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# Managing in a 'Quasi'- Market: Using Cost Structure Information to Provide Insights from Recent History.

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## Abstract

1979 is regarded as a watershed in the way that public services operate. It was characterised by the setting of limits to the involvement of the state, placing the emphasis on public service provision and the role expected of its management. In the specific context of local government, the drive for efficient, customer-orientated services meant focusing on the pursuit of 'value-for-money' (VFM) and it was intended that this would take a variety of forms: changes to the sources of funding and controls over expenditure were accompanied by compulsory competitive tendering (CCT) and the deregulation of activities to encourage private sector competition.

The implementation of such a policy was highly political, and very quickly gave rise to research examining its success or failure. Over a near thirty year period, a wealth of studies has been published on the effects of tendering and contracting out of service provision, and the level of efficiency gains achieved. However, resultant evidence has been ambivalent on success or failure, and has also focused primarily on the local authority as the provider of the service. An area that has been relatively starved of equivalent research has been the impact on those DLOs which have continued to trade and survive in the medium to long-term. This research paper is an attempt to begin the rectification of that imbalance as it focuses on:

- evidence as it relates to the DLO (agent) rather than the local authority (principal).
- the response of DLOs/DSOs to the introduction of a 'quasi- market' as discerned through an examination of their costs structures.
- the extent to which other external factors such as party political control or geographical location accentuate or ameliorate the impact on the DLOs / DSOs cost structures either through or alongside the market.

The findings, by their very nature, provide issues for management to reflect on, for policy making and for consideration in the context of the most recent Gershon efficiency agenda.

*Key Words : DLOs, CCT, Cost Structures, Influencing Factors.*

## Introduction

1979 is regarded as a watershed in the way that public services operate. It was characterised by the setting of limits to the involvement of the state, placing the emphasis on public service provision and the role expected of its management. A key component of this change was the new 'managerialism', otherwise referred to as the 'New Public Management' (NPM). NPM had at its heart a view that the improvement of the provision of customer-focused and efficient services would be best achieved through the introduction of managerial practices and techniques, as defined by 'good practice' in the business sector. (Farnham & Horton 1996, Dorsch and Yasin 1988).

In local government the drive for efficient, customer-orientated services meant focusing on the pursuit of 'value-for-money' (VFM) and this was to take a variety of forms: changes to the sources of funding and controls over expenditure were accompanied by compulsory competitive tendering (CCT), and the deregulation of activities to encourage private sector competition. For CCT to secure better value-for-money, required the existence of full and fair competition between in-house providers and private contractors (DoE 1996 p2). CCT is said to have forced through a new spirit of rationalism (Seal 1999, Wilson 1999). Yet according to others, competitive tendering cannot be identified with a particular theory or core set of ideas, but represents a combination of separate elements, which gave the impression of being trendy or following a fashion (Hood 1991, 1995, and Lane 2001).

The Local Government Planning and Land Act (LGPLA) 1980 introduced CCT into the areas of new building (including renewal), building repair and maintenance, highway maintenance and sewerage agency work. The following services were then added by the Local Government Act (LGA) 1988: schools and welfare catering, refuse collection, vehicle and grounds maintenance, building and street cleaning and management of sports and leisure (Tonge & Horton 1996). The next significant phase in the development was the Audit Commission Act (ACA) 1999, which required external auditors to include an assessment of the local authority's achievement of best value (BV) in their remit (Coombs and Evans 2002). The earlier element of these reforms focused on how the services were to be provided, with a view to the utilisation of a mix of market and bureaucracy in the provision of goods and services. Special emphasis was to be placed on the role of tendering and contracting out (Halligan and Power 1992; Boston 1995; Coulson 1997; Choi 1999, Lane 2001). The resulting outcome was a hybrid of pure market and hierarchical bureaucracy delivery patterns (Seal 1999).

In such a context (Lane 2001) identifies the necessity of distinguishing short-term contracts from long-term contracts, since each will have distinctive issues with regard to the transacting that is necessary between principal and agent. Long-term contracting being the approach used by government bureaucracy in the guise of 'traditional public administration, whereas short-term contracting focuses on competition among and between agents, whether real or potential. The consequence of this will be some winners and some losers, but this result may be reversible at the next contract bidding round. However for their to be true competition within the contract tendering process there must be a good pool of agents available in the market and government must be capable of distinguishing the good agents from the bad agents (Lane 2001).

The implementation of such a policy was highly political and very quickly gave rise to research examining its success or failure. Over what is now almost a thirty year period, a wealth of studies have been published on the effects of tendering and contracting out of local authority service provision. The main thrust of the studies was on the level of efficiency gains realised from the introduction of CCT and subsequent disputes surrounding the accuracy of the results, since the evidence for or against a particular outcome often differs from one study to another. However, the focus of the great majority of the quantitative studies was the efficiency gains accruing to the principal in the contracting arrangement i.e. the local authority, though more recently the emphasis has shifted to studies of the resulting regional economic impact. As a result it is evident that there has been a dearth of quantitative research published where the agent (the in-house contract provider- DLO/DSO) is the focus of attention.

### **Evidence to date**

Studies of the levels of efficiency gains were produced by both the professional / consulting organisations and by academics, whereas the regional economic impact studies appear to be exclusively academic.

Studies by a range of academics and the Audit Commission (AC) on the theme of competitive tendering, both voluntary and compulsory i.e. subsequent to the legislation have identified savings of 15% to 30% (Hartley and Huby 1985, Domberger et al 1986, Ganley and Grahl 1988, Chaundy and Uttley 1993, Szymanski and Wilkins 1993, Knox and Young 1995, Szymanski 1996, Bello and Szymanski 1996 and AC 1987). However, cost savings of the magnitude indicated above did come in for criticism. Ganley and Grahl (1988) queried the way that the cost reductions were achieved i.e. whether the budget reductions were due to genuine improvements in operational performance, or merely reflected changes to pay and conditions of service, but Cubbin et al (1987) did not support the view that the bulk of the recorded cost savings arose from lower wages and fringe benefits.

Walsh (1991) adopted a 'middle ground' position, identifying a lower cost and employment level arising from CCT but not reaching any firm conclusions about the benefits to be derived from CCT. Szymanski and Wilkins (1993) found that, while savings were evident on initial contracts, there was evidence that the trend was reversed some four years later. They felt that the first round provided evidence of under-bidding, which could be evidence of potentially opportunistic behaviour. Another concern with the results was that the large cost savings were to some extent dissipated by considerable transactions costs, i.e. the effort to negotiate, execute and monitor a lot of contracts. This complicated the analysis, since transactions costs differ from production costs in that they are not as readily measurable. This makes it impossible to empirically establish the extent of the trade off between transactions costs and production costs (Lane 2001).

Previous studies had not found any link between the level of cost savings and political control of the council (Walsh, 1991), but Chaundy & Uttley (1993) found that average savings were lower in Conservative authorities (18%) than Labour councils (25% savings) or areas where no party had overall political control (24% savings).

While concern has been expressed about the reliability of the results obtained from the studies discussed above, further criticism has been directed at the research approaches adopted. The studies which attempt to measure the size of the efficiency gain or cost savings are said to have failed to compare like with like, allegedly due to the fact that they are politically biased, based on casual empiricism and look to reflect the 'American experience' (Hartley 1997). Further concern was expressed by Boyne (1998) who suggested that there was a problem with the 'standard of rigour' employed in the analyses, with 'superficial clarity' manifesting itself in a number of ways e.g. due to the studies being based on just a few local authorities, the results not being tested for their statistical significance, and the measures of spend being questionable. Furthermore, there was a limit on the meaning that could be placed on the studies, due to the actual sample sizes being below the 'headline figures' e.g. Chaundy and Uttley (1993) received 37 responses from councils on the impact of competition and refuse collection, but only 14 of those councils provided the information on cost savings and only seven of those on transactions cost.

Given the level of cost savings that appear possible arising out of the process of CCT, Patterson et al (1995) identified the variation in the degree of success achieved by the private contractor in spatial terms. Their findings confirmed three general trends, but the most important one for this study was the existence of a North-South divide for successful tender winning, with the private sector enjoying more success in Greater London and the south. A more recent study focused on understanding the spatial impact of the shift from 'in-house' provision to outside contractors. The results show a strong and significant spatial influence in the distribution of refuse collection costs before the introduction of CCT, which was significantly eroded after introduction of CCT. This change in relationships is clear once differences in political control are accounted for (Bivand and Szymanski 2000).

Pinch and Patterson (2000) assessed the extent to which CCT had undermined the real and potential contribution of local public services to regional economies and came to the conclusion that the process of CCT, like fiscal control had had an adverse impact on both local and regional economic development.

It is clear that the research evidence has still to provide an answer as to the degree of success or failure enjoyed by the implementation of the policy. In addition, it is also true that the research undertaken regarding efficiency gains or cost savings or economic impact has focused exclusively on the local authority provider of the service. An area that has been starved of any significant

research over the period in question is quantitative analysis of the impact on the DLO based on cost structure data.

In essence, the issues that still have to be addressed include:

- Evidence relating to the agent rather than the principal.
- the response of DLOs/DSOs to the impact of the introduction of a 'quasi- market as revealed by an examination of their cost structures.
- The effect of other external factors such as party political control or geographical location on the situation of the DLOs / DSOs.

### **Aim of the Project and its Methodology**

The research concerns those DLOs that commenced operating as a result of the LGPLA 1982 and were still trading in the focus years of the research i.e.1988/89 and 1991/92. Defining the parameters of the investigation in this way is intended to avoid one of the main criticisms levelled at previous research i.e. 'short-termism'.

DLOs that competed in the focus years for this study had been operating for 10 years in an environment of private sector contractor competition, and had coped with a series of changes to statutory regulations. To that extent they could be viewed as having survived and matured in a CCT/ quasi market environment. (The market is referred to as 'quasi' since it was not a completely open and free market, due to the range of regulations that were imposed upon the trading and reporting arrangements of the DLOs).

This investigation is not concerned with an analysis of the potential savings to the local or national economy brought about by the adoption of CCT. It is not, therefore, principal/client/purchaser based. The focus here is on the DLO or 'in-house' contractor provider (the agent), to see if cost structure information provides any indication of the approaches they adopted in order to operate and survive in the climate established by central government. In addition, the investigation focuses on the extent to which other external factors such as party political control or geographical location accentuated or ameliorated the impact of the quasi-market on the DLO/DSO

The main data source for the study was the CIPFA/SIS Direct Labour Organisation statistics.

The chosen time-frame for the research project was based upon the financial years 1988/89 and 1991/92. Upon closer inspection of the years it was found that the method of holding or presenting the data had changed between the two financial periods and that more data was required relating to 1991/92. As a result a questionnaire was prepared and sent to 185 local authorities. Their selection was on the basis that they had shown clear signs of trading in both years forming the basis of the study i.e. no completely zero returns. 50 responses were received of which 43 were regarded as usable, representing a 23% usable response rate.

The analysis that follows interrogated the data to assess whether the two sampled years had aspects of DLO expenditure that were significantly different. For the purposes of brevity the findings derived from that analysis, as presented below, were found to be significant at the 95% level of confidence, unless otherwise stated. The analysis utilises the split of DLO expenditure in both objective and subjective terms (see Table I).

Objective Headings (Categories of Work)	Resource - Inputs (Subjective Headings)
Category I - General Highways Category II - Major Work (>£50,000) of New Construction Category III - Minor Work (<£50,000) of New Construction Category IV - General Maintenance	Direct Labour Supplies and Services Transport and Plant Sub-contractor Overheads

**Table I. Categories of Work and Subject Heading Analysed for.**

Analysis was performed on the two sets of figures, the first based on expenditure relative to total expenditure on all service areas within the local authority sample population, and the second based on changes in expenditure relative to total DLO expenditure.

A range of factors that were identified as pertinent to this study included:

- allowance for size incorporated the removal of any inflationary bias, hence DLO expenditure was initially compared with relevant local authority expenditure.
- the impact of geographical/spatial factors on the cost structure;
- the effect of political composition or the more dynamic feature of political change on cost structure;

### Findings and Discussion

The analysis commenced with a review of the total costs for the two financial periods. The purpose was to identify whether there had been any fundamental change to DLO costs between the periods.

For the financial period 1988/89 to 1991/92 the average relative expenditure of all 43 DLOs on resources across work categories I - IV fell by 26.1%. Since this was against a backdrop of some growth in local authority expenditure generally, the resources devoted to DLOs appeared to decline quite significantly.

When this analysis was then broken down into allocation of expenditure across the various input resource expenditure headings of the DLOs, relative to total local authority expenditure on services, a definite pattern started to emerge. Expenditure decreased over all resource categories between the two periods, although to varying extents - the most notable decreases occurring in the area of 'Direct Labour' (-31.5%) 'Supplies and Services' (-29.8%) and Overhead Accounts (-27.7%) and at the bottom end of the reductions were 'Transport and Plant' (-23.0%) and 'Sub-contractors' (-11.0%).

As the declines are not consistent across the expenditure headings this indicates that a change in emphasis took place in DLO cost structures away from 'direct costs' - Direct Labour (-9.26%), Supplies & Services (-3.08%), Transport & Plant (-8.14%) to 'indirect costs' - Sub-contractors (+38.5%). It was also evident that there was a stubborn reluctance on the part of Overhead Accounts (-3.04%) to demonstrate any significant reduction over time. Overall, a considerable amount of resource switching could be observed within the DLOs, and in particular the effects of the DLOs contracting out the work they had won through the tendering process. This would have

increased the DLOs own transaction costs and may provide one possible explanation for the reluctance of the overheads to show an appreciable reduction, although as noted in the literature review this effect can be difficult to quantify. It must also be recognised that other plausible explanations could be explored to understand the reasons for overhead resistance e.g. the weaknesses inherent in financial information reporting systems and the weakness of cost allocation systems prior to the introduction of Activity Based Costing (ABC) amongst others.

Consideration was also given to the average total expenditure in each DLO category of work on services for the periods 1988/89 and 1991/92. It was very quickly evident that no meaningful conclusions could be drawn regarding changes that had occurred in categories II and III, as the results were based on particularly small sample sizes, which reflected a mass departure of DLOs from these areas of operation. Of the two remaining categories, expenditure was highest in category IV in both 1988/89 and 1991/92, and had decreased by a similar amount in both categories between the two periods. This suggested that DLOs had maintained their resource commitment to category I & IV work throughout the period, but when considered against the trend in local authority expenditure over the same period there was a definite decline in both category I (-21.6%) & IV (-24.6%), reflecting the fact that DLOs were undertaking a smaller proportion of the work of the local authority. This view is confirmed when analysing the statistics for the change in DLOs 'contract value won' as a percentage of total work available from the local authority, which for categories I & IV showed a decline of (-8.3%) and (1.3%) respectively over the same time period.

The next phase of this study was to investigate to what extent key environmental factors had influenced DLO cost structures. Ideas had been expressed both within the research team and at earlier presentations regarding a potential link between the political environment and/or geographical location and the cost structure.

The effect (if any) of the political environment on the ratio of DLOs total expenditure to the total expenditure on services of the parent local authority was considered and evaluated. The 43 responding authorities were allocated to one of seven political categories for each of the periods 1988/89 and 1991/92 (see table II).

Category*	1988/89	1991/92
<b>1.Conservative</b>	14	14
<b>2.Labour</b>	12	15
<b>3.Liberal</b>	2	3
<b>4.N(Conservative)</b>	9	4
<b>5.N(Labour)</b>	3	4
<b>6.N(Liberal)</b>	1	1
<b>7.Other</b>	2	2
<b>Total</b>	<b>43</b>	<b>43</b>

\*(1.-3.) = Controlling party

\*(4.-6.) = Major Party, but without overall control

\* (7) = No dominant party in control

**Table 2. Political Control of Local Authorities in 1988/89 and 1991/92**

This information was then used to assess whether changes in expenditure between the two periods was significantly different in authorities that had or had not experienced a change in political control. Of the 43 (DLO) authorities, 13 experienced a change in control between 1988/89 and 1991/92. Of the 13 changes, only two can be described as 'major' i.e. where control of the local authority actually changed hands in party political terms.

The results provided for an interesting observation, in that, decreases in the ratio of (DLO) expenditure to total local authority expenditure on services were less in those authorities that had experienced political change. This was true whether change was categorized as major (involving an actual shift in party political control) or major/minor (where change shifted from overall political control to no overall political control). Similarly, comparing the change in expenditure between authorities undergoing either a 'minor' or 'major' change, decreases in the ratio of (DLO) expenditure to total local authority expenditure were smaller in authorities that had seen only a minor change in control. An interesting by-product of the research project, is the suggestion of a research hypothesis that requires further investigation in the area of continuity of political control and its detrimental impact on cost control.

The relationship of DLO cost with political composition provided the following results. Changes in expenditure showed a greater decrease for Labour controlled and/or dominated authorities. This indicated that DLOs operating in local authorities which were administered by a Labour local authority had seen a greater decline in their expenditure over the relevant period (19% - 24%) than those in Conservative administered local authorities (0% - 5%). The results obtained here confirm the findings by Chaundy & Uttley (1993) for Labour authorities of 25% savings, but are much lower than the savings of 18% obtained by them for Conservative authorities.

The research team felt that this had to be due to one of two main reasons or a combination of them both:

- a Labour administered authorities have been more successful in their drive for efficiency and improved value-for-money than Conservative administered authorities;
- or
- b Labour administered authorities were significantly less efficient in the base year and had a higher base from which to make real improvements.

This led to the next aspect being examined - did the average expenditure in the base year play any part in the resulting change over the period under investigation? The results indicated that the level of expenditure in the base year, on average, was higher in Labour controlled / dominated authorities than in those authorities dominated by the Conservative party, and as a result it was concluded that Labour controlled local authorities had a higher base from which costs could fall.

The next aspect to be explored was the 'geographical factor' to see if this had any effect on changes in DLO expenditure (relative to total expenditure on services) between 1988/89 and 1991/92. It was found that of the two regions that defined within the context of this study - the area comprising 'East Anglia, The South and London' experienced somewhat greater decreases than its 'North/Midlands and Wales' counterpart. However the differences between the two figures were not significant.

The research investigation was then repeated using a multi-variant model as opposed to a uni-variant model to see if the findings above could be corroborated or anything new identified from the statistics. The results of the multiple correlation indicated significant correlation between the change in DLO expenditure and the combined effects of political composition, change in political control, geographical location and change in local authority expenditure i.e. these do have a major effect upon the level of DLO expenditure incurred, but the most significant variable within that group was political control. In addition, testing for geographical location suggested that 'The North, Midlands and Wales' was more likely to experience a change in DLO expenditure than the 'South-Eastern' area.

This set of results suggests that the level of DLO cost is based upon relationships beyond purely that of 'the market' and that if predictors of 'change in relative DLO expenditure' were required, then the model to be used should be based on 'geographical location' and 'political composition'.

### Conclusions

DLOs established under the LGPLA 1980 were the focus of attention for this research project. Having been in existence since 1982, they have faced competition from the private sector and at the same time coped with numerous changes to the "ground rules" set by central government. Given this "shifting sand" environment those still operating in 1991/92 had demonstrated an ability to survive, where many had not.

What did this study of the changing pattern of the DLO cost structures uncover about their survival?

- a There was a clear indication of constraints being applied on expenditure in the area of "direct resource" provision; this appeared to be true for both Direct Labour and Transport Costs.
- b By contrast a significant increase was to be noted in the cost heading entitled 'Sub-contracting' over the period.
- c There was noticeable resistance of the overhead/indirect cost area to be subjected to any downward pressure over the relevant time period.

The most significant feature arising from the analysis of the data was the degree of 'resource switching' i.e. DLOs moving away from the resource ownership and provision that had been the habit of the old local government bureaucracy framework. Instead they were now increasingly looking to sub-contracting out the work, that they had won via tendering, to the private sector. DLO management faced with increased risk and uncertainty over work and cash flow, was looking to manage its exposure to operating risks, through a sharing or transfer strategy which incorporated the increased use of sub-contractors.

The next stage of the project looked at some key environmental factors to see to what extent the external environment might influence the cost structure of the DLO. To that end, political control, political composition and geographical location were investigated. Trying to measure the impact of the political environment both with regard to party composition and to the systems stability was bound to be difficult. The most significant finding was that those DLOs operating in an environment where Labour was in control of the authority for both periods saw a greater decline in their expenditure levels compared to Conservative led administrations, but this was partly explained by the fact that the level of expenditure appeared to be higher in labour authorities during the 'base year'. The results from this study partially support those of Chaudry & Uttley (1993) regarding the level of reductions in expenditure experienced by Labour authorities.

The findings from this research also provides ideas which may well have implications for policy making which could do with further exploration:

- a It suggests that the extent to which contracting out of public sector services was undertaken was far greater than official statistical data calculations had us believe. Statistics were prepared based upon the number and or values of contracts won by the DLO against private contractors. Hence, when the DLO obtained the contract with a successful tender bid, it was recorded as a public sector success. However, the record did not consider how the DLO looked to fulfil the contract i.e. that it could sub-contract the work to the private sector. Thus what appeared as an "in house" tendering success was masking a private sector contracting arrangement. This could be called 'second order' level of private sector contracting which needed to be added to initial tender successes to find the total amount of local authority contract work that was undertaken by the private sector.
- b While there had been much talk about the "enabling" authority, little regard had been paid to the "enabling" DLO and how this may benefit the DLO itself, the local authority and its council tax payers. The findings suggested clear evidence of a mediator or brokerage role for DLO management as beneficial to all parties. A combination of DLO management organising small local private contractors were be able to compete very effectively against the larger private sector units or businesses.
- c The issue of the DLO sub-contracting out the work to the private sector will also have implications for that avenue of research linked to economic impact assessments in a particular local authority area i.e. is the 'sub-contractor' more or less committed to the area than is implied for the 'in-house' contracted DLO.
- d The resistance of indirect / overhead costs to both regulatory and market pressures, even in what might have been regarded as successful DLOs, necessitates the need for a deeper understanding of the dynamics at work.

The years since the introduction of CCT and value-for-money (VFM), has seen a process of metamorphosis, through Best Value, to the latest agenda for improving productivity and optimising resource use, introduced through the Gershon efficiency review of 2004. Quirk (2005) views the latest approach as focusing on the securing of efficiency gains and the release of resources to the front line, through the redirection of resources and improvements in productivity. This is in contrast to previous agendas which focused on cost containment, cost reduction or service reduction. In such circumstances each local authority can devise its own approach for releasing resources. However this view to the approach embedded within the review is already subject to an alternative interpretation. Crossland (2005) observes that Gerson utilises an established approach where the emphasis is placed on cost reduction.

Where the Gershon efficiency agenda is viewed as improving productivity and optimising resource usage, academic literature identifies two important and distinctive aspects of the efficiency agenda Martin (2005):

- Allocative efficiency - reflected in policies that promote equity and better access to services for all groups, fostering social inclusion and safeguarding the position of vulnerable groups.
- Technical efficiency (or X-efficiency) - reflected in the ratio of costs to benefits (including outputs, outcomes and impacts).

Griffiths (2006) explains the link between the two aspects of efficiency in terms of the need for real technical improvements being needed to ensure a public sector efficiency gain, but this must not be at someone else's expense. In other words, the gains obtained by consumers must not be earned at the expense of losses to producers. Hence, there is a need to maximise both individual and social benefit. In such a situation, it is important to get the balance right between ensuring services are increasingly customer focused, along with the need to reduce the resource costs in relation to the output or outcome provided.

It is recognised that new partnerships, alliances and contractual relationships will have to be formed to achieve the two aspects of efficiency and these will be dependant upon factors such as - the complexity of the service provided, spatial and political factors, the desires and needs of the local electorate e.g. A back office or support activity - the procurement or the accounting, costing and payments function is likely to be high volume, providing an essentially standard client service package, that can be undertaken via a partnership arrangement, collaborative venture or as a regional consortium. It should be possible for any efficiency gains achieved, to be subsequently reflected in the releasing of resources to the front line. In contrast a front line service, which provides personalised packages to clients and customers will lend itself more readily to localised provision and not the organisational groupings previously referred to.

In the context of the Gershon efficiency agenda, this research paper based on the era of the DLO & CCT, provides some issues for consideration and insights, which are as follows:

1. The difference in the interpretation of the Gershon efficiency agenda, if combined with a repeat of the 'early phase' approach to CCT/DLO research projects, which had significant elements of 'short-termism', combined with, in a number of cases, results based on sample numbers for particular elements which were below the headline sample size, will ultimately lead to a fogging or fuzzing of the objective evaluation of the agenda.
2. The reduction resistance of overhead costs in DLOs when exposed to quasi market conditions and strict regulatory arrangements, is still an a significant issue for Gershon, over twenty years later. The change of emphasis, is away from a single-minded focus on the reduction of back office costs, to the liberation of these costs and their redistribution in favour of front-line services.
3. The recognition for new forms of partnerships, networks, collaborations to deliver the efficiency gains, will require some elements of a new skills set for local authority managers. Given the 'broker' or 'intermediary' role identified of DLO managers in this paper, suggest there could be the essential elements of a relevant skills base in the 'in-house' DLO/DSO of the local authority, if the are still available.
4. If an in-house DLO/DSO contractor hires small sub-contractors, that are located within the geographical boundary of the local authority, but provides a tender price which is above that of a private contractor, where the latter has invested in new technology, but is based outside the local authority boundary (for reason of technical efficiency) it would be appropriate to allocate the work to the private contractor. However, on the grounds of allocative efficiency the approach of the 'in-house' provider could result in a lower net cost to the local authority. The local sub-contractors (as suppliers) are also consumers and provide income streams back to the local authority, directly through the payment of council tax and indirectly through their local business tax burden and their disposable income spent in the area. The benefit of such a net cost approach might release or make resources available to provide new or additional services to meet the needs of other consumer or vulnerable groups. Is there not an allocative efficiency gain here? As a consequence which efficiency gain should be paramount? In reality it will have to be answered via a political decision.

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