

PROCUREMENT AND 'INTERNAL EXTERNALISATION' OF LOCAL GOVERNMENT SERVICES

**Research findings at local level in the five selected European countries
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GERMANY – Types of outsourcing and procurement

Types	Controlling and influence
Conversion of a municipal function or institution into a public-law entity	→ <i>The municipality retains power of control</i>
Conversion of a municipal function into a private-law entity	→ <i>The municipality retains power of control if their share is 50% +</i>
Outsourcing/contracting – awarding a contract to a private company	→ <i>The municipality retains responsibility for task fulfilment</i>
Material privatisation: All or the majority of the public function/institution is sold to the private sector	→ <i>Loss of control, deprivation of potential revenue sources in profitable areas</i>
Other privatisation forms such as public-private partnerships	→ <i>little control if private companies finance the project</i>

Outsourcing and procurement `strategies` in Germany

- Municipal governments are generally **free to decide in which way they provide services (make or buy)**
 - In fact, **60%** of the total value of German public services is outsourced (OECD 2011)
- Our case studies suggest that there is **no systematic and coordinated procurement-“strategy“** on municipal level
 - frequently decentralised responsibilities
 - Decisions mainly driven by cost cutting and often made under pressure
 - Lack of cost-benefit-analysis of what is cheaper or more efficient or even better quality

Some evidence for remunicipalisation efforts

- Background: assumption that **outsourcing of public services is not the one best way**
 - loss of competence and control
 - Lack of cost-benefit-analysis
- **Successful efforts for remunicipalisation depend on**
 - the circumstances at local level, time and promoters for change (i.e. unions in case of EG1)
 - The type of services: profit earning utilities (gas, electricity, water, waste/recycling) provide chances to increase revenues
 - Involvement of employee representatives at an early stage – possibly supported by the recently reformed codetermination regulation in NRW

France: Forms of public procurement

- **(P1)** subcontracting segments of the supply chain (logistics services: catering, cleaning, computer maintenance....);
- **(P2)** subcontracting the public service activity itself;
- **(P3)** the specific case of “public-private partnership” => not only the investment (in buildings) but the service delivery is also partially subcontracted
- **(P4)** internal procurement

France procurement: Recent trends

- the “General review of Public Policies” (*RGPP*) process since 2007 => systematic search for cost cutting using **P1**; but in public hospitals, sometimes the reverse trend (for cleaning...)
- Concerning **P2**, contradictory trends 1) increasing for some activities (e.g. Public Employment Service); 2) but reverse trends for utilities at municipal level: “reinternalisation” of water provision for instance
- Concerning **P3**, increasing trends in the recent years (jails, hospitals) but with strong criticisms => so here again, a reverse trend in the coming years is plausible (?)
- **P4** increasing trend

- Public procurement has been rather stable in recent years. It increased at the beginning of the period from 17% to 18.4% in 2009, but has decreased since and again was approximately 17.9% in 2011.
- Increasing internal externalisation

Evolution of the share of non-civil servant (i.e. “contractual”) employees in the Public Service since 2000 (in %)

	2000	2002	2004	2005	2006	2007	2008	2009
CPS	12.6	13.5	12.2	12.3	12.7	13.4	14.3	15.1
LPS	20.3	20.3	20.4	20.2	20.9	20.8	20.2	19.7
HPS	13.3	13.7	14.0	13.8	14.4	15.1	16.0	15.9
Total	14.9	15.5	15.0	15.0	15.6	16.1	16.6	16.8

Source: DGAFP. *Rapport annuel sur l'état de la Fonction Publique*, vol.1, 2011.

HPS = Public Hospitals; LPS = Regional and local public services; CPS = Central public services

Increasing ‚internal externalisation‘ (P4)

- **“Internal externalisation”**: new forms of governance, organisation and HRM to circumvent the traditional system of Public Service (based on the civil servant employment and pay status)
- **“autonomisation”** of public entities, under the form of “agencies”, or “public establishments”; there are still controlled by a Ministry (or several Ministries), but have a higher autonomy in terms of budget and human resource management (recruitments, pay)
- use of **contractual employees** and introduction of new specific (non civil servant) employment statuses; for instance, the “gendarmes adjoints volontaires” in the police. Increasing number of public establishments that can hire non civil servants (see for instance the case of universities)
- **HR in the civil service**: Adoption in 2009 of the “law on mobility and professional career (in the PS)” to facilitate internal mobility for civil servants, but also to facilitate the hiring of temporary workers, especially temp agency workers, which was forbidden before

Results from case studies in 5 countries

1. Procurement involves a variety of practices and organisational forms
2. Not all procurement undertaken in order to lower wage costs but also used to support flexibility for higher pay
3. Procurement is shaped by varying legal status and costs for different employment groups - e.g. civil vs. non civil servants, flexible vs. standard contracts
4. Outsourcing should be considered as a choice along a spectrum rather than a simple public-private choice
5. Not all outsourcing is cost effective – therefore trends of re-municipalisation

Procurement– Policy lessons

- Better scrutiny of outsourcing decisions – contracting out no irreversible trend
- Monitoring of the actual delivery after outsourcing should be more effectively scrutinised and be part of social dialogue
- Extent to which quality HR-practices can be included in tender arrangements in the EU needs to be clarified
- Attention needs to be paid to minimum wage levels prevailing in the private sector to ensure these provide reasonable levels of remuneration and working conditions
- Outsourcing should not be encouraged simply in response to cyclical adjustments in minimum wage rates