

‘Public Service Markets’ Aren’t Working for the Public.....
or as Markets

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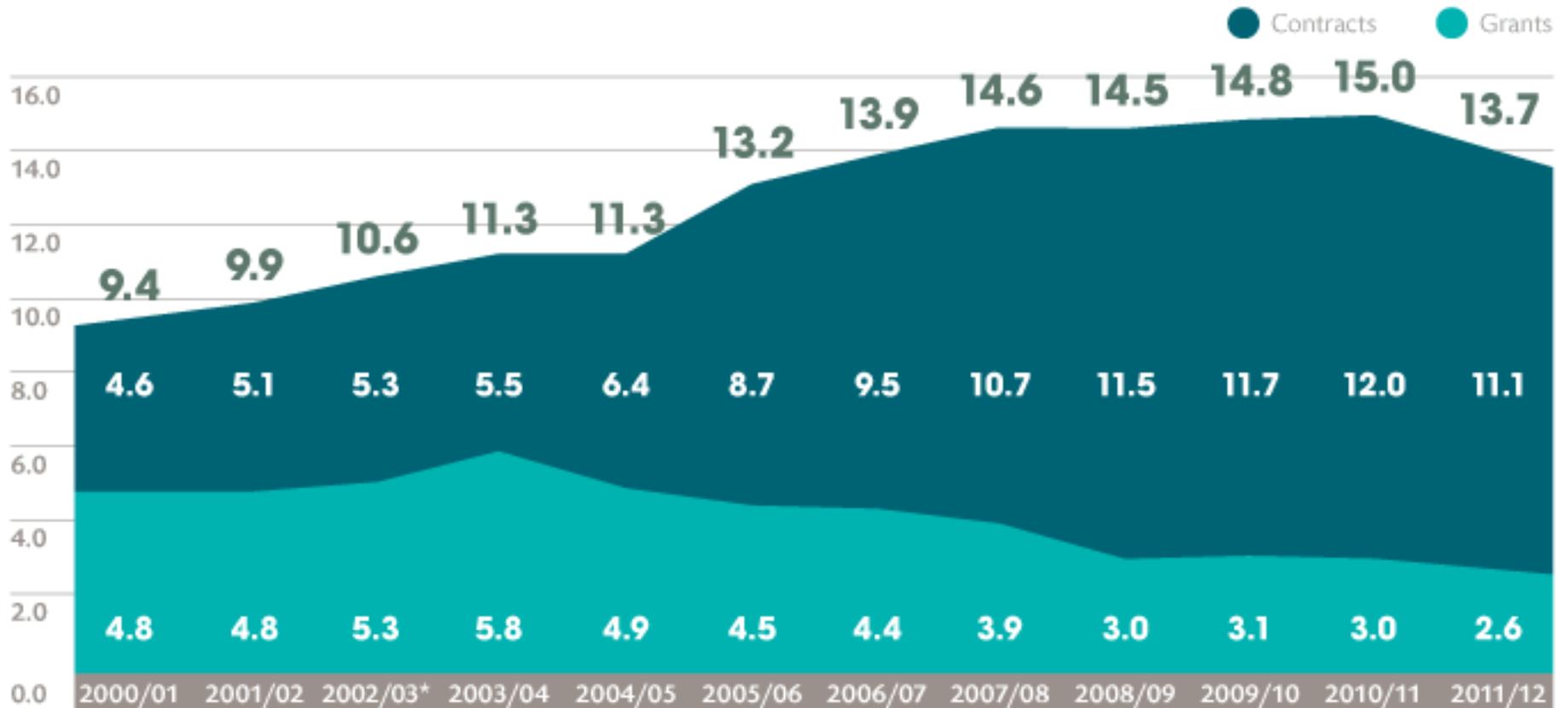
@Kathy_CEO_CE

“The private sector delivers complex services on behalf of the public sector, to the value of around £90 billion, which represents half of all public sector expenditure on goods and services.” (Public Accounts Committee Dec 2014)

The voluntary sector also receives around £13.7 billion in income from Government bodies. (NCVO Almanac)

Over the last 30 years or more, previously diverse types of partnerships and funding relationships between the state and non-statutory organisations have been increasingly defined, discussed and managed as 'market transactions': contracts, tenders, competition, 'outsourcing', TUPE, spot purchasing, performance-related rewards (organisational and professional)

Voluntary Sector income from Government bodies



Effects of 'competitive marketplace' for securing public service contracts now flow through the design, management, allocation and delivery of public service organisations:

- Define your product and 'your' outcomes
- Demonstrate your market credentials
- Know your Unique Selling Point
- Perfect your pitch
- Compete on price (know your unit cost!)
- Deliver savings ('return on investment')
- Seek growth and benefit from economies of scale
- Meet targets (be willing to be paid in arrears dependent on them)
- Target 'the right' clients for what you are contracted to do
- Build your evidence base to support your next sale
- Price driven practice and decision-making about individual needs

In commerce:

DEMAND IS A GOOD THING.....more demand is great!

In public / charity services:

Demand is 'complicated'...and more demand may be a cause for concern

In commerce:

REPEAT CUSTOM IS BRILLIANT!.....in fact why not create ‘loyalty schemes’ or build in ‘product obsolescence’ to encourage it?

In public / charity services:

If the same people keep coming back to you time and time again, you’ve probably been doing something wrong!

In commerce:

DEMAND IS YOUR SOURCE OF INCOME – if demand is higher than you can supply you can still capitalise on it, either by raising price (and rationing over-demand) or investing in increased capacity to meet greater demand.

In public / charity services:

WHATEVER YOUR SOURCE OF INCOME, IT IS RARELY / NEVER THE NEXT PERSON ARRIVING WITH A DEMAND FOR YOUR HELP – nor will it be, even if you stretch or grow your capacity to meet increased demand

In commerce:

PRICE IS A REASONABLE GAUGE (OR PROXY) FOR VALUE

In public / charity services:

Clients do not express what they value about your service, nor indeed which types of services or ‘brand’ of suppliers they value most, through a price relationship

Much important and valid debate about the increasingly 'mixed economy' of service providers often focusses on 'political' beliefs and opinions about:

- the size, role and accountability of the State in relation to citizens
- the 'track record' of public sector competence and performance in service delivery
- the ethics and benefits of profit-making and the value of 'business' to the economy
- the transformational change that can be achieved by bringing new perspectives to old 'problems' and institutions
- the most / least desirable organisational form through which to organise and deliver (CIC, charity, mutuals, cooperatives, companies, statutory services, Academy etc)

Back to basics: is 'everything' a market wherever / whenever money changes hands? What is a market anyway?

An actual or nominal place where forces of demand and supply operate, and where buyers and sellers interact (directly or through intermediaries) to trade goods, services or contracts or instruments, for money or barter.

Markets include mechanisms or means for (1) determining price of the traded item, (2) communicating the price information, (3) facilitating deals and transactions, and (4) effecting distribution. The market for a particular item is made up of existing and potential customers who need it and have the ability and willingness to pay for it.

Business Dictionary

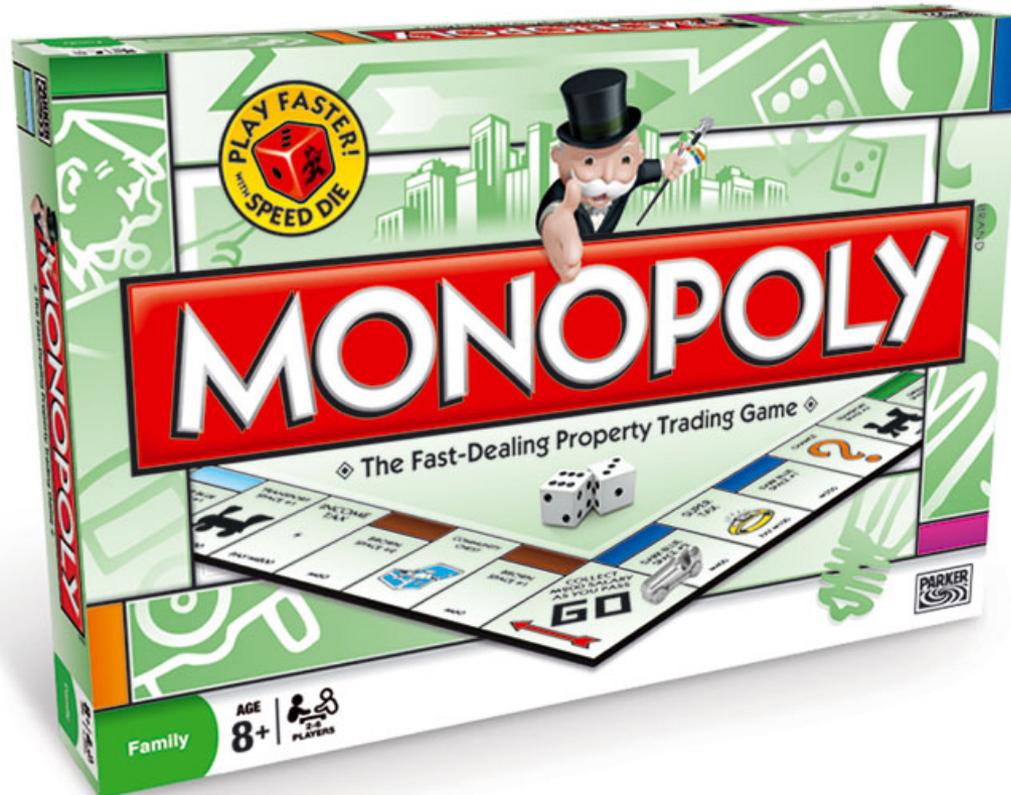
<http://www.businessdictionary.com/definition/market.html#ixzz3Qh6teSwq>

The Chartered Institute of Purchasing and Supply, in their procurement glossary:

“Market failure occurs when the action of the market does not create an optimal outcome.”

Causes of market failure can be attributed to three main reasons

Causes of market failure 1: market distortion



Causes of market failure 2: 'externalities'



Causes of market failure 3: being a 'public good'



What types of goods are different markets supplying?

- private goods
- common goods, or common pool resources
- public goods

(public, private and charitable organisations *can* competently deliver any/all three types of goods...b y the way!)

'Remember definition of a 'public good' as a market failure! Assumptions that new markets and greater competition are always the right way to tackle 'market failure' are challengeable.

"This white paper says loud and clear that it shouldn't matter if providers are from the state, private or voluntary sector - as long as they offer a great service. The old narrow, closed, state monopoly is dead."

David Cameron 2011

"...as public service markets develop, quasi-monopoly suppliers are emerging who squeeze out competition, often from smaller companies with specific experience. Competition for government business should bring with it a constant pressure to innovate and improve. But for competition to be meaningful, there must be real consequences for contractors who fail to deliver and the realistic prospect that other companies can step in"

Public Affairs Committee 2014

What type of markets are public service markets?

Types of Market:

Market Structure	No. of buyers	No. of sellers	Buyer entry barriers	Seller entry barriers	Size of firm	Product differentiation	Market share	Competition
Perfect competition	Many	Many	No	No	Relatively small	No, homogeneous product	Small	Fierce
Monopolistic competition	Many	Many	No	No	Relatively small	Basically substitutes, but not alike as branding is different	Small	Fierce
Oligopoly	Many	Few	No	Yes	Average	Homogeneous/differentiated	Average	High
Oligopsony	Few	Many	Yes	No	Relatively small	Homogeneous	Average	Imperfect competition
Monopoly	Many	One	No	Yes	Relatively large	No substitute goods/services	Highest	No competition
Monopsony	One	Many	Yes	No	Relatively small	Substitute goods/services	Average	Imperfect competition

The key 'market diagnostic' question for public service markets is not 'who provides?' but 'who buys'?...and what kind of good are they buying?

Most public service markets are monopsonies (prisons, probation, children's homes, work programme) or oligopsonies (NHS, Education)...in common pool resources, or public goods.

Whether in public or commercial markets, monopsony and oligopsony are structurally distorted markets, where market actions alone will *a/ways* fail to deliver optimal outcomes. 'Left' to market forces without management, correction or oversight, market failure is almost guaranteed!

If state is 90-100% of the 'customer market' for something it needs, why go out retail shopping? You'll pay a premium price, risk no-one quite offering what you need, or being overly dependent on them staying 'in business' to meet your duties

Residential Child Care – 'children's homes'

70 years ago – mainly charity (c70% of provision, state 30%)

Localised procurement markets grown over last 40 years

Today: 75% private (owned and run), 23% state, 2% charity

The market is not working - for anyone in it – and may be at brink of collapse

'Correcting a History of Market Failure' www.childrenengland.org.uk