SUBMISSION FORM

Angela McCleary

NAME: Angela McCleary.

BUSINESS/ORGANISATION:

PHONE (DAYTIME): 021-2123391 EMAIL: boxmein123@gmail

ADDRESS: Matamata

AGE GROUP: ☐ UNDER 25 ☐ 25-35 ☐ 36-50 ☑ 51-65 ☐ 66+

☑ RATEPAYER ☐ NON-RATEPAYER

Note: Submissions are public information. Your feedback will be used for purposes such as reports to Councillors, which are made available to the public and media.

WOULD YOU LIKE TO SPEAK ABOUT YOUR SUBMISSION AT A COUNCIL HEARING? ☑ YES ☐ NO

A hearing will be held on 16 May 2018 (and 17 May 2018 if required) for the draft Long Term Plan, and the other documents we are consulting on. If you do not tick a box we will assume that you do not wish to be heard; if you have ticked yes, please let us know if you are unavailable for either of the days or at any certain time:

HAVE YOUR SAY!

FINANCIALS (Section 1)

Do you agree with our proposed limits on rates and debt, including our proposal to potentially exceed our 4% limit on rates increases for three years of the 10 year plan?

☐ YES ☑ NO ☐ OTHER

ECONOMIC OPPORTUNITIES (Section 2)

Do you agree with our plans to increase support for economic development in our community?

☐ YES ☑ NO ☐ OTHER

VIBRANT CULTURAL VALUES (Section 3)

Do you agree with our plans to increase support for youth and community groups and work closer with Iwi?

☐ YES ☑ NO ☐ OTHER

There is no economy — there is no business success — you are POORLY informed and advised.

CONNECTED INFRASTRUCTURE (Section 4)

Do you think we've made the right choices for the bypasses?

☐ YES ☑ NO ☐ OTHER

Should have used Te Aroha Gordon Rd

ENVIRONMENTAL SUSTAINABILITY (Section 5)

Do you agree with our proposal to up our game in waste minimisation and increase our transfer station fees?

☐ YES ☑ NO ☐ OTHER

HEALTHY COMMUNITIES (Section 6)

Do you think we've made the right choices to extend the cycleway, put funding in place for sports facilities in Matamata and focus on improving the little things in our district?

☐ YES ☑ NO ☐ OTHER

Waste of rate payers money.

WE ARE IN A "RECESSION" AND YOU WISH TO BANKRUPT OUR COUNCIL — Thank you.

Submissions must be received no later than 5pm, 29 April 2018. Please complete this form and tear along the perforated edge, fold and seal all edges with glue or tape, and post. The use of staples to seal this form will result in non-delivery from NZ Post.

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File No: 16/2921

FURTHER COMMENTS: (PLEASE FEEL FREE TO ATTACH ADDITIONAL PAGES IF REQUIRED).

People (50+) are now using "e-bikes" that go 25-30 km/hr
They will not be suitable for gravel bike trails.
Being a biking person I will not be using it either.

You have poorly planned, listened to locals in the area.

A study in the USA showed that inhouse roading and maintenance costs half of contracting out work and inhouse (Council run) is left with a better quality of Road.

Fold

Mailed 27/4 Te Aroha

Fold this form, seal all edges with glue or tape, and post. Using staples to seal the edges will result in non-delivery from NZ Post.

TELL US WHAT YOU THINK:

Online at mpdc.govt.nz

In the submission form in this booklet

Join the Facebook discussion at facebook.com/MatamataPiakoDistrictCouncil

Post your submission form

Long Term Plan Submissions
Matamata-Piako District Council
PO Box 266
Te Aroha 3342

Drop your submission to:

Te Aroha Office: 35 Kenrick Street, Te Aroha

Matamata Area Office: Cnr Tainui and Tui Streets, Matamata

Morrinsville Area Office: 56-62 Canada Street, Morrinsville

Fold

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>>>GOT A QUESTION? VISIT [illegible] <<<

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Matamata Piako District Council

Matamata Piako Council 3.20pm 16th May 2018

LET THEM (WE THE PEOPLE) EAT CAKE

A local body that chooses to NOT SPEND 130% above revenue

would that not be a great thing to witness?

A backbone is required and a change of planning is a necessity
more now then ever before.

*Your current plans are dragging us back into the dark ages,
*your financial expertise is limited
*your advisors are wrong

LET THEM EAT CAKE

A quick glimpse of reality this morning

10 yr bond market rose to 3.09%- we are told bankers no longer have
control of a fractional reserve banking system

It is out of control (Chart E) shows US markets dropped and today
NZ market also. US affects NZ markets.

Everything is ready to explode"Central banks have created a situation
in uncharted territory

GoldmanSacs predicts rates will rise to 3.6%

The speed this morning was fastest seen in a long time- jumped 2.9-3.07% (CHART D)

We are told mortgage rates will go back to 1980s 25-30% interest rates and

council govt loans to 12-18%

Bankruptcy and liquidation will hit this council fast.

Greg Mannarino ex Wall Street trader (Chart A) explains we are at the top of the

credit bubble same as 2008 and dotcom and mortgage subprime

US Debt is $24 trillion and climbing -the financail system is on verge of collapse (CHART B)

RBNZ chart predicts in yellow " tighter financial conditions" (Chart C & D)

Here in NZ to stay inline with overseas stimulus (or printing dollars) we must also be printing

dollars. Told recently Europe has also been printing billions of dollars.

PRINTING= PUSHING A COMPUTER BUTTON AND ADDING ZEROS THIS is money printing

WE ARE TOLD FRACTIONAL RESERVE BANKING IS FRAUDULENT AND MONEY IS PRINTED AND LENT TO WHOEVER THEY WANT.

LET THEM EAT CAKE

You council is hellbent on borrowing and supporting "feel good projects"instead of improving infrastructure

The national roadworks blowout of $660 million was a joke

Study by Mildred Warner from Cornell University avail online shows 50% of expenses

can be saved by insourcing not outsourcing.(Chart F)

Bike trail-ebikes will not use it nor will tourists swith panniers on gravel-so what are they for?

ONE WONDERS FOR THE FUTURE

LET THEM EAT CAKE

IN SUMMARY

There is too much you should know and dont know or maybe you do know
You are borrowing this council into extinction

Now is the last opportunity to change the cruel path you are heading down

The public is becoming more resistant then ever and councils eg kaipara and Auckland are being held accountable. Rogans and Bright are heroes and battlers against system failures.Will they win in the end?

Finally
Future of NZ is in the hands of you acting responsibly and prudently in matters of finance. Unless you have a "see the light' moment I cannot say how things will end. But be clear people are resisting the cruelty of those in control and the lavish spending that exists today.

Marie Antoinite is a prime example of what happens when those in control spend money on lavish projects and the common people are left to feel repudiated by those in control.

Thank your for listening
Angela McCleary

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Insourcing and Outsourcing

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Insourcing and Outsourcing

The Dynamics of Privatization Among U.S. Municipalities 2002–2007

Mildred E. Warner and Amir Hefetz

Problem, research strategy, and findings: While contracting for the private delivery of public services is common, reversals from private to public provision are also common. Indeed, our U.S. data indicate insourcing (reverse contracting) is roughly equal to the level of new outsourcing for 2002–2007. We analyze these data to better understand how city managers decide to privatize services, or to reverse their privatization. The International City/County Management Association collected survey data on the form of service delivery for 67 local government services; they also report many community characteristics and city manager opinion data we can use to explain that choice. Our statistical models suggest that transactions costs, market management, monitoring, and political interests are all associated with the decision to contract, or to reverse contract. Municipalities appear to experiment by outsourcing those services with high transactions costs, while insourcing reflects a lack of cost savings and the challenges of monitoring and market management of privatized services. Alternatively, mixed public and private delivery (concurrent sourcing) promotes competition and provides the capacity for public provision should contracts fail.

Takeaway for practice: The dynamics of outsourcing and insourcing urban services plausibly reflect pragmatic experimentation by government managers in both directions. For private delivery of public services, monitoring is critical, especially as cities experiment with outsourcing services with high transactions costs. Managing market competition also matters, as does retaining the capacity to provide services in-house.

Keywords: privatization, local government, contracting, reverse privatization, outsourcing, insourcing

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Privatization, as in the contracting out of urban services, has been heralded as a reform to promote efficiency and responsiveness in local government service delivery (Osborne & Gaebler, 1992). In the United States, contracting out is a long-standing practice; in fact, many urban services (especially social services) began in the private sector and shifted to public provision during the 20th century. Some argue that renaming such contracting privatization was part of a broader agenda to shrink government and shift the social contract (Feigenbaum & Henig, 1994). For local officials, however, the approach to privatization has been a pragmatic one focused on experimenting with new forms of service delivery in search of cost efficiencies and greater service quality (Bel, Hebdon, & Warner, 2007; Hebdon & Jalette, 2007; Warner & Hebdon, 2001).

This pragmatic approach leads city managers to explore new outsourcing but also to insource or reverse privatize when a contracting effort does not yield the desired results. This has prompted new studies that look at the dynamics of contracting, not as a one-way street toward privatization, but as a two-way street as service production shifts between private and public actors (Brown, Potoski, & Van Slyke, 2008; Hefetz & Warner, 2004, 2007; Lamothe, Lamothe, & Feiock, 2008; Warner & Hebdon, 2001).

Our article offers an analysis of the most recent time period for which data are available to explore the dynamics of contracting across U.S.

municipalities. We use national survey data collected by the International City/County Management Association (ICMA) from municipalities across the United States in 2002 and 2007, which differentiates stable public delivery and continued contracting from experimentation with new outsourcing and new insourcing. In these data, public delivery remains the most common form of municipal service delivery in the United States (41% of all service delivery). Contracting is also quite common with continued contracting accounting for 35.5% of all service delivery. What interests us here is the experimentation that occurs at the margins as cities test new outsourcing and new insourcing (contracting back in previously contracted services). This experimentation accounts for 23.5% of all service delivery.

While proponents of privatization argue it would typically offer a superior form of service delivery to urban governments (Hood, 1991; Savas, 1987), experience has raised concerns about lack of cost savings (Bel, Fageda, & Warner, 2010; Boyne, 1998; Hirsch, 1995; Hodge, 2000), management and market challenges (Brown & Potoski, 2003; Girth, Hefetz, Johnston, & Warner, in press; Johnston & Girth, 2012; Marvel & Marvel, 2007; Warner, 2012), and equity and citizen engagement (Andrews & Entwistle, 2010; Dannin, 2010; Warner & Hefetz, 2002). In addition, city managers are more experienced users of contracting with time (Amirkhanyan, 2007; Dijkgraaf & Gradus, 2007; Hefetz, Warner, & Vigoda-Gadot, 2012a, 2012b; Warner & Hefetz, 2008).

This article focuses on a little-studied but interesting phenomenon of reverse privatization, an important but understudied planning tool in service delivery and market management. The level of reverse contracting (insourcing) now equals the level of new contracting out (outsourcing). Our analysis explores why.

In the first section, we present the theoretical reasons for understanding why outsourcing would be accompanied by insourcing. Next, we present survey data collected with ICMA on the form of service delivery and managers' attitudes regarding key transaction cost, market, and management variables that may explain contracting out. The third section presents the regression model results showing that new outsourcing reflects experimentation with contracting among services with high transaction costs, while insourcing reflects the importance of monitoring and the challenges of market management and inadequate cost savings. We conclude with discussion regarding the importance of monitoring, market management, and maintaining city capacity to bring work back in house should contracts fail.

Literature Review: Why Contract?

What might explain the dynamics of contracting? Possible explanations arise from several arenas: economics, management, and urban geography. Williamson's (1999) theory of transaction costs provides a compelling basis for understanding when a private firm might outsource rather than produce a service in house. This theory has been applied to public-sector contracting by Sclar (2000) and others (Brown et al., 2008; Hefetz & Warner 2004, 2007, 2012; Levin & Tadelis, 2010; Nelson, 1997; Whittington, 2012/this issue). In short, services that are more asset specific (requiring specific physical infrastructure or technical expertise) and more difficult to manage are less likely to be contracted out.

Frequency of contracting and the level of competition in the market are also important as they can prevent lock in with a single supplier, which would raise risk and costs. Competition in local government service markets is generally low, and this creates special market management challenges (Dijkgraaf & Gradus, 2007; Girth et al., in press; Johnston & Girth, 2012; Levin & Tadelis, 2010) of which insourcing is one response (Hefetz & Warner, 2004, 2007). City managers also mix public and private delivery for the same service, as a means to benchmark costs, keep some control over service delivery and ensure failsafe delivery in the event of contract failure (Hefetz et al., 2012a; Warner & Hefetz, 2008).

Monitoring is also critical, especially in contract markets with little competition (Girth et al, in press). In general, the level of contract monitoring in the public sector is low (Brown & Potoski, 2003), the ability to sanction contractors is limited (Marvel & Marvel, 2007), and the effectiveness of performance management uncertain (Heinrich & Choi, 2007). However, we see evidence of a managerial learning process over time as cities become more sophisticated in their contracting (Amirkhanyan, 2007; Rashman & Randor, 2005; Rashman, Withers, & Hartley, 2009; Warner & Hefetz, 2008).

An additional concern for public sector managers is the level of citizen interest in the process of service delivery (Hefetz & Warner, 2012). Beyond basic concerns with open government that can be compromised by outsourcing (Dannin, 2010), city managers must ensure avenues for citizen engagement in the service delivery, planning, and design process (Denhardt & Denhardt, 2003; Forester, 1999; Frug, 1999; Nalbandian, 1999). Outsourcing, because it uses market mechanisms, may enhance consumer voice (Savas, 1987), but the quasi-markets created by government contracting may not enhance opportunities for citizen engagement unless city managers give

explicit attention to creating such avenues for public engagement (Andrews & Entwistle, 2010; Lowery, 1998; Warner & Hefetz, 2002).

Recent trends in public administration and planning urge the public sector to interact with markets and communities to encourage democratic deliberation (Alexander, 2001; Nalbandian, 1999). New public service in public administration (Denhardt & Denhardt, 2003) and communicative planning in urban planning (Forester, 1999; Sager, 2009) recognize the need for more attention to citizen deliberation and voice. Government managers learn about citizen preferences through a dynamic decision-making process that integrates market mechanisms with citizen deliberation (Allmendinger, Tewdwr-Jones, & Morphet, 2003; Sager, 2001; Warner, 2008). This dynamic learning process is reflected in the rise in insourcing (Hefetz & Warner, 2007) and the rise in concurrent sourcing (mixed public and private delivery; Hefetz et al., 2012a; Warner & Hefetz, 2008) as both of these contracting tools balance market and government in a social choice approach.

In addition to managing markets for public services and citizen interests, city managers must also manage the politics and finance around contracting. Union opposition to outsourcing is strong but professional city managers have found ways to manage such opposition and still pursue outsourcing (Hebdon & Jalette, 2007; Hefetz & Warner, 2012; Warner & Hebdon, 2001). Political interests matter more than political ideology at the local government level, and fiscal stress is also a driver of privatization, according to a meta analysis of studies of local government contracting worldwide (Bel & Fageda, 2007).

Urban geography also matters. Metro core cities typically have lower rates of privatization due to higher rates of unionization, greater heterogeneity, and more complex service requirements, which lead to higher costs and narrow the market of potential service providers (Joassart-Marcelli & Musso, 2005; Warner & Hefetz, 2002). This makes metro core cities less attractive candidates for privatization. Suburbs, by contrast, create a market of moderate-sized communities with similar service demands in a metropolitan region. This makes them more attractive privatization candidates, and indeed their rates of privatization are consistently higher than either metro core or rural communities (Hefetz et al., 2012b; Hirsch, 1995; Joassart-Marcelli & Musso, 2005).

Reverse contracting requires government capacity to re-internalize service delivery should the contract fail to adequately control costs, preserve quality, or address broader community goals. The water sector has received the most attention regarding reversals with high profile cases like Atlanta (GA) and New Orleans (LA) in the United States; Hamilton, Ontario, in Canada; Paris, France; Buenos Aires, Argentina; and Manilla, The Philippines (Pigeon, McDonald, Hoedeman, & Kishimoto, 2012). But smaller cities also have sought to reverse their contracts as evidenced by Bill 83, which the Illinois legislature passed in 2011, allowing some municipalities to exercise eminent domain to re-municipalize their water systems after complaints of rising rates and quality problems (Illinois General Assembly, 2011). This law raises the visibility of the question of how common reversals are and do they extend beyond the water sector?

The first empirical work to study reverse contracting across the full range of urban services focused on cities in New York State (Warner & Hebdon, 2001). It found reversals were one strategy used alongside privatization, intermunicipal cooperation, and governmental entrepreneurship in a complex array of alternatives local governments use to balance concerns with efficiency, service quality, local impacts, and politics. The first national study of reverse contracting was conducted by Hefetz and Warner (2004) using ICMA data and reported insourcing (at 11% across all service delivery) from 1992 to 1997 was two-thirds the level of new outsourcing (18% across all service delivery). Insourcing was primarily a substitute for monitoring, as few governments monitored their contracts.

Privatization peaked among U.S. local governments in 1997 and a subsequent study, which looked at the period 1997 to 2002, found that insourcing (reversals) had risen to 18% of all service delivery and exceeded the level of new contracting out (12% of all service delivery; Hefetz & Warner, 2007). Insourcing in this period was found to reflect a dynamic process of social choice (Sager, 2001) that attempted to balance concerns with markets, planning, and citizen satisfaction. This article provides the most recent chapter in a continuing story. Using the same methodology as above for the 2002–2007 period, we find that, averaged across all services, insourcing (11.9%) and new outsourcing (11.6%) are evenly matched. Notable in all these studies is that the dynamics of service delivery are located along the margin, 23–30% of service delivery.

Similar reversals have been noted in the United Kingdom, which stepped back from compulsory competitive tendering in 1998 and allowed local governments to re-internalize previously privatized services (Entwistle, 2005). Australia and New Zealand were also early privatizers who have shifted focus toward rebuilding internal government capacity (Warner, 2008). Even in the private sector, Deloitte Consulting (2005) reports the enthusiasm for

outsourcing has cooled slightly with recognition of the risks to internal knowledge and control, service delivery, service quality, and failure to find a competitive market of outside suppliers. A recent book looking at public service and infrastructure projects around the world profiles a reassertion of the role of the public sector in public service provision in health, education, and infrastructure to ensure equity, access, and failsafe service delivery (Ramesh, Araral, & Wu, 2010).

The United States is the only country with longitudinal data that permit an analysis of contracting dynamics over time. This study will explore new outsourcing and new insourcing across the full range of locally provided public services, giving attention to service characteristics, local market characteristics, and political and monitoring concerns that city managers must address when determining whether to contract out or contract back in service delivery.

Data and Methods

To measure contracting dynamics we combine the ICMA surveys from 2002 and 2007. No national survey directly measures reversals in privatization. However, the consistency of the ICMA survey design and sample frame allows pairing surveys over time to see if the form of service delivery has changed. The ICMA surveys cover 67 public services and ask how the service is delivered: by government directly, or through contracts to for-profit organizations, other governments, or nonprofits. The surveys also ask managers 70 questions regarding factors that are motivators or obstacles to alternative service delivery.

The ICMA sample frame includes all counties with more than 25,000 population (roughly 1,600) and cities over 10,000 population (roughly 3,300) and a one-in-four random sample of cities with population between 2,500 and 10,000 and counties under 25,000 population. A quarter of all governments contacted respond (24% for 2002 and 26% in 2007), but only about 40% of respondents are the same in any two paired surveys. To track changes over time, we paired the surveys and found 476 governments that responded to both the 2002 and 2007 surveys. Of this number we found 430 usable pairs that contain full information for the purpose of statistical analysis. We analyze the paired 2002–2007 sample as representative of the larger surveys, as the key demographic means are similar.[1]

We supplement these data with a survey we conducted with ICMA in 2007 of 164 city managers' assessment of several characteristics for each of the 67 services: level of competition in the market, asset specificity of the service, contract management difficulty, and citizen interest in the process of service delivery.[2] We also use Census of Government Finance data from 2002 and Census of Population and Housing data from 2000 (U.S. Bureau of the Census, 2000, 2002).

The ICMA surveys only ask how the service is currently provided. To determine the level of new outsourcing and new insourcing, we use the method used in prior studies (Hefetz & Warner, 2004, 2007) for consistency of comparison. First, we code the data into three exclusive categories: the service is provided 1) entirely by government employees, 2) by mixed public delivery and private contracts (concurrent sourcing), or 3) by contracts exclusively. Next, we combine these exclusive alternatives over time to create a matrix that allows us to track changes in service delivery choice. This matrix method enables us to compare stability in form of service delivery and to assess shifts, whether toward outsourcing or reversals back toward public delivery.

We use a conservative measure of new outsourcing and new insourcing based on the definition used in prior work by Hefetz and Warner (2004, 2007; see Figure 1). We count as new insourcing only those cases where contracting ceases and the service is brought totally back in house (mixed delivery back to public, or contracted delivery back to public). We count new outsourcing as those cases where public delivery shifts to contracting for the first time (public to mixed, public to contract). Continued contracting involves all the cells where contracting occurred (either as a mix or as a complete contract) regardless of whether the extent of contracting increased or decreased (e.g., mixed to total contract, total contract to mixed).

Disaggregating across individual services, the highest rates of continued contracting are found in physical infrastructure services like transit, waste management, and vehicle towing; and in social services like job training, elderly services, drug treatment, and homeless shelters. Physical infrastructure services are more likely to be contracted to the for-profit sector, while social services are more likely to be contracted to the nonprofit sector. Local governments in the United States have a long tradition of contracting in these service areas. (See Appendix.)

The highest rates of stable public delivery are found in crime prevention, police and fire, water and sewer services, snow plowing, and back-office support services (personnel, billing, data processing). Police and fire are considered essential government functions and have high rates of unionization, which limits government flexibility in exploring contracting. Back-office services are an area where more contracting should be possible, and indeed

		2007 Survey		
		Direct Public Delivery	Mixed Public/ Private Delivery	Complete Contracting Out
		Toward Contracting Out →		
2002 Survey	Direct Public Delivery	Stable Public Public → Public	New Outsourcing Public → Mix	New Outsourcing Public → Contract
	Mixed Public/ Private Delivery	New Insourcing Mix → Public	Continued Contracting Mix → Mix	Continued Contracting Mix → Contract
	Complete Contracting Out	New Insourcing Contract → Public	Continued Contracting Contract → Mix	Continued Contracting Contract → Contract
		← Toward Public Delivery		

Figure 1. Matrix of service delivery dynamics: Definition of new outsourcing and new insourcing.

many services in this group show substantial levels of new contracting out (>10%), but this is matched with similar levels of reverse contracting suggesting a lot of experimentation.

The services that will carry the most weight in the current analysis are those exhibiting high rates of new outsourcing and new insourcing. These are services where there is more experimentation going on across municipalities. Theory would suggest the services most likely to be contracted out would have low asset specificity, low contract management difficulty, and face competitive markets (Levin & Tadelis, 2010; Williamson, 1999). While service characteristics explain part of the reason for dynamics in contracting, they only tell part of the story.

A constellation of factors including nature of local markets, management expertise, and political preferences are also important in determining the level of contracting to the private sector (Bel & Fageda, 2007; Hefetz & Warner, 2012). This may explain why we see high levels of insourcing and outsourcing for the same services. Some of these (e.g., street repair, traffic signs, fleet management, building maintenance, park management) meet Williamson's (1999) conditions of low asset specificity, easy contract management, and higher competition. Others (recreation, legal services, elderly services, and public health), do not, but they are areas where nonprofit contracting is common, and this provides another avenue for community control beyond the contract.

We worked with ICMA to add a question to the 2002 survey exploring what reasons motivated managers to contract back in previously privatized services. The question measured six factors, developed from case studies (Ballard & Warner, 2000), that city managers might

consider important in their decisions to insource previously outsourced services. In both the 2002 and the 2007 surveys, the most commonly reported reasons for insourcing were inadequate service quality, followed by inadequate cost savings. Other factors included: improvements to local government efficiency, political support to bring the work back in house, problems with monitoring, and problems with contract specification. A similar survey of local governments in Canada found the same ranking of reasons for reversing privatization (Hebdon & Jalette, 2007).

We model the decision to newly outsource or insource considering the following variables: service characteristics; market characteristics; fiscal concerns; management (monitoring, opposition); and controls for metro status, population, and income.

Dependent Variables: New Contracts or New Insourcing

Our interest is in the level of new outsourcing and new insourcing across the full mix of services that a local government provides. This variable is the count of services newly outsourced or newly insourced in 2007, given the total number of services that government provides.

Table 1 provides descriptive statistics for all model variables and shows that on average 3.5 services are newly insourced, while 3.1 services are newly outsourced in 2007 as a proportion of 27 services provided on average. We see considerable variability in both the level of new outsourcing and new insourcing and in the overall number of services provided. See the Appendix for variation in the level of provision by service (code enforcement, public safety, parks and recreation, vehicle

Table 1. Descriptive statistics for model variables.

Variable	Min.	Max.	*M*	*SD*
Dependent variable components				
# New outsourced services, 2002[a]	0.0	19.0	3.2	3.4
# New insourced services, 2007[a]	0.0	22.0	3.7	3.7
Provision, both years, # services[a]	1.0	58.0	28.0	11.6
Service characteristics				
Asset specificity, 2007[b]	3.13	4.69	3.47	0.20
Contract mgmt. difficulty, 2007[b]	2.53	3.80	3.07	0.17
Citizen interest, 2007[b]	2.46	3.57	2.91	0.14
Market characteristics				
Competition, 2007[b]	0.00	1.57	0.89	0.25
Percent mixed delivery, 2007[a]	0.00	0.89	0.20	0.16
Fiscal concerns				
Total govt. exp. per capita, 2002 $[c]	105	7,353	1,100	824
Fiscal pressure, 2007, yes=1[a]	0.00	1.00	0.30	0.46
Inadequate cost savings, 2007[a]	0.00	1.00	0.12	0.32
Management				
Council manager = 1[a]	0.00	1.00	0.66	0.47
Problems with service quality, 2007[a]	0.00	1.00	0.18	0.39
Problems monitoring contract, 2007[a]	0.00	1.00	0.06	0.23
Monitoring index, 2002[a]	0.00	1.00	0.37	0.31
Monitoring index, 2007[a]	0.00	1.00	0.34	0.29
Opposition index, 2002[a]	0.00	1.00	0.19	0.28
Opposition index, 2007[a]	0.00	1.00	0.19	0.29
Controls				
Metro status, metro core = 1[a]	0.0	1.0	0.3	0.5
Metro status, rural = 1[a]	0.0	1.0	0.2	0.4
Ln per capita income, 1999[d]	9.0	11.1	9.7	0.3
Ln population, 2000[d]	8.2	14.5	10.7	1.1

Notes:

a. 2002 and 2007 International City and County Management Association (ICMA) Alternative Service Delivery Survey, Author analysis. (N = 430 responding to both the 2002 and 2007 surveys.)

b. 2007 ICMA Supplemental Survey (n = 164, here expanded to the larger sample as explained in text), author analysis.

c. Census of Government Finance, 2002.

d. Census of Population and Housing, 2000.

maintenance, and data processing are the most commonly provided services across all governments).

Service Characteristics

Transaction cost economics points to two key characteristics of a service, whether the service requires specific assets or technical expertise (asset specificity) and the difficulty of contract specification and monitoring (contract management difficulty; Levin & Tadelis, 2010; Williamson, 1999). In the public sector an additional characteristic is important: the level of citizen interest in service delivery (Denhardt & Denhardt, 2003; Hefetz & Warner, 2012; Nalbandian, 1999). These measures were taken from the supplemental survey we conducted with ICMA in 2007. Each characteristic was ranked on a scale of 1 (*low*) to 5 (*high*) for each of the 67 services ICMA measures. The ICMA survey showed significant differences by metro status, so we differentiated values by metro status (core cities, outlying suburbs, and independent rural places) for our sample. See Hefetz and Warner (2012) for values on these factors for each of the 67 services by metro status.

Assuming the sample from the 2007 opinion survey has no response bias for the questions of interest here, we further calculate expected values for these answers for the full sample of 430 places. For example, mean values by metro status were imputed as expected scores for all provided services for each place in the paired survey sample. The final variables used in the regression models are the sum of the expected scores across all services provided divided by the number of services provided.

$$mean\_agg\_expscore_{ej} = \sum_{j=0}^{s} P_j * \text{expscore}_{ej} / \sum_{j=0}^{s} P_j$$

The value is the aggregated expected score across all provided services divided by the number of provided services where $P_j = 1$ if service j is provided and j = 1,2,…,s service; expscore_{ej} = expected score e for service j, e = asset specificity, contract management difficulty, citizen interest, and competition. The set of services provided varies across place, so the variability of the mean scores provides independent values for each service characteristic for each place.

For our sample, we find that the average asset specificity of the service mix is relatively high (3.47), and higher than the average for contract management difficulty (3.07). The average of managers' rankings for citizen interest is lower (2.91) but is highest among metro core communities, followed by suburban and then rural.[3] One of the challenges to outsourcing in urban areas is the complexity of service delivery and the heterogeneity of the urban population, which is reflected in higher levels of citizen interest in the process of service delivery (Frug, 1999). Suburbs are more homogeneous, which makes outsourcing easier (Hefetz et al., 2012b; Joassart-Marcelli & Musso, 2005; Warner & Hefetz, 2002).

We hypothesize that governments, which have a more asset-specific service mix, will have lower rates of new outsourcing and higher levels of new insourcing. We hypothesize that governments, which have a service mix with higher contract management difficulty and higher citizen interest, will have lower levels of new outsourcing and higher levels of new insourcing.

Market Characteristics

Local governments face different local market conditions. The ICMA supplemental survey cited above also measured the number of alternative providers for each of the 67 services (0 = government only, 1 = 1 alternate provider, 2 = 2 alternate providers, 3 = 3 alternate providers, 4 = 4+ alternate providers). Only 10 of the 67 services had mean competition levels over 2.5 providers. Legal services, day care, and vehicle towing were the only services to have more than three providers on average. Using the same method as described above, we calculated the mean level of competition each local government faced for the mix of services it actually provides. The average government in our sample faces an average competition level (across its service mix) of less than one alternative provider. (See Table 1.)

Competition is key to effective contracting (Savas, 1987), and city managers try to encourage competition for their contracts (Johnston & Girth, 2012). We hypothesize that governments, which face more competitive markets, will have higher rates of new outsourcing and lower rates of new insourcing.

We also measured the level of mixed public–private delivery where direct provision and contracting are used concurrently for the same service. Governments use concurrent sourcing to create competition, provide benchmarking, and ensure failsafe delivery (Warner & Hefetz, 2008). Mixed delivery, or concurrent sourcing, is a strategic approach to contracting used in both the public and private sectors (Hefetz et al., 2012a; Parmigiani, 2007). We hypothesize this market management behavior of local governments may provide a pathway to more outsourcing and reduce the need for insourcing.

Fiscal Concerns

A primary motivation for contracting is to reduce costs. To account for fiscal concerns we include per capita local government expenditure for each local government from the Census of Government Finance. In addition, we include variables from the ICMA survey indicating whether the local government faces fiscal stress and whether inadequate cost savings was listed as a reason for reversing contracts. We hypothesize that governments with higher average expenditures will explore both more new outsourcing and new insourcing (in an effort to gain efficiencies). We expect governments reporting fiscal stress will be more likely to explore new outsourcing and new insourcing. Finally, we hypothesize that governments which report problems with inadequate cost savings as a reason for reversing contracts will both have higher levels of new insourcing and lower levels of new outsourcing.

Management

Management is a critical factor in outsourcing, in contract design, monitoring, managing opposition, and ensuring citizen satisfaction (Brown & Potoski, 2003; Girth et al., in press; Hefetz & Warner, 2012; Johnston & Girth, 2012; Marvel & Marvel, 2007). A dummy variable indicates if the municipality has a council manager form of government, as such governments may have more access to professional managerial expertise (Coate & Knight, 2010; Feiock & Kim, 2000). We hypothesize that such governments will engage in more outsourcing and more insourcing.

There are three measures of monitoring. If a government noted unsatisfactory service quality or problems with monitoring contracts as reasons for reverse contracting, we would expect more new insourcing and less new outsourcing. To ensure service quality and contract compliance, monitoring should be associated with new outsourcing. While only 6% of governments acknowledge problems with monitoring their contracts as a reason for insourcing, less than half of respondents in either survey year monitor their contracts. We constructed a monitoring index composed of the following variables (desire to reduce costs, monitoring service quality, monitoring costs, allowing competitive bidding, and experimentation with alternatives).[4] The monitoring index is included for both years 2002 and 2007 as we expect a lagged effect of monitoring; more monitoring in 2002 could lead to more insourcing in 2007 due to the identification of service delivery problems, while more current monitoring in 2007 should lead to less need for insourcing in 2007.

Managers also must manage opposition to privatization from elected officials, department heads, and line employees. Restrictive labor agreements can also limit outsourcing (Donahue, 1989). We construct an opposition index from four questions on the ICMA survey (opposition from employees, department heads, elected officials, and restrictive labor agreements) for each year, 2002 and 2007. We hypothesize that such opposition could reduce the level of new outsourcing and increase the level of insourcing (reversals).

Controls

Trends in privatization differ by metro status. Suburbs have historically had the highest rates of contracting while metro core and rural communities have had lower rates (Heftez et al., 2012b; Hirsch, 1995; Joassart-Marcelli & Musso, 2005). Insourcing requires a level of capacity to bring the work back in house, which we expect to be higher for metro core governments. We also include controls for population and income. Larger governments with greater fiscal and managerial capacity may be more likely to experiment with both insourcing and outsourcing service delivery. However, more heterogeneous and complex service demands in the largest cities may make outsourcing more problematic and lead to more insourcing.

Model Results

Separate probit models were estimated for new outsourcing and insourcing, relative to the number of services offered.[5] We found that service characteristics (related to transactions costs) provide only part of the explanation for why places choose to outsource or insource services. If a government has a higher level of asset-specific services, it is more likely to insource and less likely to outsource. (See Table 2.) This reflects the higher transactions costs and greater difficulty of successfully outsourcing asset-specific services.

However, governments whose service mix is on average harder to measure or who have more citizen interest show a higher level of outsourcing and a lower level of insourcing. This is the opposite of what we expected but may reflect Stein's (1990) notion that governments will seek to contract out services that are difficult to measure and have high citizen interest in order to reduce the political burden they face in dealing with such problematic services. Indeed contract management difficulty has the highest marginal effect of any variable in the outsourcing equation.[6] City managers often prefer contracting with community-based nonprofit organizations as a way to ensure that the complexities of service delivery and citizen interests are managed at the community and neighborhood level (Johnston & Romzek, 2008). Many of the services with high levels of new outsourcing are in public works, social services, and

Table 2. Probit model results, new outsourcing and insourcing, 2002–2007 (number of services in that category as share of all services).

	New outsourcing		New insourcing	
Variable	**Est.**	**Mar. Eff. (%)**	**Est.**	**Mar. Eff. (%)**
Service characteristics				
Asset specificity, 2007	–1.8410 **	0.00	1.1980 **	0.46
Contract mgmt. difficulty, 2007	0.5970 **	7.06	–0.7950 **	–0.01
Citizen interest, 2007	2.1640 **	0.03	–0.8270 **	–0.01
Market characteristics				
Competition, 2007	0.1860		–0.0360	
Percent mixed delivery, 2007	1.8750 **	2.32	–1.0690 **	−4.20
Fiscal concerns				
Total govt. exp. per capita, 2002	0.0001 *	0.34	0.0001 **	3.07
Fiscal pressure, 2007, yes = 1	–0.1040 **	–0.14	–0.0040	
Inadequate cost savings 2007	–0.1440 *	–0.19	0.1510 **	2.72
Management				
Council manager = 1	0.0010		–0.0080	
Problems w/service quality 2007	–0.0190		0.0600	
Problems monitoring contract 2007	0.0060		–0.0390	
Efficiency/monitoring index, 2002	–0.1110		0.2230 **	2.51
Efficiency/monitoring index, 2007	0.0640		–0.1270 *	–1.14
Opposition index, 2002	–0.0800		0.1590 **	1.57
Opposition index, 2007	0.1120 **	0.11	0.0670	
Controls				
Metro status, metro core = 1	–0.2050 **	–0.25	0.1380 *	2.47
Metro status, rural = 1	0.7090 **	2.79	–0.7250 **	–7.11
Ln population, 2000	–0.0940 **	–0.02	0.0520 **	3.36
Ln Per Capita Income, 1999	0.0010		0.0520	
Constant	–2.5410		–1.3360	
Chi square log likelihood	1194.6 **		1199.6 **	

Note: $N = 430$.
*$p < .05$ ** $p < .01$

support functions (maintenance, data processing). New outsourcing is experimenting with services that have higher transaction costs, suggesting an experimentation process exploring new areas for contracting, which makes monitoring all the more important.

Two economic aspects are important: market management and finances. Market management tells an interesting story. We see that level of competition is not significant in either model. Governments face a level of competition in the market that they cannot do much about. However, mixed delivery, or concurrent sourcing, where government stays in the market by providing the service alongside private contracts, is complementary to new outsourcing and a substitute for insourcing as expected. This concurrent sourcing is an active form of market management (Hefetz et al., 2012a), which can provide benchmarking for new contracting and ensure government capacity to re-internalize the contract if necessary; this competitive pressure can make reversals unnecessary.

Contrary to expectations, fiscal stress leads to less new outsourcing, but there is no significant effect of fiscal stress on insourcing. As expected, per capita expenditures are higher both for places that engage in new outsourcing (this could be a motivator to outsource), and for those that insource (as more services are now in house). Concern with inadequate cost savings from outsourcing is associated with a lower level of new outsourcing and a higher level of reversals, as expected. In fact, inadequate cost savings are a primary driver of insourcing.

Monitoring and opposition are two management and political features measured in our models. Although we saw that problems with service quality was the top reason governments cited for reversing contracts, it was not significant in either model, nor did recognition of problems with monitoring have any effect on contracting direction. It appears that what matters is not what governments say are problems, but what they actually do about them.

Monitoring levels show no impact on levels of new outsourcing but show an important lagged effect on insourcing, as expected. The lack of monitoring of outsourced contracts leads to the need to insource in later periods (similar results were found in earlier studies; Hefetz & Warner, 2004, 2007). In the insourcing model we see governments that had higher levels of monitoring in 2002 have higher rates of insourcing in 2007, as expected. Prior monitoring exposes problems, which can be addressed by reversing contracts over time. As expected, current monitoring levels are associated with lower rates of insourcing, suggesting that monitoring can prevent the need for reversals.

A similar lagged effect is found with opposition. More opposition to privatization in 2002 is associated with a higher level of insourcing in 2007, but current opposition has no effect. Prior opposition has no relationship to new outsourcing and current opposition has a weak but positive relationship to new contracting. This is the opposite of what such opposition would intend, but managers have learned over time how to manage opposition and still pursue contracting (Hefetz & Warner, 2012). These results suggest there are accountability and political voice aspects to reversals but these are lagged effects, more important in explaining reversals than in explaining new outsourcing.

Metro status shows significant differences. Metro core cities have higher levels of insourcing and lower levels of outsourcing. The same is true of more populated places. This may reflect the greater challenges with contracting in more heterogeneous urban environments and greater management capacity of larger cities. Lack of suppliers in complex urban markets or more formalized labor opposition in more populous urban governments could also explain this metro difference, but our controls for competition and opposition already account for those factors.

Rural municipalities, by contrast, show higher levels of new contracting and lower levels of reversals. Rural areas were slower to experiment with contracting in the 1990s (a slower adoption curve), but their privatization rates rose in the 2007 survey. Due to their smaller size, they have less capacity to reverse contracts once the service has been outsourced. Indeed, rural has the largest (negative) marginal effect of any of the explanatory variables in the insourcing equation. Suburbs are the reference category, fewer reversals than metro core but more than rural places, and more new contracting than metro core but less than rural. Suburbs were the early innovators in contracting and their rates of for-profit privatization reached 20% of service delivery in 1997 and have not risen since (Hefetz et al., 2012b).

Discussion

These results support how understanding contracting as a dynamic process is important. New outsourcing and new insourcing are tools used equally by city managers in our sample in the 2002 to 2007 period. Transaction costs, competition, fiscal concerns, management, monitoring, opposition, and metro status are all important factors differentiating use of these tools. The dynamics of outsourcing and insourcing urban services may reflect a pragmatic, experimentation process on the part of U.S. local government managers. Yet, transaction costs explain only part of the process and work in more complicated ways than simple theoretical predictions. That managers are more likely to newly outsource services with higher contract management difficulty and citizen interests suggests a willingness to push the edges of contracting to services where transaction costs are higher. Monitoring is critical in such circumstances, and the lack of higher monitoring among places with higher outsourcing is cause for concern. We do find a monitoring effect on insourcing. Early monitoring can identify problems with outsourcing that lead to reversals, while current monitoring can reduce the need for insourcing.

Lack of cost savings is one factor that drives the move to re-internalize service delivery, but it is not the only factor. Opposition also can lead to more insourcing, but we see it has little impact on new outsourcing. Pragmatic city managers know how to manage opposition. What is required for effective contracting is capacity: that is, managerial capacity to monitor contracts, manage opposition, and structure competition in the market place. Mixed public and private delivery (concurrent sourcing) is a strategy used to complement outsourcing and to reduce the need for insourcing by ensuring more competition in the market for urban services. Complexity of urban service provision makes larger urban governments less likely to outsource and more like to insource. As urban governments experiment with new outsourcing, they also use insourcing and concurrent sourcing to ensure a road back should the contract fail.

Responding city managers recognize the importance of market management, but more attention needs to be given to monitoring, especially as city managers experiment with new outsourcing for services with high contract management difficulty and where citizen interest is high. Without adequate attention to monitoring contracts, failures leading to more reversals are likely.

Conclusion: Implications for Planners

As local governments experiment with contracting, they recognize that contracting is a dynamic process. Our analysis has shown that levels of new outsourcing are matched by reversals (insourcing) among local governments across the United States. There is considerable variation by service, and even within the same service, some governments will newly outsource while others insource previously privatized services. Not all contracting is successful. Markets shift, citizen preferences change, and service requirements change.

Cities should retain some capacity to re-internalize previously contracted work so that they can ensure failsafe delivery and responsiveness to citizen interests. Outsourcing and insourcing are tools in the city manager's repertoire. Concurrent sourcing (mixed public and private delivery) is another important market management tool used in conjunction with insourcing and outsourcing. But using these tools requires capacity of city managers, staff, and resources, a capacity that can be lost if cities sell off assets or privatize core functions. This is not an ideological stance; it is a pragmatic approach that better allows cities to manage markets to secure the most gains for their residents.

Insourcing is a long-standing but understudied component of contracting. Earlier studies of the 1992–1997 period found insourcing was a substitute for monitoring (Hefetz & Warner 2004). In the 1997–2002 period, when insourcing was one and a half times the level of new outsourcing, we found insourcing was used to reduce transactions costs and to ensure a social choice balance between markets, planning, and citizen satisfaction (Heftez & Warner, 2007). In the current time period, we see the continued importance of transactions costs and monitoring as well as the critical importance of concurrent sourcing to ensure competition and government capacity to bring work back in house.

Contracting urban service delivery is a dynamic reform process. Experience with contracting has made urban managers more aware of the high transactions costs associated with infrastructure contracts (Whittington, 2012/this issue), the problems managing limited competition in local service markets (Girth et al., in press; Johnston & Girth, 2012), and concerns with accountability in long-term infrastructure contracting (Dannin, 2010; Siemiatycki, 2010). Planners have voiced special concerns over failure to consider long-term planning horizons and changing societal needs when structuring long-term contracts in arenas such as transit, parking, and airports (Ashton, Doussard, & Weber, 2012/this issue; Baker & Freestone, 2010; Sclar, 2009). Relational contracting is one way to achieve a more flexible approach (Sclar, 2000).

Public–private partnerships are being promoted as an alternative to privatization because they maintain a relational interaction (Savas, 2000). However, such relational contracts can lock in partners, undermine competition, and raise accountability risks (Ashton, et al., 2012/this issue; Miraftab, 2004; Siemiatycki, 2010). A dynamic approach, using insourcing as a complement to outsourcing, offers another solution that maintains the discipline of markets and the arms' length contracts necessary to ensure monitoring and accountability. City managers recognize the importance of these sourcing tools to maintain a dynamic contracting process over time.

Notes

1. The population distribution of the paired 2002–2007 subsample is similar to the full 2002 and 2007 samples, except that smaller size rural places under 10,000 are less represented in the paired survey ($\chi^2 = 11.08$, $PV = 0.05$ for places over 10,000 population). No difference was found in analysis of variance (ANOVA) of the means of average per capita income of the two surveys and the paired subsample ($F = 2.305$, $p = .129$).

2. The response rate for the supplemental survey was 7.4% (2,207 surveys sent, 164 responses). The majority of respondents to the supplemental survey were from suburban municipalities (53%), and the rest were from metro core (25%) and rural independent municipalities (22%). This metro status breakdown was similar to the full 2002 survey (suburbs, 50%; rural, 28%; metro core, 22%), and the full 2007 survey (suburbs, 53%; rural, 30%; metro core, 17%). It is important to note that, while response rates from both ICMA surveys are low enough to caution against using the results as representative of their populations, these are the best data available thus far and a reasonable basis for an exploratory study.

3. In the full supplemental survey, assessment of citizen interest follows an urban (3.12), suburban (2.94), rural (2.85) gradient and these differences are significant by Duncan Subgroup ranking test.

4. The monitoring index and the opposition index were created by summing positive responses to component questions and dividing by the total number of questions in the index. $\Sigma fi/N$, where $f = 1$ if checked yes to question and 0 if not, and $I = 1,2,\ldots N$ for questions.

5. A probit transformation belongs to a family of linear probability models that produce predictions within the [0,1] range, whereas an ordinary least squares (OLS) procedure would predict results outside this range (Aldrich & Nelson, 1984). The two most common link functions for this type of transformation are logit and probit. The probit transformation takes the form of the standard normal distribution and calculates probability from the integral of the standard normal density function from infinite to the estimated score $Xi\beta$. For comparison, we also tested the model using a logit link and got the same significance level for all variables in the model.

6. We calculate the marginal effects in order to make the effects of the different independent variables comparable to each other. The marginal effect of the j^{th} independent variable is the difference between the probabilities of the standard deviation around the mean. In the probit case, Marginal Effect j is

$$ME_j = \frac{dP}{dX_j} = \text{CND}\left(\text{a} + b_j\left(\overline{x_j} + sd_x\right)\right) - \text{CND}\left(\text{a} + b_j\left(\overline{x_j} - sd_x\right)\right)$$

where CND is the cumulative normal distribution for a value of z.

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Appendix

Table A1. Service Delivery Dynamics, 2002–2007.

Service	*n* Providing	New outsourcing (%)	New insourcing (%)	Stable public (%)	Continued contracting (%)
Residential waste collection	216	5.6	6.9	41.2	46.3
Commercial waste collection	127	7.9	8.7	25.2	58.3
Waste disposal	148	8.8	8.1	25.0	58.1
Street repair	339	17.4	16.2	19.8	46.6
Street/lot cleaning	268	11.6	12.3	58.2	17.9
Snow plowing/sanding	237	10.5	13.5	61.2	14.8
Traffic sign maintenance	284	15.8	19.0	26.4	38.7
Parking meter maintenance	75	13.3	9.3	73.3	4.0
Tree trimming/planting	298	16.4	14.4	17.4	51.7
Cemeteries maintenance	47	25.5	31.9	0.0	42.6
Inspection/code enforcement	348	10.1	11.8	69.0	9.2
Lots/garages operation	118	16.9	12.7	45.8	24.6
Bus system maintenance	86	9.3	10.5	27.9	52.3
Paratransit system maintenance	67	13.4	6.0	28.4	52.2
Airport operation	104	9.6	16.3	32.7	41.3
Water distribution	257	9.7	9.3	71.2	9.7
Water treatment	214	8.9	7.9	66.8	16.4
Sewage collection/treatment	262	8.0	9.5	57.3	25.2
Sludge disposal	191	18.8	10.5	28.3	42.4
Hazardous materials disposal	116	10.3	9.5	10.3	69.8
Electric utility management	51	9.8	17.6	43.1	29.4
Gas utility management	21	4.8	4.8	38.1	52.4
Utility meter reading	206	13.1	8.7	67.0	11.2
Utility billing	220	16.4	12.7	59.1	11.8
Crime prevention/patrol	363	6.6	8.5	79.1	5.8
Police/fire communications	324	11.4	12.7	60.8	15.1
Fire prevention/suppression	293	6.8	8.9	72.0	12.3
Emergency medical service	254	7.9	12.2	47.6	32.3
Ambulance service	193	9.3	11.9	45.6	33.2
Traffic control/enforcement	297	8.4	5.7	79.1	6.7
Vehicle towing and storage	68	5.9	7.4	1.5	85.3
Sanitary inspection	142	10.6	14.8	54.2	20.4
Insect/rodent control	97	12.4	14.4	29.9	43.3
Animal control	267	9.7	7.9	55.8	26.6
Animal shelter operation	156	9.0	7.1	39.1	44.9
Daycare facilities operation	27	14.8	11.1	25.9	48.2
Child welfare programs	52	9.6	17.3	21.2	51.9
Elderly programs	194	16.5	15.5	9.3	58.8
Hospital operation/management	8	12.5	0.0	0.0	87.5
Public health programs	92	14.1	19.6	20.7	45.7
Drug/alcohol treatment programs	58	3.4	3.4	1.7	91.4
Mental health programs	48	6.3	4.2	4.2	85.4
Prisons/jails	128	14.1	17.2	46.9	21.9
Homeless shelters operation	22	0.0	4.5	0.0	95.5
Job training programs	61	14.8	4.9	9.8	70.5
Welfare eligibility determination	56	16.1	8.9	48.2	26.8
Recreation facilities maintenance	342	15.8	17.5	53.8	12.9
Parks landscaping/maintenance	350	14.3	16.6	47.4	21.7
Convention centers/auditoriums	76	10.5	10.5	47.4	31.6
Cultural/arts programs	125	11.2	19.2	9.6	60.0

Table A1 (continued).

. Service	*n* Providing	New outsourcing (%)	New insourcing (%)	Stable public (%)	Continued contracting (%)
Libraries operation	196	12.8	8.7	51.5	27.0
Museums operation	74	16.2	10.8	16.2	56.8
Buildings/grounds maintenance	379	14.8	20.3	34.8	30.1
Building security	258	12.4	8.1	57.0	22.5
Heavy equipment maintenance	341	14.4	22.9	34.0	28.7
Emergency vehicles maintenance	321	13.4	20.6	31.5	34.6
All other vehicles maintenance	352	14.8	21.0	36.1	28.1
Payroll	370	3.2	2.4	89.5	4.9
Tax bill processing	197	13.7	12.2	53.3	20.8
Tax assessing	151	10.6	9.3	49.7	30.5
Data processing	329	13.1	15.2	59.6	12.2
Delinquent tax collection	195	13.8	15.4	37.9	32.8
Title records/plat map maintenance	126	14.3	8.7	54.8	22.2
Legal services	285	15.4	18.6	13.0	53.0
Secretarial services	327	6.7	7.0	83.5	2.8
Personnel services	289	9.3	12.1	77.2	1.4
Public relations/information	336	13.4	13.7	66.1	6.8

Note: Percentage of responding municipalities providing service by each form of delivery; "*n* Providing" is the number of governments providing the service in both survey years.

Sources: 2002 and 2007 International City and County Management Association Alternative Service Delivery Survey, author analysis.

WATER PRIVATIZATION DOES NOT YIELD COST SAVINGS

By *Mildred E. Warner*

Proponents of privatization consistently argue that it saves costs due to competitive pressures private providers face to be more efficient. Over the last four decades there has been considerable experimentation with privatization. Results are inconsistent. Some cases find savings; others do not. To get beyond the "battle of the case studies" my colleagues and I conducted a meta-analysis of all published studies on water distribution (Bel et al 2010). A comprehensive scientific analysis shows the value of a careful review of theory and empirical evidence in making policy choices. Our analysis found no empirical support for cost savings.

"That private production has failed to deliver consistent and sustained cost savings in these two important sectors offers a useful insight to public managers. Cost savings crucially depend on the nature of public service markets, the characteristics of the service itself, the geographical dimension of the market in which the city is located, and the industrial structure of the sector. City managers should proceed with caution." (Bel et al 2010).

What explains differences in study results? Is it due to specific management, location and context factors? Can differences in study results be explained by type of empirical analysis or bias among reviewers and publishers? Is it possible to draw some broader conclusions about whether privatization, in reality, actually leads to cost savings? What does local government experience with water privatization actually show?

This chapter presents comprehensive research confirming that privatization of water does not lead to cost savings. It also presents data showing privatization is the least common approach to water service delivery among US local governments. These empirical results reflect a careful reading of neoclassical economic theory which predicts water would be a poor candidate for privatization.

META-ANALYSIS OF STUDIES WORLDWIDE

When there are mixed results across a range of studies, researchers can employ meta-analysis techniques to assess the quality of different study results and determine, given the weight of the empirical evidence, whether a given result holds. This is how it works. We analyzed all the published large scale quantitative studies of water collection from around the world published between 1960 and 2009 – seventeen in total (See Bel and Warner 2008 for a thorough description of each study). Eleven of these studies were from the US, three from England and Wales, and three from Eastern Europe, Asia and Africa. These were not case studies. They were large scale cross-sectional studies assessing differences in costs related to public or private production in water delivery across many communities (both urban and rural). Sample sizes were smallest in the UK studies (10-30 municipalities), but large in the US studies (86-319 municipalities per study) and the developing country studies (50-655 municipalities per study).

What can large scale, cross sectional comparisons of public and private water systems tell us about differences in costs? The majority of the studies (11) found *no difference in costs* between public and private production. This was true of all the studies conducted outside the US and the UK. Only three studies found private production to be less costly and these studies were all from the US during the 1970s and 1980s. The four studies finding public production to be less costly were also from the US.

To test further for what might explain the differences in study results, we conducted a meta-regression analysis controlling for sample size (larger studies are more robust), country (differentiating US and UK studies from others), and functional form of the regression analysis. These statistical results confirmed no difference in costs between public and private production of water service. Cost savings were more likely to be found in the earlier studies suggesting that cost savings, if any, erode over time. Furthermore, we found statistical evidence of publication bias in favor of cost savings (See Bel et al 2010).

These empirical results challenge the widespread claim that privatization should result in lower costs. Were these unexpected empirical results a result of problems with implementation on the ground? Or is it a more fundamental problem – a misreading of economic theory? We claim the later. Neoclassical economic theory argues for a careful review of market structure, incentives and actors to determine when private production might result in lower costs than public production. Privatization proponents failed to understand or follow basic economic theory. Expectations of costs savings under privatization are not supported by a careful reading of economic theory. Let me explain.

There are four major bodies of neoclassical economic theory that are relevant to this debate: public choice, property rights, transactions costs and industrial organization.

- Under public choice theory the expectations of cost savings derive primarily from competition, but competition is rarely present in public service markets, and almost never in water. In fact, water distribution is a natural monopoly and so introducing competition would *raise* costs.
- Property rights theory argues private owners will have incentives to innovative because they derive profits from such innovation in a manner that public agencies do not. However, the theory also predicts that private owners will reduce quality in order to enhance profits, unless careful regulatory oversight is ensured. Careful regulation is one explanation why cost savings are not found in water delivery – private owners find it difficult to shirk when public regulation is strong.
- Transactions costs theory argues there are transactions costs of contracting (information asymmetry, contract management and monitoring) that may be higher than the costs of internal delivery. This is especially true in long term contracts for asset specific services. Such services, of which water is one, are not good candidates for privatization.
- Finally industrial organization theory argues that one should look at the entire sector – its organization, actors and their incentives – before making a decision to privatize. If that had been done by privatization advocates; water privatization would not have been promoted.

Anti-privatization advocates often use political economic theory to explain privatization and the desire to transfer wealth and power to private partners. Such theory may explain a lot of what

drives privatization practice worldwide. However, even a conservative reading of standard neoclassical economic theory *does not* support privatization in the case of water service. Why did promoters of privatization choose to ignore the neoclassical economic theory in which they are so well trained? That is a subject others are better prepared to discuss. My purpose here is to clarify what the weight of empirical evidence shows and demonstrate how these results – of no cost savings under privatization – should have been theoretically predicted.

US Local Government Experience

Next let me turn my attention to the practice of local governments in the United States – the region I know best. Local government managers are not economic theorists. They are pragmatic managers interested in choosing the most efficient and equitable approach to service delivery. The International City/County Management Association (ICMA) collects data on how US city managers deliver a range of public services and we can use this data to determine how common and effective privatization is. The US is a good place to explore this question because we arguably have the most favorable conditions for privatization of any nation. We have robust, competitive markets at the local level. We have city managers who believe in market delivery. We have user fees that make water contracts attractive and potentially profitable to private purveyors. And we have a fiscal crisis that causes city managers to look at the potential of private investment to upgrade water systems. What we do *not* have is a higher level of government or an international funder forcing city managers to choose privatization. That decision is left to local managers. Let's see what they decide.

Over three quarters of US local governments surveyed by the ICMA provide water distribution entirely with public employees. Over two thirds of municipalities provide water treatment publicly and over half provide sewage collection and treatment publicly. These rates have remained relatively stable over time. For profit contracts only account for six to eight percent of service delivery in any of these three service areas. Governments that do not provide these water services directly with public employees are most likely to do so with inter-municipal cooperation (14 – 27 percent). These inter-governmental contracts permit the realization of economies of scale in service delivery while still keeping the service public. See Table 1 below.

Table 1. Delivery Alternatives for Water Services, US Local Governments, 2002-2007

Pure Public Delivery	Water Distribution	Water Treatment	Sewage Collection and Treatment
2002	76%	71%	61%
2007	72%	65%	58%
For Profit Contract			
2002	7%	6%	8%
2007	6%	6%	7%
Inter-Municipal Cooperation			
2002	14%	18%	26%
2007	16%	24%	27%

Author Analysis: ICMA Alternative Service Delivery Surveys 2002: N=1133, 2007: N=1474.

The overwhelming preference for public delivery of water services among US municipalities suggests local government managers understand something about water markets. Let's see how their practice illustrates a latent understanding of economic theory.

Recall, that public choice theory argues competition will be critical in determining any cost savings from privatization. What do we know about competition in US local government water markets? I conducted a survey of competition in local service markets with ICMA in 2007. Across all responding local governments, the average number of alternative suppliers was less than one for water distribution (0.79), water treatment (0.88) and sewage collection and treatment (0.67). (See Warner and Hefetz 2010). These results confirm that water service is a natural monopoly. As one city manager explained to me, "If there is no competition, when I privatize, I simply substitute a private monopoly for a public one. Monopolies extract monopoly rents. At least in the public monopoly I can use those rents to extend service."

Property rights theory notes private managers will have incentives for innovation, but this may come at the expense of service quality as they seek to enhance profit. ICMA added a question to its survey asking why local governments contract back-in previously privatized services. The answers are telling. Problems with service quality ranks first (61%). Lack of cost savings ranks second (52%). Improvements in public delivery rank third (34%). Political concerns rank last (17%). (See Warner and Hefetz 2009). Recall that water rates in the US are not high with respect to household income so this is not a service that raises strong political objections – unless there are problems with quality. City managers understand the critical importance of quality – best maintained through direct control.

Transactions cost theory tells us that services that are highly asset specific and difficult to manage and monitor as contracts, will remain public. Our 2007 survey with ICMA on competition also asked questions about asset specificity and contract management difficulty (See Warner and Hefetz 2010). Water distribution and treatment and sewage treatment were the top ranked of all 67 measured services on asset specificity (4.5 on a scale of 1 to 5). These three services ranked in the top fifteen most difficult to manage as contracts (3.5 on a scale of 1 to 5). City managers understand the inappropriateness of contracting out services with such high transactions costs.

Finally, industrial organization theory tells us to look at the structure of the sector, the actors and incentives in a comprehensive manner. The data presented above for the US show a sector dominated by monopoly providers in local markets and a service which is very asset specific and difficult to monitor. Over the 2002-2007 period, about nine percent of US managers experimented with a new contract for water service. But in the same period a similar percentage brought a previously contracted service back in house (reverse contract or remuncipalisation). Although US local government managers are willing to experiment with privatization, when it does not work, they bring the service back in house. Only ten percent of water distribution contracts were stable over the 2002-2007 period. Sewerage and water treatment contracts were more stable, but these are more likely to be inter-municipal cooperative agreements. When US city managers look for alternatives to direct public delivery in water service, they look to inter-municipal cooperation, not for profit privatization. Inter-municipal cooperation allows them to gain economies of scale, access to greater technical expertise and capital, while still keeping the service public.

Table 2. Contracting Rates, US Local Governments 2002-2007

SERVICE	Stable Public	Stable Contract	Reverse Contract	New Contract
Water Distribution	71.2%	9.7%	9.3%	9.7%
Water Treatment	66.8%	16.4%	7.9%	8.9%
Sewage Collection and Treatment	57.3%	25.2%	9.5%	8.0%

Source: 2002 and 2007 ICMA Alternative Service Delivery Survey, Author analysis.
N=459 US Cities and Counties, respondents to both surveys.

The empirical lessons from thousands of local government managers tell a clear and compelling story. Water service is a poor candidate for privatization. There are better alternatives. With the weight of empirical and theoretical evidence now firmly showing that privatization is not an effective option in water service delivery, maybe international funders will turn their attention to the critically important question of alternatives that really work. The other chapters in this book explore those alternatives.

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While privatization has been a longstanding policy prescription by the European Union and the Washington Consensus, application in the United States and Europe has generally not been as aggressive as in many countries of the South. In the US, when local governments are given a choice, they often choose to keep services in public hands. Direct public provision accounts for almost half of all local government service delivery on average in the US (Homsy and Warner 2014). When cities do contract out, they typically mix public and private delivery over time through insourcing services from internal local government agencies and outsourcing from external private ones (Warner and Hefetz 2012), or through hybrid public-private delivery systems (Hefetz, Warner and Vigoda-Gadot 2014). These dynamic forms of market management reinsert some level of public management control into the privatization process.

While insourcing (known as ‘reverse privatization’) has been measured in the US since 1992 (Hefetz and Warner 2004, 2007; Warner and Hefetz 2012), it has only recently been studied by European scholars, who term this process ‘remunicipalization’ (Chong, Saussier and Silverman 2013; Hall, Lobina and Terhorst 2013; Kishimoto, Lobina and Petitjean 2014). Remunicipalization is also found in cities in the South, including some high profile cases of privatization reversals (Pigeon et al 2012). Case study research points to concerns with service quality, price and access as key reasons driving the decision to remunicipalize. But our ability to say anything more general is limited by the lack of large-scale trends research. This paper helps to fill that gap.

In the US, reversing privatization, as a process of ‘making public’ among local governments, is primarily a pragmatic practice of experimentation – exploring what works in local service delivery reform – as opposed to any particular ideological commitment to publicness per se. Indeed, it often takes place even when ‘small government’ sentiment is strong. The US is the heartland of capitalism after all. Local government managers believe in markets and understand how they work and how to use them. There is no strong political opposition to privatization at the local government level in the US. We find privatization reversals simply reflect a pragmatic desire to employ reforms that work. Because reverse privatization is so common in the US, despite relatively robust markets for public services, local governments in contexts that have weaker markets and greater concerns with citizen access to public services may find this trend even more important.

In this paper I present national survey data on US local government service delivery to show how these dynamics of mixing public and private delivery of services over time – while lacking a political agenda – nevertheless create avenues for a reinsertion of public control. Empirical results suggest an important role for city

managers and for public workers in assessing private delivery and improving public service delivery. Insourcing requires that cities maintain their production capacities, so that, in case the market fails to perform as expected, the city can step back in, without a disruptive effect on the service itself. Insourcing, even in the private sector, is understood as a critical market management tool in the risky contracting business (Deloitte Consulting 2005). Understanding these practices, and the motivations behind them, can help with the development of more strategic paths for a public-centric focus in the future.

In addition, I explore the nature of contracting partnerships and point to the importance of public partners (other municipalities), as compared to private partners (for-profit firms). What we see is that contracting is more likely with public partners – where public ethos, accountability and openness are present. We also find such contracts are more stable than contracts with private partners. These inter-municipal contracts are a local form of the public-public partnerships being explored between municipalities in countries in the North and the South (Hall et al 2009).

When contracting with private partners, contracts are more likely to be mixed to ensure continued public involvement alongside private contracts. The private partners get a portion of the service, or a sector of the city, while the city retains service delivery elsewhere. This ensures the city maintains capacity to reverse the contract if necessary, and it provides ongoing information for benchmarking costs and quality, and ensures continued avenues for direct citizen involvement through the governance process (Hefetz et al 2014).

Because the debate on privatization is less politicized in the US, and because nationwide longitudinal surveys enable more robust empirical analysis, we can derive some understanding of the possibilities and challenges these dynamics present for a way forward as local governments seek to ensure the continued publicness of public service delivery.

I begin with the theoretical challenges to ‘making public’ in the context of government contracting. I then present the most recent data on US local government contracting practice and conclude with recommendations for policy.

Theories of contracting

Ensuring public value

While public services involve a direct relationship between government and citizens through the delivery process, contracting inserts a third party provider and fundamentally shifts this relationship (Blanchard, Hinnant and Wong 1998). It creates a consumer connection, potentially undermining access and reducing forms of citizen engagement to a market relationship based solely on price.

The relationship between government and service provider shifts from bureaucratic control to market control via a contract. Some scholars argue this has the potential to instill public values in the contractor because insertion of public funding into private organizations increases their publicness (Bozeman 2007). Others note that insertion of private finance in public services actually pulls the public sector more toward private objectives (Dahl and Soss 2014). Sclar (2015) has outlined the public planning elements that are lost when primary consideration is given to the needs of private finance. Core public values in the US context, such as open government, 'sunshine laws' designed to enhance decision-making transparency, and due process, do not necessarily follow when governments choose to contract out service delivery (Dannin 2010; Rosenbloom and Piotrowski 2005). It all depends on how the contract is written. Thus when government managers seek to 'make public' as they experiment with private contracting, they need to be attuned to potential erosion of core public values in the contracting process.

Managing markets

Theoretically, one of the keys to cost savings from privatization is competition. But competitive markets in most public services do not exist. This is especially true for natural monopolies such as water. Bel, Fageda and Warner (2010) conducted a statistical meta-regression on all empirical economic studies on privatization in water and solid waste services (the two services with the greatest experience in privatization worldwide) and found no statistical support for cost savings under privatization. Nationwide surveys of local government in the US find that, on average, there is only one alternative provider for most services in a majority oflocal government markets (Hefetz and Warner 2012; Warner and Hefetz 2010). So privatization often merely substitutes a public monopoly for a private one.

Lack of competition brings several problems. Absent the discipline of a competitive market, more responsibility rests on public regulation to ensure service quality. In economics, property rights theory argues that private providers will reduce service quality to enhance profits – especially if competition is not present (Hart, Shleifer and Vishny 1997). Contracting out to low competition markets requires that local governments spend so much time trying to simulate market dynamics that it cuts into their ability to monitor contractors (Girth, Hefetz, Johnston and Warner 2012). When the competitive requirements for market delivery are not met, it creates more problems than just lack of cost savings; it creates service quality problems and regulatory problems. This has led local governments to explore ways to reinsert public control.

Local governments have a broader set of concerns than just cost savings. Essential public services such as water, electricity and health care must be failsafe – delivered no matter what. Thus some level of redundancy is needed in the system to ensure guaranteed provision. Public systems, when embedded in a multipurpose local government, can have cross-departmental back up. But corporatization and privatization make cross-departmental collaboration more difficult, if not impossible

(McDonald 2014). This undermines system resilience. What we see in both the private and public sectors is increased attention to mixed delivery systems that incorporate both internal and external production to ensure internal control but also take advantage of potential market complementarities (Hefetz et al 2014; Gradus, Dijkgraaf and Wassenaar 2014; Parmigiani 2007).

In the public sector this assurance can take the form of mixed market delivery (public and private delivery of the same service over space) (Albalate, Bel and Calzada 2012; Warner and Hefetz 2008), or of mixed public-private firms (Cruz, Marques, Marra and Pozzi 2014). Mixed firms are more common in Europe than the US (Warner and Bel 2008). Such mixed firms operate under commercial law and have greater flexibility regarding labour deployment, which can be used to facilitate labour shedding, as was the case in the partial privatization of Berlin public transit (Swarts and Warner 2014). While mixed firms increase public sector control, they still raise important questions regarding accountability (Peters, Pierre and Røiseland 2014).

Mixed market delivery is more common in the US and it involves contracting and direct public provision in the same service area. This mixed delivery is more than competitive bidding as it enables an ongoing public presence in the service delivery process. For example a city may be divided into districts with some served by private contract providers and others served by public crews. This enables benchmarking of processes and costs across the public and private partners in a process that stimulates innovation and retains avenues for citizen engagement (Warner and Hefetz 2008). It also ensures that the city retains capacity for re-internalizing service delivery should the contract fail. In the US, such mixed delivery is more common when contracting with private partners and accounts for almost a fifth of all service delivery (Hefetz et al 2014).

Insourcing or reverse privatization is another mechanism used to manage markets in the US. Local governments use a dynamic process of contracting out and then contracting back in over time to create competition, benchmark costs and processes, and provide an alternative to monitoring. Primary drivers of such reverse privatization are lack of cost savings, problems with monitoring and service quality (Hefetz and Warner 2004). Subsequent work on reverse privatization in the US has found evidence of a social choice framework where managers use reversals to ensure public voice and public values in the service delivery process (Hefetz and Warner 2007; Warner and Hefetz 2012).

The US literature on contracting gives significant attention to transactions costs. These are the costs of contract design, finding a qualified contractor and monitoring after the contract is set. These costs are significant under contracting and have been found to divert public managers' attention away from monitoring and ensuring broader public values (Girth et al 2012).

Cooperative public markets

Local officials in the US are moving away from private contracting markets based on competition, to public markets based on cooperation with neighbouring governments. Inter-municipal contracting is now larger than for-profit contracting among US local governments (Homsy and Warner 2014) and is a longstanding practice (Hefetz, Warner and Vigoda-Gadot 2012). It is built on the positive benefits of cooperation among neighbouring municipalities to achieve economies of scale, to promote service coordination across the region and to promote service quality through enhanced access to technical expertise (Bel and Warner 2014; Warner 2011).

Cooperation is a reform strategy that stands in contrast to the competition basis of for-profit contracting. Cooperation among neighboring municipalities has been shown to minimize contracting risks and ensure attention to public values (Hefetz et al 2014). This inter-municipal cooperation is a localized form of the public-public partnerships being pushed globally to improve services (Hall et al 2009). But in contrast to North-South PUPs, inter-municipal cooperation in the US and Europe is most common among adjacent municipalities. European studies of inter-municipal cooperation find strong evidence of cost savings (Bel and Warner 2014), but US studies find inter-municipal contracting is focused less on cost and more on other objectives such as service quality, coordination and equity in service levels across the urban region and ensuring continued avenues for citizen voice (Warner and Hefetz 2002).

Empirical evidence

This paper draws on a national survey of US local governments conducted by the International City/County Management Association (ICMA) in 2007 and 2012. The ICMA surveys cover 67 public services and ask how the service is delivered: by government directly, or through contracts to for-profits, other governments or non-profits. The surveys also ask managers specifically why they brought previously contracted work back in-house. The survey has responses from about 1,500 local governments and is representative of the full range of local governments in the US, making it an invaluable resource for understanding trends.

Why contract back in?

The 2012 survey asked if the local government brought back in-house services that were contracted out in the previous five years. About 20% of responding municipalities said they did. Building from a series of case studies conducted by Ballard and Warner (2000), the following reasons for insourcing previously outsourced services were included in the survey questionnaire. Table 1 shows that city managers' top two reasons for reversing contracts were problems with service quality and lack of cost savings. These are the theoretically expected elements of contract failure.

The third most common reason for reversals was improvement in local government efficiency. Successful proposal by in-house staff ranks fourth. These last two reasons for reversing privatization demonstrate the importance of maintaining public sector capacity to reengage in service delivery through a direct competitive proposal from in-house crews or indirectly by improving internal process efficiency. They also highlight the innovation impact of contracting – producing competition and market complementarities that promote public sector innovation.

Table 1: Reasons for contracting back in (2012 survey)

Local government brought back in house services that were previously contracted out	18.2% (on a total 2,124 municipalities surveyed)
Service quality was not satisfactory	51.4%
The cost savings were insufficient	52.5%
Local government efficiency improved	30.4%
Successful proposal by in-house staff	23.4%
There was strong political support to bring back the service delivery	15.0%
There were problems monitoring the contract	12.9%
There were problems with the contract specifications	10.0%
Lack of competitive private bidders	7.1%
Other	12.1%

Source: Author analysis, ICMA Alternative Service Delivery Survey, 2012, Washington, DC.

Problems with contract management, monitoring and political support to bring services back in house were listed less often by managers. Privatization is relatively uncontroversial in the US, so decisions about outsourcing and insourcing are generally managerial and technical in nature. Lack of competitive private bidders was reported by 7 per cent of respondents.

What Table 1 clearly shows is the theoretical predictions regarding contract failure (lack of cost savings, problems with service quality, competition, contract specification and monitoring problems) are borne out by local government experience. Note that politics are not the primary driver of reversals – cost, service quality and internal efficiency are.

Comparing insourcing and outsourcing

No national survey directly measures reversals in privatization. However, the consistency of the ICMA survey design allows pairing surveys over time to see if the form of service delivery has changed. About a quarter to a third of respondents are the same in any two, paired surveys. To track changes over time, we paired the 2007 and 2012 surveys and found 523 local governments that responded to both. We used the matrix method first employed by Hefetz and Warner in 2004. The light shaded areas of Table 2 capture new outsourcing and new insourcing. These provide very conservative measures of reversals as they only count services that come all the way back to fully public delivery. New outsourcing includes anything that is not completely public. Stable contracting is very broadly defined to include both mixed and complete contracts.

For the period 2007 to 2012, new outsourcing accounted for 11.1% of all services and new insourcing accounted for 10.4% of all services in the paired sample. This experimentation at the margin is almost even between new contracting and reversals. Stable contracting was 29.7% and stable public delivery was 48.9%. Public delivery remains the most common form of service delivery across local governments in the US.

Table 2: Matrix of service delivery dynamics

		2012 ICMA Survey		
		Direct Public Delivery	**Mixed Public/ Private Delivery**	**Complete Contracting Out**
		Towards Contracting Out →		
2007 ICMA Survey	**Direct Public Delivery**	**Stable Public** Public → Public	**New Outsourcing** Public → Mix	**New Outsourcing** Public → Contract
	Mixed Public/ Private Delivery	**New Insourcing** Mix → Public	**Stable Contracting** Mix → Mix	**Stable Contracting** Mix →Contract
	Complete Contracting Out	**New Insourcing** Contract → Public	**Stable Contracting** Contract → Mix	**Stable Contracting** Contract → Contract
		← Towards Public Delivery		

Source: Adapted from Hefetz & Warner 2004 with data from ICMA surveys, 2007-12

Public or private partner?

Contracting in the US involves both public and private partners, but contracting to for-profit providers has dropped across the country. In the 2007 national survey, public-public, inter-municipal contracting equaled for-profit contracting (Hefetz et al 2012). By 2012, inter-municipal contracting surpassed for-profit contracting in popularity (Homsy and Warner 2014).

We disaggregate new outsourcing and new insourcing to see what portion benefits for-profit partners and what proportion is awarded to other governments. We find new outsourcing is almost evenly divided between other governments (355 cases) and for-profit partners (395 cases) (see Table 3). Thus, as municipalities explore contracting they are equally bound to explore it with public or private partners. The difference shows up in the reversals. Insourcing is much more common with for-profit contracts (394) than as part of inter-municipal contracts (251), with a ratio of 1.6:1. In other words, contracts to for-profit partners are 60% more likely to be reversed than contracts to other governments. Cooperative agreements may also fail, but failure rates are much lower and this helps explain the growth in inter-municipal cooperative agreements in the US.

Table 3: Composition of US government contracting by type and contract partner

		Contracting Partner	
	Overall Delivery	Other Municipality	For-Profit Contractor
Experimentation at the Margin	%	# of cases	# of cases
New Contracting Out	11.1	355	395
Contracting Back-In	10.4	251	394
Stable Contracts			
Mixed Public and Private Delivery	11.9	171	495
Complete Contracting Out	17.8	964	751
Stable Public Delivery	48.9		

Source: Author analysis based on 2007 and 2012 ICMA Alternative Service Delivery surveys of US municipalities, paired sample of common municipal respondents over two time periods, N= 523 municipalities, 11,425 cases.

If we look inside the stable contracts we find similar results. Mixed contracts are much more likely to be found with for-profit partners (495 cases) than with other municipalities (171 cases) – a ratio of 2.9:1. City managers recognize that if they want to contract with private providers they can enhance their ability to manage the

service by retaining a mixed market position. By contrast, complete contracts are only 78% as likely to be found among for-profit partners (751) as among other municipalities (964). When you fully contract out services you are less likely to be able to reverse, so contracting with other municipalities is preferred to contracting with private partners.

Policy recommendations

This analysis has taken a look inside the dynamics of local government service delivery and shown that insourcing and outsourcing are now equally common among US local governments. These are tools used at the margin to experiment with new forms of service delivery. Together, new insourcing and new outsourcing only account for 21.5% of all service delivery, while stable contracting accounts for 29.7% of service delivery. But even in this stable contracting we find important differences by contract partner. More than half of these stable contracts are with public partners – other governments – not for-profit providers.

What implications do these trends suggest for policy regarding making public service delivery reform among local governments? First, they make clear that privatization should never be a one-way street. Local governments have the obligation to provide failsafe services in an efficient manner to their citizens. While outsourcing may perturb the system and promote efficiencies in the short term, research shows cost savings are ephemeral and competition is limited.

Second, these trends show that to ensure continued cost savings and maintain service quality, local governments must retain some level of public control. In the US this is typically done through market management – using mixed public and private delivery in the same service at the same time, or through outsourcing and then insourcing again over time.

Third, this market management approach is costly, risky and unstable. Competitive markets are hard to maintain. Research shows efforts to maintain such competition distract public managers from other important tasks such as monitoring to ensure service quality.

Fourth, it is important to maintain internal capacity. Insourcing can be made more difficult if a local government loses capacity – such as equipment or technical know-how when the service is first contracted out. This is why mixed delivery is often preferred as a means to maintain government control and presence in the market.

Fifth, public values require attention to broader concerns than just efficiency. Citizen access, public engagement in the service delivery and sustainability are features that must be written into the contract or else they risk being lost. Governments seeking to ‘make public’ in the process of service delivery reform must address these aspects in contract design.

Looking to the future

One of the challenges to insourcing is higher-level government directives to contract out or subject services to competition. But we know that such competition, especially in network infrastructure services, is fleeting (Florio 2013; Hefetz and Warner 2012). Contracting out to a private monopoly can undermine government capacity in the future. Some have argued this is a form of straightjacketing the state as international agreements force states to acquiesce to market interests (Clifton 2014). This is most often imposed on cities by nation states or international organizations through trade agreements (e.g. the EU, WTO, GATS, TISA), which attempt to subject public services to competition (Gerbasi and Warner 2007; Sinclair and Mertins-Kirkwood 2014). While local governments can do little to alter the structural rules under which they are forced to operate, we are finding evidence of "riding the wave" where local governments attempt to manage market forms of service delivery to ensure public values are met (Warner and Clifton 2014). Insourcing and mixed market delivery are part of this local government strategy.

Local governments are often pragmatic actors. They are in a position to see how service reforms play out on the ground, and thus should be given more space to experiment and to make their own choices regarding service delivery. Policy prescriptions from above requiring privatization deny these local realities. In the US, local governments are free to experiment, without state directives to privatize as has occurred in the UK, Australia, New Zealand and now across the EU (Clifton 2014; Warner 2008). This freedom has allowed US local governments to carefully assess when privatization works and when it does not. We find both lower rates of privatization and higher rates of reversals among local governments in the US as compared to Europe (Warner and Bel, 2008). Local governments' job is to ensure failsafe service delivery to residents. Having the ability to test market delivery and reverse those choices is critical.

Some scholars argue that local government has become an "austerity machine", privatizing and cutting services in a time of fiscal stress (Peck 2012). Donald, Glasmeier, Gray and Lobao (2014, 6) point to "multiscalar coalitions forming around austerity which affect the level of public infrastructure and service provision, or collective consumption, as well as the role of the municipal government as employer." Our research on US local governments shows local governments are "riding the wave" of these neoliberal reforms but also pushing back where they can (Warner and Clifton 2014). But this push back is not progressive so much as pragmatic as professional local government managers try to maintain service levels and find efficiencies without sacrificing quality and service to their citizens. For example privatization rates fell from 2007 to 2012 and inter-municipal cooperation, which seeks efficiency but keeps the service public, has become the new popular reform (Kim and Warner 2014). Thus we argue that US local government managers practise a pragmatic form of municipalism (Kim and Warner 2014), concerned with service quality, efficiency and public values.

Peck (2014: 28) notes that “[w]hat remains of the Keynesian commitment to public services in the United States … is basically delivered at the state and local level.” That is true and local government managers understand the importance of Keynesian investments in services and infrastructure. But to maintain services they must constantly seek efficiencies and innovation. Privatization (and its reversal) is just one policy tool in that process, and it is used with caution.

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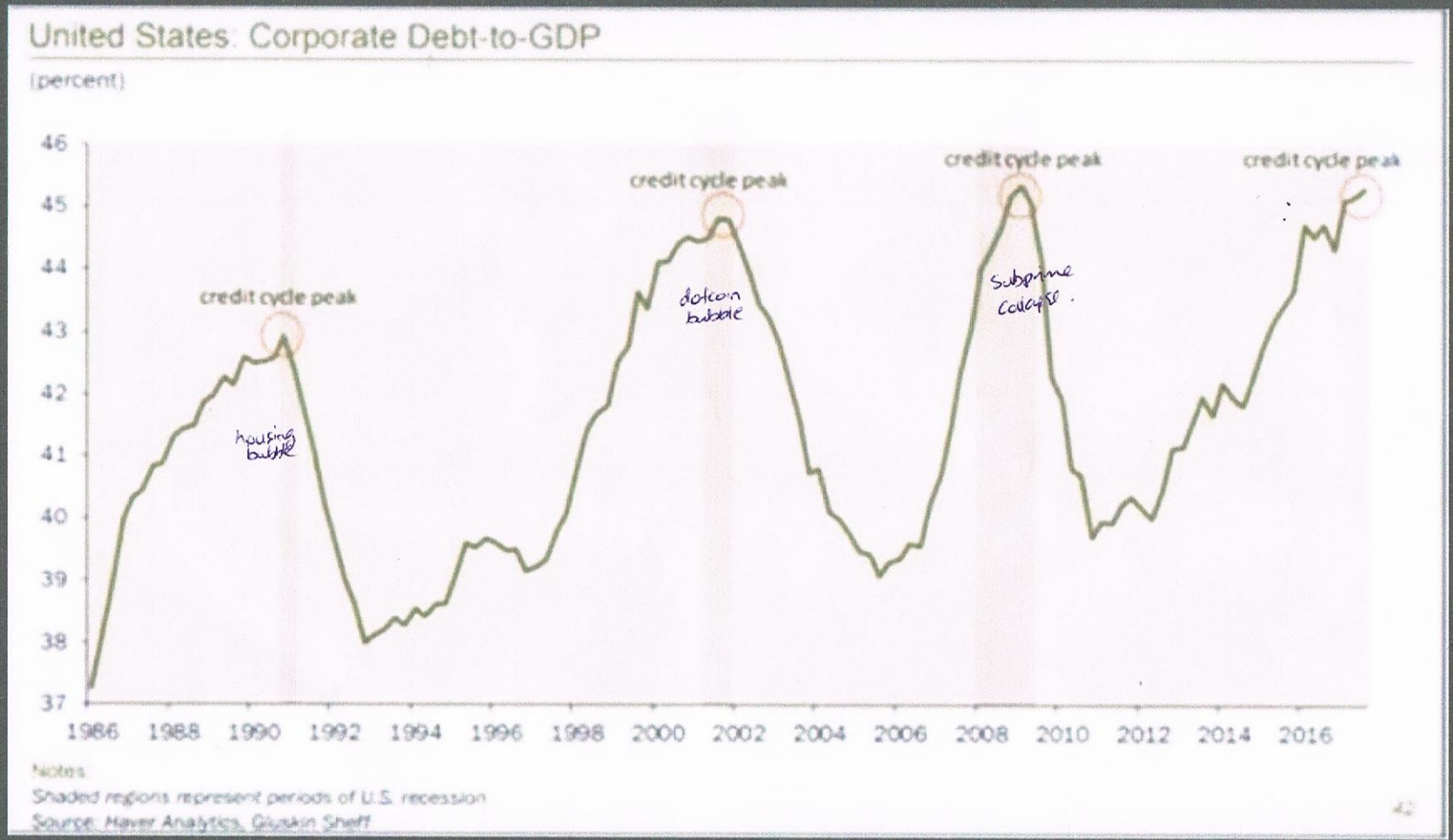

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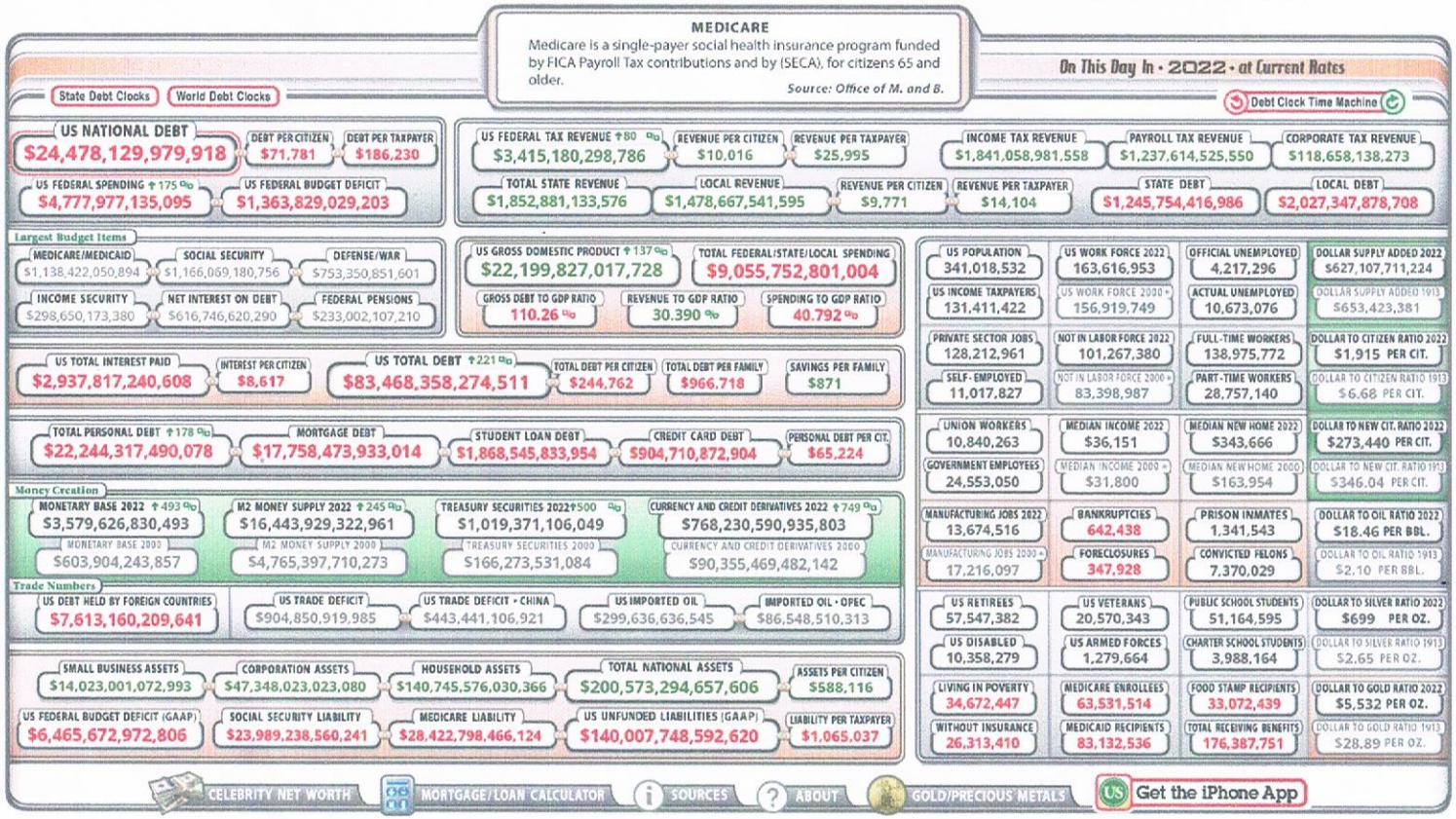

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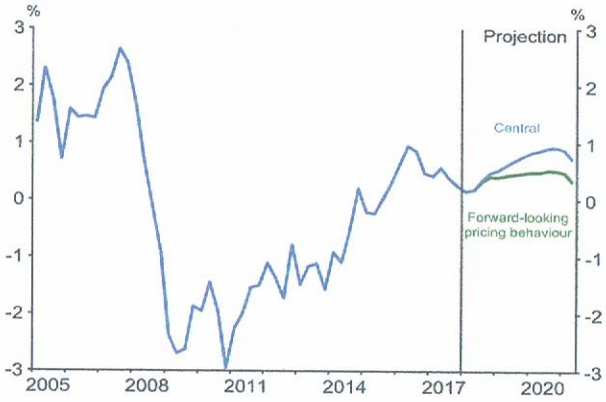
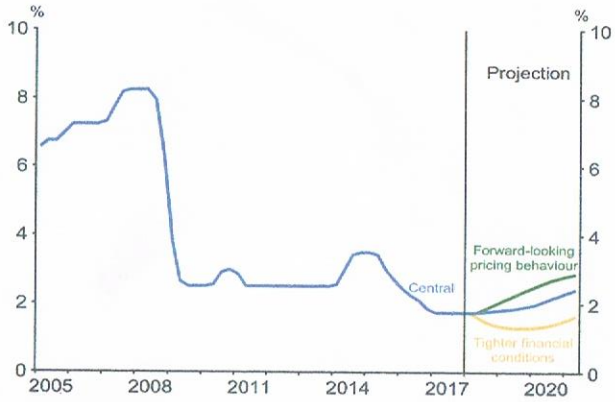
Figure 2.8
Output gap
(share of potential output)



Source: RBNZ estimates.

Figure 2.9
Official Cash Rate



Source: RBNZ estimates.

Box A

Recent monetary policy decisions

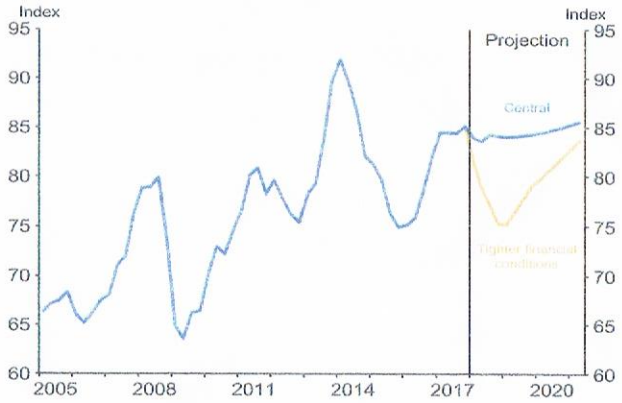
Indicators of global economic activity weakened in 2016. The Bank's forecasts of trading-partner growth and inflation were revised lower and, despite low commodity prices, the New Zealand dollar exchange rate remained elevated. These developments challenged the Bank's assumption that global economic activity and inflation would strengthen and lift tradables inflation in New Zealand via higher import prices and a lower exchange rate. This led the Bank to revise down its medium-term outlook for tradables inflation. In addition, surveyed inflation expectations fell in the March 2016 quarter, with short-term expectations falling towards the lower half of the target range (figure A.1). The Bank judged that circumstances warranted easing the OCR by 75 basis points, bringing it to 1.75 percent in November 2016.

Increases in food and fuel prices boosted CPI inflation from the start of 2017 and short-term inflation expectations increased. However, measures of core and wage inflation remained low. The Bank's outlook for inflationary pressure also remained subdued, as growth in the domestic economy was weaker than expected. The housing market continued to soften and construction activity plateaued as a share of the economy.

While domestic conditions softened, the outlook for growth remained above trend, supported by fiscal stimulus and improving global conditions. In the November 2017 *Statement*, the Bank incorporated a more-stimulatory path for fiscal policy reflecting the new Government's policies. Trading-partner growth increased, and by early 2018 there were signs of global inflationary pressure building. Export prices recovered, contributing to record-high terms of trade.

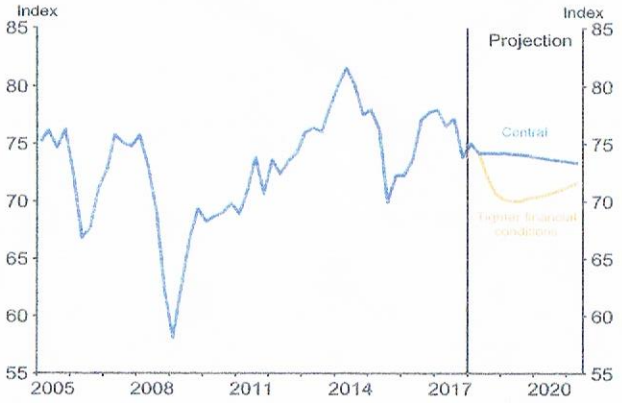
by printing NZ dollars i.e. digital money

Figure 2.6
Export prices
(world terms, s.a.)



Source: Stats NZ, RBNZ estimates.

Figure 2.7
New Zealand dollar TWI

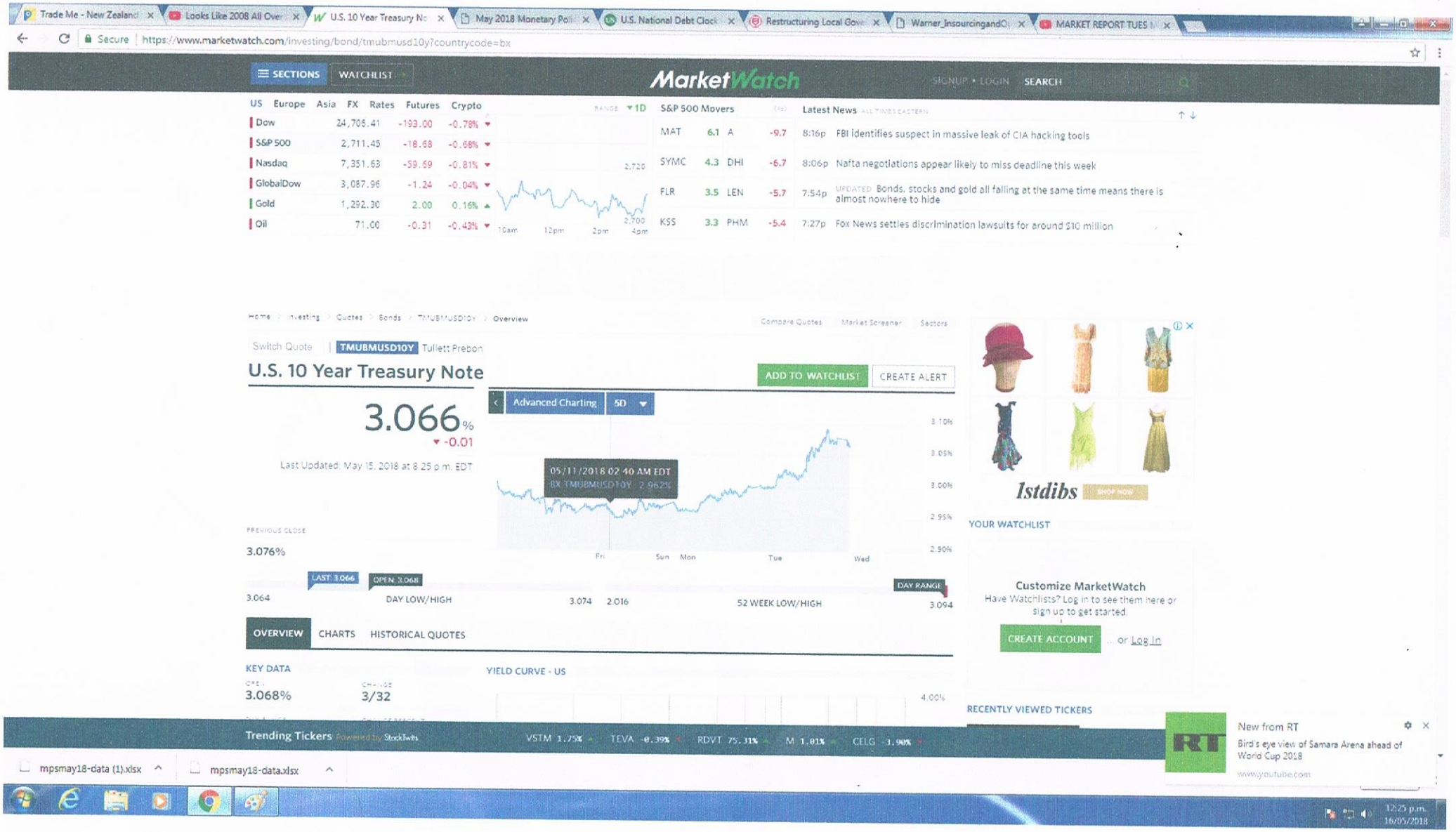


Source: RBNZ estimates.

Scenario 2: Forward-looking price-setting behaviour

Price-setting behaviour appears to be weighing on inflation outcomes, with businesses seeming to place greater weight on past low inflation than expectations of future inflation when setting prices. However, if businesses begin to see demand rise and costs increase, this could result in price-setting behaviour becoming more forward-looking, leading to a faster rise in inflation. This is particularly relevant given the significant minimum wage increases expected over the projection. Such a change in price-setting behaviour would mean that less capacity pressure would be needed to return inflation to the target mid-point (figure 2.8). As such, monetary policy would not need to be as stimulatory and the OCR would be higher than in the central projection (figure 2.9).

E.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S&P 500 2,711.45 -18.68 -0.68%
Nasdaq 7,351.63 -59.59 -0.81%
GlobalDow 3,087.96 -1.24 -0.04%
Gold 1,292.30 2.00 0.16%
Oil 71.00 -0.31 -0.43%
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SYMC 4.3 DHI -6.7
FLR 3.5 LEN -5.7
KSS 3.3 PHM -5.4
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8:16p FBI identifies suspect in massive leak of CIA hacking tools
8:06p Nafta negotiations appear likely to miss deadline this week
7:54p UPDATED Bonds, stocks and gold all falling at the same time means there is almost nowhere to hide
7:27p Fox News settles discrimination lawsuits for around $10 million
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F.

manage market forms of service delivery to ensure public values are met (Warner and Clifton 2014). Insourcing and mixed market delivery are part of the local government market management strategy.

CONCLUSION

Local governments are pragmatic actors. They are in a position to see how service reforms play out on the ground, and thus should be given more space to experiment and to control their own choices regarding service delivery. Policy proscriptions from above requiring privatization, deny these local realities. In the US local governments are more free to experiment, without state directives to privatize as occurred in the UK, Australia, New Zealand and now across the EU (Warner 2008, Clifton 2014). This freedom has caused US local governments to carefully assess when privatization works and when it does not. We find both lower rates of privatization and higher rates of reversals among local governments in the US as compared to Europe.

The US is the heartland of capitalism. Local government managers believe in markets and understand how they work and how to use them. Opposition to privatization is not political in the US. It is practical and springs from experience and a pragmatic desire to employ reforms that work. If reverse privatization is so common in the heartland of capitalism, then maybe local governments in contexts that have even less robust markets should proceed with caution. Local governments' job is to ensure failsafe service delivery to residents. Having the ability to test market delivery and reverse those choices is critical.

Re: Mildred Warner
Cornell University
Pg 12 of Insourcing vs Outsourcing

Submission from Rhoda Rosewell

Letter

Dear Mayor and Councillors

I am over 80yrs OLD & have recycled everything all my life. A lot of folk throw things away unnecessarily & years ago the saying was “WASTE NOT WANT NOT.”

A lot of folk think they are poor but, they do NOT know what poor is. During the war in England we saved everything, we darned socks patched clothes & used left over bread for puddings.
Along my street I pick up rubbish every morning which equates to 3 or 4 rubbish bags each year. (Even this morning there was a broken bottle. So if you DO NOT supply rubbish bags a lot of folk will just dump their rubbish anywhere. Young folk are NOT educated by anyone to dispose of rubbish correctly.

You think you will be saving rate payers money by NOT supplying rubbish bags. But the town & district will become very untidy by a percentage of the population.

Yours sincerely
R.L Rosewell

File No. 16/2921

Document No. .....

Mrs Rhoda Rosewell
243 Whitaker St
Te Aroha 3320
New Zealand

23rd. April 2018

Dear Mayor & Councillors,

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You think you will be saving rate payers money by NOT supplying rubbish bags. But the town & district will become very untidy by a percentage of the population.

Yours Sincerely
R. L. Rosewell

Bag your own rubbish, says the council

LAWRENCE GULLERY

Matamata-Piako is moving towards a "user pays" system to fund rubbish and recycling in the hope it'll prompt more people to reduce their waste.

People will have to buy their own rubbish bags, for about $2 each, from July 1, from the Matamata-Piako District Council offices or certain retailers.

Public feedback on the move had been negative in the early stages of the proposal, as people came to terms with the idea of buying their own rubbish bags.

But a positive would be that the targeted rate the council currently used to provide properties with rubbish bags would reduce from $152 to about $30, when people started buying their own bags.

The council also hoped people would begin to think more about reducing their waste, when they became responsible for providing their own rubbish bags.

Details of the changes were outlined in the council's draft 10-year plan, which had been released for public feedback.

One major proposal, under the Environmental Sustainability section of the plan, included an increase to transfer station fees, to generate an extra $100,000 a year.

This money would normally be subsidised by rates and was another example of the "user pays" regime the council wanted to use.

The entrance way to the Te Aroha Transfer Station. Its proposed fees increase as part of a move towards a user-pays system.
MIKE BAIN

The extra fees would help pay for the cost of running the transfer stations.

The 10-year plan also said the council wanted to develop a business case for a joint waste minimisation initiative with Thames-Coromandel and Hauraki district councils. The council planned to improve the recycling facilities at its three transfer stations, which would cost about $1.8 million.

It would allocate $600,000 a year in the first three years of the 10-year plan to upgrade the stations and encourage more recycling.

"We are working with a community group to determine whether a resource recovery facility could be viable in our district," the 10-year plan report said.

The council also wanted to increase funding for the Enviroschools programme, which teaches young people the value of the environment and encourages them to use sustainability actions important to them.

Funding was proposed to increase from $10,000 to $11,000 a year, to include more schools in the district.

The council said it would also use the waste minimisation funding from the government to work on initiatives under its sustainability banner.