

# What use should the public sector have for the private sector?

Here are the slides from my recent All Souls Lecture on privatisation:

## **The Big Issue**

- The big issue of public / private partnership, contracting out and privatization is back on the agenda.
- The government needs to clarify the role it sees for the private sector and make the case for why it needs private involvement in the public services.
- The public sector under both Labour and Conservative make extensive use of the private sectors as
  - Supplier of goods and services to public service
  - As adviser
  - As financier of public provision
  - As provider of public services

## **Ten Types of public service**

- Public sector monopolies employing public sector staff using public sector assets, providing the service free at the point of use. This is some people's idea of a public service in general but is a limited case. The nuclear deterrent and the army are two good examples.
- Private sector companies competing to supply good or services, using private sector assets, employing private sector staff and charging the customers. This is the most normal form of public service in the UK for the supply of everything from bread to medicines over the counter.

## **Ten Types of public service**

These are the main eight hybrid types:

- Public sector monopolies employing public staff and assets that charge the end users the cost and a mark up – planning departments, the grant of a variety of licences, the BBC etc.
- Public sector monopolies that employ private sector staff and assets to provide a free service – this would be a contracted out service like domestic refuse collection.
- Public sector monopolies employing private sector staff and assets and charging the end user – not common, but could include a local monopoly leisure facility or toll bridge for example.

## **Ten Types of public service**

- Competitive services provided free by the public sector with choice to the end user using public sector staff and assets – schools etc.
- Competitive services provided free by the public sector using private

sector staff and assets – the GP service.

- Competitive services provided by the public sector but charging the end user – e.g. public sector leisure facilities.
- Private sector monopolies using private sector staff and assets and charging the end user – these are rare but include regional domestic water monopolies.
- Private sector competitive businesses employing private sector staff and assets that do not charge the end user – free newspapers, free to air commercial TV etc.

## **Privatisation**

Privatisation describes a range of different policies. There are two possible main ingredients:

1. Transfer of assets and risks from public sector to private, as with the sale of trading companies like the water business or BT.
2. Introduction of competition into former public sector monopolies, as with the licencing of competitors to BT and to British Rail trains.

In order to qualify as a privatisation there does have to be a genuine and substantial transfer of risk from public to private.

There is usually money passing from the private sector to the public when they buy the assets, but you can have privatisations for negative consideration where the assets and business are heavily lossmaking.

It is best when privatizing to break monopolies, but this is not always done.

## **Privatisation**

The capital provided by the private sector will usually be dearer than the government raising it through a bond issue on its own balance sheet. So why might it still be cheaper for service users and better for taxpayers?

1. The private sector may well have better capital discipline, controlling the cost and the time it takes to build new facilities.
2. The private sector may be better at employing people, creating a higher wage higher productivity environment which is also better value for service users.
3. If a mistake is made with an investment private sector shareholders have to meet the losses, not taxpayers.
4. The private sector may innovate and grow the business, finding new revenue streams and activities which supplement the core activity.

## **What happened as a result of the major privatisations of the 1980s-1990s?**

- The privatized railway reversed years of decline in the use of the railway and turned it into a growth business. Labour blamed a couple of bad accidents on privatisation, though the safety record was no worse than BR. They

renationalised most of it.

- The electricity industry switched substantially from coal to gas and greatly raised the fuel efficiency of its output, driving prices lower before the Labour government turned it into a heavily regulated and controlled activity.
- The telecoms industry was transformed by competition and private investment, breaking free from the shortages and lack of innovation of the old nationalized industry. The huge growth of the City would not have been possible with monopoly BT rationing service.
- The water industry modernised and spent more money on investment, but gains were limited by the lack of permitted competition.

### **Could we have more private infrastructure?**

1. Telecoms – definitely Yes, and we are
2. Roads – problems with road pricing when the bulk of the system is free and will remain free
3. Railways – lack of investment return without guaranteed subsidy
4. Energy – Yes, but need for regulatory clarity and consistency

### **Why is so little private infrastructure started when so many say they want to invest?**

1. Slow pace of planning and licences for large projects
2. Uncertainty over what an infrastructure investment looks like
3. Arguments over how much risk the private sector can and should take

### **What other forms of partnership make sense?**

1. Design, build, operate schemes
2. Contracted out services
3. Provision of specialist services by private sector for public
4. General supply

### **How far should general supply go? The case of medicines**

1. Research and development of new treatments
2. Manufacture of the drug
3. Supply to NHS central warehouse
4. Supply to ward or surgery just in time

5. Supply direct to out patient

6. Role in repeat prescription whilst preserving control of Dr

### **The world of the internet**

Now the public sector is so reliant on private sector internet technology, service provision and data storage what does this do to the definition of public service and to the role of the public sector official?

1. Data generation

2. Data storage

3. Data processing

4. Data use