Public services and markets – an unappetizing cocktail

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Over the last four decades governments in the UK and some other countries have sought to apply markets to public services. Driven by ideology and public management concepts such as New Public Management these governments have privatised services such as railways, water, energy and telecommunications; and they have contracted public services to businesses and to a lesser extent to charities and community groups. The latter is labelled outsourcing.

Privatisation usually means selling or transferring assets to the private sector and allowing the new private enterprises to operate as private businesses with the only control that government retains being through regulation or in some cases control of demand and payments. Outsourcing means that accountability and in theory ultimate control remains with the public sector, which continues to set standards and access criteria for service users. Staff transfer to the outsourcing body which receives revenue payments from the public sector for service outcomes. Outsourcing companies are held to account through contracts with the public sector.

The Private Finance Initiative (PFI) has been used up until recently to use private capital to build public infrastructure.

Whilst there is a difference between privatisation and outsourcing the underlying economic and political arguments made by their proponents are similar. These are based on the belief that markets will always optimise outcomes and costs; and that competition will foster innovation, productivity improvement, improve outputs and outcomes and lower costs.

The proponents of both outsourcing and privatisation are often though always driven by an ideological desire to reduce the size and reach of the state. This was not the case with the New Labour Government between 1997 and 2010 in the UK but it certainly was central to the Thatcher and Cameron Conservative governments’ programmes.

There were other political motivations for these policies including a desire to weaken the power of trade unions, which contemporarily tend to be stronger in the public sector than they do in the business sector. Other arguments made to support these policies have been that by outsourcing or privatising businesses can access invest capital into the services and provide additional capacity. The capital argument is somewhat flawed given that government can almost always borrow more cheaply than any business. A further argument often deployed is that these are service delivery models which will be able to address under-performance than can the public sector. In reality both sectors can do this with the right leadership, attitudes and access to money.

The current value of UK public service outsourcing is estimated to be between £120 bn and £150bn per annum. There is no confirmable figure to use for this other than estimates. Remarkably there is no central or consistent evidence on the value or the impact of the outsourcing policy.

Despite a lack of any comprehensive evidence-based analysis of the efficacy of outsourcing, the policy and practice gained momentum. It was extended to an ever-wider range of services. There is much anecdotal and contract specific evidence to suggest that

- contractors are ubiquitous: in many instances they have become the public sector
- private sector involvement is greatest in IT, construction, waste management, building maintenance, social care and defence but also includes prison, probation, ambulances, diabetes care, blood testing, trimming shrubs in Royal Parks and applications for UK visas
- many schools and hospitals are locked into PFI deals, where catering and cleaning and IT have to be supplied by nominated companies
- servicing PFI deals costs £10bn a year, with a further £95bn yet to be paid across the UK public sector – these are usually 25 year contracts
- deficiencies and deformations around outsourcing are now clearer than ever
- some contractors are in commercial trouble and there have been some spectacular failures such as with Carillion Plc in 2018 (1, 2 and 3)
• contracting can be inefficient and constraining
• PFI is now recognised as the costliest form of contracting, and not just because of exorbitant finance charges but also the rigidity and expense of its long run services element.
• contract failures include NHS services and the 2012 Olympics, probation, housing for asylum seekers, court translation services and, notoriously, assessment for social benefits and employment
• overburden some procurement processes excluding small companies, new entrants and the social sector
• cost driven procurement and contracting leading to poor quality and supplier failure
• the public sector is now recognising the inflexibility of contracts
• the extra-contractual and client costs of outsourcing reduce its value for money
• the public sector too often lacks client capacity and capability
• paying contracted staff less than a living wage – in order to win a competitive bid – has dire social consequences and costs for government welfare services and local economies
• outsourcing has weakened employees’ bargaining rights
• outsourcing has further fragmented services when serious complex issues require joined up responses.
• accountability is lacking: often taxpayers and service users are unaware of who is providing their services; where to complain; and whom to hold to account
• democratic oversight and control have been diminished (4)

The principles of markets do not actually apply when services are outsourced. The individual service user has no economic relationship with the supplier. Even when the public sector openly procures suppliers there is often a limited response from bidders with the result that UK National Audit Office has identified a serious risk to the government sector as it relies on a four major contractors – companies that are almost ‘too big to be allowed to fail’. (6) Risk remains with the public sector as the Carillion collapses demonstrated. When services such as utilities are privatised there may be an economic relation between consumers of the services and the privatised company. However, these companies are nearly always monoplies. Government has to be a very smart regulator and this in turn has cost implications for government and the privatised companies. The evidence of the success of such regulation in the UK shows very mixed results.

There are political pressures to bring outsourced services back into public management – with some local authorities of all political persuasions in the UK ending outsourcing - and for some privatised services such as rail, water and energy supply to be renationalised. (7)

There is an urgent need for systematic evidence-based research and review to consider the efficacy and impact of the application of market approaches to public services especially outsourcing. Such a review should have an international dimension and should consider what lessons other jurisdictions could draw from the UK experience before embarking on a course of repeating the same errors.

Public services have a wider public benefit than consumer services. There is a collective benefit from having a healthy society, policing, an educated society and good public infrastructure. The value of such services is much more than a market value. They are core to the democratic collective social ‘contract’ between citizens and between citizens and the state.

Markets have important roles to play in contemporary economies and societies. They require effective regulation and democratic oversight but their contribution to public services is very limited and there is a real risk that lazy public management and ideological politicians by seeking to impose markets into public services will create very unappetising cocktails.
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