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COMPETITION AND CONTRACTING: YOU GET WHAT YOU PAY FOR

The idea that competitive tendering can be used to improve the performance of public services sometimes comes as a surprise. But price should not be the only performance measure if real value-for-money is to be achieved, argues Gary Sturgess.

In 1848, a viaduct over the Nidd River at Knaresborough (in the north-west of England) collapsed and William Cubitt – one of that famous family of engineers – was called upon to conduct the investigation. Cubitt reported that the procurement process was to blame:

> The first false step or proximate cause which led to the falling down of this Viaduct was inviting Tenders by Public Advertisement, and then taking the lowest without being first assured whether the work could be well executed for the money or not, or whether the contracting parties were really experienced in the execution of such works.

A century and a half later, governments in the English-speaking world still have not learned the lesson that they get what they pay for. In spite of their commitments to the contrary, far too many government agencies are still awarding contracts to the lowest bidder, without due regard to the quality of service and to the treatment of workers. A recent survey in the UK found that two out of every five companies surveyed believed that the government had failed in its push to award contracts on the basis of value-for-money rather than the lowest price.

In the United Kingdom, the experience with compulsory competitive tendering in local government and in the health service throughout the 1980s, showed that it reduced costs by up to 20 per cent, but at a severe cost in terms of service quality and staff terms and conditions.

GIVE GOVERNMENT WHAT IT WANTS

The evidence suggests that private contractors will give the government what it wants. If government pursues a significant reduction in costs, without seeking to protect service standards or workers' terms and conditions, then there will generally be some companies in the marketplace that will step in to meet government's demands.

On the other hand, if government signals its intention to use competition and contracting to improve service standards and to bring innovation into the public services sector, then given sufficient notice, the private sector will develop the capability to respond.

The classic example of this in the UK lies in the reform of failing Local Education Authorities (which support and regulate but do not actually manage local schools). Five years ago, the government invited the private sector to participate in bidding for the management of failing LEAs. At the time, there was no capacity in the private sector to deliver these services, but with advance notice, and some introductions and advice by the Department for Education and Skills, the large-scale public service companies built the capability out of alliances with specialist education providers.

While economy was an issue (as always), these contracts were awarded largely on the basis of the capacity to innovate and turn around educational performance in these communities.

THE PRICE IS NOT RIGHT

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walked away from the Melbourne public transportation market, leaving many millions of dollars on the table, suggests that the government had conducted a bid process that placed too much emphasis on price. By levelling the playing field in terms of qualitative outcomes and escalating the importance of price, the government induced 'bid fever' among the bidders.

In another Australian state, in the competition for a prominent public service, the customer warned the winning contractor several times that its price was too low, but continued to award the contract in spite of the failure of the company to take the hint. The contractor in question has met all of the performance criteria, but the contract quickly became uneconomic, with resultant pressures on industrial relations and asset maintenance.

These outcomes were entirely predictable prior to contract award, and while the contractor had to bear the cost of a poorly-managed bid (as it should have done), the government was remiss in proceeding with a contract price that it fully understood would place unacceptable pressures on workplace relations.

THE INFLUENCE OF AUDIT OFFICES

There is tension within government on this question. Of course, a number of tenders have given service quality a prominent place, but in some parts of the government, officials still dream of moving to reverse auctions for the procurement of complex goods and services.

Much of the blame for this undue emphasis on price is placed on the Auditors-General and Public Accounts Committees (and in NSW, the Independent Commission Against Corruption). And yet Audit Offices (and ICAC) have gone out of their way to make it clear that they are interested in value-for-money and not just the cheapest price.

Part of the problem appears to be that public officials are looking at long-term contracts for the delivery of public services in much the same way they view contracts to purchase pencils and light bulbs: service quality is largely taken for granted, the importance of relationships is assumed away, and the procurement process come to be regarded as little more than auction.

There appears to be an *idée fixe* within government—in the English-speaking world at least—that competitive tendering can only be used to bring down prices. The notion that it can also be used to turn around the performance of public services comes as a blinding revelation to some public officials and trade union leaders.

WHERE ARE QUALITATIVE METRICS?

Another part of the problem seems to be the absence of widely-accepted qualitative metrics, either in the evaluation of bids or in the measurement of contractual performance. Since there is so much pressure on delivering cost savings, and since price is so much easier to measure, public officials often find it safer to give the preponderance of weighting to price.

Procurement officials would have much greater confidence in making qualitative judgements if there were well-established procedures in place. To date, we have not developed a body of professional literature around bid evaluation criteria and processes and contractual performance measurement. It is much more of a black art than it is a science.

Finally, there is an issue of capability here: procurement officials who are respected within government and commerce and who are comfortable within their discipline, will have much less difficulty in speaking truth to power. In the UK, there has been the suggestion that government needs to create a Government Commercial Service – a separate career stream which places emphasis on the skills and temperament necessary to conduct good procurements and to manage contracts successfully over the long term. Given the amount of government revenue that is expended through contractual arrangements, it seems an idea that is worthy of further consideration.

Gary Sturgess is Executive Director of the Serco Institute. Gary is a prominent exponent of the UK public services sector and was a driving force behind the establishment of the Public Services Strategy Board at the Confederation of British Industry (CBI). As part of that initiative, he has published research on the public service ethos and competition in the UK custodial sector. He was previously Cabinet Secretary in the New South Wales state government, where he acquired a reputation for promoting innovative reform initiatives. He was a leading figure in Australia's national competition policy reform agenda of the early 1990s, at state and then at national level. Web: www.serco.com