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Privatizing Government Services for Better Efficiency

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Economic hard times make all of us review our spending and how to cut costs. That is true at home, at church, in our businesses and in government. Government tends to be the last of these groupings to seriously look at truly restructuring how it delivers services and how it spends taxpayers' money.

Government is not a competitive business. There are built in inefficiencies that come with the territory. Civil Service employment is but one built in inefficiency because removing employees is not as easy as it is in our companies in an "employment at will" state such as Virginia. Part time legislators create an imbalance between the full time bureaucracy and the elected officials who usually have responsibilities beyond their political office. There is hesitancy at times by elected officials to make waves by advocating real structural change in government because then some voters will be angry. And government rarely designs an awards system that makes sense when seeking creative ideas. Because of all of these built in inefficiencies, government tends to be the last group to take advantage of new ideas and techniques. That is why government's size has remained pretty much the same while businesses have carved down their number of employees over the past 20 years or more, have become more productive and more efficient. And that is why government is the last of the bureaucracies to carve down and flatten out its structure and to begin to find better ways "on the outside" to provide services, to bring outside partners to the table and to begin to compete out some of its internal operations.

I have been asked to set the stage for this morning's discussion and hopefully my comments will get us thinking about what can be done here in Fairfax County to bring more cost effective practices to the management of the taxpayers' money. Of course, our political and government leaders have to be open to new ideas and enter this discussion with the attitude of "let's see if we can this" and not with an attitude that Fairfax County government is so good that any suggestions for improvement should be shelved.

Over the past thirty years – since Ronald Reagan was elected president in 1980 – there has been a growing effort to make government work better, to cut its size, and to bring to the public

more value for the tax money spent. And today's economic realities force us to take an even more serious look at what government does and how it does it.

Government's role is evolving from a service provider to a provider and/or broker of services as the realization seeps in that the right networks of public, private and non-profit groups can many times deliver services more effectively than the government structure today.

Almost every government service has been privatized successfully somewhere here in the United States or in other democratic countries. And in many cases, successes have followed initial failures but in the end privatization is usually providing the same or broader services and providing them for less cost and with more quality.

This morning we will discuss "privatization" which covers a number of similar terms: contracting out, outsourcing, competitive sourcing, public-private partnerships and probably others as well.

Privatization is an umbrella term referring to a number of government policies that shift some responsibilities to the private or non-profit sectors or a partnership between government and the private sector to accomplish a goal or provide a service.

At the end of the day the key to the success of privatization is to understand that it is merely a policy tool in the hands of government. And its success depends on how well that policy is crafted and how well it is monitored and how clear the relationship between government and its partner is understood and appreciated.

The goal of privatization is simple: to make government better and less expensive. To accomplish a better government through privatization, the managers of government look to accomplish one or more of the following:

Cost Savings, Improved Risk Management, Quality Improvements, Timeliness, Access to Outside Expertise, and/or Innovation.

And most privatization falls into three areas: contracting out of services; franchises also called leases and concessions; and Divestiture where government simply gets out of the activity altogether.

There are many areas where governments have turned to privatization. Some of these are done here in Fairfax County, some are not, and some simply don't apply. But those that do apply here ought to be considered and determined if these would be areas for consideration. The most frequently used areas where success has occurred include: trash collection and waste disposal, vehicle fleet maintenance, hospitals, vehicle towing, drug programs and emergency medical services.

Other government functions that have been successfully privatized include: accounting, financial and legal services; payroll, recruitment, hiring, training, and benefits administration; records management; IT infrastructure; claims processing; planning, building and permitting services; printing and graphic design; road maintenance; building construction and maintenance; park operations; animal shelters; school construction and maintenance; water and wastewater systems; libraries; and the list goes on and on.

Indeed, some cities have actually contracted out most all of their services and we will be hearing from one of those cities this morning –Sandy Springs, Georgia.

My personal “top priority” for this county is to get out of the management of its golf courses. If Indianapolis can shed the management of its golf courses, and New York City has done the same, then Fairfax County should get out of that business. Golf is not a core function of government and it should be a private sector responsibility.

It’s been 11 years since Virginia’s Commonwealth Competition Council identified over 35,000 FTE positions in state government that should be looked at to determine if those activities could be done in the private sector. Those jobs still remain in state government today because no real process was established and no leadership provided to see which of these jobs could indeed be privatized and what savings could be realized. A similar listing should be done here in Fairfax County.

And it’s been 15 years since the Competition Council designed an accounting program called COMPETE, endorsed by the Auditor of Public Accounts in our state government, that provided a step by step method of determining the true cost of providing a government service. For instance, it found that many times when asked to determine the cost of the service provided, the agency did not include such items as rent, utilities and employee benefits because it wasn’t part of its line item budget – they were paid for by Government Services or some other government entity. But, those costs are indeed part of providing those government services and need to be included in any analysis when determining if a program or service should be privatized. That COMPETE program was never used by our state government and only a few local governments used it here in VA. It received national recognition and was used all over the country. It, or something like it, should be used here in Fairfax County.

And it’s been about 17 years since Fairfax County tried to privatize its vehicle fleet maintenance and that idea fell apart almost immediately when the school bus piece faltered at the very beginning. There were a lot of reasons for this, but the consequence was that the whole idea of privatizing was set aside for years as other governments proved this effort could succeed. Yet, when our state government decided to competitively bid out its vehicle fleet maintenance a few years ago, a savings of 25% was achieved. So large savings are available in privatizing maintenance of county-owned vehicles and we should learn from the successes of others.

The biggest problems in government privatization have occurred when poor organizational models were in place, poor governance/oversight structure existed, clear goals were not set, and there was a lack of sufficient management tools and leadership. For instance, IT outsourcing has been a real headache for some governments including here in Virginia. Some governments have worked through these difficulties as Virginia is striving to do right now. In some cases it is felt that smaller contracts rather than one huge mega contract might be best. But failure is part of any competitive system and certainly government failed in many areas prior to the concept of privatization. If that wasn’t the case, we wouldn’t be here today discussing this topic in the first place.

Florida contracted out its procurement functions and saved tens of millions of dollars and it contracted out its human resource, payroll administration, and benefits functions and saved tens of millions of dollars. And when it contracted out its accounting and cash management systems it simply didn’t work. However, Florida has not given up on this and is trying to restructure this effort so that it can be successfully privatized.

So as we talk through this whole area of government privatization this morning, let’s remember that not all the efforts work the first time. There might be areas that simply won’t work for whatever reason. But we shouldn’t close the door on increasing the scope of privatization and to

continually look for areas where government can be improved. Improvement can be infectious so if privatization works in one area not only might it work somewhere else, but the government employees will start looking for areas that can be improved – especially if a truly serious awards program is established for those who come up with good ideas for improving government including privatization.

Not too long ago, the idea of privatizing government services was snickered at by those “experts” who thought government was the best service provider. That has proven not to be the case. Indeed study after study have shown that privatization, done correctly and carefully, can save 10 to 25 percent on average – sometimes more -- and that is a lot of money in anyone’s book.

Our discussion this morning will hopefully help focus on areas where Fairfax County’s government can become more efficient and innovative by bringing the private sector to the table to help deliver services and provide better management for our county government that is larger than several of our states. All of the speakers today stand ready to help this county in this process.

Thank you.