Lessons Learned from ICMA’s Alternative Service Delivery Surveys

Mildred Warner
Cornell University
mwarner@cornell.edu
ICMA Alternative Service Delivery Surveys

- Launched in 1982 – To explore private forms of service delivery
  - Contracting to for profits, non profits, other governments, franchises, subsidies, volunteers.
  - 65-70 services in public works, public safety, utilities, health and social services, utilities, parks and recreation, culture and arts, general government
  - Motivators, Barriers, Management Characteristics

- Conducted every 5 years – All cities over 25,000, All Counties, partial sample of places under 25,000. 1200-1600 response per survey

- Most comprehensive source of data on local government service delivery in the world.
Privatization Peaked in 1997: Cooperation is the New Reform


1992 (N=1444)
1997 (N=1460)
2002 (N=1133)
2007 (N=1474)
2012 (N=1956)

18.2
16.4
17.6
16.6
21.0

14.7
13.2
12.7
16.2
15.8

5.0
4.3
4.6
5.0
6.9

- Public Employee Entirely
- Intermunicipal Cooperation
- Privatization to For-Profit
- Privatization to Non-Profit
Overview

- Late 20th century experiment to expand role of markets in local government service delivery
- Reinventing Government Movement
- US Privatization peaks in 1997 (UK ends compulsory competitive tendering in 1998)
- Privatization experience uneven
  - Suburbs, richer places have highest rates
  - Lack of cost savings (Bel, Fageda and Warner 2010)
  - Exacerbates inequality, does not promote citizen voice
- Reversals appear in the late 1990s
  - Now called Re-municipalization in Europe and the Global South
Overview

- Early 21st Century – rebalance government/market relationship
- Shift from Competition to Cooperation
- Network Governance
- Not a return to old bureaucratic delivery, instead
  - A shift to a new mixed position – markets and public delivery
- Rebalancing Governmental Reform – Pragmatic Municipalism
  - Limits of markets, critical role of the public sector
  - Inter-municipal cooperation to gain scale
  - Hybrid - mixed public private forms to manage market risk
  - Managing community, business and labor interests
Privatization Peaked in 1997: Cooperation is the New Reform


- Public Employee Entirely
- Intermunicipal Cooperation
- Privatization to For-Profit
- Privatization to Non-Profit
Why did Privatization Fail?

• Competition is hard to ensure
  – Many public services are natural monopolies
  – Competition erodes and so do cost savings
  – Government must structure the market

• Need for Failsafe Delivery
  – Loss of internal intelligence and control
  – Transfer risk to public sector

• High Costs of Contracting
  – Transactions costs (information asymmetries, structuring contracts)
  – Leads to relational contract (collusion)

• Democracy ≠ Markets
  – Accountability challenges
  – Preference alignment problems
  – Need for public participation in service delivery
Markets for Public Services Are Uncompetitive

- Monopoly
  - Police < .5
  - Fire < .5
  - Sewer < .7
  - Water 1

- Competition
  - Child Care > 3
  - Vehicle Towing > 3
  - Waste Collection < 3
  - Vehicle Maintenance 2
  - Street Repair < 3

- Low Competition
  - Utilities 1.5
  - Transit 1.3
  - Waste Disposal 1.3

2012 survey of 162 city managers
Government Must Manage Contract Markets – Mixed Delivery

Survey Years | Complete Contracting Out | Mixed Public/Private Delivery | Direct Public Delivery
---|---|---|---
1992 (N=1444) | 53.9 | 17.9 | 28.1
1997 (N=1460) | 49.7 | 16.9 | 33.4
2002 (N=1133) | 58.8 | 23.5 | 17.6
2007 (N=1474) | 51.9 | 17.8 | 30.3
2012 (N=1956) | 50.1 | 16.8 | 33.1
What is Mixed Market Delivery?

- Benchmarking – information asymmetries
- Market Management – create competition
- Redundancy – ensure failsafe delivery
- Work sharing – network governance or inter-firm alliances
- Public Engagement – ensure public participation in the delivery process
- Private Sector – Concurrent sourcing to achieve complementarities between firm and market
- Mixed delivery twice as common in for profit contracts as in inter-municipal contracts (more value congruence)
- In Europe see emergence of mixed public/private firm
Reversals: US Local Government

Towards Private

Private Delivery 30% Stable

New Contracts 11%

Towards Public

Reversals 10%

Public Delivery 49% Stable

Contracting 2007-2012
Why Reverse Contracts?

% Govts Responding

- There were problems with the contract specifications
- There was strong political support to bring back the service delivery
- There were problems monitoring the contract
- Local government efficiency improved
- The cost savings were insufficient
- Service quality was not satisfactory

Reversals twice as high in for profit as in inter-municipal contracts

ICMA ASD Survey, 2012
Still Problems with Contract Evaluation

Percentage of municipalities evaluating privatization contracts

- 2002 (n=1,177)
- 2007 (n=1,537)
- 2012 (n=2,118)
Inter-municipal cooperation is the new reform. But cooperation has its own challenges.

Lack of Cost Savings
   Level up costs
   Administrative Design Costs
Difficult to Monitor
   Weak sanctions with neighbors
Don’t see voluntary cooperation across difference
   Leaves out poor partners
Broader Goals
   Service Quality
   Regional coordination
Do Shared Service Save Costs?

Cost savings only occur if:
• economies of scale exist
• administrative costs are low

Costs can rise – level up to the higher cost neighbor

New Survey Questions Added Over Time

- Reverse Privatization - Contracting Back In (2002)
- Factors driving Cooperation – regionalism (2007)
- New sources of Finance – TIF, PILOTs, User Fees, BIDs (2012)
- Responses to Fiscal Stress (2017)

- Challenges as we move from contracting to network governance
- Financial forms of service delivery – PPPs, Pay for Success
- Cooperation range from formal to informal, across a broad range of partners

What questions are most important to you?
Sharing Economy
Co-Production
Inter-municipal Cooperation
Private Clubs
Public Delivery
SIBs/PfS
Public-Private Partnership
Private Contract
Public Private Firm
Complex Array of Alternative Service Delivery
21st Century Management Challenges

Fiscal Stress and State Preemption
Alternative Revenue Sources – Fees, charges
Barriers to cooperation
Challenges of contract management – especially in a networked system
  Managing Citizen expectations
  Managing Union/Labor concerns
  Managing Markets, especial financial interests

Pragmatic Municipalism – gets the balance right

For more information see www.mildredwarner.org