



# ***New Institutional Variants of Public Service Delivery***

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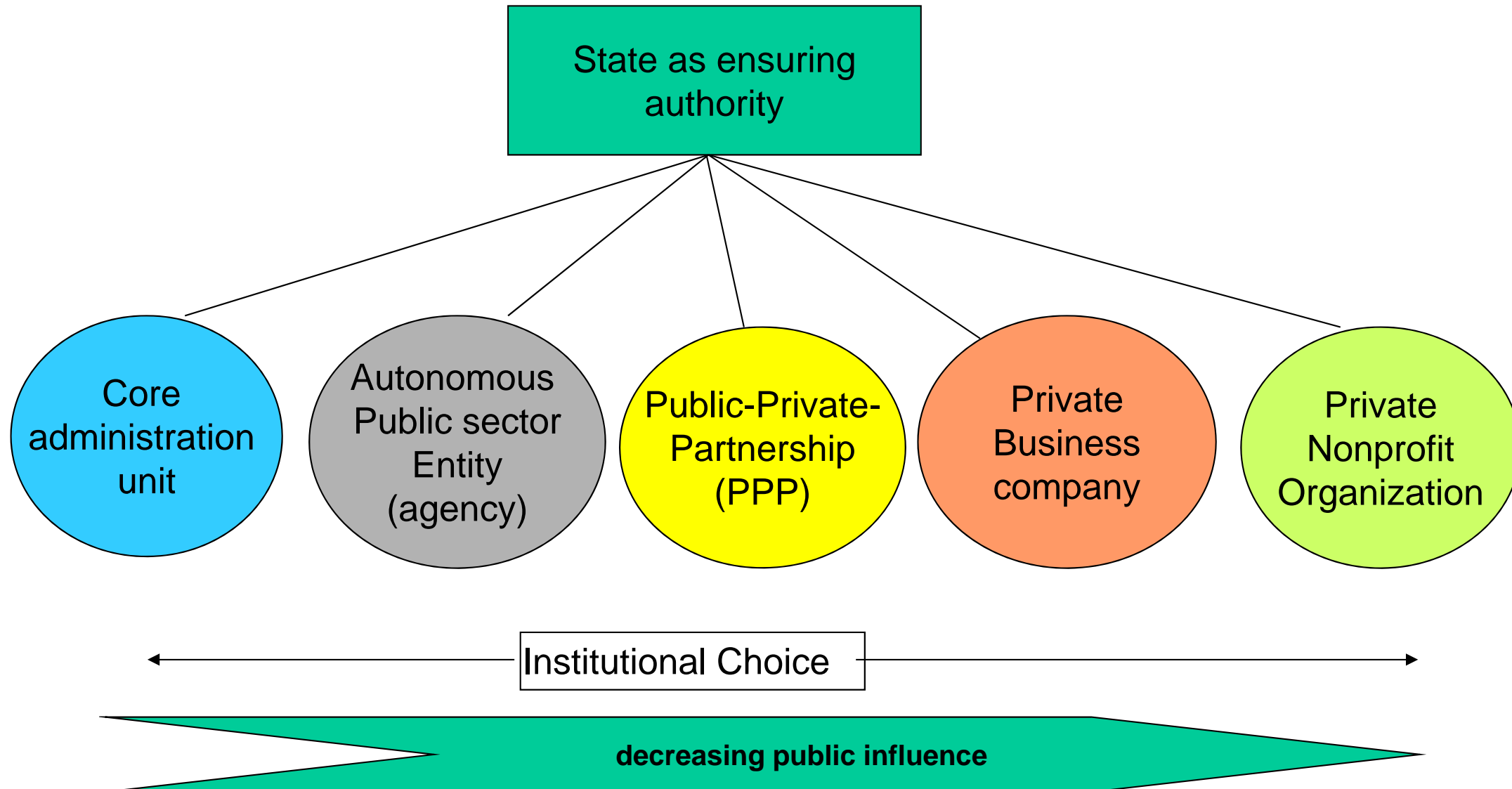


## ***Content:***

1. Overview on options of institutional choice
2. Agencification – trends and experiences
3. Public-Private Partnerships – trends and experiences
4. Contracting-Out of public services to private companies and nonprofits
5. Privatization – trends and experiences
6. Remunicipalization – is the pendulum swinging back?
7. Comparative assessment of institutional variants



## 1. Overview: institutional choice





## 2. Agencification

### ***Autonomization:***

- hiving-off of public sector organisations (PSOs) by giving them more autonomy
- PSOs remain in public ownership but are separated from core government
- Autonomous PSOs are also called „agencies“

### *Types of „Agencies“\*:*

1. Semi-autonomous public entity without legal autonomy
2. Legally independent public entity (with own legal personality; public or private law)
3. Corporation in public ownership (fully or partly owned)

Type 1+2 = Agency in narrow sense

Type 3 = public enterprise --> Corporatization

\* Verhoest et al 2012



## 2. Agencification

### **Motives of autonomization:**

- Improving political and administrative steering and controlling (better management, de-politization)
- Improving the productive performance of the organisations (self-responsible management, more efficient services, flexibility and customer orientation)
- Improving the financial situation of local government (reduction of budgetary burdens, broader scope for financing (e.g. borrowings), positive tax effects, use of a commercial accounting system) → but also: hiding of debts (LG-case: 50% in corporations)

*mostly “escaping arguments”*: to escape from:

- the traditional civil service system with its rigid regulations and the so far missing opportunities to reward individual good performance
- the traditional budgeting and accounting system (cameralism) with its in-built inefficient mechanisms of spending and carrying-over regulations
- the regulations concerning the tendering and purchasing of goods which again are supposed to be inefficient



## 2. Agencification

### *experiences with autonomization from comparative studies:*

- some limited efficiency gains
- more communication and control between responsible authority and autonomous body
- increased freedom to manage (e.g. concerning financing, HRM)
- „cultural change“ as indirect effect

#### **but also...**

- danger of fragmentation of the public sector
- unsolved accountability problems (e.g. ministerial responsibility)
- ethical risks, e.g. increasing corruption risk

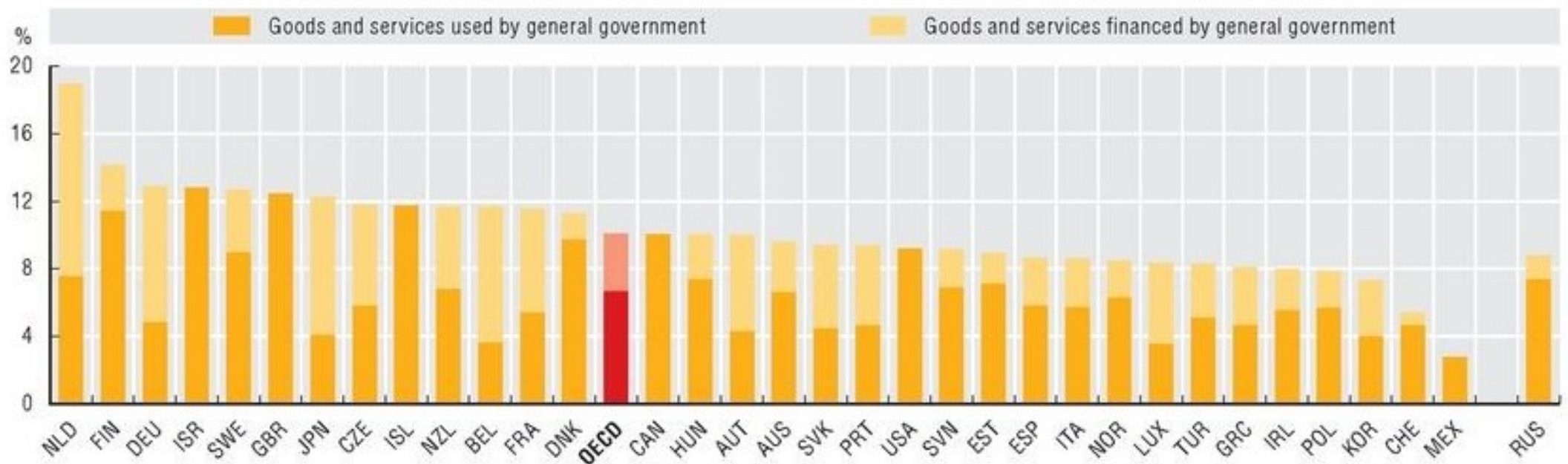


### 3. Public-Private-Partnership

#### General overview: Outsourcing (PPP+Contracting-Out):

Share of government outsourcing in OECD countries 2011: around 10% average

3.47. Expenditures on general government outsourcing as a percentage of GDP (2011)



Source: OECD National Accounts Statistics (database). Data for Australia are based on a combination of Government Finance Statistics and National Accounts data provided by the Australian Bureau of Statistics.

StatLink <http://dx.doi.org/10.1787/888932942108>



### 3. Public-Private-Partnership

#### Characteristics of PPP:

- at least one public and one private partner
- compatible or complementing goals
- integration of public and private resources and synergetic effects

#### Major variants:

- *contractual* PPP (e.g. private financing of public infrastructure)
- *organisational* PPP (company with joint public+private ownership)

#### Motives for establishing PPPs:

- mobilisation of (private) resources (capital and knowhow)
- risk distribution
- opening of new markets
- efficiency gains
- downsizing public sector





### 3. Public-Private-Partnership

#### *contractual PPP - basic idea:*

- difference to classical public/private cooperation: a single entity is responsible for “whole of life” of the project/service
- some of the following phases of service provision should be done by a private (usualls: for-profit) partner:
  - **D**esign (of service and relevant infrastructure)
  - **B**uild (Construction etc)
  - **F**inance (primarily investment)
  - **M**aintenance
  - **O**peration (regular service delivery)

**DBFMO**



### **3. Public-Private-Partnership**

***typical examples of contractual PPPs:***  
(OECD 2005, 141)

- high speed railways in The Netherlands
- airports (e.g. Athens)
- local infrastructure like water pipes, solid waste facilities
- construction and renovation of official buildings (schools, hospitals, prisons etc)
- electronic traffic control (e.g. toll collect Germany)

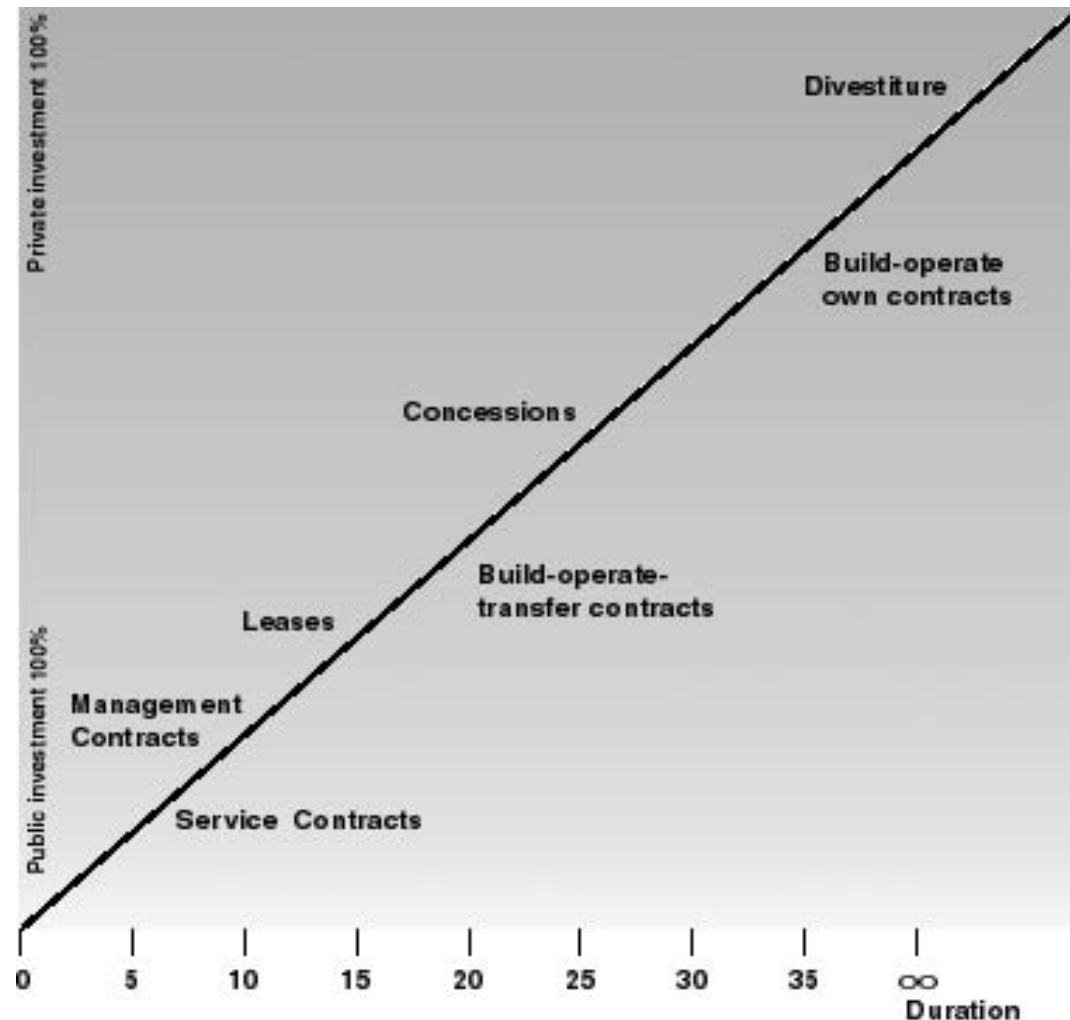


### 3. Public-Private-Partnership

#### forms of contractual ppp:

- service contract
- management contract
- leasing
- BOT (build-operate-transfer)
- concession

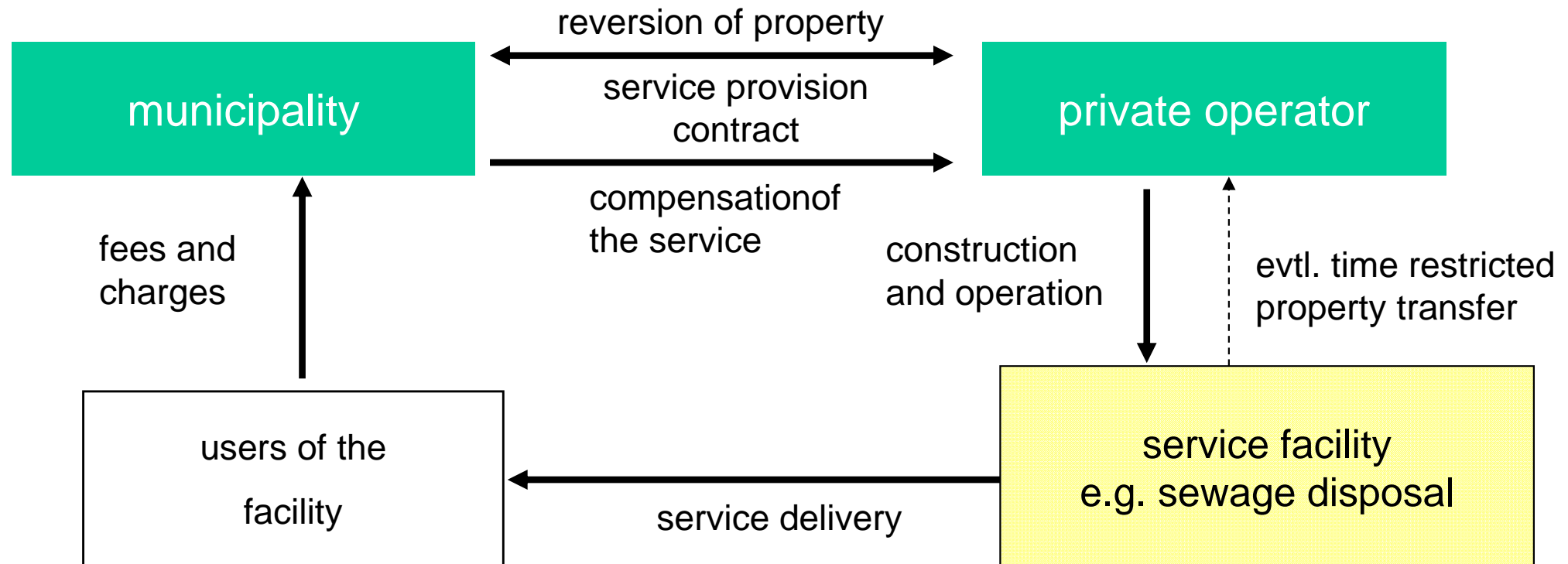
source: Worldbank, Online URL:  
<http://www.worldbank.org/html/fpd/water/wstoolkits/Kit1/frame.html>





### 3. Public-Private-Partnership

#### *practical example: the BOT-Model*





### 3. Public-Private-Partnership

#### *international experiences:*

##### ***Scandinavian Countries:***

- mostly financial PPPs (BOT)
- sectors: public roads, public buildings
- insufficient risk management
- poor transparency
- PPP scandal in Denmark (major of Farum invested a sports stadium: -500M€)

##### ***PFI in UK:***

- 10% of public investment by PFI; many sectors: infrastructure, hospitals, schools, prisons)
- “public sector comparator” = tool; about 17% cost savings in average

##### ***PPP experiences in other EU-countries:***

- Italy, Spain and Portugal: quite strong in PPP
- Nordic countries: quite modest PPP-activities
- CEE-countries: mixed situation (Poland stronger as other countries)



### **3. Public-Private-Partnership**

## Experiences with PPP in Germany

- increasing public interest and demand (fashion wave?)...
- ...but more recently decreasing (also because of fiscal crisis)
- organizational PPPs: nothing new; 40% of all local utilities are OPPPs
- contractual PPPs: 5% of total investment at local level, 13% estimated cost saving (DST 2010)
- dominant fields: infrastructure (road reconstruction), school rehabilitation
- mostly financial PPPs: concessions or BOT models (“Betreibermodell”)



### 3. Public-Private-Partnership

## Experiences with PPP in Italy

- From 2000 to 2010 the proportion of PPP projects of total amount of bids for national public works increased from 5% to 25%
- 2012: 1086 PPP-initiatives in Italy (3,2 bil. €)
- Dominant areas: sport facilities, gas, water, telecommunication, transportation, hospitals and urban development
- Highway construction and maintenance is major field (e.g. A21 Piacenza-Brescia)
- Major regions with high PPP involvement: Lombardia, Veneto

(Rossi/Civitillo, 2014; Grossi/Reichard, 2016)



### 3. Public-Private-Partnership

*balancing some results:*

**+**

**sometimes:**

- shortterm cost savings
- timeliness of delivery
- better knowhow of private partners
- reducing the burden of public authorities

**-**

**sometimes:**

- negative externalities
- mixed quality
- unequal risk distribution
- longterm cost increases
- high transaction costs
- critical effects on equity and on accountability





## 4. Contracting-Out

### ***Contracting-Out (= Outsourcing):***

- Transfer of one or several elements of the value-chain of a public service to a private provider (usually a business company, eventually a NPO)
- based on a contract
- usually with limited duration of contract
- ensuring responsibility remains with the public body



## 4. Contracting-Out

### *motives of contracting-out:*

- similar to PPP
- cost reduction
- mobilizing knowhow
- reducing government burden

increasing tendency of contracting-out in private and in public sector  
(but in private industry: recently a counter-tendency)



## 4. Contracting-Out

### ***sectors with high level of contracting-out:***

- blue collar support services (office cleaning, facilities management etc)
- ancillary support services (IT services, personnel administration etc)
- core functions: health, education, social care, prisons, utility services (water, energy, waste, transport)

strange case of a *contract city*: Weston (Florida):

- 62.000 inh and only 3 employees
- all services contracted-out



## 4. Contracting-Out

### Experiences with Contracting-Out in Germany and Italy

#### Germany:

- In general: modest level of Contracting-Out
- Strong areas at local level: waste collection/treatment and public transport (54% of waste collection are contracted-out)
- Internal administrative services also relevant (e.g. office cleaning)
- increasing emphasis to contracting-out services to NPOs:
  - subsidiarity principle well-known since decades: NPOs have a stake as providers in social care, child and elderly care, health care, culture etc
  - contracting of NPOs increased in the last decade: lower costs, easier downsizing, belief in NPO's effectiveness (Case of Berlin kindergardens)
  - now more competition and new forms of service contracts

#### Italy:

- Strong increase of Contracting-Out
- Waste disposal particularly relevant
- Contracting-out ratio in local government: 10-30% (sample)



## 4. Contracting-Out

### *assessment of contracting-out:*

- efficiency gains to be expected
- but transaction costs may be high!
  
- contract formulation is important:
  - clear definition of services (amount, quality, timing etc)
  - clear regulation of warranty
  - clear sanctions in case of poor performance
  
- case of “filling-in”? Who delivers if the provider does not?
- loss of expertise at contractor’s side
- accountability issue (e.g. ministerial responsibility)



## **5. Privatization**

### **variants of privatization:**

1. formal privatization: change of legal status to private law, no change of ownership
2. privatization of state properties (assets)
3. functional privatization: same as Contracting-Out
4. material privatization: total and unlimited transfer of tasks and responsibilities to the private sector



## 5. Privatization

some arguments for/against material privatization

pro

- lower costs
- better customer relations
- more flexibility
- less fiscal burdens for the state
- smaller tax burdens for citizens
- more competition

contra

- increase of prices or charges for customers
- sometimes decreasing qualities
- exclusion of marginal groups from consumption of services (e.g. water, transport)
- danger of private monopolies, insufficient competition
- selective attitudes (“raisin picking”)
- risk of delivery stops
- loss of democratic control
- higher transaction costs
- weaker working conditions and lower salaries for employees

- 3 types of arguments (Hughes):
- economic (market competition)
  - managerial efficiency
  - ideological



## **5. Privatization**

# Privatization needs Regulation

- Effective regulation is more important than ownership!
- Privatisation needs more regulation (and not less...)
- Regulation is costly – sometimes regulatory costs outweigh savings by privatized services
- System change from public to private provision are usually difficult and time consuming (political resistance, costs of change)





## 6. Remunicipalization

Is the pendulum  
swinging back?

State as ensuring  
authority

Core  
administration  
unit

Autonomous  
Public sector  
Entity  
(agency)

Public-Private-  
Partnership  
(PPP)

Private  
Business  
company

Private  
Nonprofit  
Organization

the case of remunicipalization...



## 6. Remunicipalization

### *Recent trend of remunicipalization/renationalization*

In various countries: tendency to roll back formerly privatized public services to the state:

- UK: Re-nationalization of railways and power
- France: Remunicipalization of water provision (Grenoble, Paris etc)
- Germany: Remunicipalization of various local services (10% of LG want to do some Remunicipalization)
- Various „anti-privatization“ referenda (Germany, recently: Italy)
- Italian case: referendum of Forum Italiano di Movimenti per l'Acqua against water privatization 2006 (Ronchi decreto)

**Pro-arguments:** better democratic steering and control, lower fees, opportunity of cross-subsidies, synergies in multi-utilities

**Contra-arguments:** are municipalities really prepared for „better steering&control“? How to finance such buy-backs in times of fiscal crisis?



## 7. Comparative assessment

Autonomization

PPP-Variants

Devolution to  
NPOs

Contracting-Out

Privatization

decreasing public influence



## 7. Comparative assessment

### *Different steering opportunities of institutional arrangements:*

decreasing intensity of (external) steering: autonomization --> privatization

*variants of external steering modes:*

- legal provisions (regulation)
- hierarchical order
- contract management (Budgets)
- market incentives (prices, profit expectations)
- common values, solidarity, ethos

	<b>Autonomization</b>	<b>PPP</b>	<b>Contracting-Out</b>	<b>Privatization</b>
dominant steering mode	hierarchy, contract management	hierarchy, contract management	market incentives, contract management	regulation, market incentives
intensity of steering influence of the public owner/contractor	<b>+ 0</b>	<b>0</b>	<b>0 -</b>	<b>- 0</b>



## Final issues for discussion

- How do you assess the situation of „institutional variants“ and visible trends in your country?
- Which criteria are particularly relevant to decide on institutional variants?
- What is the role of politics and ideology in the area of public service delivery?
- What are trends to be expected in future?



***Some introductory literature:***

Grossi, G., G. Marcou and C. Reichard (2010): Comparative aspects of institutional variants for local public service provision. in: H. Wollmann and G. Marcou (eds.) *The Provision of public services in Europe. Between state, local government and market* (Cheltenham and Northampton: Edward Elgar), p. 217-239.

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