

Effects of contracting out public sector tasks

Results from a research-based review of Danish and international studies from 2000-2011

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Three main points:

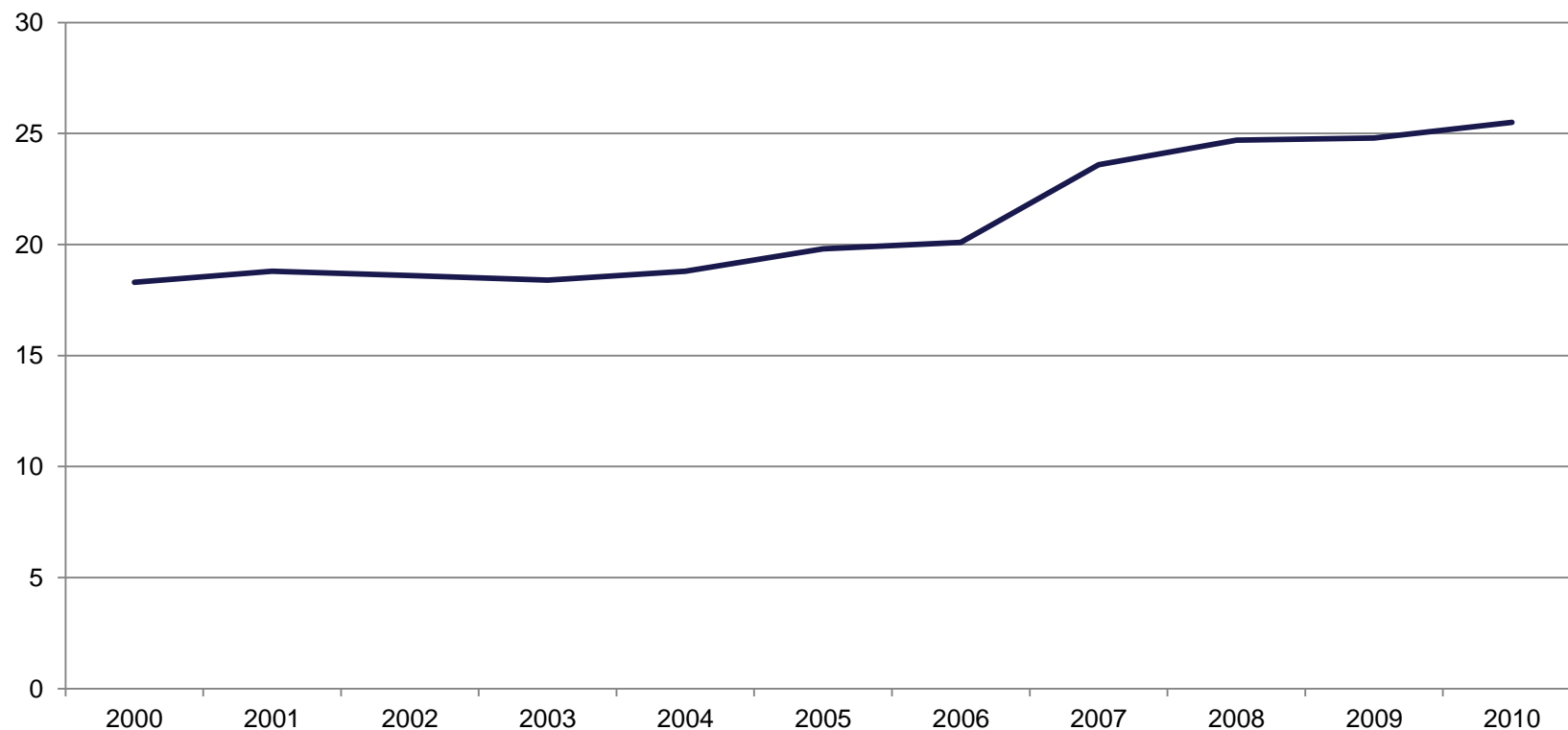
1. The documented effects of contracting out are smaller and the results more mixed than often assumed in political debates on the issue
2. There are significant differences in the documented effects within the technical and social service areas
3. The documented effects for employees affected by contracting out are generally negative

The heated contracting out debate...



'Exposure to competition' in Danish local municipalities

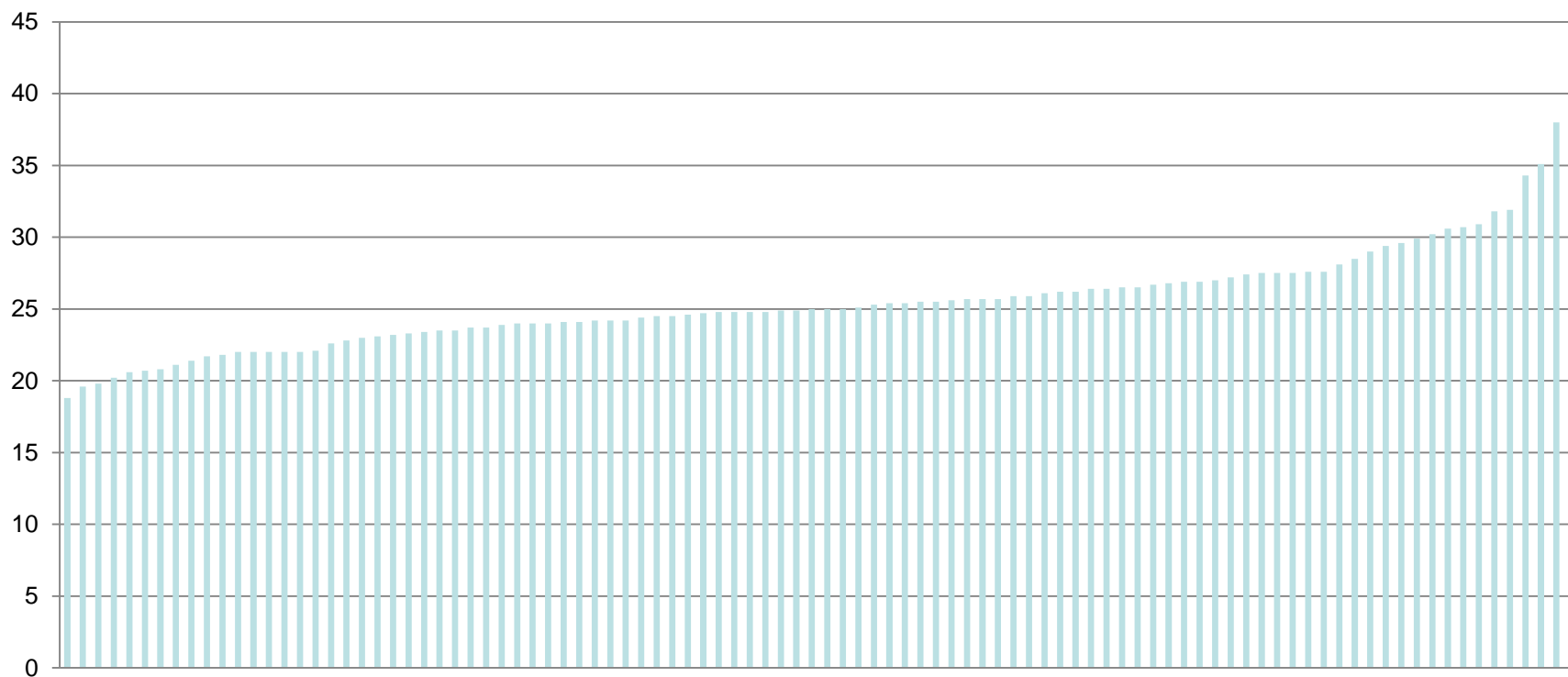
Percent of tasks delivered by private providers in local municipalities



Source: Danish Ministry of Economics and the Interior

But large variation across municipalities

Percent of tasks delivered by private providers in local municipalities



Source: Danish Ministry of Economics and the Interior



Key research questions:

- 1) To what extent is there documentation for contracting out having led to an improved connection between price and service quality compared to in-house production?
- 2) Are there differences in the documented effects of contracting out within the technical and social service areas?
- 3) What are documented effects for the employees affected by contracting out?

→ Research project carried out for the Organisations of Public Employees – Denmark (OAO), The Danish Confederation of Trade Unions (LO) and the Confederation of Professionals in Denmark (FTF)



Main conclusions 1

- Documented cost savings within *the technical service areas*
- But smaller effects and more mixed results than often presented in political debates on privatisation and contracting out (5 – 15 % cost savings)
- No general documentation for positive effects of contracting out within *the social service areas*
- However:
 - Very few studies that document effects within the social service areas
 - And a general lack of knowledge concerning;
 - Quality consequences
 - Transaction costs

Main conclusions 2

- Documented effects on *employees* affected by contracting out are generally negative
- Exemples include;
 - Lower job satisfaction
 - Faster pace of working
 - Stress and burn-out
 - Changes in skill levels
 - Less job security
- Broader effects (security of supplies, innovation, knowledge sharing etc.) are very poorly documented
- The effects of contracting out are mainly related to competititon rather than public versus private ownership

Effects within selected service areas

- Road maintenance: Cost savings (Blom-Hansen, 2003)
- Garbage collection: Mainly cost savings with more or less same service quality (many studies)
- Cleaning at public schools: Cost savings but serious problems with documentation of service quality (Christoffersen, Paldam og Würtz, 2007)
- Employment services: No/mixed results and differences between research and consultancy reports
- Child-care: No significant effects (Rambøll/Danish Tendering Council, 2011)
- Nursing homes: cost savings 16-18 % (3 documented cases)

Wider perspectives on the effects of contracting out

- Are we measuring the same ? (e.g. service quality and task composition)
- Effects over time: 1. and 2. generation contracting out
- How broadly are the effects to be assessed?
- Consequences for the employees: Important but often difficult to measure
- Is there a competitive market in all (particularly small) municipalities?
- Contracting out of work intensive tasks versus technology intensive tasks
- Economies of scale and regulatory framework conditions within different service areas



Thank you!

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