

# Delivering public services: A greater role for the private sector?

## Executive summary

### Introduction

Welfare systems, whose role is to promote the well-being of citizens through high levels of social inclusion and protection, are at the heart of the European social model. Up to the 1970s, across Europe, delivery of public services was almost exclusively the responsibility of the state. Since then, many Member States have extended the role of the private sector in delivering public services in pursuit of improved choice, quality and efficiency.

This report examines how the role of the private sector has grown in the provision of public services in four EU Member States: Lithuania, Spain, Sweden and the UK. It explores the processes by which the private sector became increasingly involved and the implications for access, quality and effectiveness of services for service users. With an explicit focus on the user perspective, the report is based on case studies in these four Member States drawn from the following sectors: healthcare, long-term care, early childhood education and care (ECEC), and employment services. The report assesses developments in the delivery of these services and also addresses the impact of the economic crisis on the changing public-private sector relationship in provision.

### Policy context

The role of the private for-profit and non-profit sectors in delivering public services is the subject of an ongoing debate both at EU level and within Member States. There is a need for more and better-quality services to cater for the diverse and increasingly complex needs of people who are either affected by a particular life event, such as unemployment, long-term illness or disability, or who use services during a specific life phase, such as education. The ultimate goal is to improve people's quality of life. The Social Investment Package emphasises the importance of involving private for-profit and non-profit sector resources to complement public efforts. In the context of goals for

economic growth and jobs in the Europe 2020 strategy, the need to maintain welfare services amid increased pressure on budgets has prompted Member States to turn to different ways of engaging the private sector in the delivery of services.

### Key findings

- The main driver behind the increasing role of the private sector in the two Member States with well-established welfare systems (Sweden and the UK) has been the expectation of quality and efficiency gains. The two Member States with less-extensive welfare systems (Lithuania and Spain) have tended to increase their reliance on the private sector on the grounds of budgetary constraints.
- In Spain, Sweden and the UK, the opening of service provision to market competition has been mainly policy-driven. In Lithuania, the expansion has been more bottom-up, with private providers being established to fill gaps in public provision – in ECEC and education, for instance – before the adoption of policy on tax-paid private provision.
- Provision of public services and the role of private providers in their financing, delivery and management are regulated across Member States mostly at sector level, with no evidence of all-encompassing regulation of public services at national level in any of the case study countries.
- In recent years, the selected Member States increased their outsourcing of public services. While in Sweden this was aimed at preserving access and quality simultaneously (by solving a capacity problem in employment services when the number of recipients increased), in the other three countries outsourcing of public services led

to increased co-payments on the part of service users, especially in long-term care. Employment services were an exception to this trend, remaining tax-financed across all cases.

- The private provision of public services across the selected Member States is managed through a variety of methods, including contracting out via public procurement procedures and voucher schemes that aim to maximise user choice. When contracting authorities employ procurement procedures, the established selection criteria, especially in the case of long-term care, favour price over quality in Spain and the UK. In Sweden, quality outweighs price. In Lithuania, public procurement is not used in the management of public services.

## Policy pointers

### Coherence and continuity

- Consider existing non-profit sector solutions for specific service needs and seek avenues to collaborate with and protect providers so as to harness the experience they have built up over the years. The case studies illustrate that organisations in the non-profit sector cannot compete for large procurement contracts against consolidated private for-profit firms that benefit from economies of scale.
- Learn from insourcing or 'remunicipalisation' exercises, as expanding the role of the private sector is not the only means of improving the quality of services.

### Monitoring and evaluation

- Apply uniform performance indicators for quality of services regardless of the nature of the provider delivering them.
- Develop mechanisms for systematic monitoring, evaluation and oversight of service provision of all providers of public services at the level of the contracting authority. Ensure that the results of these mechanisms feed into public-service-related policy and practice.

- Improve the technical capacity of governments to establish mechanisms and conditions for fruitful collaboration with the private sector through sharing the findings of systematic evaluations and state-of-the-art research on public services and how they are managed. It is also important to ensure that governments and public servants have the administrative capacity to implement policy decisions.
- Develop a methodology for calculating all the costs involved when service provision is contracted to private sector organisations. This methodology should include the administrative costs related to public sector commissioners and contract managers and any cost penalties incurred for variations to agreed services or products, or as a result of early termination of underperforming contracts.

### Risk aversion

- Minimise the risk of service contract failure by studying the conditions under which this has occurred in the past, and identifying lessons learned. Ensure that those handling such contracts have the administrative capacity to do so.
- Ensure appropriate contingency planning, given the high societal cost of interruptions to public service delivery, so as to avoid discontinuity of public service provision in the event of contract failure.
- Ensure transparency in the financing and ownership of public service contractors, which may be backed by private equity and exposed to high levels of financial risk, so as to avoid the detrimental effects of ownership change on the end users of the service. For example, by reducing the volume of services contracted by single procurement contracts, contracting authorities would reduce the opportunity for large businesses to dominate and allow other actors to compete.

### Further information

The report *Delivering public services: A greater role for the private sector?* is available at <http://eurofound.europa.eu/publications>.

For more information, contact Klára Foti, research manager, at [kfo@eurofound.europa.eu](mailto:kfo@eurofound.europa.eu).