



The UK Government's Approach to Public Service Reform

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This pamphlet has been prepared by the Prime Minister's Strategy Unit in support of the conference '21st Century Public Services – Putting People First', to be hosted in London on 6 June 2006 by the National School of Government. It is a summary of a fuller report to be found on the Strategy Unit website at www.strategy.gov.uk

The National School of Government will capture and publish the main issues from the conference, and will work with the Strategy Unit and other stakeholders to take forward the discussion of the themes presented at the conference and in this document and to ensure that key lessons and feedback are disseminated.

The National School website – www.nationalschool.gov.uk/psrc2006 – provides access to conference presentations and proceedings, and will offer opportunities to contribute to the debate; events and opportunities to engage with these issues; and links to other relevant information and initiatives.

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The pamphlet is a working document intended to facilitate discussion and debate. It is *not* a statement of Government policy. Feedback on the ideas and evidence presented in this pamphlet is welcome and should be addressed to the Strategy Unit by email at:

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Summary

Public services face major challenges from social, economic and technological changes and from major changes in public attitudes and expectations.

Since 1997 the Government has substantially increased investment in public services. Alongside an ambitious programme of reform, this has produced significant improvements in education, health and other areas.

But increased spending is not enough on its own to ensure improvements. Reform is needed to improve efficiency, quality of service and the fairness of provision.

The UK Government's current approach to public service reform combines pressure from government (top down performance management); pressure from citizens (choice and voice), competitive provision; and measures to build the capability and capacity of civil

and public servants and central and local government.

This document sets out the Government's approach in more detail and reviews its main potential benefits and risks. Drawing on examples across services, it concludes that benefits can be maximised and risks minimised if careful attention is paid to getting the detailed design conditions right – service by service. The model of reform needs to be carefully tailored to the characteristics of different services – different elements of the model will have differing weight depending on the service it is being applied to.

The document is not meant to provide the final word but to help improve understanding of the bigger picture on reform, and stimulate further discussion. Comments should be sent to: SU-PSR@cabinet-office.x.gsi.gov.uk.

This document sets out the UK Government's approach to public service reform

The Government has a clear vision: everyone should have access to public services that are efficient, effective, excellent, equitable, empowering and constantly improving. Achieving these goals would make significant progress towards the Government's wider objectives of greater social justice and a higher quality of life for all.

The purpose of this document is to describe the approach the UK Government is taking to public service reform drawing on the policies, programmes and strategies for reform in different services, and the experience to date in operating them. The Government's approach seeks to create 'self-improving systems' which combine government and citizen pressure for improvement, competitive provision and measures to improve the capability and capacity of civil and public servants and central and local government. It is a 'self-improving system' because incentives for continuous improvement and innovation are embedded within it. The document reviews both the key elements of the model and its potential benefits and risks.

Social, economic and technological changes have transformed the world in which public services operate

There are a number of fundamental drivers behind the need to reform Britain's public services. First, there have been huge social, economic and technological changes. The UK has an ageing population and there have been huge shifts in the size and composition of households and family structure, in particular major changes in patterns of cohabitation, marriage and divorce. These changes mean that services have to meet the needs of an increasingly diverse population. Alongside this, there has been massive growth in service industries, and technological innovations, such as the internet, have opened up wholly new ways of delivering services. These changes have created new and rising demands on public services ranging from childcare, to education and training, and to health and social care.

There have also been substantial changes in public attitudes and expectations

Second, as real incomes have grown, so people's expectations of public services have risen. People are accustomed to much greater choice and control over their lives. Higher educational standards mean they are better equipped to exercise choice, less likely to accept

government advice without question and less likely to allow others to make choices on their behalf.

In all sectors of the economy standards have risen enormously. The quality, range and price of goods on offer has vastly improved. Opening hours fit round the needs of the customer, new methods of payment and delivery have been created, and customer service has improved. Public services need to continue to rise to this challenge.

The Government has, since 1997, successfully responded to this challenge by substantially increasing investment in public services alongside an ambitious programme of reform

Since 1997, sustained investment and continuing reform have driven improvements across public services:

- over 56% of 16 year-olds now achieve five or more good GCSEs, up from 45% in 1997. In inner London, the progress has been even greater – with 50% more young people getting five good GCSEs;¹
- England is on track to meet the target of a 40% reduction in mortality from heart disease and stroke and related diseases in people under 75 by 2010, and to achieve the target to reduce mortality from cancer by 20% in the under 75s;²
- crime levels have fallen. Between 1997 and 2004/5 overall crime rates fell by 35% and there have been larger falls in domestic burglary and vehicle crime;³ and
- local authorities across the country are continuing to improve the services they provide to local people. Over 70% are improving "strongly" or "well", and of the 15 authorities that The Office of the Deputy Prime Minister (ODPM)⁴ engaged with as a result of poor performance following the first Comprehensive Performance Assessments in 2002, only one now remains in the lowest performance category.⁵

But the Government's approach to reform has always been about more than just spending more money. Reform is needed to ensure efficiency and effectiveness ...

Increased investment has been necessary for improvement but is not sufficient. There are wide variations in the efficiency and the quality of service within different services that cannot be explained by differences in

funding. Similarly, only modest amounts of cross-national differences in performance are explained by funding differences. Reform is needed to ensure existing resources are used effectively and to ensure increased investment results in better services and improved outcomes.

... and to improve the equity of public service provision

There is evidence of longstanding inequalities in public service provision with the most disadvantaged traditionally receiving poorer services than everyone else. For example:

- higher socio-economic groups are 40 per cent more likely to get a heart bypass than those from lower socio-economic groups, despite a much higher mortality rate from heart disease among the latter;⁶ and
- children from poorer backgrounds do consistently less well than their middle class peers at every stage in their school career.⁷ Consequently, 74 per cent of 16 year olds whose parents are in higher professional occupations are studying for A levels or equivalent compared with 31 per cent of 16 year olds whose parents are in routine occupations.⁸

Other countries in Europe and elsewhere are facing many of the same challenges and are pressing ahead with reform

The UK is not alone in facing big challenges in the delivery of public services:

- Sweden has introduced far-reaching reforms in both health care and education to make services more flexible and user responsive;⁹
- The Netherlands has introduced a comprehensive package of health reforms to improve services and contain costs. This involves free choice of health insurer and a major extension of competition between hospitals and other providers;¹⁰ and
- Australia has outsourced numerous key services including its employment services.¹¹

The Government has a number of goals for public service reform

The Government's vision is public services that are:

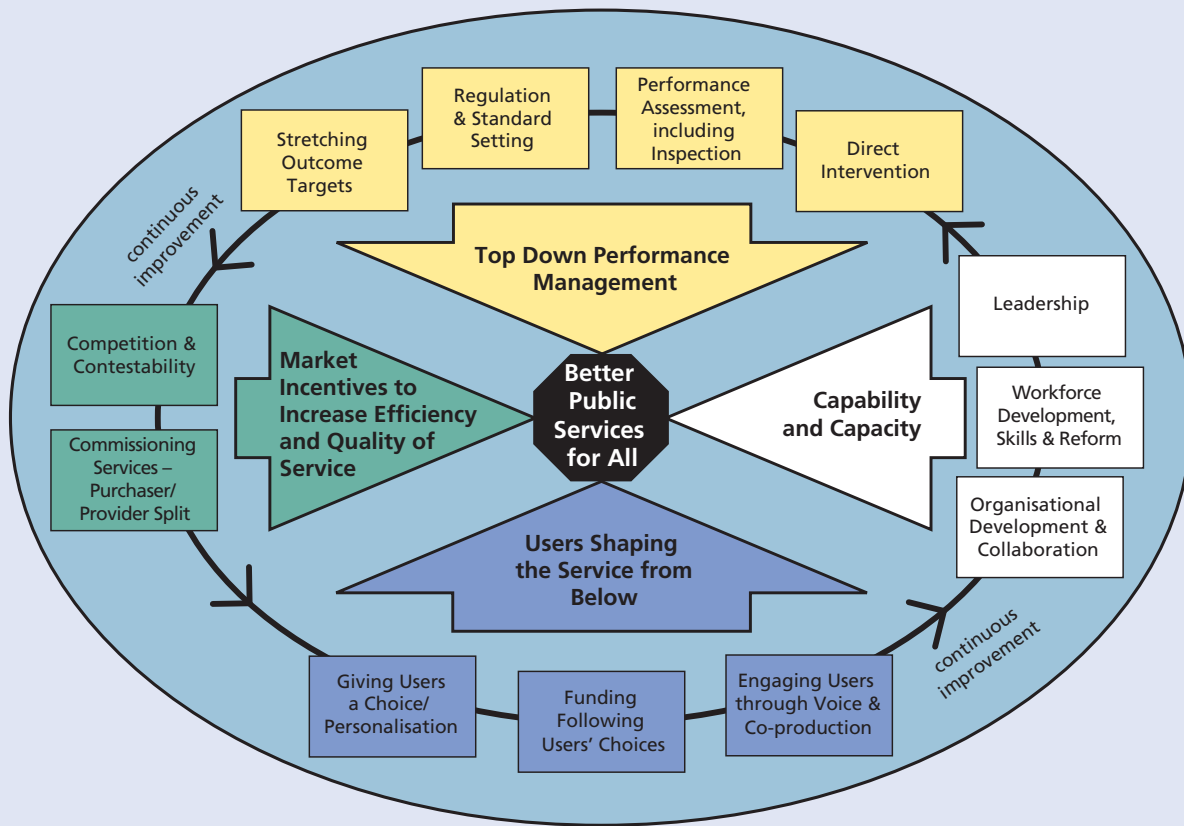
- **citizen-centred** and responsive;
- **universal**, accessible to all and (in the case of core public services such as schools and health care) free at the point of use;
- **efficient and effective**, offering value for money for the tax-payer;
- **equitable**, helping to reduce social exclusion and improve the life chances of the disadvantaged;
- **excellent** (high quality); and
- **empowering** and involve citizens.

The UK Government's approach to public service reform combines pressures from government and citizens, competitive provision and measures to build capability and capacity

Given these goals, the Government's approach to public service reform has four main elements (illustrated by the chart overleaf):

- top down performance management (pressure from government);
- the introduction of greater competition and contestability in the provision of public services;
- the introduction of greater pressure from citizens including through choice and voice; and
- measures to strengthen the capability and capacity of civil and public servants and of central and local government to deliver improved public services.

In combination, these four elements are intended to create a self-improving system within which incentives for continuous improvement and innovation are embedded. The following sections consider each of these in more detail.

Chart A: The UK Government's Model of Public Service Reform – A Self-Improving System

Top down performance management has a number of components

The increased investment in public services described above was accompanied, initially, mainly by a tougher top down performance management regime. This regime provided a shock to the system as well as playing an important ongoing role. Its main components were:

- setting Public Service Agreement targets to achieve specific ambitions for improvement in public services and to provide publicly available performance information allowing comparisons of performance against historic baselines or in relation to different providers;
- regulation and the setting of minimum service standards for the quantity, quality and type of service users should receive, for example, National Service Frameworks in health;

- performance assessment, including inspection, to monitor and assess whether providers are meeting those standards. For example, Ofsted in education; and
- direct intervention, to tackle failing or under-performing providers, for example, over 1,400 failing schools have been turned around and a further 200 closed since 1997 following intervention from Ofsted.

Top down performance management has limitations however and the Government has taken steps to design the system in a way that maximises performance improvements

Evidence suggests that top down approaches may sometimes:

- increase bureaucracy, where it is possible that the work in achieving targets or undergoing inspection may make information and other demands on services

that take up disproportionate amounts of time that might be used more productively;

- stifle innovation and dis-empower staff, by restricting the ability of professionals to react to local and user needs and preference; and
- create perverse incentives, distorting professionals' behaviour away from addressing user needs and preferences.

Through ongoing reform of the Public Service Agreements (PSA) system the Government has tried to address these limitations by:

- increasingly expressing targets as outcomes to be achieved, leaving professionals free to select the most appropriate means of delivering the target. Consistent with this, the number of PSA targets has been reduced over time and they have increasingly been expressed as outcomes;¹²
- giving greater freedoms to good providers. Well-managed schools, for example, can apply for greater freedom from the National Curriculum and greater flexibility regarding teachers' pay and conditions;
- concentrating regulation and inspection on poor performers to reduce the burden on those who are doing well; and
- balancing top down performance management with other drivers of delivery including competition between providers and greater choice and voice for users.

The introduction of competition and contestability into the provision of public services offers a number of potential benefits

The potential benefits of opening up public services to competition and contestability include:

- improved efficiency. In the prison service, for example, the introduction of competition has led to efficiency improvements across the entire prison estate – both public and private – without jeopardising quality of service;¹³
- better quality of service. For example, when employment services were made contestable in Australia, satisfaction rates amongst users of the service rose significantly;¹⁴

- stronger incentives to innovate and spread best practice. For example, the introduction of competition in public service broadcasting has stimulated greater innovation¹⁵. It has also been argued that the introduction of contestability into prisons led to the development of a new class of prison with a profoundly different management regime, promoting a "new and more constructive culture";¹⁶ and
- improved equity. Alongside user choice, competition and contestability may open up opportunities for disadvantaged households to gain access to better quality services, for example, through the emergence of 'new' niche providers. Many local authorities believe the introduction of Direct Payments has, for example, given minority groups better access to care.¹⁷

But competitive provision also has its limitations

Concern has been expressed that competition may:

- discourage the sharing of best practice or collaboration to develop new and improved services as providers compete to gain an advantage over each other. Such risks have, of course, to be balanced against the benefits of competition in promoting innovation and stimulating the diffusion of best practice. There are numerous examples of collaborative and innovative partnerships in the private sector.¹⁸ Nonetheless, it is important to ensure there are sufficiently strong incentives for beneficial collaboration and information sharing;
- undermine the public service ethos. Competitive markets will put at risk, it is argued, the distinctive ethos of the public sector that puts service to the public – rather than the pursuit of profit – at the heart of the organisation. The evidence for this is thin.¹⁹ Whilst there are examples of some cases where the use of the private sector may have led to a deterioration in service quality due to an inappropriate ethos (e.g. maintenance of the rail network following privatisation),²⁰ there are other instances where the private sector has significantly improved relations between provider and client (e.g. prisons, former nationalised utilities) or where there is no evidence of systematic differences between profit and not for profit providers (e.g. health and social care).²¹ Indeed, while many public servants feel uncomfortable with the notion of 'profit', most would agree that many of the characteristics of successful businesses and organisations in the

voluntary sector should apply to public services – primarily focusing on and listening to customers.

There are many dimensions to the pressure of exercising choice and giving 'voice' to one's views about public services

Users can express themselves in various ways:

- individual choice gives users greater ability to decide where, when, by whom and how a public service is provided. For example, since January 2006 most patients have had a choice of four or more providers when referred for planned hospital care. In May 2006, this choice was extended to include all Foundation Trusts, and by 2008, patients will be able to choose from any healthcare provider (including from the independent sector) that meets NHS standards at NHS costs by 2008;²²
- personalisation refers to the process of making services more responsive to the specific needs and preferences of individual users. For example, schools now offer more tailored support for the needs of both struggling and exceptionally talented pupils through the *Every Child a Reader* and *Gifted and Talented* programmes respectively;
- collective choice means giving groups of users greater power to decide where, when, by whom and how a public service is provided. It is usually best deployed where individual choice is not feasible e.g. policing, community safety and other local services;
- voice offers opportunities for public service users to express their opinions and have them heard and acted upon. It can be both individual and collective. Choice and voice should complement each other; and
- co-production describes a more active role for the citizen and communities either in directly delivering a public service or in changing their behaviour in ways that contribute to the ultimate outcomes the service exists to deliver e.g. changes in diet and fitness activity that lead to better health.

Bottom up reforms offer a range of potential benefits

Bottom up pressure through choice and voice can:

- encourage more responsive services. Choice-based mechanisms can lead to better matching of users to services. For example, under choice-based lettings, housing officers no longer need to allocate properties

to applicants on the housing register as applicants themselves wanting housing identify the houses that most suit their needs and circumstances.²³

- give everyone, including the disadvantaged, better quality services e.g. by offering an escape route from poor or failing services. For example, the *Florida A+ Programme* gives children in schools that persistently fail the Florida Comprehensive Assessment Test (FCAT) the opportunity to choose an alternative school. A study of the scheme found that the greater the degree of threat of exit from a school (without children necessarily leaving), the greater the improvement in performance;²⁴

Indeed, those least able to exercise choice are generally most in favour of having more. A MORI poll in 2004 found that people in social classes D and E were most in favour of choice as "absolutely essential", a finding supported by the British Social Attitudes Survey.²⁵ For example, 70% of those with a household income of less than £10,000 believe that people should have a "great deal" or "quite a lot of say" over which hospital to go to if they need treatment, compared to 59% of those whose household income is above £50,000.²⁶

But choice and voice have limitations and the Government has taken steps to mitigate and manage these risks

Badly designed choice- and voice-based initiatives may:

- favour the better off. Whether the mechanism is choice or voice or some combination of the two, reliance on bottom up pressure from citizens may worsen equity as the articulate, confident, better off middle classes profit at the expense of the less capable poor.²⁷ For example, choice-based reforms were introduced into the New Zealand school system in the early 1990s. But, unlike choice-based reforms in Sweden and the UK, fewer safeguards were put in place around schools admissions policies. The result was increased segregation based on income and ethnicity. At the same time, the quality of teachers in deprived schools declined;²⁸ and
- lead to increased segregation between social or ethnic groups. Economist Julian Le Grand discusses the possibility that "in education, selective schools may cream off the most able pupils leaving 'sink' schools for the remainder".²⁹ More generally other evidence also supports the view that, poorly designed, choice-based systems can lead to increased segregation.³⁰

The Government recognises these risks and has put in place safeguards and design conditions across services:

- providing help with the costs of making choices for those who need it, such as covering the costs of transport to alternative schools and hospitals. For example, the *Schools White Paper* extends the right to free school transport for children from poorer families to their three nearest secondary schools within a six mile radius (when they are outside walking distance);³¹
- providing high-quality information, guidance and advice, targeted on those who need it most. The *Schools White Paper*, for example, introduces better information for all parents when their child enters primary and secondary school, and dedicated choice-advisers to help the least well-off parents to exercise their choices;³²
- ensuring the voices of the less well-off are heard. For example, people who lack the confidence and communication skills needed to articulate their views can be supported by:
 - community champions and the Community Empowerment Networks which have been established in the 88 most deprived areas³³; and
 - opening up new and more innovative ways of consultation that appeal to a wider range of people, such as citizens' juries.
- preventing service providers from selecting the least costly to treat or most able to learn ('cream skimming') by, for example:
 - putting in place funding regimes that reflect the higher costs of providing a service for certain groups. LEAs, for example, receive greater funding for pupils with special educational needs or who qualify for Free School Meals; and/or
 - using regulation and statutory guidance to prevent inappropriate selection e.g. the Admissions Code for schools.
- tackling poorly performing or failing providers and increasing the supply of good services and service providers. Ultimately, the greatest safeguard against adverse effects on social inequalities and segregation is to make sure there is an increased supply of good schools, hospitals and other public services.³⁴ Choice has a key role to play in this – with funding following

user choices so good performers are rewarded and can expand, and poor performers penalised – but so do top down performance management, competition and contestability and measures to improve the capability and capacity of central and local government and public service workers.

Crucial though top down performance management, competitive provision and choice and voice are, strengthening the capability and capacity of civil and public servants and central and local government are vital

The quality of service a public service user receives depends not only on the level of spending on that service and how its provision is organised but on the calibre, skills, attitude and motivation of the workforce delivering them. There are a range of measures that the Government has taken to enhance the leadership, motivation and skills of public servants including:

- strengthening leadership, particularly inspirational leadership by bringing in and developing talent. Leadership quality is closely correlated with organisational performance.³⁵ Key public sector leadership appointments are increasingly made from a broad pool of public and private sector talent and much has been done to expand opportunities for tomorrow's public service leaders to be challenged and developed. The National School of Government has been set up for the Civil Service, a new Leadership Centre for Local Government and a National College for School Leadership;³⁶
- improving workforce development and better professional skills. Like leadership quality, investment in workforce development is closely associated with measures of performance such as local authority Comprehensive Performance Assessments.³⁷ The reform of public services means there is a greater need and demand for skills such as leadership, strategic thinking, financial management, commissioning and procurement and system design. In the Civil Service, the Cabinet Secretary has launched the Professional Skills for Government programme which addresses these requirements;
- pay and workforce reform intended to strengthen the link between performance, pay and workforce development and to introduce more flexibility to workforce roles;
- using the rich sources of information now available so

public sector managers can compare themselves with their peers and raise their performance accordingly. The reform of New York's police was, for example, driven by monthly comparisons and learning between police force areas;³⁸ and

- promoting best practice through awards, funding for dissemination and incentivising collaboration. The Government has facilitated the establishment of a range of federations, partnerships and collaboratives particularly in education and in health. For example, collaboration with other schools is a requirement for specialist schools.

Important steps are also being taken to ensure central and local government are organised and structured so they have the capabilities and capacities necessary to support the reform of public services. Measures being taken include:

- making central government more strategic with Departments focusing on defining the outcomes they want from the public services they are responsible for; designing the systems needed to achieve them; and commissioning services from a wider range of providers than in the past;
- putting customers at the heart of service provision. For example, as part of the Transformational Government strategy, Customer Group Directors are being appointed to lead the design of services for key customer groups such as older people;³⁹
- more effective use of information technology to design services around the needs of users. The Transformational Government strategy emphasises that IT-enabled services need to be designed around the citizen or business, not the provider, and provided through co-ordinated delivery channels (such as call centres);⁴⁰
- the Departmental Capability Reviews launched by the Cabinet Secretary to help departments to identify where they need to improve, and what support they need to do so, focusing on leadership, strategy and delivery;⁴¹
- improving the capability and capacity of local government. The Improvement and Development Agency was created by local government to improve the quality of leadership, strengthen corporate capacity, improve service delivery in the areas of

education, children's and adult social care services and helping councils to build sustainable communities; and

- measures to listen and communicate more effectively with key stakeholders.⁴² It is important to capture the views and experience of public service workers so they can contribute to the process of continuous system improvement.

The model set out in this paper is applicable to all public services but needs to be carefully tailored to the characteristics of each

This general model of reform must be tailored to each service. There are important differences between a service such as emergency health care, where we all want the same thing and the issue is about who best provides it, and a service such as education, where there may be real differences between the type of provision that different people want. Police services have quite different characteristics and opportunities for user choice than, say, social care. The appropriate mix of top-down pressure, competition and bottom up choice and voice will therefore vary from case to case.

We would like your views ...

This document is not meant to provide the final word on the UK Government's approach to public service reform. The model set out in this paper has evolved in the light of experience and lessons learned over the past nine years and earlier, and will inevitably continue to do so.

More detail on the thinking and evidence underpinning this model can be found on the Prime Minister's Strategy Unit website at www.strategy.gov.uk. But we would also welcome views which should be sent to: SU-PSR@cabinet-office.x.gsi.gov.uk

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Published: June 2006
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