

A Blueprint for Privatization And Competition

Privatization—now called competition in government circles—has come into favor as a result of citizens' and elected officials' looking for more efficient ways of providing public services. Mecklenburg County, North Carolina, has been contracting and privatizing services for years. Only recently, however, did Mecklenburg take a systematic and comprehensive approach to privatization.

Using input from county commissioners, citizens, and employees, the county has unveiled a set of specific guidelines with which to chart its privatization course. The journey toward this milestone has been lengthy, and it has required the cooperation of many people. But due diligence has paid off by providing each Mecklenburg County government department with a blueprint for identifying and evaluating privatization opportunities. The guidelines serve as a how-to manual for considering and implementing privatization.

Competition

Is a Hot

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Management

Circles

John McGillicuddy

Getting the Go-Ahead

Mecklenburg's philosophy is to provide its customers with high-quality services at the lowest reasonable cost. The county's privatization policy consists of these principles:

- All services provided that are available from multiple private vendors are candidates for privatization/competition.
- Competition is the driving force that provides reasonable assurance that customer needs will be met in an

efficient and cost-effective manner.

- Each privatization recommendation should include an assessment of the effect on employees, plus recommendations for handling human resources issues. Efforts should be made to minimize the impact of privatization on current employees.

* Cost computations for performance by Mecklenburg County and by its private contractors should be carefully evaluated to ensure true comparisons.

Based on this policy, it was reasoned that competition was the best way to meet expectations. After receiving recommendations from a seven-member citizen committee whose members the Mecklenburg Board of County Commissioners had appointed, the board authorized the creation of a core team of county employees to develop a systematic approach to privatization. The core team includes representatives from (he departments of budget and resource management, buildings and grounds, county attorney's office, engineering, finance, human resources, and internal audit.

Guidelines arising from the core team's work were the results of a deliberate, multiyear process. Guidelines recommend that departments follow four steps in considering privatization as an alternative system for delivering government products and services:

- Step 1. Evaluating the current service delivery system.
- Step 2. Developing a competitive service delivery plan and timetable.
- Step 3. Determining the cost of providing services.
- Step 4. Determining how to contract for services.

Again, competition is the driving force behind the privatization process. Efficiency and customer satisfac-

tion are clearly established as important values. Whether the private or the public sector is selected to provide a service, competition is identified as a means of improving performance and enhancing customer satisfaction.

Decision Factors

As part of the guidelines developed, the core team included nine factors to consider in looking at privatization:

1. Political resistance. Amount of opposition to change, as demonstrated by current service recipients, elected officials, citizens, and/or other interested parties.
2. Service quality. Expected impact on the effectiveness, timeliness, and quality characteristics of the service.
3. Employee impact. Effect on public employees.
4. Legal barriers. Impacts that any laws, statutes, or ordinances may have on a decision to privatize.
5. Control. Government's ability to exercise ultimate control over the service.
6. Market strengths. Characteristics of the service that may interest one of the organizations in providing the service.
7. Resources. Efficient and effective use of government assets.
8. Cost efficiency. Expected cost of privatization, assuming no change in quality or quantity.
9. Risk. Degree to which privatization exposes the government to additional hazards, including legal and financial risks and the potential (or corruption and/or service disruption.

Each of these nine decision factors applies to the four steps listed earlier. As a department director follows these steps to a decision, the nine factors pose questions that elicit responses in favor either of in-house

service delivery or of privatization. The tally of all decision-factor questions results in a total score that indicates a preference for a delivery option (refer to Figure 1 for a summary scoring form).

Not all nine factors need to carry the same weight in the decision-making process. In fact, the scoring of each of the nine decision factors allows for various weights to be applied, thereby prioritizing the nine factors. Weighting would allow, for instance, service quality to have a greater impact on the decision than, say, effect on employees. Or vice versa.

If all this sounds complicated, it doesn't have to be. The nine decision factors give rise to such simple questions as: Is the mode of service mandated by law? Is the service new or existing? Is the service currently having problems with in-house delivery? Will quality increase, decrease, or stay the same as a result of privatization? Each particular response to every question warrants a score that is clearly identified as in favor of either in-house delivery or privatization. A simple tally of scores at the end results in the final decision.

Any significant work associated with the process should occur before the nine decision factors are used. Because each decision factor is related to one or more specific steps, departments first must move through the four steps to reach a comprehensive and informed decision. Moving through those steps begins with evaluating current service delivery.

Evaluating Service Delivery

To compete effectively with other potential bidders, departments are instructed first to define the current level of service and to pinpoint areas that need improvement. This assessment component has four parts:

1. Definition of the mission and ser-

Figure 1. Nine Decision Factors: A Summary Scoring Form

After all of the decision factors have been scored, summarize the results by using the summary scoring form below, which provides a visual analysis of the pros and cons of privatization versus those of in-house service delivery. It will indicate whether most scores fall on the left side of the form (indicating that the service is a good candidate for in-house delivery) or on the right side (indicating that the service is a good candidate for privatization).

By assigning weights to the decision factors, this analysis can be taken a step further. Assign each factor a weight or priority, using "1" for the factors that are less important and "2" for those that are more important. Calculate the final scores by multiplying the weighting factors and the individual scores. (Remember that a positive multiplied by a negative equals a negative.)

Service/Activity:

Summary Scoring Form, with Weighting Factors

Decision Factor	In Favor of In-House Delivery	In Favor of Contract Delivery	Weight	Weight Score
Customer Satisfaction	-3 -2 -1	+1 +2 +3		
Service Quality	-3 -2 -1	+1 +2 +3		
Employee Impact	-3 -2 -1	+1 +2 +3		
Political Resistance	-3 -2 -1	+1 +2 +3		
Legal Barriers	-3 -2 -1	+1 +2 +3		
Market Strength	-3 -2 -1	+1 +2 +3		
Risk	-3 -2 -1	+1 +2 +3		
Control	-3 -2 -1	+1 +2 +3		
Resources	-3 -2 -1	+1 +2 +3		
Cost Efficiency	-3 -2 -1	+1 +2 +3		
Sum Total of All Weighted Scores				_____

1. Identification of the goals and constraints of the program, including goals and constraints.
2. Identification of the service providers—in-house and contracted personnel—that currently deliver services.
3. Definition of communications channels, both internal and external.

4. Identification of the customer for each service.

A second component of evaluating service delivery involves developing outcome measures. For a department to hold itself or a contracted service provider accountable for service delivery, performance targets

must be identified. These targets must be measurable. Performance can be defined by using the answers to the following questions:

- Did we do the right things?
- Did we do them in the right way?
- Did we do them for the right amount of money?

Every performance measure should ultimately support the department's mission. As an example, consider a hypothetical tax collection program. Mission: Make certain that the county has all of its tax money when needed. Goal: Collect at least 97 percent of all taxes within four months of the due date. Outcome measures: Percentage of tax payments received; percentage of tax payments received within four months of the due date.

Some services may currently be measured by such indicators as the number of permits processed each day or the number of maps reproduced and sold in a month. These are NOT performance measures; they are measures of services and products delivered. Truer performance measures would be the average cost to process a permit, or the waiting time for the reproduction of a map, assuming that the customer values the cost of producing a permit or obtaining a map immediately on request.

A final component of evaluating service delivery is opting for fundamental organizational change. Such change should be focused on the core processes of the department or service, not merely on the functions. The results can be improved customer satisfaction and cost reductions. Again, all levels of employees should be involved in the redesign process.

A number of factors will influence redesign, including the impact on the quality of services currently delivered, the cost requirements for change, legal restrictions, available technology, impact on employees, and political response to the proposed change.

Developing a Competitive Plan

The process of evaluating current service delivery will go a long way toward identifying potential areas in which privatization should be considered. In fact, five of the nine decision

factors are linked to this evaluation. Using this analysis of current service delivery, a decision can be made to put together a competitive service delivery plan and timetable. Building this plan should entail focusing on several questions:

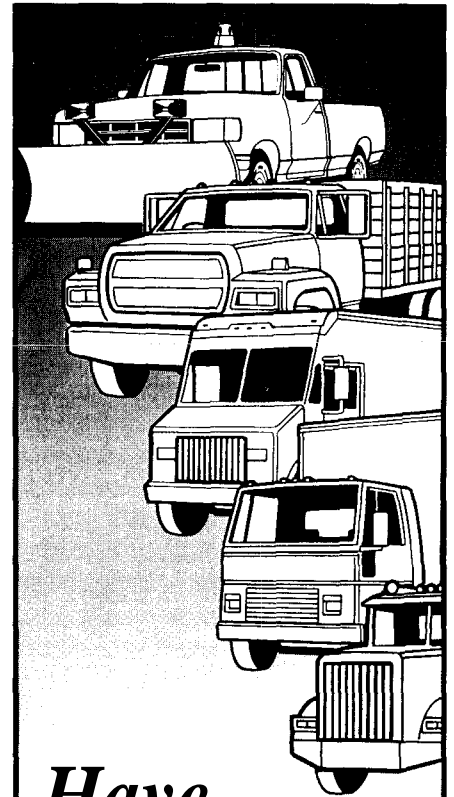
- Can the scope of work be clearly defined?
- How will affected employees be involved in service redesign and in the development of the privatization/competition proposal?
- What provision (most likely in the existing human resources policies) will be made to assist displaced employees?
- How will the transition to a different service provider be handled?
- How will the contract be administered?
- How will performance and compliance be monitored?
- Will any portion of the service be kept in-house?
- What is the contingency plan if the contractor defaults?

Departments that regularly engage in such local government processes as requests for information (RFIs) should have little trouble in determining the availability and qualifications of alternative service providers. However, those departments unfamiliar with this type of process are urged to seek the assistance of the purchasing department. The consolidated Charlotte-Mecklenburg Purchasing Department helps departments in developing lists of potential service providers.

Among other resources, departments can use the library of the National Institute of Government Purchasing, which provides listings of vendors available for a particular service.

Determining Costs

Among the many considerations in making the privatization/competi-



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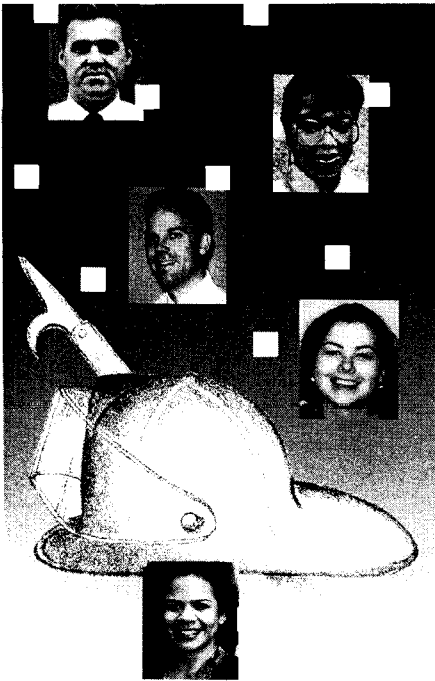


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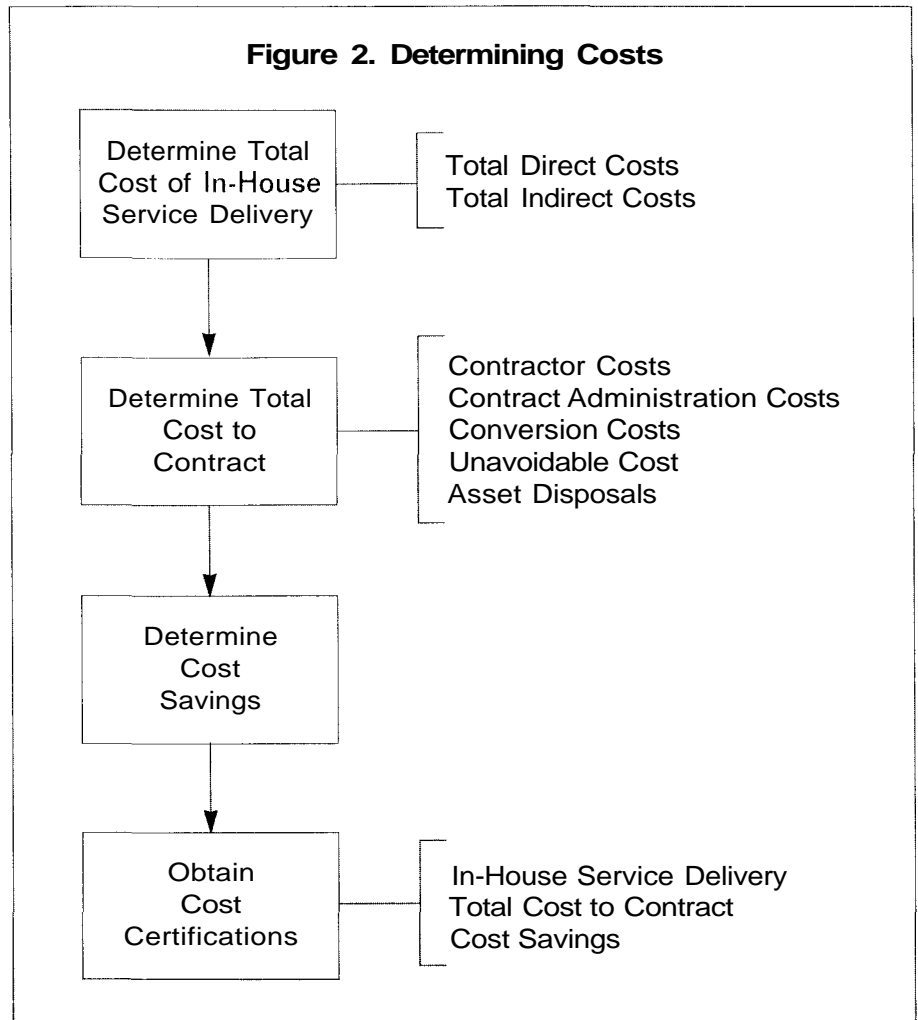
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Figure 2. Determining Costs



tion decision, cost is a major one. An informed decision can be made only with accurate assessments both of in-house and of contracted service costs. Determining the total in-house costs of service delivery must involve determining: the direct costs, the share of the department's indirect costs that pertains to the specific service, and the share of county-wide indirect costs that pertains to the specific service (see Figure 2).

Direct costs are salaries and wages for all staff involved in performing the service. Projected salary and wage increases also should be considered. Other compensation, including benefits, overtime pay, and longevity pay, must be factored in. Additional direct costs include supplies and materials, rent/lease of

building and equipment, maintenance and repair of equipment, and depreciation of assets.

County-wide indirect costs include central service support that indirectly contributes to the service being analyzed, such as the cost of finance, personnel, budgets and internal audit. Departmental indirect costs are any costs incurred by the department for performing or supporting the service being analyzed. For example, the department director's salary is not included as a direct cost of the service but would be allocated as an indirect cost.

Determining the total cost of contracting a service may be just as detailed a process. This cost would include the sum of the contractor costs, contract administration costs,

conversion costs, unavoidable costs, and any gains or losses from the sale of capital assets.

As stipulated by Mecklenburg County's privatization/competition guidelines, an independent department serves to certify the in-house cost estimates. The independent department receives and tests the county proposal before competitive submissions are made. This independent review is built into the process to ensure that the county proposal has been fairly presented.

Contracting for Services

Again, those departments familiar with the bidding process likely have the experience to contract with private firms. For those departments unfamiliar with contracting services, Mecklenburg County's privatization/competition guidelines offer both specific steps to follow and examples of requests for proposals (RFPs).

One key element in the guidelines is the classification of contracts. Based upon the type, duration, and dollar value of a contract, various requirements exist. For example, one-time contracts of less than \$10,000 should be handled internally by the department, with information sent to the assistant county manager or county manager and in some instances to the board of county commissioners. Any contract with a dollar value exceeding \$50,000, or a multiyear contract, should follow the formal bid process established in Mecklenburg County.

Other factors must be considered when contracting for services. Among the most important is developing a transition plan for implementing the change, including procedures to ensure uninterrupted provision of services, to handle changes in staffing, and, if necessary and authorized, to dispose of public facilities and equipment. In most cases, provisions also should be made

to educate customers about the new service delivery system.

Finally, the best way to assure quality service is, first, to set reasonable but explicit performance standards in the contract and, second, to monitor that performance closely. A comprehensive monitoring system consists of contractor reports, inspections, and citizen feedback and surveys.

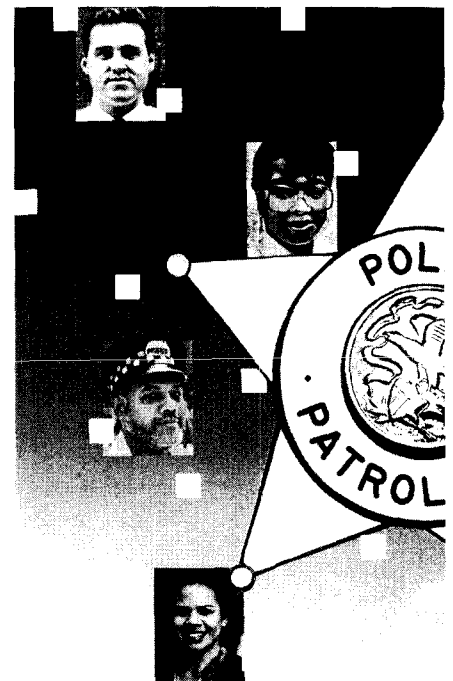
Happy to Report

Mecklenburg County has privatized \$85.7 million in services provided to the community, representing 15.7 percent of its FY 1995-1996 budget. Much of this privatization occurred before the development of the guidelines described in this article. With resources continuing to be limited, and ongoing pressure to keep taxes at a minimum, privatization will likely remain a popular option for delivering government services.

The existence of these guidelines will provide Mecklenburg County's departments with more structured opportunities to explore privatization as a service delivery option. It also will allow the county to make better comparisons of the value of its delivery system against those of the private sector. **PM**

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