified personnel services, 1 said costs would increase and 3 said they would reduce

Comments were provided by 4 respondents:

Respondent 44

My authority is relatively small, separating client and contractor functions, tender preparation and subsequent monitoring will in my opinion not prove cost-effective in any of [the] services.

Most council's (sic) in particular use voluntary private contractors for construction services and many aspects of IT provision.

Respondent 98

Costs may reduce - but if quality deteriorates, customer care suffers and management time wasted.

Respondent 125

Even if tender prices are lower, the costs of monitoring the contract usually outweigh the savings.

Respondent 164

Functions are too small to benefit from cost savings, which outweigh the introduction of a formal client side.

5.3.2 Interviews

The CFOs were more sceptical of the benefits of white collar CCT, the views of two being representative of those expressed:

CFO 2

[Members] can't see, in an authority our size, white collar CCT is going to produce any savings at all.

CFO 11

I am more agnostic as to the value of CCT for white collar. My feeling is that there is not the same price differential. Also we are not dealing with widgets, so quality is more difficult to address. There will be additional costs with less expectation of a return on those costs.

In addition, as stated in para 4.3.2 above, comments were made as to the fact that CCT was a distraction. For instance:

CFO 5

....what we found in many areas of white collar CCT is that there aren't big savings to be had and, in many ways, the rigours of CCT, the requirements to find a contractor, are getting in the way of actually delivering services. It has created a lot of bureaucracy in terms of charging, coding, managing....It gets in the way of service delivery. We actually, particularly in the tax and benefits area, had allocated management time to develop the services, consultations with the public, getting more involved with community groups in terms of their needs and information, developing our area offices - a lot of that has stopped because I haven't got the resources to actually do both.

Such comments were particularly strongly expressed in relation to white-collar CCT.

5.4 Quality

5.4.1 Questionnaire Survey

See Box 5.15.

With regard to the impact of white collar CCT on quality in their own organisations, 61% (22% + 39%, see Box 5.15) stated that it would improve or have no effect.

Box 5.15										
Non-Finance White Collar CCT: Quality in Respondents' Employing Organisations										
Questionnaire Ref. Q3.3										
Question	Improve		No effect		Reduce		Don't Know		No Response	
	No	%	No	%	No	%	No	%	No	%
Irrespective of tendering outcomes, what impact do you believe the <u>process</u> of CCT will have on the <u>overall quality</u> of non-finance white collar services for <u>your authority</u> ?	36	22	64	39	42	26	19	11	3	2

Where respondents stated that service quality would be affected by CCT, they were also invited to indicate the service(s) likely to be affected and whether quality would improve or reduce. Only 6 respondents provided such an indication, and of those:

- 4 identified construction and property services, 3 said quality would improve and 1 said it would reduce
- 4 identified information services, 3 said quality would improve and 1 said it would reduce
- 4 identified legal services, all said quality would improve
- 5 identified personnel services, 4 said quality would improve and 1 said it would reduce

Comments were provided by 5 respondents:

Respondent 69

I think the same overall resources will be used for the service plus the tendering process. This means less time will be spent on the service.

Respondent 101

In all services it should improve even if won in-house as any reorganisation of service should aim to achieve this. This is more likely to be a result of improved management of the service whether int[ernal] or ext[ernal].

Respondent 124

Across services, there will be a reduction [in quality] as providers strive to reduce costs.

Respondent 134

Quality will reduce for all white collar CCT activities if won by the private sector, by use of less qualified staff.

Respondent 150

Within my authority the issue of quality is addressed by the internal market whereby units choose to purchase services, internally or externally - if the quality isn't there then the market demand isn't!

However, 63% and 66% respectively stated that it had forced non-finance service managers to place increased emphasis on value for money and to become more customer-oriented (see Box 5.16). This is a much greater level of support than that revealed in the survey of chief executives (DoE, 1996e). Although the survey (DoE, 1996e) contained a question which was concerned with all white collar services as opposed to non-finance white collar services, 41% believed that the impact of white collar CCT would be a positive one, while 24% believed it would be negative and 33% stated it would be neutral (see Chapter Three, para 5.3).

Box 5.16										
Non-Finance White Collar CCT: VFM and Customer Orientation in Respondents' Employing Organisations										
Questionnaire Refs. Qs3.4, 3.5										
Question	YES		NO		Don't Know		Varies with Service		No Response	
	No	%	No	%	No	%	No	%	No	%
Has CCT forced non-financial service managers to place increased emphasis on Value for Money (VFM)?	103	63	21	13	28	17	10	6	2	1
Has CCT forced non-financial service managers to become more customer-oriented?	108	66	31	19	12	7	11	7	2	1

Where respondents stated that CCT has forced non-financial service managers to place greater emphasis on value for money, they were also invited to indicate the service(s) where this has occurred. Only 8 respondents provided such an indication, and of those:

- 5 identified construction and property services
- 5 identified information services, of which 1 said that less emphasis is now placed on value for money
- 4 identified legal services
- 3 identified personnel services.

Comments were provided by 3 respondents:

Respondent 52

I think people like to think they are more concerned about VFM but I'm not sure it actually results in VFM.

Respondent 70

Fuller consideration of alternatives for staffing in particular.

Respondent 150

Most non-finance service managers press for VFM due to the internal market. If CCT were to stop tomorrow there would be no reduction in VFM - budgets would not allow it.

Where respondents stated that CCT has forced non-financial service managers to become more customer-oriented, they were also invited to indicate the service(s) where this has occurred. Only 6 respondents provided such an indication, and of those:

- 4 identified construction and property services
- 4 identified information services, of which 1 said that managers are now less customer-oriented
- 3 identified legal services
- 3 identified personnel services.

Comments were provided by 3 respondents:

Respondent 52

Difficult to tell because the authority generally has been developing customer care policies since 1990.

Respondent 111

CCT may have forced the pace - but this was already happening. If anything, financial pressures are making it more difficult to meet the aspirations of customers.

Respondent 134

CCT has made managers more aware of the need to provide what the customer wants.

5.4.2 Interviews

Specific questions concerning quality and non-finance white collar services were not asked during the interviews with CFOs.

5.5 *General Impact of CCT*

One of the difficulties in analysing CCT is that of establishing the extent to which it has had an impact independently of other drivers of change, notably Local Management of Schools in the case of County Councils and ever-greater resource constraints for authorities generally.

In the interviews with CFOs, when a specific question on the impact of CCT *per se* was asked, it elicited responses which, in effect, questioned, if not downgraded, the importance of CCT.

Although one CFO, CFO 2, believed it was less necessary for financial services than other services, he conceded that, in general, it had brought about managerial change:

CFO 2

Certainly in the early days I didn't really believe in CCT. I think [it] was, in a sense, political dogma, but I could see that, within local government, you had a fairly weak set of managers. CCT gave them strength to do things that they should have been doing anyway. Over time I suppose I have realised that if you didn't have CCT the easiest thing in the world is to carry on as you have always done but I would like to think that, as a finance professional, we are always looking to save money if we can. We have this in our nature and by our training - this idea that all the time we should be looking to save costs. That's what we do in finance. In other departments I think they would be quite happy to maintain the status quo until something happens to force them to change their minds and CCT did it.

However, other CFOs questioned the extent to which such changes were driven by CCT, independently of budget pressures. The latter were often quoted as being the main driver of change. Similarly, certain authorities had initiated a process of change before white collar CCT became a policy objective of central government:

CFO 5

I think there have definitely been improvements....I don't think they are related to CCT at all.....I suppose CCT was potentially always there but when you think about SLAs, we were developing them back in 1988 and there weren't really suggestions then about white collar being subject to CCT. I think it coincided with us anyway wanting to actually move the authority forward, clarify responsibility and accountabilities. So it was a contributing factor but not the only one. We were looking for much more flexibility and responsiveness on the front line services and we felt to do that, you had to devolve responsibility down to those making the decisions and so a lot of our moves came from that drive rather than CCT...

Essentially, all CFOs appeared unconvinced that CCT had driven changes which would not have occurred anyway:

CFO 3

I would not say that CCT was actually necessary, but perhaps it was desirable.

CFO 5

There is improved management so we are getting greater efficiency, and we have also invested in technology. Now maybe we would have done so anyway, but that is a difficult one to actually judge.you do have to question whether, in itself, it is needed, if there are other things in its place. I mean, quite frankly, the financial position creates so much pressure on us to achieve value for money to get things done at the best price you don't need CCT because a lot of the changes that will have gone into dealing with CCT we have been doing anyway because of financial pressures.

CFO 6

There is no doubt that CCT is a pressure to improve performance, keep costs down, there is no doubt about that, but it's one pressure, it's one of a range of pressures.....I don't think that we've been looking to make major in-roads into the conditions of service of employees. In looking to improve performance, productivity levels, we have been looking to improve procedures, the standard of service. Certainly bonus schemes have come under close scrutiny. Where bonus schemes have been thought to be too loose and allowing excessive bonus to be earned, they have been tightened up. But again, I wouldn't say that was necessarily because of CCT. It is because when you look at the earnings of the particular range of employees and we thought well that is excessive. There is something wrong with the bonus scheme, so it needs to be addressed and tightened up [but this is not the same as reducing] conditions of service as such.

CFO 8

I am opposed to compulsory competitive tendering. As I outlined before, there are certain services which we have been forced to tender where there has been no competition and all we have done is increased our costs significantly. I think the regime that has applied throughout the 1980s and 90s, in particular of capping, has forced all large authorities to make significant cuts in expenditure and I think that alone would have been sufficient to have forced most authorities to look at the way they were providing services. I don't think the detailed, prescriptive nature of CCT has been necessary given that environment.

CFO 11

Numerous developments have taken place but would have done so without CCT. Local Management of Schools, for instance, has had at least as big an impact on financial services as CCT (including the need to respond to customers, set and review standards etc). CCT and the creation of DSOs have not exclusively driven any changes other than certain organisational ones including, for instance, the location of finance staff in the DSOs.

Insofar as these views are valid, they suggest that the conclusion of Rao and Young (1995, p45) is an overstatement; it exaggerates the difference between *ante* and *post* CCT and the impact of CCT *per se*. They state (see Chapter Three, para 5.3) that:

The spread of the influence of [commercial] disciplines throughout the local authority organisation appears to have pushed beyond the threshold at which change could be reversed.....it would be fanciful to suppose that any kind of reversion to the *pre*-CCT era is possible.

However, the responses to Qs 5.18, 6.1, 6.2 and 6.3 of the questionnaire, as given in Box 5.17 below, indicate some ambiguity on this matter. Of all respondents, although only 43% ('strongly agree' and 'agree' combined) believe it has benefited service users, 51% ('strongly agree' and 'agree' combined) believe CCT has resulted in improved management of services, irrespective of whether or not the services have been directly subject to CCT and 79% believe CCT has resulted in irreversible changes in the management of local government ('strongly agree' and 'agree' combined), thereby providing support for Rao and Young's assertion. Against this, 65% ('strongly agree' and 'agree' combined) also believe that the changes which

have taken place would have happened without CCT, thereby indicating disagreement with Rao and Young.

Box 5.17												
Views on General Impact of CCT												
Questionnaire Refs. Qs 5.18, 6.1, 6.2, 6.3												
	Strongly Agree		Agree		Disagree		Strongly Disagree		Don't Know		No Response	
Statement	No	%	No	%	No	%	No	%	No	%	No	%
Across the authority, CCT has resulted in improved management of services, whether directly subject to CCT or not.	4	2	81	49	60	37	4	3	14	8	1	1
CCT has benefited service users	2	1	68	42	66	40	9	5	16	10	3	2
CCT has, in practice, resulted in irreversible changes in the management of local government	14	8	117	71	24	15	3	2	6	4	-	-
The management of local government would have changed without CCT	9	6	97	59	40	24	6	4	12	7	-	-

Further statistical analysis revealed that there were no significant relationships between the background of the respondent (*ie* responses as given in Section One of the questionnaire and summarised in Box 5.1 above) and responses to the 4 questions included in Box 5.17. See Appendix F.

In general, however, CFOs, felt that services were managed better *post*-CCT than they were *pre*-CCT:

CFO 3

It has perhaps led to better practices and better value for money.

CFO 5

The blue collar functions are now much more managed than they used to be and I think everyone would accept that. As an example, grounds maintenance basically employed X number of people and they did the job, they did the job well and they did lots of extras for schools, but whether those extras were a priority compared to other things.....they probably weren't in some instances. Now it's much sharper. The work to be done determines how many men we need instead of the men doing as much work as they could within the time they had. I think that is the right way.

There is a degree of inconsistency as to the extent to which CCT, in isolation from any other drivers of change, has led to permanent changes in the management of local authorities (see also LGMB 1997a, where the survey of chief executives reveals that

financial pressures and changing member priorities are identified as the two most significant 'change drivers').

5.6 Summary: Hypothesis One

It was hypothesised (see para 4.0) that professional personnel within the finance function of local authorities in the North West of England oppose blue collar and non-finance white collar CCT because they believe that the process of CCT does not lead to:

- (a) reduced costs or improved efficiency
- (b) improvements in the quality of service delivery.

With regard to blue collar CCT, it can be concluded that most respondents oppose the policy but the survey revealed a level of opposition which was lower than expected (41%) and levels of support (37%) and neutrality (21%) which were higher than expected (Box 5.5).

It is believed that savings have occurred locally (Box 5.6) and nationally (Box 5.7) and that these have resulted in part from improved productivity (Box 5.7) and from the provision of lower, but possibly more appropriate, levels of service (para 4.4.2). It is also believed that savings have resulted, in part, from a deterioration in terms and conditions of employment (Box 5.7) but *post*-CCT terms and conditions perhaps more accurately reflect prevalent market conditions (para 4.4.2). Savings may also have been higher had councils been able to choose which activities to subject to competition, thereby preventing costs being incurred on exposing services for which it was confidently expected there was no private sector interest (para 4.4.2).

There is a perception that, locally, service quality has improved or been maintained (Box 5.8) but that, on balance, nationally, it has not improved (Box 5.9).

The evidence also indicates that views are not influenced by background factors such as employer, type of accountancy qualification *etc* (Appendix D) but they are influenced by previous direct involvement in blue collar CCT (Appendix C), in that respondents were more likely to oppose it having previously supported it.

The responses as to the impact of blue collar CCT are, in the main, consistent with the empirical studies which have been undertaken on the actual effect of CCT. However, insofar as quality is concerned, there is a perception that it has been reduced, at the national level, by an amount greater than that indicated by empirical evidence.

The conclusions given above lead to a rejection of Hypothesis One in relation to blue collar CCT.

With regard to non-finance white collar CCT, it can be concluded that a majority of respondents (70%) oppose the policy (Box 5.10). However, the level of support (30%) was higher than anticipated. Insofar as those respondents who supported CCT differentiated between the various services, the majority believed it was most applicable to construction and property services (Box 5.11).

Opposition is perhaps mainly based on scepticism as to the likely impact on their organisations' net expenditure (Box 5.13), and this was particularly true of those respondents who had previously worked full time in the private sector (Box 5.14). Such scepticism was also evident in the interviews with CFOs (para 5.3.2).

Respondents were also sceptical as to the likely impact on quality, with only 22% believing it would improve and 39% believing it will have no effect (Box 5.15).

However, from the responses as given in Box 5.16 (VFM and customer-orientation), it seems that, though respondents oppose non-finance white collar CCT (Box 5.10), large numbers of them believe that it has had important benefits. A possible explanation for this inconsistency is that they may believe the policy is without merit nationally, as opposed to locally, but this is not known. The sequence of the questions in Section 3 of the questionnaire may also be relevant. Had Q3.1, concerned with the principle of CCT, been placed after the four questions on the likely impact of CCT, this may have resulted in more respondents supporting the principle as they may have been more aware of an inconsistency with answers to the previous questions. However, this also is not known. It may simply be that, as non-finance white collar CCT brings the CCT regime closer to the respondents (as accountants) than was the case with blue collar, it is met with greater opposition in principle despite honest recognition of possible inherent merits.

The evidence also indicates that views are not influenced by background factors such as employer, type of accountancy qualification *etc* (Appendix E) nor are they influenced by previous direct involvement in non-finance white collar CCT (see narrative below Box 5.12) (unlike blue collar CCT, see Appendix D).

The conclusions given above lead to a rejection of Hypothesis One in relation to non-finance white collar CCT.

Taking into account the findings in relation to both blue collar and non-finance white collar CCT, Hypothesis One is rejected.

In addition, the following general points summarise the findings from questionnaire and interview data in relation to blue collar and non-finance white collar CCT:

1. Councils have pursued a policy of complying with but not exceeding statutory obligations and, in so doing, have been supportive of in-house teams but not to the extent that they have behaved anti-competitively; on the contrary, they have wanted in-house teams to win contracts fairly (paras 4.1 and 5.1).
2. There is some ambiguity as to whether councils have formally committed themselves to a specific policy re CCT (paras 4.1 and 5.1).
3. The majority of tenders have been won in-house but all councils have lost some work to private sector contractors and the degree of competition is becoming more intense as contracts are re-tendered (para 4.1).
4. There is some ambiguity as to the impact of CCT *per se*, as distinct from any other drivers of change (para 5.5, Box 5.17), though views were not influenced by respondents' backgrounds (Appendix F). In general, however, CFOs, felt that services were managed better *post*-CCT than they were *pre*-CCT.

6.0 Research Findings: Hypothesis Two

Hypothesis Two is as follows:

Professional personnel within the finance function of local authorities in the North West of England oppose the extension of CCT to financial services because they believe that:

- (a) financial services are unsuitable for CCT
- (b) it will not lead to reductions in costs or improvements in efficiency
- (c) it will not lead to improvements in the quality of service delivery
- (d) the broader context of Conservative governments' policy towards local government, to which CCT was central, was unacceptable, representing, as it did, a threat to the traditional role of local government

and that these beliefs not only stem from subjective concerns over their own job security but are rooted in their public service background and training which act as a cultural barrier to the adoption of commercial practice.

6.1 Views on Financial Services CCT

Q4.1 of the questionnaire asked respondents to indicate which of 5 statements summarised their views on financial services CCT. The results are given in Box 5.18.

Box 5.18		
Views on Financial Services CCT		
Questionnaire Ref. Q4.1		
Statement	No.	%
I have never supported financial services CCT and still do not [line 1]	109	67
I have always supported financial services CCT and still do [line 2]	24	15
I was opposed to financial services CCT but now support it [line 3]	5	3
I supported financial services CCT but now oppose it [line 4]	7	4
I do not have views for or against financial services CCT [line 5]	17	10
No response	2	1
<i>Total</i>	<i>164</i>	<i>100</i>
Summary from above responses:		
Support [line 2 plus line 3]	29	18
Oppose [line 1 plus line 4]	116	71
Neutral [line 5]	17	10
No response	2	1
<i>Total</i>	<i>164</i>	<i>100</i>

Overall, the results are consistent with the level of opposition (70%) to non-finance white collar (see Box 5.10), though the latter may have been overstated as respondents were simply asked to indicate 'YES' or 'NO' to their acceptance of the principle of CCT, *ie* they did not have the option to indicate neutrality. The response does, though, contrast with the corresponding figures for blue collar CCT, which were 37% support, 41% oppose and 21% neutral (1% did not respond to the particular question) (see Box 5.5).

However, the 28% level of non-opposition to financial services CCT (*ie* 18% support plus 10% neutral, see Box 5.18 above) is surprisingly high, particularly given the proposals, being considered at the time of the survey (September 1996), to increase from

35% to 65%, the proportion of financial services to be subject to competition. This finding also needs to be placed within the context of responses to three other questions which, it would appear reasonable to conclude, support the view that respondents are able to provide informed feedback, though none of the results was statistically significant:

- the high proportion of respondents, 59%, who stated that they had experience of a direct involvement in white collar CCT (Q5.13 on the questionnaire) (relationship between Qs 4.1 and 5.13: chi-square value: 4.65651; chi-square probability value: 0.32439)
- the proportion, 46%, who stated that their authorities had provided training courses for financial services personnel to enable them to prepare for CCT (Q5.11 in the questionnaire) (relationship between Qs 4.1 and 5.11: chi-square value: 9.47772; chi-square probability value: 0.30361)
- the proportion, 51%, who stated that they had attended training courses (either in-house or external) to enable them to prepare for financial services CCT (Q5.12 in the questionnaire) (relationship between Qs 4.1 and 5.12: chi-square value: 4.71807; chi-square probability value: 0.31747).

Further statistical analysis revealed that there were no significant relationships between background of respondents, as obtained from Section One of the questionnaire (see Box 5.1) and responses to Q4.1. See Appendix G. However, the views expressed in response to Q4.1 were consistent with those expressed in response to Q3.1, 'Do you accept the principle of CCT for some or all non-finance white collar services?', *ie* expressions of support, or opposition, for non-finance white collar CCT were matched by support, or opposition, for financial services CCT. This demonstrates that the respondents did not discriminate between non-financial and financial services in relation to CCT. See Appendix H.

The results as given in Box 5.18 indicate that a total of 7% of respondents had changed their mind on financial services CCT, *ie* 3% (shown as line 3 in Box 5.18) now supporting it having previously opposed it and 4% (shown as line 4 in Box 5.18) experiencing the reverse. Those who had changed their mind were requested to indicate why they had done so, though some respondents took the opportunity to indicate the

reason for their view even where they had not changed their mind. The comments included on the completed questionnaires re Q4.1 are as given below:

Comments made by respondents who supported Statement 1, *ie* 'I have never supported financial services CCT and still do not':

Respondent 94

Though always opposed to CCT, I did believe the threat of it would force Finance departments to examine the way they operate. The draconian proposals however go too far. I believed and still do believe that greater efficiency can be achieved in other ways, *ie* Service Level Agreements, Performance Indicators.

Respondent 137

The lessons of blue collar CCT have already been taken on board so the sorts of savings arising will not happen for white collar and any savings will be offset by increased client costs.

Comments made by respondents who supported Statement 2, *ie* 'I have always supported financial services CCT and still do':

Respondent 141

Too much obvious inefficiency - especially in staff terms.

Comments made by respondents who supported Statement 3, *ie* 'I was opposed to financial services CCT but now support it':

Respondent 63

Considered that corporate accounting requirements would negate any prospective benefits from CCT.

Respondent 76

Parts of financial services may be suitable to CCT to drive down costs, improve output, but only non-core activities.

Respondent 116

Now prepared to accept that limited competition may be beneficial but authorities should not be required to submit core financial admin/management to competition [emphasis in original].

Respondent 132

As a DSO manager, I believe the centre should be subject to the same rigorous market testing.

Comments made by respondents who supported Statement 4, *ie* 'I supported financial services CCT but now oppose it':

Respondent 4

If financial services CCT follows the same path as blue collar, bureaucracy will negate any possible savings.

Respondent 49

All the disciplines are beneficial but the proposed changes.....are, in my opinion, unfair to in-house providers.

Respondent 50

The Government keep changing the rules for what appears to be political motives. I fully support fair competition.

Respondent 55

I support the disciplines it imposes on business units but not the ultimate outcome - possible unemployment.

Respondent 65

I agree with the principle of competition but disagree with the compulsory nature and the way in which it is being implemented which is bureaucratic and inefficient.

Comments made by respondents who supported Statement 5, *ie* 'I do not have views for or against financial services CCT':

Respondent 51

Not yet convinced either way. Time will tell!!

Respondent 149

Provided it is introduced on a fair basis and in a balanced way rather than as a result of extreme dogma.

6.2 Financial Services: Suitability for CCT

6.2.1 Questionnaire Survey

Questionnaire responses (Q4.4) reveal that respondents accept that various aspects of their work are suitable for CCT. See Box 5.19. The categories are taken from CIPFA (1995b).

There is near unanimity amongst respondents that corporate financial management is not suitable for CCT (with 18% stating it is 'not very suitable' and 80% stating it is 'unsuitable', see Box 5.19) and this view is shared by CIPFA. The activity is defined by CIPFA (1995b, p15) as follows:

Provision of financial advice and information to the council and its committees, council departments, council officers etc.

Establishment of effective financial management systems.

Provision of professional advice on the procurement and monitoring of any finance services provided to the council.

CIPFA's view is (CIPFA, 1995b, p16):

Given the definition of this area and the difficulties of establishing an effective client function it is difficult to imagine circumstances where it will be appropriate to expose corporate financial management to competition.

Box 5.19										
Financial Services: Suitability for CCT										
Questionnaire Ref Q4.4										
Question:										
Irrespective of your support or otherwise for CCT and the type of authority for which you work, please indicate, for each of the following categories, your view on their suitability for CCT.										
	Highly Suitable		Suitable		Not Very Suitable		Unsuitable		No Response	
	No	%	No	%	No	%	No	%	No	%
Category										
Corporate Financial Management	-	-	3	2	30	18	131	80	-	-
Budgeting and Accounting	4	2	41	25	69	42	49	30	1	1
Audit	44	27	78	48	23	14	19	11	-	-
Cashiers	45	27	73	45	32	20	14	8	-	-
Payroll	62	38	76	46	17	10	9	6	-	-
Creditor Payments	41	25	82	50	28	17	12	7	1	1
Sundry Income Collection	43	26	79	48	32	20	9	5	1	1
Administration of Local Taxation	37	22	75	46	33	20	16	10	3	2
Benefit Payments	28	17	69	42	48	29	19	12	-	-
Pensions Administration	24	15	69	42	46	28	25	15	-	-
Pension Fund Management	40	24	67	41	33	20	23	14	1	1
Treasury Management	8	5	46	28	54	33	54	33	2	1
Insurance	24	15	85	52	38	23	17	10	-	-

This view reflects the fact that corporate financial management:

....plays a fundamental role in the conduct of any council's business. It is an area where members need to be assured of continuity, confidentiality, impartiality and an appreciation of the political environment.

CIPFA (1995b, p15).

There is also a view amongst respondents that budgeting and accounting and also treasury management are unsuitable for CCT.

With regard to budgeting and accounting, responses may have been influenced by the fact that 40% of respondents who were not CFOs, DCFOs, ACFOs or equivalent, work in Accounting (see Box 5.1). CIPFA does not reach a definitive conclusion as to its suitability but the points made (CIPFA, 1995b, pp17-21) indicate that it is, on balance, unsuitable but, given the size of the activity, it would make a significant contribution to the CCT requirement.

As for treasury management, 66% of respondents believe this is either 'not very suitable' or 'unsuitable'. Again, the points made by CIPFA (1995b, pp51-52) indicate that

it is, on balance, unsuitable and, unlike budgeting and accounting, it would be insignificant in CCT terms. CIPFA goes on to say (p52) that, although treasury management is 'a largely self-contained area' and 'a centralised service which can be relatively easily delineated':

More than in most financial services every local authority has idiosyncrasies in this area in terms of their borrowing and investment profile and the political environment. Only experience within the local authority will enable these factors to be translated into service delivery.

There is, however, clear recognition by respondents that all activities as listed in Box 5.19, with the exceptions of corporate financial management, budgeting and accounting and treasury management, are, in principle, 'highly suitable' or 'suitable' for CCT.

6.2.2 Interviews

In the interviews, all CFOs expressed doubts as to the inherent merits of CCT for financial services. The view of CFO 9 being representative of those expressed:

CFO 9

I am a bit of a traditionalist and feel that there is plenty more scope yet for rationalisation of in-house activities probably through co-operation between local authorities which could reap the benefits of competition, without putting [services] into the private sector....I suppose....the bottom line is I am against but I can't be against if there is an enormous price to pay for retaining the traditional approach.

Similarly, all CFOs expressed some concerns over the externalisation of financial services as listed in Box 5.19, though there was also recognition that: with the exception of corporate financial management and budgeting and accounting, they are suitable for CCT; other authorities have externalised certain services; it may result in improved performance measures. The concerns are based on the possibility that clients may be treated less sympathetically by a private contractor and, given the vulnerability of certain groups, this was a political and moral issue. For instance, in relation to sundry income collection:

CFO 2

I could also see perhaps, an improvement in the collection rate because one problem, I guess we have, is that we are more sympathetic to debtors than many people in the private sector and I think if you put it out to a private contractor and give them targets then they collect the money, it will probably upset most people in doing so. Our members would have to come to terms with that.

This point was also raised in relation to benefits. CFO 5 stated that his authority's policy was to maximise benefit take-up but this involved costly procedures and a particular approach to customer care which was not always easy to define or quantify but which

may have to be jettisoned in order to ensure competitiveness, thereby militating against the achievement of the policy objective:

CFO 5

Tax and benefits [involve] definite issues over quality. Silly little things like numbers of reminders you send. How pro-active you are in chasing benefits, to get people to apply. This Council's policy is to encourage people to apply and to actually get benefit out to people who are entitled to it. That costs though. There is a lot of extra time goes into it to give people another chance to apply, to remind them, and that is beyond the statutory minimum. Consequently, we are expensive on benefits and I know that but I am not sure that we are expensive for what we deliver.....I do have some concerns about contractors cutting corners and not quite giving the service to the public. So the challenge to us is to get the spec right, but that's a massive challenge.

This reflects a wider concern as to the definition of a particular activity and the ability to compare like with like in service provision, even in areas which are more quantifiable, such as payroll:

CFO 5

[From] the figures I have seen from agencies, we are very competitive on payroll. But when I start throwing in all the departments' costs, we don't appear to be quite as competitive but then, what we found with other activities - that is to say other people who put payroll out, for example, one of our colleges - we lost that contract to an agency many years ago, but we told them that we didn't think it would work and within 3 months they ended up recruiting three staff back at the college to run their own side of it, and if all that [had been taken] into account, we should have won the contract really.....

Nonetheless, all CFOs accepted that, in principle and in general, financial services are suitable for CCT.

6.3 Costs

6.3.1 Questionnaire Survey

Despite the acceptance of the suitability of financial services for CCT and the surprisingly high level of non-opposition to the policy (28%, ie 18% support and 10% neutral, see Box 5.18 above), it is, however, opposed by 71% of respondents. Opposition would appear to be based mainly on the likely impact of CCT on the quality (see para 6.4 below) rather than the cost of financial services. See Boxes 5.20 and 5.22 (see Boxes 5.23 and 5.24 for feedback concerning quality).

With regard to the anticipated impact locally, 18% of respondents believe that CCT will increase costs. However, 35% believe it will have no effect, whilst 38% believe costs will reduce. See Box 5.20.

Box 5.20										
Financial Services CCT: Costs and Respondents' Employing Organisations										
Questionnaire Ref. Q5.5										
Question	Increase		No effect		Reduce		Don't Know		No response	
	No	%	No	%	No	%	No	%	No	%
Irrespective of tendering outcomes, what impact do you believe the <u>process</u> of financial services CCT will have on <u>your authority's net expenditure</u> ?	29	18	57	35	63	38	12	7	3	2

It can be seen from Box 5.20 that 63 respondents (38%) answered Q5.5 by indicating that they believed that financial services CCT would reduce their authority's net expenditure. Those who answered in this way were invited to proceed to the next question (Q5.6) and to rank in order of importance 5 possible, and related, sources of savings which had been identified as part of the question itself, *ie*:

- reduction in total labour costs
- reduction in seniority of staff undertaking the work
- greater productivity
- more flexible working hours
- reduced level of service

The above sources overlap. For instance, a reduction in total labour costs may result through the use of less senior staff to undertake certain work.

Where respondents believed that savings were likely to result from another source, they were requested to specify the source and to rank the list given from 1 to 6 instead of 1 to 5 (with rank 1 being the most important).

Although only 63 respondents answered Q5.5 by saying that CCT would reduce net expenditure, 71 respondents chose to answer Q5.6. For instance, Respondents 110 and 158 answered 'No Effect' to Q5.5 but went on to answer Q5.6. It can perhaps reasonably be assumed that the 8 respondents who did not answer 'reduce' to Q5.5 but nonetheless answered Q5.6 did so to indicate where savings may come from should their initial answer (to Q5.5) prove incorrect.

Of the 71 who answered Q5.6, not all of them indicated that all the sources of savings identified were relevant, nor did they rank the ones which they did identify. For instance, Respondents 80 and 149 simply ticked 3 boxes to indicate the 3 sources from

which savings would arise. Where respondents answered in this way, for analytical purposes, each source was ranked 1.

6 respondents identified an additional source of savings, as follows:

<u>Respondent</u>	<u>Source</u>	<u>Rank</u> (out of 6)
30	Use of existing resources, eg computer systems currently used for sending out utility bills applied to [Council Tax] bills.	1=
37	IT and systems support, eg Document Image Management	1
115	Elimination of budget 'slack'	1
118	Information technology changes	1
123	Increased information provided through reorganisation enabling savings targets in other areas	1
132	Increase use of technology	3

It can be seen from the above that the sources identified relate, in the main, to increased use of information technology resulting from CCT.

Details of all responses are provided in Box 5.21. Potential sources of savings are given from left to right in descending order of the number of times they were ranked first.

It can be seen from Box 5.21 that a reduction in total labour costs was identified most often as the most likely source of savings (ranked 1 by 49 respondents). The two other most likely sources of savings would appear to be greater productivity and a reduction in the seniority of staff undertaking financial services' work (for instance, accounting technicians could be used to undertake certain tasks as opposed to qualified accountants), which could have adverse consequences for the quality of the service.

Box 5.21						
Financial Services CCT: Likely Source of Savings						
Questionnaire Ref Q5.6						
Source of Savings	Reduction in Total Labour Costs	Greater Productivity	Reduction in Seniority of Staff Undertaking the Work	Reduced Level of Service	More Flexible Working Hours	Other
Rank	No	No	No	No	No	No
1	49	8	7	6	1	5
2	11	25	20	11	2	
3	7	20	24	12	6	1
4	3	12	11	17	24	
5	1	5	7	23	34	
6	-	-	2	2	2	
Total number of respondents who identified the source as a potential area of savings	71	70	71	71	69	6

In terms of expected impact on costs nationally, responses were: 27% believe they will increase, 27% believe CCT will have no effect and 38% believe they will reduce. See Box 5.22.

Box 5.22										
Financial Services CCT: Expected Impact on Costs Nationally										
Questionnaire Ref Q4.2										
Question	Increase		No effect		Reduce		Don't Know		No response	
	No	%	No	%	No	%	No	%	No	%
Irrespective of tendering outcomes, what impact do you believe the <u>process</u> of CCT will have on the <u>overall costs</u> of financial services <u>nationally</u> ?	45	27	45	27	62	38	11	7	1	1

Comparing responses as given in Boxes 5.20 and 5.22, the same proportion (38%) expect costs to be reduced locally and nationally, but a much smaller proportion believes costs will increase locally (18%) than that which believes costs will increase nationally (27%). From these responses, it would appear that respondents do not believe financial services CCT to be worthwhile given that, although the same proportion, 38%, believes that costs will reduce locally and nationally, 53% (*ie* 18% plus 35%, see Box 5.20) and 54% (*ie* 27% plus 27%, see Box 5.22) respectively believe CCT will either increase costs or have no effect locally and nationally.

6.3.2 Interviews

All CFOs were sceptical as to the merits of financial services CCT, though CFO 8 believed it had forced certain changes to be made and CFO 2 differentiated between its various aspects:

CFO 8

[CCT] has forced us to look more acutely at the structure of the central services and central departments and I think that financial services CCT will cause significant changes to the structure of this department. Without it, it is quite likely that things would just have rolled on as they were. In terms of structure, we would have made budgetary reductions as we would have been forced to do but there would not have been the same urge to do so.... [CCT] has forced us to examine exactly how we are apportioning our costs in-house...

CFO 2

I suppose it really depends whether you think you will gain financial savings or increase quality. ...I think generally the private sector pay higher than the public sector anyway.... To me the accountancy side is the core of the council's financial services and I would not want to see them exposed to CCT anyway. On the revenue side there is no doubt that our staff are quite well paid compared with banks and building societies who, I guess, do a similar job. Now that is one area where I can see financial savings taking place if that was exposed.

CFO 5, however, was more sceptical as to its merits in relation to finance:

CFO 5

I think the problem is [CCT] has become a solution to everything....[it's seen as] appropriate in every area and I think that is where it has gone too far. CCT is a useful tool used in a selective way in certain areas....if you use it too much you actually start destroying the fabric of the authority and its cohesion....it can go too far and in some ways it probably is going slightly too far. The reaction I am getting from most people within the authority is that finance is taking it too far.... So long as we have got some other measures....that would make sure that we are not totally inefficient then the pluses of having [financial services] in-house outweigh the very tight discipline of going out.

A factor contributing to the scepticism concerned the difficulties of, first, actually defining an activity and, second, formulating a specification (see also 6.4.2 below):

CFO 5

What worries me in some of the white collar services is the way to specify exactly what goes on, policy advice [for example]....It is so difficult to specify and monitor and control that the likelihood is we could potentially lose simply because we are doing more than is ever specified. It is that bit that worries me more - that's where I think it is going too far.

Other typical comments were:

CFO1

If there are savings I think they would be marginal. It might possibly give rise to better customer service but we could do that anyway without having to go out to CCT.

CFO 3

I'm not sure that the blue collar benefits will materialise for finance.

CFO 6

I am not convinced that CCT will result in major cost savings in finance which wouldn't be achieved anyway because of other pressures. I still worry about the overhead costs.

CFO 8

I don't think there will be an enormous benefit from it at all. I think we are a fairly efficient organisation compared to other large organisations in the public or private sector and I don't think we will make significant savings.

6.4 Quality

6.4.1 Questionnaire Survey

See Boxes 5.23 and 5.24.

Box 5.23										
Financial Services CCT: Quality and Respondents' Employing Organisations										
Questionnaire Ref. Q5.4										
Question	Improve		No effect		Reduce		Don't Know		No Response	
	No	%	No	%	No	%	No	%	No	%
Irrespective of tendering outcomes, what impact do you believe the <u>process</u> of CCT will have on the <u>overall quality</u> of financial services for your authority?	40	24	55	34	58	35	11	7	-	-

Box 5.23 shows that 24% of respondents expect quality to improve within their own organisations as a result of CCT, 34% expect CCT to have no effect and 35% believe quality will reduce.

In terms of expected impact on quality nationally, responses were: 21% believe it will improve, 33% expect CCT to have no effect and 40% believe quality will reduce. See Box 5.24.

Box 5.24										
Financial Services CCT: Expected Impact on Quality Nationally										
Questionnaire Ref Q4.3										
Question	Improve		No effect		Reduce		Don't Know		No Response	
	No	%	No	%	No	%	No	%	No	%
Irrespective of tendering outcomes, what impact do you believe the <u>process</u> of CCT will have on the <u>overall quality</u> of financial services nationally?	35	21	53	33	66	40	10	6	-	-

A higher proportion, therefore, expect it to improve locally rather than nationally (24% as in Box 5.23 compared with 21% as in Box 5.24) and a lower proportion believe it will reduce (35% as in Box 5.23 compared with 40% as in Box 5.24).

Despite this evidence of an expected reduction in quality, the results of the questionnaire survey show that 67% believe CCT has led to a greater emphasis within financial services on value for money and 68% believe it had led to increased customer-orientation. See Box 5.25.

Box 5.25								
Financial Services CCT: VFM and Customer Orientation in Respondents' Employing Organisations								
Questionnaire Refs. Qs5.14, 5.15								
Question	YES		NO		Don't Know		No Response	
	No	%	No	%	No	%	No	%
Has CCT forced financial service managers to place increased emphasis on Value for Money (VFM)?	110	67	25	15	28	17	1	1
Has CCT forced non-financial service managers to become more customer-oriented?	112	68	36	22	16	10		

It may be the case that respondents believe financial services CCT to be unnecessary given the impact, on value for money and customer orientation, of CCT generally on financial services and their organisation as a whole. However, it is difficult to reconcile this interpretation with the level of opposition to financial services CCT (see Box 5.18), even though the main reason for opposing CCT would appear to be its anticipated adverse or nil impact on quality (see Boxes 5.23 and 5.24).

As with non-finance white collar CCT, the sequence of the questions may have influenced the responses, but this is unknown. However, irrespective of sequence, it may be that there is simply an inconsistency in the responses being given, reflecting a genuine reluctance to accept the principle of financial services CCT despite the perceived beneficial impact of CCT on management within financial services and respondents' employing organisations.

Reasons for this possible reluctance may lie deeper than concerns over the perceived likely impact on quality or a belief that the financial justification for the policy

is, at best, questionable. It may, for instance, be related to morale and concerns over job security or, more fundamentally, it may reflect a cultural barrier not only to accepting CCT but also the general thrust of Conservative policy towards local government. These issues are considered in sections 6.5 and 6.6 below.

6.4.2 Interviews

None of the CFOs, perhaps predictably, stated that improved quality would necessarily result from financial services CCT but it was also recognised that measuring the quality of certain financial services (accountancy advice, for example) is a problem and will prove to be so in formulating specifications and evaluating tenders.

CFO 2

I suppose it really depends whether you think you will gain financial savings or increase quality. Certainly, I don't think, on the accountancy side, you would get a better service and I don't think there's people out there who understand local government like local government accountants do..... So.... I can't see it working.

CFO 3

....it is not so straightforward to assume that quality can be in-built. In fact, for financial services, it is simplistic. For activities such as payroll and creditors it may be possible, but not for other elements.

CFO 10

...we had some informal talks with potential providers of pensions and payroll services because we did seriously consider whether or not to outsource some of that work two or three years ago. The one message we got from them all was..... 'we are never going to beat you on price but what we might be able to offer is a different quality and sharper timescales' and all this sort of thing.

CFO 11

....the more easily quantifiable the activity, the easier it is to build quality into a specification (eg creditor payments) but for, say, accountancy and audit, quality is less easily assessed.

One CFO, CFO 9, expressed a view that quality is closely related to the issue of accountability. Because accountability needs to be demonstrated in the use of public money, it is essential that certain standards of service are specified. The problem, however, in specifying them is that authorities run the risk of being accused of behaving anti-competitively should tenders be awarded more on quality rather than price:

CFO 9

I think the question of quality around financial services is so tied up with standards of public service and public accountability that it is very easy to quote examples where the most economical way of doing something....is not actually compatible with the way we would expect people to behave and operate in the public sector. The only way of writing a specification in such detail that it covers all aspects of public accountability, I think troubles me quite a lot.

6.5 Morale and Job Security

See Box 5.26

Box 5.26												
Financial Services CCT: Morale and Job Security												
Questionnaire Refs Qs5.7, 5.8, 5.9, 5.10, 5.19												
Question	Very High		High		Satisfactory		Low		Very Low		No Response	
	No	%	No	%	No	%	No	%	No	%	No	%
How would you describe your morale?	4	2	48	29	83	51	28	17	1	1	-	-
	Improve		No Effect		Worsen						No Response	
	No	%	No	%	No	%					No	%
What impact is financial services CCT had/is likely to have on your morale?	5	3	68	41	91	56					-	-
	YES		NO								No Response	
	No	%	No	%							No	%
Do you feel a sense of job security?	83	51	80	49							1	1
	Improve		No Effect		Worsen						No Response	
	No	%	No	%	No	%					No	%
What impact has financial services had/is likely to have on your sense of job security?	3	2	56	34	105	64					-	-
Statement	Strongly Agree		Agree		Disagree		Strongly Disagree		Don't Know		No Response	
	No	%	No	%	No	%	No	%	No	%	No	%
In the provision of financial support services, my authority would prove to be competitive against the private sector.	20	12	91	56	20	12	2	1	30	18	1	1

The survey revealed an unexpected finding. Although 56% of respondents say financial services CCT will worsen their morale, a total of 82% describe their current morale as

either 'Very High' (2%), 'High' (29%) or 'Satisfactory' (51%) (see Box 5.26). This is surprising given the potential threat posed by CCT and the broader issues with which local authority personnel have had to contend, as emphasised by the CFOs, eg:

CFO 2

You have got to remember the background to all this...revenue staff [for instance] have been through this situation where, in 5 years now, we have seen a Rates system, a Community Charge system and a Council Tax system and they have seen staff numbers rise when things looked fairly good for them under Community Charge then go the other way when we were under Council Tax. Most of them have had just about enough.

Although most of the above changes would have affected non-accountants, they would have affected some accountants either directly or indirectly. In addition, other matters would also have been expected to have an impact on morale, including the public sector incomes policy introduced by the Conservatives, budgetary constraints and general Conservative policy towards local government and the review of local government organisation. With regard to the latter, the outcome, and the fact that, at the time of the survey (September 1996), the review had been largely completed within the north west region, thereby removing the uncertainty which had existed previously, may actually have had a positive impact on morale. However, the 3 county councils, in the main, did not participate in the survey and 2 of them are to relinquish responsibility for certain district councils which have been granted unitary status. This last point, though, does not mean that the survey is 'biased' towards a more positive result because, of the 3 county councils, the districts of only 1 of them are included in the survey and, of those, of the 2 which were granted unitary status, 1 did not participate in the research (see Chapter Four, para 2.4.2).

The level of morale revealed by the survey is also surprising when seen within the wider context of morale among the workforce nationally, whereby employee morale was reported to be 'in free fall' with only 39% giving a favourable response when asked about their morale (ISR, 1996; as reported by Taylor, 1996). Similarly, although the LGMB (1997a) reported that 2% of chief executives in their survey believed that staff morale generally was 'high and buoyant' and 55% believed it was 'moderately high', 44% reported it to be 'moderately low' and 4% said it was 'low and depressed'. The findings also contrast with those reported by Broom (1994b) which revealed that, within local government, 97% felt that job security was poor, though the validity of this finding is questionable.

Box 5.26 also shows that 49% of respondents do not feel a sense of job security and 64% believe that CCT will worsen their sense of job security. Further analysis revealed that, of those respondents who were CFOs/DCFOs/ACFOs or equivalent, 45% stated that they did not feel a sense of job security.

There were no significant statistical relationships between responses to questions concerning morale and job security and the respondents' background (*ie* responses as given in Section 1 of the questionnaire and summarised in Box 5.1). Although Appendix I shows a potentially significant relationship, that between morale and employer (*ie* type of authority) (see italicised probability value in Appendix I) further investigation revealed that the test was not valid as the figures were too low to give reliable results.

It is difficult to reconcile the responses given to the questions on morale to those given to the questions on job security. However, an explanation may lie in the fact that a total of 68% (*ie* 12% 'strongly agree' and 56% 'agree', see Box 5.26 above) believe that, in the provision of financial support services, their authority would prove to be competitive with the private sector, though there were no significant statistical relationships between responses to the question (Q5.19) concerning competitiveness of financial services and the respondents' background (see Appendix J).

The level of agreement (68%, *ie* 12% 'strongly agree' plus 56% 'agree', see Box 5.26 above) with the statement concerning competitiveness may reflect the fact that the respondents, as accountants, interpreted the question as referring to core accountancy tasks, where their confidence may stem from an assumption either that they will not be exposed to CCT or, if they are, they will prove to be competitive with the private sector, rather than services such as payroll, sundry income collection, creditor payments *etc*, which local authorities will be more likely to expose to tender and where they may be vulnerable. In general, however, the responses may simply reflect any one or a combination of: complacency; ignorance of the private sector; ignorance of the findings of the Audit Commission (1995a) (see Chapter Three, para 6.3) which revealed that only the cheapest 25% of in-house providers were able to match the private sector.

6.6 Cultural Change

In order to investigate the extent to which cultural factors may influence views on CCT, a number of related questions were included in the questionnaire. The intention was not to base the findings on a universally-accepted definition of culture nor to formulate a

definitive list of questions which could 'prove' whether cultural factors explain opposition to CCT. No such definition or list exists. The objective was much less ambitious but was designed to establish whether there is evidence that local authority accountants display a more commercial, less traditional, outlook, consistent with new public management (see Chapter Six) and as recommended by the Audit Commission (1995a).

Insofar as culture refers to 'the way we do things around here' (Deal and Kennedy, 1982, as quoted in Colville and Packman, 1996, p28), there is a need for financial managers to do things differently, more commercially and less bureaucratically, in response to the new competitive environment within which they now work. The survey was not able to test whether behaviour has changed but it sought to establish whether attitudes reflect a willingness to, and desire for, change. Questions were asked as given in Boxes 5.25 above (*ie* Financial Services CCT: VFM and Customer Orientation in Respondents' Employing Organisations) and 5.27 below.

The responses to questions concerning value for money and increased customer-orientation (Box 5.25) appear to indicate that a cultural change is taking place in local government financial services and this is reinforced by responses as given in Box 5.27 below.

With reference to Box 5.27, the following questions/statements, numbered as they appear on the questionnaire, are drawn directly from previous research in order to test whether responses are consistent with published findings (see also Chapter Three):

- Q5.16 Do you welcome the commercial disciplines imposed by CCT?
- Q5.17 The commercial disciplines imposed by CCT are welcomed within financial services.

These are drawn from the findings of Rao and Young (1995, p45) who state that:

At least in those authorities visited, the new disciplines which CCT imposed are valued, even where the compulsion that produced them is not.

- Q5.20 My authority needs to review the purpose of the finance function to make it more appropriate for today's environment.

This is drawn from Audit Commission (1995a, p10).

- Q6.5 Local authorities should adopt a business culture.

This is drawn from Audit Commission (1995a, p22)

Box 5.27												
Financial Services CCT: Cultural Change Context												
Questionnaire Refs Qs 5.16, 5.17, 6.5, 6.7, 6.8, 5.20, 6.6, 6.4												
Question	YES		NO		Don't Know						No Response	
	No	%	No	%	No	%					No	%
Do you welcome the commercial disciplines imposed by CCT?	107	65	37	23	20	12					-	-
Statement	Strongly Agree		Agree		Disagree		Strongly Disagree		Don't Know		No Response	
	No	%	No	%	No	%	No	%	No	%	No	%
The commercial disciplines imposed by CCT are welcomed within financial services.	7	4	62	38	64	39	14	9	17	10	-	-
Local authorities should adopt a business culture.	23	14	102	62	31	19	6	4	2	1	-	-
As far as practicable, the finance function should be decentralised and finance personnel intergrated into service departments.	22	13	68	41	48	29	16	10	9	6	1	1
Financial freedom should be devolved to service departments	41	25	91	55	19	12	10	6	1	1	2	1
My authority needs to review the purpose of the finance function to make it more appropriate for today's environment.	8	5	87	53	57	35	8	5	3	2	1	-
Local authorities should not provide services directly but should be concerned with enabling them to be provided.	4	2	12	7	96	59	48	29	4	3	-	-
CCT was introduced for political rather than economic reasons.	58	35	78	48	17	10	1	1	10	6	-	-

The responses reveal that 65% (see Box 5.27) welcome the commercial disciplines imposed by CCT, consistent with the findings of Rao and Young (1995). However, although 42% (*ie* 4% 'strongly agree' plus 38% 'agree') believe that the same

disciplines are welcomed within financial services, 48% (*ie* 9% 'strongly disagree' plus 39% 'agree') do not. This may indicate that individual respondents have a mistaken perception of their colleagues' views on CCT. It may, however, indicate that, within financial services, professional accountants welcome the commercial disciplines but they believe that non-accountants do not. Whatever the explanation, there is some justification in questioning the wider applicability of the findings of Rao and Young (1995), as given in the above quote.

Further analysis revealed that there were no statistically significant relationships between respondents' background and responses given to the questions concerning the cultural change context, as included in Box 5.27 above. See Appendix K. Though there would appear to be two statistically significant relationships *ie* between political control/business culture (Qs 1.2 and 6.5) and status/perceptions of the extent to which commercial disciplines are welcomed within financial services (Qs 1.6 and 5.17), further investigations revealed that the test was not valid because, with regard to political control, there are problems with the low number of non-Labour authorities. In the case of status, there are several expected values below 5, thereby invalidating the test.

However, overall, the responses indicate a willingness to accept change. This is further illustrated by the overall level of support, 76% (*ie* 14% 'strongly agree' plus 62% 'agree', see Box 5.27), for the statement that local authorities should adopt a business culture, as recommended by the Audit Commission (1995a, p22). This is a surprising response but indicates that any stereotyped image of a local government accountant, with no commercial training or outlook, refusing to contemplate change and practising a strictly non-commercial method of accounting, is a mistaken one. On the basis of this survey, accountants are keen to change and adopt private sector practice. Further statistical analysis (as given in Appendix K) revealed that neither previous private sector experience nor type of professional accountancy qualification were significantly related to the belief that local authorities should adopt a business culture. This is interesting in that, for instance, there is no evidence of a difference between those who are CIPFA qualified and those who are not. This may reflect new thinking resulting from the revised CIPFA education and training scheme (see para 2.3) which places much greater emphasis on commercial practice and business strategy; it may reflect the influence of the increasing number of local authority accountants with private sector backgrounds and non-CIPFA accountancy qualifications. It may simply reflect a recognition and acceptance, reluctant

or otherwise, of the competitive environment in which local authority accountants now work. Whatever the reason, the responses indicate a willingness to move away from traditional local government methods of working.

Further evidence of this willingness to change is seen in the response to the statement that the finance function should be decentralised and finance personnel integrated into service departments, see Box 5.27. Although a substantial proportion, 39% (*ie* 10% 'strongly disagree' and 29% 'disagree'), did not agree with the statement, 54% (*ie* 13% 'strongly agree' and 41% 'agree') supported it. Even more surprisingly, and importantly, 80% (*ie* 25% 'strongly agree' plus 55% 'agree', see Box 5.27) support the view that financial freedom should be devolved to service departments.

The merits of devolving were also implicit in the statement from the Audit Commission (1995a), concerning the need to review the purpose of the accountancy function (see Chapter Three, para 6.3) (Q5.20 on the questionnaire). Box 5.27 shows that 35% of respondents 'disagree' with the statement and 5% 'strongly disagree' but 58% supported it (*ie* 5% 'strongly agree' and 53% 'agree'). It may be that those who disagreed did so because their authorities had already reviewed the purpose of the accountancy function. However, perhaps more definitely, the findings indicate two things. First, the majority of respondents accept the need to change the focus and nature of their work in response to the changed environment. Second, the perception that change was still needed, over five years after financial services CCT was first officially proposed, reinforces the findings of the Audit Commission (1995a) that authorities are not well-prepared for financial services CCT (discussed further below).

This question was pursued in the interviews with CFOs but, first, they were asked to give their views on a related recommendation from the Audit Commission (1994b, pp27-28), which was that there should be a clear distinction between the corporate core of the authority and the central departments as support service providers. Interviewees were asked if they agreed with the recommendation, which, in the main, they did not, and whether their authority had acted in a manner consistent with it which, in the main, they had not, though a number of them said it was simply impractical given their relatively small size. Examples of responses are:

CFO 2

The size of the authority stops us really doing that and personally I think, both the Audit Commission and CIPFA have a lot to answer for. Service level agreements, time sheets, whatever it is, it is just bureaucracy really and if we are not careful, financial services are

going to cost so much, because we are doing so many, what I call, unnecessary tasks, that we are going to become totally uncompetitive.

CFO 3

Personally, I agree with the recommendation but I also think you can go too far down the road of having a contractor dictating policy. We also have devolved finance, so there is an accountant in each department who works to the Director of that department. This represented a major change.

CFO 8

We have split our accounting arrangements in such a way that we separately identify corporate core from the costs that are charged to client departments and to DSOs. We haven't always seen eye to eye with the Audit Commission on the management of the DSOs. For example, the Audit Commission initially were seeking a complete split between the client and contractor at senior level. We have never gone along with that and they have, in fact, changed over recent years to say that the model we are operating is, if anything, a better model

CFO 10

I do agree with it and in a way I think we predated it rather than mirrored it [but] we find that the organisation fragments if you have client units and business units with different perspectives...You might think that you are working for business unit X or service department Y but we are all part of the same organisation and we do find that you need to reinforce that message because one of the downsides of splitting traditional departments and setting up new units is that there is a temptation to focus on that unit rather than on the Council as a whole. To be able to question each others' charges and activities is a good thing but, at the same time, it often means that a lot of energy is being devoted to discussions about service level agreements and charges and things which are internal to the Council but really secondary to our main purpose which is to provide services to people of this area or at least to arrange for somebody to provide services to people of this area.

CFO 11

I do not agree with the recommendation as a blanket principle and the authority has not sought to apply it across the board. In important respects, the recommendation is a naive one and I cannot accept it as a generic philosophy. It is also, in some respects, out of date. Insofar as the authority was audited as part of the study, the report was one of the worst reports seen here but it has been shelved. The authority already had implemented a Devolved Financial Management (DFM) scheme which, amongst other things, involved the establishment of a framework and ground rules but not across the board; it was done on a planned, incremental basis. We do not believe in jumping on bandwagons. Within the authority, accountants are retained centrally, not outposted. However, if specific requests are made and agreed re outposting finance staff, we are relaxed about it if departments want them. Also note, all DSOs have their own finance staff. The DFM scheme proceeded independently of CCT. We were concerned as to the relatively pedantic financial regulations which were previously in place and, in establishing new and separate ones for the DSOs, they were liberated from the then existing financial regulations.

Interviewees were subsequently asked their views on the Audit Commission (1995a) statements that 'All authorities need to complete the transformation from administration to management if they are to thrive and survive in the new environment' (p6) and 'More fundamentally, managers and members should review the purpose of the accountancy function in a modern authority' (p10). The responses were not particularly supportive.

Fundamental concerns were expressed concerning the merits and demerits of devolved financial management and also the Audit Commission's approach to probity. With regard to devolved financial management, examples of comments are:

CFO 5

I have not read that report. However, we did review the accountancy function in 1988 - we were one of the first authorities to devolve accountants. However, some authorities which have devolved accountancy have brought it back into the centre. In terms of quality, having put accountants into individual directorates I think this has improved accountability. It has certainly made directorates more accountable for the way in which resources are managed. Before, it was easy for them to see Treasurer's as 'the abominable no man'. Now, they have to justify and manage the resources they are given. Finance is now at the forefront. Accountants are involved in decision-making. This is a positive development, even though initially they were more comfortable with book-keeping, financial reporting etc. They have not 'gone native' but nor has there been a loss of financial control. I have considered moving the accountants around, but decided against it because they have built up specialist skills, though they can become too specialist which is not helpful in career terms.

CFO 8

.....[The finance function] has been under constant review, certainly throughout the 90s. I don't think there was anything in [the] Audit Commission report that made us change anything we were doing. We were doing it already.

CFO 11

The first statement is simply a truism. The second statement I do not agree with because it implies a clean break rather than allowing change to occur in an evolutionary way. Within the authority, for instance, changes have been made from traditional practice - including the Devolved Financial Management scheme and the emphasis on business planning - but these did not occur in response to any particular recommendation leading to change overnight. They evolved to meet new circumstances.

One CFO. CFO 6, commented that CCT had, in fact, been a distraction and prevented further work being undertaken on devolving financial management:

CFO 6

.....we set about devolving the finance function so that managers would own [it] and indeed would have their own finance staff to ensure that the information that they were getting was suitable to their requirements. I think I would say, however, CCT has been a time-consuming task and that if it weren't for CCT we would have got a bit further down the line.

Two CFOs stated that the CCT proposals being considered at the time the interviews were being conducted (August and September 1996) could actually lead to a reversal of the devolution which had taken place, as authorities struggled to meet the competition requirements:

CFO 5

There is a lot of concern about the devolved approach. It makes it much harder to win at CCT. There are definite views that we should perhaps re-centralise. I want to resist that because I believe, fundamentally, it is wrong for the services.

CFO 10

I am very bothered about the effect of the most recent Consultation Paper or the potential effect of it because I think that could damage things like corporate financial advice and I think it could also militate against the moves which have taken place over a number of years in councils to devolve finance to departments and business units.

With regard to probity, 2 CFOs believed that the Audit Commission's recommendations reflected a bias towards management accounting at the expense of the traditional and central role of the finance function, ie to exercise stewardship and ensure probity:

CFO 10

I am a little bothered about the implication that we concentrate only on management accountancy because I think the Audit Commission would be the first to pick up local authorities if the financial accounting wasn't done properly. I know that the stewardship role is often recording events that have happened and it is not dynamic in helping managers to manage. I am just a bit concerned that if everybody became a management accountant, who would be doing that stewardship role? I think that is a particular concern as we move towards CCT because if that is not included in specifications or given enough profile, then accountability of public funds, on the stewardship side of things, could be neglected. The other concern I have got is, with local government reorganisation underway, the Audit Commission's been one of the first organisations to remind local authorities that this is a very critical time in recording details of transactions and the audit trail can get lost during this time....I think that is something to be borne in mind.

CFO 11

Insofar as it may mean that the Audit Commission is placing greater emphasis on, say, management accounting as opposed to financial accounting and probity, then it must be said that the two should coexist. For example, I regard audit as part of the core business but it also provides safeguards re probity. I worry about the Audit Commission's attitude to probity. An example of a better balanced approach taken by the District Auditor more recently is in respect of the Police. They too are concerned with the need to ensure better accountancy advice and a more commercial approach but they are less enthusiastic about financial devolution because they also accept the need for sound financial management.

Three CFOs were in fact quite scathing about the Audit Commission:

CFO 2

Sometimes the Audit Commission are fairly disappointing in the statements they come out with and reports they do and I have got to say that if they were exposed to CCT they would have a serious problem. I don't think the quality of staff they employ is all that high.

CFO 5

.....the problem with the Audit Commission is they don't run things themselves. It is all theory.....It sounds like somebody who's made some comments on things they don't actually physically undertake so it is hard to say. I think we have [reviewed the accountancy function]; I think our accountancy function.....has moved much more into an integrated part of departmental management by providing financial input into management, value for money input. It also is an independent voice which actually challenges things and quite often finance will say, 'well hang on why are we doing this', and making managers actually sit back and realise what the cost is. So I'm not so sure we have quite done it in the way the Audit Commission might have thought people would do it but I believe we actually now get more out of accountancy.... Our approach has been that we have devolved the financial management responsibilities to Chief Officers and as a consequence have actually moved my accountancy teams out to departments. I think from experience, I have to say, it is a danger in that by getting much more involved in the management sometimes the stewardship can be lost. The job, in a sense, has moved to

people - my experience was that as people moved out to become much more integrated in the department they go native a little bit.

CFO 7

The Audit Commission, to me, these days, is so much into soundbites and headlines.....I [know] that the first time we get something wrong or this Council overspends the budget and I look round to see if the Audit Commission are there to support us, they will be miles away.....It's all well and good, the Audit Commission standing on the hillside looking down and saying you should review your accountancy function and all this, that and the other but as I say, if when the bullets start to fly because problems arise because you have cut back or done whatever and people start saying that this is public money that is being looked after and they ought to have known better, I will guarantee the Audit Commission won't be stood behind us supporting and saying well yes, we advised them. I always find auditors are very adept at standing on the fence. They only jump off when they are sure about what they are going to land in.

Despite criticisms expressed by certain CFOs, overall the questionnaire and interview data not only collectively indicate a profound willingness to undergo fundamental change in working practices and organisational structure, but also indicate that accountants are themselves rejecting the traditional *raison d'être* of the 'Treasurer's department' as a self-contained central department controlling the authority's finances and arbitrating between service departments in their claims for finite resources. On the contrary, accountants appear to support the view that commercial practice should be adopted within a radically changed structure involving the fragmentation of the finance department and increased autonomy for front line services.

However, they remain committed to the traditional role of local authorities as direct providers of services, with 88% (*ie* 59% 'disagree' plus 29% 'strongly disagree', see Box 5.27 above) rejecting the view that the enabling model, the one supported by the former Conservative government, is the most appropriate for local government. This rejection of the central thrust of their policy towards local government has perhaps contributed to the view that CCT, rather than being introduced in an objective and non-political fashion as a means of securing greater value for money, was, in fact, politically motivated as a device to undermine the traditional role of local government. Justification for this interpretation can perhaps be found in the 83% support (*ie* 35% 'strongly agree' and 48% 'agree', see Box 5.27 above) for the statement that CCT was introduced for political rather than economic reasons. The extent to which this view is held is perhaps a significant obstacle to the acceptance of CCT and reinforces the point made by Kane (1996, p64) that 'the greatest difficulty associated with CCT arises from the ideological background of the policy'.

6.7 *Summary: Hypothesis Two*

Hypothesis Two is as follows:

Professional personnel within the finance function of local authorities in the North West of England oppose the extension of CCT to financial services because they believe that:

- (a) financial services are unsuitable for CCT
- (b) it will not lead to reductions in costs or improvements in efficiency
- (c) it will not lead to improvements in the quality of service delivery
- (d) the broader context of Conservative governments' policy towards local government, to which CCT was central, was unacceptable, representing, as it did, a threat to the traditional role of local government and that these beliefs not only stem from subjective concerns over their own job security but are rooted in their public service background and training which act as a cultural barrier to the adoption of commercial practice.

The results reported here confirm that finance professionals oppose the extension of CCT to financial services, but they do so for reasons other than those hypothesised.

The following points summarise the findings from questionnaire and interview data in respect of the views of accountants on financial services CCT:

1. The policy is opposed by 70% but the level of non-opposition is higher than expected (Box 5.18) and finance professionals do not discriminate between financial and non-financial white collar services; there is consistency in opposition to or support for CCT irrespective of the type of white collar service (para 6.1). CFOs were, however, sceptical as to the merits of the policy (para 6.3.2).
2. Despite the fact that the policy is opposed there is acceptance that, in the main, activities which constitute financial services as a support service are suitable for CCT (Box 5.19), though CFOs identified concerns in relation to externalising services (para 6.2.2).
3. The main reason for opposition appears to be a concern over the impact of the policy on quality (Boxes 5.23 and 5.24) rather than costs (Boxes 5.20 and

5.22). Insofar as some respondents believed that CCT would reduce the costs of financial services, the main source of savings was thought to be a reduction in total labour costs (Box 5.21), though CFOs were sceptical that savings would result (para 6.3.2).

4. Despite the fact that the policy is opposed, there is a belief that CCT has had a wider, beneficial impact on value for money and customer orientation (Box 5.25).
5. The level of morale is higher than expected and concerns over job security lower than expected (Box 5.26), neither of which are influenced by respondents' backgrounds (Appendix I). A possible reason for the findings is the general belief that local authorities will be competitive with the private sector in the provision of financial support services (Box 5.26).
6. There is clear evidence of support for cultural change, involving the adoption of a business culture, and also high level of support for a radical restructuring of financial services and devolved financial powers to front-line services (Box 5.27), though there is very high level of opposition to the enabling model of local government and a clear belief that CCT was introduced for political reasons rather than economic ones (Box 5.27). In the main, the acceptance of the need for cultural change was not influenced by respondents' backgrounds (Appendix K).

The conclusion reached, therefore, is that the findings support the hypothesis in relation to the views of finance professionals on financial services CCT, costs, quality and opposition to the broader context of central government policy, though the findings do not support the hypothesis that finance professionals believe that financial services are unsuitable for CCT. However, the assumption that finance professionals' opposition would be rooted in their professional and experiential background was mistaken. First, the evidence indicates a considerable, and general, willingness to adopt commercial practice. Second, there are no discernible differences between those with and those without private sector backgrounds and the CIPFA qualification.

In short, the opposition to CCT appears to be more objective than subjective. It is not a reflection of outdated thinking or professional intransigence. On the contrary, the

evidence reveals a considerable willingness to embrace commercial practice and cultural change.

The research findings, therefore, lead to a rejection of Hypothesis Two.

7.0 Research Findings: Hypothesis Three

Hypothesis Three is as follows:

Local authorities are inadequately prepared for financial services CCT because, irrespective of the timing and likelihood of having to expose services to competitive tender, the traditional local authority culture is prevalent and leads to a reluctance, on the part of financial services, to respond to the commercial environment within which local authorities now generally operate.

In investigating this hypothesis, it was decided that authorities' preparation would be considered against the following criteria:

- policy: overall approach
- strategy
- selection and packaging of services for CCT
- client/contractor split and service level agreements
- adoption of techniques for improving competitiveness

7.1 Policy: Overall Approach to Financial Services CCT

A pre-requisite of good preparation for financial services CCT is to define the policy, the overall approach, to be adopted by the authority. It has been established (see para 4.1) that, in the main, the general approach to CCT has been to support in-house provision but to do so in a manner which is fair rather than anti-competitive.

With regard to financial services, respondents were asked to choose from four policy options, taken from CIPFA (1995b, p2), the one which most accurately described the general approach which their own authority had adopted or was most likely to adopt. They were also asked to indicate whether they agreed with the general policy. See Box 5.28.

Box 5.28								
Financial Services CCT: Policy								
Questionnaire Refs: Qs 5.2, 5.3								
Policy	No	%						
To promote in-house provision	138	84						
To ensure there are in-house bids with a neutral policy about who provides the services	25	15						
To transfer the existing service providers out into the market from where they continue to provide the services to the authority	-	-						
To make no in-house bids and not to negotiate a buy-out.	-	-						
No Response	1	1						
Total	164	100						
Question								
	YES		NO		Don't Know		No Response	
	No	%	No	%	No	%	No	%
Do you agree with the general policy as answered above?	153	93	7	4	3	2	1	1

Box 5.28 shows that the 84% of respondents stated that their authority's policy towards financial services CCT is to promote in-house provision and 15% stated that the policy was strictly neutral. 93% of respondents agreed with their authority's policy. There were no examples of authorities pursuing a policy of a buy-out or a policy of externalisation. This is reinforced by the response to the following question (Q5.1):

Has your authority voluntarily exposed any aspect of financial services to competitive tendering in anticipation of CCT (*ie* services other than those it would normally have expected to externalise)?

If the reply was 'YES', respondents were invited to state the nature of the work and the outcome of the tendering exercise. Note that examples of work which authorities could be expected to externalise include such activities as cash collection, bailiffs, collection of residual community charge arrears *etc.*

In response to the question, 89% said 'NO' and 10% said 'YES' (1% did not respond). Of those that replied 'YES', the examples given were, in the main, services, such as collection of community charge arrears, which it was assumed would be regarded as ones which could normally have been expected to be externalised.

In the interviews with CFOs, the point was made that the proposals being considered at the time had actually discouraged the externalisation of certain work in that credits would no longer be obtained to offset against the competition requirement:

CFO 8

Most of the bailiff's work is external. We retain some in-house bailiffs but the bulk of it is handled externally. Most of the investment management and pension funds are external. Again we retain some in-house advisers. Those are probably the two largest areas where we have clear flexibility. In terms of credits brought into the CCT equation, as it stands at the moment, prior to government changes, then we have got all these other things like bank charges, etc etc, but those are probably the two main areas where we have voluntarily externalised. In fact, we used to have far more of the investments work externalised than we now have but we brought a lot more of that back in-house.

In summary, therefore, it would appear that a definite policy has been adopted by local authorities in the region to financial services CCT, ie to promote in-house provision and not to pre-empt the CCT requirements by voluntarily subjecting mainstream activities to tender. This is consistent with the situation nationally (see Chapter Three, para 6.2). It is also: consistent with their overall approach to CCT; predictable given their political composition; supported by respondents.

However, deciding upon a policy is, in itself, insufficient. The strategy by which it is to be pursued must be formulated, communicated and implemented.

7.2 Strategy

Formulating and communicating CCT policy and the strategy by which it is to be implemented is particularly important given its behavioural implications, not least the potential impact of CCT on morale and job security and the uncertainty created by CCT itself and the changing competition requirements. For this reason, the following question (Q5.21) was included in the questionnaire:

In deciding upon its response to financial services CCT, my authority has established a clear strategy.

The response was as follows:

<u>Response</u>	<u>No</u>	<u>%</u>
Strongly Agree	6	4
Agree	76	46
Disagree	51	31
Strongly Disagree	8	5
Don't Know	23	14
<i>Total</i>	<i>164</i>	<i>100</i>

These responses, when combined with those as given in Box 5.28 above, reveal that, although the vast majority of respondents claim to know what their authority's overall approach is and support it, they are not particularly sure as to how the approach is to be pursued. Summarising from the above figures, of the 50% who 'agree' or 'strongly agree' that a clear strategy has been established, only 4% 'strongly agree'. In addition, although only 5% 'strongly disagree', an additional 31% 'disagree'. Finally, although 14% replied 'Don't Know', given the nature of the question, it seems reasonable to include the 'Don't Know' responses in the 'Disagree' category.

Importantly, of those who are CFO/DCFO/ACFO or equivalent, 43% responded 'strongly disagree' or 'disagree' with the statement and 6% responded 'Don't Know'. This would appear to indicate a considerable degree of, either, self-criticism, or criticism of CFOs by those immediately below them in the organisational hierarchy.

It may have been the case that authorities had actually established a clear strategy but simply failed to communicate it, but this too would be unsatisfactory given the anxiety that CCT could have been expected to engender.

It may also be said that authorities were simply waiting until a definitive set of regulations, including a definite competition requirement, was decided upon by the former Government. However, such an approach is difficult to justify given that authorities had known since 1991 that a proportion of their financial services activity would have to be exposed to competition; they have also known, with reasonable certainty, a minimum proportion which would have to be exposed. Under previous proposals, certain councils, particularly district councils, may have assumed that they would be *de minimis* or, at worst, have to expose a small, peripheral, activity to competition. However, it could perhaps be argued that they should have formulated and communicated contingency plans on the reasonable assumption that the former Government could, in the future, change the regulations in the light of local government's ability to exploit existing regulations and minimise the amount of work to be exposed. These points are made in full knowledge of the other major issues with which local authorities have had to contend, including the review of local government, the introduction of Council Tax and the pressures brought about by ever-greater resource constraints. However, it must also be added that, because of the local government review, a small number of councils within the region may have believed that they were going to be abolished.

It may also be the case that authorities had been working on a different assumption, that of the election of a Labour Government and the abolition of CCT. Two CFOs, in fact, stated, during interview, that, because of the complexities of white collar CCT, which they believed had been considerably underestimated by the DoE, they did not believe that financial services CCT would ever happen or, if it did, there would be numerous legal challenges based on different interpretations of the legislation. One stated:

CFO 2

I think the difficulty [the former Government] has got is that white collar CCT is so complicated and I think the Government didn't realise what they were taking on when they tried to do it. The legislation that they have come out with so far is just full of loop-holes that it looks like they are trying to stop some of those now, but they seem to be making a real mess of it all. I mean there is no doubt they were trying, I guess, to expose financial services in many of the big councils. I can understand that. They were disappointed, no doubt, when the big London boroughs and Mets were finding that they could use the loop-holes to become de minimis and it looks like the back-lash from that is that everybody is going to suffer. Again I question just what the benefits would be in doing it. As I say, white collar CCT is so complicated because all the support services support each other, they support blue collar services and they support the [front line] services as well and.....it is such a bureaucratic exercise to unravel all those links that I am not just sure that they could ever frame any legislation that did it. If it does come in I can see problems with District Audit and the DoE on councils' interpretation of what the legislation is. Deep down I think there are more important things that the Government should be concentrating on that white collar CCT.

Irrespective of the merits or otherwise of the above viewpoint, there remains the need to improve: the efficiency and effectiveness of central services; the relationship between central services and DSOs; finally, most importantly, the relationship between central services and local taxpayers.

With regard to communication, this would appear to be unsatisfactory given the responses from the questionnaire. From the interviews with the CFOs, however, it was generally the case that, although they recognised the need to keep staff informed, they did not wish to run the risk of raising the profile of the issue and, perhaps, cause unnecessary anxiety at a time when the Government's policy was still being considered:

CFO 1

We have not, certainly as a department, gone any further down the line with regards to involving all the staff. At the moment I think they are aware of the situation. It's a case of, on the one hand, not needing to involve them and, on the other hand, not wanting to alarm them at too early a stage. Local Government Review is a prime example where there were so many rumours and counter-rumours that everybody became insecure. So we have taken the view we will wait and see what the final figure is before we get all the staff involved.

CFO 2

....really we haven't had any serious discussion amongst finance staff of what the implications might or might not be. We took the view so far that it would be premature to

do so [given all the other changes with which they have had to contend]. I think it would have broken the camel's back.

CFO 3

With finance.....there is a group looking at CCT. The group has a representative from each area. They, in turn, will keep everyone informed of developments. The policy is to inform but not frighten. The group meets on a 6 weekly basis. Information is circulated as appropriate.

CFO 5

We have written to all the staff and I actually did that the day the draft regs came out, explaining what we thought it would mean. We also have a regular CCT briefing. As soon as we actually get the definitive regulations I will actually meet each section individually and talk through what it means to them. So, we have tried to communicate it as well as we can but, of course, there are no definitive answers as yet and the staff recognise that. We appointed an Officer to lead CCT in the department....who is drawing things together and making sure time-tables are met. But I would say it does nothing for morale, this whole process, and causes a lot of concern and uncertainty.

CFO 8

We have set up an internal working party of about a dozen people to steer the process through. We have regular team briefing meetings where the management team brief the section heads; these have taken place over the years, it's not just CCT but obviously CCT is the main problem at the moment. Those take place on a monthly basis and the section heads then brief all their staff, so, in theory, everybody is briefed as to what is happening. As an additional item arising purely from CCT, we are going to produce a regular one or two page newsletter for all staff...to try and keep people informed of what the latest developments are and what our response is....The problem [is that], throughout the summer, the game appears to change every week or two, and the staff are understandably anxious that they are told something one week and a fortnight later they are told something different. I think most of them understand now that we are not masters of our own destiny at the moment.

In summary, the evidence appears to indicate that there was quite a high level of uncertainty on the part of finance professionals as to their authorities' strategy for CCT. This conclusion is reinforced by the findings relating to the selection and packaging of services for CCT. See 7.3 below.

7.3 Selection and Packaging of Services for CCT

With regard to deciding which particular activities within financial services were likely to be exposed to competition, CFOs were asked whether decisions had been made. They were also asked whether they had quantified the costs of each activity and prioritised them in terms of the order in which they would be exposed to competition to comply with Governmental policy once it had been determined.

With regard to quantifying the costs, there was general agreement that the production of SSSCs, actual or dummy ones, was a useful exercise (note: the requirement to produce them was abolished in August 1997) but one CFO disagreed:

CFO 6

[The production of an SSSC] is only useful to run CCT the way it has been set up. That's its only purpose - if you were not going to operate CCT the way the Government intended....you wouldn't need an SSSC. I don't think anyone would think that they could produce one or it was a good idea to produce it, if it were not for CCT being introduced. So it is a major administrative task....identifying person by person across the whole authority who is dealing with more than 50% of a particular function. That is a huge laborious task - major, major cost.

As for prioritising financial services activities for CCT purposes, the CFOs were asked whether they had adopted an approach whereby Activities A, B and C would be exposed if the requirement was 35%, A,B,C+D if the requirement was 40%, A, B, C, D and E if the requirement was 50% etc. One CFO replied:

CFO 5

No, because it is not as simple as that. I think that is my big difficulty because, for example, if it comes to something like 40% and we get the credits, I would be very much looking to put parts of services out to really test the market. If it is much higher I am going to have to put out whole chunks.... At the moment, we are assuming that we will have to put 65% down so every area of activity is working on draft specifications and, for many of the big services, we have already got a first draft out.....the main thrust has been to be able to deliver what we are required to deliver and to do it well because, to me, the biggest risk was the timescale and [the risk of] getting a lousy specification. So we concentrated on the specification side - we also are trying to gather as much information about competitors. That is what we are doing. I mean that in itself gives me worries because whole areas will have to go 100% under that basis and I am not so sure that is quite the best thing for the authority. So, to comply with 65%, there is no doubt in my mind that the whole of tax and benefits will have to go out as well as lots of other things. If the percentage comes down I think a better strategy is to put parts of services out to see whether the market can do any better than we can and also to give us a bench mark to compare the two. That's not just about winning - that's what I think is good management. You don't put all your eggs in one basket - 65% would give you that.

Others said:

CFO 1

It is inevitable that Revenues and Benefits will have to go out.

CFO 2

I think we will be able to respond fairly quickly. 65% without any credits in a sense makes it slightly easier because the only way we could meet that is by putting revenues out and....my view is that is the area which is probably the only area that is worthwhile doing anyway.....Half a dozen firms out there I'm sure would come in and do it so there is no problem. If we had to expose the accountancy [function], it will certainly concern me.

CFO 3

All calculations have been made. We've looked at individual ways of packaging the work but no decisions have been made. I need to consider a number of options. Do I expose the devolved accountants? Do I expose internal audit? Should I split internal audit and expose one part of it (eg systems and value for money)? Should I package audit and accounts together, but if I did so I may be in breach of 5/96 [note: the DoE circular concerned with anti-competitive regulations – see below]. These matters are all considered with officers from other authorities..... We share experiences and we have agreed not to compete with each other [Emphasis added].

CFO 6

We hadn't formally reached any conclusion about what we would do because when we had the lower percentage of the current rules, the lower percentage and with credits, we did not need to subject any part of the finance function to CCT so we were able to put on one side that issue.....What we have not done is gone into the realms of speculation.....eg this is what we will do at different levels [of competition requirement]. We have not gone into that. What we have recognised is that, if we had to put out a substantial part of the finance function, then the revenue side, the tax collection function, can't be avoided no matter what else.....might be required.

CFO 7

What we have done.....is to identify.....what the quantum, whatever the terminology is, that we would have to expose to competition is likely to amount to and then to identify what we would term as building blocks that would enable us to do that....So we have got a series of building blocks and we know that housing benefits is valued at so much, payroll is valued at so much, council tax is valued at so much, internal audit is valued at so much....So that we have got, if you like, a set of....discrete areas that will add up to various sums and, depending then on what happens, we would then move things forward. Now what we have done beyond that is to say we ought to have some sort of prioritisation....Now we haven't prioritised exactly....We have prioritised areas so that initially we have said....[certain activities are likely to be first in line] to meet CCT [eg] business rates, council tax, housing benefits, payroll, cashiers, debt recovery.....[T]he areas that are least likely to be put out are accounting, financial management, financial advice, loans administration. Internal audit is in this second category but [within it] is likely to be first in the firing line.

CFO 8

We know that whatever combination the DoE settle on, we will decide within a matter of days what we would wish to put out to tender. That's the technical assessment in-house - we would then need political agreement. I couldn't disclose [the order in terms of priorities]. We need to have more detailed discussions in-house with staff, obviously, and unions and with the politicians. What I could say, is that we would not wish to put out a large number of tenders because we couldn't handle the tender specification work in-house to do that. So we would be looking to put a limited number of tenders out. Therefore if the amount to be subject to competition is multi-millions, then it would be the big services that would have to go out. If the amount is fairly small then we would probably try and do it on an amalgam of smaller services.

CFO 9

If we are going to get caught by 65%, what does that mean in pound notes, and what are the categories of work we undertake and what are the parcels we think about, to add up to 65%? That is really the stage we are at.

CFO 11

All costings have been undertaken and established. Under the '35% proposals' there would be no exposure of finance - a negative requirement - and a slight exposure for IT. This situation was mainly attributable to [Local Management of Schools] on the basis of properly delegated budgets. Under the '65% proposals' we went through the whole process and were aghast. Whole slabs of finance work would have to be exposed to competition. The requirement would exceed, say, payroll and creditor payments and would require either devolved accountants or audit services centrally and/or accountancy services centrally to be included.

Of importance in deciding upon how work is to be aggregated and packaged to meet the competition requirement is the guidance note on the conduct of CCT (DoE, 1996a), often referred to as Circular 5/96, which states (p4) that:

[Authorities] should make themselves familiar with the market for the service concerned, consulting where appropriate a range of suppliers and professional bodies and consider their likely response to the work. They should be able to demonstrate that they have considered the market and consulted a reasonable range of prospective tenderers, and taken into account any of the representations made about the way in which work is selected and packaged for competition.

The guidance note goes on to say (p11):

In considering the work to be subject to competition, and the way that work is to be packaged and presented, authorities should consider how best they can attract competition from a wide range of contractors in order to ensure better value for money.

Circular 5/96 caused considerable resentment amongst the CFOs, most of whom felt that the former Government was imposing requirements which it would be unthinkable to impose on the private sector. Nonetheless, there was a duty to comply with the Circular. There was general unanimity that the main way by which this would be done would be to place an advertisement in the relevant journals and invite expressions of interest in the first instance:

CFO 1

I would imagine that we will, first of all, as one or two authorities have, merely put an advert out inviting interested parties to come and ask for further details. We have not done that yet. In fact, we have not even thought of it. I still wonder whether it will go ahead and given the time that we have wasted on Local Government Review I don't want to waste more time on CCT. I am loathe to put too much staff time into it at the moment. So I think the first step, if we have to do it, will be to just invite interest from particular parties and possibly write to people like Capita and CSL. [See below].

CFO 2

I guess we will select half a dozen potential competitors and I guess we will have to bring them and ask them [how] they want the work to be tendered or the contracts to be drawn up and then we will listen and see whether it accords with the way we think it should be done.

CFO 5

We'll have done a reasonable amount of research on contractors already, so we have that information. To comply with the legislation we are advertising in the European Journal, service journals, the local paper....If [an interest is expressed] we would send a questionnaire and the questionnaire will seek information about which services they are interested in tendering for, the sort of value of contract that they think is appropriate. I would envisage getting 20+ responses....

CFO 11

Given the timing relevant to this authority, the situation is simply theory at the moment but, between now and it becoming reality, we would learn what we can from other authorities.

CFOs were also asked whether they felt there would be much interest from private firms. Most mentioned that, if there was interest, it would largely be in the areas of, for example, revenue services, payroll and audit. Expressions of interest were

expected from key companies owned by management consultants and firms specialising in information technology, who already have an interest in local government, particularly Capita and CSI. (see LGMB, 1994b, pp27-32). Interestingly, however, on the whole they did not expect competition from the main accountancy firms. On the contrary, such firms, it was believed, would be more interested in collaborating with local authorities to help them meet the threat of competition. It was believed that private firms would adopt this strategy in the belief that they would benefit in the short-term, through provision of consultancy services, and also in the long-term by safeguarding relationships with authorities and maximising their chances of securing future consultancy work and delivering services which authorities may, temporarily or permanently, seek to externalise. Examples of comments are given below:

CFO 3

I believe there is a market, particularly with regard to revenues collection, some of this work has already been externalised by some authorities, and I would think audit also. I am not sure, however, about accounting. For some of the work, I'm sure Capita, CSL, PSec, Vertex etc will be interested.

CFO 5

I think we have got one or two companies created by CIPFA members who are clearly in the market, Capita, PSec, who are very keen to do anything - that's the impression I get but particularly revenues because that has already been done elsewhere. I don't believe the big accountancy firms are really interested in the accountancy - certainly not in competition. ...If they are interested it is in auditing. There don't seem to be too many firms on the collection side, creditor payments side. I am sure there are some who will do it but that doesn't seem to be such a well developed market. I think there is a market for all the services but I think for some, like accountancy, whilst there is a market I don't think it is a market that people think this is one that we can come in and easily win and make big profits out of.

CFO 6

I should say that we are, at the moment, drawing up our corporate guidance on how best to comply with this new guidance from the DoE.....I don't actually [think there is a market]. I think there will probably be an interest from some of the national organisations, the Capita's and the CSLs of this world will be interested in picking up some nice plums that are on offer, but, other than that, I am not sure where the interest is coming from. I don't detect any particular appetite from other firms....to take on a major function of the authority as a package. It could be that firms might want to take on bits and pieces. I am sure there will be firms that will run the payroll for you. Some firms who will want to do your audit or some of your audit for you.

CFO 8

There is a market out there and it is obviously stronger for some financial services than it is for others but I think there are people who would, in a welcoming environment, have a crack at everything. I think revenues and payroll and audit are probably the three areas where there would be a lot of competition.....We would expect competition from the specialised public sector companies - Capita, IT Net, PSec. We would also expect competition from United Utilities. I don't think the - with the exception of Deloitte's

Touche...the other large accountancy firms will be particularly interested. Possibly they will be in internal audit if they were welcome, but from the people I know who work in senior positions in those organisations, I don't think they are particularly interested in competitive tenders against an in-house unit. They are far more interested in offering their services as advisers for you to prepare for competition. We are frequently letting contracts to the large accountancy firms in one guise or another in terms of specialist advice in various areas and I think they wouldn't want to ruin that sort of business reputation for the sake of a service tender which may not be profitable or may be only marginally profitable.

CFO 11

Though it is theory, we would expect external interest in certain areas of work but perhaps from a new direction, eg United Utilities. I'm not sure there would be interest from traditional accountancy firms. However, we have also sought to build alliances with private firms, eg Coopers and Lybrand were brought in to undertake some schools' audit work. They were brought in because we wanted to learn from them and build an alliance with them to fend off competition if it came. It also meant we could benefit through complementarity of skills (for instance, they had a tax expertise which we did not have). Such collaboration makes sense practically and also as a tactic to minimise the risk of them competing for work.

CFOs were also asked whether, in general, they felt that their authorities were well-prepared for CCT. Responses indicated a certain uncertainty on the part of all CFOs. For instance:

CFO 1

We could be better prepared but I have talked to colleagues in [other authorities] who did a lot of work beforehand and most of it has been abortive. So I think we are fairly well advanced....

CFO 3

We are moving in the direction of being prepared, but we're not rushing at it given the general election. We perhaps could have done more - some authorities have done more, some less. I think we're in the middle.

CFO 6

I can't say yes to that because I don't know what CCT has in store for us. We thought we knew what it had in store for us but we don't.

CFO 7

Well the smart answer is I don't know, because you tell me what CCT is going to be and I will tell you whether I have prepared for it or not.....we were doing very little until that consultation paper came out [a few months ago]. We have reacted to that....and are in the process of working out a new timetable.

CFO 8

I think you can always be better prepared but I think that we are reasonably geared up for it. What we would like is a definitive decision so we know what we are doing. I think that is what causes most difficulty because that is what is most unsettling for staff.

One CFO, however, believed that local authorities would demonstrate preparedness in that they are far more adaptable and responsive than the inaccurate bureaucratic stereotype would suggest:

CFO 2

The problem we have is that we went through the calculation and we were de minimis so we didn't think we needed to do much. Then they change the rules and you find that you wouldn't be de minimis. I think all the Government's proved, and in particular in finance over the last few years, is that we can respond quickly to many things. I'm confident that, if the worst comes to the worst, we will respond on CCT like we have on the introduction of, first, Community Charge and then the Council Tax. If there is one thing that local government is good at, it is administration and solving problems fairly quickly and I don't think many people give us credit for that.

From the interviews with CFOs, the conclusion reached was that authorities' are well-prepared in terms of quantifying the costs of discrete activities and are reasonably certain that particular activities could not avoid being exposed to competition once the *de minimis* threshold has been crossed. However, beyond this, they did not seem well-prepared. It may be that contingency plans were in place with regard to precise packages to be exposed, varying with different competition requirements, but this was not the impression. Similarly, although Circular 5/96 had only been issued approximately three months prior to the interviews taking place, the impression was that little had been done by way of market research, which, it could be said, should have been undertaken irrespective of Circular 5/96, and that authorities were simply reacting to events.

Interestingly, however, the point was made that certain organisations which may have been expected to be competitive rivals, viz the large private sector accountancy firms, may, on the contrary, work with local authorities and help them prepare for CCT.

7.4 Client/Contractor Split and Service Level Agreements

In terms of preparing for CCT, questions were asked about client/contractor split and service level agreements (SLAs). See Box 5.29. In addition, in the interviews, the CFOs were asked whether decisions had been made as to which services were to be exposed to competition and how they were to be packaged.

Box 5.29 shows that only 18% of respondents state that their authorities have established a client/contractor split for some or all financial services. However, given the number of district councils in the survey, which, in the main, regard such a split as inappropriate given their size, the response is not surprising. Examples of CFO comments are:

CFO 1

[In an authority of this size it] is just not possible to split certain of the functions. It would be nice in an ideal situation to do so but....I don't think it can really apply in a small district.

Box 5.29										
Financial Services: Client/Contractor Split and Service Level Agreements										
Questionnaire Refs: Qs 5.22, 5.23, 5.24, 5.25										
Question	YES		NO		Don't Know		No Response			
	No	%	No	%	No	%	No	%		
Has a client/contractor split been established within financial services as a whole or any part of it?	30	18	131	80	1	1	2	1		
Have standards for <u>some</u> or <u>all</u> financial support services been established with users by means of Service Level Agreements (SLAs)?	123	75	35	21	6	4	-	-		
Statement	Strongly Agree		Agree		Disagree		Strongly Disagree		Don't Know	
	No	%	No	%	No	%	No	%	No	%
The SLAs which have been established for the provision of financial support services contain the correct level of detail to enable user service management to be improved.	10	8	66	54	27	22	3	2	17	14
<i>Note: responses total 123, ie the number who answered YES to the above question (Q5.23).</i>										
	YES		NO		Don't Know		No Response			
	No	%	No	%	No	%	No	%		
A schedule of charges for the provision of financial services has been agreed with users.	88	54	55	33	18	11	3	2		

CFO 3

The authority is not really structured in the way recommended, but we are currently discussing the nature of the client/contractor split.....such a split can be expensive.

CFO 4

....we haven't gone down the line of having a formal organisational set-up along those lines.

CFO 5

We deliberately didn't make that split because we could see a big overhead with it.....Our worry is that CCT builds up too many barriers.

CFO 8

It would depend which services went out - if it was a big unit that went out to tender and was won in-house, then we probably would have a client/contractor split.

CFO 9

Operationally, it makes sense to avoid having rigid distinctions between client and supplier....It is very difficult to draw a crisp line unless you really are letting a contract and you have got to supply the right spec and invite tenders but I suspect that is more expensive. All things being equal, it is more expensive [to have such a split].

CFO 11

I do not accept the need for a hard client/contractor split inside financial services. This is reinforced by the evidence from colleagues which indicates that, where such a split has been created, councils are retreating from them. Some views expressed are that a hard split is counter-productive, costly, sets up barriers, leads to fragmentation and so on.

However, one authority had undergone a significant restructuring, leading to a clear split between policy/commissioning/monitoring and provider work. For finance, this entailed the creation of a Corporate Finance Department and the Financial Services Business Unit (responsible for all 'provider' work).

In contrast to the responses concerning client/contractor split, 75% stated that SLAs had been established for some or all financial support services. This may or may not equate to 75% of authorities in the sample but it seems reasonable to assume that the response indicates a greater proportion have established SLAs than the 22% reported by the Audit Commission (1995c). Similarly, insofar as 62% of those respondents (123 in total) who answered Q5.24 (ie 8% 'strongly agree' plus 54% 'agree', see Box 5.29) believe that the SLAs, where they have been established, facilitate improved user service management and 54% state that a schedule of charges has been established, the criticisms made by the Audit Commission (1994) (see Chapter Three, para 5.3), concerning the lack of progress in establishing SLAs and the poor quality of those that had been established, would appear not to be applicable. However, in the interviews with CFOs, although there was general agreement as to the merits of SLAs, and some had been established as a direct result of other white collar services' CCT, eg legal, housing management, there was no real evidence of a whole-hearted commitment to their comprehensive introduction:

CFO 1

No. We don't have [service level agreements]. Certainly we have a service level agreement with the County Council with regards to the computer facilities, and that has been a long drawn out affair which has involved me personally in hours of work. We have a service level agreement between the Architects Section and the Housing Department and again it has taken a long time and I am somewhat doubtful as to the usefulness of it. In both instances there has been, for want

of a better phrase, a gentleman's agreement and trust on both sides and it has worked very well. I think once you get into a service level agreement there is a tendency for both sides to take stances.

CFO 3

In 1990 we set up an SLA process and this involved a clear review of recharges. This entailed ensuring that recharges were fair but, what it did not do was to give an unfair advantage to in-house providers. Whatever service they received, they were charged for.With regard to SLAs - we have these. They were very useful initially but latterly they are in dire need of review. This is about to begin. We want to say to people, this is what we are doing and what we are charging, now what do you want? We are looking to improve SLAs with effect from April 1997. The trouble with the existing ones is that they were produced really with the service providers dictating the service, rather than asking individuals what they actually want. This, of course, is difficult because no one wants, say, internal audit or legal services.

CFO 4

There are service level agreements in place but they have been very much draft ones that have never really been formalised as much as they can. That has been one of the things that there has been a lot of internal debate about.

CFO 5

For the last six years, we have had service level agreements and for the last two years we have been operating under devolved budgets where, for example, payroll - I haven't got a budget, departments hold the budget [and] they buy back all our support services....So, if they don't feel they are getting the right service for the authority's money then, in theory, they don't need to buy from us. Now, we built some safeguards [but providing they have considered all the options] departments can go their own way.

CFO 7

We don't have service level agreements across the board by any means yet.

CFO 8

I think as we originally started putting them together they were far too complicated for what was needed and we were going out to the customer/client departments and saying that we wanted to discuss in detail service level agreements and basically the Chief Officers were saying that we don't want that, we want a broad indication of what services we are getting for the money and roughly how much we pay for each service. Details like - well if you want another hour on this it is going to cost you X, they weren't interested in.

CFO 10

[We have SLAs in place] but they can be bureaucratic. In principle I think they are right. What you have got to be concerned about though is having hundreds of thousands of them throughout an organisation and trying to avoid having too many separate agreements for different clients because that would be very very difficult then to translate into a specification for CCT....they do produce a lot of paper or if you move away from the paper system a lot of computer transfers. I have actually received some from the time I have been Treasurer which have kindly informed me of charges for 20p; and in one or two instances, we actually have had invoices for nothing. Those are examples of SLA's at their worst. You are getting swamped with a lot of paper for small amounts of money so I am not pretending that hasn't happened here.

CFO 11

Service level agreements - some exist but the organisation as a whole has not 'voted' for SLAs. To some extent they are not necessary. We have a good understanding with the DSOs, the schools etc. SLAs are not a priority. Their establishment is something I have

heard described as 'playing at shops' - the issue only becomes real when the budget is devolved.

With regard to charges for services, their adoption also appeared not to be widespread:

CFO 3

The charges for SLAs are known by service users. Unit costs are used but we also work within bands for certain services. It is, however, difficult to charge for certain services in accounting - we need to establish whether we are still using the correct basis for apportionment.

CFO 4

Neither do we have an internal charging mechanism because we have been trying to develop a time recording system that would embrace time recording charges and so on. That is currently a project that is in hand.

CFO 6

We have got schedules of charges in its infancy and this year we are looking to determine a whole array of service level agreements including charges for this year....and they would form the basis of the future years' budgets. We are pushing to get this in place.

In summary, there was consistency in the questionnaire responses and CFO interviews on the matter of client/contractor splits, with CFOs being dubious on the merits of such a split, particularly in smaller authorities. However, in relation to SLAs, the CFO interviews gave a slightly different impression than that gained from the questionnaire responses. The latter indicated that SLAs had been widely adopted, accompanied by appropriate charging policies and led to improved user service management. The response from CFOs, however, in general, was more lukewarm in that the merits of SLAs, as they had been applied, were not particularly emphasised and a schedule of charges relating to them were not necessarily in place.

The above responses to questions concerning client/contractor splits, service level agreements and CCT preparation were placed into a broader context, designed to help establish the extent to which authorities are adopting a more commercial approach in the provision of financial services. See 7.5 below.

7.5 Adoption of Techniques for Improving Competitiveness

Questions and responses re the above are given below. See Box 5.30. The techniques included in the questionnaire are based on those identified by the Audit Commission (1995d).

Though it is not possible to reach any conclusions about the quality or adequacy of the application of the techniques, Box 5.30 shows that most accountants

believe that their authorities have: formulated business plans; consulted with financial services personnel on service delivery and established performance targets. In addition, albeit to a lesser extent, there is evidence that efficiency reviews, SWOT analyses and customer feedback surveys have been undertaken. The responses also provide evidence that a number of authorities have established trading accounts.

Box 5.30								
Financial Services: Adoption of Techniques for Improving Competitiveness								
Questionnaire Ref: Q5.26.								
Question								
Please indicate if your authority has undertaken the following for <u>any</u> or <u>all</u> aspects of financial services activity in or throughout the last <u>two</u> years.								
	YES		NO		Don't Know		No Response	
Technique	No	%	No	%	No	%	No	%
Efficiency Review	82	50	37	22	44	27	1	1
SWOT analysis	91	55	29	18	43	26	1	1
Formulation of marketing strategy	43	26	67	41	52	32	2	1
Formulation of business plans	121	74	24	15	19	11		
Production of publicity and promotional material	53	32	80	49	29	18	2	1
Establishment of trading accounts	85	52	58	35	21	13	-	-
Consultation with financial services personnel on service delivery	101	62	30	18	33	20	-	-
Performance targets	100	61	36	22	28	17	-	-
Quality Audit	27	16	77	47	57	35	3	2
Benchmarking	44	27	60	36	59	36	1	1
Customer feedback surveys	90	55	43	26	31	19	-	-

However, although there are a large number of 'Don't Know' responses in relation to certain categories as given in Box 5.30, it appears reasonable to conclude that the extent to which the techniques have been adopted, with the possible exception of business planning, is relatively limited, particularly given the timescale over which CCT in particular, and competition in general, have been key features of the local government environment. Further evidence of this came from the CFO interviews:

CFO 3

We produced business plans about 5 years ago. They were quite useful, involving a SWOT analysis etc, but over time they became watered down; they were a political hot potato. We now have annual Action Plans for each directorate, though they are somewhat vague.

CFO 8

Each section has a business plan. Each section head has been responsible for putting a business plan together and that has been agreed by management team. They review it on an annual basis, present it to management team and also present a review of achievements against the business plan, or more crucially anywhere they have fallen short of what their intentions were.

CFO 9

We have business plans. The business unit has produced a number of documents as well. Each department of the Council has to have a formal business plan approved by each parent committee....

CFO 11

We have developed business plans for all our activities in the department - including payroll, payments, accounting etc - and these involve the need to include, for instance: statement of objectives; historical perspective; SWOT analysis; market position; series of action plans etc..... We also undertake steps to establish customer feedback through, for instance, client surveys. These are not undertaken across the board or annually, but rather in a carefully targeted way.

The apparent limited incidence of the adoption of the techniques contrasts with the views expressed in support of certain statements, particularly the statement that local authorities should adopt a business culture.

It would appear that there is a gap between reality, *ie* what it is financial services are actually doing, and preference, as expressed by questionnaire respondents, *ie* the desire for a business culture. Possible further evidence for this is provided by the responses concerning the remaining techniques. In particular, there would appear to be little use made of benchmarking, which is surprising given the volume of comparative statistics now available, the importance attached to it by the Audit Commission (1995e) and the then threat of CCT, and marketing.

CFO comments on benchmarking reflected some doubts as to its merits, despite the clear benefits identified by the Audit Commission (1995e), which in turn reflected concerns that it was not always possible to compare like with like.

CFO 3

We don't operate benchmarks but our external auditors have looked at financial services and we came out well, except in cashiers where costs were above average, but this is mainly because of the neighbourhood offices that we have. In other areas, accounts, audit, payroll etc our costs were below average.

CFO 5

We do very much look at benchmarks, particularly in areas like tax and benefits but also payroll. The difficulty with benchmarks is a benchmark of what?....

CFO 7

...performance indicators - this is not something this authority is particularly keen about. [Members] see it as a Conservative ploy.

CFO 8

We have started benchmarking...we are very keen on trying to make some progress on benchmarking because we suspect that, from the work we have done in-house and the comparisons we have done with other local authorities, there are two or three sections where our costs do appear to be high and we have failed so far to really get to the bottom of why, and we need to.

CFO 11

We also make use of the benchmark information produced by the Audit Commission. In doing so, we collect information on customer views, unit costs (for instance, the cost of processing a payslip, an invoice, cost per internal audit man-day etc). All of the above would have been undertaken without CCT, but white collar CCT has reinforced the desire to do it.

The extent to which financial services actually market themselves, or indeed see the need to do so, is also very limited. Only 26% of questionnaire respondents stated that a marketing strategy had been formulated and only 32% stated that publicity and promotional material had been produced. This was reflected in the interviews with the CFOs, though there were exceptions:

CFO 8

[CCT] has forced us to be more up-front in the promotion and marketing of the department. I suspect that 10 years ago the word marketing would never have appeared in the vocabulary of the department. It is now a frequently used term. We have had to go out and sell our services to the customers, and that has been at a very, very basic level of actually explaining to them what they are getting for their money. They didn't know what they were paying for. They weren't bothered. They never had to bother in the past. They just got a charge. It didn't matter to them. They couldn't control it and it didn't matter to them what it was for..... We produced, over the last 5 years or so, marketing literature which we have actively gone out and presented to customers. We produced a video which, I have to say, wasn't a great success. I think that showed that you need professional actors to produce decent videos. We've invited people in here and done presentations to them.

CFO 10

We have other sorts of promotional literature as well but I think it's less a case of sort of glossy advertising here. You will find some Councils where they do devote a lot of time and money to that. The style here is not to spend a lot on glossies, particularly within the organisation.

The apparent level of non-adoption of marketing techniques is despite the fact that:

The introduction of CCT gives marketing an even greater importance, for two reasons. Firstly, without a precise understanding of customer requirements, in-house providers run the risk of over-bidding and losing tenders. Secondly, if in-house providers are to compete on quality as well as price, they need to be able to demonstrate a record of meeting customer requirements, since this is the central component of service quality.

Audit Commission (1995d, p2.3).

The findings are consistent with those of Chaston (1994) in his study of the utilisation of marketing in the management of service provision within local government (see Chapter Three, para 5.3). He concluded that private sector personnel placed much more emphasis on effective external customer relations than did their public sector counterparts. He states (pp234-235):

....the general conclusion can be reached that local authority central support service providers have yet to appreciate the potential benefits of adopting an internal marketing philosophy as the route for justifying their future role within the organisation. Given the

pressure from the government to increase organisational productivity in the public sector by further reducing the number of employees, unless these central support service providers begin to revise their managerial practices, then it seems probable that the size of such departments can be expected to shrink further over the balance of the decade.

Increased customer orientation, however, normally requires training to be provided.

In this respect, CFOs, in the main, recognised the importance of identifying and meeting the training needs of financial services staff to cope with the demands of the competitive environment, particularly in the case of customer care:

CFO 3

We have undertaken a lot of customer care training over the last 5 years. There have also been numerous in-house training courses. IIP has been gained and we are going for quality accreditation for the benefits service. We also, as an authority, emphasise Plain English and awards have been won.

CFO 8

10 years ago all training in this authority was controlled by the Director of Personnel, so even technical professional training had to go through Director of Personnel. With the onset of CCT and with other changes in local policy culture, that became untenable. Eventually we got to the situation where we split the personnel training budget and personnel maintained a small central budget for general training in the authority but each department took a training budget themselves. At that stage we set up a training unit in-house, which has about 5 people in it, who are more or less full time on training and most of them have been on training courses and are members of the Institute of Personnel and Development. They have a lot of training experience now and they have been put full time on training and they do technical training, particularly for housing benefits where the legislation is changing all the time where we have got a large number of staff, but they have broadened significantly to CCT training.

CFO 11

A lot of training has taken place into customer care, telephone answering etc. Quality circles have also been established. There is an ongoing debate about Investors in People - some of my staff are reluctant to go down this route because of the time commitment involved given other pressures.

However, another CFO stated that CCT in itself had not really affected the training which had been undertaken:

CFO 7

I wouldn't have thought there would be any great need for any massive training programmes just for the purposes of CCT.

7.6 Summary: Hypothesis Three

Hypothesis Three is as follows:

Local authorities are inadequately prepared for financial services CCT because, irrespective of the timing and likelihood of having to expose services to competitive tender, the traditional local authority culture is prevalent and leads to

a reluctance, on the part of financial services, to respond to the commercial environment within which local authorities now generally operate.

In investigating the hypothesis, it was decided that authorities' preparation would be considered against the 5 criteria of: policy (overall approach); strategy; selection and packaging of services for CCT; client/contractor split and service level agreements; and adoption of techniques for improving competitiveness.

In general, the findings appear to be consistent with those of the Audit Commission (1994, 1995a, 1995c) and LGMB (1996; 1997a) in that, essentially, local authorities were not as well prepared for CCT as perhaps they should have been, or needed to be, and that this was more disturbing, from a local authority viewpoint, given the time which had elapsed between the research being undertaken (August/September 1996) and that of the Audit Commission, time during which more efforts may have been devoted to preparing for CCT.

The evidence appears to indicate that authorities have a clear policy towards financial services CCT, which is to promote in-house provision (para 7.1 and Box 5.28). However, there is evidence to support the view that local authorities are reacting to events rather than seeking to pre-empt them. The strategy to be pursued in implementing the policy is not particularly clear (para 7.2), as illustrated by the apparent indecision concerning the activities to be exposed to competition (para 7.3). The view of Rao and Young (1995, p45) (quoted in Chapter One, para 1.0) that 'The implementation of CCT in a number of areas remains shrouded in uncertainty and clouded with ambiguity' is, on the basis of the research findings, applicable to financial services in the North West.

Inevitably, this is a function of the wider uncertainty concerning the precise competition requirements, but it seems reasonable to expect authorities to have costed and prioritised their activities for CCT purposes, not least given the competitive environment and the costs to other services, and, in terms of packaging, to have undertaken some market research. In turn, this could have been communicated to staff. Concern over the effect of such communication is understandable in that it may have raised fears on the part of staff whose services were high on the list for exposure to competition, and raised them unnecessarily had the former Government announced a competition requirement lower than was assumed, meaning that the services did not need to be subject to CCT. However, though the policy of not wishing to alarm staff

unnecessarily is commendable, the absence of detailed communication may be interpreted as a lack of planning, or contingency planning, and this, too, can cause concerns and result in staff having less confidence in their managers than they otherwise would.

In considering the evidence obtained from the interviews with the CFOs, it is possible to classify individual authority's according to their approach to financial services CCT preparation. In doing so, the typology of approach used by Gill, Shaw and Todorovic (1995), in their study of the introduction of CCT into local authority housing departments, may be adopted. They identify 5 main categories:

Structured (advanced):	well-timetabled approach; explicit preparation process; easily identifiable strategy
Structured (embryonic):	authorities beginning to work to a timetable; preparation fairly explicit; easy to see the general direction the authority is taking, but more difficult to see how the component parts fit together
Incremental:	authority has some idea of a strategy and how the preparation should go, but the process is not explicit; case of trial and error
Partial:	little or no strategy; <i>ad hoc</i> approach
Passive:	no preparation strategy; authorities reacting to events rather than planning for them.

In considering the interview data against the 5 criteria as given above, the authorities of the 11 CFOs interviewed have been grouped as follows:

<i>Category:</i>	<i>Number:</i>
Structured (advanced)	-
Structured (embryonic)	4
Incremental	4
Partial	2
Passive	1
<i>Total</i>	<i>11</i>

It is understandable that certain authorities had been unable or unwilling to devote much time to financial services CCT, not least because of the other pressures upon them (particularly the review into the structure of local government) and the uncertainty surrounding the precise requirements of the CCT regime. They may also have had some confidence that, at a local level, a number of private firms, *viz* the large accountancy firms, that may have been expected to be competitors would actually have proved to be collaborators and assisted local authorities to meet the threats then posed by CCT. The possibility of a change in central government, and, thereby, the possibility that CCT may, in time, be abolished after the general election was also a factor influencing local authorities' approach.

In preparing for CCT, there is clear reluctance to establish a client/contractor split in financial services, and scepticism as to the merits of doing so (Box 5.29 and para 7.4). With regard to SLAs, the situation is interesting in that 75% of respondents stated that SLAs had been established for some or all financial services and a total of 61% ('strongly agree' and 'agree' combined) believe that the SLAs which have been established enable user service management to be improved (Box 5.29). However, in the interviews with CFOs, there was no evidence of wholehearted support for them (para 7.4).

Finally, the questionnaire survey revealed limited adoption of techniques to improve competitiveness, with the exception of business planning (Box 5.30). This conclusion was reinforced by the interviews with CFOs (para 7.5). In addition, the detailed work in preparing for CCT, *ie* in complying with the regulations, should have been preceded by more general preparation designed to improve competitiveness. Although there is evidence of a positive approach being adopted, for instance the apparent incidence of business planning, there is also evidence that little had been done in other key areas, *eg* marketing.

There are perhaps good reasons to explain the apparent lack of preparation for financial services CCT, but CCT, as a key feature of central government's policy, was a reality and could have remained so after the general election. However, even though it is meant to be abolished (though it will apparently remain as a last resort should councils fail to respond as intended to the best value regime), it seems reasonable to conclude that two things will not change.

First, the financial pressures under which local authorities are operating are unlikely to be relieved and, as a result, any local council may be forced to consider

alternative forms of service delivery. In addition, with regard to Labour councils, it may be that they are less sympathetic to white collar staff than blue collar and be more likely to consider, if necessary, externalising such services (as alluded to by one CFO who was interviewed, see para 5.1).

Second, even if it had been assumed that the move towards an enabling model were not to be pursued by central government after the May 1997 election, the overall competitive environment was unlikely to change. As it is, of course, Labour would appear to be sympathetic to the 'enabling' model (see Chapter Six).

In short, there are strong arguments that financial services should have sought to respond positively to the commercial disciplines which CCT demanded and to seek to adopt a more commercial, business-like approach to service delivery than, it would appear, was, or is, the case.

Ironically, such an approach would, on the basis of the findings revealed by the questionnaire, carry considerable support as there is evidence (see para 6.6), as far as finance professionals are concerned, of a desire for a business culture to prevail in the delivery of local authority services (see Box 5.27).

In summary, it is concluded that local authorities are not adequately prepared for financial services CCT, but, as with the investigation of Hypothesis Two, the reason for this is not as hypothesised. The investigation of Hypothesis Two concluded that the evidence does not support the view that the traditional local authority culture is a barrier to responding adequately to the commercial environment in which local authorities operate. On the contrary, the evidence, of finance professionals' willingness to change and of a preference for a more commercial approach to service delivery, indicates the existence of a more favourable internal environment than was expected to be revealed in which to fashion and implement a positive response to financial services CCT.

For this reason, Hypothesis Three is rejected.

8.0 Conclusion

The overall conclusion drawn from the investigation of the hypotheses is that there is a degree of acceptance of Conservative policy amongst finance professionals which was not anticipated. There is recognition of perceived benefits of CCT as applied to blue collar services and in terms of its impact on the management of services and increased customer responsiveness. There is also an acknowledgement that the component parts of financial

services are, in the main, suitable for CCT. Although there is overwhelming rejection of the enabling model for local government, and a clear belief in the political as opposed to economic inspiration for CCT, there is also clear evidence of a willingness to adopt a more commercial approach to service delivery, including decentralisation and devolution of the finance function. However, the findings also indicate that the desire for change is greater than the changes the CFOs have introduced.

Whether such findings would have been revealed without CCT is debatable but, whatever their origin, it would appear that finance professionals wish to be 'free to manage' and that they accept the irreversibility of certain aspects of Conservative policy. Central government's imposition of CCT may be resented, as may any policy which undermines local autonomy and job security, but the underlying economic objectives (even though they may have been, and perceived to be, of much less importance than political objectives) are seen to be inherently legitimate. As public bureaucracies, local authorities were perhaps too internally-focused and managerially unaccountable. There was a need for change. Finance professionals appear to have accepted such change but now wish to develop and shape it, without central government direction, for the benefit of the users of local authority services.

In order to place these findings into context, the nature of the changes undergone by local government will be examined with reference to the development of 'new public management'. The models for evaluating change within local government will then be critically considered and a typology of responses to change will be developed and a new model for gauging change suggested (Chapter Six). The model will facilitate future analysis of the impact of the Conservative era 1979-97 on local government and will also assist local authorities in formulating their response to the new best value regime.

Chapter Six

Local Government Management: A Conceptual Analysis and Development of a Model

Chapter Structure

- | | |
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| 1.0 | <i>Introduction</i> |
| 2.0 | <i>Local Government: structure and rationale</i> |
| 3.0 | <i>New Public Management and the changed local government environment</i> |
| 4.0 | <i>Local Government: response to change</i> |
| 5.0 | <i>Local Government: future role</i> |
| 6.0 | <i>Models of Change</i> |
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1.0 *Introduction*

This chapter, within the context of new public management (NPM) (Hood, 1991), considers the impact of the 1979-97 Conservative era on local government and, by drawing upon the research findings in respect of finance professionals, establishes whether the evidence supports the view that permanent change has been achieved or whether local authorities have simply assimilated, in a tactical and temporary sense, the changes which have been introduced. Specific models of managerial change in local government are critically evaluated with a view to developing, first, a typology of local authority responses to change and, second, a model against which past and future change may be gauged. The model is a development of the work that has been undertaken into NPM and draws particularly upon the work of Dunleavy and Hood (1994) and Stoker and Mossberger (1995).

2.0 *Local Government: structure and rationale*

The range and scale of local government's activity combined with the fact that it is the main focus for democratic activity outside Westminster mean that it fulfils key political and economic roles (see Brown & Jackson, 1986). The political and economic arguments in favour of local government were not, however, dominant between 1979-97. On the contrary, it was periodically criticised for its political unrepresentativeness and financial irresponsibility. These criticisms were not new but, within the context of the history of local government, they were more pronounced

than previously as tensions increased between central and local government. These tensions had their origins in the changed politico-economic environment. For much of this century, and particularly after 1945, local authorities operated in an era of public sector growth and they fulfilled a key role in the provision of local services within the Keynesian welfare state. This, however, changed in the mid-seventies when the emphasis at national level shifted away from Keynesianism and public expenditure growth to monetarism and public expenditure control. The shift in emphasis accelerated under the Conservatives and, given the proportion of expenditure attributable to local government, it was unsurprising that the Conservatives perceived local authorities 'as the embodiment of rival values and an institutional obstacle to the reform project' (Deakin and Walsh, 1996, p34) as well as an obstacle to the achievement of Conservative economic objectives.

Local government is, of course, a political institution but, by definition, one which perhaps should focus on local rather than national issues. The publicity attracted by certain councils and local politicians in the 1980s, for example Ken Livingstone and the former Greater London Council and Derek Hatton and Liverpool City Council, part of the New Urban Left, see para 4.0 below, was seen by some as evidence of a more ambitious and overtly political project, one which was literally concerned with local *government* and which regarded itself as having greater legitimacy to implement policies at local level than central government had to impose them. For the Conservatives, this perception was reinforced, firstly, by the fact that the Labour Party in particular had political control of many local authorities, thereby representing local opposition to a government with a mandate derived from national elections, and, secondly, by the enormous difficulties associated with local taxation (culminating in the introduction of the Community Charge – poll tax – in April 1990, 1989 in Scotland, and which was replaced by the Council Tax, April 1993). More fundamentally, however, local government has been a major target of criticism by the New Right. Drawing on the public choice critique, local government is said to display all the inefficiencies associated with bureaucratic and monopolistic service provision, as Byrne (1996, p23) states:

Clearly local government in 1979 represented something of an outstanding target. Its growth in the first eight decades of the twentieth century was substantial. As such, Thatcherites held it to represent an important element of the 'collectivism' which they felt to be at the heart of the British malaise.

He goes on to say that, given its level of expenditure, absolutely and as a proportion of public expenditure, and the degree of unionisation and politicisation increasingly evident in local government, 'local authorities represented a potentially powerful obstruction to the Thatcher project' (p24).

Byrne (1996, p24) states: 'A three-part strategy for local government emerged: ever greater control of spending; fragmentation of local authorities through privatisation of certain responsibilities and reform of local boundaries and structures; and ever-greater regulation of the local organisation.' One of the consequences of this strategy was to undermine local government as a direct provider of services. Traditionally, local government was concerned with the direct provision of a substantial range of services and its operation was based on a particular set of principles, whereby it was assumed that:

- ◇ a local authority shall itself provide directly all the services for which it is responsible and should employ all the staff and own the main resources necessary for the provision of those services – the assumption of self sufficiency
- ◇ a local authority should normally provide a standard uniform service on a universal basis – the assumption of uniformity
- ◇ councillors, by the fact of election, are able to speak and act on behalf of those they represent on all the issues before the council – the representative principle
- ◇ the professional officers have the authority and the knowledge to make the necessary judgements on what is needed in the service provided – the professional principle
- ◇ in order to exercise effective control councillors and officers have to control events *as they happen* through direct hierarchical control – the principle of direct control
- ◇ the local authority is constituted to provide services on a continuing basis – the principle of continuity.

These principles are reflected in characteristic modes of working which support and express them. In particular, the main work of the officers is conducted through a series of service and central departments constituted on a professional basis and organised according to principles of hierarchy and uniformity – the departmental mode of operation.

Clarke and Stewart (1990, p41). [Emphasis in original].

The above is an excellent summary of the principles upon which the structure and operation of local government were based and, combined with its reasonably harmonious relationship with central government for most of the period up to 1979, they meant that local government was characterised by stability and continuity. In addition, it is largely accepted that local government, and the public sector generally, display a particular public service ethos (PSE) (Lawton, 1995). Pratchett and Wingfield (1996) identify five elements of PSE insofar as they relate to local government:

1. accountability
2. bureaucratic behaviour
3. public interest
4. motivation
5. loyalty.

More is said on this below, para 6.0.

However, the counter-argument was that it was also characterised by inefficiency (for which there is some evidence, see, for instance, Blore, 1987, and some counter evidence, *eg* Cope, 1995), inertia and unresponsiveness and that the above principles led to an authority which was inward-looking, or enclosed.

The enclosed local authority is expressed in and reinforced by its workings:

- ◇ the assumption that the local authority should provide directly has meant that the local authority has not looked outward to other organisations and agencies that could be alternative providers
- ◇ the committee structure has focused the attention on the services provided rather than on the needs to be met and within the committee on the organisation of the service rather than on the public served
- ◇ the departmental structure can separate the chief officer and senior management by many tiers in the hierarchy severely limiting learning
- ◇ the divisions between departments can put boundaries around the concerns of a service which are not understood by the public it is designed to serve
- ◇ professionalism that gives a certainty of knowledge and authority action (*sic*) allows too little role for the public's own concerns and knowledge
- ◇ barriers are caused by organisational language and practice protecting the organisation but isolating it from the public served and from other organisations in the community
- ◇ operating procedures which derive from administrative or bureaucratic imperatives rather than the convenience, preferences or needs of the public.

Clarke and Stewart (1990, p27).

The enclosed local authority was precisely the sort of organisational dinosaur at which the New Right critique, from the late 1970s onwards, was aimed. Given that it constituted a substantial part of the public sector, and, *a fortiori*, a rival political base, it was inconceivable that it would emerge unaffected from the pressures for change gathering force in the wider environment. These pressures led the Audit Commission (1988, p1) to state that 'Local authorities are in the throes of a revolution' and that 'the old consensus has gone, and it is unlikely to be restored for some time' (p2). The old consensus involved the direct provision of uniform, tax-financed, services, the key requirements for the management of which were 'professionalism, planning and coordination' (p2). The introduction and extension of

competition was to fracture the old consensus and led to 'new public management'. The nature of these changes is now examined.

3.0 *New Public Management and the changed local government environment*

3.1 Origins of NPM

Jackson (1996) identifies two distinct tendencies that gave rise to NPM. The first was the libertarian ideology of the New Right; second, he also identifies a contribution from the Left in that they, combined with the general public, demanded that professional monopoly suppliers of public services be held more accountable. 'Taken together, these sentiments amounted to a growing demand for greater efficiency in the use of public finance and enhanced value for money' (p1).

Public sector structure and practices were, particularly from the late 1970s onwards, seen as impediments to economic efficiency and militated against the development of a customer awareness culture. The traditional bureaucratic model was too rigid and mechanistic. The virtues by which it was characterised, for half a century, included machine-like efficiency achieved through stability, predictability, continuity, adherence to rules and regulations and a system of recruitment, selection and training which ensured the values were inculcated and perpetuated, all epitomised by the UK civil service. These virtues were seen as handicaps in the modern era:

In attempting to control virtually everything, we became so obsessed with dictating *how* things should be done – regulating the process, controlling the inputs – that we ignored the outcomes, the *results*. The product was government with a distinct ethos: slow, inefficient, impersonal. [Emphasis in original]

Osborne and Gaebler (1992, p14).

The criticisms of traditional public administration have allegedly resulted in the emergence, domestically and internationally (see Shand, 1995; Flynn & Strehl, 1996; Farnham *et al*, 1996; Ridley, 1996; Pollitt & Summa, 1997; Hood, 1995b), of an alternative paradigm, NPM (see para 3.2 below). Although there is not '[a] single explanation of this alleged paradigm shift' (Hood, 1995c, p94), NPM is all part of the 'reinventing government' phenomenon (Osborne and Gaebler, 1992). Bilmes (1997) states that:

Reinventing government along business lines is becoming a global fashion. From New Zealand to Sweden, governments are borrowing techniques from the private sector to cope

with rising costs, demanding consumers and technological change. Not surprisingly, the biggest laboratory for this experiment is the US.

There was a need for public sector organisations to change so that they were much more able to cope with the dynamic, as opposed to a steady-state, environment with which they were confronted. Osborne and Gaebler (1992, pp19-20) proceed to identify ten ‘threads’ (pp19-20) which entrepreneurial public organisations have in common, *ie* they:

1. promote competition between service providers
2. empower citizens by pushing control out of the bureaucracy
3. focus on outcomes not inputs
4. are driven by goals and not by rules and regulations
5. redefine clients as customers and offer them choices
6. prevent problems before they emerge rather than simply offering services afterward
7. earn money not spend it
8. decentralise authority, embrace participatory management
9. prefer market mechanisms to bureaucratic mechanisms
10. catalyze public, private and voluntary agencies to solve community problems.

These threads are, for Osborne and Gaebler, the principles on which all public organisations should be based and, although their work can be criticised for being long on description and short on analysis (see Jordan, 1994), it nonetheless exerted influence, not least in the UK, given its timing. Butler (1994, p64) says that ‘every set of ideas has to have a seedbed in which they (*sic*) can germinate and grow’ and identifies three pressures which made the environment much more favourable for Osborne and Gaebler’s ideas to grow, *ie*:

1. the growing demand for public services
2. the growing potential scope and range but also cost of those services which advancing technology brought about, not least in defence and health
3. the stage of resistance reached in developing countries to paying higher taxes.

With regard to the third point, however, it can be said to apply to industrialised just as much as developing countries.

Faced with these irresistible developments, reflected in and reinforced by the changes in the politico-economic environment, the acceptance of the obsolescence of the traditional public administration model was assured. Increasingly, the private sector was seen to be the model to emulate, both structurally and culturally.

More precisely, the attributes associated with excellence were identified by Peters and Waterman (1982). They suggested a number of features exhibited by organisations to indicate corporate excellence, including (first column) and involving (second column):

a bias for action	flexibility, experimentation and getting things done
closeness to the customer	being customer-focused
autonomy and entrepreneurship	encouragement of individual initiatives and not slavish adherence to the 'rulebook'
productivity through people	emphasis on service quality through innovations rather than cost reductions
hands-on, value drive	sharing of values and commitment to organisational goals, all focused on the customer
stick to the knitting	concentrating on at what the organisation is good at; for the public sector, this could mean retaining core activities but contracting out others
simple form and lean staff	minimum required staff and hierarchical tiers
simultaneous tight-loose properties	a balance between central direction and local discretion.

Despite the questions that may be asked about certain features and the usefulness of the analysis, it can nonetheless be seen that traditional public sector organisations did not approximate to the 'excellence' model. It was characterised, for instance, as being rigid rather than flexible, focused on inputs rather than outputs, officer-driven rather than customer-focused, hierarchical rather than flat, overstaffed rather than streamlined. Similarly, in a later work, Peters (1989, p27) says that:

Take all the evidence together, and a clear picture of the successful firm in the 1990s and beyond emerges. It will be:

- flatter (have fewer layers of organisation structure)
- populated by more autonomous units (have fewer central-staff second guessers, more local authority to introduce and price products)
- oriented towards differentiation, producing high value-added goods and services, creating niche markets
- quality-conscious
- service conscious
- more responsive
- much faster at innovation
- a user of highly-trained, flexible people as the principal means of adding value.

In a similar way, though there was no explicit recommendation to change the organisational structure in such a way that it becomes flatter, the Audit Commission (1988), focusing exclusively on local authorities, identified eight 'key success factors' which characterised a well-managed, competitive council:

1. understand its customers
2. respond to the electorate
3. set and pursue consistent, achievable objectives
4. assign clear management responsibilities
5. train and motivate people
6. communicate effectively
7. monitor results
8. adapt quickly to change.

The above themes define the emphasis placed on public service management over the last two decades. Overall, Conservative policy between 1979 and 1997 was to decentralise and, in so doing, devolve managerial and financial responsibility and, where possible, to rationalise procedures and levels of employment. Examples of financial devolution include the granting of budgets and recruitment decisions to individual schools and hospitals and the hiving-off of civil servants from Whitehall into *quasi*-autonomous agencies under the Next Steps initiative. This decentralisation led to a fragmentation of procedures for pay determination, increased use of performance-related pay and flexible working practices. The citizen is now recognised as a consumer entitled to a given standard and variety of service. The traditional model for public service delivery, whereby bureaucrats sought to ensure equitable treatment for taxpayers through the provision of uniform services, was to be jettisoned. Competition, responsiveness and choice prevent the standardisation of services in the private sector and should do so in the public sector. The need to apply to public service delivery the economic principle of consumer sovereignty is accepted by the Conservative Party and, it may be argued, the Labour Government. Adonis (1991) correctly observed: 'Choice, standards and quality are the catchwords; flexibility, performance and local management the tools; the private sector the model'. In short, traditional public service administration and delivery mechanisms were to be transformed, giving rise to NPM.

3.2 Nature of NPM

There is no universally accepted definition of NPM, but Hood (1991, pp4-5) states there are seven main 'doctrinal components' to it *ie*:

1. hands-on professional management
2. explicit standards and measures of performance (involving greater managerial accountability)
3. greater emphasis on output controls (the need to stress results rather than procedures)
4. disaggregation of units
5. greater competition (involving the move to term contracts and public tendering procedures) designed to reduce costs and improve standards
6. adoption of private sector styles of management
7. greater discipline and 'parsimony' in resource use (involving cutting costs, reducing demands for more resources and the need to do more with less).

In general, NPM has placed an emphasis on management rather than administration and has entailed the substitution of managerialism (Pollitt 1990) for 'professionalism'. It appears to be associated with a 'neo-Tayloristic set of scientific management principles and assumptions or a more general desire to become 'business-like' meaning more like a business organisation' (Thorne, 1997, p2).

Sanderson (1997, p2) states:

Managerialism comprises three key themes: first, an emphasis on cash limits, cutting costs and increasing labour productivity and efficiency; second, the decentralisation or devolution of management responsibilities especially in relation to budgets; and third, the development of neo-Taylorian practices such as setting standards and targets through planning systems, performance measurement and performance-related pay linked to appraisal, all designed to create incentives for better performance.

Using alternative words but, essentially, defining NPM in a manner consistent with the above, Clark (1996) identifies three component parts to NPM, *ie* marketization (*viz* competition), disaggregation (*viz* increased central control over policy combined with decentralisation of service provision) and incentivization (*viz* linking incentives, *eg* performance-related pay, to performance).

NPM can be seen to be consistent in many respects with the analyses of Peters and Waterman (1982) and Osborne and Gaebler (1992). This is unsurprising

given that a fundamental objective, as stated above, was to import private sector culture and practices into the public sector. The Conservatives were convinced of the 'supremacy' of the private sector and the need for the public sector to import private sector techniques, and in many ways these beliefs have not been challenged by Labour. Nonetheless, there are dangers in applying such beliefs, as highlighted by Stewart and Walsh (1992, p512):

One of the dangers of emerging patterns of public management is that approaches that have value in particular situations are assumed to have universal application. Public organizations carry out a wide range of activities subject to very different conditions. If in the past there were dangers in the universal assumption of direct provision of services in organizations structured by hierarchical control, there may, equally, be danger in the new assumptions that are replacing it, if universally applied.

The above warning may be valid, but the 'new assumptions' have been, and continue to be, applied, not least to local government.

3.3 Changed local government environment

Local government has been, in many respects, at the centre of the 'volcano of reform' which 'has transformed the landscape of the public sector from traditional public administration to resource management and a new managerialism of markets' (Gray, 1998, p1). A key aspect of the transformation since 1979 has been the need to make public services more accountable and responsive to its client population, *ie* its customers. In the case of local government, this has involved jettisoning many of the old principles upon which it was structured and adopting new structures, techniques, methods of delivery and attitudes. An underlying assumption, on the part of central government, has been that, to improve efficiency and quality of services, local government, as with the public sector generally, must, as much as possible, be modelled on and exposed to the private sector. Central to this assumption has been the importance of competition in the provision of services and the introduction of compulsory competitive tendering, as Bailey (1995, p368) states:

....CCT is not simply an economic instrument applied in isolation. It is one small part of a much more fundamental and ongoing reform of local government and of the public sector in general.

However, CCT was only one aspect of the changes affecting local government. Bruce and McConnell (1995) identify four main changes affecting local government which have occurred since 1979:

- widespread introduction of compulsory competitive tendering
- value for money reforms, emphasising:
economy (minimum resource inputs)
efficiency (maximum outputs for a given set of resource inputs)
effectiveness (achievement of service goals)
- growth of non-elected local government
viz Quangos (*Quasi*-autonomous non-governmental organisations)
- centralisation, including:
tax capping
centralisation of business rates
centralised power over fees and charges
power to impose model standing orders on local authority meetings
creation of 'politically restricted' posts for senior officials

To this list can be added the structural changes following the abolition of the metropolitan authorities in 1986 and the recommendations of the Local Government Commission in the mid-1990s. In addition, the changes need to be seen within the context of the new public management. The changes identified, however, exclude any reference to wider societal changes, unlike the analysis of Clarke and Stewart (1990, pp1-2) who identify five 'wide-reaching changes which have had an impact on local authorities':

- ◊ a deeply changing society and economy to which local authorities have had to respond both in shaping their services and in seeking to guide the development of their local communities
- ◊ continuing financial restraint, which has limited their capacity to respond to change through growth, and forced reconsideration of past and present activities
- ◊ declining public acceptance of the form of much governmental action and of imposed professional solutions, which have challenged the certainties of past actions
- ◊ new and assertive local politics, reflecting the wider changes in society and challenging much previously taken for granted in local government
- ◊ central government programmes which have often struck at the heart of the role and ways of working in local authorities.

Although the 'deeply changing society', 'declining public acceptance of the form of much governmental action and of imposed professional solutions' and the scale of

the 'new and assertive local politics' are all unsubstantiated, the points made usefully attempt to place local government into a wider context. Against this background, in their analysis of the changing role of local government and other local organisations, Clarke and Stewart (1994, p163) state, 'a new pattern of community governance had emerged'. They identify a number of broad trends and changes (pp164-167), as given below (the analysis is similar to that of Brooke, 1991 and Elcock, 1993):

- fragmentation
- from election to appointment
- reduced local choice
- plurality of provision
- government by contract

Fragmentation has involved the creation of special purpose agencies and the removal of certain responsibilities from local government (*eg* Grant Maintained Schools and autonomous Higher and Further Education institutions).

The trend from election to appointment refers to the increased scale and power of quangos, comprising appointed members, at the expense of elected representatives. This trend reduces accountability and democratic control over decision- making and has led to the creation of what has been called a 'new magistracy' (Stewart, 1992; see also Davis and Stewart, undated). The unrepresentativeness of the 'new magistracy' is made greater by its composition, drawn not from a broad spectrum of society but rather primarily from business.

The reduction in local choice applies mainly to resource allocation decisions, with much less discretion now exercised by local government (in terms of, for instance, revenue and expenditure options) (Jenkins, 1996).

Plurality of provision is a natural result of fragmentation and breaking of monopolistic provision:

The idea of self-sufficiency ran deep. Compulsory competitive tendering, the purchaser/provider split and changed ideas about the scope for voluntarily involving third parties in service provision has changed this....in many authorities there are now a range of organisations working as agents or partners in the provision of a variety of services. The significance of this is not that the local authority is without power and influence – it determines service levels, sets standards and monitors performance – but that there is a further complexity added to government and public provision in the community.

Clarke and Stewart (1994, pp165-166).

Finally, there is government by contract. According to Clarke and Stewart (1994, p166):

The extension of compulsory competitive tendering and the importance of the purchaser/provider split is leading to the development of government by contract within the working of the local authority and in its relationships with other organisations including voluntary bodies. Semi-contractual relationships in the form of service level agreements have come to be important to the internal working of the authority. Government by contract is replacing other forms of organisational relationships.

An additional underlying strand, identified by Cochrane (1991, p292) is that of a much greater role for business:

It is not difficult to see the period since the late 1970s as one in which the links between business and government have begun to be forged rather more effectively than in the past, as part of the process of moving towards an 'enterprise state'....At the same time the organization of local welfare provision is also being extensively restructured to reflect new priorities. The direction of change is clear enough: if the post-war settlement was one which sought to incorporate the working class and its organizations, that of the 1980s, arising from the crisis of social democracy which characterized the 1970s, is one which starts from the needs of business and its organizations. At local level, it implies the arrival, or possibly the return, of business as an active participant in the political process.

This increased participation needs to be seen within the context, firstly, of new public management and the intention to import business techniques into the public sector and, secondly, the growth of Quangos and the politicisation of public appointments. These points are not adequately made by Cochrane, nor is the important distinction made between business as a 'participant in the political process' (however defined) and as a replacement for it. The role of business, however, is one that is actually likely to be enhanced under Labour, as evidenced by the radical proposals for private companies to take over the running of 'failing' schools in experimental 'education action zones', a move which Graham Lane, of the Local Government Association, has said represents 'the beginning of the removing of education from local government' and which could mark the 'destruction of local democracy' (see Targett, 1998).

Inevitably, the strands identified above have led to a redefinition of the role of local authorities and this is having an impact on their relationship with the local population and external organisations, as Stoker (1996, p17) states:

.....it is possible to argue that the institutional map of local government has been transformed. What has emerged is a system of 'local governance' in which local authorities find themselves increasingly working alongside a range of other agencies. The system has become increasingly differentiated as new agencies and organisations have been given responsibilities which previously belonged to local authorities or as existing institutions have been removed from the control of local authorities....

The transformation from government to governance is also highlighted by Bailey (1993). However, it may also be said that local authorities are becoming increasingly unclear as to their role, Loughlin (1994, p34, as quoted in Stoker, 1996, p20)), for instance, states that:

Local government has, in effect, been transferred (*sic*) from ...being the basic institution with responsibility for providing services which require local delivery systems into a rather discredited agency which, though in fact retaining responsibility for many important services, no longer holds a necessarily pre-eminent status.

They, nonetheless, have to deal with this uncertainty and adapt as appropriate, not least in terms of their priorities and internal structure. The above themes have led to the devolution of certain powers, organisational decentralisation and an emphasis on the needs of customers, internally and externally. According to Stephenson, writing in his capacity as Assistant Director, Chief Executive's Office, Cheshire County Council, (1989, p5):

.....for the first time, the pressures for change are directed not at the functions authorities perform, but at the very way they manage those functions and deliver services. What is more, the demands are so diverse that the challenge is to devise a management approach which is flexible enough to cope with various methods of service delivery....this is undoubtedly the greatest challenge facing local government for at least forty years.

4.0 *Local Government: response to change*

There are, perhaps, two key, and related, features to the above analysis, *ie* structure and customer-focus. There is a general belief that organisations, in both public and private sectors, needed to become more customer-focused and one way by which this could be achieved was to become less hierarchical and less centralised. Stoker (1987), in discussing why decentralisation has grown, considers the argument that its growth is related to fundamental shifts in society's organisation and operation and identifies economic and social variants to this argument. With regard to the economic variant, he says this:

is based on the view that we are witnessing a shift to a 'post-Fordist' society. The old post-war growth pattern based on a balanced expansion of mass production and mass consumption within the national economy came to an end in the early 1970s, it is argued. We are witnessing a new mode of growth based on more flexible, hi-tech, customer-designed, small batch production. This economic shift has stimulated a wave of rethinking in terms of management styles within the private sector. Organisational structures are becoming flatter and less hierarchical.

Stoker (1987, p6).

He proceeds to refer to Hoggett (1987) who identifies an 'emergent techno-managerial paradigm' and who suggests that the new management thinking had begun to enter local government. Hoggett (1987, p255 as quoted in Stoker, 1987, p6) states:

The 'service delivery' model of decentralisation appears to lead to new organisational and managerial forms strikingly reminiscent of the new 'hi-tech' companies of the M4 corridor: leaner and flatter managerial structures, decentralised 'cost and innovation' centres (*ie* district or neighbourhood offices with their own devolved budgets, powers over recruitment, performance indicators *etc*), enlarged and more generic roles, teamworking, flexibility and informality, responsive back-line support to front-line staff and so on.

Stoker says that the 'social' variant of the argument is presented by Gyford (1986) and whose view is premised on 'the emergence of a more assertive public attitude towards politicians and professional experts, and in the wider society a shift towards fragmentation and diversity' (Gyford, 1986, p106, as quoted in Stoker, 1987, p7). He sees a society in which there is much less deference, a greater overlap between public and private sectors and a growing willingness to participate in single-issue and community-based campaigning. However, as with Clarke and Stewart (1990, p1) above, the wider societal changes, in this instance said to include reduced deference, are not substantiated. However, part of local government's response to this has been to decentralise.

There is certainly validity in this explanation but it must also be appreciated that although, perhaps, all authorities have moved in the same decentralisation direction, they have not all travelled the same distance, nor have they moved at the same speed or with the same enthusiasm.

This is also the case with regard to the need to become more customer-focused. However, the changed environment within which local authorities have operated, brought about in the main by the Conservative era 1979-97, has led to the development of the concept of the 'public service orientation' (PSO) (see Clarke and Stewart, 1985, 1986; Stewart and Clarke, 1987; Stewart and Ranson, 1988) which, initially, was exclusively concerned with local government but was subsequently broadened to encompass public services generally.

The PSO was developed in the mid-1980s as a response to the hostile environment confronting local government. Clarke and Stewart (1985) put forward the following propositions to define the concept:

- local authority's activities exist to provide service for the public;

- a local authority will be judged by the quality of service provided within the resources available;
- the service provided is only of real value if it is of value to those for whom it is provided;
- those for whom services are provided are customers demanding high quality service;
- quality of service demands closeness to the customer.

Clarke and Stewart (1985, p2) as quoted in Rhodes (1987, p63).

As a result, they contend that local authorities should stress:

- closeness to the customer and citizen;
- listening to the public;
- access for the public;
- seeing service from the public's point of view;
- seeking out views, suggestions and complaints;
- the public's right to know;
- quality of service;
- the public as the test of quality

Clarke and Stewart (1986, p1) as quoted in Rhodes (1987, p63).

The themes identified by Clarke and Stewart (1986) above reflect the culture known as the 'public service orientation' (PSO). According to Fenwick (1989, p47), the PSO:

....seeks to remind both the local authority and its citizens that public services exist to serve the public; that officers are employed primarily to deliver those services; and that bureaucratic organisation may impede the central purposes for which the local authority exists.

Although Fenwick's is an extremely narrow view as to the reasons for the existence of public services – they exist for political, social and economic reasons and not simply to serve the public, a narrowness of view actually repeated almost verbatim by Major in 1994, see Wilson (1996b, p54) – it nonetheless summarises the concept of PSO.

In essence, PSO emphasises service delivery and closeness to the customer, (reflecting the findings and views of Peters and Waterman, 1982 and the Audit Commission, 1988), though a broader perspective has also developed, to include participation and open government. Rhodes (1987, p64) develops the concept further by defining PSO as the '3 Cs: consumerism, caring and citizenship'.

Consumerism involves an appreciation of the public as consumers of public services (see Hambleton, 1988; Fenwick, 1989), with all that this implies in terms of

seeking feedback, improving services, ensuring level and quality of services are consistent with consumer preferences *etc* (see points made by Clarke and Stewart, 1986, as given above).

Caring is, in effect, an extension of consumerism in that a local authority should respect people's wants. PSO involves 'want-regarding principles', that is, principles which take:

as given the wants which people happen to have and concentrate attention entirely on the extent to which a certain policy will alter the overall amount of want-satisfaction or on the way in which the policy will affect the distribution among people of opportunities for satisfying wants.

Barry (1965, p35) as quoted in Rhodes (1987, p65).

Citizenship, a concept deeply rooted in political theory and one which it is not possible to discuss at length here, is important to the wider perspective of PSO because it concerns participation and representativeness, both of which are central elements to a robust democracy. Local government is not, and should not, simply be concerned with service delivery but should aspire to a higher ideal and fulfil its unique role as '*the* representative institution of British government outside of Parliament' (Rhodes, 1987, p67) [Emphasis in original]. In short, local government, in adopting a public service orientation, is not simply concerned with the efficient and effective use of resources but should also embrace its key role in strengthening democratic government. These themes have been stressed by the Labour Government. The problem, however, is that there are different viewpoints as to the most appropriate way in which local government can fulfil its democratic role, perhaps polarised in the beliefs of what have become known as the New Urban Left (NUL) and the New Suburban Right (NSR). The terms NUL and NSR are crude categorisations and the distinction, as is perhaps often the case with political 'extremes', is not absolutely clear-cut. Holliday (1991, p45) states:

They have entirely opposed values, and their concepts of the political are in many respects totally divergent, but they share an analysis of post-war Britain, and a commitment to political activity, which establish them as paired phenomena (in much the same way as Labourism and Conservatism were mirrored in the Butskellite consensus of the 1950s).....Applied to local government, each analysis holds that a precondition of change and renewal is destruction of a monolithic structure, staffed with evangelistic (or apathetic) bureaucrats, which is often effectively immune from democratic control. In place of local bureaucracy, each group places local people, though the two readings of local people are decidedly dissimilar.

See Box 6.1 for a summary of the beliefs of the main political groupings.

Box 6.1**Visions of the local contrasted**

Type	Butskellite	NUL	NSR
Leading ideas	Keynesian	Marxist	Market
Values	Social justice	Communitarian Collectivistic	Liberal Individualistic
Views of post-war British local government	Welfare provision	Bureaucratic Paternalistic Undemocratic	Bureaucratic Paternalistic Undemocratic
Form of politics	Incrementalist Elitist	Campaigning Popular	Questioning Populist
Vision of local authorities	Professional Administrative	Political Governmental	Political Governmental
Direct local responsibility	Extensive	Extensive	Limited
Essence of the local	Service provision	Local economic strategies	Value for Money Local choice

Source: Holliday (1991). Table 1, p50.

The NUL councillors appeared in the late 1970s and early 1980s, partly as a reaction to their disillusionment with perceived national corporatist policy-making and the relegation of local government to a bureaucratic machine dominated by ‘city boss politics’ and professional interests serving their own ends rather than those of local people. The NUL councillors were not the old Labour stereotypes, those who naively believed they were implementing municipal socialism but who in fact had been captured by the national party and professional interests.

To some extent, therefore, the NUL councillors had sympathy with the New Right critique of local government as monolithic and unresponsive, exercising ‘bureaucratic paternalism’ (Hambleton, 1992, p11) (perhaps also corrupt, on the basis of the activities of T Dan Smith in the North East). They sought to galvanise and democratise local government as a vehicle for local action across a range of issues in order to achieve socialism locally. Writing of NUL characteristics, Byrne (1996, p72) says:

Principal among them was a commitment to mass politics based on a strategy of decentralisation and creation in the place of technocratic bureaucracy of a more liberating and enabling state. Suffusing the strategy was a concern for issues hitherto absent from local government such as economic planning, women’s and minorities’ rights, monitoring

of the police, involvement of the community in defence of the local state, and experimentation with new forms of service delivery.

Although the pursuit of a 'local road' to socialism was not new, it had not been followed since 1945 and the creation, by the 1945-51 Labour Governments, of a national welfare state effectively rendered the concept redundant. Developments over the next thirty years, however, saw its recrudescence and, by the 1980s, it represented a significant obstacle to the Thatcher Governments. By the 1990s, however, the NUL project could be said to have failed in that local government did not become a socialist alternative to a Conservative central government, though this was hardly surprising given four successive Conservative general election victories,

The NUL project, however, was not a complete failure, not least because, 'many of its beliefs and strategies inform the contemporary local and national Labour 'communitarian' (or 'urban managerialist') paradigm of local government' (Byrne, 1996, p77). Similarly, the 'beliefs and strategies' are evident today in the response of Labour authorities to the concept of the enabling authority, *ie* one which enables services to be provided rather than providing them directly (see para 5.0 below), and competition.

The NSR councillors, as with their NUL counterparts, were more overtly political than their predecessors. They emerged in the late 1970s as committed supporters of Thatcher's 'common sense' and 'conviction politics':

...where the NUL extends politics beyond the council chamber, and beyond the Labour Party's historic trade union constituency, to encompass – even enfranchise – sections of the population which have never previously participated in politics, the NSR places strict controls on both the political domain and on management of (though not necessarily access to) it. The result is that whereas in the late 1970s and early 1980s the NUL developed local economic strategies and socialist forms of participatory democracy, the NSR took up the hallowed Trinity of Economy, Efficiency and Effectiveness.....and sought to withdraw the local authority from sectors in which its involvement was considered improper and/or ineffectual. This [is a] 'commonsense' or 'businesslike' approach.....However, to see the NSR as restricted to commonsense approaches to local government, and as concerned merely to attain VFM [Value for Money] in council business, would be to diminish its view of the local [which] comprises a radical commitment to local *government*, and a strategic response to local problems. In this guise, the NSR, like the NUL, places local authorities at the centre of a local network, and requires it to exercise political judgment in an extended domain. Here, the politics of the NSR, in parallel with that of the NUL, is more committed, more dogmatic, more active and more populist than anything previously envisaged by Conservative councillors.

Holliday (1991, p48). [Emphasis in original].

The views and prejudices of the right were apparent in an article written in 1984 by Michael Ivens, then head of an influential pressure group, Aims of Industry, who despaired of the inexorable growth of local authority expenditure and manning levels, over-powerful unions, professional interests and chronic inefficiency. He contrasted the fossilised state of local government with the dynamic, modernising and hi-tech services such as banking, insurance and accounting which have undergone a technological revolution. He said decision-makers should ask fundamental questions of each local authority function, each of which should be subject to the following appraisal:

Why are we [local government] in this business? Are we talking about something which is not government but pure administration? What segments could we hive off, privatise or centralise? Does the council have any real discretion or is it merely an agent of central government and, if the latter, is there a genuine local dimension with which clients and staff relate? If not, is there any need to retain the spurious current supervisory structure of council committees and attendant full-time officer back-up? Assuming transfer or partial transfer is possible, what residual structure will remain? Will that provide new and further horizons for rationalisation? Alternatively, would it be able to absorb fresh and more appropriate responsibilities of a genuinely local nature? Should we be establishing markets for services by charging users rather than funding them on a blanket basis through taxes...?

Ivens (1984, p4).

The above questions are, in many respects, still being asked today. Ivens' commitment to privatisation and contracting-out was typical of the politics of the NSR, which was most evident in Westminster and Wandsworth Borough Councils and Kent County Council. They approached with zeal the task of creating a different type of council, one which is consistent with the enabling principle (see para 5.0 below) but which goes beyond it:

The radical right has not therefore interpreted the 'enabling' concept as the end of its political or governmental role, but rather as new strategy for local governance. NSR councils appear to believe in going beyond merely the 'competitive council' which extols the virtues of VFM, but which implies a residual role for the local authority as the provider of last resort. Rather they place the local council at the heart of a network of relations with local providers and, through a variety of tactics ranging from control to partial control, partnership, part ownership, purchasing, support and the capacity to influence, they try to deliver more imaginative solutions to local needs.

Byrne (1996, p68).

The evidence relating to the NSR project is mixed. The scale of contracting-out is by no means as great as central government and the NSR would have liked (see Chapter Three) – but, against that, it may be said that the NSR have had a lasting influence on

Labour Party thinking in terms of its views on, for instance, enabling (see para 5.0 below) competitive tendering, value for money, and so on.

This may be considered ironic given the May 1997 general election result and the virtual disappearance of Conservative-controlled councils. However, the electoral situation at national and local level does not in itself fundamentally change either the environment within which local government is operating or the managerial validity of re-structuring and re-focusing. Because of this, it is necessary to consider possible future roles for local government and to develop a model against which the degree of change in the management of financial services can be assessed.

5.0 Local Government: future role

It would appear that local government is to be subject to certain radical changes as part of an agenda for constitutional change. The Prime Minister, Tony Blair, is committed to creating a 'reinvigorated local government' (Blair, 1997) and has stated:

Councillors must remember they cannot, and must not, do everything themselves; there can be no monopoly of service delivery by councils; the 1970s will not be revisited. Delivering quality services means that councils must forge partnerships with communities, agencies and the private sector. It is their job to make sure that the people they serve receive the best quality services.

This is a reaffirmation of the view as expressed in the Labour Party election manifesto. Labour is committed to abolishing CCT and replacing it with 'best value' but, although Labour rejects 'the dogmatic view that services must be privatised to be of high quality', '....equally we see no reason why a service should be delivered directly if other more efficient means are available' (Labour Party, 1997, p34).

There can be little doubt that the election of a Labour Government in May 1997 brought to an end 'eighteen years of unremitting hostility [to local government] from the Thatcher and Major administrations' (Elcock, 1997, p35) but, in making the above statement, Blair is stressing a certain degree of continuity from the 1979-97 Conservative era. There is clear acceptance of the need for local authorities to consider not so much the principle of externalising work but, rather, how best to implement the principle. In this respect, the current debate as to the role of local authorities is no different than that which has been ongoing for two decades. In essence, both the NSR and the NUL sought to establish a different role for local

government and, though driven by ideology and circumstances, underpinning each was their reassessment of the role local authorities should fulfil.

Stoker (1996), adapting the work of the Local Government Management Board (1993b), has identified four models. See Box 6.2. In reality, a local authority is likely to combine the models identified in Box 6.2.

Box 6.2

What Role for Local Government?

Model	Interpretation of role	Use of contracting and market mechanisms	Attitude to the public	Key organisational values
Direct service provision	Strong in relation to service provision. More limited in relation to 'wider issues'	Very limited. Direct public provision preferred.	Emphasis on individual as customer or service client.	Command Hierarchy Professional Bureaucracy
Commercial approach	Limited to specification of need and service client 'role', plus some wider issues.	Very wide. Market mechanisms should be used wherever possible.	Strong emphasis on individual as consumer.	Business values Choice (exit capacity) Competition
Community governance	Strong Local authority is there to respond to full range of community	Neutral Judge role of market on its capacity to contribute to wider objectives	Strong emphasis on community in authority-wide terms not local	Citizenship (city-wide) Networking Representative Democracy
Neighbourhood approach	Strong at neighbourhood level. Less emphasis at authority wide level.	Limited More emphasis on voluntary sector and community initiative	Strong emphasis on local communities less so authority wide	Citizenship (local) Participative Democracy Community

Source: Stoker (1996). Table 1, p21, as adapted from LGMB (1993b). Table 1, p15.

Hambleton (1992) suggests that three broad models for local government have evolved from the experiences of the 1980s:

- a dismantled state
- a decentralized state
- an empowering state

The models are not mutually exclusive; within its management strategy, it is possible for a local authority to combine features from each.

The ‘dismantled state’ is synonymous with the view of the political right whereby private sector bodies provide all services and the role of the council, in effect, is simply to award contracts. The ‘decentralized state’ recognises the role of the local authority in directly providing services and not merely financing their provision, but the emphasis is on organisational structures firmly rooted in specific localities within the authority and which manifest core-periphery characteristics, *ie*:

The core concentrates on strategic issues and policies and lays down performance standards for the periphery. The devolved units exercise considerable autonomy in meeting local needs within the context of the performance standards imposed by the core.

Hambleton (1992, p17).

The ‘empowering state’ encourages new forms of provision by ‘third sector’ non-profit organisations and emphasises the role of community groups. Important within this model is the concept of the enabling council (see below).

The debate as to which is the ‘best’ model continues. Within the former Conservative Government, the model chosen approximated to the second one as identified by Stoker (1996), see Box 6.2 above, *ie* the commercial approach, and a combination of the ‘dismantled’ and ‘decentralized’ state as identified by Hambleton (1992). The expression adopted for this particular hybrid is the ‘enabling authority’ (see below). The Labour Government’s approach is unlikely to differ greatly from the previous Conservative emphasis on ‘enabling’, though there is likely to be increased emphasis on ‘empowering’. There is obvious common ground between Labour and the Conservatives in that there is, at least, an acceptance in principle that local authorities should be less concerned with providing services directly but should focus on enabling services to be provided; this has led to the use of the term ‘enabling authority’.

The Conservatives explicitly stated that the enabling authority was the model to which, in government, they were committed:

So far as the provision of services is concerned, the Government’s model for local government in the 1990s and into the 21st century is that of the enabling authority. The

task of local authorities lies in identifying requirements, setting priorities, determining standards of service and finding the best way to meet those standards and ensuring they are met. This implies a move away from the traditional model of local authorities providing virtually all services directly and a greater separation of the functions of service delivery from strategic responsibilities. Local authorities will then be able to concentrate more fully on their core responsibilities.

Cm 1730 (1991, p22).

The term 'enabling authority' is, however, definitionally imprecise and has been the subject of a debate which has effectively revolved around two different models. The first model is that primarily associated with the political right, under the slogan 'enabling not providing':

The role of the local authority will no longer be that of the universal provider....it is for local authorities to organise, secure and monitor the provision of services, without necessarily providing them themselves....authorities will need to operate in a more pluralist way than in the past, alongside a wide variety of public, private and voluntary agencies.

Ridley (1988, pp17, 22, 25) as quoted in Gyford (1991, p1).

Although the Ridley view is normally associated with a 'narrow' definition of enabling, it actually affords an opportunity to local government (though it is, of course, unlikely that Ridley ever intended his views to be interpreted in such a way). This point is made by Clarke and Stewart (1990, pp4-5, emphasis in original) who see the potential for local government to be based on the continental model of the local authority as the community governing itself:

The enabling council defines its role not by the services it provides but by a broader agenda of concerns. Within those areas of concern it may or may not directly provide services. The issue of what is required is separated from the issue of how it is to be delivered. Councillors, for example, will still be involved with the interface between services and the community, but they will focus on whether needs are being met rather than on the detailed problems of production. Such a focus need not be a weakening of the local authority. Rather, it is a recognition that its role can be one of *local government*, with concerns for its community which extend beyond service provision.

Brooke (1991, p531) also adopts an optimistic, and, it can be said, poorly justified, viewpoint:

The climate is right for an enhancement of the role of the local authority in articulating needs and responding to them. Paradoxically the reduction of local authority powers and the fragmentation of agencies might ultimately increase the standing of the local authority in relation to its local community.

Likewise, Cochrane (1991, pp282-283) states:

For some, the notion of an 'enabling' authority is little more than a euphemism for the 'end of local government', in the sense that councils are simply left to 'enable' private

sector agencies to deliver services. But it has also been interpreted more positively to suggest a renewed strategic role for local government....Instead of focusing narrowly on the spread of market methods, it is argued that it is important to identify the new opportunities suggested by the idea of an 'enabling' authority.

It seems reasonable to say that the above views contain an element of utopianism given the realities, at the time and indeed today, confronting local government, not least the ever-increasing financial constraints and the removal of functions from local authorities. However, they reflect the second model of enabling, which represents a 'broader' view. This can perhaps be summarised as 'enabling as empowering' (see Gyford, 1991) and is particularly associated with Clarke and Stewart (1988), who highlight that the phrase itself can have a variety of meanings:

At one end of the spectrum is a limited view. The local authority must stop doing a lot of things it does at the present. It must put more and more of its business out to competitive tender, hand over activities voluntarily to third parties or even be required to do so. Residual responsibility will continue to lie with district, metropolitan or county council, but its important job will be to pass on the doing. The local authority will be about enabling others to act on its behalf providing local services. At the other end of the spectrum is a much more broad view. The local authority accepts that its direct provision of services is but one means of providing for the community among many. Its role as an enabling council is to use all the means at its disposal to meet the needs of those who live within its area. It will produce some services itself. It will work with and through other organisations - in the public, private and voluntary sectors - aiding, stimulating and guiding their contributions.

Clarke and Stewart (1988, p1) as quoted in Leach, Stewart and Walsh (1994, pp39-40).

The broader view given above is reinforced by Brooke (1991, p525):

There is nothing in the idea of the enabling authority to preclude direct provision. Indeed local authorities will continue to be direct providers of many local services in the foreseeable future.

Perhaps a more broad view still is that of Gyford (1991) who, drawing on the work of the Association of Metropolitan Authorities, advocates a third model of the enabling council, *ie* one built on the notion of community development. He envisages a local authority 'functioning as a training agency, resource centre and support service for local community groups' (p4) and this could (Gyford, 1991, p4):

complement the idea of such groups taking an increasing share of local service delivery, as in the narrow model of the enabling role [and] facilitate the identification of and expression of local 'needs, opportunities and problems' [from Clarke and Stewart, 1989, p1)] as envisaged in the broader community government model.

The definitional imprecision of the term 'enabling' is emphasised by Leach *et al* (1992). They identify direct and indirect functions of local government and state that (p10):

The basis of provision can be arranged in (at least) four different ways:

direct service provision (of public housing, residential care, a library);

service purchasing (payment on a contractual basis to another organisation to provide the service, for example, employing a contractor to collect household waste);

regulation (of the economic behaviour of individuals or other agencies in the public interest by insisting that standards, rules and procedures of various kinds for exchange or provision of goods and services are complied with);

facilitation (persuasion of one or more other organisations to carry out activities which are judged to benefit the local community eg by incentive through grants to voluntary organisations or loans to small businesses, or through processes of bargaining, persuasion, promotion or advocacy).

The above represent the four primary functions of local government and (p10):

Their separation into four distinct categories reflects (but avoids) the widespread use of the term 'enabling' which has been applied indiscriminately to what are in fact different roles of purchaser, facilitator and regulator functions.

However, despite the lack of unanimity concerning definitions, there is little doubt that the movement towards an enabling role, with all that it encompasses in terms of previous Conservative policy towards local government, has had an impact. Though the impact may on occasions be overstated, by supporters of the right, who stress its radicalism, and by opponents on the left, who stress its damaging dogmatism, (see Cochrane, 1991), it is real nonetheless. Stephenson (1989), drawing on the experience of Cheshire County Council, usefully summarises various aspects of the impact of the changes and, in so doing, it can be seen that the assumptions upon which traditional local government activity was based, those as defined by Clarke and Stewart (1990) (see para 2.0), are increasingly obsolete:

A strong local authority now requires a flexible structure. This depends upon each part having a clear and distinct role, and a looser relationship with the other parts. The parts will have more autonomy and responsibility and the controls will need to be different. However, it will be possible for elements to change and roles to adapt without bringing the whole structure down. There are still three levels.....but when roles have been separated purposes become clearer;

- strategic management, who set overall direction and key issues, and who identify needs and match them with resources
- service management, who set service objectives and specifications and ensure they are met
- service providers, who may come in any number of forms but all with the task of meeting the objectives and specifications.

This approach switches the focus from inputs to outputs and the organisation will more and more be driven by such concepts as customer satisfaction, market research, competitors, business plans.

However commercial the organisation of a local authority may appear, one vital difference will always remain: the authority cannot pull out of the business entirely. It may allow others to deliver services but its *ultimate responsibility is to decide what services are needed* and to see that they are provided. The responsibility cannot be devolved. There is much more to a local authority than being a passive enabler. It must continue to be what it has always been - the Ensuring Authority.

Stephenson (1989, p8). [Emphasis added].

It may, as Stephenson suggests, be more appropriate to use the term 'ensuring' rather than 'enabling' but it is also legitimate to question the precise wording of the above italicised assertion concerning ultimate responsibility; 'decisions' relating to the provision and quality of services may be said to be ultimately those of the market (with the exception of those services, at a local level, which must be provided as per statute), resulting from the free operation of market forces. Political decisions and bureaucratic deliberations may or may not accurately reflect consumer needs or preferences but, for some, they cannot legitimately override them.

Nonetheless, Stephenson presents a picture of a local authority which is consistent with the analysis of SOLACE (Society of Local Authority Chief Executives) Think Tank (undated, but published mid-1990s; 1996) and Bailey (1993). SOLACE Think Tank advocates subsidiarity within local authorities (transferring decision-making to the lowest possible level) as a means of being more responsive and customer-focused. It is also extremely critical of how authorities have been managed in the past:

Local government has been responsible for its own downfall in part because of its protection of territory. Management of local authorities has been especially culpable with local management at senior levels driven by an obsession to protect empires, retention of bureaucratic controls and a determination for the preservation of political power.

SOLACE Think Tank (undated, page unnumbered)

SOLACE Think Tank (1996) advocates a new model for national/local government relations. It believes central government should establish a 'bottom line' for councils, covering an important but limited range of services and issues where there is genuinely a national interest. The bottom line should be expressed not just in terms of cost but also service quality. All councils should be required to meet the 'bottom line' and, if they do, they should then be able to exercise other more discretionary

powers and raise their own funding locally. 'The bottom line would thus be a threshold or gateway to greater powers, functions and activities' (SOLACE, 1996, page unnumbered). Neither Conservative nor Labour has expressed an official view on this suggestion.

Bailey (1993) says there has been a transition from local *government* to *governance*, where the emphasis switches from inputs and processes to outputs and outcomes. A local authority must now look outwards, in sharp contrast to the typical enclosed authority of the mid-1970s (see the description of Clarke and Stewart, 1990, given in para 2.0).

However, in a sense, the views as expressed by SOLACE Think Tank, Bailey and other advocates of 'outward looking' authorities are similar to those being stressed nearly twenty five years ago. Stewart (1974) advocated the merits of a 'responsive authority':

A responsive authority would be sensitive to changing problems whatever their scale, prepared to review its activities and to adapt its organisation to meet new problems and to use new knowledge....The responsive authority must be a learning authority. Set in an uncertain and changing environment, the authority can learn from the activities it undertakes if it is prepared to learn.....It means that the local authority must be willing to challenge its own activities, to evaluate them and to review them. The activities of the local authority should not merely be allowed to reproduce themselves.....The local authority should look outward to the environment of changing problems, changing needs and changing knowledge.

Stewart, J.D. (1974, p4).

However, though this may be true, within the context of a Labour Government, apparent increased acceptance of the demerits of compulsory competition (see, for example, Davis & Walker, 1997; Milne, 1997; Milne & Michie, 1997), and a rediscovery of local government as 'the lifeblood of our democracy' (Blair, 1997), there is merit in emphasising the view of Stephenson, given above, *ie* that of the 'ensuring authority'. It may be a fine semantic point but in stressing 'ensuring' as opposed to 'enabling' the term implies acceptance, or obligation (notably statutory), that certain services will be provided and that the means by which they are to be provided are of secondary importance but will include direct service delivery. The term 'enabling', however, seems not to encapsulate the notion of sacrosanct services and minimum levels of provision. To 'enable' rather than to 'ensure' is a less firm commitment; the former is about 'means' and the latter implies 'ends'. 'Enabling' not only implies, and is certainly associated with, the fact that the

means of delivery are of secondary importance, but also it implies that in-house delivery is, in itself, unimportant.

The 'ensuring' role is one that, potentially, is acceptable to all stakeholders and is not burdened by an association with the 1979-97 Conservative era, nor with the era of public bureaucracy which preceded it. It also leaves open the opportunity of building upon the changes that have been introduced since 1979 rather than seeking to reverse all of them. Local authorities have had to adopt different management methods in response to their 'enabling' role and these can be taken forward into an 'ensuring' role. In describing a 'new management for a changed role', Clarke and Stewart (1990, pp11-24) believe that an effective local authority should re-structure and develop new ways of working:

The organisational structures of local authorities have been built to support past ways of working based on the direct provision of services on the established pattern. New ways of working are required which cannot easily be contained within those structures:

- ◇ the hierarchies of departments built for control of direct service provision may limit the development of community action and of responsive services
- ◇ working across organisational boundaries requires structures that do not confine action within those boundaries
- ◇ compulsory competitive tendering requires the separation of client and contractor roles merged in past organisational structures
- ◇ an entrepreneurial approach required to realise opportunities challenges existing systems and procedures built for the control of established services
- ◇ learning from the community can easily be lost in departmental tiers or between departmental boundaries.

Clarke and Stewart (1990, pp22-23).

Since they wrote the above, it is apparent that restructuring has taken place - not least the differentiation discussed in para 3.0 - and new ways of working have been found in response to the creation of the enabling authority. Within the process of moving towards an enabling role, a cultural change has, in many respects, been required. The extent of the change and the enthusiasm with which it has been accepted has varied across and within authorities and it needs to be considered whether the 1979-97 Conservative period ushered in irreversible change. As McGarvey (1997, p624) states:

The central orthodoxy now is that old, traditional local government institutions characterised by cultures of paternalism, bureaucracy, departmentalism, hierarchy and closed local democratic

elitist, corporatist policy making structures have undergone fundamental transformation. They have been replaced by enabling councils working in conjunction with a range of other agencies to achieve local governance of their areas. There has been undoubted consensus that things have changed and there has been movement to what is termed either 'enabling' or local governance.

However, as McGarvey points out, this consensus begins to break down when definitions of 'enabling' or 'governance' are attempted, though the debate as to their meaning is, he argues, 'a clash of two differing coalitions' (p624), *ie* new public management (NPM) and new local democracy (NLD). The former is essentially concerned with the management and delivery of local services; the latter is concerned with the participation of individuals and communities in decision-making. It is suggested, however, that by revitalising local government, to which Blair is committed (Blair, 1997), by stressing the need for 'best value' in service delivery and by stressing the legitimacy, but not a monopoly, of direct delivery of services within the context of variety, innovation and collaboration, there is scope for uniting new public management and new local democracy.

In assessing the impact of the Conservative era on financial services and in considering the most appropriate way in which they should seek to develop, not least to meet the challenge of 'best value', certain models of change can be adopted. The adequacy of the models is now evaluated.

6.0 Models of change

6.1 Conservatism and New Public Management

In considering models of change, it is important to appreciate that there are lessons to be learned from the Conservative era 1979-97. In many respects, these have been outlined by Milne (1997). He summarises the findings of a major ESRC research programme into the use of contracting and, in so doing, highlights the issues that need to be considered by both public and private sectors. He states (p6):

In the late 1980s and early 1990s, first the Thatcher and then the Major administrations sought to make the management of the public services mimic a particular model of the market through the imposition of essentially conflict-based contracting. That approach is now increasingly questioned, not simply on the basis of a view that public services should be organised differently from profit-maximising private firms – but because there is a growing body of research suggesting that this is not how the best private sector companies operate anyway.

Absence of trust, lack of co-operation, short-termism, transaction costs and bureaucracy are all identified as being associated with contracting and contrasted with the possible merits, for private and public sectors, of partnership and trust.

Organisational relationships may be contractually-based but the nature of the relationship should be trustful, co-operative and long-term rather than distrustful, adversarial and short-term:

...just as contracting in the private sector is most successful when it is voluntary, when each side trusts the other and when there is a measure of cooperation between them – so that is likely to be true in the public sector as well.

Milne (1997, p18).

This increased awareness of the demerits of adversarial competition is reinforced by the approach of the Labour Government which, towards local government, perhaps unlike its predecessor, is unlikely to display an ‘obsession with centralisation’ or to foster a ‘culture of confrontation’ (Kane, 1996, p64). In short, the neo-liberal economic and political revolution of the 1980s has perhaps run its course, to be replaced by a less ideological approach and which, *inter alia*, provides an opportunity for a politically-liberated and revitalised local government to demonstrate efficiency and innovation in service delivery, via the vehicle of ‘best value’.

Local government’s ability or willingness to capitalise on this changed, more favourable, environment is, however, open to question. The Audit Commission has been extremely critical of local authorities’ willingness to change their internal decision-making processes and states that ‘the lack of appetite for change over the last 30 years could be taken by central government as evidence of the need for more prescriptive intervention on its part’ (see Pike, 1997a).

This political inertia may reinforce, and be reinforced by, managerial inertia and, if this is the conclusion reached after 18 years of Conservative Government, it leads to obvious doubts as to the extent to which change will occur under Labour. For instance, Szymanski has said that, amongst those authorities where resistance was greatest, the most likely consequences of abolition of CCT was that ‘patterns of behaviour that existed before CCT will be re-established’ (quoted in Pike, 1997b), though this is inconsistent with the research findings reported here (see Chapter Five, para 5.5 and Box 5.20).

It may be, however, that Labour will be more able to bring about change, in that voluntary approaches may be more successful than compulsion, although authorities are aware that compulsion could be a feature of Labour's policy should the results of 'best value' prove unacceptable. There is an obvious danger that local authorities will not respond adequately to the new initiative. Whatever the political response, however, there is an opportunity for officers to consider and suggest alternative approaches to service delivery. In fact, this may be an absolute necessity in any case given the financial constraints within which authorities are operating. With regard to central services, and in particular financial services, the degree of change under the Conservatives was limited and unenthusiastic (see Chapter Three). However, Pratchett and Wingfield (1996) report that change can be discerned. Based upon research into four local authorities, including a questionnaire that elicited 271 respondents, a response rate of 57.5%, they reach three conclusions. First, 77% of local government officers believe in the existence of a public service ethos (PSE). However, although 51% viewed it in a largely positive way, they defined it in narrow terms as being 'behaviour associated with professional or organizational codes of conduct' (p644). In addition, 26% of respondents characterized it as being 'a largely negative concept that encouraged inefficiency, obstructive bureaucratic behaviour, and in some instances, even corrupt activities' (p644). Second, belief in the PSE varied according to personal and demographic characteristics. Age and length of service were key variables, those who were aged over 40 and those who had worked in local government for twenty years or more were much more likely to express a belief in the PSE. Third, those most exposed to market-related reforms were least likely to believe in or support the values associated with the traditional PSE. However, the research also revealed that the overall attitude and policies of the employing authority had a significant influence on the underlying values of those most exposed to competition (in short, respondents were less likely to associate themselves with PSE if their authority adopted a pro-CCT approach). In addition, Pratchett and Wingfield noted that 'in those areas of an authority that are most exposed to competition the values of the PSE are evolving rather than declining' (p647). The need to behave in a much more commercial manner was stressed but this was seen as supplementary to the PSE and not a replacement for it. They state (p653):

Though it is probably the case that there have always been some who doubted the existence of a distinctive culture amongst local government employees, the fact that nearly half our respondents perceived the PSE in negative terms must be considered something of a triumph for those who have sought intentionally to change the underlying values of public service. As an institution, the PSE has proved itself vulnerable to gradual but intentional change.

The 'underlying values of public service' need to be considered when attempting to analyse and model change. Some aspects of them, including the emphasis on probity and, to a degree, altruism, need to be retained but others, notably those associated with professional self-interest and lack of customer-responsiveness, need to be jettisoned.

Developments since 1979, notably competition and the need to become customer-focused rather than producer-driven, have represented a threat to the vested interests of the professional groups within the public sector. This was particularly the case in the NHS (Pettigrew *et al* 1992), where the power of the clinicians, notably consultants, was entrenched, but applied across the public services. However, the impact on professionals has not been uniform. Ferlie *et al* (1996, p189) state:

Where the process of introducing elements of competition and market principles has been approached via [CCT] and market testing, to date, the effect on professionals is limited.....where a quasi-market has been introduced across a whole sub-sector, as in health and education, it is apparent that the market changes have had a far greater and more direct impact on professionals. Overall, one cannot sustain the argument that all professions in the public sector have lost power, influence and autonomy as a result of the introduction of a quasi-market or the impact of increased managerialism.

With regard to accountants, Ferlie *et al* (1996, p189) go on to say:

The forms of the market are not uniform and the impact on different professions is highly variable. Some professions, such as accountants, have risen in influence and in numbers during the change period.

However, though this may be true in the NHS, it is unlikely to be the case in local government. It is highly unlikely that they have risen in numbers. With regard to influence, this is more debatable. In the short-term their expertise may actually have been even more needed as blue- and other white-collar services prepared for CCT, but longer-term their influence was threatened by the possibility that the services for which they provided financial support would seek to obtain such support elsewhere or require a lower level of support at less cost. However, Russell and Sherer (1994) have reported on the general impact of managerialism on accountants, and state

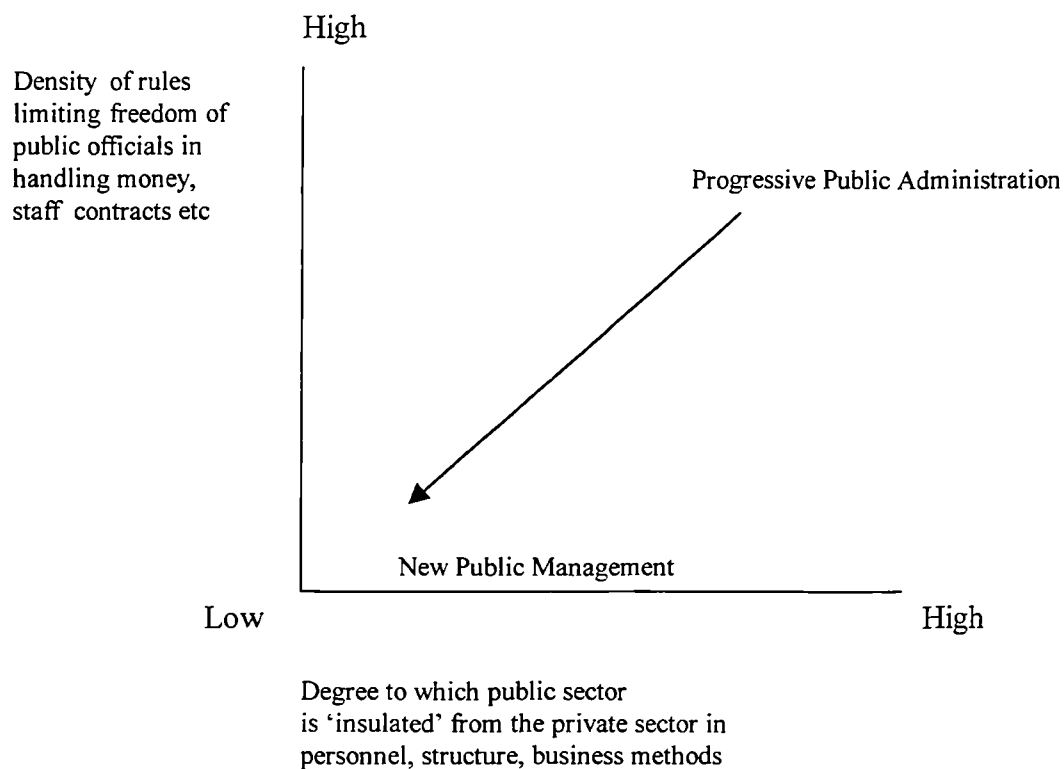
(1996, p3) 'the language of business has permeated the public sector, and accountants are central to the design of, for example, financial delegation arrangements, information systems, market models and organization structures.' Such a conclusion, however, was not reached by the LGMB (1997b), the report of which was quite critical of local authority accountants, who, it was said, did not know enough 'about modern management techniques to be able to implement the culture change they knew was needed' (Wheal, 1997).

There is, therefore, mixed evidence in relation to NPM but the fact that it is mixed with regard to local government reinforces the need, confronted, as it is, with 'best value', to consider how change may be effected.

In considering NPM, Dunleavy and Hood (1994, p9) state that it generally involves:

a shift in the two basic design coordinates of public sector organization, moving it 'down-grid' and 'down-group' in social science jargon (Douglas, 1982). Going 'down-group' means making the public sector less distinctive as a unit from the private sector (in personnel, reward structure, methods of doing business). Going 'down-group' means reducing the extent to which discretionary power (particularly over staff, contracts and money) is limited by uniform and general rules of procedure. By contrast, traditional public administration of the 'progressive era' was built on the idea of a highly distinct public sector 'group' and a dense 'grid' of general procedural rules governing the conduct of business.

This can be shown diagrammatically, as given in Box 6.3 (see Dunleavy and Hood, 1994, p10, Figure 1). The direction of change has been as indicated (Box 6.3), though Dunleavy and Hood (1994), drawing on the work of Polsby (1984), also distinguish between two modes in which a movement such as NPM can be influential. First there is 'incubated' mode, 'in which reform does not come into full effect until long after their original introduction, when they establish a new long-term orthodoxy' (Dunleavy and Hood, 1994, p9) (eg 1854 Northcote-Trevelyan Report on the civil service). The second, alternative, mode is that where there is an 'acute' innovation pattern, 'in which reform programmes peak early and then break up quickly' (pp9-10) (eg corporate planning in local government in the mid-1970s). They state (p10) that 'NPM seems to have elements of both styles.'

Box 6.3**From Public Administration to New Public Management**

They proceed to discuss the nature and main critiques of NPM – see Box 6.4 – and offer some alternative futures for public management. See Box 6.5. With regard to Box 6.5, it is important to note that the models are not confined to local government but apply across the public services. The top right quadrant ('public bureaucracy state') equates, in effect, to traditional public administration; the bottom left quadrant ('minimal purchasing state'), the 'officially favoured' (Dunleavy and Hood, 1994, p14) model, equates, in effect, to NPM. However, the remaining two quadrants, *ie* 'headless chicken' and 'gridlock':

....have potential strengths and weaknesses. The obvious strength of the Headless Chicken model is its ability to release pent-up forces of dynamism and entrepreneurship, deliver the *coup de grace* to ossified structures and bring forward innovation and competition which could not occur under more orderly approaches to public management. By contrast, the Gridlock model may avoid the arbitrariness and caprice that unbridled power may bring. Equally, there are clear corresponding weaknesses. The 'no-one in charge' aspects of the Headless Chicken model are likely to involve duplication, expensive mistakes and possibly Gresham's law processes in which mediocrity and corner-cutting standards drive out good practice. The 'iron rule' book aspects of the Gridlock model are likely to involve rigidity, very high costs and unresolved disputes.

Box 6.4 Critiques of New Public Management	
<p><i>Fatalist critique</i></p> <p>NPM cannot alter basic dilemmas of public administration or provide a free lunch.</p> <p><i>Remedy</i></p> <p>None: but over-sell of management systems will be vulnerable to fatalist attack.</p>	<p><i>Hierarchist critique</i></p> <p>NPM risks eroding system-wide cohesion, and putting the public sector out of control.</p> <p><i>Remedy</i></p> <p>Strengthened central steering capacity, more obligations to consult, OCR [Obligational contract relationships] not ACR [Arms-length contract relationships] contracts.</p>
<p><i>Individualist critique</i></p> <p>NPM risks becoming a poor substitute for fully individualized contract rights.</p> <p><i>Remedy</i></p> <p>More 'real' contracts rather than quasi-contracts, more privatization rather than corporatization.</p>	<p><i>Egalitarian critique</i></p> <p>NPM risks encouraging corruption, may suit personal interests of top officials, weaken accountability.</p> <p><i>Remedy</i></p> <p>More citizen empowerment, more anti-corruption machinery, extension of model employer role, stricter contract blacklists.</p>
Source: Dunleavy & Hood (1994) Figure 2 p11.	

Box 6.5 Alternative futures for public management			
Degree of generalized rules	High	<p>'Gridlock Model'</p> <p>Private providers, 'iron rule book' (juridification), no political mediation.</p> <p>Example: 1980s US health care</p>	<p>'Public Bureaucracy State'</p> <p>Extended public provision by distinctive public sector organization</p> <p>Example: Traditional German public sector style</p>
		<p>'Minimal Purchasing State'</p> <p>Maximal corporate presence, state as an 'intelligent consumer'</p> <p>Example: Los Angeles government</p>	<p>'Headless Chicken Model'</p> <p>Distinctive but turbulent public sector: 'no-one in charge' management</p> <p>Example: UK higher education</p>
	Low		
		Low	High
	Degree of separation of public and private sectors		
	Source: Dunleavy & Hood (1994) Figure 4 p14.		

Dunleavy and Hood go on to say (1994, p15) that the conventional approach to analysing public management, in terms of markets and hierarchies, is insufficient and that it is necessary 'to consider also the less-examined intermediate cases':

Like all roads paved with good intentions, the route to market-style public management reform may end in unexpected and distressing places. We suggest that it may commonly lead in practice either to the Headless Chicken model or to the Gridlock model, or – more likely – first to the one and then to the other. If so, we ought to be comparing the strengths and weaknesses of *those* outcomes against the strengths and weaknesses of the Public Bureaucracy State model. Much of the current debate ignores these intermediate possibilities.

Dunleavy and Hood (1994, p15) [Emphasis in original]

In addition, they highlight the dangers of excessive outsourcing, which may, in the private sector, lead to firms 'hollowing out' and, in fact, divorce them from their ultimate customers. This may also, of course, happen in the public sector (see Rhodes, 1994) with potentially profound political and constitutional effects. The danger, however, is that, in simplistically emulating the private sector, which may, in any case, be going too far and too fast in the wrong direction, there is too little consideration given to identifying core competences and core tasks.

Though this is perhaps true, and that, for much of the Conservative era post-1979, there has been 'an unreflective bias towards radical outsourcing strategies' (Dunleavy and Hood, 1994, p16) within the public sector, the extent to which this has occurred in local government is questionable. It certainly has not particularly manifested itself in the case of financial services. In addition, the election of a Labour Government is unlikely to mean that such 'fashion following', insofar as it did occur, will be sustained.

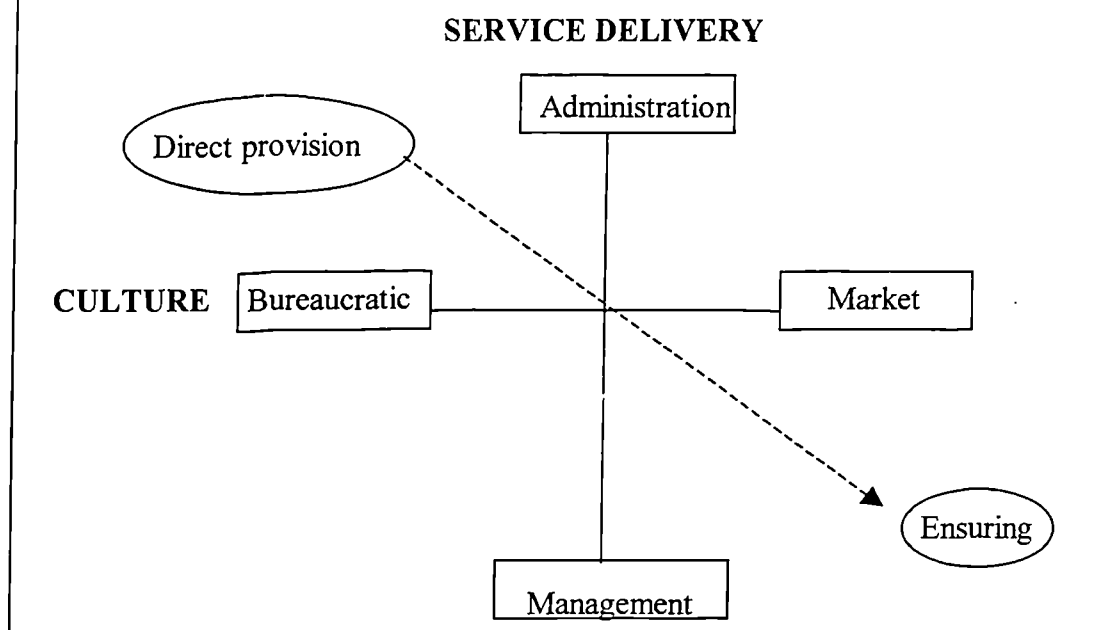
It is likely that local authorities will operate in a more stable, though that it is not to say a less financially stringent, environment under Labour than that which prevailed between 1979 and 1997. There is also greater opportunity to work with central government rather than be coerced by it. This means that the two immediate stages identified by Dunleavy and Hood, *ie* Gridlock and Headless Chicken, are less likely to be seen in local government. In addition, in terms of constructing a model, the two stages are *intermediate* and can be seen as points on a conventional bureaucracy/market (or hierarchy/market) continuum. Such a continuum, it is felt, is more likely to be meaningful, for diagnostic and prescriptive purposes, to local authority practitioners.

6.2 Service Delivery and Culture

In considering the bureaucracy/market continuum, this may be analysed in terms of the inter-related variables of service delivery, prevalent culture and structure. Ignoring, for now, the issue of structure (see 6.3 below), the 'bureaucracy/market' continuum may be applied to both service delivery and prevalent culture. For analytical purposes, these can be separated into two inter-related continua. The first relates to culture, the polar points of the continuum being 'bureaucratic' and 'market'. The second continuum, relating to service delivery, has the polar points of 'administration' and 'management'. These expressions have been adopted because, with regard to financial services, as stated above, it is likely to be more meaningful to adopt, where possible, expressions the nature and origins of which will be known to financial services personnel. To this end, and consistent with the questionnaire survey and interview questions, the expressions 'administration' and 'management', as drawn from the Audit Commission (1995a), may be adopted. 'Administration' equates to traditional public administration, as associated with the public bureaucracy state (Box 6.5, and the top right hand corner of Box 6.3); 'management' equates to new public management, as associated with the minimal purchasing state (Box 6.5, and the bottom left hand corner of Box 6.3). The continua can now be shown diagrammatically. See Box 6.6. However, given the discussion above concerning new public management (and the distinction made between NPM and NLD, *ie* new local democracy), the changed environment given the election of a Labour Government and the use of the term 'ensuring', it is suggested that 'administration' may be linked to a traditionally structured local authority (see also 'direct service provision' in Box 6.2) and 'ensuring' may be linked to the work of Clarke and Stewart (1990).

In considering the 'administration/management' continuum, the work of the Audit Commission (1995a; 1995d) is relevant, as utilised for the questionnaire survey and interviews (see Chapters Four and Five). The Audit Commission (1995a) stated that local authorities, and financial services in particular, need to manage rather than simply administer. In the case of financial services, the traditional approach had four characteristics (Audit Commission, 1995a p5):

Box 6.6
Service Delivery and Culture



- ◆ concentration on the corporate role, sometimes to the detriment of revenue collection and financial support services
- ◆ a highly centralised approach to the control of budgets and the provision of financial advice
- ◆ poor awareness of the needs of financial service users
- ◆ limited attention to the value for money of financial services and the scope for service improvement.

The Audit Commission (1995a, p5) stated that authorities, to varying degrees, were moving from the above traditional style to 'a more modern, managed approach, identifiable by three hallmarks:

- ◆ the attention to corporate financial affairs is supplemented with a managerial focus on the two other roles of the finance function – the delivery of support services and revenue collection
- ◆ for each financial support service, its customers and their requirements are clearly identified, and these requirements inform explicit decisions about how much service is to be provided and to what standard
- ◆ all services are delivered so that the required volumes and standards are met with the maximum efficiency and economy and, where service delivery is retained in-house, the performance of potential private suppliers is matched or even surpassed.

In making the transition from administration to management, the Audit Commission (1995a, p6) stated that ‘obtaining the hallmarks of the managed approach will require attention to client-side issues (in particular, service standards and service volumes) and provider-side issues (in particular, unit costs).’ This illustrates the need for financial services not only critically to consider their own relative efficiency but also the extent to which they are customer-focused.

With regard to relative efficiency (in effect, provider-side issues), the Audit Commission (1995d) suggests a number of questions to be asked of each activity within financial services. In essence, the questions are the same for each activity, varying only in detail according to the activity under consideration. For illustration, Box 6.7 contains the questions in respect of payroll.

Box 6.7

Developing Competitive Financial Support Services: Payroll

Are you above the benchmark payroll cost per authority employee?
How do your service standards compare with good practice?
Are there enough staff on your payroll to allow you to reach competitive rates?
How can you influence payroll volumes to reduce costs?
How does your cost per payslip compare to good practice?
How can you improve productivity and reduce unit costs?
Is your payroll function organised appropriately?

Source: Audit Commission (1995d) p3.51.

The work of the Audit Commission was used to formulate questions as included in the questionnaire (*viz* Q5.26 – see below) and interviews to establish the approach authorities had adopted to evaluate the relative efficiency of financial services. However, the work of the Audit Commission was also used to gauge the extent to which financial services were customer-focused (client-side issues).

The techniques as given in Q5.26 in the questionnaire are as follows:

1. Efficiency review
2. SWOT analysis
3. Formulation of marketing strategy
4. Formulation of business plans
5. Production of publicity and promotional material
6. Establishment of trading accounts
7. Consultation with financial services personnel on service delivery
8. Performance targets

9. Quality audit
10. Benchmarking
11. Customer feedback surveys

In addition, the questionnaire included questions about voluntary outsourcing and Service Level Agreements (SLAs), both of which were also covered in the interviews. Q5.1 of the questionnaire asked whether the authority had voluntarily exposed any aspect of financial services to competitive tendering in anticipation of CCT (services other than those it would normally have been expected to externalise). Q5.23 asked whether standards for some or all financial support services had been established with users by means of SLAs. Voluntary outsourcing and the establishment of SLAs can be added to the above list to give 13 techniques of relevance to producer- and client-side issues.

The 13 techniques are not claimed to be exhaustive but they illustrate the types of measures which may be taken by an authority as it seeks to transform itself from a traditional 'administrative' bureaucracy to one which emphasises management as recommended by the Audit Commission. The techniques can be categorised on the basis of their relevance to assessing relative efficiency and customer-focus. Such a split is not ideal, not least because it over-simplifies the complexity of financial services and the difficulties of applying such techniques to the variety of activities that constitute financial services. In addition, there may be different definitions as to what each technique entails. However, an initial distinction is given below:

Relative efficiency:

Efficiency review
Performance targets
Benchmarking
Voluntary outsourcing
Establishment of trading accounts

Customer focus:

SWOT analysis
Formulation of marketing strategy
Formulation of business plans
Production of publicity and promotional material
Consultation with financial services personnel on service delivery
Quality Audit
Customer feedback surveys
Service level agreements

The above initial distinction can be refined by adopting four groupings rather than two, and to adopt the polar points of the axes as identified above (Box 6.6), *ie*

administration/management and bureaucratic/market. This distinction facilitates an analysis of the extent to which NPM is evident, and, in so doing, allows an analysis of the impact of the era of Conservatism. The techniques as given above are those that would be adopted were local authorities to seek to apply private sector management techniques to service delivery within a public service environment. In essence, they can be categorised according to the extent to which they force financial services to look outwards towards their customers (who may be members of the public in the case of certain activities, *eg* sundry income collection, or internal customers in the case of support activities, *eg* budgeting and accounting). For instance, even a traditional, 'bureaucratic' finance department would have been expected to review its efficiency, by means of temporal performance measures such as comparisons over time of unit cost statistics, but it would not have been expected to liaise with its customers, or even to consider service recipients as customers, to establish their views on the cost, quality and appropriateness of the services being provided.

An initial classification is given in Box 6.8. This also includes a typology for the approach adopted by any finance department located in each of the four grids (see also Box 6.11). The typology draws on the work of Clarke and Stewart (1990) who describe that which they call an 'enclosed' local authority (see para 2.0 above) and Stewart (1974) who described what he called a 'responsive' local authority (see para 2.0 above).

Box 6.8	
Classification of Techniques	
Administration/Bureaucratic	Administration/Market
<i>Approach: enclosed bureaucratic</i>	<i>Approach: enlightened market</i>
Efficiency review	Service level agreements Consultation with financial services personnel on service delivery
Bureaucratic/Management	Market/Management
<i>Approach: enlightened bureaucratic</i>	<i>Approach: responsive market</i>
Performance targets Quality Audit Benchmarking Voluntary outsourcing	SWOT analysis Formulation of business plans Establishment of trading accounts Formulation of marketing strategy Production of publicity and promotional material Customer feedback surveys

As stated above, however, the bureaucracy/market continuum may be analysed in terms of the inter-related variables of service delivery, prevalent culture and structure and, because of this, the above classification needs to be seen within the context of structure.

6.3 Structure

The traditional, bureaucratic local authority was characterised by a clear hierarchical structure and centralised control. This was particularly true of financial services (as reported by the Audit Commission, 1995a, see above) which has traditionally been extremely reluctant managerially to decentralise (to place finance staff in service departments, for instance), or to devolve financial powers (to allow services more control over their budgets, for instance). However, for the purposes of analysis, 'decentralisation' is here defined as incorporating 'devolution'.

There are merits and demerits in decentralisation, geographical, political and managerial (Wilson and Doig, 1996), but, overall, 'a key objective of most decentralisation initiatives is that they should increase a local authority's responsiveness to service users' needs and preferences' (Lowndes, 1991, p26). To this end, and taking into account the questionnaire feedback illustrating a quite widespread acceptance of the merits of decentralising the finance function and devolving financial powers, decentralisation and centralisation are seen to be synonymous with NPM and public bureaucracy respectively.

6.4 Modelling Change

The construction of a model around the variables of culture, service delivery, and structure is similar to the '4' S model approach synonymous with the post-Fordist 'new wave management' which has found its public sector expression in NPM. Within a local authority context, this is discussed by Stoker and Mossberger (1995) who state (p217) that 'new wave management' is a feature of the transition from the Fordist era, associated with mass production and consumption, in two senses:

In part it is a reflection of changed private sector practices and organisation in the search for economic regeneration....new wave management has a momentum of its own and although it has its origins in private sector management approaches many of its themes and ideas have been taken on board by the public sector. This reflects the cultural dominance of the private sector....Another factor is the active support of central government for some versions of new management thinking. The most obvious and powerful expression of this phenomenon is the use

of compulsory competitive tendering measures in an increasing range of local authority activities.

In considering the core themes of new wave management, they develop a 4 'S' model, see Box 6.9

Box 6.9 The 4 'S' model		
	'Traditional' management	'New wave' management
Structures	Bureaucratic Hierarchical Centralised	Tight centre Broad, flat periphery Decentralised
Systems	Central 'hands-on' control Detailed oversight exercised through multiple tiers	Performance targets Cost centres, tasks and teams Internal markets/trading 'Hands-off' control
Staffing	Large staff corps Fixed, permanent Centralised bargaining	Small core Flexible, large periphery Localised bargaining
Superordinate culture	Sound administration Legal and financial probity Professional Quantity in service delivery	Flexible management Measuring output Managerial Customer-orientated Quality in service delivery
Source: Stoker, G. & Mossberger, K. (1995), Table 12.1 p218		

Following their discussion of the 4 'S' model, they proceed to develop a typology of local authority responses to post-Fordist restructuring. These are given in Box 6.10.

Box 6.10 Typology of Local Authority Responses to Change	
Type	Description
Early adherents	The earliest adopters, who display leadership and enthusiasm for implementing change.
Pragmatic compliers	The second wave of adopters, who emulate the innovators. They may adopt programmes only nominally, but wish to be viewed as 'up to date' or 'in compliance'. They avoid risk, and even if they equal the efforts of the early adherents, seldom expand upon or improve them.
Critical compliers	Later adopters who reshape policies and programmes to fit local need and preferences. Level of innovation could equal or surpass the efforts of early adherents if conditions warrant. Delay is 'strategic'.
Late adopters	They act with little enthusiasm, and most importantly, little need, for the policy innovation. Compliance is usually limited to minimal requirements as well as delayed.
Source: Stoker & Mossberger (1995) p221.	

The typology is similar to that of Fenwick, Shaw & Foreman (1993), as reported in Chapter Three, para 5.3. Based on a sample of 23 authorities in the North of England, 5 responses to the introduction of CCT, which can be taken as a good test of the evidence or otherwise of ‘new wave management’ (see Stoker & Mossberger, 1995, p217), were identified: hostility; fear; pragmatism; neutrality; enthusiasm. ‘Fear’ can be said to be missing from the Stoker and Mossberger typology, but the remainder can be said to map against Fenwick, Shaw and Foreman’s typology:

Stoker & Mossberger (1995)		Fenwick, Shaw & Foreman (1993)
Early adherents	=	Enthusiasm
Pragmatic compliers	=	Neutrality
Critical compliers	=	Pragmatism
Late adopters	=	Hostility

Pragmatic compliers have been equated with ‘neutrality’ rather than ‘pragmatism’ because, as per the description given in Box 6.10 above, there is no real enthusiasm for a changed style of management and service delivery and, as such, change is somewhat cosmetic and ‘fashion-following’ rather than genuine. This differs to ‘critical compliers’ who take a measured and considered, strategic, view of change and is one more likely to lead to sustained change.

The above typologies refer to local authority responses to CCT generally, but they can also be mapped against that of Gill, Shaw and Todorovic (1995) (see Chapter Five, para 7.6) which was used to categorise the approach adopted by local authorities in preparation for housing management CCT:

Stoker & Mossberger (1995)	Fenwick Shaw & Foreman (1993)	Gill, Shaw and Todorovic (1995)
Early adherents	= Enthusiasm	= Structured
Pragmatic compliers	= Neutrality	= Incremental
Critical compliers	= Pragmatism	= Partial
Late adopters	= Hostility	= Passive

In the above mapping, Structured (Advanced) and Structured (Embryonic) have been merged into ‘Structured’ to facilitate accommodation into four categories.

The above mapping is not perfect (an approach may be ‘structured’ without being ‘enthusiastic’, or ‘passive’ without necessarily being ‘hostile’) but it does demonstrate an overlap in the typologies. However, the above typologies are perhaps

overly one-dimensional and fail adequately to highlight the distinction between managerial change and the culture within which such change is being implemented or to which it may lead. Similarly, although Stoker and Mossberger's 4 'S' model is extremely useful, the following two observations are made.

First, it is unnecessarily complicated in that it separately identifies 'Staffing'. 'Staffing' issues can be reflected in 'Structures' (*ie* decentralised), 'Systems' (*eg* fixed-term contracting, which is implicit in the characteristics as given in Box 6.9) and 'Superordinate culture' (*eg* flexible management).

Second, it illustrates the difficulty in distinguishing between 'systems' and 'culture', though it is accepted that, for analytical purposes, they should remain separate. For instance, an emphasis on 'quality' may be both a cultural and a system's characteristic and included in each or either of the two categories. However, the substantive points to note are, first, that the systems in place should reflect the prevalent culture and, second, changes in systems can help change the prevalent culture. Difficulties, however, may arise where it is believed that changes in culture may be brought about with minor modifications to systems or that changes in systems will be successful and generally accepted by staff with only minor attempts to change the culture. To a degree, this was evident in the organisations where CFOs were interviewed in that, despite the feedback provided by finance professionals in the questionnaire survey, indicating their willingness to adopt a much more radical and commercial approach to service delivery, there was little evidence to suggest that finance departments were well-prepared for CCT in terms of systems which were in place.

6.5 Typology of Responses to Change and The 3 C Model

On the basis of the above observations, it is suggested that a 3 'C' model, *ie* Culture, Control and Configuration based on the inter-related variables of culture, service delivery and structure, is more appropriate than a 4 'S' model.

Recent research has particularly emphasised the importance of culture to organisational success. The results of a seven year research study undertaken by the University of Sheffield and the London School of Economics, published by the IPD (Institute of Personnel and Development) (see Summers, 1998), contain evidence 'that most companies fail to make the causal connection between good management

practices and business success' (Summers, 1998). Although the research involved 100 companies and was restricted to comparatively small, single-site manufacturing operations, it appears reasonable to conclude that the findings should be considered by all organisations. With regard to culture, Summers (1998) stated:

Cultural factors accounted for about 10 per cent of the variation in profitability, with the most important variable being perceptions of company concern for employee welfare.....results were even more striking for productivity: 29 per cent of the variation between companies could be linked to culture, with concern for employee welfare playing the most important part here, too.

The generalisability of the findings is, of course, open to debate, particularly in the case of their validity to local government. However, they do perhaps justify a reconsideration of the importance of employee welfare in providing services. It may be that, under traditional public administration, job security was taken for granted and that this led to complacency and indifference to the needs of service recipients. However, it may also be true to say that, as companies outsource, downsize *etc* the needs of employees have been overlooked to such an extent that quality of service and loyalty to the organisation are undermined. There is a clear need to be outward-looking, to consider the needs of customers, but there may also be a need to reconsider the extent to which the genuine interests and rights of employees are considered. In short, moving from 'administration' to 'management' is accepted as being the best way forward, but the interests of all stakeholders need to be considered and this perhaps supports the arguments in favour of 'ensuring' rather than 'enabling'. This point was implicitly made by the Audit Commission (1988, p11) ten years ago:

Local government is a people business. Many of the worst problems faced by authorities today result from the absence of good people, or poor training or motivation of those people who remain.

'Control' is also inextricably related to culture, as it simultaneously reflects and fashions it. Hood (1995a) presents four 'polar types' (p3) for 'keeping public management under control' (p3):

- competition: used to contain costs and waste and to improve quality
- oversight: 'hierarchist' approach associated with traditional bureaucracies
- mutuality: uses the group to control the individual (simplest example being the pairing of police officers on patrol)

contrived

randomness: opposite of 'mutuality' and involves the random 'inspection' of activities.

These four types can be linked with each other (*eg* peer group competition, randomized oversight *etc*) to provide a complex model but, in considering the model, Hood (1995a, pp5-6) states:

There appear to be two basic problems with NPM:

- Reconciling the tensions between competition and oversight in control of public administration which are built into the NPM approach.
- Trying to do without two historically very important ingredients for control – that is, contrived randomness and mutuality.

The above seems to be an exaggeration in that NPM, it may be argued, has never actually tried 'to do without' contrived randomness and mutuality. However, the first point, that of the tensions between competition and oversight (an example of the latter would include regulation), is particularly valid. There needs to be a balance between, on one hand, allowing 'managers to manage' and encouraging innovation, creativity and entrepreneurialism and, on the other, exercising stewardship and demonstrating accountability in the use of public money. This demands organisational consideration of an appropriate level of trust (Davis and Walker, 1997), a point made in the interviews with CFOs (see Chapter Five, para 6.6), but also induction of personnel new to public services (as recommended by the Nolan Committee). Similarly, in allowing 'managers to manage' there needs to be a balance between the need for flexibility in staffing and the need to consider employee welfare (this is not simply a 'moral' argument but is directly linked to the issue of organisational success, see above and Summers, 1998). Finally, there needs to be a balance between the wish to respond to customer preferences and the obligation to consider the needs of all stakeholders (some groups will be much less able than others to articulate their needs and lobby for their fulfilment). In short, there is a need to behave 'business-like but not like a business' (Gray, 1998). These various tensions (see also Wilson, 1996b) all need to be considered within the context of 'control'.

'Configuration' refers to organisational structure and the way in which services are delivered. This aspect of local government has not really been stressed by the Audit Commission, though the implications of creating client/contractor splits have been considered and the need to change structure to become more customer-

focused has been stressed and the merits of more 'localised' operations has been discussed (*eg* Audit Commission, 1988). In local government, there have been dramatic changes by certain authorities (*eg* Kirklees, Hackney) (Pike, 1997b) but, in the case of financial services, the extent of decentralisation and devolution would appear to be limited, not least in the North West.

In considering the above variables, local authorities need to strike the right balance between 'administration' and 'management' but to recognise the need also to be imaginative in their approach to service delivery and to engage external parties as appropriate in collaborative, trust-based relationships, but to do so in a way where the benefits of competition can be demonstrated without the demerits of competition being experienced. Commenting on the work of Foster and Plowden (1996), who argue in favour of decentralisation, empowerment/pluralism and contestability, Kay (1996) states that 'The trick is to try to achieve decentralisation and pluralism without excessive contractualisation'.

The variables of culture, control and configuration can be related to the typology of responses given in Box 6.8 above. See Box 6.11 below.

Taking into account these typologies and the above discussions on decentralisation and the 4 'S' and / 3 'C' models, and synthesising Boxes 6.6 (Service Delivery and Culture) and 6.8 (Classification of Techniques), a model of change can be formulated. It is again important to consider any model within the context of the changed environment brought about by a Labour Government. The extent to which local authorities in general and financial services in particular are successful in their response to 'best value' is likely to be related to their overall response to the Conservative era 1979-97. Although Labour will place greater emphasis on collaboration, in service delivery, than did the Conservatives 'Competition will....continue to be an essential management tool for securing improvement, and an important means of demonstrating in a transparent way that best value is being obtained' (DETR, 1998, p20). The managerial changes which competition was intended to bring about, irrespective of whether services remained in-house, including increased customer-responsiveness, are likely to be key features of 'best value'.

Box 6.11
3 'C' Model and Typology of Responses

<i>Type of Approach</i>	<i>Enclosed Bureaucratic</i>	<i>Enlightened Bureaucratic</i>	<i>Enlightened Market</i>	<i>Responsive Market</i>
<i>Variable</i>				
CULTURE	Professional Traditional/Conventional Input-focused Producer-driven Staffing: emphasis on technical expertise and expectation of 'job for life' Risk-averse Probity	Professional/managerial Traditional/Conventional Awareness of need to consider outputs Producer-driven Staffing: emphasis on technical expertise but 'job for life' culture undermined by use of fixed term contract staff.	Professional Consultative Awareness of need to consider outputs but predominantly input-focused Willingness to experiment Staffing: recognition of possible need to train in areas such as 'customer care'	Customer-oriented (public service orientation) Responsive Focus on outputs and outcomes Innovative Entrepreneurial Staffing: emphasis on staff development but recognised by all parties that this enhances employability (portability) in public and private sectors
CONTROL	Tight Central hands-on Top-down Control of activities exercised through exhaustive direct provision Control of staff numbers exercised through establishment basis and permanent contracts Detailed supervision Authority and responsibilities tightly defined Adherence to procedures Emphasis on political accountability Input-measures Emphasis on budgetary control	Tight-loose Flexible Some discretion to managers Control of activities exercised mainly through direct provision but also through voluntary outsourcing/contracting and collaboration. Increased awareness of core/periphery activities. Control of staff numbers exercised through partial use of fixed-term contracts. Acknowledgement of need for managerial accountability Input measures but emphasis on output measures Recognition of importance of service quality Increased emphasis on value for money	Tight-loose Hands-on once agreements have been reached re service levels Control of activities exercised through direct provision but willing to consider alternatives in response to service user preferences, including collaboration. Control of staff numbers exercised mainly through establishment basis and permanent contracts but also willing to adopt fixed-term contracts Recognition of need to be answerable to service users Output measures but emphasis on input measures Service level agreements	Loose Hands-off Discretion to managers Control of activities exercised through use of contracting, <i>quasi</i> and actual, with internal customers/external providers and through collaboration. Control of staff numbers exercised through core/periphery distinction and associated contractual arrangements Performance-based Devolved Market-driven
CONFIGURATION	Hierarchical Departmental Centralised Functional	Hierarchical Partial decentralisation Hybrid of functional and multi-disciplinary	Client/contractor split where appropriate Partial decentralisation Predominantly functional Embryonic market	Flat Decentralised Market-based

Drawing on available conceptual models as discussed above and the practical work and recommendations of the Audit Commission, a suggested model is given in Box 6.12. The model is based on research related to the finance function but is relevant to all local authority departments.

The model is not intended for mechanistic use whereby finance departments, or any other local authority department, adopt a checklist approach and pinpoint their 'precise' location on the two continua. Reality is more complex than that which could be represented by a checklist. The intention is that departments, particularly finance (or 'Treasurer's), consider their response to the Conservative era and their intended response to 'best value' and that they also critically evaluate their prevalent culture(s), service delivery mechanisms and structures. This evaluation should involve, *inter alia*, comparisons: over time; with other local authorities; other public service bodies; private sector organisations. The model is intended to facilitate this process, to aid identification of general position and direction but it also illustrates some additional steps which may be taken in order to move in the general direction most likely to lead to success under Labour's policy towards local government. The steps, as stated above, are not exhaustive but they illustrate the type of measures which need to be taken to move from traditional public administration ('enclosed bureaucratic') to the position of 'management' ('responsive market'). These are steps which, it is suggested, are best taken within the context of decentralisation and a move by authorities to become 'ensuring authorities'.

Movement within the model can be illustrated by the following:

Self-assessment shows that the authority is:

Enclosed Bureaucratic
Enlightened Bureaucratic
Enlightened Market

The authority needs to move to *Responsive Market* via:

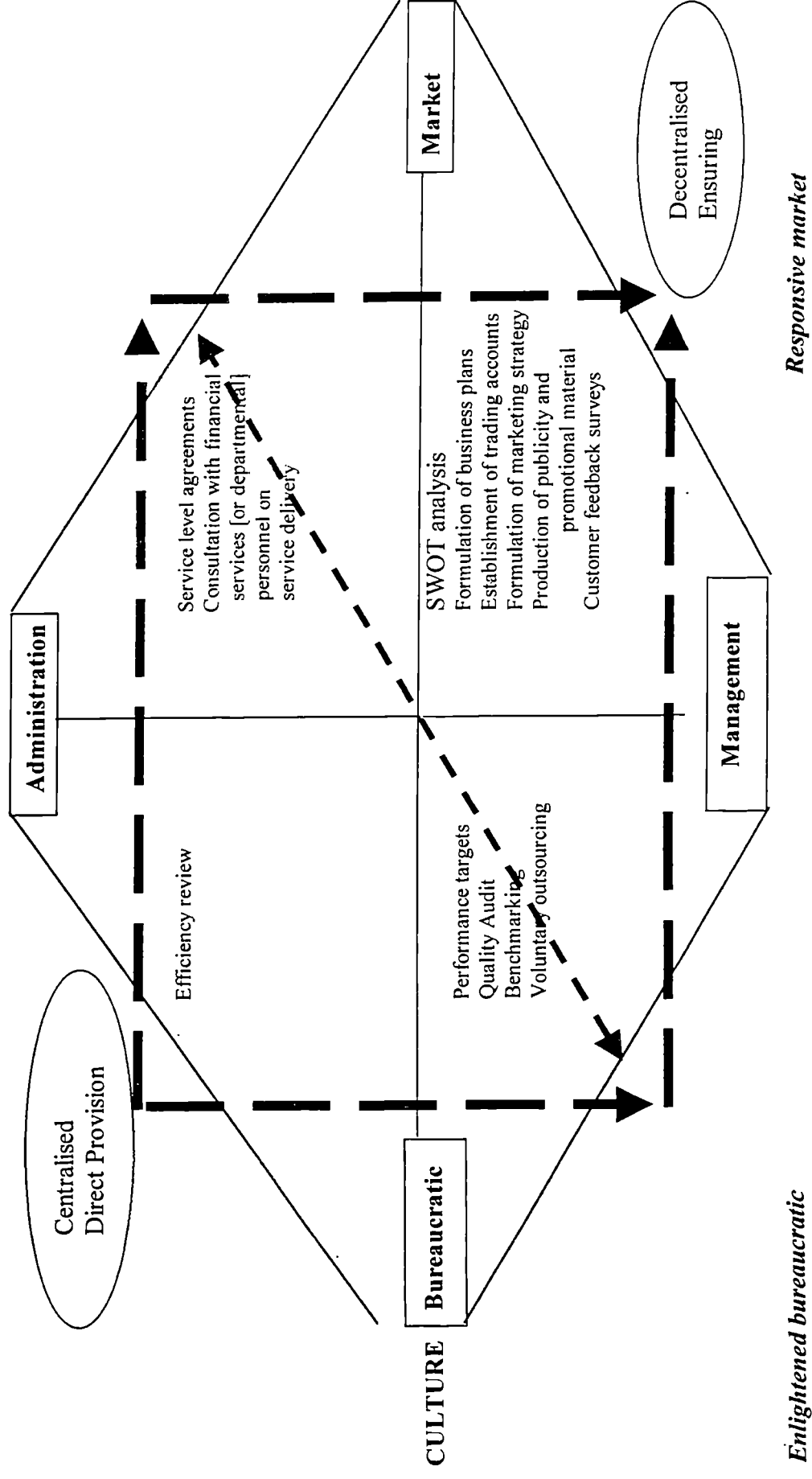
Enlightened Market *and* Enlightened Bureaucratic
Enlightened Market
Enlightened Bureaucratic

Box 6.12 Model of Change

Enclosed bureaucratic

SERVICE DELIVERY

Enlightened Market



The model indicates that finance departments (and local authorities in general) should seek to move towards the bottom right quadrant, *ie* to adopt a 'responsive market' approach and, from a position of 'enclosed bureaucratic', may do so via 'enlightened bureaucratic' and 'enlightened market'.

7.0 *Model of Change and Research Findings*

The research findings in relation to financial services in the North West reveal that, in terms of measures taken in respect of structure and customer-focus, reality falls short of NPM expectations. The gap that exists is equivalent to the gap between the 'bureaucratic' approach adopted to the delivery of financial services and preparation of financial services CCT and the 'market' approach as apparently supported by finance professionals. These differences are ones on which local authorities will need to reflect if they are not only to meet the challenge of best value but also if they are to avoid being subjected to CCT by the Labour Government. It is also important, longer-term, to appreciate that CCT may be restored as a central feature of central government's policy should the Conservatives be re-elected. In addition, individual authorities, wherever they may be placed on the political spectrum, may choose to subject services to competitive tender either for political or financial reasons.

In its 1997 manifesto, the Labour Party (1997, p34) stated:

Councils should not be forced to put their services out to tender, but will be required to obtain best value. We reject the dogmatic view that services must be privatised to be of high quality, but equally we see no reason why a service must be delivered directly if other more efficient means are available. Cost counts but so does quality. Every council will be required to publish a local performance plan with targets for service improvement, and be expected to achieve them.

A council's ability to demonstrate best value and flexibility in service delivery will, in part, depend upon the extent to which it has responded to the Conservative era since 1979.

Local authorities also need to reflect on the extent to which they meet the needs of their internal customers but, more fundamentally, they need to consider the extent to which they serve the needs of local populations and fulfil the economic and political roles assigned to them.

There is *prima facie* evidence that local authorities, and in particular financial services, have reluctantly and in a very limited way changed their approach to service

delivery so that it approximates more closely to that which would be expected from a private sector organisation. The Audit Commission has advocated the adoption of commercial attitudes and practices and stated that a new style and culture are needed, particularly in the case of financial services (Audit Commission, 1995a).

The research of the Audit Commission is actually consistent in principle with Chandler's view (1996, p1523) that 'NPM is a more centrally imposed rather than voluntarily absorbed movement'. However, McGarvey (1997) believes that Chandler has over-emphasised local hostility to NPM and states that NPM has 'caught on' (p625).

On the basis of financial services and the research findings as given in Chapter Five, it is difficult to draw definitive conclusions as to the impact of NPM and the Conservative era, 1979-97; the evidence is mixed. There is some evidence to support the view that NPM and the consequences of the measures introduced by the Conservatives will prove to have a permanent impact. However, there is also evidence that change has been centrally-driven rather than locally-embraced and, because of this, the findings, in part, undermine the view that fundamental and irreversible change has occurred.

Despite the reality of blue collar CCT and the threat of financial services CCT, on the basis of the work of the Audit Commission (1995a) and the research findings as given in Chapter Five, local authorities appear not to have embraced the need for cultural change, even though there is significant evidence that individual finance professionals do accept the need for change. There is evidence of a willingness to jettison traditional approaches to service delivery; to re-structure in favour of devolution and decentralisation; to review the purpose of the accountancy function; to adopt a business culture and to become more customer-oriented. CCT created a framework, or environment, for change but it has also turned managers towards new imperatives, rather than hankering for traditional practices and procedures. On the other hand, the survey indicated a clear preference for structural change to be based on economic rather than political arguments.

However, although these views, reflecting an attitudinal change from that which may have been expected before 1979, lend support to the view that permanent change has been achieved, the reality in terms of actual measures taken is different.

The response to CCT of local authorities in the North West has been, on the whole, pragmatic (either 'enlightened bureaucratic' or 'enlightened market') but its

extension to white collar services, in particular financial services, has not been welcomed. There has been a lack of preparation even though the policy was first announced in 1991. At a national level, the lack of preparation was reported by the Audit Commission (1995a) and, at a regional level, has been reinforced by the findings reported in Chapter Five. Had the Conservative era, which was a major contributor to the development of NPM, resulted in fundamental change, the findings from the North West would have been different. There would have been much more evidence of change in the delivery of financial services, including widespread adoption of and commitment to private sector techniques.

However, the introduction of competition and the structural changes brought about by the Conservatives have, at the very least, forced finance professionals to consider issues which they had previously failed to do, including the costs of their activities and how the costs are recharged to other departments. Although this was driven by the introduction of CCT, in a sense the objectives the legislation was designed to achieve were, in part, consistent with the criticisms that many DLO managers had made of central services, and perhaps financial services in particular. The criticism, in the main, centred upon the amount and timing of support services' recharges, issues that, prior to CCT, support services had little incentive to address. The intended extension of CCT to white collar services brought the issue much nearer to home, not least for finance professionals.

8.0 Conclusion

The nature, impact and permanence of the measures and developments associated with the Conservative era, notably NPM, are issues that continue to be debated. Change has taken place, including cultural change as evidenced by the survey findings in the case of financial services. Private sector values and techniques have been imported as change has been imposed. Bureaucratic and monopolistic provision of services, and the alleged concomitant indifference to the consumer, have been replaced by a sharper focus on customer care and efficiency, delivered largely by means of restructuring, market forces and an emphasis on performance measurement. This managerial revolution, though perhaps overstated, had its origins in the political and economic ascendancy of the New Right and has had fundamental implications.

With regard to local government, it may be fair to argue that they did not become 'responsive' and outward-looking (Stewart, 1974) and that the shock of post-1979 Conservatism, viz Thatcherism, was the only remedy to bring about the changes needed, the overall irreversibility of which is now generally acknowledged, as is the enthusiasm of public sector managers now to be allowed to develop managerial competencies to improve the delivery of public services. The changes which have been brought about by the Conservatives can be built upon by the Labour Government, which will not have to contend with calls for any significant reversal of their predecessor's policies and will be able to capitalise on the new public managerialism which now exists. Local authority managers, on the evidence of the research findings, generally accept the changes but now wish to develop and shape those changes, without central government direction and dictation, for the benefit of service recipients.

It is important, however, not to exaggerate the extent of the change across the public services. Structural reform may have been effective for the break-up of traditional ways of working but its continuing uncritical use is both unlikely and unnecessary. There has clearly been significant change across the public sector and this has affected structure, service delivery, power relationships (*eg* between a General Practitioner and a local hospital, between a central finance department and front-line service) and culture. In addition, for the financial manager, the traditional emphasis on stewardship and probity has been replaced by an increased emphasis on costing and value for money.

However, the transition from 'administration' to 'management' is easy to overstate. The principle of consumer sovereignty, for instance, as a key feature of the changed public sector environment, is more stated than observed. An illustration of this is the widespread apathy to the *Citizen's Charter* (Cm 1599, 1991) initiative (see Wilson, 1996b). Similarly, even if the consumer was 'sovereign', the freedom of managers to respond is considerably constrained by: statutory requirements to provide particular services to a specific level; political pressures, locally and nationally (for example, the police, in reality, must prioritise in favour of nationally- and politically-determined performance targets which may or may not correspond to local priorities); ongoing commitments, reflecting decisions previously made and which have a recurrent impact on resources; finally, they may be constrained by an

overall lack of resources. There are also examples where, rather than allocating additional resources, the withdrawal of a particular service is justified, operationally and financially, such as the entire or partial closure of a hospital, but is impossible to implement because of local 'consumer' resistance and, resulting from this, a lack of political support.

It is legitimate, therefore, to question the extent to which 'freedom to manage' has actually been enhanced. The actual discretion public managers have over their budgets remains very limited, particularly in local government, not least because they have little influence over its size, growth or allocation. The majority of expenditure from one year to the next is committed on the basis of previous years' decisions and the proportion of the budget on which discretion can be exercised is, in practice, small (see, for instance, Lawton and McKevitt, 1995), though it is also true to say that constraints act as an incentive to managers to be resourceful in their response to pressures.

It is, therefore, fair to point out that there is a danger of overstating the degree of transformation brought about by Conservative policy. Stoker (1996), in commenting that many people remain convinced that the prime role of local government is to provide services, states, 'Perhaps, after all, the core underlying assumption about British local government has not changed since 1970' (p22).

Chapter Seven

Conclusion

Chapter Structure	
1.0	<i>Introduction</i>
2.0	<i>Summary of Thesis</i>
3.0	<i>Contribution to Knowledge</i>
4.0	<i>Scope for Further Research</i>

1.0 *Introduction*

Throughout the 1980s and 1990s, CCT has constituted an important aspect of policy in the UK towards the public sector generally and has had important implications for the private sector, offering, as it does, an opportunity to break into new markets. Within the public sector, local government has been particularly affected given the overall policy measures to which it has been subjected, designed, in part, to change fundamentally its role from that of direct provider of services to that of an enabler of service provision.

Initially applied to blue collar services, CCT was extended to white collar, professional services. A white collar service of pivotal importance, given its scale, scope and influence on all other services, is that of finance.

Stemming from a belief that the implications of CCT, particularly as applied to finance, had been inadequately researched, hypotheses were defined for investigation which placed the issue of CCT within a wider context. The hypotheses pre-date but reflect agreement with the view of Pratchett and Wingfield (1996, p639) that 'little attention has been paid to the effects of recent changes on the perceptions and values of local government employees'. The thesis focused on a particular group of employees, *ie* finance professionals, and a particular region, *ie* the North West.

This chapter summarises the overall thesis. It also defines the contribution to knowledge and the scope for further research.

2.0 *Summary of Thesis*

The thesis has involved, within the context of an analysis of the changed politico-economic environment and the changes which have occurred in the management of public services, particularly local government, a critical evaluation of the policy of CCT and of relevant literature.

The thesis has focused on the extension of CCT to local authority white collar services and, specifically, financial services within the North West region. The topic and focus were chosen for a number of reasons (see Chapter One, para 1.0 and Chapter Four para 2.0) but, essentially, stemmed from the lack of research evidence on financial services CCT and the views of finance professionals.

In seeking to contribute to knowledge, the thesis has sought to achieve two objectives. The first objective was to investigate and draw conclusions from three discrete but potentially-related hypotheses. The hypotheses were based on finance professionals within local government in a specific geographical region.

Finance professionals were chosen because, first, there is little empirical evidence on financial services CCT and, second, it was assumed that they would be able to provide informed and objective feedback as to the experience of their employing organisations.

The North West was chosen because: there is no available empirical evidence which relates specifically to financial services in the North West; local authority accountants within the region are predominantly members of CIPFA and, through activities and networks, partly facilitated by the CIPFA regional branch, it was assumed that, essentially, finance professionals constitute a discrete grouping; it was assumed that co-operation for the research would be most likely to be obtained from authorities within the region.

The hypotheses were as follows:

Hypothesis One

Professional personnel within the finance function of local authorities in the North West of England oppose:

- (i) blue collar CCT
- (ii) non-finance white collar CCT

because they believe that the process of CCT does not lead to:

- (a) reduced costs or improved efficiency
- (b) improvements in the quality of service delivery.

Hypothesis Two

Professional personnel within the finance function of local authorities in the North West of England oppose the extension of CCT to financial services because they believe that:

- (a) financial services are unsuitable for CCT
- (b) it will not lead to reductions in costs or improvements in efficiency
- (c) it will not lead to improvements in the quality of service delivery
- (d) the broader context of Conservative governments' policy towards local government, to which CCT was central, was unacceptable, representing, as it did, a threat to the traditional role of local government and that these beliefs not only stem from subjective concerns over their own job security but are rooted in their public service background and training which act as a cultural barrier to the adoption of commercial practice.

Hypothesis Three

Local authorities are inadequately prepared for financial services CCT because, irrespective of the timing and likelihood of having to expose services to competitive tender, the traditional local authority culture is prevalent and leads to a reluctance, on the part of financial services, to respond to the commercial environment within which local authorities now generally operate.

The hypotheses were investigated by means of a questionnaire survey of finance professionals and interviews with a sample of Chief Financial Officers.

The second objective was to consider the findings relating to Objective 1 to establish whether the evidence supports the view that the management of local authorities has fundamentally altered or whether local authorities have simply assimilated change and, in so doing, to develop a model by which past and future change may be gauged.

3.0 Contribution to Knowledge

The thesis contributes to knowledge by:

- establishing the views of finance professionals on CCT and related matters in local government in the North West
- establishing the extent to which local authorities are prepared for financial services CCT
- offering explanations for each of the above.

- assessing the impact and permanence of change, specifically in relation to financial services, *vis-a-vis* the assimilation of change
- critically evaluating research findings against specific models of managerial change in local government and developing, first, a typology of local authority responses to change and, second, a model against which past and future change may be gauged
- presenting original work to supplement the body of literature and empirical evidence on CCT. This evidence is currently very limited not only in the case of white collar CCT in general and financial services CCT in particular but also in the case of the success or otherwise of CCT as an agent for driving cultural change in the provision of local authority financial services.

More specifically, based on empirical evidence, the thesis contributes to knowledge in four broad ways.

First, it presents findings which are, wholly or partly, consistent with previous published research. It has established that authorities in the North West, irrespective of political control, have adopted an approach to CCT which is 'pragmatic' or 'neutral' (*eg* Fenwick, Shaw and Foreman, 1993; Rao and Young, 1995) and that blue collar CCT has led to significant changes in the delivery of services and, it appears reasonable to conclude, has forced down costs (*eg* Walsh, 1991; Walsh and Davis, 1993; Barlow and Harkin, 1996). In general, CCT has had a beneficial impact in forcing authorities to evaluate critically levels and costs of blue collar services and central support services (*eg* Walsh, 1991; Walsh and Davis, 1993; Shaw, Fenwick and Foreman, 1994; Rao and Young, 1995). With regard to financial services, there is little enthusiasm for a policy of voluntary competitive tendering for financial services (Wild, 1996d) but there is evidence that CCT has contributed to a cultural change amongst local authority managers in general (*eg* Rao and Young, 1995). However, the extent of the cultural change, as reflected in the limited application of commercial techniques for improving competitiveness, may be overstated (*eg* Chaston, 1994). The findings also reveal that authorities were not well-prepared for financial services CCT (*eg* Audit Commission, 1994, 1995a, 1995c; LGMB, 1996; 1997a). In addition, authorities, particularly smaller

ones and specifically in the case of white collar services, including financial services, are not wholly convinced of the need to restructure along client and contractor lines or establish elaborate service level agreements (*eg* Walsh, 1991; Audit Commission, 1994, 1995a, 1995c; ADLO, 1995).

Second, the thesis presents findings which are, wholly or partly, original and inconsistent with previous published research. The findings suggest that the claim (*eg* Rao and Young, 1995) that CCT has driven changes independently of other influences may be overstated and may have led to a corresponding understatement not only of the importance of other factors, *viz* budgetary constraints, but also the inherent professionalism and willingness of local authorities continually to seek improvements and value for money in service delivery. This also suggests that the claim (*eg* Rao and Young, 1995) that CCT in itself has led to irreversible changes in the management of local government may also be overstated. There is a greater degree of support for blue collar CCT and a greater belief that it has had a beneficial impact, outside of and within financial services, than previously reported (*eg* Broom, 1994b), though other claims that there is considerable enthusiasm for the commercial disciplines imposed by CCT are, at best, suspect (*eg* Brooke, 1991; Rao and Young, 1995). By focusing on the views of finance professionals and the extent to which local authorities are prepared for financial services CCT, the thesis reveals that: in their views on white collar CCT, accountants do not differentiate between financial and non-financial services and they accept that most financial services' activities are, in principle, suitable for CCT. However, despite this, the financial justification for financial services CCT is questioned, though opposition to the policy is less than previously reported (*eg* Broom, 1994b) and is based mainly on an anticipated adverse impact on quality, albeit expected to be greater nationally than locally. In general, although there are concerns over job security, the evidence indicates that opposition to the policy is informed and is objective rather than subjective. Views on CCT are, in the main, not influenced by factors such as type of authority, political control of employing organisation, status within the organisation, post-qualification experience, previous private sector experience or type of professional accountancy qualification. At the organisational level, there is evidence of a lack of preparation for financial services CCT, for a variety and combination of reasons including: other pressures; the view held by some CFOs that it would not happen, either because of its inherent complexity and potential for legal challenges or because of an assumed change of government after the

1997 general election; the view of some CFOs that certain organisations, viz private sector accountancy firms, assumed, by some, to have been potential rivals, would actually have proved to have been allies, working with local authority finance departments rather than against them. Half of all questionnaire respondents either did not accept that, or did not know whether, their authorities had established a clear strategy in response to financial services CCT.

Third, the thesis presents findings which are fundamental and which indicate scope for a more radical approach in the delivery of financial services. The findings provide evidence that, as far as finance professionals are concerned, there is a desire not only for a restructuring in the way in which financial services are delivered but also for a business culture to prevail in the delivery of local authority services. This is radically different from the traditional local authority culture, which was essentially bureaucratic and producer-driven, and more consistent with key aspects of 'new public management'. On this basis, it may be true to say that the changes which have been made in the authorities in the North West lag behind those which finance professionals wish to see and this is something about which local authorities, and CFOs, are unaware. Despite the fact that CFOs/DCFOs/ACFOs and their equivalent were more likely to say that the commercial disciplines imposed by CCT are welcomed within financial services, there may be an underestimation, on their part, of the desire for change and that, in the North West, the current approach, insofar as it is possible to generalise, is overly hesitant and paternalistic. In short, though the enabling model for local government is rejected (and there was a clear belief that the policy of CCT was politically-inspired), there is evidence of a cultural change on the part of finance professionals more radical than that which had been displayed in the organisational responses to competition and CCT. Although CFOs must take into account the views, preferences, anxieties *etc* of all staff and not simply qualified accountants, there may nonetheless be a lesson here for local authorities generally as they establish strategies to deal with 'best value' in a competitive and resource-constrained environment.

Fourth, the thesis contributes to knowledge by suggesting a typology of responses to change and a 3 'C' model. The model may be used by local authorities in general in diagnosing their response to the Conservative era 1979-97 and in helping them respond to the 'best value' environment.

3.0 *Scope for Further Research*

The scope of the research is specific:

- geographically, being confined to the North West
- organisationally, in that not all authorities, particularly county councils, participated in the survey
- professionally, in that a large number of, mainly county council, accountants either did not have the opportunity to participate or chose not to do so.

In addition, it would have been helpful to have obtained more in-depth information, particularly in relation to documentation. Examples range from minutes of meetings to discuss financial services CCT through to specific documents such as business plans, service level agreements *etc.* The difficulty in obtaining such documents, however, reflects the sensitivity of the issue and the confidentiality surrounding the discussions about it. However, given the degree of participation in both the questionnaire and interviews, it is believed that the findings are representative, in terms of accountants' views and local authority preparedness, and valid.

Nonetheless, as stated in Chapter Four, para 2.1, it would have been useful to obtain the views of a wider sample of local authority employees, particularly:

- those in user departments and direct service organisations
- financial services staff who are not qualified accountants, including, for instance, clerical and administrative staff and, importantly, qualified members of the Association of Accounting Technicians

and also Members. Such a wider sample would have provided additional information, from different perspectives, on, for instance, the perceived cost and quality of financial services and financial services CCT.

There is clearly scope for further research in this area in order to establish: the extent to which views differ within financial services; the views of financial services' customers and their consistency with the views of staff within financial services.

Fundamentally, however, there is enormous scope for research into local authorities' response to 'best value'. In turn, this needs to be viewed within the broader context of Labour's approach towards the public sector in general and local government in particular. Though the approach may be less dogmatic than that of the post-1979 Conservative governments, Labour has nonetheless accepted the pro-market beliefs

which characterised the 1979-1997 Conservative era. A consequence of this is that 'The overwhelming challenge for public management and the public manager...is the accommodation of market mechanisms with the traditions of the (*sic*) public service delivery' (Gray, 1998, p18). Local authority managers need to meet this challenge.

The findings presented here, combined with the suggested typology of responses to change and the 3 'C' model (see Chapter Six, para 6.5), will, it is hoped, contribute to the literature on local government and to the overall assessment of CCT as a central feature of the Conservative era 1979-97. In addition, the suggested typology and model will facilitate any future assessment of the nature and adequacy of local authorities', and specifically financial services', response not only to 'best value' but, more fundamentally, to the broader challenge of reconciling market mechanisms with the complexities and traditions of public service delivery.

APPENDIX A

1. Covering letter sent with questionnaire in September 1996 to qualified accountants in participating authorities.
2. Questionnaire, including number of responses to each question.

COVERING LETTER TO ACCOMPANY QUESTIONNAIRE

Name
Authority

Date

Dear

Compulsory Competitive Tendering (CCT): Research Project

I am currently undertaking research into CCT and specifically into its extension to financial services. The research focuses on local authorities in the North West region and the primary objectives are twofold. First, to establish the views on CCT and related matters of professionally qualified accountants. Second, to assess the ways in which authorities are preparing for financial services CCT.

The proposed research methodology involves a postal survey of professionally qualified local government accountants and semi-structured interviews with a sub-sample of Chief Financial Officers or their nominees. To this end, I have obtained approval from your Chief Financial Officer to send the enclosed questionnaire and informed him that a summary report of the research findings will be supplied to all authorities who would like one. I stress that neither individuals nor specific authorities can be identified from the questionnaire.

I would be extremely grateful if you would complete the questionnaire and return it to me in the enclosed pre-paid envelope by **Friday 18 October**.

The questionnaire should take no longer than 15 minutes to complete, despite its apparent detail. Your assistance in this research would be greatly appreciated.

Thank you for considering my request.

Yours sincerely

John Wilson
Head of Centre for Public Service Management

Liverpool Business School
Liverpool John Moores University

Centre for Public Service Management

September 1996

*Regional Survey of Qualified Accountants in Local Government To Establish
Views on CCT and Related Issues*

Survey conducted by:

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SECTION 1 GENERAL

1.1. Are you employed by a:

County Council	1. [7]	Metropolitan Authority	2. [126]
District Council	3. [30]	(No Response: 1)	

If you have ticked Metropolitan Authority or District Council, please proceed to Q1.2

IF YOU HAVE TICKED COUNTY COUNCIL, PLEASE PROCEED TO Q1.3.

1.2. Is your authority politically controlled by:

Labour	1. [139]	Political party other than Labour OR No Overall Control	2. [16]
(No Response: 9)			

1.3. As a CCAB-qualified accountant, are you a member of:

CIPFA	1. [136]	CIMA/ACCA/ICA	2. [27]
(No Response: 1)			

1.4. Please indicate the period of years for which you have been a qualified accountant:

5 or less	6-10	11-15	16-20	More than 20
1. [43]	2. [24]	3. [22]	4. [32]	5. [42]
(No Response: 1)				

1.5. Have you ever worked full-time in the private sector?

YES	1. [43]	NO	2. [120]
(No Response: 1)			

1.6. Are you a Chief Financial Officer, Deputy Chief Financial Officer, Assistant Chief Financial Officer or equivalent with responsibility for one or more of the activities listed in Q1.7 on page 2:

YES	1. [53]	NO	2. [108]
(No Response: 3)			

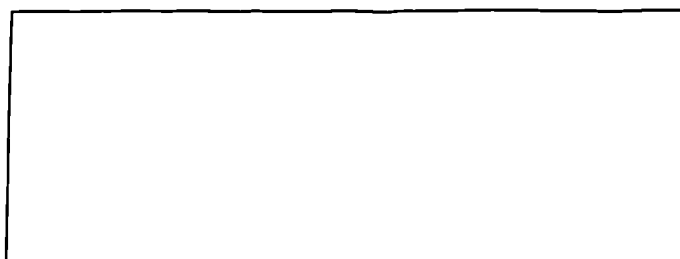
If you have ticked YES, please proceed to Q2.1.

If you have ticked NO, please proceed to Q1.7.

1.7. In which ONE of the following categories do you do most of your work?

1.	Accounting	1.	[66]
2.	Audit	2.	[18]
3.	Cashiers	3.	[]
4.	Payroll	4.	[]
5.	Creditor Payments	5.	[]
6.	Sundry Income Collection	6.	[1]
7.	Administration of Local Taxation	7.	[1]
8.	Benefit Payments	8.	[]
9.	Pensions Administration	9.	[]
10.	Pension Fund Management	10.	[]
11.	Treasury Management	11.	[1]
12.	Insurance	12.	[2]
13.	Service Department	13.	[9]
14.	Other (please specify):	14.	[10]

Note: Total Responses = 108 as per Box 2 Q1.6



SECTION 2 BLUE COLLAR COMPETITION
--

2.1. Have you had a direct involvement in blue collar CCT?

YES 1. [73] NO 2. [91]

2.2. Please indicate which ONE of the following statements summarises your views on blue collar CCT?

I have never supported blue collar CCT and still do not. 1. [59]

I have always supported blue collar CCT and still do. 2. [37]

I was opposed to blue collar CCT but now support it. 3. [23]

I supported blue collar CCT but now oppose it. 4. [9]

I do not have views for or against blue collar CCT 5. [34]

(No Response: 2)

If your views have changed, please indicate why:

--

2.3. What impact do you believe the process of CCT has had on the overall costs of blue collar services for your authority?

Increased	No effect	Reduced	Don't Know
1. [14]	2. [13]	3. [119]	4. [18]

2.4. What impact do you believe the process of CCT has had on the overall quality of blue collar services for your authority?

Improved	No effect	Reduced	Don't Know
1. [69]	2. [35]	3. [47]	4. [13]

<p>To what extent are the following statements consistent with your views on the impact of blue collar CCT nationally?</p>

2.5. It has resulted in net savings to local authorities.

Strongly Agree	Agree	Disagree	Strongly Disagree	Don't Know
1. [10]	2. [104]	3. [36]	4. [3]	5. [10]

(No Response: 1)

2.6. It has resulted in greater productivity of labour.

Strongly Agree	Agree	Disagree	Strongly Disagree	Don't Know
1. [6]	2. [116]	3. [30]	4. [1]	5. [10]

(No Response: 1)

2.7. It has resulted in greater productivity in the use of equipment.

Strongly Agree	Agree	Disagree	Strongly Disagree	Don't Know
1. [7]	2. [93]	3. [24]	4. [38]	5. [2]

2.8. It has resulted in reduced levels of employment.

Strongly Agree	Agree	Disagree	Strongly Disagree	Don't Know
1. [41]	2. [109]	3. [10]	4. [3]	5. [1]

2.9. It has resulted in deterioration in conditions of employment.

Strongly Agree	Agree	Disagree	Strongly Disagree	Don't Know
1. [33]	2. [92]	3. [26]	4. [2]	5. [10]

(No Response: 1)

2.10. It has resulted in improvements in service quality.

Strongly Agree	Agree	Disagree	Strongly Disagree	Don't Know
1. [1]	2. [65]	3. [67]	4. [18]	5. [12]

(No Response: 1)

SECTION 3 NON-FINANCIAL SERVICES WHITE COLLAR COMPETITION

The questions in this section all relate to Construction and Property Services, Information Services, Legal Services and Personnel Services

- 3.1. Do you accept the principle of compulsory competitive tendering for some or all non-finance white collar services?

YES 1. [49]

NO 2. [115]

If you have answered YES, please indicate the service(s) where CCT should apply:

--

- 3.2. Irrespective of tendering outcomes, what impact do you believe the process of CCT for non-finance white collar services will have on your authority's net expenditure?

Increase

No effect

Reduce

Don't Know

1. [32]

2. [61]

3. [50]

4. [18]

(No Response: 3)

If you believe it will vary with the service, please indicate the service(s) where you believe service costs could be affected and indicate whether you believe they will increase or reduce:

--

- 3.3. Irrespective of tendering outcomes, what impact do you believe the process of CCT will have on the overall quality of non-finance white collar services for your authority?

Increase

No effect

Reduce

Don't Know

1. [36]

2. [64]

3. [42]

4. [19]

(No Response: 3)

If you believe it will vary with the service, please indicate the service(s) where you believe quality could be affected and indicate whether you believe it will be improved or reduced:

--

3.4. Has CCT forced non-financial service managers to place increased emphasis on Value for Money (VFM)?

YES	NO	DON'T KNOW	VARIES WITH SERVICE
1. [103]	2. [21]	3. [28]	4. [10]

(No Response: 2)

If you believe it will vary with the service, please indicate the service(s) where you believe there is now increased emphasis on VFM:

--

3.5. Has CCT forced non-financial service managers to become more customer-oriented?

YES	NO	DON'T KNOW	VARIES WITH SERVICE
1. [108]	2. [31]	3. [12]	4. [11]

(No Response: 2)

If you believe it will vary with the service, please indicate the service(s) where you believe there is now increased customer orientation:

--

SECTION 4 FINANCIAL SERVICES COMPETITION
--

4.1. Please indicate which ONE of the following statements summarises your views on financial services CCT.

- | | |
|--|------------|
| I have never supported financial services CCT and still do not | 1. [109] |
| I have always supported financial services CCT and still do | 2. [24] |
| I was opposed to financial services CCT but now support it | 3. [5] |
| I supported financial services CCT but now oppose it | 4. [7] |
| I do not have views for or against financial services CCT | 5. [17] |
- (No Response: 2)

If your views have changed, please indicate why:

--

4.2. Irrespective of tendering outcomes, what impact do you believe the process of CCT will have on the overall costs of financial services nationally?

- | | | | |
|-----------|-----------|-----------|------------|
| Increase | No effect | Reduce | Don't Know |
| 1. [45] | 2. [45] | 3. [62] | 4. [11] |
- (No Response: 1)

4.3. Irrespective of tendering outcomes, what impact do you believe the process of CCT will have on the overall quality of financial services nationally?

- | | | | |
|-----------|-----------|-----------|------------|
| Improve | No effect | Reduce | Don't Know |
| 1. [35] | 2. [53] | 3. [66] | 4. [10] |

4.4. Irrespective of your support or otherwise for CCT and the type of authority for which you work, please indicate, for each of the following categories, your view on their suitability for CCT.

	Highly Suitable	Suitable	Not very Suitable	Unsuitable
Corporate Financial Management	1. []	2. [3]	3. [30]	4. [131]
Budgeting and Accounting	1. [4] (No Response: 1)	2. [41]	3. [69]	4. [49]
Audit	1. [44]	2. [78]	3. [23]	4. [19]
Cashiers	1. [45]	2. [73]	3. [32]	4. [14]
Payroll	1. [62]	2. [76]	3. [17]	4. [9]
Creditor Payments	1. [41] (No Response: 1)	2. [82]	3. [28]	4. [12]
Sundry Income Collection	1. [43] (No Response: 1)	2. [79]	3. [32]	4. [9]
Administration of Local Taxation	1. [37] (No Response: 3)	2. [75]	3. [33]	4. [16]
Benefit Payments	1. [28]	2. [69]	3. [48]	4. [19]
Pensions Administration	1. [24]	2. [69]	3. [46]	4. [25]
Pension Fund Mangt	1. [40] (No Response: 1)	2. [67]	3. [33]	4. [23]
Treasury Management	1. [8] (No Response: 2)	2. [46]	3. [54]	4. [54]
Insurance	1. [24]	2. [85]	3. [38]	4. [17]

SECTION 5 FINANCIAL SERVICES AND YOUR AUTHORITY

- 5.1. Has your authority voluntarily exposed any aspect of financial services to competitive tendering in anticipation of CCT (i.e. services other than those it would normally have been expected to externalise)?**

YES

NO

1. [17]

2. [146] (No Response: 1)

If YES, please specify and indicate whether awarded internally or externally (e.g. audit, internal; payroll, external):

- 5.2. Given that CCT is to be applied to Financial Services, please indicate which ONE of the following most accurately describes the general policy your authority has adopted or is most likely to adopt:**

To promote in-house provision

1. [138]

To ensure that there are in-house bids with a neutral policy about who provides the services

2. [25]

To transfer the existing service providers out into the market from where they continue to provide the services to the authority

3. []

To make no in-house bid and not to negotiate a buy-out

4. []

(No Response: 1)

- 5.3. Do you agree with the general policy as answered in 5.2 above?**

YES

NO

DON'T KNOW

1. [153]

2. [7]

3. [3] (No Response: 1)

If you have answered No, please indicate the policy you would prefer to see adopted:

- 5.4. Irrespective of tendering outcomes, what impact do you believe the process of CCT will have on the overall quality of financial services for your authority?**

Improve

No effect

Reduce

Don't Know

1. [40]

2. [55]

3. [58]

4. [11]

- 5.5. Irrespective of tendering outcomes, what impact do you believe the process of financial services CCT will have on your authority's net expenditure?**

Increase

No effect

Reduce

Don't Know

1. [29]

2. [57]

3. [63]

4. [12]

(No Response: 3)

If you have answered Reduce, please proceed to Q5.6.

If you have answered Increase, No effect or Don't Know, please proceed to Q5.7.

- 5.6. If CCT is likely to result in savings, please rank each of the following in order of importance as the likely source of the savings.**

Rank most important 1 and least important 5 BUT if you believe savings are likely to result from another source, please specify and rank the following from 1 to 6 instead of 1 to 5.

PLEASE SEE MAIN THESIS SECTION 5 BOX 5.21

Reduction in total labour costs	[]
Reduction in seniority of staff undertaking the work	[]
Greater productivity	[]
More flexible working hours	[]
Reduced level of service	[]
Other (please specify)	[]

- 5.7. How would you describe your morale?**

Very High	High	Satisfactory	Low	Very Low
1. [4]	2. [48]	3. [83]	4. [28]	5. [1]

- 5.8. What impact has financial services CCT had/is likely to have on your morale?**

Improve	No effect	Worsen
1. [5]	2. [68]	3. [91]

- 5.9. Do you feel a sense of job security?**

YES 1[83] NO 2. [80] (No Response: 1)

- 5.10. What impact has financial services CCT had/is likely to have on your feeling of job security?**

Improve	No effect	Worsen
1. [3]	2. [56]	3. [105]

- 5.11 Has your authority provided any training courses for financial services personnel to enable them to prepare for CCT?**

YES 1. [76] NO 2. [83] (Don't Know: 1; No Response: 4)

- 5.12 Have you attended any CCT training courses (either in-house or external)?**

YES 1. [84] NO 2.[78] (No Response: 2)

- 5.13 Have you had a direct involvement in white collar CCT?**
YES 1. [97] NO 2. [67]
- 5.14 Has CCT forced financial service managers to place increased emphasis on Value for Money?**
YES 1. [110] NO 2. [25] DON'T KNOW 3. [28] (No Response: 1)
- 5.15 Has CCT forced financial service managers to become more customer-oriented?**
YES 1. [112] NO 2. [36] DON'T KNOW 3. [16]
- 5.16 Do you welcome the commercial disciplines imposed by CCT?**
YES 1. [107] NO 2. [37] DON'T KNOW 3. [20]
- 5.17 The commercial disciplines imposed by CCT are welcomed within financial services.**
Strongly Agree 1. [7] Agree 2. [62] Disagree 3. [64] Strongly Disagree 4. [14] Don't Know 5. [17]
- 5.18 Across the authority, CCT has resulted in improved management of services, whether directly subject to CCT or not.**
Strongly Agree 1. [4] Agree 2. [81] Disagree 3. [60] Strongly Disagree 4. [4] Don't Know 5. [14]
(No Response: 1)
- 5.19 In the provision of financial support services, my authority would prove to be competitive against the private sector.**
Strongly Agree 1. [20] Agree 2. [91] Disagree 3. [20] Strongly Disagree 4. [2] Don't Know 5. [30]
(No Response: 1)
- 5.20 My authority needs to review the purpose of the finance function to make it more appropriate for today's environment.**
Strongly Agree 1. [8] Agree 2. [87] Disagree 3. [57] Strongly Disagree 4. [8] Don't Know 5. [3]
(No Response: 1)
- 5.21 In deciding upon its response to financial services CCT, my authority has established a clear strategy:**
Strongly Agree 1. [6] Agree 2. [76] Disagree 3. [51] Strongly Disagree 4. [8] Don't Know 5. [23]
- 5.22 Has a client/contractor split been established within financial services as a whole or any part of it?**
YES 1. [30] NO 2. [131] (Don't Know: 1; No Response: 2)

5.23. Have standards for some or all financial support services been established with users by means of Service Level Agreements?

YES 1. [123] NO 2. [35] DON'T KNOW 3. [6]

If YES, please proceed to Q5.24.

If NO or DON'T KNOW, please proceed to Q5.25.

5.24. The Service Level Agreements which have been established for the provision of financial support services contain the correct level of detail to enable user service management to be improved.

Strongly Agree Agree Disagree Strongly Disagree Don't Know
1. [10] 2. [66] 3. [27] 4. [3] 5. [17]

5.25. A schedule of charges for the provision of financial services has been agreed with users.

YES 1. [88] NO 2. [55] DON'T KNOW 3. [18]
(No Response: 3)

5.26. Please indicate if your authority has undertaken the following for any or all aspects of financial services activity in or throughout the last two years:

	YES	NO	DON'T KNOW
Efficiency review (No Response: 1)	1. [82]	2. [37]	3. [44]
SWOT analysis (Strengths, Weaknesses, Opportunities, Threats) (No Response: 1)	1. [91]	2. [29]	3. [43]
Formulation of marketing strategy (No Response: 2)	1. [43]	2. [67]	3. [52]
Formulation of business plans	1. [121]	2. [24]	3. [19]
Production of publicity and promotional material (No Response: 2)	1. [53]	2. [80]	3. [29]
Establishment of trading accounts	1. [85]	2. [58]	3. [21]
Consultation with financial services personnel on service delivery	1. [101]	2. [30]	3. [33]
Performance targets	1. [100]	2. [36]	3. [28]
Quality Audit (No Response: 3)	1. [27]	2. [77]	3. [57]
Benchmarking (No Response: 1)	1. [44]	2. [60]	3. [59]
Customer feedback surveys	1. [90]	2. [43]	3. [31]

SECTION 6 GENERAL PERCEPTIONS ON CCT/ COMPETITION

To what extent are the following statements consistent with your views?

6.1. CCT has benefited service users.

Strongly Agree	Agree	Disagree	Strongly Disagree	Don't Know
1. [2]	2. [68]	3. [66]	4. [9]	5. [16]

(No Response: 3)

6.2. CCT has, in practice, resulted in irreversible changes in the management of local government.

Strongly Agree	Agree	Disagree	Strongly Disagree	Don't Know
1. [14]	2. [117]	3. [24]	4. [3]	5. [6]

6.3. The management of local government would have changed without CCT.

Strongly Agree	Agree	Disagree	Strongly Disagree	Don't Know
1. [9]	2. [97]	3. [40]	4. [6]	5. [12]

6.4. CCT was introduced for political rather than economic reasons.

Strongly Agree	Agree	Disagree	Strongly Disagree	Don't Know
1. [58]	2. [78]	3. [17]	4. [1]	5. [10]

6.5. Local authorities should adopt a business culture.

Strongly Agree	Agree	Disagree	Strongly Disagree	Don't Know
1. [23]	2. [102]	3. [31]	4. [6]	5. [2]

6.6. Local authorities should not provide services directly but should be concerned with enabling them to be provided.

Strongly Agree	Agree	Disagree	Strongly Disagree	Don't Know
1. [4]	2. [12]	3. [96]	4. [48]	5. [4]

6.7. As far as practicable, the finance function should be decentralised and finance personnel integrated into service departments.

Strongly Agree	Agree	Disagree	Strongly Disagree	Don't Know
1. [22]	2. [68]	3. [48]	4. [16]	5. [9]

(No Response: 1)

6.8. Financial freedom, eg to control budgets and expenditure, should be devolved to service departments.

Strongly Agree	Agree	Disagree	Strongly Disagree	Don't Know
1. [41]	2. [91]	3. [19]	4. [10]	5. [1]

(No Response: 2)

THANK YOU FOR COMPLETING THIS QUESTIONNAIRE

Please return in the envelope provided

Issues for Discussion with Chief Financial Officers

Draft: 31 May 1996

Interviews

Conducted by John Wilson

Duration - One hour or less

Taped if agreed

Appropriate documentation on all matters would be greatly appreciated if possible to supply

Confidentiality on all matters strictly observed as required.

1.0 CCT - General

Policy; experience; role of members. impact of CCT - general.

2.0 CCT and Financial Services: Background and Preparation

Impact of blue and white collar CCT on financial services

Personal view on CCT - merits/demerits

Existing levels of 'efficiency' and 'quality' - measurement/data

Quality/standards - how/when determined/reviewed

Scope for improvements.

3.0 CCT and Financial Services: Strategy

Overall policy and process of policy formulation

Documentation: aims and objectives

Personnel: communication; trades union/staff involvement; training; morale

Private sector - consultation

4.0 CCT and Financial Services: Strategy Implementation

Restructuring eg client/contractor split, 'twin-hatted' approach

Selection and packaging - procedure for determining

Specification

Evaluation - price/quality weights

Monitoring

APPENDIX C

Blue Collar CCT: Relationship Between Views and Previous Direct Involvement

Questionnaire Ref. Qs2.1, 2.2							
		Never Supported	Always Supported	Opposed now Support	Supported now Oppose	Neutral	Row Total
<i>Observed</i>	YES	30	14	9	8	10	71
<i>Expected</i>		25.9	16.2	10.1	3.9	14.9	43.8%
Have you had a direct involvement in blue collar CCT?							
<i>Observed</i>	NO	29	23	14	1	24	91
<i>Expected</i>		33.1	20.8	12.9	5.1	19.1	56.2%
<i>Column Total</i>		59	37	23	9	34	162
		36.4	22.8	14.2	5.6	21.0	100%
Missing Observations	2						
		Value	Probability				
Chi-square		12.21935	0.01579				

APPENDIX D

Blue Collar CCT: Relationship Between Respondents' Background and Responses

Relationship between views on blue collar CCT (Q2.2) and:	Chi-square value	Chi-square probability
Employer (Q1.1)	5.09609	0.74726
Political Control (Q1.2)	2.48878	0.64665
Accountancy Qualification (Q1.3)	10.09631	0.25833
Post-Qualification Experience (Q1.4)	12.92151	0.67849
Experience of working in private sector full-time (Q1.5)	4.86663	0.30126
Status (Q1.6)	4.38247	0.35671

APPENDIX E

Non-Finance White Collar CCT: Relationship Between Respondents' Background and Responses

Relationship between views on non-finance white collar CCT (Q3.1) and:		Chi-square value	Chi-square probability value
Employer	(Q1.1)	2.15970	0.33965
Political Control	(Q1.2)	0.02114	0.88439
Accountancy Qualification	(Q1.3)	1.34221	0.51114
Post-Qualification Experience	(Q1.4)	2.18415	0.70193
Experience of working in private sector full-time	(Q1.5)	0.00081	0.97723
Status	(Q1.6)	0.16977	0.68032

APPENDIX F

General Impact of CCT: Relationship Between Respondents' Background and Responses

Questionnaire Refs Qs: Category, 1.1, 1.2, 1.3, 1.4, 1.5, 1.6; Statement: 5.18, 6.1, 6.2, 6.3								
Statement	Across the authority, CCT has resulted in improved management of services, whether directly subject to CCT or not.		CCT has benefited services users.		CCT has, in practice, resulted in irreversible changes in the management of local government.		The management of local government would have changed without CCT.	
Chi-square:	Value	Prob Value	Value	Prob Value	Value	Prob Value	Value	Prob Value
Category								
Employer	6.16919	0.62829	4.39565	0.81978	15.03965	0.05838	10.23688	0.24879
Political Control	5.22618	0.26487	1.74823	0.78194	4.00679	0.40509	3.44693	0.48599
Accountancy Qualification	7.90143	0.44316	6.57808	0.58276	6.55862	0.58491	7.78613	0.45464
Post-qual experience	15.10364	0.51706	12.67953	0.69603	19.96288	0.22190	16.16812	0.44129
Experience of working in private sector full time	2.86414	0.58081	2.87711	0.57860	3.94546	0.41344	3.32185	0.50548
Status	5.93181	0.20430	3.10544	0.54034	5.33198	0.25490	7.87363	0.09632

APPENDIX G

Financial Services CCT: Relationship Between Respondents' Background and Responses

Relationship between views on financial services CCT (Q4.1) and:		Chi-square value	Chi-square probability value
Employer	(Q1.1)	1.66139	0.98969
Political Control	(Q1.2)	7.60994	0.10696
Accountancy Qualification	(Q1.3)	12.35727	0.13596
Post-Qualification Experience	(Q1.4)	8.99462	0.91363
Experience of working in private sector full-time	(Q1.5)	2.70024	0.60917
Status	(Q1.6)	0.59143	0.96401

APPENDIX H

Relationship Between Respondents' Views on Non-Finance White Collar CCT and Financial Services CCT

Questionnaire Refs Qs3.1, 4.1			
Do you accept the principle of CCT for some or all non-finance white collar services?			
	YES	NO	Row Total
Support financial services CCT	26 8.4	3 20.5	29
Oppose financial services CCT	12 33.6	104 82.3	116
Neutral	9	8	17
Column Total	47	115	162
Chi-square	Value	Significance	
Pearson	71.03	0.0000	

APPENDIX I

Morale and Job Security: Relationship Between Respondents' Background and Responses

Questionnaire Refs Qs: Category, 1.1, 1.2, 1.3, 1.4, 1.5, 1.6; Questions: 5.7, 5.8, 5.9, 5.10								
Question	How would you describe your morale?		What impact is financial services CCT had/is likely to have on your morale?		Do you feel a sense of job security?		What impact has financial services had/is likely to have on your sense of job security?	
Chi-square:	Value	Prob Value	Value	Prob Value	Value	Prob Value	Value	Prob Value
Category								
Employer	25.16356	0.00146	7.31818	0.12000	2.37888	0.30439	2.10929	0.71567
Political Control	0.51207	0.91623	0.86409	0.64918	0.40725	0.52337	0.36578	0.83286
Accountancy Qualification	8.89370	0.35134	0.98590	0.91193	0.39593	0.82040	2.64565	0.61876
Post-qual experience	19.96790	0.22167	7.88500	0.44478	4.21325	0.37791	12.97819	0.11260
Experience of working in private sector full time	6.61687	0.15757	2.86910	0.23822	0.79219	0.37344	1.63305	0.44197
Status	6.23346	0.18238	0.15675	0.92462	1.12941	0.28790	0.63258	0.72885

APPENDIX J

Financial Services' Competitiveness: Relationship Between Respondents' Background and Responses

Relationship between views on competitiveness of financial services within respondents' own organisations (Q5.19) and:		Chi-square value	Chi-square probability value
Employer	(Q1.1)	7.77882	0.45537
Political Control	(Q1.2)	1.83799	0.76552
Accountancy Qualification	(Q1.3)	10.12833	0.25613
Post-Qualification Experience	(Q1.4)	21.16186	0.17237
Experience of working in private sector full-time	(Q1.5)	1.69693	0.79127
Status	(Q1.6)	4.21551	0.37762

APPENDIX K

Cultural Change Context: Relationship Between Respondents' Background and Responses

Relationship between views on commercial disciplines (Q5.16) and:		Chi-square value	Chi-square probability value
Employer	(Q1.1)	3.83665	0.42856
Political Control	(Q1.2)	2.91623	0.23267
Accountancy Qualification	(Q1.3)	3.62829	0.45864
Post-Qualification Experience	(Q1.4)	10.20335	0.25104
Experience of working in private sector full-time	(Q1.5)	1.29863	0.52240
Status	(Q1.6)	0.70746	0.70206
Relationship between perception of financial services' colleagues views on commercial disciplines (Q5.17):			
Employer	(Q1.1)	5.15886	0.74047
Political Control	(Q1.2)	3.21450	0.52259
Accountancy Qualification	(Q1.3)	6.72677	0.56638
Post-Qualification Experience	(Q1.4)	17.13304	0.37704
Experience of working in private sector full-time	(Q1.5)	3.92616	0.41609
Status	(Q1.6)	9.77902	0.04432
Relationship between views on business culture (Q6.5) and:			
Employer	(Q1.1)	2.45562	0.96377
Political Control	(Q1.2)	9.83608	0.04328
Accountancy Qualification	(Q1.3)	3.27441	0.91598
Post-Qualification Experience	(Q1.4)	6.08785	0.98712
Experience of working in private sector full-time	(Q1.5)	1.20454	0.87735
Status	(Q1.6)	6.48289	0.16587
Relationship between views on decentralisation of finance function (Q6.7) and:			
Employer	(Q1.1)	14.60289	0.06734
Political Control	(Q1.2)	2.57151	0.63188
Accountancy Qualification	(Q1.3)	5.46743	0.70665
Post-Qualification Experience	(Q1.4)	20.95860	0.18011
Experience of working in private sector full-time	(Q1.5)	2.88490	0.57727
Status	(Q1.6)	6.49467	0.16513
Relationship between views on financial devolution (Q6.8) and:			
Employer	(Q1.1)	4.39359	0.81998
Political Control	(Q1.2)	4.69956	0.31954
Accountancy Qualification	(Q1.3)	11.87513	0.15686
Post-Qualification Experience	(Q1.4)	19.88287	0.22554
Experience of working in private sector full-time	(Q1.5)	2.27758	0.68485
Status	(Q1.6)	2.08242	0.72060

Appendix K contd.		
Relationship between views on enabling (Q6.6) and:		
Employer (Q1.1)	4.60256	0.79909
Political Control (Q1.2)	8.71423	0.06865
Accountancy Qualification (Q1.3)	7.21501	0.51362
Post-Qualification Experience (Q1.4)	17.53633	0.35174
Experience of working in private sector full-time (Q1.5)	2.25877	0.68829
Status (Q1.6)	5.08991	0.27820
Relationship between views on the political motivation for CCT (Q6.4) and:		
Employer (Q1.1)	3.57702	0.89313
Political Control (Q1.2)	4.76733	0.31201
Accountancy Qualification (Q1.3)	7.75533	0.45773
Post-Qualification Experience (Q1.4)	10.29857	0.85058
Experience of working in private sector full-time (Q1.5)	3.76516	0.43872
Status (Q1.6)	4.76588	0.31217
Relationship between views on the need to review the purpose of the accountancy function (Q5.20) and:		
Employer (Q1.1)	5.12653	0.74397
Political Control (Q1.2)	2.86989	0.57983
Accountancy Qualification (Q1.3)	4.77257	0.78158
Post-Qualification Experience (Q1.4)	18.93127	0.27224
Experience of working in private sector full-time (Q1.5)	0.55733	0.96769
Status (Q1.6)	4.95583	0.29186

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