



OUTSOURCING = BEST VALUE FOR THE TAXPAYER

The past few years have seen some government agencies creating and expanding multi-disciplined in-house staff to provide expertise in such areas as planning, design, construction management and actual construction work. The time has come for a reversal of this trend. Government agencies in BC are facing increasingly tight budgets and the need to efficiently allocate scarce resources is critical. In order that the taxpayers can receive the best possible services, agencies must focus on their core activities and seek to outsource others to private industry. Outsourcing, often referred to in the construction industry as “contracting out”, is a proven method that will not only lower costs for government, but will also improve the quality of work done, and provide expertise and innovation not available with the use of in-house forces. The following paper will examine the benefits that result from outsourcing, the arguments used against outsourcing and finally the difficulties inherent in allowing in-house forces to compete with the private sector.

BENEFITS OF OUTSOURCING

Some of the many benefits that can be achieved by outsourcing are as follows:

1. Focus on Core Competencies: In times of reduced government spending it becomes ever more important to adhere to core competencies. Government agencies must look to their “raison d’être” and get out of the business of private

industry. There is no better example of this than construction work. Why should a school district be in the business of project management? Why should they maintain a millwork shop? Why should a municipality be spending its resources on staff for road and civil work when the private sector can get the job done for less? The easy answer is: They shouldn't! Contracting out construction services allows the government agency to focus on their core mandates, and provide better service to the taxpayer. Funding for education or health should be carefully allocated towards enhancing education and health, not used to compete with private industry.

2. Improved Accountability: Outsourcing provides a direct source of accountability and responsibility by tying contractor compensation to the successful completion of projects within budget.

3. Reduced Standby Costs: Most public agencies have found that it is not cost efficient to retain highly specialized individuals for work that is infrequent and use outsourcing as a means to easily draw upon a reliable pool of expertise. One of the key benefits of outsourcing is that it allows agencies to better accommodate fluctuating demand for labour, thereby reducing standby costs. Take for example the situation where an agency has need for architectural services. Why not contract out those services when needed? The alternatives are to either pay unnecessary costs to keep an architect on staff, or to lay-off staff to meet budget demands. Maintaining a steady staff level for fluctuating workload is clearly not cost-efficient. In addition to maintaining staff many public agencies build up large amounts of machinery and equipment for use by their in-house forces on construction projects. Owning and maintaining such equipment is unnecessary and inefficient when there exists a clear option to outsource the work.

4. Lower Project Costs: Just as private firms work harder to meet deadline, so also will they seek to run as efficient an operation as possible. After all, their very existence depends on maintaining competitive rates.

5. Flexibility: Particularly in regards to construction services, perhaps the single most important advantage to outsourcing is the flexibility it provides. Construction is a complicated enterprise. It is simply imprudent for a public owner to maintain, on in-house payrolls, every conceivable discipline and specialty that may be required to produce even a relatively simple structure or infrastructure project at any given time.

6. Faster Project Delivery: Private firms have more at stake, and will work harder to meet deadlines. They know that their future jobs depend on being reliable and on time with present deadlines.

7. Improved Risk Management: Outsourcing work to the private sector also means outsourcing the corresponding risks. While risk allocation must always be fair, the use of private sector teams more clearly delineates roles and responsibilities and off-loads some risk from government.

8. Supports Industry Development: Contracting out public construction services stimulates the economy by supporting private enterprise which in turn creates work and opportunity for the community as well as a broader tax base. A strong economy is good business for everyone.

9. Faster Project Delivery: Private firms have more at stake, and will work harder to meet deadlines. They know that their future jobs depend on being reliable and on time with present deadlines.

10. Access to Expertise: As private contractors are exposed to a wide variety of clients with often challenging projects, they bring unparalleled experience to their jobs. An in-house force that is not exposed to the challenges of the private market place will not likely duplicate this type of expertise. Contracting out

provides more efficient knowledge transfer and access to “state-of-the-art” technology and expertise.

11. Increased Innovation: When private firms are required to compete for government contracts a climate is created that spurs new ideas and innovative thinking. This is especially true when government specifies desired results and requires a contractor to develop innovative methods of achieving those results.

ARGUMENTS AGAINST OUTSOURCING

There are a number of arguments against outsourcing that are often raised. The following are some of the more common ones:

1. Entrepreneurial government or monopoly power? The argument can be put forward that allowing private firms to bid on public infrastructure work will only be successful if there is a competitive market in existence. If there is not, then the result will be one or two contractors gaining a monopoly on all the public work. While this argument may be true for other industries, it certainly does not hold water for construction. Construction is one of the most competitive arenas in the private sector. If there is work to be had, there will be a number of firms competing to get it. It is also an industry with strong roots and well-established standard tendering procedures and contracts. These standards provide easy markers for public agencies setting out to establish new policies for contracting out services.

2. Contractors will not be held accountable for cost or performance.

Clearly, this statement is untrue. As previously mentioned, the market place is the toughest judge of all. If the contractor does not perform adequately, he will simply not get any more work. If the very existence of your company depends on doing a good job, the likelihood at maintaining a high performance level is assured. As the client, Government will hold the contractor accountable for cost,

schedule, quality, safety and innovation. If the contractor does not perform adequately, the contractor will not get paid. In addition the contractor will carry bonds and insurance. On the other hand, when in-house forces are used, it will be the taxpayer who ultimately pays the bill for cost or performance inadequacies.

3. Government will have to spend money to monitor quality control over the contractor's work. This argument does not hold up. Regardless of whether work is done by private industry or in-house, the same process of quality control would be appropriate. In addition, it should be noted that when the private industry takes on a public construction project based on a lump sum contract, in the event of warranty items arising, the cost of repairs will be the responsibility of the contractor. However, when in-house forces are used, it will be the taxpayer who will bear the brunt of any additional expenses.

4. Low Bid will not necessarily mean Best Value. Such a possibility is easily countered by focusing on a fair and transparent process. Fair competition will result in obtaining the best contractor for the job. Use of in-house forces eliminates the opportunity for this competition to take place, and does a disservice to the taxpayer. At the end of the day, the real issue must be ensuring that government achieves the best value for its electorate.

5. Public employees will lose their jobs. While the loss of a job is always unpleasant and unwelcome, a government that serves its employees first fails in its fundamental requirement to serve the people. Government does not exist for the benefit of those who work for it, rather it exists for the benefit of those who pay its bills or require its services. Where government employees are paid more than market level it is done so on the backs of taxpayers. Government employees are often protected from the market to the detriment of private employees. Some public agencies actually create "make work" programs just to keep their employees busy, which is obviously not in the best interests of the

taxpayer. Clearly, however, the government must find ways to ease any transition towards outsourcing--seeking ways to minimize the impact on the individual employees. On a positive note, by supporting the private industry more private sector jobs will potentially be created. Skilled workers from the public sector should be able to transfer their skills to the private sector. It should also be noted that maintaining an in-house force often means competing with the private sector for the employees, many of who may be "poached" from private industry after training has been completed. Studies have shown that the public sector provides very little in the way of trades training. In light of the predicted shortage of skilled construction workers in the future, the public sector should not be competing with the private sector for these workers.

The construction industry is a very significant contributor to the provincial economy, averaging 7.4% of the annual GDP, and providing jobs for over 112,000 men and women each year. As such an important source of provincial revenue it should be supported by government and not made to compete unfairly with public agency in-house forces.

WHAT ABOUT BC?

There is widespread concern within the construction industry of British Columbia regarding the extensive use by public bodies of in-house forces. Too often construction work, that should be publicly tendered in order to obtain the best value for the taxpayer, is being done in-house. One only has to talk to some of the contractors around the province to realize that this is a problem that needs to be addressed by government.

The Dawson Creek School District has such a sizeable Mechanical Division that they have been known to contract themselves out to the Regional District to undertake a project.

- Northern BC Construction Association

The City of Prince George Electrical Division contracted themselves out in the past to Highways to do at least one Street Lighting Project. They have often been found to be specified to undertake the electrical work in a tendered capital project. The Outside Works Department (Civil) of the City of Prince George regularly undertake major capital works – eg a \$2 Million Road Widening Project this year. Two years ago they were attempting to undertake a \$1 Million Local Improvement Sewer Project. LIPs are traditionally 50% funded by the Provincial Government and 50% by the Property Owners. There were no City funds included at all! We managed to have this once contracted out.

- Northern BC Construction Association

The Peace River North School District were attempting to do the \$70,000 worth of Millwork on a Construction Management Contract until the School Board finally listened to our protests.

- Northern BC Construction Association

The Maintenance Department of the Prince George Regional Hospital were permitted to submit an “Alternate Proposal” on an \$180,000 Pharmacy Renovation that received some six tenders from General Contractors and which was not opened until the day following the public opening of General Tenders at which the Department had four representatives. The project was subsequently awarded to the low General Contractor bidder following our protest. The concern is that the interpretation of the Collective Agreement (which is Province-wide) by Health Authorities is that they have to consider any such proposals that come forth.

- Northern BC Construction Association

There is a School District in Sooke rumoured to have about 16 electricians on staff.

- Electrical Contractors Association

Surrey School District actually provides project management services for other school districts.

- Member Contractor, Vancouver Regional Construction Association

The Royal Jubilee Hospital electrical department has chosen to use in-house forces for both electrical and data work in the D&T fit-up and the IT department office relocation. The IT office relocation involved as many as 15 IBEW trade people and a foreman.

- Member Contractor, Vancouver Regional Construction Association

Owner supplied equipment is a big issue. The GVRD is building a purchasing department empire that is acquiring equipment that they have no knowledge about and should not be getting.

- Member Contractor, Vancouver Regional Construction Association

UBC – The University of British Columbia directly employs a significant number of electricians. Their yearly budget provides for mechanical & electrical work (\$2.8 million in 2000/2001) most of which will be done in-house.

- Electrical Contractors Association

School Districts 23, 67 and 22 in the Southern Interior of BC all make extensive use of in-house forces on projects. In our opinion these projects are poorly managed and inefficient. For example, the Mechanical renovation performed at Beirsto School in Vernon. Their own forces would show up each day with 6-8 vans on site.

- Member Contractor, Southern Interior Construction Association

School District # 23 makes use of own forces for fire alarms and data cabling on all new construction. Also on HVAC Retrofits, they use own forces for electrical work.

- Member Contractor, Southern Interior Construction Association

School District #22, use own forces for plumbing, painting, millwork, data cabling, and alarms.

- Member Contractor, Southern Interior Construction Association

Construction with Owner's Forces by School Districts, uses limited education dollars for inflated construction costs. When School Districts are faced with funding cutbacks, and teachers are being laid off, it doesn't make sense to pay a premium for Own forces construction, when local contractors are looking for work.

- Member Contractor, Southern Interior Construction Association

Take for example a recent project built by a member of VICA for BC Housing. A 42 unit social housing project included in its budget the sum of \$400,000 to cover BC Housing's internal administration costs. This works out to almost \$10,000 worth of paper pushing per unit. In the competitive private sector such a budget item would not be acceptable.

- Member Contractor, Vancouver Island Construction Association

School District #72 built its district office building using in-house forces.

- Member Contractor, Vancouver Island Construction Association

The Victoria School District virtually does everything in-house. On occasion I have noted them using their in-house carpenters to do floor covering work. As a floor layer with over 25 years experience I have to say that the result was simply substandard work.

- Contractor, Vancouver Island

CONCLUSION

In the private arena construction companies live with constant competition. Contractors must continually update their skills, seek new and innovative ways to build more effectively and efficiently. The alternative is to lose business and eventually, without changes being made, to go out of business. Contractors are by nature entrepreneurs, seeking out new opportunities. There will always be plenty of qualified contractors ready to bid on any job outsourced by government, and they will bring efficiency and competency to the table. Government must recognize this opportunity and support the private sector of the construction industry by not competing for its private sector work and its private sector employees.

The time has come for government to seek out the many advantages to outsourcing construction services. When Government is faced with cutting back funds for Education and Health, the only prudent action is to reach for the efficiencies of outsourcing. Government can then allocate those much needed dollars towards classrooms and patient services and in doing so, benefit all taxpayers. After all, finding the best value for the taxpayer both in price and quality is a solution that works for everyone.