

POLICY REVIEW: THE ROLE OF THE STATE

January 2007

This paper is based on documents prepared by the Prime Minister's Strategy Unit to facilitate discussion in the Policy Review. The paper is not a statement of policy.

Purpose of the pack

- The purpose of this pack is to identify how the State in the UK can best respond to the pressures and challenges that it will face over the next 10 years.
- It lays out:
 - the ways in which the State has developed over the last century;
 - the new challenges that it will face over the next decade.

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The State in the UK has evolved in response to changing circumstances

Overall

Over the last 100 years, the shape and role of the State in the UK have been redefined many times, in response to changing social and economic pressures

**1940s
and 50s**

Following the Second World War, the key priority was to guarantee a minimum standard of living for all citizens, and to rebuild industry. This led to the setting up of the Welfare State and the nationalisation of industry

**1960s
and 70s**

During the 60s, changing social attitudes and increased tolerance led the State to reassess its role in regulating the private lives of its citizens. The first legislation to protect people from discrimination on the grounds of race and gender was passed. At the same time, global pressures and the need to open up to new markets led the UK to join the EEC

**1980s
and 90s**

The 1980s saw the privatisation of those major industries which had been nationalised since the War. The State's responsibilities shifted from providing services to regulating them and guaranteeing standards

The situation is now changing again, and the State needs to change to accommodate new challenges

Rapidly changing lifestyles are altering people's attitudes and expectations, and the State needs to respond to these

Changing attitudes place strain on public services

Higher expectations of public services, fuelled by rising living standards, better education, decreasing deference, comparisons with the private sector and new technology, will lead people to be ever more demanding of public services

Shift in the nature of political engagement

Declining membership of political parties, with an increasing move to single-issue politics, and a shift in the major opinion formers as the internet becomes more important as a locus for political discussion, will create a need for the State to respond differently

Continued adaptation to global forces

There will be an ever-increasing need for the UK to act, not as an individual nation state, but multilaterally through international organisations

The process of reforming the State has already begun, for instance through devolution and the Public Service Reform agenda

The State has already begun to respond to these new pressures

Changing attitudes place strain on public services

Users are being given more choice over the services they receive: for example choice of hospital and school, and the introduction of Individual Budgets. Via these mechanisms, choice is being harnessed to drive up standards in healthcare and education

Increasingly, the State is no longer automatically the provider, but commissions services from those best placed to provide them, including the Third Sector

Shift in the nature of political engagement

The citizen is beginning to be viewed as a partner in decision making, particularly at local level, with institutions such as Foundation Trusts giving people a voice in the shaping of local services.

And the channels of communication with the citizen are changing: the vast majority of Government services are already e-enabled and the State is increasingly using the internet to communicate with citizens

Continued adaptation to global forces

The UK is increasingly working through large multilateral international organisations to achieve its ends

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The shape and role of any nation-State is determined by the answer to some basic questions

1) What is the State trying to achieve?

1a) What are the key priorities of the State?

2) How does it go about trying to achieve its objectives?

2a) What are the boundaries of the State and to what extent should it intervene?

2b) Of those areas which are the State's responsibility, what should the State provide itself, what should it regulate, and what should it commission?

3) What should the relationship be between State and citizen?

3a) What is the contract between State and citizen?

3b) How does the State interact with the citizen?

Different States find very different answers to these questions

1) What is the State trying to achieve?

In most Western democracies the State fulfils 5 key functions: social, economic, security, legal / regulatory and managing international relationships. Different States have very different objectives in relation to each of these: e.g. whether citizens have a fundamental right to healthcare, freedom of speech or free enterprise

2) How does it go about trying to achieve its objectives?

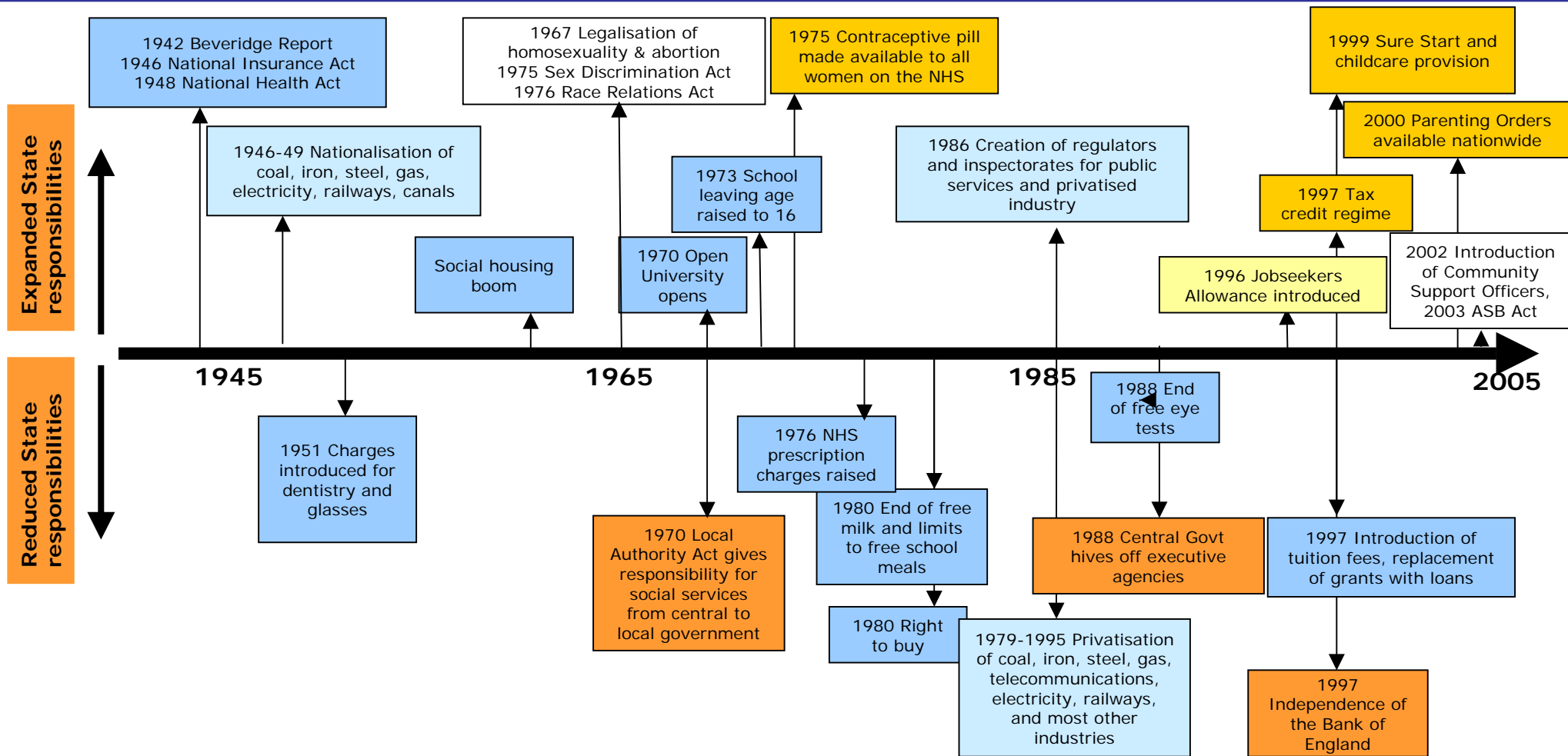
States can choose a host of different models to meet their objectives:

- The level of State intervention in policy differs widely, e.g. from highly regulated markets to free markets
- And different States also choose to deliver services in different ways: in some countries such as Norway the State is the direct provider of services such as health, while in others e.g. the US services are provided mostly by the private or Third sector

3) What should the relationship be between State and citizen?

States can take very different views of what the contract should be between State and citizen. At the most basic (feudal) level, the State provides protection in return for labour. In more sophisticated and democratic societies, the citizen may become a much more active participant and partner in shaping services.

Since the Second World War, the shape of the State has changed many times



- Some of the trends illustrated in this section are linear developments while others (e.g. the shift from traditionalism, to liberalism back to a new paternalism) are cyclical

A range of pressures have led the State to expand, contract or change its role in different policy areas

The following slides lay out some of the changes that the State in the UK has undergone over the last 100 years.

In order to illustrate this, the next slides focus on key areas of public policy, where there has been a marked change in the role or the size of the State:

Public services

Utilities

Employment

Family policy

Social cohesion

Foreign affairs

Local Government

And the slides also lay out some of the key drivers which have contributed to the changing role or structure of the State in these areas

Economic trends and political attitudes to the role of public services

Need to rebuild through State regulation giving way to demands for higher standards

Responsibility to give jobs to demobilised soldiers has shifted to Britain's need for competitive skills

Liberalisation of social attitudes, growing awareness of the socioeconomic consequences of parenting

Changes in social attitudes and increases in social diversity

Growth of multilateral organisations; increasing ease of international communications and trade

Perceived need to deliver services to the priorities of local people; administrative cost-savings

The 20th century has seen the creation, expansion and reform of **public services**

Pre-Welfare State, public services existed mainly through charity and the Poor Laws

- The 19th century saw significant philanthropic activity and the rise of self help and voluntary organisations to tackle poverty

The creation of the Welfare State was based on universal provision of public services

- A response to the Great Depression, it expanded entitlements to health care, including dental care
- The late 1940s to 60s saw expansion of the role of the State and top down planning of services e.g. the 1946 National Insurance Act and the 1948 National Health Act

Economic crises led to retrenchment and cost control

- The late 60s saw the consolidation of the Welfare State with the launch of comprehensive schools, public transport and planning reorganised and the Open University opened in 1970
 - However, economic crises in the 1970s (both domestic and global), rising unemployment and inflation and industrial relations problems drove attempts to rein in public spending

In the 80s and early 90s the State began to reduce its role in public services

- The State reduced its role in public housing provision through the 'right to buy' in 1980
- Welfare functions were reduced or withdrawn e.g. the end of free milk and limits to free school meals (1980) and the end of free eye tests (1988)
- In 1980, the Assisted Places scheme was introduced as private education was encouraged. Two Education Acts in (1986 and 1988) devolved the management of schools to governing bodies, out of Local Authority control

Public service reform is now centred around the citizen consumer

- Users have greater service choice, whether over schools or hospitals, but this has accompanied rising expectations for public services
 - State and Third sector now work more in partnership to deliver public services using the 1998 Compact. e.g. the HMT Parenting Fund is managed by the Third sector and gives grants to frontline parenting support organisations



The nationalisation of **utilities** post WW2 has given way to privatisation and, most recently, competition

From private/municipal ownership through the Victorian era, the post WW2 era saw a move to publicly owned utilities

- In response to post-war reconstruction utilities were seen as State assets and responsibilities
 - Nationalisations: Coal –1946, gas – 1949, iron and steel 1951
- But nationalised utilities were poorly managed and often underperformed

This saw the State move to regulated monopolies

- From 1984, the UK embarked on major privatisation of utilities including BT, gas, water and electricity
 - By 1994, over 10% of the value of shares on the LSE were from privatised utilities
- Regulation aimed to protect the public interest e.g. the Office of Fair Trading (1973) and a series of regulatory bodies set up to oversee the privatisation of core utilities e.g. energy: Ofgas and Offer (became Ofgem in 1999)

More recently, the State has reduced the degree of regulation as effective competition has emerged in markets such as telecommunication

- Benefits to consumers are seen in e.g. the take-up of broadband and decreased telephony costs due to lifted restrictions
 - Most national infrastructure is now privately funded but there is a continued State role e.g. investing in road building or guaranteeing infrastructure

The State increasingly pursues its full **employment** objectives through equipping people with the skills they need

In post-War Britain, the State was seen as having a responsibility to provide jobs for everyone

- As soldiers returned from the War, the State placed a requirement on businesses to give their former employees their jobs back
- Labour shortages after the war also meant that from the 1950s the Attlee government began to encourage women whose children had grown up to return to the workplace

In the 1970s and 80s, the State's role in providing employment began to change, notably through high unemployment during the 'Winter of Discontent' (1978/9)

- Rising unemployment during the 70s and 80s was coupled with explicit removal of the State's responsibility for providing employment

Since the 1990s, the emphasis has been on preparing people with the skills they need to compete in an increasingly globalised economy

- The setting up of Sector Skills Councils has been a deliberate attempt to ensure that the skills available in an area match with the needs of employers in that area
 - In addition, 70% of working age women are now in employment, the highest level ever
 - And Job Seeker's Allowance is conditional on people attempting to find work

The State's intervention in the **family** has moved gradually from an emphasis on regulating the behaviour of adults, to protecting children

In the 1940s and 50s policies were aimed at supporting the traditional family and maintaining the status quo

- After WWII the State reinforced traditional expectations of the family by discouraging women with children from continuing to work. Tax benefits were reserved for married couples, and abortion continued to be illegal

In the 60s and 70s, we moved to a more laissez faire policy on families

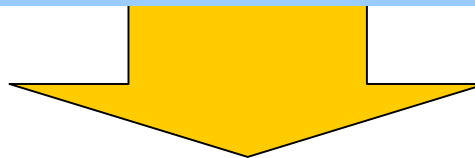
- In 1975 the decision to make the contraceptive pill freely available to all women on the NHS marked a significant change in the State's role, from the promotion of traditional family structures to an emphasis on the freedom of the individual

In the 1990s, emphasis shifted from the behaviour of adults to State support for children

- Rises in child poverty, evidence of the importance of early years in reducing antisocial behaviour, and the increasing importance of women working, led to moves to tackle child poverty (such as Sure Start and child tax credits) and expand childcare

And in the last few years we have returned to a stronger intervention in the family, with the advent of parenting classes

- The rights and responsibilities agenda, coupled with increasing concentration on anti-social behaviour, has once more expanded the role of the State into direct intervention in the family, e.g. with renewed focus on improving parenting



The pace of **social** change has placed pressure on traditional community structures and the State has intervened more in response

Maintenance of the status quo

- The first half of the century saw State support for traditional values (family, church etc.) within a relatively homogenous society
- Challenges to values occurred between the 2 World Wars but social cohesion remained strong

The 60s saw social attitudes change, with a stronger role for the State in promoting and protecting diversity

- Post WWII Commonwealth migration (largely Caribbean) driven by employment demands changed the ethnic makeup of the UK, with another wave of South Asian migration in the 60/70s
- The 1960/70s saw the first legislation to protect people from discrimination on the grounds of race and gender (Race Relations Act - 1976, Sex Discrimination Act – 1975)
- The legalisation of homosexuality and abortion in 1967 reflected changing social attitudes

The second half of the 20th century has seen declining deference in State institutions and an increased role for the State in the community

- This period saw the decline of deference for authority
- In 1981 racial and community tensions spilled over into the Toxteth and other riots, and the role of the State in policing community cohesion became more apparent

The 90s to the present time have seen increasing concerns about crime and cohesion

- There is increasing public concern about domestic crime, antisocial behaviour, migration, security and terrorism
- In the face of internal and external threats, the State is working more with communities e.g. the introduction of Police Community Support Officers in 2002



The power devolved to **local government** has ebbed and flowed over time

Local Government as we know it first took shape in 1835

- Increasing urbanisation led to the formalisation of a constitution for new boroughs, overlaid onto the centuries-old Shire system
 - This built on the considerable freedoms at local level e.g. Manchester

The 1970s gave greater power to conurbations outside London, and sought to engage communities

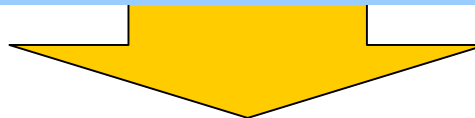
- The 1972 Local Government Act formed 6 new metropolitan counties, giving greater powers to major conurbations outside London,
 - It also introduced a third tier of parish / community councils designed to empower local communities in small towns and villages

Since the 1990s, central Government has taken more of a performance management role

- Reforms have been aimed at ensuring probity and good governance at local level. In 2000 the Local Govt Act separated the executive and scrutiny functions in councils and in 2002 the Comprehensive Performance Assessment was introduced to monitor performance
- Government has intervened more in local Govt priority setting: the % of local govt funding that is ring-fenced rose from 4% in 1997-8 to 18% in 2004-5

Having established performance standards, the intention is now to give greater freedom to councils

- The Local Government White Paper 2006 reduced top-down performance indicators
- New PSA targets in CSR 07 will express a smaller number of genuine Government-wide priorities
 - A number of cities now have directly elected mayors



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There are three main themes around how the State will need to be reshaped to meet the challenges of the next ten years

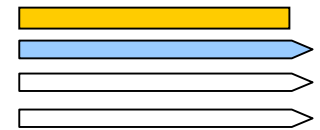
These three themes are...

Greater pressures on public services

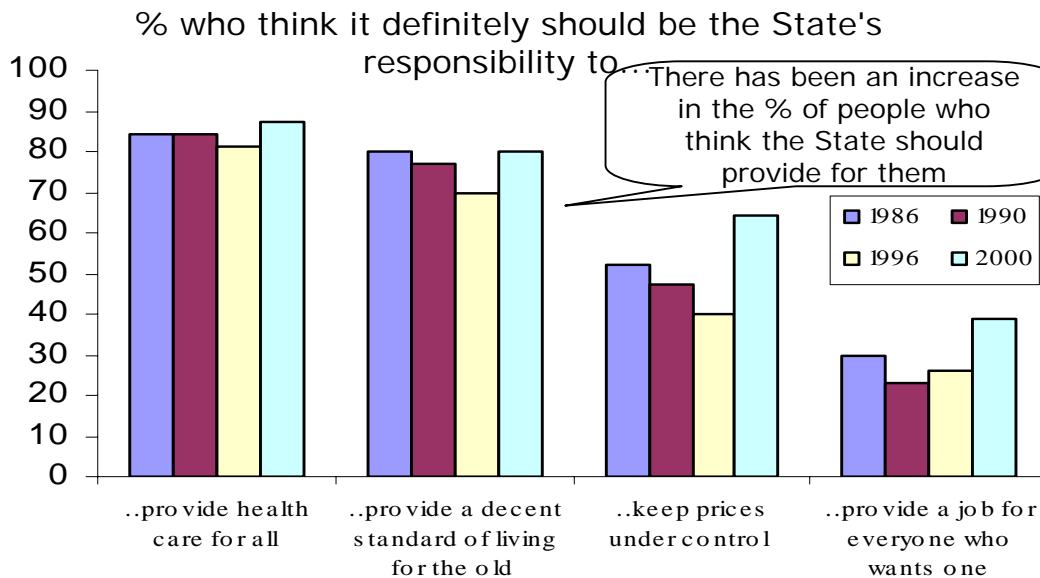
A shift in the nature of political engagement and political debate

Continuing adaptation to global forces

Public services are coming under increasing pressure as citizens' expectations rise

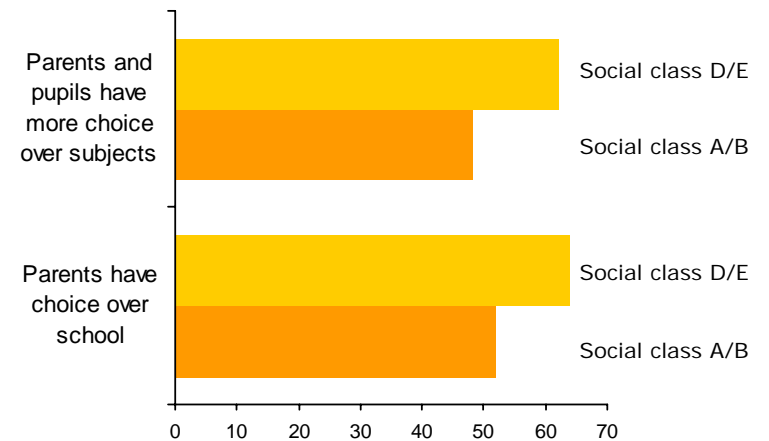


Social attitudes are changing with consumers having higher expectations of what the State should provide

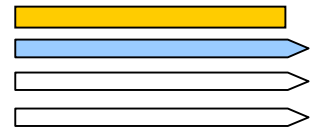


And people expect to have more choice over the services they use

Per cent answering 'Important' to question: "Regardless of whether you use the service, how important do you think it is that..."



- This change in expectations of public services is being driven by declining deference, with individuals less likely to accept what they are told by people in authority
- And it is also being driven by rising real incomes, which give individuals more flexibility to buy private services if they are not content with State services. 58% of those in the highest income groups, and 43% of those in the lowest, said they would be prepared to pay towards their family's health or education if private services offered better quality
- At the same time, higher levels of education are generating increased pressure from articulate, informed users who make stronger demands of services



This pressure also comes from rising consumer expectations about choice and the flexibility of services

Demand by users is fuelled by expectations from their experiences as consumers in the private sector...

Consumers are more accustomed to having control over the goods and services they purchase, for example:

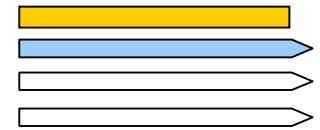
- Modern car manufacturing methods allow much higher levels of customisation, rather than offering consumers a limited range of models and features
- Consumers can go online and order a custom built computer comprising only components and features that meet their individual needs
- Health insurers offer consumers options about not only their level of excess, but options to pick and choose areas they wish or do not wish to be covered

...and by expectations created by the use of new technologies

The digital generation has higher expectations around instant access to information and the ability of the individual to make instant choices according to their own priorities

- Many people expect public services to come up to the same standards as they expect from private sector companies, and to give them the same level of instant access to information and wider choices as they would get from the internet

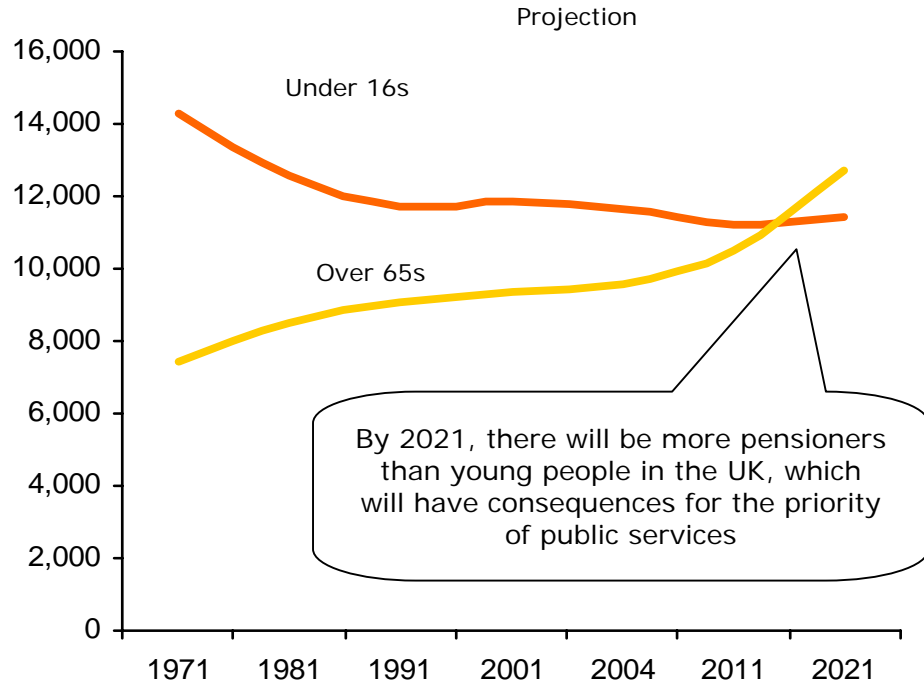
And the pressure will be exacerbated by increased demand, driven by demographic shifts



Rising numbers of households and pensioners will mean more demand for services

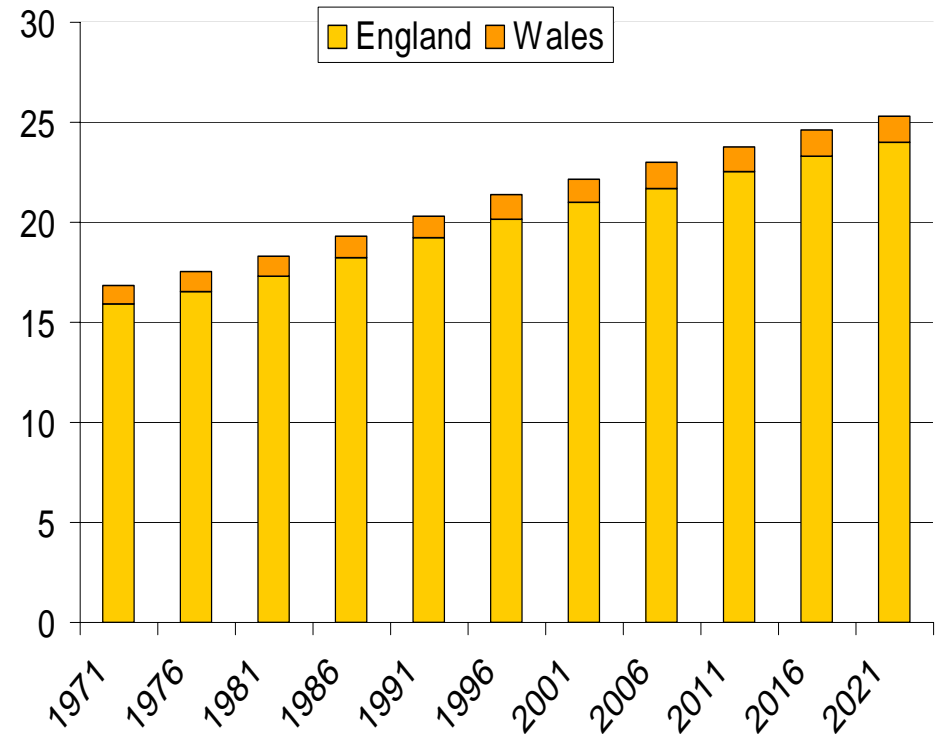
There will be 2.4m more people over 65 in 2017 than in 2007

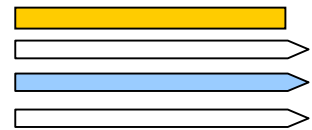
Thousands of people



And the number of households in England and Wales will have increased by nearly 2m between 2007 and 2017

Millions

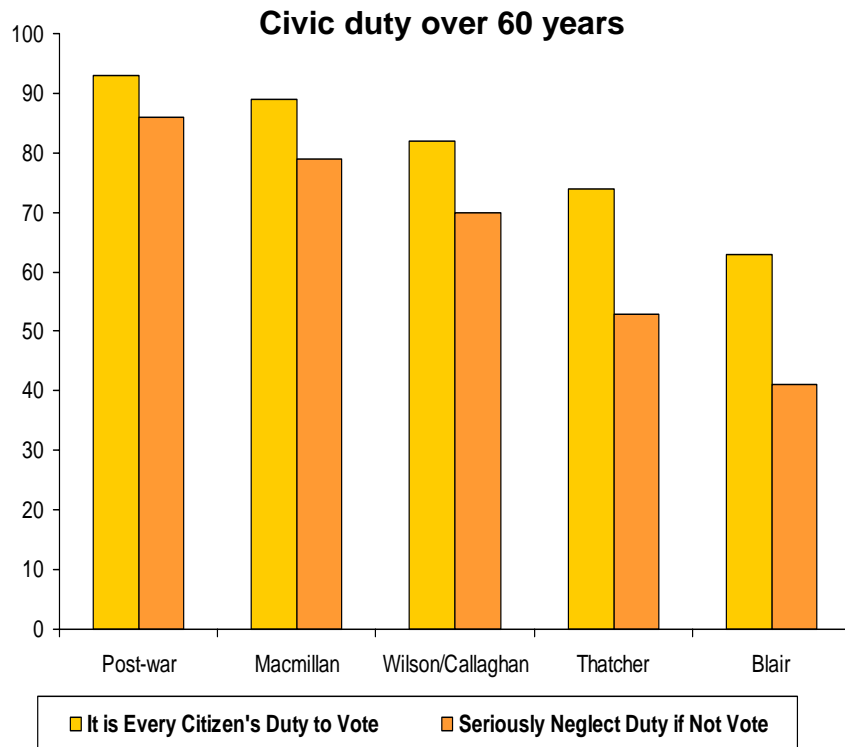




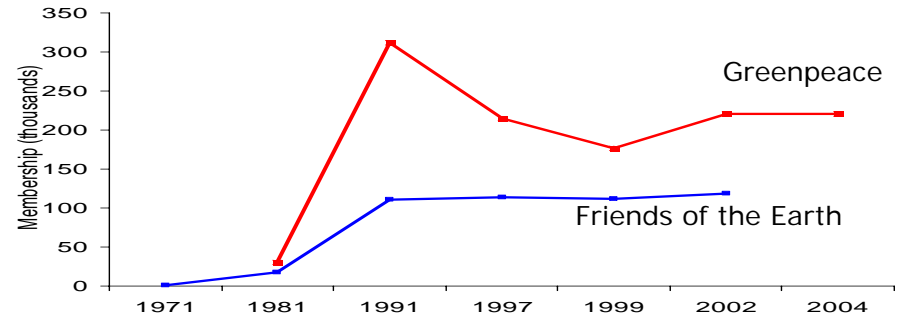
There are new patterns of political engagement

Fewer citizens think they have a duty to vote

Post -World War II, around 9 out of 10 people thought a person was 'seriously neglecting their duty' if they did not vote. Today, less than half think that.

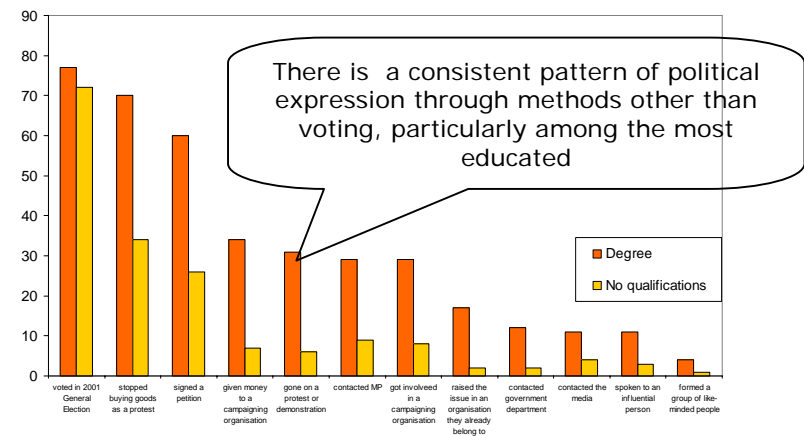


Membership of special interest groups has risen...



...and political expression also comes through a broad base of other methods

Non-electoral participation by educational attainment, 2002



This change in attitudes to political engagement is supported by the emergence of new technologies



Traditional modes of political discourse are moving into the 'blogosphere'

News blogs associated with established media sources are growing in number and readership

- 6 of the top 10 UK daily newspapers have launched journalistic blogs
- The BBC's network of 43 blogs (comprising both news and non-news blogs) had over 2.06 million unique visitors in October 2006
- The Guardian's news blog *Comment is Free* had 2.7 million 'page impressions' (or hits) in June 2006

These news and political commentary blogs can contribute to the breadth and quality of political debate

- At their best, blogs are about conversations. As a tool of political engagement, blogs can provide for conversations between the citizen and the State about policy choices
- There are already blogs which providing a forum and mechanism for informed and robust debate
- These fora have a high level of editorial independence as most lie outside established media ownership structure.

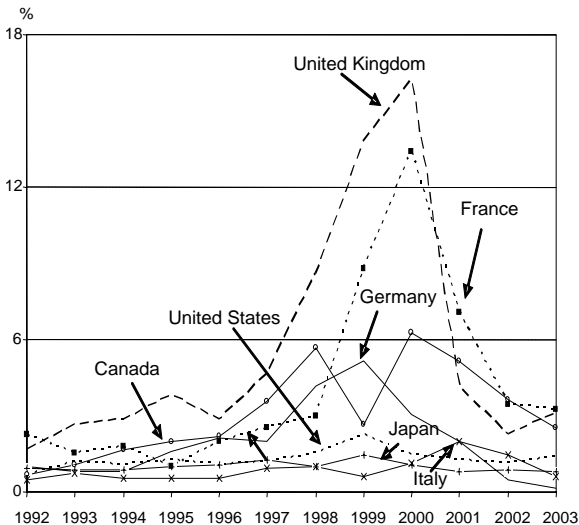
And globalisation and other forces mean the UK will be more exposed to issues that transcend borders



Domestic policy choices will be increasingly influenced by global economic, security and environmental issues

The UK is increasingly integrated into the global economy

Foreign Direct Investment outflows from G7 countries as a percentage of GDP



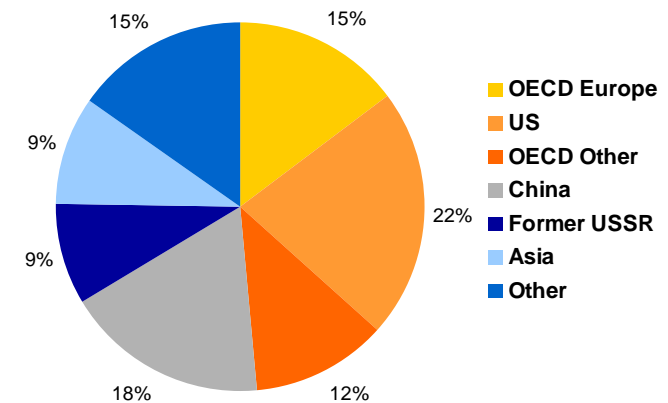
The spectre of international terrorism will remain – threatening the UK’s domestic and international security interests

“We will not defeat this terror until we face up to the fact that its roots are deep, and that it is not a passing spasm of anger, but a global ideology at war with us and our way of life. ”

Prime Minister, Speech to the Australian Parliament 27 March 2006

Only with global cooperation can greenhouse gas emissions be reduced and the worst affects of climate change avoided

The UK accounts for 2% of global CO2 emissions



- Increasing economic integration means the UK will be more affected by changes in the global economy
- The external security environment will remain unstable
- There will be continuing calls on international institutions to mediate international problems

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In response to these new pressures, the Government has already begun to reform the State

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Users are being given more choice over the services they receive to drive up standards: for example greater choice of hospital and school, and the introduction of Individual Budgets.

Increasingly, the State is no longer automatically the provider, but commissions services from those best placed to provide them, including the Third sector

Shift in the nature of political engagement

The citizen is beginning to be viewed as a partner in decision making, particularly at local level, with institutions such as Foundation Trusts giving people a voice in the shaping of local services

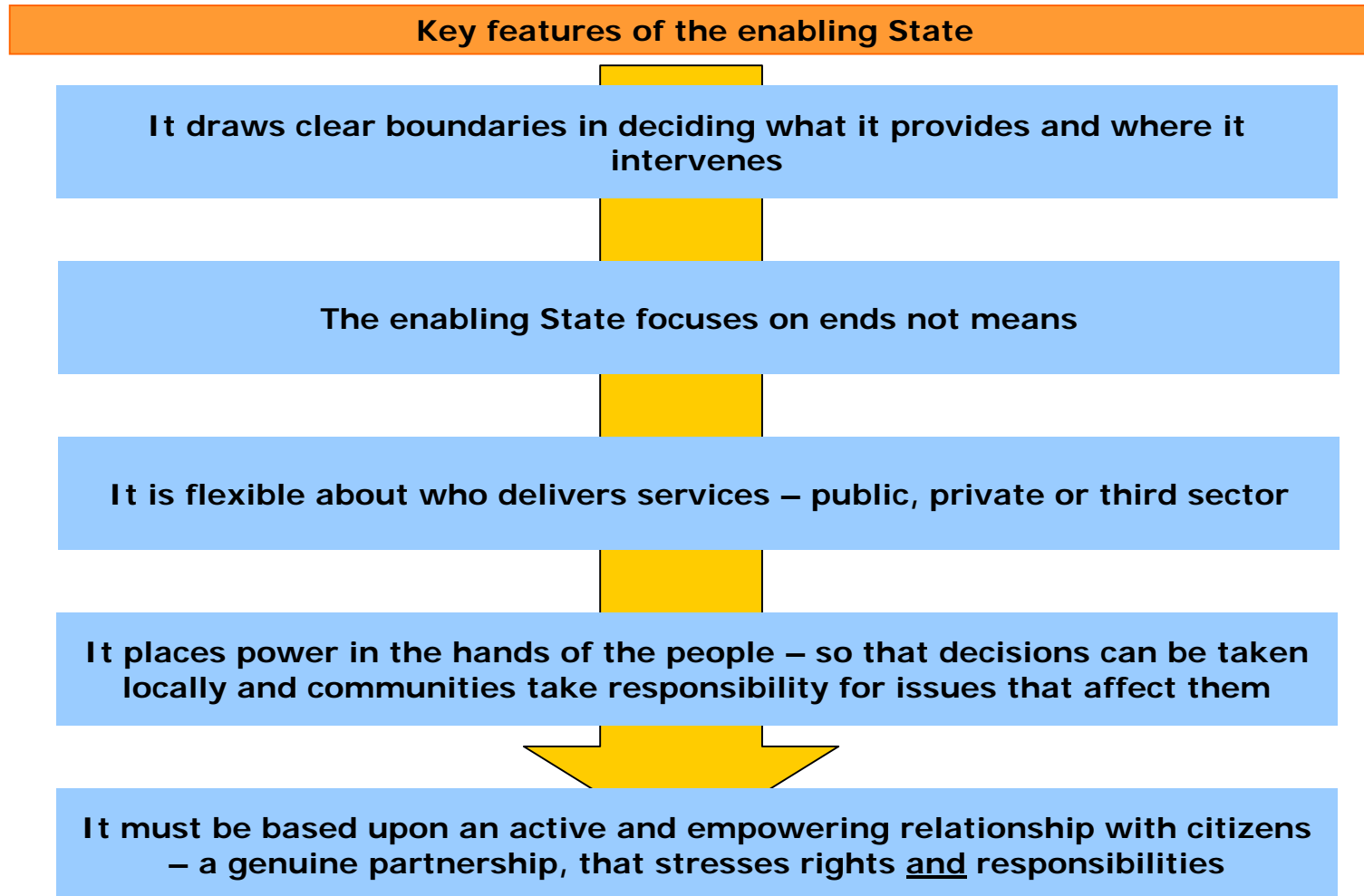
And the channels of communication with the citizen are changing: the vast majority of Government services are already e-enabled and the State is increasingly using the internet to communicate with citizens

Continued adaptation to global forces

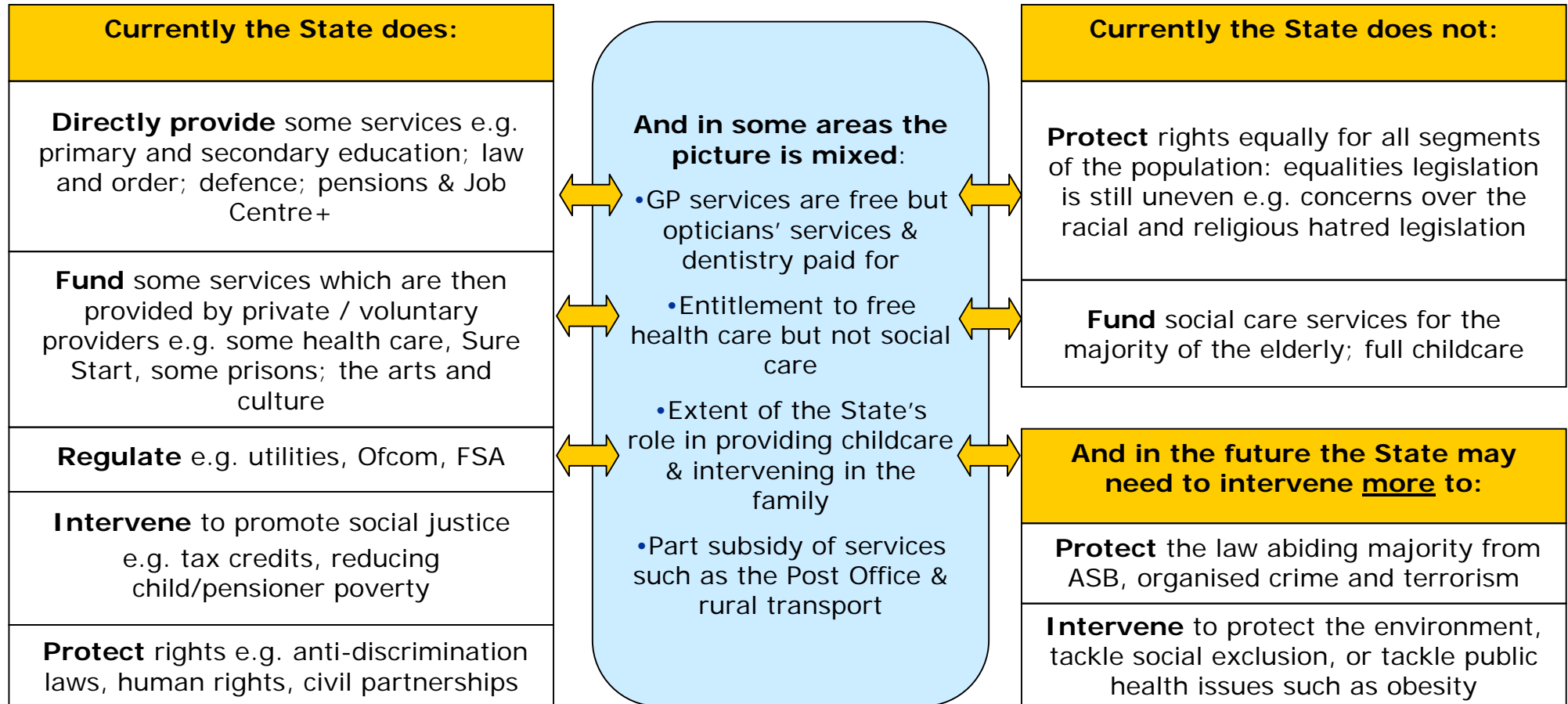
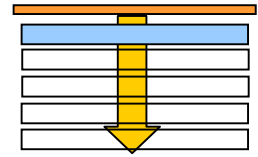
As the emphasis shifts away from bilateral agreements with individual nation states, the UK is increasingly working through large multilateral international organisations to achieve its ends

The following slides lay out in more detail how the reforms to the UK State are beginning to position it to respond to these pressures

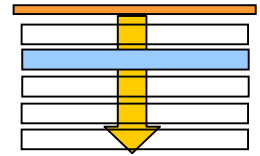
The key features of the enabling State are that it is strategic, power is devolved, and there is a strong partnership between citizen and State



The enabling State must be clear about what it provides and where it intervenes

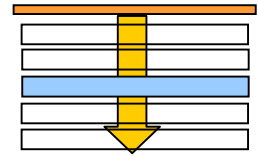


It focuses on ends not means



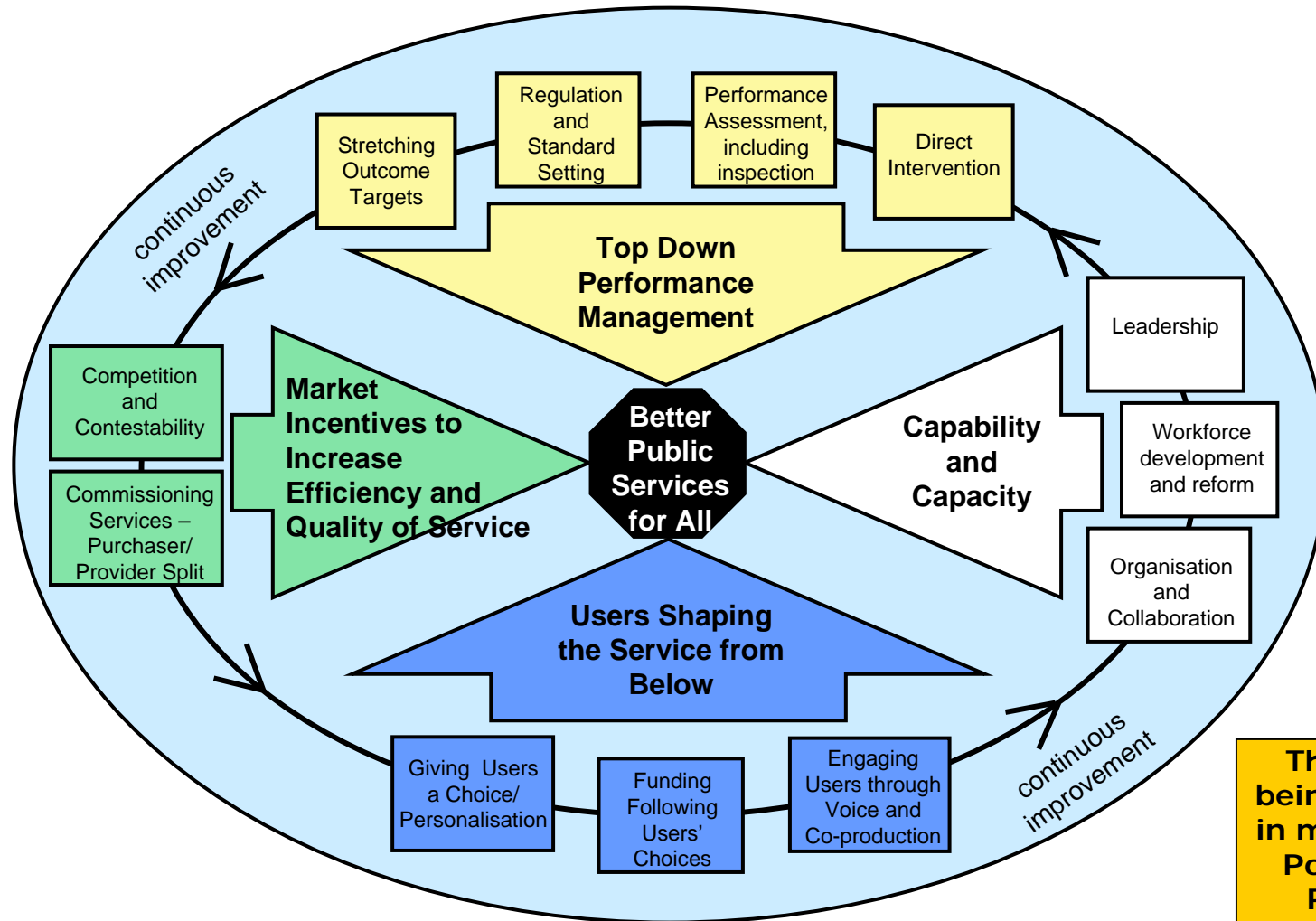
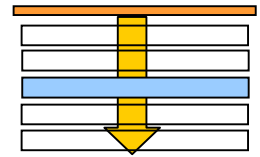
Setting a strategic framework and specifying what outcomes it wants...	...while devolving more power from Whitehall
<ul style="list-style-type: none">• Increasingly, the State is acting as commissioner rather than provider of services• The commissioning model means setting a clear strategic framework and specifying long term outcomes, but being relaxed about how services are delivered• It recognises that the top-down model of delivering public services no longer meets the demands of the public, and that a diversity of providers can drive up standards by creating contestability, and make public services more responsive to the citizen• There will, however, be cases, for example counter-terrorism, where commissioning may not be an appropriate model and the State may wish to maintain a monopoly of delivery	<ul style="list-style-type: none">• Increasingly, the State will move towards a strategic role, in which it sets policy direction and outcome-based targets, rather than micro-managing the delivery of services• The Local Government reforms will streamline the number of targets which local authorities report against• We are increasing autonomy for good providers

And it is flexible about means of delivery – working on the principle that whoever is best placed to deliver services should do it



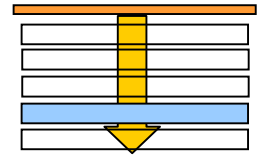
Government works with the private sector...	...harnesses the potential of the Third sector...
<ul style="list-style-type: none"> Private sector providers have helped drive up standards in a number of sectors: <ul style="list-style-type: none"> Over 100 city academies are now open or in the pipeline Independent Sector Treatment Centres in health care Private sector providers in the prison service And through public-private partnerships for infrastructure projects We outsource a high proportion of central government services compared to other OECD countries 	<ul style="list-style-type: none"> We have created the Office of the Third Sector, to step up the level of engagement and capacity building with the Third Sector Third Sector organisations already work in partnership with the public sector to deliver services, particularly in specialised areas such as helping young offenders, mental health services, in employment services, and at SureStart centres It can also drive innovation by challenging providers – for example in the provision of services for autistic children
<p style="text-align: center;">...and uses choice and voice to drive improvements in delivery and responsiveness</p>	
<ul style="list-style-type: none"> The State is increasingly involving users in designing public services, for example user involvement in the design of Connexions, Sure Start, and the Children’s Fund Using the third sector to increase service users’ voice, for example through the Expert Patient Panel 	

These principles form the basis of the UK Government's model for public service reform



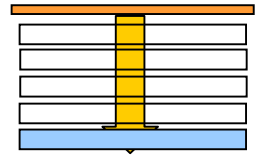
These issues are being taken forward in more detail in the Policy Review on Public Service Reform

The enabling State places power in the hands of the people



By devolving power...	...and accepting the consequences of devolution
<ul style="list-style-type: none">To the devolved assemblies: the Scottish Parliament, National Assembly for Wales and the Northern Ireland Assembly.Through increased powers for the Greater London Authority and the Mayor of London, and 11 other directly elected city mayors <p>And through the Local Government reforms...</p> <ul style="list-style-type: none">New decision making and leadership arrangements, with stronger powers for all Council leaders and Ward Councillors	<p>Devolution produces divergence in policy...</p> <ul style="list-style-type: none">For example, the Scottish Parliament has decided on a different approach to tuition fees and care of the elderly, and the Welsh Assembly has taken decisions to create a separate Children's Commissioner and to abolish prescription charges <p>...and variations in standards between areas</p> <ul style="list-style-type: none">Fewer central targets and increased flexibility for local services could mean wider variations in standards

And it must develop an active and empowering relationship with citizens, based on a genuine partnership

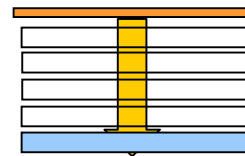


The Government has started to encourage new forms of engagement and empowerment

New forms of engagement and empowerment are emerging:

- **Turnout** in national and local elections is declining across the OECD, but participation in single-issue politics is growing
- We are increasingly looking to **individuals and communities to participate**:
 - In holding local services to account, e.g. through the Community call to action, and 'face the public' sessions
 - And in designing public services, e.g. user involvement in the design of Connexions, Sure Start, and the Children's Fund
- **e-Government** is reaching more people with the vast majority of services e-enabled, via Government websites – recognising that citizens now expect to be able to engage with services and obtain information at the click of a button, and at a time of their choosing
- **Local government reforms** will strengthen Local Area Agreements to establish a contract between central Government and local government which is transparent to citizens
- Increasingly, the **Third Sector** will play an important role in bridging the gap between citizen and State and giving a voice to the service users (e.g. Experts Patient Panel)

This partnership must emphasise the responsibilities of citizens and communities as well as their rights



The Government has started a debate about reciprocal responsibilities...	...but more remains to be done in some key areas
<ul style="list-style-type: none">• Tackling the issue of parental responsibility through parenting programmes and intensive work with problem families, and asking communities to take a stand against anti-social behaviour• Citizenship education in schools• Promoting volunteering – e.g. ‘year of the volunteer’, and the work of the Third Sector	<ul style="list-style-type: none">• Encouraging communities to drive improvements in public services and to hold agencies to account, particularly in tackling anti-social behaviour and problem families• Preventing extremism in communities, by ensuring moderate voices are heard and encouraging communities to deal with those who seek to radicalise others• Encouraging individuals and communities to take action to protect the environment and counter climate change• Encouraging individuals to take responsibility for living healthy lifestyles, e.g. avoiding smoking and obesity
<p>This will take the State into new areas, and there will need to be a strong dialogue in order to secure consent and participation. Again, the Third Sector can play an important role in this debate</p>	

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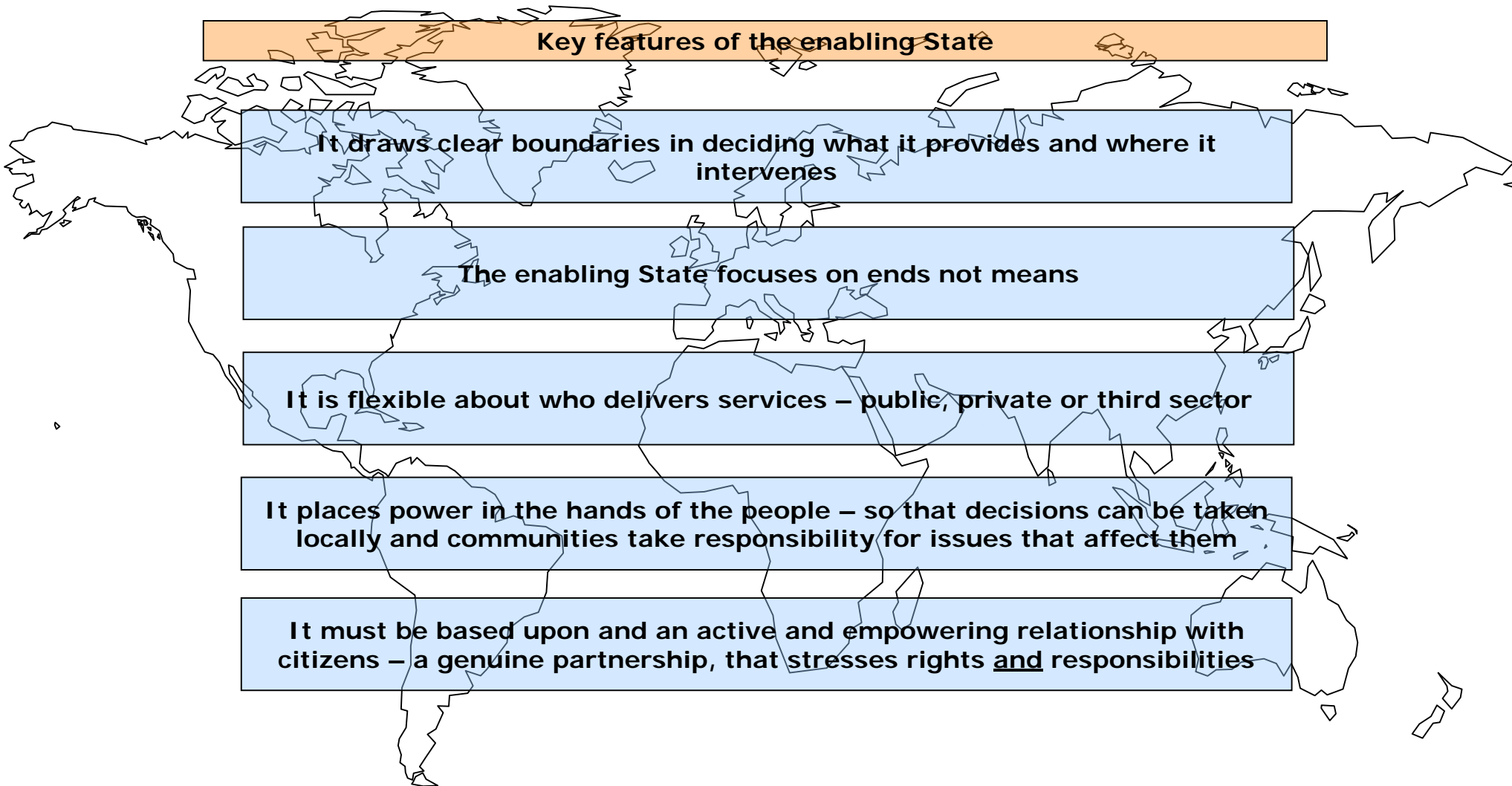
Future trends and challenges

Responding to change: the 'enabling State'

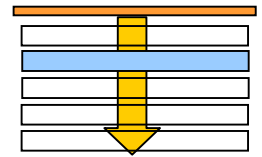
International comparisons

Equipping the State for a changing world

The UK is not the only State which is facing these challenges. Across the world, a number of other countries are undertaking similar reforms, and the UK can learn from them



New Zealand offers an example of a State which has focused on ends rather than means, taking a strategic approach and reducing the size of the centre



Case study

The mid-1980s to the mid-1990s saw a major shift in the New Zealand public sector

Driven by a strong free-market economic agenda, the size of the public sector was significantly reduced

Agencies were disaggregated into units with specific functions such as purchasers or providers of services, policy developers etc. Focus was on the efficiency of agencies in fulfilling their specific functions and greater accountability

While this approach was also followed elsewhere, including in the UK, the New Zealand example was more extensive in its implementation

Since the late 1990s, the focus has shifted towards:

- Achieving big-picture results, looking to effect broad Government objectives rather than individual agency targets
- Rebuilding public sector capability; and
- Becoming more citizen orientated

Problems encountered in New Zealand

Some of the negative impacts of the initial reform process were:

- Decreased coordination across Government: silos developed
- An emphasis on achieving outputs (eg agreed targets) rather than achieving outcomes (eg service impacts)
- A loss of public sector skills – some capabilities were lost and others had to be purchased
- Accountability was largely 'upwards' (to the Minister and Parliament) rather than 'downwards' (to the end user of services)

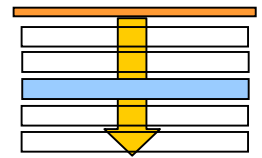
Subsequent reforms have focused on addressing these issues

Lessons for the UK

A careful balance needs to be struck between
a) creating a public sector that is efficient, innovative and accountable in its provision of services (eg through desegregation of purchaser/provider functions) and
b) ensuring that the civil service remains fit for task (eg retaining the necessary skills base to effect the State's big-picture objectives)

There is also a need to ensure devolving functions to agencies does not lead to a focus on outputs rather than outcomes

Australia offers an example of a country which has turned to the private sector to deliver services such as job placement assistance for the unemployed



Case study

- Australia privatised its employment assistance function in 1998. Under the model, Government tenders-out job placement services
- Different levels of payment are made to the job placement agency depending on the circumstances of the job-seeker (e.g. long-term unemployed) and services provided
- Job agencies are rated to provide competitive tensions among service providers
- The Government agency responsible for administering unemployment benefits (Centrelink) requires job seekers to choose or be assigned to a job placement provider
- A separate agency manages the contract with the private provider and monitors its compliance
- Centrelink effectively manages the conditionality of the responsibilities associated with receiving unemployment benefits
- The cost to Government of providing job-placement services has fallen, although independent reviews are unable to isolate improvements in employment outcomes solely as a result of the new system

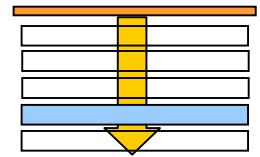
Problems encountered in Australia

- The system has contained some perverse incentives and as a result there have been many refinements of the system
- Once job seekers choose or are assigned a service provider, they are unable to change. Consumer choice is therefore limited
- Choice (and competition) is also limited as some locations are unable to support more than one provider
- There have been some examples of problems with the involvement of the private sector provider organisation in determining compliance with the conditionality provisions monitored by Centrelink

Lessons for the UK

- The purchaser-provider model can be applied to a wide range of Government functions
- It can be hard to isolate the effectiveness of such models where other factors (eg a strengthening of employment market) also play a role
- Delivery costs can be reduced, although there are costs associated with users of services adapting to new arrangements

Switzerland offers an example of a country which genuinely involves citizens in decision making



Case study

- Switzerland uses a unique system of direct democracy

2 key instruments are:

- **Constitutional initiative**, allowing citizens to propose a legislative measure or constitutional amendment (if they get 50,000 signatures), and,
 - **Referenda**, which are a regular part of government in Switzerland
- In 1990 a citizens' initiative voted for a 10 year moratorium on building nuclear power plants. A citizens' vote in 2003 chose to end the moratorium due to a worsened economic climate

Problems encountered in Switzerland

- This kind of direct democracy places heavy demands on citizens to be informed about issues
- It can also slow down the political process

Lessons for the UK

- Over 50% of citizens in Switzerland consider themselves 'well informed' about political matters, high by international standards. This suggests that higher levels of engagement can generate genuine ownership
- Where citizens have more say in issues, public expenditure is lower and tax evasion is less

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In order for the State to adjust to the pressures that it will meet over the next 10 years, we will need to ensure that it has the right capacities and capabilities to deliver

The slides below lay out the areas in which the State will need to improve its capacities and capabilities in order to deliver the enabling State

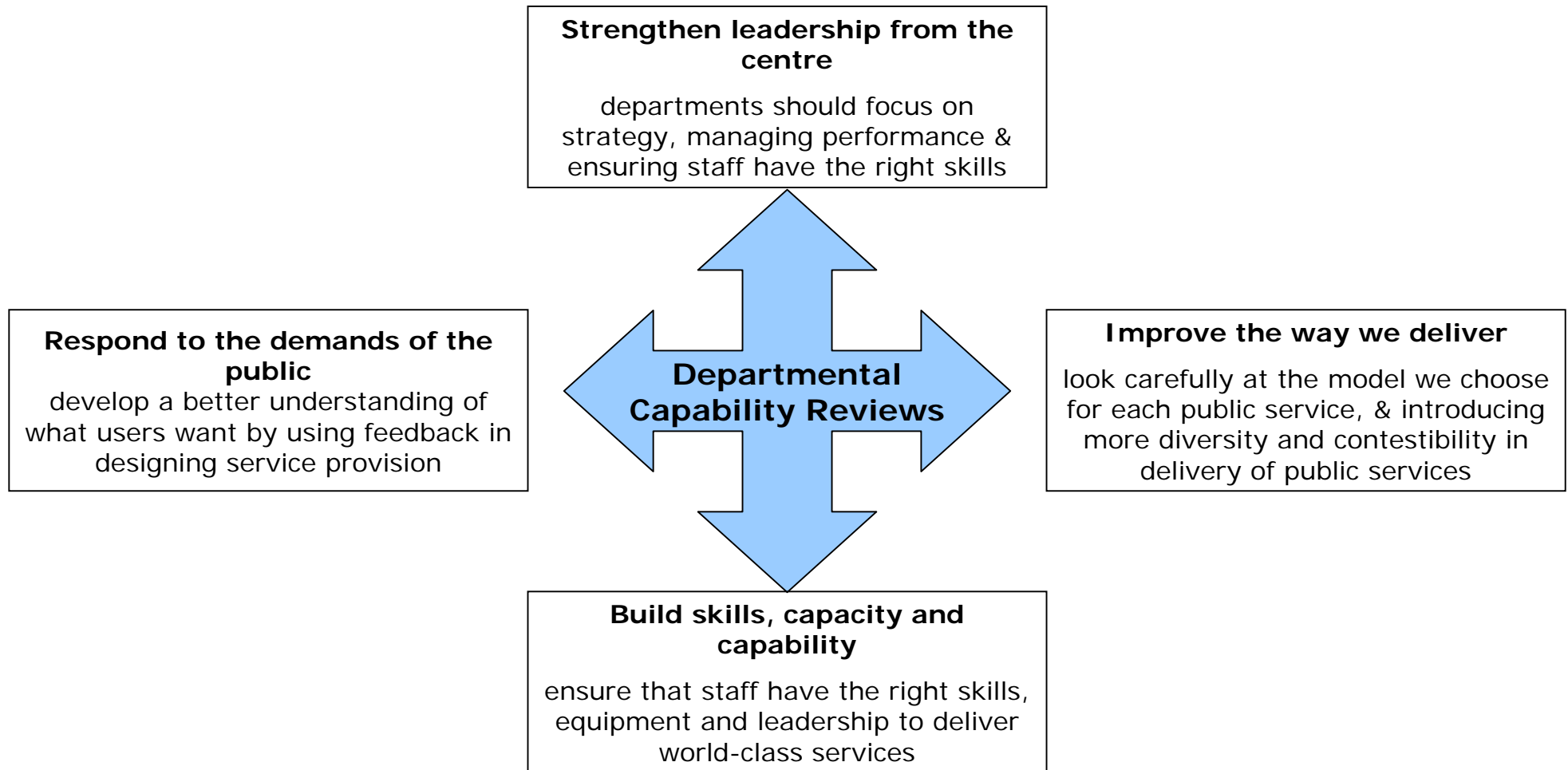
The Civil Service: it will be vital that Whitehall has the skills and capacity to deliver the vision of the enabling State, both in setting strategic direction and in overseeing contracts for delivery



Arm's-length bodies e.g. executive agencies responsible for delivering services at arm's-length from Government, will need to be equipped to work with Government and will need to be held accountable

The Departmental Capability Reviews outlined the main areas where the Civil Service needs to strengthen its capabilities to meet the challenges of the next decade

The Departmental Capability Reviews identified four key areas where Ministers and Whitehall need to strengthen their performance in order to respond to the changing needs of the enabling State:



Some improvements have already taken place

Leadership from the Centre has become more strategic

- Introduction of Comprehensive Spending Reviews, 3 year spending settlements, and Departmental 5 year plans
- Public Service Agreements tie public spending to clear, measurable outcomes, and public reporting.
- More streamlined, proportionate regulation, and target setting will be streamlined further through the local government reforms

And Whitehall has become more open to feedback

- A code of practice on public consultations has been introduced. Departments carry out over 600 Whitehall consultations each year
 - And 14m people participate in local consultation events each year
- But participation is strongly defined by socioeconomic background



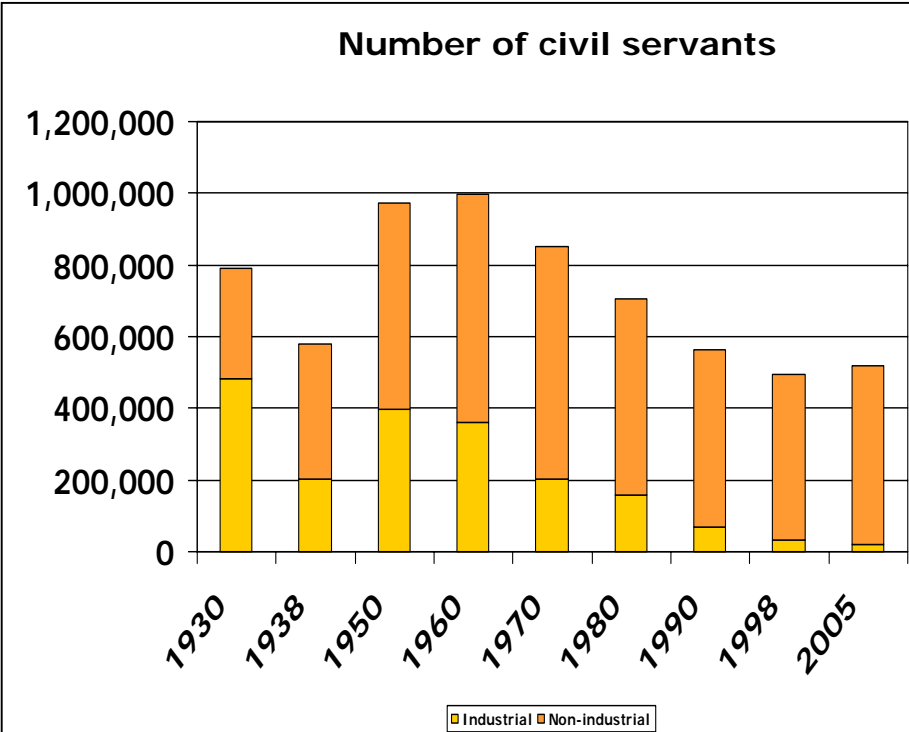
There have been improvements in delivery

- Office for Government Commerce delivered £1.6 billion savings in the first three years of its existence by building capacity across Whitehall and conducting gateway reviews of major projects
- introduction of the public service reform principles in key areas eg. health and education

Skills and capacity have already begun to improve

- The Professional Skills for Government agenda aims to ensure that civil servants have the right mix of skills to deliver effective services (operational delivery and corporate services, as well as policy-making)
- The Civil Service is learning from the private sector: 46% of civil servants now have experience of working in the private sector (59% for the very top management).
- And the Civil Service is beginning to respond to challenges presented by new technology, with a new 3,000-strong public sector IT profession to provide skills and training

And the centre has already become more streamlined



The number of civil servants has halved since the 1960s, to reflect the reduction in the functions performed by government. This decrease was largely driven by the reduction in industrial employees

There will be further efficiencies as a result of the implementation of the Gershon Review recommendations – the Government has set clear **efficiency targets of £21.5 billion savings a year by 2007/08**

Case studies: DfES headquarters will reduce by one-third between 2003-8, and Home Office from 9,200 in 2004 to 5,900 in 2010

As the State moves to a more strategic role in which it commissions services, the **focus will need to shift** to the strategic policy-making, setting of standards, performance management and capacity building. Slowing growth in public spending will **increase the pressure for efficiencies**.

The increasing trend towards operational independence for agencies has brought benefits, but it raises questions about accountability and public expectations

Over recent years there has been a shift of power to independent commissions and agencies

- 131 new **executive agencies** have been formed since 1988, and agencies now employ more than 70% of the Civil Service
- Independent commissions include the **Judicial Appointments Commission** and the **Low Pay Commission**
- **Bank of England** independence
- Creation of the **National Institute for Health and Clinical Excellence**

This can have significant advantages...

- Agencies and independent bodies are often able to focus more sharply on **delivery and customer service**
- And being at arms length from Government can strengthen decision making

...but there are also some problems attached

- There is a risk that agencies become **disconnected** from central government, with confusion about where policy-making responsibility sits. There are also implications for Ministerial and parliamentary **accountability**