Public sector organisations

The PUBLIC SECTOR is made up of organisations which are owned or controlled by central or local government or public corporations. They are funded by the government and in some cases from their own trading ‘surplus’ or profit. The amount of business activity in the public sector has decreased over the last 35 years as a result of government policy. Some public sector businesses have been transferred from the public to the private sector. However, the public sector still has an important role to play in certain areas of business activity.

Which goods and services does the public sector provide?

It has been argued that certain PUBLIC GOODS and MERIT GOODS need to be provided by public sector organisations. Public goods have two features:

- Non-rivalry – consumption of the good by one individual does not reduce the amount available for others.
- Non-excludability – it is impossible to exclude others from benefiting from their use.

Take the example of street lighting. If one person uses the light to see her way across the street, this does not ‘use up’ light for someone who wants to look at his watch. Also, it is impossible to stop using the light shining across the street. This means that it would be unlikely that people would pay directly for street lighting. If you paid £1 for light to cross the street, someone else could use it for free! If people will not pay, then businesses cannot make a profit and would not provide the service. Other examples of public goods may include the judiciary, policing and defence, although in some countries private policing does exist. These public goods are provided free at the point of use. They are paid for from taxation and other income.

Some argue that certain merit goods should be provided by the public sector. Examples include education, health and libraries. These are services which people think should be provided in greater quantities. It is argued that if the individual is left to decide whether or not to pay for these goods, some would choose not to or may not be able to. For example, people may choose not to take out insurance policies to cover for unexpected illness. If they became ill they would not be able to pay for treatment. As a result it is argued that the state should provide this service and pay for it from taxation. The provision of merit goods is said to raise society’s standard of living.

Government/publicly owned organisations

Government or publicly owned organisations may take a number of forms.

Public corporations

PUBLIC CORPORATIONS are organisations set up by law to run services or industries on behalf of the government. Each corporation is run by a chairperson and board appointed by a government minister. The board is responsible for the day-to-day running of the corporation, but is accountable to the minister. The minister has the right to approve investment and to issue directions to the organisation in relation to matters which affect the public interest.

The BBC (British Broadcasting Corporation) is an example of a public corporation. It was given a royal charter to provide ‘broadcasting services as public services’. It is run by a board of directors nominated by the Prime Minister, which is politically independent, although the government might try to influence its operations informally. The BBC is financed mainly through licence fees paid by television owners. However, an increasing amount of money is being raised from the sale and production of programmes for other TV companies, such as overseas businesses.

The Post Office

Postal services in the UK have been provided by the public sector for many years. However, there has been a number of changes in the structure of the organisation during that time. In March 2001 the Post Office became a plc, but one wholly owned by the UK government. The change was brought about by the Postal Services Act 2000. It aimed to create a commercially focused company with a more strategic relationship with the government. In November 2002 the name of the company was changed from Consignia to the Royal Mail Group plc. In the UK the business operates under three brands – Royal Mail, Post OfficeTM and Parcelforce Worldwide.

- Royal Mail provides postal services. The company has a statutory duty to provide a letter delivery service to every one of the 27 million addresses in the UK, at a uniform price, whatever the distance travelled. It must also carry out at least one daily collection from all letterboxes. Royal Mail is now being threatened by competition from the increasing use of email and other electronic messaging and the continuing use of faxes. Other postal operators can now obtain licences to deliver mail but Royal Mail still has a huge monopoly.

- Post OfficeTM consists of a retail network with more than 14,400 branches, the combined UK total of the four major building societies and six banks. Only 500 branches are owned by Post Office Ltd, the operator of the branches. The rest are owned by the people who run the branches, including franchisees and sub-postmasters and mistresses. The retail network offers more than 170 products, including financial services, travel services, government information and retail products such as greetings cards and stationery. Post OfficeTM claims that 94 per cent of