

Serco Institute Executive Director, Gary Sturgess Op Ed

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The Australian public service industry – representing the private and voluntary sector providers of public services – accounts for around 6% of GDP, according to a report published this week in Britain. If that estimate is broadly correct, then the public service industry is one of this country's untold stories.

The scale of the industry – in Australia, Britain and several other industrialised nations – has come to light in a study published this week by the British Secretary of State for Business (known as the Julius Report). Over the past decade, the Labour Party has played an active role in developing a public service industry in Britain – since Labour came to power in 1997, it has been growing at almost 7% a year, so that today, annual turnover is around £80bn, with a value-add that is greater than the automotive, aerospace and pharmaceutical industries combined.

Perhaps what is most significant about the report is the recognition by a social democratic administration that public services are not just part of government's sausage machine; they are capable of being organised as a market, with discrete supply and demand functions. Over the past decade, the Blair and Brown administrations have increasingly turned to the private sector to assist them in delivering a progressive policy agenda, and industry has responded.

There is still considerable disquiet about this. On the Left, some cling to provider-driven public services as a political comforter. Some are unsure whether profit-seeking enterprises are capable of operating with a public service ethos. Trade union officials find it easier to negotiate with centralised management in large state-owned enterprises.

There is also concern on the Right. The Conservatives seem unsure what to think about businesses that respond to a social democratic government as a customer. Some deny that public service companies operating across a variety of sectors have anything in common (although the companies think they do). Some are inclined to a French view of public-private partnerships, where risk transfer is an all-or-nothing proposition.

However, given the scale and complexity of this industry, no one can be under any illusion that the public service industry is about to wither away. It may become more socially progressive under Labour, it may take on more market risk under the Conservatives, but it seems that the public service industry is here to stay.

There is no reason why Australia could not be a leader in this emerging global industry. According to the Julius Report, Australia's public service industry is slightly larger as a proportion of GDP than Britain's, although this is probably

explained by the scale of our private education sector. There is little doubt that in most sectors, the British public service market is both larger and more sophisticated.

And yet, until the middle of the 1990s, Australia was well ahead of the UK. We created a private prison industry earlier. We were almost a decade ahead in developing public-private partnerships. We were world leaders in engaging the private sector in managing the transition from welfare to work.

Somewhere in the 1990s, reform fatigue set in and (for the most part) Australian governments walked away from bold reform of public services. New South Wales is still debating electricity privatisation, decades after other parts of the industrialised world have put that issue to rest. (The UK has moved so far on this issue that the Julius Report doesn't even count utilities as public services.)

Done well, there are significant advantages from creating a vibrant public service industry. Public service companies pay tax. They can earn export income. They create new career paths for public servants, attracting people with new skills into the sector, and drawing on their expertise long after they have retired from their jobs in government. They can also serve as a vehicle for importing best practice in public service delivery from around the world, and exporting Australian best practice to overseas jurisdictions.

There are significant first mover advantages in this sector, and a number of Australian companies have seized the opportunity offered by the nation's policy leadership in the 1990s to become significant international players. Ingeus, the international business founded by Therese Rein off the back of Australia's welfare-to-work reforms, is one such proof. Ramsay Health Care is an example in the hospital sector. Macquarie and Transurban have become significant international players in the market for PPP toll roads.

However, it will require a fundamental mind shift on the part of government and business if we are to seize this opportunity. We must see the public as consumers of public services as well as citizens. Government must look on public services as an industry, with a demand side as well as a supply side. Business must come to understand the special characteristics of public services. Australians must see its public servants as a valuable resource to be developed and exported into a global economy that is hungry for high quality public services.

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