

Public sector

Summary

May 2006

Choosing well

Analysing the costs and benefits of choice in
local public services

Key messages

- a) The public wants more choice and has a clear view of the services in which more choice should be provided. But taxpayers do not want to pay more to get more choice, so the need to assess the costs and benefits of choice is critically important in order to promote value for money.
- b) The opportunities and constraints in providing choice will not be the same in every service or in every local authority.
- c) In the services we examined we found that, properly introduced and under the right conditions, choice can produce higher-quality and more efficient services. When choice is introduced inefficiently, it can add to costs and reduce value for money.
- d) The best local authorities are adept at understanding the economics of choice and competition, and are single-minded in the way they exploit the opportunities it provides in order to maximise the benefits and minimise the costs involved. Others need to follow their example in order to be effective in using choice and competition as a lever for improving value for money.
- e) The Audit Commission will assist them in this transition. The principles and methods of assessing the costs and benefits of choice outlined in this report can be applied to any service. The questions for local authorities in this report will help them to understand when choice is feasible and desirable. The Commission will work further with public service providers and other stakeholders to develop thinking and practice in this area.

Providing more individual choice can be challenging for local service providers because it may appear to conflict with other policy objectives and priorities. Local authorities in particular are more used to promoting collective choice and establishing opportunities for communities to have a voice in collective decision making, as a way of ensuring that priorities for scarce resources are fairly set. Individual choice may, therefore, represent a departure from traditional ways of planning and delivering services.

Promoting individual choice can also be contentious, particularly if it is associated with outsourcing, competition and the possibility of users transferring to another provider, possibly from the private sector. But providing choice to individual users calls for a much broader and dispassionate analysis.

The Commission believes that providing individuals with more choice about the local public services they receive is welcome in principle, but also that the circumstances in which it is introduced are important in determining its success. The wider public interest and other policy objectives such as value for money and equity must always be considered. A decision to promote choice, or not, should be made on a case-by-case basis, following a clear analysis of the costs and benefits to users, taxpayers and to providers.

Evaluating choice in local public services

The public's views

We conclude that the public wants more choice, but as taxpayers, members of the public are not willing to pay more to get more choice. We accept that many people might rather have good local services than a choice of service or provider. But we have found that people understand that the quality of services in different areas is not uniformly good and that their ability to exercise choice might assist them in securing better services for themselves.

Service quality

Based on our research in the three services we examined, choice-based lettings in housing, direct payments in adult social care, and call centres and other forms of customer access facilities, we have found that the introduction of choice can lead to higher-quality services. Choice can, if managed properly, provide better matching of limited supply to preferences and needs. It can make small but very important changes, which users greatly value, in how and when services are offered. Choice can give users more control and therefore increase their level of satisfaction with local services. But we also found that choice might not improve the quality of services if the local authority lacks the capacity to implement it effectively.

The costs of choice

As with any change, providing more choice may increase costs, particularly set-up costs or for particular aspects of expenditure, for example, the provision of information. These costs will increase if choice is not introduced efficiently.

Value for money

But greater choice can improve value for money, even when additional costs are incurred. A certain volume of business may be required before savings or efficiency gains can be realised. The extent of the savings may also depend on the single-mindedness of the authority in pursuing them, for example, through reviewing staffing requirements. Already efficient councils may not be able to achieve substantial gains through choice, but they could still reach a valid conclusion that extending choice was worthwhile, if they can judge that any additional costs are likely to be justified by the additional benefits.

Equity

Evidence of the effect of choice on equity in the three services we examined is at best patchy. Local authorities are monitoring the take-up of direct payments and both local authorities and housing associations are monitoring the take-up of choice-based lettings to see if some groups are marginalised, but no clear picture has yet emerged. Neither choice-based lettings nor direct payments involve a net change in the numbers of winners and losers. Choice-based lettings provide a better match of users' preferences to the existing volume of properties. The proportion of social care clients that opts for direct payments in no sense disadvantages others who opt for traditional domiciliary social care. In both of these services, therefore, we consider that greater choice represents a win-win outcome for users and for local authorities.

Barriers to choice

Local authorities identify a number of barriers, or potential barriers, to introducing more choice including a concern to protect vulnerable local residents. In most cases, however, these barriers are based on inaccurate or untested assumptions about costs (disadvantages) and demand. Local authorities should not protect professional interests at the expense of introducing greater choice for local people. There is evidence of staff resistance to the introduction of choice on these grounds.

Local authorities need a better understanding of their cost base. Without this they cannot conduct a cost-benefit analysis to see what contribution, if any, introducing choice may make to efficiency savings or improved value for money. We found, in particular, that customer access centres had

frequently been introduced without an agreed business case setting out the expected costs, demand, and potential benefits of the new service.

Some local authorities do not understand or manage their markets. In direct payments, for example, we found that councils did not fully understand how to set prices at a level that achieved cost savings while ensuring sustainability and growth in the supply of provision.

Choice and competition

Local public service providers need to understand when choice involves competition and when it does not, and what the potential benefits are in each case:

- Choice without competition can bring more flexibility and better personalisation for users, and help to match limited supply to demand better.
- Choice with competition can bring more efficient and more responsive services, as providers try to win business and encourage users not to switch to a rival.

Choice with competition can take one of two forms: competition for the market is familiar to public service agencies with a role as a commissioner or procurer of services. It entails competition among providers for a monopoly contract to supply to a market (for example, waste disposal). Competition in the market, however, is new in many services, and involves different suppliers competing for business directly among the public or groups of service users.

Choice and competition may bring costs as well as benefits. Costs include the financial and administrative costs to local public bodies of introducing greater choice, and the information costs to users who need to find ways to choose between different providers or ways of accessing provision. Benefits include overall savings and higher-quality services.

The work of the Audit Commission

The Commission will work with stakeholders to help local public bodies to understand and approach these issues more effectively. It is already taking steps in this direction. It is developing the approach outlined in this report and will pilot its use in local authorities and housing associations. It will publish a report on competition and contestability in 2007, which will build on the findings in this report.

The introduction of greater choice is particularly contentious in public services such as health and education, but is outside the scope of this study. The Commission intends to work with other stakeholders to supply evidence to improve our understanding of the effect of greater choice in these and all other local public services.

i Copies of the full report are available at: www.audit-commission.gov.uk
or to order a printed copy telephone: **0800 502030** quoting stock code: **GNR3337**

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