

CONTRACTING AND OUTSOURCING IN PUBLIC SECTOR IN THE CZECH REPUBLIC

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Externalisation/ public services

- Externalisation in our case covers:
 - Contracting public services
 - Outsourcing internal services

Literature review

- The first studies related to externalisation concentrated on the problem of comparing the cost-effectiveness of internalisation and externalisation perceived from different perspectives.
- Before 2000, Domberger and Jensen (1997), for example, showed that private production of local services led to efficient provision for a number of government services.
- However, the more recent evidence of the cost efficiency of private delivery is rather ambiguous and more mixed (for example Bel and Costas, 2006).
- Many authors speak about the need for „re-municipalisation“.
- Currently, in terms of contracting services in the public sector, the world economic theory no longer solves the question of whether to contract, but how to manage the contracting process.

Research goal and research questions

- The research goal is to analyse the results of contracting and outsourcing in the Czech Republic and to define the core determinants of these results.
- Research questions:
 - Does contracting/outsourcing in public sector in the Czech Republic bring efficiency gains?
 - If not, why contracting/outsourcing services in the public sector in the Czech Republic do not bring efficiency gains?

Methodology

- The research starts with comparing the cost of externalisation and the internalisation of services.
- The core issue is the question of why the efficiency of contracting services in the Czech public sector delivers limited results. From numerous possible factors, we decided to test contracting efficiency factors.
- In total 9 samples for contracting and 6 samples for outsourcing (mainly our own research) are investigated.

Results: scale of contracting

Service	2000	2005	2007	2010	2014a	2014b	2015a	2015b	2018 – 2019
Collection and disposal of municipal solid waste	71	80	65	83	91	65	79	96	93
Cemetery services	42	26	60	x	47	x	x	x	32
Maintenance of public greenery	45	24	49	x	22	x	x	x	26
Maintenance of local roads	31	38	55	x	52	x	x	x	22
Maintenance of public lighting	23	60	56	x	49	x	x	x	41

Results: scale of outsourcing

Service	2001	2009	2011	2012	2014a	2018 -2019
Cleaning	33	7	37	24	23	2
Catering	52	31	42	35	84	NA
Building management and maintenance	40	11	9	20	35	5
Information technology management	49	38	63	44	58	33
Security services	31	26	68	36	75	53*
Transportation	x	18	20	46	86	NA

Results: efficiency of contracting: in house = 100%

Service	2000	2005	2007	2010	2014 a	2014 b	2015 a	2018	2019
Collection and disposal of municipal solid waste	76	137	136	115	116	125	158	144	116
Cemetery services	x	95	x	x	x	x	x	34	76
Maintenance of public greenery	x	86	x	x	x	x	x	71	80
Maintenance of local roads	x	142	x	x	x	x	x	197	194
Maintenance of public lighting	x	118	x	x	x	x	x	62	51

Results: efficiency of outsourcing: in house = 100%

Service	2010	2011	2012
Cleaning	104	80	107
Catering	94	114	107
Building management and maintenance	97	90	117
Information technology management	117	99	236
Security services	105	51	44
Transportation	128	142	226

Efficiency of externalisation: discussion

- The data are imperfect
- Internalisation does not quantify the real costs of providing the service
- However, the data indicate that „hypothetical“ potential of competition is not utilised

Quality of contract management

- First problem: non-competitive procurement (contracting)

Procedure used for public procurement of services	2000	2005	2007	2010
Tender	12	12	24	43
Restricted procedure	4	40	15	6
Negotiated procedure	3	-	9	4
Price offer	10	-	-	23
Direct award	49	48	32	17
The municipality did not state the procedure of public procurement	22	-	20	7

Quality of contract management: contracting, 2014 sample

Local public services	Risk of non-transparency	Risk of hidden information	Risk of moral hazard		
	Degree of competition in obtaining a public contract	Ex-ante evaluation of the tenderer	Frequency of service production monitoring	Procedure in case of non-compliance with the contractual obligations	Type of payment to the external supplier for the service
Maintenance of public greenery	37.50	34.38	34.38	21.88	37.50
Public lighting	50.00	20.27	37.84	18.11	44.59
Maintenance of local roads	52.70	21.62	37.84	19.19	56.76
Collection and disposal of municipal solid waste	58.20	21.31	60.66	24.43	50.82
Cemetery services	41.67	25.00	29.17	10.00	33.33
Average	48.01	24.52	39.97	18.72	44.60

Quality of contract management: discussion of results

- The largest reserves in the quality of management of contracts can be seen in:
 - the process of public procurement services (often a price offer or direct award as a public procurement procedure, despite the fact that, given the nature and scope of the activity to be procured, a tender is the most appropriate procedure; the lack of a clear definition of the subject of public procurement; there is often a lack of a clear definition of the subject of public procurement; the only criterion for evaluating bids is the lowest price);
 - the process of monitoring external production of the service and solving identified problems (irregular control of external production, "soft" punishment of the external supplier in the case of a breach of contract by the provider, limited room for negotiation, or a change of supplier given the disproportionate length of the contract).

Conclusions

- The scale of externalisation is for sure not decreasing in CZE.
- It is impossible to calculate real efficiency of externalisation, as the current accounting system does not provide effective data. The results seem to differ case by case.
- The critical reserve is the quality of contract management.