

STRATEGY 5 COMMERCIALISING AND DEVELOPING PARTNERSHIPS

Public service reform is being driven by some fundamental questions. Should a service be provided by government? Should the service be provided at all? How will the private sector respond to government ceasing particular activities? How can government carry out its remaining functions more efficiently?

For core tasks, the challenge is to develop synergy between all the key players – the issue is not one of which agency does it, but one of how well it gets done.

FOCUSING ON EFFICIENCY

Since government resources are always under pressure, demand exceeds supply and expectations consistently exceed what can be afforded, there is a continuing requirement to review activities to ensure that resources are used to best effect and that government can demonstrate sound stewardship.

Efficiency programmes comprise both cost reduction without lower standards, and performance improvement at no higher, and preferably lower, cost. They question whether a task should be undertaken at all, whether it should be undertaken by government directly, or by contractors paid by government, or left to the private sector to consider its commercial viability.

The United Kingdom's Efficiency Unit, reporting to the Prime Minister's Adviser on Efficiency and Effectiveness, was created in 1979. The role of the Unit is to advise on how to improve the efficiency and effectiveness of central government and to help government departments to improve the value for money of the resource which they use. It does this through an Efficiency Scrutiny Programme.

From 1995, departments and agencies are drawing up efficiency plans early each year, indicating what measures they propose to take to stay within their running cost limits for the coming three years. These will include privatisation, contracting out and market-testing. The Efficiency Unit, in co-operation with the Treasury, will review these plans and discuss with departments where necessary.

The U.K. experience was to establish an efficiency programme, based on the development of in-house skills, and including the establishment of a small unit, directly accountable to the Prime Minister, with the responsibility for vetting and approving proposals from various ministries for efficiency savings. The unit is responsible for reporting on savings and benefits, which are publicised in the public service to create a climate of achievement.

Under the overall direction of a central co-ordinating unit, such programmes can progressively review the functions of all ministries with a view to ensuring that

only essential activities are undertaken, and whether privatisation of some services would be more efficient. Where there is no strategic reason why an activity should be privatised, corporatisation or contracting out should be considered.

COMMERCIALISATION

At its core, commercialisation allows agencies to act flexibly in response to market signals, even though they may continue in the public sector. Commercialisation entails transparent funding arrangements in which financial ‘ring-fencing’ identifies all funding inputs, including government subsidies, allowing subsidised and unsubsidised prices to be established for all outputs. It frequently involves vertical restructuring – the separation of interdependent activities previously undertaken within the same organisations. There is also generally a need to change the legal basis of the entity, to establish an organisation which is capable of trading and which can address commercial objectives.

- In Namibia, the Department of Communications has been commercialised with two corporations, namely Namibia Post and Telecom Namibia, freeing them of unnecessary restrictions and enabling them to adopt a more commercial and customer-oriented approach. The Namibian Press Association has also been commercialised and the Communications Commission is now going through the same process. The Namibian Government is also commercialising and privatising the promotion of tourism and wildlife resorts.

In 1985, the New Zealand Minister of Finance outlined five key principles for the re-organisation of state trading enterprises:

- non-commercial functions would be separated from major state trading organisations;
- managers would be required to run them as business enterprises;
- managers would be responsible for using inputs, for pricing, and for marketing their products within performance objectives set by ministers;
- the enterprises would be required to operate without competitive advantages or disadvantages, so that commercial criteria would provide an assessment of managerial performance;
- enterprises would be set up on an individual basis depending on their commercial purposes, under the guidance of boards modelled on the private sector.

MARKET-TESTING

Market-testing is increasingly employed as part of the hierarchy of reforms in public service management. Market-testing entails placing the activity or service in question for competitive tender, with internal and external bids assessed against

the same criteria. The approach can determine whether contracting out will be the most efficient way of carrying out public service activities which clearly needs to remain the ultimate responsibility of the public sector.

There are three principal benefits to be gained from the market-testing process. First, when considering whether to accept an in-house bid or give the work to an outside contractor, the evaluation will look at improvements in the quality of service available from innovative methods of service delivery. Second, there may be cash savings. It is axiomatic that where an activity is market-tested, and an external bid is successful, it will be because that bid offers greater overall long-term value for money than the current method of provision. Where an in-house bid succeeds, the process of opening up that public sector activity to competition in itself often creates opportunities for greater effectiveness.

Finally, experience suggests that market-testing will lead to raised standards by making expectations explicit within contractual arrangements. Greater clarity about standards of service and better monitoring of performance against those standards, regardless of whether the work is retained in-house, is a vital feature of public sector reforms.

It is, however, important to note the dangers of rapid introduction of competitive tendering without preparation, and the weakness of the private sector in some settings. The process also opens up the possibility of cartel formation after abolition of in-house providers, and the problem of fixed wage costs even after staff transfers.

The U.K. Treasury has produced detailed guidance in relation to market-testing for use by departments. According to the guidelines, each department needs to review its activities and identify candidates for testing. The questions to be addressed include:

- Is the function or activity essential? What are the implications of not doing it? Or of doing it in a reduced or combined form elsewhere?
- Can the activity be performed more economically by other means?
- What is the full cost of the level of service presently provided and that which is considered necessary?
- Is the function or activity organisationally discrete?
- What are the working methods, organisation and use of capital assets? What use is proposed of existing staff and assets?

In 1992, the Efficiency Unit acquired responsibility from the Treasury for the overall policy of market-testing although the responsibility for developing market-testing programmes rests with individual departments as they are best placed to know their own business and to identify which activities are most appropriate to market-testing. The Efficiency Unit also acts in an advisory capacity, encouraging departments to examine market testing possibilities and as a clearing house for best practice to ensure that all departments are equally aware of the prospects and of the practical considerations that they need to address.

CONTRACTING OUT

Contracting out has been well tested within government. Although specialist services have always been purchased from the private and non-government sectors, it is the development of market-testing techniques which is providing the strategy for assessing the ability of the market to provide goods or services historically considered to lie at the core of government. Significantly, market-testing is showing considerable potential as a technique for stimulating change through the assessment of internal efficiency. In some limited situations, where contracting out is not feasible because of market weaknesses or political

restrictions, the development of internal markets is being explored with, as yet, uncertain results.

Flexibility and a concern for service quality and sustainability, rather than preconceptions concerning the efficiency of the private sector, have been the key features of successful initiatives.

- A recent strategy for the development of the level playing field in New South Wales, Australia, took care to avoid disadvantaging the competitive position of organisations simply because they were government entities.

IMPROVING PARTNERSHIPS

The development of partnerships with non-government organisations and the private sector has emerged as a key element in implementing development policies and programmes.

State monopolies have been maintained by complex regulatory regimes designed to ensure safety or equity. At the same time, these have served to maintain areas of public service as the exclusive preserve of government organisations. Opening up areas of public service to private or NGO suppliers, while maintaining standards in areas where consumer choice will have insufficient impact, requires a complex

In Trinidad and Tobago, ministries and departments have been asked to determine whether a service might be more effectively provided by an external agency. Services already contracted out include:

- maintenance services for new police stations (such services are to be phased out in all police stations);
- security services at the Inland Revenue Division, the VAT Administration Office and the District Revenue Offices;
- security services at the post offices and mail delivery between Piarco Airport and the General Post Office.

readjustment of such restrictions. Extensive and successful experience is now available, illustrating strategies for measured de-regulation and regulation.

- An example of a government which has successfully facilitated and managed such partnerships is illustrated by the establishment of Grameen Bank in Bangladesh which has effectively developed programmes and direct benefits for poor sectors of society.
- India has also had successful experience with the NGO role in implementing education, national planning and rural development programmes.
- Partnerships have been built with the private sector in Britain, Australia and New Zealand through the contracting out of work previously exclusive to the public domain.

In Malaysia, the mechanism to facilitate partnership and collaboration with industry is through the establishment of consultative panels. Ministries and departments at federal, state, and local district levels are required to establish panels. These panels collaborate on issues pertaining to the specific functional areas of the respective departments.

The apex of these consultative panels is the Malaysian Incorporated Officials' Committee, chaired by the Chief Secretary to the Government. Its members are captains of industry, representative organisations of the private sector, and senior government officials. It seeks to identify areas of co-operation and collaboration, to improve the delivery of services from the public sector, and to work towards improving public administration in so far as it concerns the critical operations of the private sector.