An Assessment of the Privatization of Child Welfare Services

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Public child welfare agencies are increasingly contracting with agencies in the private sector to provide a variety of services to children that were previously provided almost exclusively by public agencies. Based on the assumption that market competition produces greater economy and effectiveness, privatization has been embraced as a strategy for providing higher quality services at a lower cost. Although the history of privatization is more extensive in the areas of child support enforcement and the administration of welfare benefits, the privatization of child welfare services in Kansas in 1996 ushered in an era of heightened interest in privatizing family preservation, foster care, and adoption services. In the past, noncompetitive quasi-grant arrangements typified the relationships between public and not-for-profit agencies. Now, public human service responsibilities are increasingly being privatized through a variety of contractual arrangements that place considerable program responsibility with private agencies in both the not-for-profit and the for-profit sectors. Practice, policy, and fiscal considerations have together set the stage for the increase of privatization in human services, including child welfare. The benefit of privatizing child welfare services continues to be debated, however.

The principal arguments for and against privatizing child welfare services have centered on the extent to which such efforts result in higher quality of services, greater efficiency, and cost savings. Proponents of privatization embrace a market economy rationale, arguing that privatization results in significant cost savings while, concurrently, maximizing efficiency. Opponents of privatization contend that the private sector is not as economical as might be assumed. They argue that the competitive marketplaces that exist in other service areas do not typically exist in the social service environment, and as a result, privatization may not work. Additionally, they cite both the initial cost investments private entities must make to offer services already offered by public agencies, as well as the new costs generated by privatization itself. Opponents also question whether state and local governments have either the resources or the expertise to design, implement, and oversee privatization efforts.

A Survey of Privatization Efforts

These arguments not withstanding, there has been a clear trend toward the privatization of child welfare services since the mid-1990s. The Cornell University Department of City and Regional Planning has noted, for example, that "although empirical studies do not provide clear evidence on the costs and benefits of privatization, public perception and pressure for improved government efficiency will keep privatization on the government agenda" (Cornell University, 2000.)

Our case study on privatization examined the privatization of child welfare services taking place in six communities. The initiatives studied were as follows:

(1) Kansas: The statewide privatization of family preservation, foster care, and adoption services by the Kansas Department of Social and Rehabilitative Services. This effort was initiated by the governor of the state and was quickly implemented through contracts with private agencies through a statewide contract for adoption services and by regional contracts with a number of providers for family preservation and foster care services.

(2) Florida: The statewide privatization of child welfare and related services, with the exception of protective service investigations, through an effort called "Community-Based Care." This case study focused on the privatization of child welfare service in Sarasota County, the site of the longest-standing privatization effort in the state.

(3) Missouri: A privatization effort, entitled The Interdepartmental Initiative for Children With Severe Needs and Their Families, a collaborative effort between the State Departments of Social Services and Mental Health. The initiative focused on serving children and youth with severe emotional disturbance.

(4) Hamilton County, Ohio: A county-based privatization effort, entitled Creative Connections, involving child welfare, mental health, substance abuse, mental retardation, developmental disabilities, the juvenile court, and a private not-for-profit lead agency. The initiative was designed to provide services for children and youth with multisystem needs.

(5) Michigan: A pilot privatization effort, called the Foster Care Permanency Initiative, based in Wayne County, including Detroit, which was designed to promote more timely achievement of permanency for more children in the foster care system.

(6) Maine: A statewide privatization initiative, entitled the Community Intervention Program, which provided assessment and intervention services to families at low to moderate risk of child abuse and neglect.

Because of space limitations, two of these efforts are briefly summarized here to illustrate some of the directions taken in the course of child welfare privatization. They include the initiatives implemented in Missouri and Hamilton County, Ohio.

Missouri: The Interdepartmental Initiative for Children With Severe Needs and Their Families

This initiative, still in operation in 2004, was developed through a collaboration of the Missouri Department of Social Services and the Missouri Department of Mental Health in an effort to develop services for children with serious emotional disturbances and their families. It was designed so families could access these services without having to meet categorized program eligibility requirements. The resources of the two state departments were combined to create programs designed to reduce the number of children in residential care by making it possible for these children to be moved into community-based settings. The two departments entered into a contract with the Missouri Alliance for Children, a newly established for-profit entity formed by the owners and chief executives of major social services agencies in the state. Among the key fea-

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tures of this initiative were the following:

- a lead agency model
- a case rate fiscal methodology based on data related to historical expenditures for children in residential care
- a plan to provide a full array of services for children
- locally organized systems of services and supports
- penalties and incentive payments related to the stability of children's placements after their discharge from the program
- initially, an intermediary that served as monitor of the lead agency's performance and assessed outcomes
- outcomes that focused on moving children to community-based care and sustaining those care arrangements

Hamilton County, Ohio: Creative Connections

This initiative originally targeted children with multisystem needs and included a service cap of 286 children at any time. The initiative was the product of intersystem collaboration and pooled funding by five county agencies: child welfare, the juvenile court, the mental health board, the alcohol and drug addiction services board, and the mental retardation/developmental disabilities board. The lead agency, Beech Acres, a private child welfare agency in Cincinnati, assumed responsibility for developing and managing a range of services to meet the needs of children enrolled in the initiative. Each of the five participating county agencies was assigned a designated number of slots and was permitted to develop the criteria for referral for children served in its system. Among the key features of this initiative were the following:

- a lead agency model
- an extensive provider network with a focus on expanding local services
- clearly defined outcomes with documentation of improved quality of care
- a case rate that was significantly subsidized by Beech Acres' endowment
- an intermediary between the lead agency and the public agencies, which was assigned responsibility for program evaluation

This initiative was redesigned and considerably revised in 2003, and a new contractor assumed responsibility for the initiative. The multisystem coordination and pooled funding arrangements continue.

Lessons Learned

The experiences of the six jurisdictions studied provide data from which to draw some initial conclusions about current privatization efforts in child welfare. While it cannot be said that these six jurisdictions are representative of all privatization efforts, they did demonstrate sufficient similarity to allow certain observations to be made. The following discussion synthesizes some of the major findings from this study.

1. Neither cost savings nor greater efficiency was a common outcome of these privatization efforts.

The experiences of the jurisdictions examined in this study suggested that communities embarking on privatization initiatives should not expect to save money, and while they may reasonably anticipate some improvements in efficiency, they generally should not expect dramatic gains. In fact, none of the studied jurisdictions saved money, and there were significant concerns in all jurisdictions about the efficiency of the newly designed systems.

2. The privatization initiatives struggled to develop and measure appropriate outcomes, indicators, and benchmarks that would allow an objective evaluation of actual performance.

Although there were exceptions, this study found that many of the initiatives struggled to articulate desired outcomes and to develop appropriate, data-based performance targets. Several problems were noted with regard to outcomes, although these problems varied from one jurisdiction to another. They included poorly defined outcomes, more identified outcomes than could possibly be monitored or measured, and variability in the outcomes used to assess performance. Even when outcomes were well developed and based on clearly defined concepts, difficulties in articulating appropriate performance targets were common. Although there was a recognition that benchmarks should be developed based on historical data and/or the experiences of comparable communities, this was most often not done.

3. Personal commitment and leadership are vital to ensuring that privatization efforts are developed and sustained.

One theme identified across all the initiatives was that the overall success of a privatization initiative was associated with the presence of strong leadership; management strategies that promoted collaboration and brought all stakeholders together; long-term commitment to the initiative; and, strong positive interpersonal relationships among public and private agency representatives as well as between agency representatives and community leaders. To the extent that the studied jurisdictions exhibited these qualities, their efforts appeared to be more effective. Nonetheless, it was common to find frequent changes in leadership and strained relationships between public and private agency representatives.

4. The roles and responsibilities of the public and private agencies must be clearly defined.

A common theme was the importance of clearly delineated roles and responsibilities between the public and private agencies, and of other players who had key roles in the initiative. Clarification of roles and responsibilities supported greater efficiency and also provided a framework for implementing and assessing the impact of the effort. Most of the studied jurisdictions, however, failed to clearly articulate roles and responsibilities, particularly for the public agencies involved in these efforts. This may not be entirely because of lack of effort or a lack of recognition of the need for such clarity. This may be because privatization of public responsibilities inherently compromises clarity of relations. Public agencies cannot give away protective responsibility though they can delegate protective function. Under such circumstances, assignment of responsibility is intrinsically difficult.

5. Attention must be given to building and funding the necessary infrastructure for any privatization effort.

The need for a well-developed infrastructure was repeatedly emphasized by individuals involved in the privatization initiatives. Such an infrastructure included a mutually shared vision for the initiative, an adequate management and staffing structure, adequate financial support during the start-up period, and strong connections with the community. Most jurisdictions, however, were unable to report full success in their efforts to develop such a supportive infrastructure for their privatization initiatives.

6. A "go slow" approach to privatization is more realistic than an "overnight" redesign of systems.
Although comprehensive planning and piloting were not used in every jurisdiction studied, to the extent that such efforts were made, they appeared to be associated with positive results. Similarly, phasing-in services as opposed to attempting to implement a comprehensive redesign was found to provide the time and pace needed to most effectively implement significant changes in service philosophy, financing, and delivery.

7. Information systems that provide relevant data are critical to effective privatization of human services.
Access to certain information was critical for determining costs and setting pricing and for developing performance-based standards. It was widely agreed that adequate data systems were essential to support the tracking of outcomes for individual children and families and to allow the aggregation of data. Most jurisdictions studied had struggled to develop adequate information systems.

8. The extent to which privatization is a viable approach depends to a large degree on service capacity.
In many of the initiatives studied, assumptions had been made about the power of new fiscal methodologies to change systems, without considering the critical role that service capacity plays in the change process. The experiences of these communities indicate that although adjusting fiscal incentives and penalties may improve certain aspects of service delivery systems, the system changes envisioned by privatization efforts cannot be made in the absence of sufficient resources to ensure development of a strong and comprehensive service capacity.

9. Monitoring tends to be overdone or underdone in many privatization initiatives.
Monitoring the performance of privatization initiatives is critical but complex. Problems often arose due to staff shortages in the government agencies responsible for monitoring, and lack of staff expertise in managing contracts and conducting audits. These issues led to inadequate monitoring in some communities. Conversely, in other communities, private agencies were so extensively and frequently monitored that considerable energy and resources had to be diverted from service delivery. Several of the communities that had initially delegated monitoring responsibility to a third party contractor subsequently reassumed this responsibility because of concerns about the effectiveness and appropriateness of delegating such an important responsibility.

10. The financial aspects of privatization are among the thorniest issues confronting privatization efforts.
The fiscal arrangements in privatization initiatives are frequently highlighted as their most innovative features. Nonetheless, the financing structure in the studied initiatives—particularly in the context of risk-sharing arrangements—presented significant challenges. Finding the "right" fiscal methodology often proved elusive. These initiatives also struggled to develop and implement mechanisms to address the potential impact of risk sharing on private agencies. Public and private contractors found it difficult to estimate both the frequency and the severity of risk variables. Without statistically valid fiscal contracting parameters, risk agreements could quickly become fiscal disasters for one party or the other. Equity in contracting proved elusive, with either public dollars being lost or private contractors finding themselves with devastating financial losses.

Recommendations

Based on the foregoing, a number of recommendations are suggested in an effort to assist communities considering privatization efforts. They include the following:

(1) When considering privatization, a community should carefully delineate the specific goals of the privatization effort and, based on those goals, clearly specify the population to be served and the privatization model to be used. If a lead agency model is selected, the types of agencies eligible to serve as lead agency should be delineated.

(2) Public agencies should not expect to save money through privatization, given the real costs of developing, implementing, and overseeing a privatization initiative and the costs associated with providing a full array of high-quality services to children and families. If a service delivery system is significantly underfunded, undertrained, and lacking in supportive resources, some small gains in efficacy through privatization should not be expected to resolve these problems. In fact, our survey found that with privatization, the contracted agencies were soon voicing the same historical concerns of public social services, i.e., lack of fiscal and supportive resources. Private agencies, however, should expect that public agencies would attempt to control costs by shifting the risk of financial loss to the private agency. For many private agencies, this has proven a Faustian bargain, as the burden of unforeseen costs and complications has proved to be unsustainable.

(3) Absent significant attention to the factors that undermine efficiency in the public sector, all parties should recognize that greater efficiency will not be achieved simply because a private agency has assumed primary responsibility for service provision.

(4) Outcomes and their associated performance targets should be few in number, should be articulated in straightforward and clearly understandable terms, and should be developed during the initial implementation stage of the privatization initiative, based on baseline preprivatization data. Fiscal incentives should be tied to a limited number of key program outcomes.

(5) Communities should recognize that privatization efforts require the commitment of high-level leadership over the long term and will require concerted efforts to develop and sustain strong interpersonal relationships among staff in public and private agencies. Absent these factors, it is unlikely that a privatization initiative can be successfully implemented or sustained. Communities should also recognize that strong, committed, and charismatic leadership could sustain problematic programs for the short run. Therefore, ultimately, program success or failure should be assessed based upon empirical data.

(6) Attention should be given to carefully delineating the roles and responsibilities of both the public agency and the private agency in a privatization initiative. This may be the most difficult task of all, as privatization efforts in child welfare can be viewed as an experiment to identify what functions, responsibilities, and activities can be most appropriately delegated to private contractors. At the very least, by clearly delineating roles and responsibilities, the field will be better able to assess both its failures and successes at this task.

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(7) A strong infrastructure, characterized by a shared vision for the initiative, an adequate management and staffing structure, financial support for start up, and strong connections with the community should be addressed early in the implementation of any privatization initiative.

(8) A "phased in" approach, in which privatization is implemented through broad-based community planning, pilot projects, and transitional contracts, will increase the likelihood of successful implementation.

(9) An assessment of existing service capacity should be a central focus in the planning and implementation of any privatization effort. The current service system and its resources should be realistically evaluated in light of clients' needs. Private agencies should receive the necessary support to develop adequate service capacity, including establishing linkages with other services systems. Service capacity should be assessed on an ongoing basis by both the public and private agencies to ensure responsiveness to changing client needs.

(10) Information management systems must have the capacity to provide data on costs, services, and outcomes at both the individual and aggregate levels. These should be developed and implemented as early and quickly as possible.

(11) Because public agencies must remain accountable when services are privatized, they should develop strong monitoring capabilities to ensure effective government oversight and contract compliance. Private agencies must be held accountable for both achievement of program outcomes and compliance with standards of quality for services. However, monitoring systems must be efficiently implemented to prevent the unnecessary overexpenditure of time and resources in monitoring activities.

(12) The funding for any privatization initiative must be at sufficient levels to achieve program outcomes. Privatization cannot be viewed as a way to provide high quality services at little cost. Reimbursement rates and schedules must be fair and equitable.

(13) At-risk contracting, which places private agencies at financial risk when the cost of services exceeds predetermined rates or payment levels, should be viewed with considerable caution. Given the current state of knowledge regarding risk shifting in privatization contracts, it is premature to utilize at-risk and/or performance-based contracting, such as case rates, capitated payments, or global budgeting. If such approaches are used, they should be subject to ongoing assessment based on the establishment of baseline costs and the assessment of outcome data and should be viewed only as "working hypotheses."

(14) When at-risk contracting is used, there should be viable protections for private agencies against excessive levels of financial loss precipitated by factors beyond private agency control. Mechanisms such as stop-loss provisions and risk pools should be carefully developed and fully implemented.

Conclusion

Privatization of child welfare services has been pursued in a variety of ways. Some of these efforts have been successful. Some jurisdictions have contributed very creatively to privatization efforts and have invested considerable resources to make these efforts powerful and valuable experiments. Some very good private agencies have provided strong and committed effort. However, in important ways, many efforts have also experienced substantial challenges that they have been unable to overcome, sometimes blocking the achievement of intended outcomes. Financial methodologies have been frequently unworkable and sometimes disastrous. Monitoring and evaluation have posed significant difficulties, both for private agencies expected to monitor and report on their achievement of program outcomes and for the public agencies attempting to undertake new monitoring and quality assurance roles. Developing and meeting outcomes and performance measures have proved to be major hurdles for most of the programs. The desired results were often not clear, and the performance targets frequently were unspecified or were developed in the absence of validating data. These barriers have made it difficult to fully evaluate the success of privatization efforts. It is clear that privatization cannot succeed by simply transferring to private agencies the problems and constraints that have characterized public agencies' service provision to children and families. Adequate support for services in the form of financial and human resources and a genuine commitment to improving outcomes are essential to any successful effort to improve the quality of child welfare services, regardless of whether the agency providing the service is a public or a private agency.

NOTE

A detailed account of this study, including supporting data, is available in *An Assessment of the Privatization of Children Services* by Madelyn Freundlich and Sarah Gerstenzang, Child Welfare League of America (2003). This article is a synopsis of the book, which was a 2004 Pro Humanitate Book Award winner.

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