



Report Hails Importance of Private and Third Sector Provision

A new report for the Department for Business by economist Dr Deanne Julius, emphasises the key role that private and third sector service providers play in driving up standards and ensuring value for money from public services. Outsourced provision of public services now accounts for 6% of GDP and employs over 1.2 million people: the volume of UK public services contracted to private and third sectors was second only to the US, and the public service industry in the UK is viewed as world-leading. Of the total spend of £79 billion on outsourced services in 2007/8, the largest share of £24bn was spent on health services, £17.9bn on social protection and £7.3bn on education. There is scope for this sector to contribute further to the economy and our global competitiveness, provided Government continues to signal a clear political commitment to a liberalised market.

Lord Darzi's recent report stresses the need for the NHS to develop more personalised, easily accessible world class services demanded by an increasingly aspirational and diverse citizenry. Julius's report graphically highlights the crucial role of the private and third sector's involvement in raising the bar and achieving this goal. Competition and choice have clearly produced innovation and cost reduction usually in the order of 10-30%. She cites the recent findings of a report on APMS contracts for primary care which suggests costs savings in excess of 25% are being achieved. Crucially, she finds there is no evidence that quality declines – indeed, in many cases there is strong evidence that it has increased – although she acknowledges that more needs to be done by commissioners to refocus contracts on outcomes which can be measured. One key determinant of quality appears to be the autonomy and freedom of action afforded to front-line managers, as compared with public sector in-house provision – again, something that chimes with Lord Darzi's findings.

Along the way she debunks some important myths too. Contrary to popular misconception, contracting-out does not inevitably lead to cuts in terms and conditions. Citing NAO research, she highlights that TUPE transferred staff have generally benefited in terms of pay from the shift to a private employer. Recent legislative and policy developments, such as the reform of the TUPE regulations and the Workforce Code have further strengthened employee rights in this area. Instead, the key efficiency gains appear to emanate from improved working hours flexibility, and technical efficiency from new systems and processes introduced by new providers. From my own experience in contracting-out of social care services, it is remarkable how enlightened HR policies and investment in training has reduced staff turnover and the costly use of agency workers, in one case from over 30% to 7% in just 6 months. Another popular myth is that different types of service provider exhibit stereotypical features: is the third sector better at delivering social benefits with a personal touch, whilst the private sector is focused on cost reduction and innovation? Not so, finds the report. Julius cites a recent survey by the National Consumer Council on the preferred provider of domiciliary care services for older people, where private sector providers scored highest.

Julius sounds a warning to Government however. The rate of public service outsourcing has slowed in recent months, in part in reaction to Government's apparent lack of commitment to investment programmes. U-turns on programmes such as the independent sector treatment centres do little to foster investor confidence or create a

stable market. Similarly, she finds there are continuing problems with the capacity and skills within public sector agencies to run major commissioning programmes. The report calls for all public bodies to appoint a Director of Service Delivery at the highest level. Respondents to the survey cited particular gripes that public procurement officials appear to have little incentive or accountability for running a well-organised procurement process, minimising time and costs.

Other barriers for private and third sector provisions include, poorly specified contracts, lack of a level playing field between the incumbent and the bidders or different types of service provider (for example, around tax concessions and treatment of accrued pension benefits). This aspect is something that will be addressed by the recent creation of the Department of Health's Competition Panel. The report also highlights growing concern at the growing complexity and escalating costs of bidding for contracts, in particular where the new competitive dialogue procedure is being used. This aspect is likely to be a particular barrier for third sector and social enterprise providers. In my view, new approaches will be required to foster and incubate this sector. For example, a PQQ questionnaire that calls for 3 years of accounts will cause new entrants to fall at the first hurdle. Similarly, in negotiating a contract for prison healthcare recently on behalf of a third sector provider, we have encountered a wholly unrealistic attitude to risk transfer, where the commissioner expects the new provider to accept responsibility for incidents which occurred before the service transferred out. It is to be hoped that the new suite of NHS service contracts due in the Autumn will go some way to addressing these issues.

This report is very timely and it is to be hoped that it will cast aside some of the old dogmas in the pursuit of a mixed economy where all service providers are judged on their merits: then we can begin to commission public services that are truly world-class.

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