

# Getting choosy

## THE FUTURE OF COMPETITION IN PUBLIC SECTOR MARKETS



The Brexit challenge has inevitably diverted attention from other issues confronting policy-makers, while at the same time making it all the more necessary that we get wider public policy right. This bulletin is the first in a series of “Future Thinking” updates on the changing elements in the public policy debate, and how these should help to inform corporate and government decisions in areas such as health and social care, education and skills, productivity growth, trade and migration. Our first issue cuts across almost all policy areas: how thinking has evolved on the use of choice and competition in public services.

Competition has long been used by policy-makers in the UK to support the delivery of efficient and effective public services. From contracts for GP “out-of-hours” services tendered by local authorities to the choice of universities, colleges or outpatient appointments by individual citizens, different types of competition have helped to determine who supplies us with public services. While politicians periodically decry the use of private providers, such provision is now so widespread across public services that it would take a revolution to reverse it.

However, there is an increasing realisation across the political spectrum that while competitive mechanisms may shake things up in almost any public service, they do not always yield the best outcomes. Competition can lead to the fragmentation of healthcare services, the disruption of train services and a level of confusion amongst the public that may outweigh - or negate - the efficiency gains. Competition is, after all, only one tool, albeit a powerful one, to improve quality. And competitive processes in public services need to be carefully designed, to ensure they meet the needs of citizens rather than competitors.

### SET UP YOUR SIX-PACK

From Frontier’s work in this field, we have concluded that six conditions need to be met for competition to deliver improvements in public services. These conditions cover both sides of the market, both demand (meaning, ultimately, from you and me) and supply (meaning from companies, charities and other providers). If these conditions cannot be met, then, we have found, it is unlikely that competition will prove to be the best way to ensure a quality public service at an appropriate cost to the taxpayer.



Providers (Supply)



Public (Demand)

- a **diversity of supply** (multiple providers and possibly products)
- **flexibility of supply**, including excess capacity
- **funding and incentive mechanisms** that are aligned with the public’s desires

- an **awareness of their choice** between alternative providers
- **access to information** that allows them to make a well-informed, balanced choice
- the **capability to act** appropriately on that information

Plainly, these six conditions may not be easy to meet in their entirety, and it must be a matter of judgment as to whether they can be met sufficiently to make competition effective in delivering value. For example, a “well-informed, balanced choice” is something we don’t always make even when we have all the necessary information, and understand it - so what is good enough? Nor is it a simple matter to align funding and incentive mechanisms for “the public’s desires”, even supposing we fully understand what these were, and what informed them. So the conditions have to be applied with reasonable attention to the art of the possible. Moreover, albeit useful as a starting-point, we have also found that this framework needs to be supplemented by four additional considerations.

## NOW ADD FOUR

Firstly, it is important to recognise that **there are different forms of competition**. In other words, to recognise that choice and competition are not the same thing. In some markets citizens may be offered a choice of service (for example, several colleges offering similar courses). For others (for example, GP out-of-hours services) the citizen may have little choice, but the provider has had to compete for the contract.

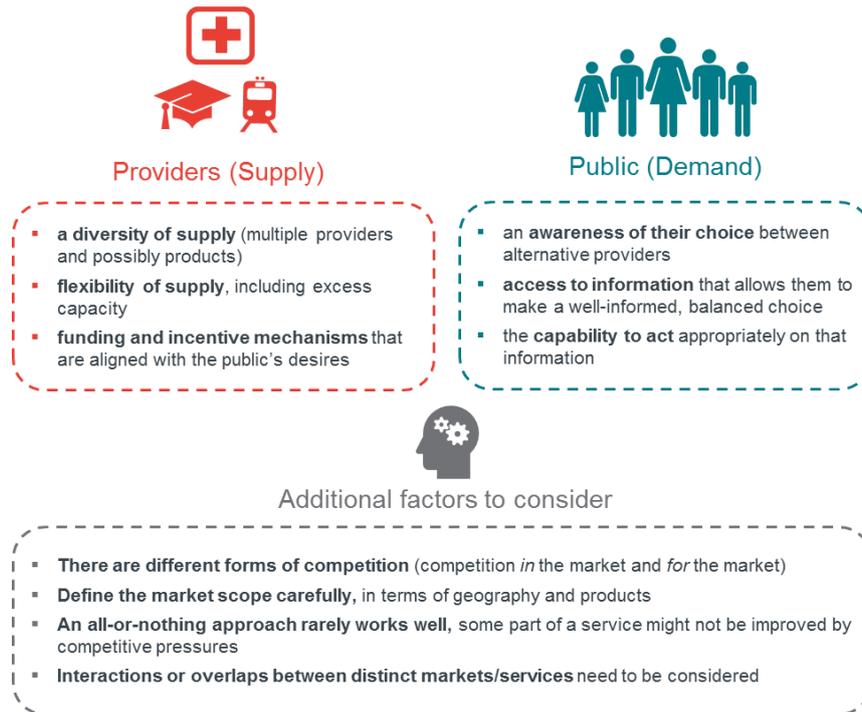
The key distinction is between competition *in* the market, which is created by the day-to-day choices we make as individuals (for a brand of toothpaste or an electricity provider); and competition *for* the market, which is created by government tenders for the provision of goods or services to groups of individuals (a rail franchise, say, or the contract to run telephone advice services for legal or non-emergency health advice). The six conditions apply to these two forms of competition in different ways. For example, every individual must have the information needed to make choices *in* the market (say, between universities). But only those awarding contracts need the relevant information to make choices *for* the market (say, between alternative providers of vocational educational curriculums).

Secondly, it is necessary to **define the market scope carefully**. There are two parts to the definition: which services are to be provided (the “product”) and over what area (the “geography”). The conditions for competition to work well may be present in some parts of the market but not in others: for example, they may be present in urban healthcare markets but not in sparsely-populated rural ones. Or, they may work well for the choice of some kinds of courses (for example, media studies) but not others (for example, courses in high speed rail engineering). Policy-makers must know which services are being considered, and over what geography, to determine whether the six conditions for competition can be met or not. The importance of geography has become increasingly clear. Distance is obviously critical if you need to get to an A&E department. Even a choice of GPs is likely to be easier to achieve in urban than in rural areas. And the nature of the product will affect the ability to create vigorous competition, since barriers to entry and expansion will be higher for some goods and services than others.

Thirdly, it is important to be aware that **an all-or-nothing approach rarely works well**. Often, there is some part of a service that might be improved by competitive pressure, but other parts require different tools to raise standards. Competition does not work particularly well when it comes to the design of courses and qualifications, but it is well-suited to improving the delivery of qualifications (by giving students a choice of where to go for college). Isolating those parts of the delivery model where competitive conditions break down allows these to be separated from the rest of the service, to improve provision overall.

Fourthly, **interactions or overlaps between distinct markets or services need to be considered**. For example, the market for 16-18-year-old technical courses is very closely linked to the market for 19+ technical courses, with providers operating across both. If competition in the 16-18 market drives some of the providers out of business, there may be unintended consequences in the 19+ market.

Another issue is the effect on co-ordination between the suppliers of different services. The delivery of acute health care needs to be closely linked to community health services. Competition may disrupt co-ordination, producing worse outcomes than a more integrated model of care. These links and their implications need to be well understood and weighed up in decision-making.



## UP THE LEARNING CURVE

Much has been learnt in the last 25 years about the benefits and challenges of introducing choice and competition into public services. Much has been done to change the mind-set of government services from paternalist dictator to customer-centred provider. Choice, flowing from providers' need to win business, is still the most powerful weapon the citizen can have in dealing with the state. But competition is not an end in itself, and experience has helped us to identify the circumstances in which it will deliver better quality and value for money, and those in which it will not. The framework outlined above has been designed to work as a useful discipline when the decisions come to be made.



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