

# **Contracting Out Planning and Management of Local Government Roads**

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[In the U.K. the objective of contracting out planning and management of roads (externalization) was to cut costs and improve service quality. This is generally not a major issue in developing countries where the main concern is usually to provide effective planning and management services when local government agencies are weak, either due to lack of critical mass (i.e., small local road networks), or because government terms and conditions of service are so far out of line with the private sector that local governments cannot recruit competent staff. Contracting out may be used as a transitional measure (perhaps on a partnering basis) to support a weak road agency while it builds itself up, or to provide road planning and management services on a long term basis for small municipalities and small rural district councils. Note, however, that the small municipalities and rural district councils may still need strengthening to enable them to effectively contract with the outside suppliers of the road planning and management services.]

## **1. U.K. - Contracting Out Planning and Management of Local Government Roads**

Prior to 1980, local governments in U.K. typically employed their own workers to advise, manage, design and deliver projects and services to their customers. This started to change in 1980 when legislation was introduced which compelled councils to let large construction contracts under competitive tenders and required in-house direct labor to operate as quasi-companies and produce a small profit at the end of each year. The regulations were subsequently tightened to require all new works undertaken by direct labor to be subject to competitive tendering.

A short while later, some councils decided to seek competitive tenders for provision of local authority services (e.g. garbage collection). Central government followed up on this by introducing competitive tendering for all such services. By the early 1990s the concept of competitive tendering was well established and the government decided that it should also apply to professional services (including planning and engineering services). The law now requires that, by 1 April 1996, at least 65 percent of all construction related services must be subject to the market test, i.e., compulsory competitive tendering (CCT).

Under this arrangement, the professional local authority in-house organization is split into two parts. One part remains in-house as a "Client Unit," while the other becomes "contractor" and may either consist of previous in-house staff who have to bid competitively for the work against outside bidders, or of an outside bidder who wins the contract. By early 1996, this process was well under way and many councils had decided to contract out most construction related services, rather than allow in-house staff to bid for

the work (the process of contracting out was referred to as *externalization*). Berkshire County Council externalized highways and planning, Westminster City Council externalized planning and transportation projects, the London Borough of Ealing externalized all technical services, while other local authorities externalized selected functions like engineering, design and materials, highways, and traffic management.

## **2. The Case of Berkshire County Council**

Berkshire County Council decided to make a clean break and to go straight for externalization. At the time of this decision they had 372 staff on board (engineers, planners and administrators). With the declining work load they were already facing, this fell to 352 before externalization took place. Of these, 25 were to be transferred to the in-house Client Unit, leaving 327 staff at risk. However, since there was a European directive requiring firms taking over functions from government to also take over some staff, the risk of compulsory redundancies was fairly minimal. However, as an added precaution, the council decided to request bidders to indicate in their tenders how many existing staff they would take on to encourage them to take on as many as possible.

The first thing the council had to do was to specify what services the staff to be externalized provided to the council. All staff were therefore asked to write a specification for their own work area to an agreed format. Each specification also had to be divided into its client/contractor components. This led to preparation of 64 individual specifications grouped into 16 service areas. Once this analysis had been approved by the council, expressions of interest were invited for externalization of the council's entire Department of Highways and Planning.

### **Tendering Process**

Just over 150 firms responded to the invitation. The respondents primarily consisted of consultants and facility management firms. Each respondent was sent information on the scope of the services involved, and each was asked to describe the structure of their firm and how the externalization would fit in with their long term operations. This reduced the potential bidders to 50 (almost wholly engineering consultants, planning consultants, facility management firms, and general consultants). Their answer to the questions, together with other information, were then used to evaluate the firms to arrive at a long list of 12 respondents. Independent consultants were appointed to advise the county on the long list which was then reduced to 5 serious potential bidders. This process took 4 months.

The council then prepared a set of tender documents. They did not cover all the services involved, but provided a typical basket of local authority planning and management services (covering about a third of the total), plus supporting information, drafts of standard letters to be answered by the council, technical drawings to be produced, etc. The bidders were also allowed to speak openly to staff to enable them to better understand what was involved. The bidders were then required to submit a two-part

proposal, including: (i) a confidential price proposal; and (ii) their proposed business plan covering provision of the externalized services (listing how many staff they would take over, how many of their own staff they would deploy, etc.).

A committee of elected members evaluated the bids, based on a report from the council's CEO, their advisers (a planner and an engineer), the council's negotiating team (a solicitor, the treasurer and a personnel officer), and a report from the management team and staff of the Department of Highways and Planning. This quickly reduced the bidders to 2 of the 5 firms and the members decided to negotiate with one of the firms and keep the other in reserve. A draft contract was drawn up and the council negotiated with The Bابتie Group who won the award. The contract was for about \$15 million p.a. for a 4 year contract, renewable to 7 years by negotiation.

### **The Transfer**

In April 1993, just over 300 council staff transferred over to Bابتie, together with their existing terms and conditions of employment. Twenty staff remained in the Client Unit (in retrospect they think this could have been smaller), some staff took voluntary early retirement, and 2-3 staff were made compulsorily redundant.

#### **Performance**

In the run up to externalization, it is estimated that costs came down by about 10 percent, and the Bابتie contract cut costs by a further 10 percent (i.e., the \$15 million contract was \$1.5 million lower than the previous departmental costs). The services provided are evaluated every 6 months: annually and during a mid-term review. Performance is evaluated against the specified services and penalty payments are deducted from the contractor's fee for failure to meet the specifications. Recent evaluations of quality of advice, customer care and responsiveness have been assessed by elected members as "extremely satisfactory." The general consensus appears to be that service quality has improved.

### **3. ZAMBIA: Managing Urban and Rural District Council Roads**

Zambia has 15,980 km of rural roads managed by 70 rural district councils (average 230 km per council) and 1,543 km of urban roads managed by 10 urban district councils (average 154 km per council). As in many countries, these networks are far too small to support viable district road agencies, even when all infrastructure services are combined at the district level.

When the National Roads Board (NRB) took over management of the road fund in Zambia in October 1994, they were not sure how to start allocating funds for maintenance. So they invited the districts to submit maintenance programs for their consideration. The proposals which they received left a great deal to be desired. They typically consisted of a list of road names with a financial figure next to them and a total figure for all roads combined. There was no assessment of road conditions and no details of the proposed

maintenance works. There was furthermore no indication of how the work was to be done, no specifications, and no contract documents. An added concern, was that the NRB felt unable to monitor the works being done by councils all over the country.

The NRB therefore approached the Association of Consulting Engineers of Zambia (ACEZ) and asked them to help prepare acceptable maintenance programs on behalf of the districts. This they agreed to do on the basis of a TOR which required them to work with the councils and:

- Agree on a program of road maintenance and order of priority.
- Agree on procedures to be followed in calling for tenders.
- Assist in tendering and evaluation.
- Negotiate with winning tenders.
- Agree on the selection of contractors.
- Negotiate and agree on terms of contract.
- Ensure implementation to a set time frame and deadlines.
- Assist and monitor progress of road works to ensure total quality management.
- (Certify payments at each stage of road works on having been completely satisfied as regards quality of work done.
- Assist councils to undertake measures to control and reduce costs of road works and maintenance through consulting services.
- Advise councils on undertaking preventive maintenance activities to promote the quality and life span of road infrastructure.

Another innovation, was that the ACEZ agreed to the following performance indicators for their members:

- Quality of the program drawn up.
- Time frame for implementation.
- Unit costs of road works undertaken.
- Quality of work done.
- Volume of work done.
- Public relations and involvement of the local community.
- Preventive maintenance activities.

The ACEZ also agreed to a concessionary fee scale of 2.5 percent of total value of works, instead of the usual legislated fee which often runs up to 15 percent (this turned out to be a mistake, since it was well below the level needed to do an effective job).

Bids were next invited from members of the ACEZ to act on behalf of all the districts in each province. Firms were selected by the NRB and the concerned districts, and one firm was appointed per province under a local government service contract (i.e., the contracts are not with the NRB). Within each province, a single consulting firm now works with the districts, prepares their maintenance programs, prepares bid documents, helps them select contractors, and supervises implementation. Work done under contract is

fully reimbursed by the NRB. When a district does work using force account (mainly confined to pothole patching), the NRB only pays for materials after certification that the work has been done according to specification. All work financed from the road fund is finally subjected to both a financial and technical audit.

Another innovation, is that the NRB has now opened provincial bank accounts. Once funds have been committed to a council, NRB now transfers the funds into the provincial account. Payments to contractors are then certified by the consultant and checks can be drawn on the provincial bank account on submission of a check carrying the signatures of the consultant and the concerned district council. This arrangement has had a surprising side effect. Since the district council can not draw on the money for salaries and unauthorized expenditures, the districts are now inviting local business interests to add money to the account to extend the scope of present maintenance operations. The NRB has offered to match any deposits made by local business interests.

The above arrangements have made a contribution to improving the planning of maintenance in rural and small urban districts as well as to implementation performance. They have not unfortunately proved to be sustainable largely for two reasons: (a) Consultants were unable to provide adequate service for the 2.5% fee and a number of contracts were terminated because of performance problems. Good performing consultants were not willing to take up new contracts until the fee arrangements were radically improved. As this has not taken place, in six out of nine provinces services to the local authorities are now provided through the Provincial Road Engineer whose material costs and other expenses (not salaries) are paid out of the proceeds of the Road Fund. This has not proved to be a totally satisfactory substitute. (b) Despite the introduction of the Road Fund resourced by the proceeds of a fuel levy, NRB has not received a timely and secure flow of funds and it has not been possible to maintain a steady maintenance work program in the districts. Moreover in 1998 and 1999 the maintenance program was put on hold as Road Fund resources were diverted into an urban rehabilitation program.