



FREE MARKET FOUNDATION

Johannesburg

PO Box 4056 | Cramerview 2060

Tel 011 884 0270 | **Fax** 011 884 5672

Email fmf@mweb.co.za

Cape Town

PO Box 805 | Cape Town 8000

Tel 021 422 4982 | **Fax** 021 422 4983

Email fmf.ct@mweb.co.za

Durban

PO Box 17156 | Congella 4013

Tel 031 206 1416 | **Fax** 088 031 206 1416

Email urbach@telkomsa.net

National Development Plan: Attachment to chapter 3 submission

LOCAL GOVERNMENT PRIVATISATION

(1998)

1. Types of Privatisation & Objections to Contracting Out and Privatisation
2. Examples of Savings from Privatising (eg Contracting Out) City Services

TYPES OF PRIVATISATION

The monopoly production of services by government has proved a costly and thankless task. Bureaucratic incentives do not operate like profit-and-loss incentives, which powerfully drive an entrepreneur to accomplish a given task with the optimum combination of people, methods and equipment. This is the reason why every type of municipal service can be, and is being, produced cheaper and better by private firms somewhere in the world.

Government may reduce its cost of providing a service in three main ways:

1. Disengagement - government simply stops providing the service. This ought to be considered first, as it offers the largest savings. Where a residual real need for such a service remains, private sector entrepreneurs then move in to meet that need.
2. Partial privatisation by contracting out - a local authority establishes with a private organisation a contract to provide a service. The contract regulates the standard of service. The local authority remains responsible and accountable to its constituents for the service that is being provided. The local authority may or may not continue to collect rates, taxes and other fees directly from the community - such collection can also be contracted out.
3. Full privatisation - government transfers a public entity, activity or property permanently to the private sector, but may decide to regulate aspects of service delivery.

OBJECTIONS TO CONTRACTING OUT AND PRIVATISATION

To avoid overburdening existing and potential ratepayers, the local authority should constantly aim for the best service at the lowest price. Although everyone wins, various concerns about privatising / outsourcing are commonly raised and they deserve thoughtful attention.

Privatisation destroys jobs

This important concern implicitly recognises that municipal agencies are often heavily overstaffed, and that privatisation is a superior approach to delivering a better, cheaper, more efficient service - often with fewer people. It fails to recognise, or deliberately ignores, the longer effects and consequences of privatisation, not merely for one group but for all groups; better service and reduced costs stimulate economic growth and job creation in other areas, benefiting consumers, taxpayers and the workforce including the original employees. The cost saving is not lost but spent elsewhere, and this leads to new and more sustainable jobs which the same workers or others like them will fill instead.

A municipality is not a charity for providing jobs for the unemployed at ratepayers' expense. It may choose to establish a welfare office, or budget to provide charitable relief for the unemployed, or leave this matter to national government. The municipal goal should be to maintain conditions which create jobs that produce wealth - which means private sector jobs. Lower municipal taxes, and support for investors, are the means to attract business, stimulate growth, and get people into productive work.

Civil servants have traditionally enjoyed job security, which has fostered inefficiency. Recognising this historical problem, transitional arrangements can guarantee a moratorium on job-shedding for an agreed time, subject to the normal operation of disciplinary and dismissal codes. Provisions to provide retraining and assist job-hunting can be included. The local authority or the private employer can negotiate with employees to relinquish their jobs for generous redundancy payments. Jobs will disappear, but reasonable and humane treatment of those involved are both possible and desirable.

Existing municipal workers often have good ideas about how to make savings. To encourage "in-sourcing" (where they win the contract), they can be helped to form a business, or given tender preference in initial years, or simply given the contract in the first year. This allows time for them to seek extra outside work. Everyone wins.

Labour aspects of outsourced contracts should conform to societal norms, but not necessarily to civil service norms. Seeking competitive tenders for small chunks of work such as maintenance of a single building enables many small local worker-groups to participate. The spread of modern services and conveniences to outlying areas provides enormous scope and growth potential.

Contracting out leads to bribery and corruption

Corruption is a general problem of government, not a specific problem of privatisation. Private sector players go to great lengths to avoid corruption when spending their own money, for example by setting traps to test their staff.

The solution is to remove the secret, discretionary "rule of man" and introduce to the tendering and contracting-out process the kinds of checks and balances which are used in the private sector. These should include rational, open bidding procedures and objective selection standards as a matter of public record, as well as opening bids and making other important decisions in public.

Private firms will end up costing more

In theory, municipal management could indeed discover and adopt any methods and efficiencies available to the private sector, while saving the private sector's costs of advertising, taxes and profit. In practice the decisive factor is lack of profit-and-loss incentives. Competitive tendering shows that private firms or a formerly-municipal team can do the job for less. This is borne out by thousands of examples throughout virtually every country in the world.

Public services should be done as a service, not for profit

This emotional objection draws on a false distinction between necessities like water supply and other goods. Food and specialised medical treatment are no less essential although they have been historically provided for profit by the private sector. Regardless of the service, the profit motive results in savings so big as to allow a profit while charging less and providing improved service, and competition minimises the profit.

Regarding the outsourcing of all operational areas, a municipality is in the same position as a private corporation. If, for example, the latter employs a contractor to wash some windows because it is cheaper to do so then this will also apply to a municipality. Both groups monitor the performance of the contractor.

It may work in ... (Los Angeles, Wandsworth, Johannesburg) but it will never work here

Every city does have unique problems, and its officials can offer unique reasons why things just cannot be done differently. Resistance to change is a well-known phenomenon. Yet the global wave of privatisation shows an endless variety of creative private-sector solutions to each outsourcing opportunity.

Municipal outsourcing may be encouraged by financial pressures or a legislated requirement to seek competitive tenders. Any growth-oriented municipality should do so voluntarily. Councils should decide what should be done, and at what level of service, and then outsource the implementation of their plans except where there is a statutory requirement such as employing a municipal Town Clerk. Councillors' and officials' allowances and remuneration should relate, not to the size of departments or budgets, but inversely to the size of the budget per capita (number of citizens). This provides the incentive to get the city to grow by attracting new investment.

The council will lose control

“Private companies only care about profit, not service, so standards will fall - planes will crash!” This view is based on a misunderstanding of the workings of the market, and the connection between service and profit. Loss of council control can only result from inadequate contract preparation and monitoring. Outsourcing should improve service quality and, as part of its contract-control function for ratepayers, the municipality should monitor customer complaints to verify this. If, for example, a contractor's business collapses, the municipal regulator should auction the contract and assets or put it out to tender again, as specified in the contract. A further precaution that can be implemented is to use more than one contractor where possible.

Since the private sector is only concerned with profit, standards will fall

In correctly concerning itself about maintaining or improving service standards, the municipality can choose to prepare contracts with scrupulous attention to strict default clauses including penalties and

termination of the contract if necessary. The contractor must then operate under far better and enforceable control of his performance than the previous municipal employees experienced. International experience shows that the private sector can provide services at a higher standard and lower cost than the public sector.

The council's service is already efficient

There is no way of validating such a claim in the absence of market testing. But the council's service may indeed be comparatively efficient, perhaps stimulated by neighbouring or imminent privatisation. This pleasing fact may emerge from the competitive tendering process, when the municipal unit involved wins the contract. Thereafter, the profit motive delivers still greater efficiency, as is apparent during contract periods and at contract renewal.

Conclusion

Clear thinking about municipal services shows that most or all of them are simply businesses which can better be provided by private firms and paid for by their customers. They ought to be shifted with all speed back into the private sector as has been happening worldwide with gathering momentum for two decades.

It is undeniable that there are some careful transitional trade-offs to be made, but privatisation is a win-win proposition, and in the longer term there are overwhelming and progressive benefits for all involved. Further delay would seem unnecessary.

Examples of savings from privatising (eg. contracting out) city services					
Where	When (ref)	What	Cost of service		Savings
			before	after	
1096 responding U.S. city/county officials, re. contracting out services					
	1987 (11)	98% of respondees			>0%
		80% of respondees			10-40%
UK 'Next Steps' program, introducing competition in the civil service					
	1997 (2)	75% of civil service, in 'Next Steps' units			>20%
Garbage and solid waste					
U.S. nationwide study of 1378 communities (pop. 2500 - 750 000)					
	1975 (1)	kerbside pickup (2/week)			av. 40%
Queens (Little Neck & Douglaston, 2/week) vs. nearby Nassau County (Bellerose, 3/week)					
	1975	kerbside pickup	\$297	\$72	76%

	(1)				
and vs. San Francisco				\$40	86%
Atlanta, Georgia	1975 (1)	backyard pickup (weekly)	\$150 p.a.	\$100 p.a.	33%
Newark, New Jersey	1983 (9)	street sweeping			>50%
LA county (121 cities)	1984 (8)	street cleaning			30%
		refuse collection			30%
Wandsworth, U.K.	1981- 5(15)	refuse collection			45%
		street cleansing			24%
U.S. 34-state survey of 120 cities/counties/districts					
	1988 (12)	refuse collect/dispose (/unit)	\$158.60	\$64.30	60%
		street cleaning (/mile)	\$21.10	\$13.50	36%
U.S.A.	1994 (5)	solid waste collection			10-13%
S.Korea	1994 (5)	solid waste collection			up to 50%
Kuala Lumpur, Malaysia	1994 (5)	load per vehicle per day	5.7t	8.5t	33%
U.K. DOE study	1993 (5)	solid waste collection			7%
Fire protection					
Scottsdale, Arizona vs. Glendale/Mesa/Tempe					
	1971- 5(13)	Rural/Metro Inc.(per cap p.a.)	\$11.58	\$6.48	44%
U.S. national average city fire protection cost (for average house)					
	1977 (1)		\$103 p.a.		
Arizona, 1979 (1), Rural/Metro Fire Dept Inc. (50 000 subscribers)				\$23	78%
Oregon, 1979 (1), Grants Pass Rural Fire Dept., Josephine County (10 000)				\$35	66%
Montana, 1979 (1), O'Donnell Fire Service, Billings (5000)				\$42	59%
Tennessee, 1979 (1), East Ridge (6500)				\$15	85%
Georgia, 1979 (1), Southside Fire Dept., Savannah (8000)				\$35	66%
American Emergency Services Corp., Elk Grove (pop. 20 000)					
Illinois	1979 (1)	(per capita rates)	\$29	\$15	48%
Emergency ambulance service					
Glendale, Calif.	1975 (1)	3 paramedic units	\$519 000	\$146 000	72%
Greencastle, Indiana	1976 (1)	Operation Life	\$120 000	\$30 000	75%
El Monte/San Mateo, CA.	1976 (1)	paramedic program	\$1875 000	\$562 000	70%
Leisure & recreational services					

Fullerton, Calif.	1974 (1)	golf course maintenance			21%
Newark & El Cerrito, CA	1979 (1)	recreation program			100%
Santa Barbara, Calif.	1979 (1)	Parks Department			100%
Lynwood, Calif.	1979 (1)	tree-trimming	\$125 000	\$87 000	30%
Downey, Calif.	1979 (1)	golf course upkeep			20%
Ventura Co., Calif.	1979 (1)	park maintenance			20%
San Jose, Calif.	1979 (1)	parks maintenance (p.m.)	\$12 500	\$4 800	62%
LA county (121 cities)	1984 (8)	grass maintenance			29%
Clifton Forge, VA	1996 (10)	cemetery/park maintenance			25%
Transit systems					
Pomona-Santa Monica, CA.	1977 (1)	rural transit bus (/passenger)	\$65	\$32	51%
Fairfax, Virginia	1979 (1)	Gray Line buses	\$287 000	\$93 500	67%
California survey	1980- 6 (17)	14 private bus firms			32%
Atlanta, Georgia	1986 (11)	Flight International (60 jets) USAF pilot training(/flight hour)	\$8,000	\$2,500	70%
San Gabriel valley, CA.	1987 (11)	commuter buses			50-60%
U.S. Urban Mass Transportation Administration (UMTA) study					
Cincinnati, Ohio	1989 (16)	commuter buses			>45%
Seattle, Washington	1989 (16)	commuter buses			30%
Los Angeles (city)	1989 (16)	commuter buses			22%
Los Angeles (county)	1989 (16)	commuter buses			45%
					40%
Social services & health care					
Hennepin Co., Minnesota	1972 (1)	homemaker services			78%
U.S. nationwide	1977 (1)	Humana hospitals (/patient)	\$1,447	\$1,073	26%
LA, Calif.	1978 (1)	alcoholism outpatient program	\$62/h	\$22/h	64%
Salt Lake City & Provo, Utah	1979 (1)	ICH hospitals			78%
Wandsworth, U.K.	1981- 5(15)	Social Services - catering			13%
Wandsworth, U.K.	1981-	Social Services transport			26%

	5(15*)				
Green Bay, Wisconsin	1987 (17)	general relief program	\$411,800	\$226,000	45%
Virginia	1996 (10)	Lockheed Martin IMS collections			
		child welfare support payment			50%
Carolina	1996 (3)	Joyce Gregory Co. care of mentally ill patients			
		State facilities	\$300/day	\$50/day	83%
Planning and zoning					
Salem, Oregon	1978 (1)	centralised permit applications	\$74 000	\$56 000	24%
Houston, Texas(no zoning)	1979	planning dept. expenditures (/head)			
		vs. other 20 largest U.S. cities	\$1.09	26c	76%
Glenorchy, Tasmania	1980s (5)	road sealing			10%
		mechanical sweeping/cleaning			15%
City management					
Ohio	1974 (1)	property tax assessment			50%
LA county (121 cities)	1984 (8)	janitorial services			42%
		traffic signal maintenance			36%
		asphalt overlay			49%
		street maintenance			27%
Wandsworth, U.K.	1981- 5(15)	mobile maintenance unit			25%
		agency punching			40%
		Battersea Arts Centre			57%
		estate managt. (contractors)			14%
		cleaning/attending public halls			41%
		litter picking			27%
		mechanical workshop			42%
		public conveniences			27%
		housing caretakers			18%
		cleaning			41%
		office cleaning			44%
		libraries cleaning & attending			41%
Wandsworth, U.K.	1981- 5(15*)	mechanical workshop			29%
		Latchmere Leisure Centre			9%
		street lighting			42%
		estate mgt.(bldg. works maint)			15%
		gully cleansing			15%

		print unit			11%
		skips and abandoned vehicles			7%
U.S. 34-state survey of 120 cities/counties/districts					
	1988 (12)	asphalt resurfacing (/mile)	\$203.20	\$98.50	52%
		building security (/guardpost)	\$40.50	\$24.60	39%
U.S. Office of Personnel Management investigation unit					
	1997 (4)	employee-owned company	\$118.4m	\$85.4m	28%
Schools					
U.S. nationwide survey, cost per pupil (p.a.)					
	1978 (1)	public vs. private	\$1,740	\$600-1000	42-65%
Police					
Burbank, Illinois	1979 (1)	31-officer force	\$1200 000	\$800 000	33%
Prisons					
Hamilton co., Tennessee	1989 (17)	Corrections Corporation			5-15%
Water and sanitation					
Oklahoma City	1987 (2)	waste water facilities			35%
Wilmington, Delaware	1996 (10)	20-year concession (/p.a.)	\$11.2m	\$8.2m	27%
Franklin, Ohio	1996 (10)	water (5 mgd)			30%
Atlanta	1998 (4)	water and waste (sewers)	\$120m	\$80-85m	29-33%
S.A. examples of savings from contracting out city services					
Benoni Fire and Emergency Services (5-year concession)					
	1992 (6)		R11m p.a.		29%
Springs Bus Service	1994 (6)	year 1	R2.3m p.a.	R0.6m	74%
		by year 5		NIL	100%
Sandton Cleaning Services Division (8-year concession)					
	1994 (6)	feasibility study - year 1	R22m p.a.		42%
		- total			27%
Sandton Parks and Recreation (8-year concession)					
	1994 (6)	feasibility study - year 1	R20m p.a.		45%

		- total			40%
Stilfontein	1995 (5)	engineering dept. operating costs			
		Civil Town Services (Pty) Ltd			20-25%
Pretoria Fire & Ambulance Service (10-year concession)					
	1995 (6)	feasibility study - year 1	R85m p.a.		37%
		- total			37%
Queenstown TLC	1996 (14)	water and sanitation			17%
East Rand (9 councils)		East Rand Water Care Co. (ERWAT)			
	1997 (7)	waste water services	>30c/kl	27c/kl	>10%