THIRD PARTY GOVERNANCE: Transformations in Public Management

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Study of Selected OECD Nations

- Third Party Governance and Transformations in Public Management
- Internal Reforms to Promote Efficiency
- Growing Use of Indirect Governance Tools to Engage Other Sectors
- Impetus and Rationale
- Implications for Performance and Accountability
- Implications for Budgeting
Hollow state
Disarticulated state
Third Way
Third party governance
Privatization
Hiving off, boarding out, outsourcing
Devolution
Governance, not government
Network management
Not your father’s public administration
Impetus for Third Party Governance

- Fiscal constraints
- Rising public expectations for performance
- Global economies and pressures
- Rise of “wicked problems” on the agenda for public action
- Political vulnerabilities of leaders in a 24-7 media era
- Increase in private market interest in public services
Internal Governmental Strategies

- Focus on replacing hierarchical controls with incentives
- Separating Financing From Provision
- Instilling greater competition
- Shifting accountability from inputs to results
- Promoting greater managerial flexibility

- Internal Tools
  - Contracts with ministries
  - Government franchise and revolving funds
  - Government corporations
  - Quango’s and other nondepartmental public bodies
Federal Civilian Employment and Outlays (Fiscal Years 1950 – 2006)

Note: Executive branch civilian employees excluding postal service.
Source: Office of Management and Budget.
The True Size of Government
(Fiscal Years 1990 – 2005)
Tools of Government

- DIRECT GOVERNMENT
- GRANTS
- LOANS/GUARANTEES
- TAX EXPENDITURES
- INSURANCE
- PRIVATIZATIONS
- REGULATION
Continuum of Indirect Governance Tools

- Internal Managerial Reforms
- Quasi-Governmental organizations
- Contracting for specific Services/products
- Market based regulatory approaches
- Public-Private Partnerships
- Devolution
- Tax credits and vouchers
- Divestiture
- Continuum of Indirect Governance Tools

Traditional Direct Government

Fully Private
Total Federal Effort in FY 2000
(by Budget Function and in millions of dollars)
* Regulatory Costs are the mid-point of a range estimate for annualized costs. Direct Loans are measured by loan disbursements, and guaranteed loans are the face value of the loan guarantee.
Shift in Public Management

- From program/agency to tools and actors
- From hierarchies to networks
- From public vs. private to partnerships
- From command/control to negotiation
- From management skills to “enablement”
- From internal controls to design
Tools

Spend
- Direct Services
- Grant-in-Aid
- Leases
- Procurement & Contracts
- Transfer Payments to Individuals
- Government Credit

Revenue
- Corrective Taxes & Fees
- Tax Expenditures
- User Fees & Charges
- Vouchers

Regulate
- Social & Economic Regulation
- Permit Trading
- Information Training

Actors
- Government
  - Executive Agencies
  - Agency Partnerships
  - State & Local
  - Foreign
  - Gov’t Corporations
- Non-Government
  - Non-Profits
  - Faith-Based
  - Federal Contractors
  - State/Local Contractors
  - Private Individuals

Management
- Performance Management
- Human Capital
- Budgeting
- Financial Management
- Information Technology
- Management
- Acquisitions Management
Rebuilding Involves Networking Among Sectors: Government Stakeholders in Louisiana

FEDERAL

- HUD
- USDA
- DOC
- DOD
- VA
- SBA
- DHS
- EPA
- TREAS
- DOI
- DOE
- DOT
- HHS
- DOJ

Office of the Federal Coordinator for Gulf Coast Rebuilding

STATE

- Louisiana Governor
- 22 Executive Departments
- Boards/Commissions
- Councils/Programs
- Louisiana Recovery Authority

13 Task Forces/Recovery teams

LOCAL

- 64 Parish Governments
- Louisiana Speaks
- Orleans
- Unified Neighborhood Planning

19 affected parishes
Advantages of Indirect Government

- Expands reach of government
- Access skills and technology
- Leverage additional financing
- Promote efficiency
- Access to clients
- Reflect diverse local values and interests
- Gain legitimacy
More demanding context for policy design and oversight

Little knowledge of networks

Poor understanding of tools

Ambiguity in defining and measuring governmental budgetary implications
Unique Accountability Challenges

- Accountability to multiple constituencies
  - Multiple actors empowered to bargain
- Third parties enjoy leverage
  - Political resources
  - Voluntary participation
  - Monopolies over beneficiaries
  - Information asymmetries
- Complex implementation chains
Unique Performance Problems

- Goal diversion
- Fiscal windfalls
- Rent seeking
- Moral hazards
- Adverse selection
- Incentives for inefficiency
- Opportunistic partners
- Less public transparency – “too many hands”
Tool selection – are tools selected to reinforce each other or do they work at cross purposes?
  - Determination of public vs. private should be based on full cost-benefit analysis
  - Permit public and private to compete

Tool design – are incentives built in to encourage ownership and accountability by third parties?
  - Fixed price contracts
  - Capitation and closed ended grants

Third party networks – are the incentives and interests aligned?
  - Selection of “principled agents

Oversight – does government have the capacity and authority to effectively oversee the variety of third parties?
  - Performance based contracts
  - Too big to fail?

Public Transparency – Are roles and responsibility clearly delineated?
Privatization: A Multi-Faceted Concept
Privatization Pressures

- Supplant monopolies with competition
- Increase financing for public initiatives
- Improve technical capacity
- Promote greater flexibility
## Public-Private Roles and Tools

<table>
<thead>
<tr>
<th>Finance Delivery</th>
<th>Public Finance</th>
<th>Private Finance</th>
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<tr>
<td>Private Delivery</td>
<td>Contract</td>
<td>Vouchers PPP’s</td>
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</tbody>
</table>
Case Study: Australia

Figure 1.6. GBE Reform Strategies and Timing: Australia

- Commercialisation
- Corporatisation
- Sales of GBEs in commercial markets, banks, and insurance offices
- Restructure & Privatisation in Natural Monopolies
- National Competition Policy:
  - Extension of trade practices law
  - Competitive neutrality/corporatisation
  - Access regimes
  - Legislation reviews
  - Compliance schedule and payments

Timeline:
- 1980: Commercialisation
- 1982: Corporatisation
- 1984: Sales of GBEs in commercial markets, banks, and insurance offices
- 1986: Restructure & Privatisation in Natural Monopolies
- 1990: National Competition Policy
- 1992: Continued steps until 2004
Types of services outsourced

- Support services – non critical to mission and easily measured. Examples including building cleaning, guard services
- Information technology and other back-office functions – economies of scale,
- Traditional core government activities – prisons, food inspection, audit office, welfare administration, education, health care.
- Infrastructure assets – public private partnerships
Outsourcing of government services
Purchase of goods and services vs. in-house provision

United Kingdom
United States
Norway
Switzerland
Sweden
New Zealand
Australia
Finland
Netherlands
Iceland
Germany
Canada
Denmark
Austria
Luxembourg
Belgium
Ireland
Spain
France
Italy
Portugal
Benefits gained from private provision

- Savings considerable. 33 percent savings in U.S. federal government from 2000 outsourcing initiatives.
- UK – 20 percent savings, 15 percent in Australia
- US - $6 billion savings achieved over four years
- Economies of scale through shared services
- Enhanced capacity and access to technology
- Improved public sector productivity when they compete with private firms
Public Private Partnerships For Assets

- **B = Build**
- **D = Design**
- **F = Finance**
- **L = Lease**
- **M = Maintain**
- **O = Operate**
- **P = Purchase**
- **T = Transfer**

- **DB** – contracts with public for design and construction
- **FDBOM** – private role in all phases
- **BOT** – private transfer to public
- **PMO** – sale from public to private
- **LDO** – private lease of public facilities
- **LO/LPO** – public lease/public lease-purchase
Public Private Partnerships

- Classic PPP – Design, build, finance, maintain and operate over many years
- Different from traditional outsourcing
  - Private financing of up front capital costs
  - Private responsibility for multiple phases of project
  - Long term nature of contract
  - Relationship between public and private collaborative rather than arms length
  - Competition limited due to high capital financing and long term nature of commitment
  - Budgetary treatment tends to annualize costs, rather than recognize up front
Public Private Partnerships: Rewards

- Private Sector Brings Capabilities
  - Financing
  - Capitalize underutilized assets
  - Technical expertise
  - Market efficiencies
  - Integrated management across all phases of projects including maintenance

- Benefits include greater efficiency and savings
  - UK – 90% on-time completion, compared with 30% for public projects
  - UK – 75 percent of projects meet or exceed performance expectations
Risks from Private Participation

- Public values and support – concern over fees and control
- Budgetary control
- Contingent Liabilities – how much risk is government responsible for?
- Oversight and Accountability
- Truncated Competition
Budgetary control can be eluded
- Replacement of up front funding with annualized funding stream may undermine discipline
- Creation of long term mandatory payment commitments
- Potential loss of revenue stream for public projects
- Emergence of contingent liabilities
  - Explicit liabilities such as guarantees
  - Implicit liabilities for services with inelastic social demands
- Eurostat 2004 decision results in classification of PPP’s as private reflecting private risk for construction/availability
Assessing Costs and Benefits of PPP’s

- Cost assessment involves comparing long term net present value tradeoffs for projects with traditional approaches
  - + Potential efficiency of private financing and provision
  - - Lower cost of capital of public sector

- Consequences for overall budget constraint and spending priorities
  - Potential lowering of near term price of capital
    - Can promote a larger number of effective projects
    - Can promote lower value projects
  - Increased importance of budgetary capacity to
    - Institutionalize long term perspective
    - Assess prospective costs and benefits over time
    - Assess potential affordability of changes in allocations for capital against near and long term budget constraint
    - Measure and budget for future commitments and contingencies
    - Assess potential social affordability of capital user charges for beneficiaries
PPP Success Factors

- Political leadership support
- Legal frameworks to ensure enforcement of contracts
- Effective governmental analysis and monitoring
- Competitive procurement
- Performance based contracts
- Explicit risk allocations
- Guaranteed revenue stream
- Support from stakeholders including unions, public clients, other interests
Does the budget process encourage reliance on indirect tools of governance?

- Shared costs with other sectors lower budgetary costs
- Transparency is often less pronounced for indirect tools
- Budgetary treatment often fails to capture full costs and risks up front
  - Public private partnerships
  - Government corporations
  - Tax expenditures
  - Loan guarantees
  - Insurance
- Role of limits on full time employees
## Concerns in the Budget Process

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<tr>
<th>Tool</th>
<th>Transparency</th>
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<th>Ex Post</th>
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Budgetary Approaches

- Information and Transparency
- Deliberation Process
- Fiscal Rules
  - Medium Term Expenditure Frameworks
  - Budget Accounting
  - Estimating conventions
- Ex post review
  - Performance assessments
  - Sunsets