The Government wants to see more public services financed and delivered by the private and voluntary sectors. However, there are challenges in providing comparable data on public sector delivery, and in the public perception of private company profit, which needs to be clearly linked to service quality.

The Open Public Services White Paper suggests improving public services by encouraging provision from the private and voluntary sectors, alongside the public sector. It is anticipated that the reforms will attract a substantial amount of private capital at a time when the public finances are in poor shape and state spending is being reduced.

The volume of private provision has increased markedly over the last three decades. It is estimated that the turnover of the public services industry, defined as private and voluntary sector delivery of services to the public sector, was worth £79 billion in 2007/08 (Public Services Industry Review, 2008).

An increase in the volume of services offered by new providers could help soften short-term financial constraints by providing investment as well as helping to keep costs down in the long term, if opening up provision brings more competition that leads to cheaper and better services.

Researchers at the ESRC Centre for Markets and Public Organisation (CMPO) at the University of Bristol have examined the issues of private sector delivery of public services, as set out in the Open Public Services White Paper.

Key findings

- There is a huge potential for private and voluntary sector involvement in the delivery of public services as, on average, privatisation, partnerships and outsourcing have been reasonably successful
- There is a genuine conflict between what the Government wants - and what the private sector can offer - and what the public thinks of the private sector and wants from it
- Two key issues must be tackled to help foster private delivery in the face of public scepticism:
  - First, better data about public sector delivery must be made available, so service users can make an informed decision about which provider to choose
  - Second, a reward structure must be based on delivering improvements in quality so that users can see a link between the profits earned by the provider and the quality of the service. Fixed price contracts with penalties are not the best solution, since they do not help consumers see when profits legitimate.

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Policy relevance and implications

Opening up public services to competition from private and voluntary providers will need to be done in a way that addresses opposition to private involvement among service users, who consider the profit motive unacceptable in public services.

- The White Paper speaks extensively about making data available to help users choose, but there is often a dearth of information on public sector delivery. This must be addressed.
- As well as greater provision of data, it is vital to ensure that the data show which mechanism of delivery is best. In order to know which is the cheaper method of delivery, users will need to be able to compare the whole-life cost of the private option with the whole-life cost of the public alternative.
- Unless private profits are seen as the legitimate reward for better delivery, there will continue to be a need for government agencies and regulators to reduce returns and continued pressure to retain public provision of services.
- It is important to legitimise the profit that the provider receives from the delivery of private services by showing a positive association between the improved quality of the service and the profits.
- Rewards that are based heavily on quality improvements will be vulnerable to users’ subjective judgements about how hard the improvements were to achieve, and will increase the focus on outcomes that are easier to measure over those that are harder. However, if it leads to greater acceptance among users of the legitimacy of private provision it will be worth the cost.

BRIEF DESCRIPTION OF THE RESEARCH

Findings from the ESRC Centre for Markets and Public Organisation show that access to comparable data on public sector delivery of public services need to be improved, in order to accommodate like-for-like comparison with private and voluntary sector delivery. It is also essential to legitimise profits from private sector providers by linking clearly to the quality of services provided.

Paul Grout: Private delivery of public services: the struggle for legitimacy (CMPO Research in Public Policy)

Web: www.bristol.ac.uk/cmpo/publications/bulletin/winter11/grout.pdf (PDF)

FURTHER INFORMATION

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