Marketising public services: opportunities and risks

Financing and resourcing innovation in public services

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Outline

• Marketisation
  – Defining
  – Theorising

• How marketization is operationalised
  – Market testing
  – Devolution
  – Depoliticisation
  – New ways of financing - Payment by Results

• Opportunities and threats

• Conclusions
Defining marketisation

• “...expansion of market mechanisms into non-market co-ordinated social domains as well as their intensification in already market-dominated settings” (Ebner, 2015)
• Integration of competition and price mechanisms into public services (Bevir, 2012)
• And generate ‘creative destruction’ by eliminating inefficiency, encouraging competition, and encouraging innovation (Landy and Levin, 2007)
• Economising logic of the market
Defining marketisation

- Distinguish between ‘bottom up’ and ‘top down’
  - Top down – use of market mechanisms by government in design, commissioning, delivery of public services
  - Bottom up – response of third sector organisations that become “more market driven, client driven, self-sufficient, commercial or business-like” (Dart, 2004) – ‘social marketization’ (Han, 2017)

- Governments may use markets to meet public policy objectives
- Arguments are economic: based on view that private sector provision leads to same quality, better price (Classen, 2015)
- Move to ‘market-state’ legitimised by equality of opportunity to complete (Bobbit, 2002)
Theorising marketisation

- 'Neo-Liberalism'
- Public Choice theory
- 'Austerity'
- Modernisation
- Complexity
- New Public Management
- Evidence-based policy

Manchester Metropolitan University
Modernisation and NPM

1. Inspection and audit
2. Central standard setting
3. Area based initiatives
4. Co-ordination and integration of different government functions
   – Local partnership
5. Devolution (Scotland and Wales) but limited decentralisation
6. Earned autonomy as a settlement between centralism and decentralisation
7. An extended role for private capital (PFI)
8. A modest increase in citizen obligations
9. Greater access
10. Electronic government

Market testing – prisons & probation

- Variation in approach e.g. within the prison system
- Putting individual prisons out to competition (‘vertical commissioning’) has been superseded by a model in which whole service categories such as building and estate management have been put out to tender (‘horizontal commissioning’) (Garside and Ford 2015)
- Tendency towards centralised, macro-level commissioning e.g. probation sector split between NPS managing higher risk offenders and 21 regional CRCs managing lower risk offenders
Devolution and contestation

- A move to decentralise in local government and health e.g. Greater Manchester (although ambition not ‘even’ across England or by social policy domain)
- Picture in CJS less clear
- Decentralisation in CJS:
  - Police Crime Commissioners
  - Justice Reinvestment Pilots (Manchester and London)
- Centralisation in CJS:
  - National Crime Agency
  - Abolition of 35 Probation Trusts and replacement with NPS and 21 CRCs let through national competition
Devolution and contestation

- Localism and devolution linked to marketization
- Cities and Local Government Devolution Act will “provide for the devolution of powers to cities with elected metro mayors, helping to build a Northern Powerhouse”.
- Metro mayors would be able to undertake the functions of Police and Crime Commissioners.
- However, most areas of England are unlikely to have mayors, leaving the majority of PCCs in place
Depoliticisation

- Diamond (2013)
- Examines public service reform under Labour, 1997 to 2007
- Depoliticisation places key institutions & services at ‘arms-length’ from ministers
- Modifies balance of parliamentary accountability & responsibility
- But strategies to achieve depoliticisation can be highly politicised both in terms of approaches (e.g. marketisation) and rationale (e.g. building impression of managerial competence)
Complexity

- More emphasis on early intervention
- More emphasis on place-based commissioning
- Partnership driven by Payment by Results
- Closer links between CJS and local authorities e.g. Troubled Families
- Closer links between CJS and health e.g. PIPES
- Closer links between CJS and FE sector
Payment by Results

Greater Efficiency
Focusing reward on outcomes, & providing minimal prescription on how these should be achieved will drive greater efficiency in tackling social problems.

Greater Innovation
Focus on outcomes and reduced focus on commissioners ‘micro-managing’ delivery processes will encourage greater innovation.

Transfer risk / defer payment
PbR transfers risk away from the branch of government commissioning the service and towards the service provider. Payment is also deferred.

New market entrants
Marketisation can provide opportunities for new market entrants (particularly from the private and not-for-profit sectors) to enter the market for provision.
“While supporters argue that by its nature PbR offers value for money, PbR contracts are hard to get right, which makes them risky and costly for commissioners. If PbR can deliver the benefits its supporters claim – such as innovative solutions to intractable problems – then the increased cost and risk may be justified, but this requires credible evidence. Without such evidence, commissioners may be using PbR in circumstances to which it is ill-suited, with a consequent negative impact on value for money.” (National Audit Office 2015)
Stout (2012) argues reliance solely on fiscal incentives (e.g. Payment by Results) can discourage conscientious behaviour and instead encourage opportunism and even illegality.

- Incentive schemes frame social context in a fashion that encourages people to conclude purely selfish behaviour is both appropriate and expected.

Nelson (2012) – “The image of economic life as inherently characterized by self-interest, utility- and profit-maximization, and mechanical controllability has caused ... the public at large to come to tolerate greed and opportunism, or even to expect or encourage them”.

But little actual evidence from evaluations of gaming behaviours (O’Leary, 2017).
PbR and evidence-based policy

- What Works Network
  - Six What Works Centres
  - College of Policing What Works Centre for Crime Reduction
- Justice Data Lab
- Evidence key to PbR calculations
- But, is evidence base sufficient to support PbR (Fox and Albertson 2012)
Opportunities and threats

“Is there a greater tragedy imaginable than that in our endeavour consciously to shape our future in accordance with high ideals we should in fact unwittingly produce the very opposite of what we have been striving for?”

Frederick Hayek (1944)
Opportunities and threats

• Legitimacy and democracy
• To third sector
  – Reduces advocacy for public goods and harms civil society; or
  – Increases influence on social policy and strengthens civil society
• Polanyi (1977) – politically contested and socially disruptive
• Used to scale up public services overall under New Labour (Harris, 2010)
• Issues of ‘market failures’
  – Negative externalities from consumer choice
  – Information asymmetries
Opportunities and threats

• Increases incentives and opportunities for capture, gaming, and ‘iron triangles’
• Danger that provider interests paramount
• ‘Too big to fail’ potential
• Issues around ability to tender/compete/deliver for many smaller organisation
• Questions about type of appropriateness of PbR for interventions covered
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THANKS!