

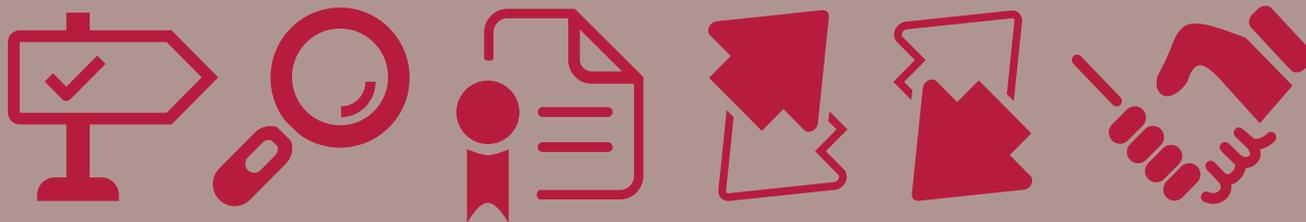


National Audit Office

# Market analytic toolkit

For assessing public service markets

 Interactive





# Contents

Introduction **3**

Defining the market **5**

Initial assessment **10**

Demand side of the market **14**

Supply side of the market **18**

Outcomes from the market **21**



# Introduction



## What are public service markets?

Public services are those considered so essential they are made available to all, regardless of income. These services (such as education and healthcare) are paid for by the taxpayer, and traditionally have been provided directly by the state. However, recent years have seen changes in the way public services are provided. Although the state retains ultimate responsibility, organisations including private, public and voluntary providers now compete for the right to deliver many public services. Users are often able to have a say in, or choose, whose services they receive. This Analytic refers to public services managed in this way as public service markets.



## What is the purpose of this Analytic?

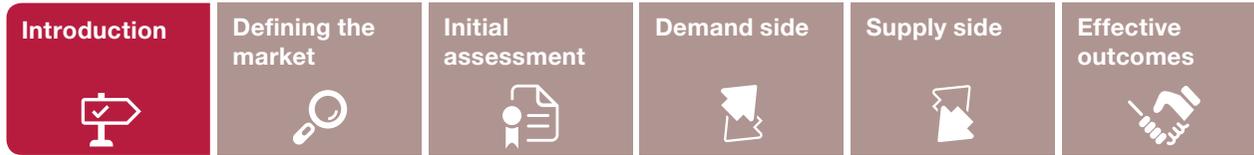
This Market Analytic is intended as a guide to assess the effectiveness of public service markets in terms of value for money (VFM) and user outcomes. Originally developed to help inform NAO VFM studies of public service markets, this Analytic may be of assistance to public officials involved in the oversight of these markets.

### Disclaimer

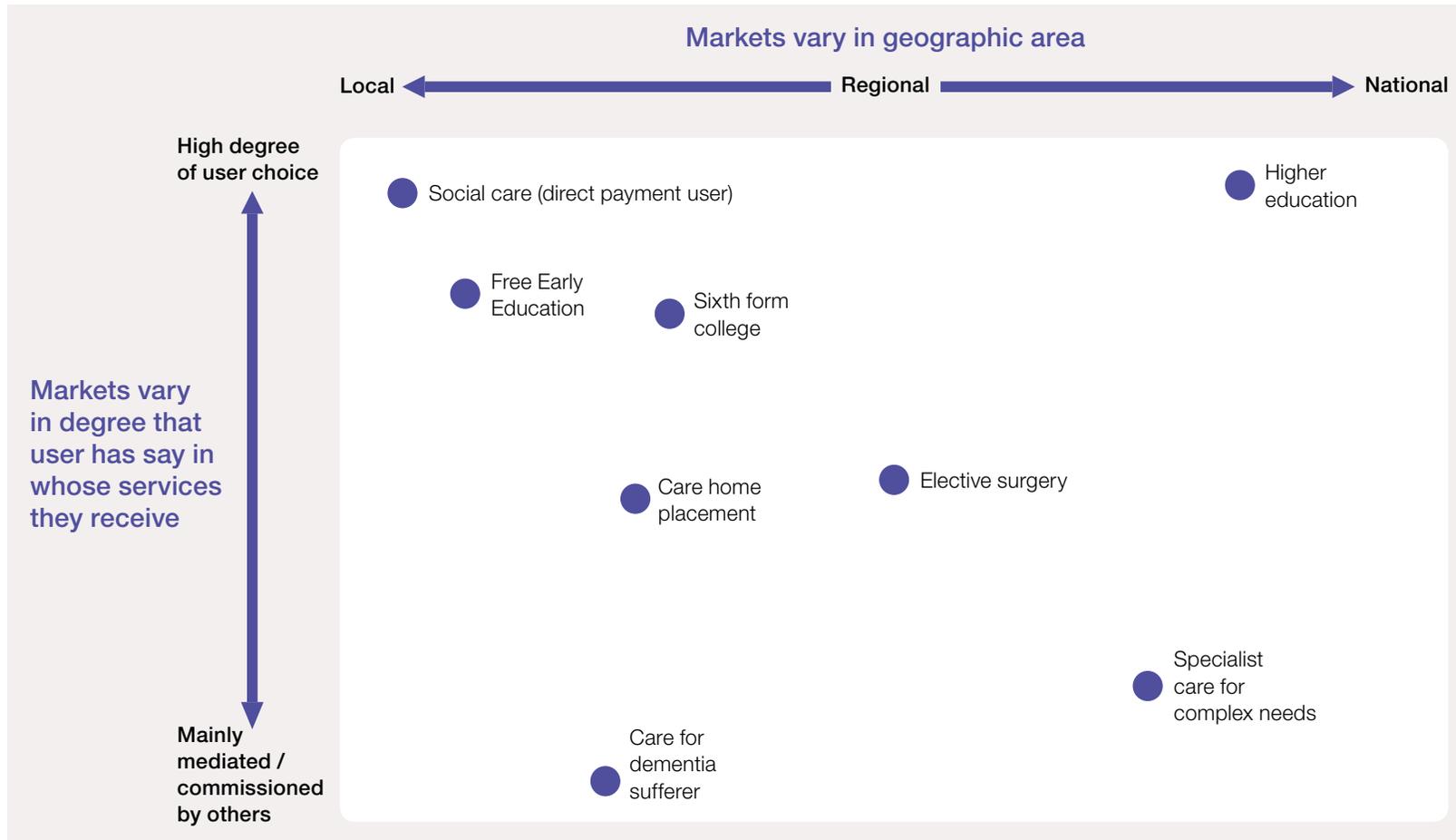
The Market Analytic has been successfully piloted on a number of NAO VFM reports and will be added to periodically as the NAO's work on public service markets develops further. However, please note the Analytic outlines a generic approach to exploring and analysing user choice and provider competition in public service markets, and its detailed application will depend to an extent on the individual circumstances of the market under review.

### Further information

For further information on how to apply the Analytic, please contact either: [Peter.Langham@nao.gsi.gov.uk](mailto:Peter.Langham@nao.gsi.gov.uk) or [Charles.Nancarrow@nao.gsi.gov.uk](mailto:Charles.Nancarrow@nao.gsi.gov.uk)



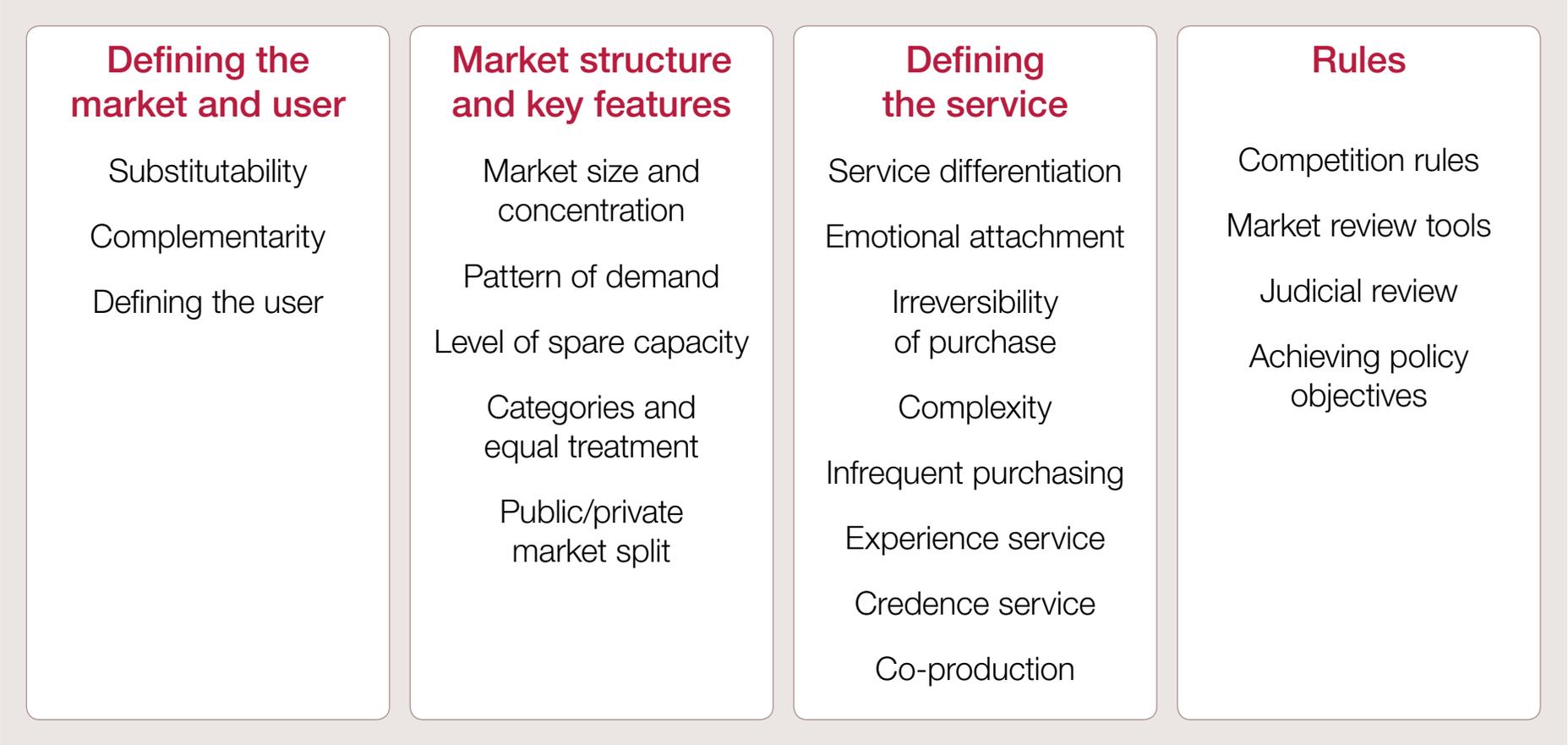
## Public service markets vary



Introduction 	<b>Defining the market</b> 	Initial assessment 	Demand side 	Supply side 	Effective outcomes 
---	---	---	--	---	---

Before reviewing a market it should be defined. This section provides a guide to defining the features of the market and the characteristics of the service provided, which can influence the strength of competition in the market and consumer outcomes. It also helps to define the type of user, the scope of the service being considered, and the rules that aim to ensure an orderly market with fair and effective competition.

# Defining the market



Introduction



Defining the market



Initial assessment



Demand side



Supply side



Effective outcomes



## Defining the market and user

Substitutability and complementarity:

Key issues:

Whether substitutes exist for the service in question

Whether the service complements another type of service

Defining the user:

Key issues:

Whether end-user has a say in deciding which service to use



## Market structure and key features

### Market size and concentration:

#### Key issues:

Value of the market (£m) and geographical size (local, regional, national)

Level of concentration in the market (Market share of 10 largest providers)

Level of fragmentation in the market (Market share of SME providers)

### Pattern of demand:

#### Key issues:

Degree to which public buyers are dominant in the market

Comparison of fee / rates set by government compared with market rates

Degree of fragmentation of demand

### Level of spare capacity:

#### Key issues:

Degree of spare capacity in the market, and the time needed to change it

### Categories and equal treatment of provider types:

#### Key issues:

Trends in proportion of different provider types in the market: private ('for-profit'); third sector (not-for-profit); publicly funded or 'maintained' providers

### Public market / private market split:

#### Key issues:

The relative value of public versus private markets

Degree to which providers operate in both public and private markets, and whether cross-subsidisation is a common business model in the market



## Potential characteristics of a service

### Service differentiation:

#### Characteristic description:

The service is personalised or differentiated which may make it difficult for users to compare it with other providers' services

### Emotional attachment:

#### Characteristic description:

Users have an emotional attachment to the service in question and/or to providers of the service

### Irreversibility of purchase:

#### Characteristic description:

Users are, or feel, "locked-in" once the service is bought, and switching provider is not considered a realistic or desirable option

### Complexity:

#### Characteristic description:

Complexity of choices available in the market is off-putting for consumers

### Non-repeat or infrequent purchasing:

#### Characteristic description:

Users are unlikely to purchase the service more than once in their lifetime or it is a very important purchase

### Experience service:

#### Characteristic description:

Users' knowledge of the service is only discernible during, or after, 'consumption'

### Credence service:

#### Characteristic description:

The quality of the service is observable only after some considerable time

### Co-production:

#### Characteristic description:

Users play an important role in co-producing the value that they derive from the service



## Rules for fair competition and non-discrimination

### Competition and market rules:

#### Key issue:

Degree to which competition law and other rules governing the market apply to providers

### Market review tools:

#### Key issue:

Whether any market studies or reviews have been done by the competition authorities

### Judicial review:

#### Key issue:

Whether this area has been subject to any judicial reviews

### Achieving policy objectives:

#### Key issue:

Rules on providers to reduce risk of discrimination and unfair treatment of different user groups



# Initial review of the market

An initial review of the demand side, the supply side and outcomes from the market should be carried out. This review can act as a catalyst for a more informed discussion about aspects of the market that are potentially not functioning effectively, and could represent risks to value for money.

## Initial review of demand side of the market

- Awareness of choice
- Time-limited
- Mental state
- Mental capacity
- Behavioural factors
- Principal-agent issues
- Information availability
- Barriers to switching
  - Cultural
  - Geographical
- Ineffective redress mechanisms

## Initial review of supply side of the market

- Level playing field
- Deciding prices/quality etc.
- Supply-side flexibility
- Provider behaviour
- Financial oversight and service continuity

## Initial review of outcomes from the market

- Comparison with baseline prices, quality and anticipated outcomes
- Additional direct and indirect costs of oversight
- Assessing outcomes for different user groups
- Lessons learnt, policy feedback loop



## Initial review of demand side of the market

Evaluative criteria	Identifying potential market problems	Initial RAG assessment
<b>Awareness of choice</b>	<ol style="list-style-type: none"> <li>1 Are users aware they have a choice?</li> <li>2 Do awareness levels differ across user groups?</li> </ol>	
<b>Time-limited</b>	<ol style="list-style-type: none"> <li>1 Do users have sufficient time to make an informed decision where this will have a significant impact on their future well-being?</li> </ol>	
<b>Mental state</b>	<ol style="list-style-type: none"> <li>1 Are users likely to be in a state of mental anguish at the time of making their decision, which may impact on their ability to make an informed choice?</li> </ol>	
<b>Mental capacity</b>	<ol style="list-style-type: none"> <li>1 Do users have mental capacity difficulties that impact on their ability to make an informed choice?</li> </ol>	
<b>Behavioural factors</b>	<ol style="list-style-type: none"> <li>1 To what extent does user choice drive good outcomes in the market?</li> <li>2 To what degree are users put off actively switching by the perceived 'costs' (financial and non-financial) of moving to another provider?</li> <li>3 The extent to which tension exists between the way consumers actually make choices and how the state would 'like' them to?</li> <li>4 Are behavioural biases likely to play a role in influencing user decision-making in the market?</li> </ol>	
<b>Principal-agent issues</b>	<ol style="list-style-type: none"> <li>1 Are choices heavily intermediated and, if so, do incentives for intermediaries align with those for service users?</li> <li>2 To what extent is the professionals' advice or guidance for users likely to be influenced by incentives in the 'system', a prevailing culture or potential conflicts of interest?</li> </ol>	
<b>Information availability</b>	<ol style="list-style-type: none"> <li>1 Is information available on the range of providers in the market, services provided, associated quality ratings and price (if relevant) to allow users to make effective choices?</li> <li>2 If user information is available, is it simple for all users to understand, interpret and to make meaningful comparisons between providers, including for vulnerable user groups?</li> <li>3 Are users who need support able to make effective choices?</li> </ol>	
<b>Barriers to switching</b>	<ol style="list-style-type: none"> <li>1 Are there 'transaction' costs involved in making choices?</li> <li>2 Are there 'transaction' costs involved in switching providers?</li> </ol>	
<b>Cultural</b>	<ol style="list-style-type: none"> <li>1 Is the prevailing culture one where service professionals encourage user choice, or one that seeks to restrict and create barriers to choice?</li> <li>2 Are there different attitudes to choice between different groups?</li> </ol>	
<b>Geographical</b>	<ol style="list-style-type: none"> <li>1 Are there structural problems in certain areas that mean there is limited competitive pressure on incumbent producers in those 'catchment areas'?</li> </ol>	
<b>Ineffective redress mechanisms</b>	<ol style="list-style-type: none"> <li>1 Is it made easy for service users to complain if they are dissatisfied?</li> <li>2 Are complaints-handling systems effective at dealing with and resolving user complaints?</li> <li>3 To what extent does the threat of losing business motivate providers to respond and deal effectively with users' complaints?</li> </ol>	



## Initial review of supply side of the market

Evaluative criteria	Identifying potential market problems	Initial RAG assessment
<b>Level playing field</b>	1 Does a level playing field exist between different types of providers in the market?	
<b>Deciding prices, quality (etc.)</b>	1 Are there any indications of potential quality, sustainability or market development issues in the market? 2 Are external factors such as changes in government policy, funding levels or credit availability likely to have a significantly adverse influence on providers in the market?	
<b>Supply-side flexibility</b>	1 Are there barriers that discourage new entry into the market? 2 Are there barriers to the expansion of successful providers to create spare capacity? Do these act as significant constraints on choice? 3 Are there barriers to the exit of poorly-performing providers?	
<b>Provider behaviour (etc.)</b>	1 Do the market rules create perverse incentives for providers that undermine achievement of public policy objectives?	
<b>Financial oversight and service continuity</b>	1 In the absence of a service continuity regime, would provider failure lead to potential harm for service users?	



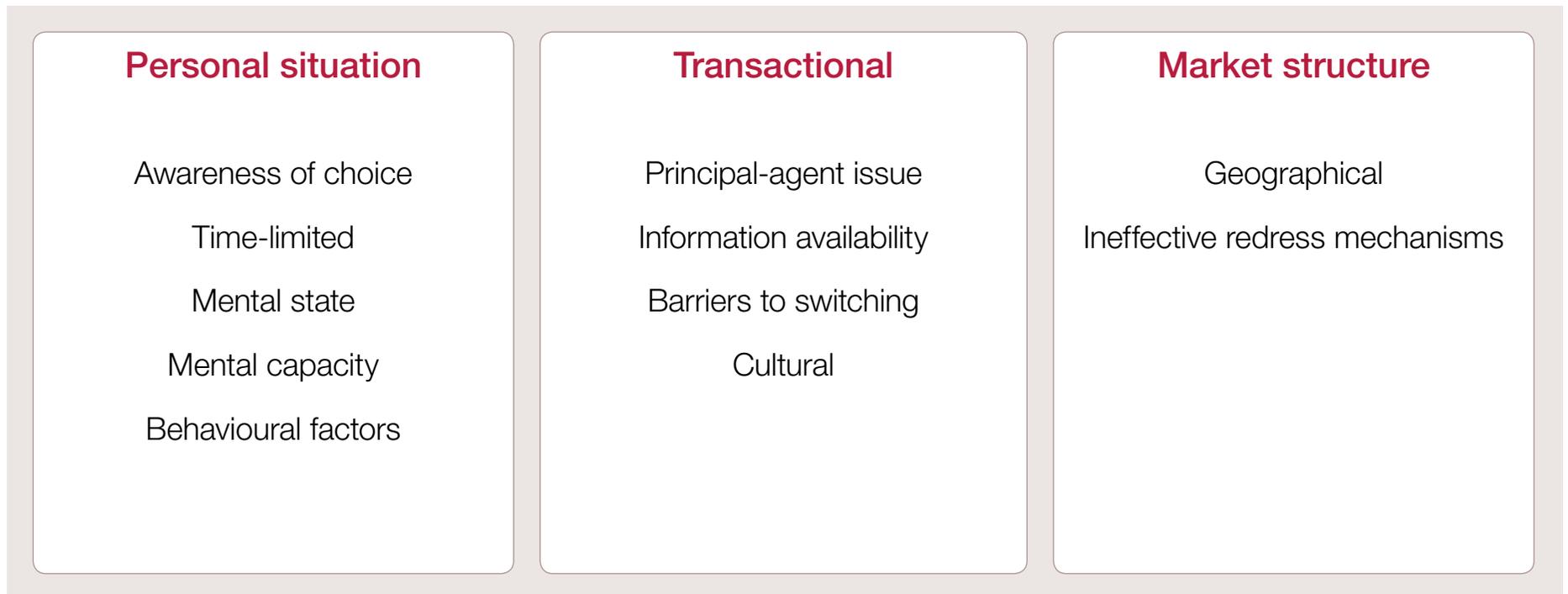
## Initial review of outcomes from the market

Evaluative criteria	Identifying potential market problems	Initial RAG assessment
<b>Comparison with baseline prices, quality, and anticipated outcomes</b>	1 Have market outcomes delivered the benefits anticipated by introducing the market mechanism?	
<b>Additional direct and indirect costs of oversight</b>	1 Does the operation of a market mechanism incur significantly higher costs than were anticipated?	
<b>Assessing outcomes for different user groups</b>	1 Do all users have equal access to services? 2 Is there evidence of poor outcomes experienced by some users or groups caused by weak oversight of providers in the market?	
<b>Lessons learnt, policy feedback loop</b>	1 Does experience show that the market structure and or market behaviours lead to (potential) conflicts of interest, over-concentration or any other problems that inhibit fair and effective competition?	



# Detailed assessment – demand side of the market

This section sets out questions to ask when assessing the effectiveness of the demand side in the market, including whether users can access information, understand and assess its content and feel sufficiently empowered to act on the information and make choices that meet their needs. It guides consideration of the types of vulnerability that users may experience in public service markets, under three categories: personal situation, transactional and market structure.





## Detailed assessment – demand side of the market

1/3

### Personal situation

Evaluative criteria	Description and potential risk to VFM	Key questions
<b>Awareness of choice</b>	Levels of awareness can vary within the user population from one user group to another, particularly where choice has not been available for users in the past. (Government considers that it can improve service outcomes by giving service users choice and control over the services they use where possible.)	<p><b>i) – Identifying potential market problem:</b> Are users aware they have a choice?</p> <p><b>ii) – Follow-up enquiry:</b> If awareness is low, has effective action been taken to raise awareness?</p> <p><b>iii) – Identifying potential market problem:</b> Do awareness levels differ across user groups?</p> <p><b>iv) – Follow-up enquiry:</b> If awareness levels differ across user groups, has effective action been taken to raise awareness in groups where this is low and improve take-up?</p>
<b>Time-limited</b>	User may not have sufficient time to access information, and to assess it before making a decision, which leads to poor user outcomes.	<p><b>i) – Identifying potential market problem:</b> Do users have insufficient time to make decisions that will have a significant impact on their future well-being?</p> <p><b>ii) – Follow-up enquiry:</b> If time pressures are evident, has effective action been taken to enable users to access key information, advice and support to help inform their choice?</p>
<b>Mental state</b>	User's weak emotional state at time of making a decision leads to poor user outcomes.	<p><b>i) – Identifying potential market problem:</b> Are users likely to be in a state of mental anguish at the time of making their decision, which may impact on their ability to make an informed choice?</p> <p><b>ii) – Follow-up enquiry:</b> If mental distress is likely to affect users at the time of making their decision, what support has been made available to users to help support informed choices?</p>
<b>Mental capacity</b>	User's mental capacity is reduced, and without support to make a decision, there is a risk of poor user outcomes.	<p><b>i) – Identifying potential market problem:</b> Do users have mental capacity difficulties that impact on their ability to make an informed choice?</p> <p><b>ii) – Follow-up enquiry:</b> For users with mental capacity difficulties, has effective support been made available to users (and their families) to help support informed choices?</p>
<b>Behavioural factors</b>	<p>Influence of behavioural factors that work contrary to rational choice theory, and play to user biases.</p> <p>Consumer behaviour can have a major influence on outcomes in public service markets. The criteria users apply when they make choices, the actual (and or) perceived costs of making them, and well-established behavioural biases (such as available heuristics, anchoring, framing, herding, loss aversion) may lead to poor user outcomes in the market.</p>	<p><b>i) – Identifying potential market problems:</b> To what extent does user choice drive good outcomes in the market?</p> <p><b>ii) – Identifying potential market problems:</b> To what degree are users put off actively switching by the perceived 'costs' (financial and non-financial) of moving to another provider?</p> <p><b>iii) – Identifying potential market problems:</b> Is there tension between the way consumers actually make choices and how the state would 'like' them to?</p> <p><b>iv) – Are behavioural biases likely to play a role in influencing user decision-making in the market?</b></p> <p><b>v) – Follow-up enquiry:</b> If behavioural biases are likely to affect users when at the time they make their decision, is effective action being taken to help raise users' awareness and actively influence their decisions to help achieve better outcomes?</p>



## Detailed assessment – demand side of the market

2/3

### Transactional

Evaluative criteria	Description and potential risk to VFM	Key questions
<b>Principal-agent issue</b>	The alignment of incentives is important as a professional intermediary may be influenced in their referral or allocation decisions by other 'system' factors that are not entirely user-centric.	<p><b>i) – Identifying potential market problems:</b> To what extent does the user need to rely on the advice or judgement of a service professional?</p> <p><b>ii) – Identifying potential market problems:</b> To what extent is the professionals' advice or guidance for users likely to be influenced by incentives in the 'system', a prevailing culture or potential conflicts of interest?</p> <p><b>iii) – Follow-up enquiry:</b> If potential tensions exist between the interests of the intermediaries (the agent) and service users (the principal), has effective action been taken to mitigate these?</p>
<b>Information availability, accessibility and support to make choices</b>	<p>There are often challenges around providing the right volume/ level of information to inform decision-making by users. However, to stimulate competition and to realise its benefits in markets, users need to be empowered to make informed choices.</p> <p>Ensuring users have access to good quality information is important, but they may also need help and support to make effective choices, especially if they are vulnerable, as services can be complex, and may have 'experience' and or 'credence' characteristics which make it more challenging to make well-informed choices.</p>	<p><b>Availability of information</b></p> <p><b>i) – Identifying potential market problem:</b> Is information available on the range of providers in the market, services provided, associated quality ratings, and price (if relevant) to allow users to make effective choices?</p> <p><b>ii) – Follow-up enquiry:</b> Has effective action been taken to ensure sufficient and reliable information is available in the public domain to inform user choice?</p> <p><b>Accessibility and interpretation of information</b></p> <p><b>iii) – Identifying potential market problem:</b> If user information is available, is it simple for all users to understand, interpret and to make meaningful comparisons between providers, including for all vulnerable user groups?</p> <p><b>iv) – Follow-up enquiry:</b> If accessing or interpreting information is a problem for certain user groups, has effective action been taken to make information available and accessible to these users?</p> <p><b>Support to make choices</b></p> <p><b>v) – Identifying potential market problem:</b> Are users who need support able to make effective choices?</p> <p><b>vi) – Follow-up enquiry:</b> For users or groups that have less motivation or capabilities to make effective choices, is effective action being taken to protect them from potential disadvantage in terms of service quality (and price)?</p>
<b>Barriers to switching</b>	'Transaction costs' (time, cost, disruption etc.) deter switching by users which leads to customer inertia.	<p><b>i) – Identifying potential market problem:</b> Are there 'transaction' costs involved in making choices?</p> <p><b>ii) – Identifying potential market problem:</b> Are there 'transaction' costs involved in switching providers?</p> <p><b>iii) – Follow-up enquiry:</b> If transaction costs exist, has effective action been taken to help users overcome actual or perceived barriers to choice or switching provider?</p>
<b>Cultural</b>	Users have right to choose but prevailing culture discourages user involvement in decision-making or switching provider.	<p><b>i) – Identifying potential market problem:</b> Is the prevailing culture one where service professionals encourage user choice, or one that seeks to restrict and create barriers to choice?</p> <p><b>ii) – Identifying potential market problem:</b> Are there different attitudes to choice between different user groups?</p> <p><b>iii) – Follow-up enquiry:</b> Has effective action been taken to create a positive attitude to choice?</p>

16/23



## Detailed assessment – demand side of the market

3/3

### Market structure

Evaluative criteria	Description and potential risk to VFM	Key questions
<b>Geographical</b>	Geographical coverage of providers is patchy. Some areas have little or no choice of provider (or the user's ability or willingness to travel is limited).	<p><b>i) – Identifying potential market problem:</b> Are there structural problems in certain areas that mean there is limited competitive pressure on incumbent providers in their areas?</p> <p><b>ii) – Follow-up enquiry:</b> Has effective action been taken to help tackle structural barriers to competition in areas where the local provider holds a virtual monopoly of provision in the area?</p>
<b>Ineffective redress mechanisms</b>	Users are put off complaining, which allows poor performance to continue. Complaints and redress systems are confusing, and there is low awareness of how to make a complaint	<p><b>i) – Identifying potential market problem:</b> Is it made easy for service users to complain if they are dissatisfied? Are complaints-handling systems effective at dealing with and resolving user complaints?</p> <p><b>ii) – Identifying potential market problem:</b> To what extent does the threat of losing business motivate providers to respond to and deal effectively with users' complaints?</p> <p><b>iii) – Follow-up enquiry:</b> Are effective arrangements in place to help resolve service users' complaints if providers do not deal satisfactorily with them?</p> <p><b>iv) – Follow-up enquiry:</b> If there is evidence that users are dissatisfied, has effective action been taken to minimise any barriers that create inconvenience for users who wish to switch to a different provider?</p>



# Detailed assessment – supply side of the market

This section sets out questions to ask when assessing the effectiveness of the supply side in the market, including the level of provider entry and exit, and whether prices in the market are sufficient to attract new entrants and to sustain a healthy market. This section also covers questions about the oversight of provider behaviour in the market including ensuring whether: intended policy outcomes are met; there is financial oversight of large-scale providers, and there is service continuity when providers exit the market.

**Level playing field**

**Deciding prices, quality and prospective demand**

**Supply-side flexibility**

**Provider behaviour in relation to market rules**

**Financial oversight and service continuity**



## Detailed assessment – supply side of the market

1/2

Evaluative criteria	Description and potential risk to VFM	Key questions
<b>Level Playing Field</b>	Markets work best where there is genuine competition between the providers in the market. There should be no undue advantages to any particular provider (or provider types) in the market. The position of incumbent providers can sometimes give unfair advantages over new entrants. Unfair competition can undermine the effectiveness of the market and inhibit new entry and expansion of strong performers.	<p><b>i) – Identifying potential market problems:</b> Does a level playing field exist between different types of providers in the market?</p> <p><b>ii) – Follow-up enquiry:</b> If not, has action been taken to create a level playing field for all types of provider?</p>
<b>Deciding prices, quality and prospective demand</b>	Government can influence the price or fee levels it pays for public services in the market. If it sets fee levels too high (so the price is inefficient) providers' returns will be too generous and waste taxpayers' money. If, however, the fees are set too low it risks putting providers under pressure, which may cause service quality to slide, and lead to provider exit, which undermines the longer-term sustainability of provision in the market.	<p><b>i) – Identifying potential market problem:</b> Are there any indications of potential quality, sustainability or market development issues in the market?</p> <p><b>ii) – Identifying potential market problem:</b> Are external factors such as changes in government policy, funding levels, credit availability likely to have an adverse influence on providers in the market?</p> <p><b>iii) – Follow-up enquiry:</b> Is there monitoring of the costs of service provision and an understanding of the price that sustains supply (and quality) at acceptable levels in the market?</p> <p><b>iv) – Follow-up enquiry:</b> Is action taken to help inform providers of likely future trends, funding levels, and/or policy changes which could impact on demand in the market?</p>
<b>Supply-side flexibility</b>	Competition between firms is a key driver of productivity and growth in the economy. Research shows that in private markets at least half of the increase in productivity over time comes from exit of less productive firms and the entry of new and more productive ones. The risk of failure can act as a powerful incentive on providers to perform well. It is important, therefore, for a healthy market that: entry barriers are low for new or prospective providers; and that weak providers face incentives to improve or to exit the market.	<p><b>Entry and expansion into market</b></p> <p><b>i) – Identifying potential market problem:</b> Are there barriers that discourage new entry into the market? Barriers can take various forms such as incumbency knowledge, regulatory hurdles, geographical constraints etc.</p> <p><b>ii) – Follow-up enquiry:</b> Has action been taken to identify and remove barriers that may discourage or disadvantage new providers from entering the market? And is action taken to try and encourage new entrants?</p> <p><b>iii) – Identifying potential market problem:</b> Are there barriers to the expansion of successful providers to create spare capacity? Do these act as significant constraints on users' choices?</p> <p><b>iv) – Follow-up enquiry:</b> If barriers exist, has action been taken to explore ways to remove them, and/or create stronger incentives to expand?</p> <p><b>Exit from market</b></p> <p><b>i) – Identifying potential market problem:</b> Are there barriers to the exit of poorly-performing providers? (For example barriers may be created by the system of funding service providers, such as block payments that do not reflect quality of outputs / outcomes).</p> <p><b>ii) – Follow-up enquiry:</b> If barriers exist, has action been taken to improve the alignment of performance and payment?</p>



## Detailed assessment – supply side of the market

2/2

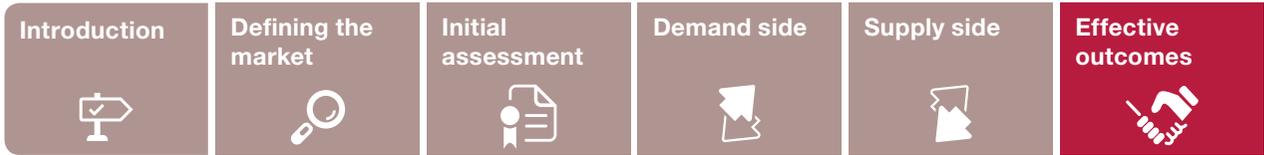
Evaluative criteria	Description and potential risk to VFM	Key questions
<b>Provider behaviour in relation to market rules</b>	Ensuring market rules do not create perverse incentives that lead to suboptimal outcomes for some or all users is an important consideration for the market sponsor. The need to prevent the scope for providers to 'game' the rules is important in helping ensure the market delivers the public policy objectives.	<p><b>i) – Identifying potential market problem:</b> Do the market rules create perverse incentives for providers that undermine achievement of public policy objectives?</p> <p><b>ii) – Follow-up enquiry:</b> What has been done to minimise the risk of sub-optimal outcomes, and ensure providers behave in a way that helps to achieve public policy objectives?</p>
<b>Financial oversight and service continuity</b>	Service continuity can be a vital component of key public services, for example social care, healthcare, education, etc. It is essential government has suitable arrangements in place to ensure services continue to be provided to users in the event of provider failure or exit, without the need for government to bale out the failing provider, or shield it from normal market disciplines that should incentivise it to manage its own business and maintain its own financial viability.	<p><b>i) – Identifying potential market problem:</b> In the absence of a service continuity regime, would provider failure lead to potential harm for service users, and in particular vulnerable users?</p> <p><b>ii) – Follow-up enquiry:</b> In areas where the exit of a provider would create service continuity problems for users, have arrangements been made to ensure service continuity?</p> <p><b>iii) – Follow-up enquiry:</b> In areas where the exit or closure of a poorly-performing provider is not a realistic outcome (e.g. the sole hospital or school in a sparsely-populated rural area) is a failure regime in place that seeks to improve the provider's performance? (This could be for example the threat of dismissal of the existing management team and takeover by a new leadership).</p>

Introduction 	Defining the market 	Initial assessment 	Demand side 	Supply side 	<b>Effective outcomes</b> 
---	--	---	--	---	--

# Detailed assessment – outcomes from the market

This section sets out questions to ask when assessing whether delivery of services through the market is achieving the expected benefits, such as improved outcomes for service users, and/or better value for money.

- Comparison with baseline prices, quality and anticipated ‘good’ outcomes**
- Additional direct and indirect costs of oversight**
- Assessing outcomes for different user groups**
- Lessons learnt, policy feedback loop**



# Detailed assessment – outcomes from the market

Evaluative criteria	Description and potential risk to VFM	Key questions
<b>Comparison with baseline</b>	Rationale for introducing market mechanisms often involve service quality improvements, potential financial savings, scope for innovation and/or anticipated better outcomes. From a public policy perspective and for purposes of accountability, evaluation and policy review should be undertaken to measure the actual benefits and costs.	<ul style="list-style-type: none"> <li><b>i) – Identifying potential market problems:</b> Have market outcomes delivered the benefits anticipated by introducing the market mechanism?</li> <li><b>ii) – Follow-up enquiry:</b> How do prices paid in the market and quality standards compare with the costs prior to introducing market mechanisms?</li> <li><b>iii) – Follow-up enquiry:</b> Is there evidence that the anticipated benefits in the impact assessment from introducing market mechanisms into service provision have been realised?</li> </ul>
<b>Additional direct and indirect costs of oversight</b>	The costs of introducing and overseeing a public service market should be validated ex post for accountability reasons, and to help assess its cost-effectiveness.	<ul style="list-style-type: none"> <li><b>i) – Identifying potential market problem:</b> Does the operation of a market mechanism incur significantly higher costs than were anticipated?</li> <li><b>ii) – Follow-up enquiry:</b> Have the costs of introducing market mechanisms into the provision of the public service in question been as expected?</li> <li><b>iii) – Follow-up enquiry:</b> Have the on-going ‘system’ costs of user choice and provider competition been as expected? (such costs may include, for example, information systems to help user choice; costs associated with strengthening government oversight capacity etc.)</li> </ul>



## Detailed assessment – outcomes from the market

2/2

Evaluative criteria	Description and potential risk to VFM	Key questions
<b>Assessing outcomes and different user groups</b>	<p>Public policy objectives are generally expressed in terms of services being universally available and equality of access, and often there is a particular focus on helping vulnerable people. Normal market outcomes may be inconsistent with such public policy objectives. It is therefore incumbent on government to ensure that competition in the market is operating along the right parameters, for example, that any barriers to accessing services experienced by users or groups are addressed</p>	<p><b>Assessing outcomes</b></p> <p><b>i) – Identifying potential market problems:</b> Does consumer behaviour drive good outcomes in the market? Is there evidence that consumer choices are influencing market outcomes?</p> <p><b>ii) – Follow-up enquiry:</b> If weak providers are not being forced out of the market, what action is being taken to help users make choices that drive better outcomes?</p> <p><b>iii) – Follow-up enquiry:</b> Is there scope to collect customer feedback to help inform other users?</p> <p><b>Outcomes for different user groups</b></p> <p><b>i) – Identifying potential market problem:</b> Do all users have equal access to services?</p> <p><b>ii) – Follow-up enquiry:</b> Has enough been done to ensure that all users are treated equally by providers?</p> <p><b>iii) – Identifying potential problem:</b> Is there evidence of poor outcomes experienced by some users or groups caused by weak oversight of providers in the market (e.g. evidence of practices such as ‘parking’ or ‘cream-skimming’)?</p> <p><b>iv) – Follow-up enquiry:</b> Has action been taken to deter or disincentivise practices that discriminate against certain user groups?</p>
<b>Lessons learnt, policy feedback loop</b>	<p>The outcomes from public service markets can take time to observe. Potential risks to value for money can arise when, for example, established incumbent providers become dominant, or there is little or no provider ‘churn’ in the market, and potential competitors are put off from seeking entry.</p> <p>Reviews and evaluations of the extent to which a public service market has delivered the public policy objectives, and any recommended improvements to improve the operation of the market, should be used to inform future policy in marketising public services.</p>	<p><b>i) – Identifying potential market problem:</b> Does experience show that the market structure and or market behaviours lead to (potential) conflicts of interest, over-concentration or any other problems that inhibit fair and effective competition?</p> <p><b>ii) – Follow-up enquiry:</b> Has action been taken to ensure there is effective oversight of local markets and to mitigate potential threats to competition?</p> <p><b>iii) – Follow-up enquiry:</b> Do research, evaluations or general user feedback indicate that the provider delivery model in this market is achieving public policy objectives?</p> <p><b>iv) – Follow-up enquiry:</b> What action has been taken to review and adjust, where necessary, the parameters of competition/choice in the market, or where necessary explore alternative delivery models?</p>