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The Prime Minister's Strategy Unit

The UK Government's Approach to Public Service Reform

– A Discussion Paper

The UK Government's Approach to Public Service Reform

This discussion paper 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.

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 paper 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 paper 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 paper 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 discussion paper 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 paper 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 discussion paper is not a statement of Government policy
Prime Minister's Strategy Unit, 2006.

This discussion paper 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 discussion paper 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. This paper 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 has 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 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 healthcare 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 healthcare) 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.

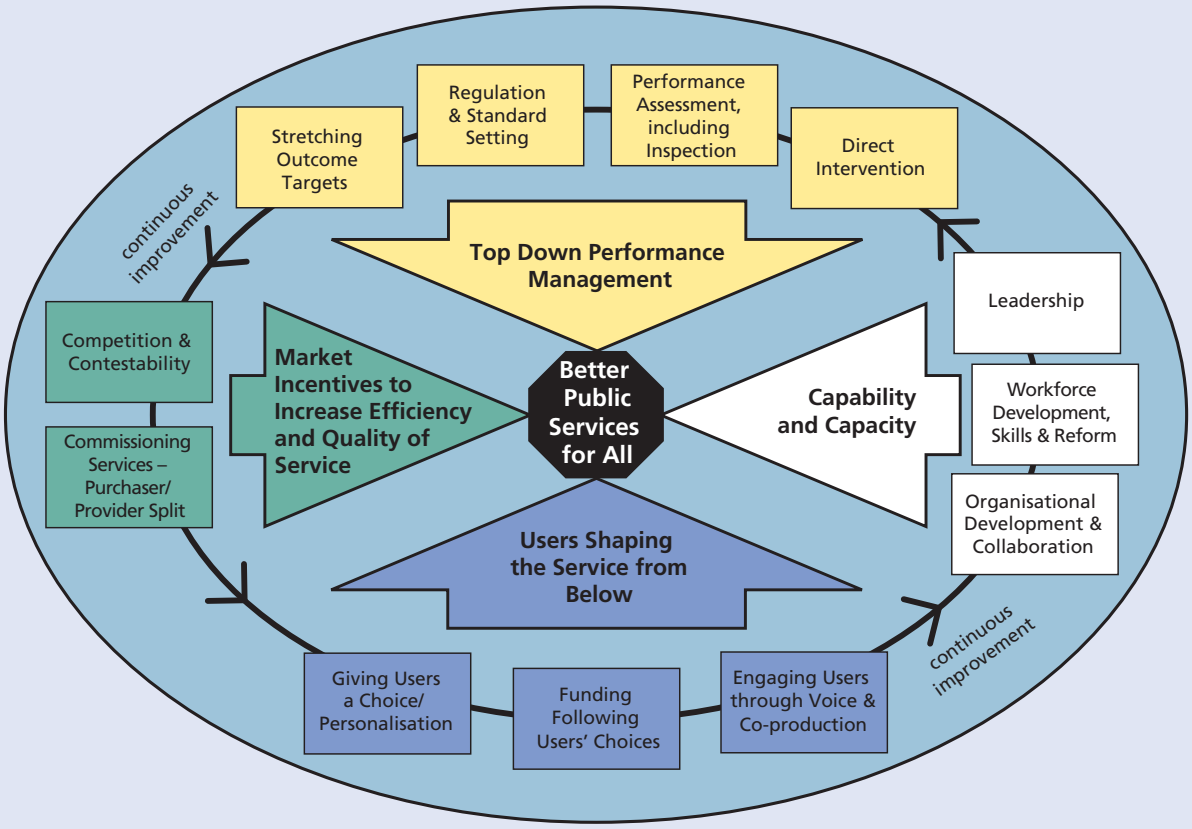
The UK Government's approach to public service reform combines pressures from government and citizens, competitive provision and measures to build capability and capacity

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 on-going 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, the Office for Standards in Education (Ofsted); 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 on-going 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 innovation[15]. 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; and

- 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] and

- 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 areas[33]; 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 is 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 healthcare, 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 discussion paper 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.

Chapter 2
Introduction

Chapter Summary

The Government wants public services for all that are efficient, effective, excellent, equitable and empowering – with the citizen always and everywhere at the heart of public service provision.

Achieving these aims poses a huge challenge but progress is being made, backed up by substantial additional investment. However, sustaining improvements in public services, as in any other area of human endeavour, requires continuing attention and reform.

This paper seeks to set out clearly the approach the UK Government is taking to public service reform. It discusses the benefits of reform, particularly in terms of advancing the Government's objectives of promoting social justice and an improved quality of life for everyone; reviews the main risks and how to manage them; and sets out the main changes needed to deliver real and effective reform.

The Government has clear aims and objectives in reforming public services

Public service reform is central to the achievement of the Government's objectives of greater social justice and a higher quality of life for everyone. This Government is determined that everyone has access to public services that are efficient, effective, excellent, equitable and empowering – and that continually strive to cater to the needs of all citizens.

Core to this vision is that services should be universal and accessible, including to the most disadvantaged. Everyone should have access to excellent schools, hospitals and GPs and everyone should be able to make choices – not just those with the sharpest elbows or the deepest pockets.

Achieving these aims and objectives poses a huge challenge but progress is being made …

The Government has introduced reforms in all the main public services designed to increase efficiency and effectiveness, and to raise quality of service. For example:

- schools have been given much greater autonomy in ways that will benefit their pupils, given more control over their assets and staffing, and the freedom to expand;

- patients will be better able to choose the time and place most suitable to them for treatment, and hospitals will have stronger incentives to respond to users' needs through Payment by Results;

- direct payments and individual budgets are beginning to change radically the lives of people dependent on social care. For the first time they will be able to recruit their own carer and choose when and how they will receive care;

- students in further education will be able to open new Learner Accounts that are designed to empower learners by giving them greater choice and control over their learning; and

- in all services a great deal has been done to support and develop the capabilities of the public service workforce as well as expand the capability and capacity of Government and public service providers to deliver high quality, responsive services through investment in leadership, technology and skills.

… backed up by substantial additional investment

Over the period 1997 – 2004, health expenditure rose from 5.4% of GDP to 6.7%, while spending on education rose from 4.5% to 5.3% of GDP over the same period.[43] From 2004 to 2008 spending on health will rise by a further 32% (almost £23 billion in extra funding), and spending on education by 27.5% (an additional £7.6 billion pounds).[44] By 2007-08 spending on the NHS will have reached £92 billion compared to the £33 billion spent in 1996-7.[45]

However, sustaining improvements in public services requires continuing reform

Although increased investment in public services has played a vital part in improving public services, reform is essential both to ensure value for money for the taxpayer and that services are responsive to the needs of the user. There is a strong body of evidence to show that increased funding on its own is unlikely to lead to improvements in services.[46]

This paper aims clearly to set out the UK Government's approach to public service reform

This paper aims to set out clearly – for public sector leaders, managers and opinion formers – the evidence and the principles underpinning the Government's approach to public service reform.

The document is structured as follows:

- the next chapter, Chapter 3, sets out the case for reform, analysing the key challenges public services face and how reform will tackle the shortcomings of the current system;

- Chapter 4 provides an overview of the UK Government's public service reform model: a 'self-improving' system that seeks to bring together a mix of challenge and support to drive improvements; and

- Chapters 5 to 8 review in more detail the main elements of the model: top down performance management through outcome-based targets, regulation and national minimum standards, performance assessment including inspection, and intervention to tackle failure (Chapter 5); horizontal pressure through effective commissioning, competition and contestability (Chapter 6); bottom up pressure through choice and voice (Chapter 7); and measures to increase the capability and capacity of front-line public service workers to deliver improvements particularly through more effective leadership, investment in skills and technology and effective ways of engaging with customers and staff (Chapter 8).

Chapter 3
The Case for Reform

Chapter Summary

Though the fundamental principles behind the public services put in place in the 1940s remain relevant today, the case for reform is compelling.

The world doesn't stand, and hasn't stood still. Public services need to adapt to social change, economic change, technological change and changing attitudes and expectations.

Public services face users who have vastly higher expectations and need to modernise and adapt accordingly. In particular, public services need to be more responsive to and better able to meet the needs of all users.

Substantial additional investment is of course being made in public services. Reform is essential to ensure that this money delivers commensurate results, and to strengthen the incentives on services to innovate and replicate best practice.

The goals of public service reform should be to put the citizen at the heart of public service provision and drive improved outcomes through a new model that combines top down, horizontal and bottom up pressures with effective support to public service workers that increases the capability and capacity of the services concerned to deliver real improvements.

Though the fundamental principles behind the public services put in place in the 1940s remain relevant today, the case for reform is compelling

Today's public services have their origins in reforms made in the 1940s. Many of the fundamental principles behind the services that were put in place at that time are still relevant today. Excellent schools and hospitals that are free at the point of use and open to everyone regardless of class, creed or colour are crucial not only for social justice but for economic progress and opportunity. But, just as the case for reform in the 1940s was firmly rooted in the challenges facing Britain at that time, so we need to recognise that the reform of public services is no less necessary today given the scale of change in Britain over the last 60 years and the future challenges it faces.

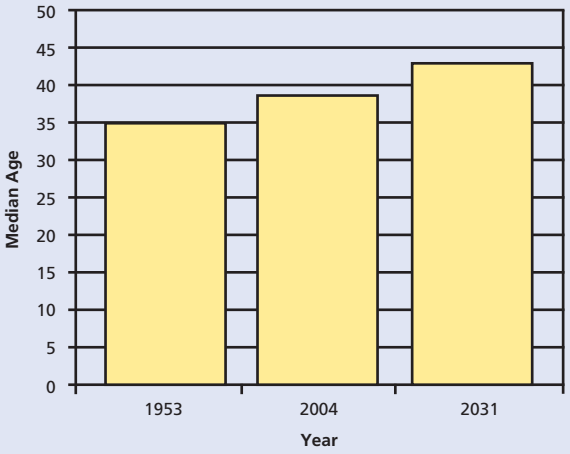
Post-war Britain was largely a homogeneous society. The nuclear family was still the archetypal family model. Most women were not yet part of the labour force,[47] and almost half of the economy was involved in manufacturing.[48] Public services were at an embryonic stage and made up a relatively small part of UK GDP.[49] Pensions and other social security benefits had been established but were still expanding;[50] and universities were attended by a privileged few. It was for this relatively homogeneous society that relatively homogeneous public services with little user choice or personalisation – and in many cases almost solely provided by Government – were conceived.

But the world doesn't stand, and hasn't stood, still. Public services must adapt to social change…

For a majority of Britons today the way of life described above no longer represents the norm. Britain is an ageing society (see Charts 3.1 and 3.2). Reflecting increases in life expectancy brought about by improvements in

healthcare, medicine, technology and changing lifestyles, the median age in this country has risen from 35 years in 1953 to almost 39 years in 2004 and is projected to rise to 42 by 2031.[51] This is despite the fact that immigrants to the UK tend to be much younger than the host population.[52]

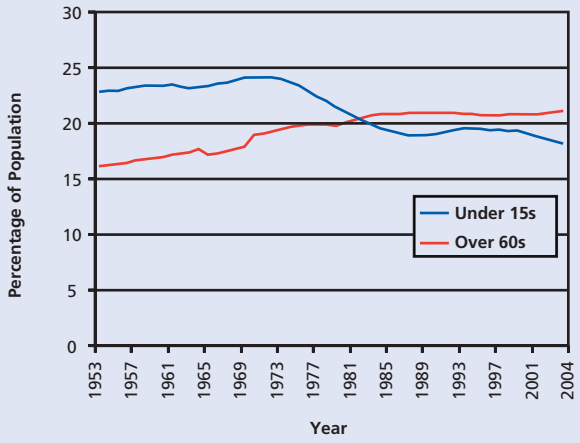
Chart 3.1: Trends in the United Kingdom Population: 1953-2031



Source: *Focus on People and Migration*, Office for National Statistics, 2005

Similarly the proportion of the population aged over 65 and 85 respectively has risen from 11% and 0.4% in 1953 to 16% and 2% in 2004 and will rise to a projected 21% and 3.2% in 2026.[53]

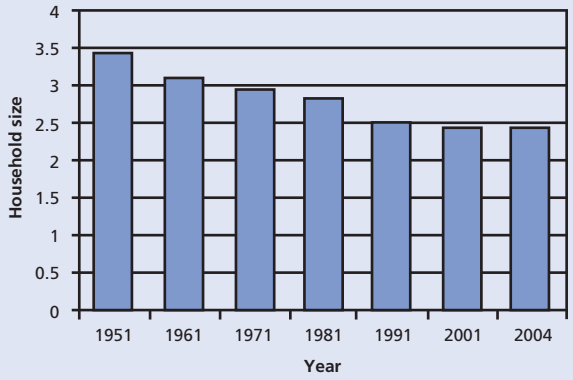
Chart 3.2: Under 15s and over 60s as a Percentage of the Population: 1953-2004



Source: Office for National Statistics, 2006

There have also been changes in the size and composition of households (see Chart 3.3). Due to population growth, ageing and changing lifestyles (including changing patterns in cohabitation, marriage and divorce), the number of households in Great Britain increased by 30 per cent between 1971 and 2005 and is projected to increase by a further 13% by 2021.[54] The number of couples divorcing has more than quadrupled since the 1950s and nearly one in four dependent children in Great Britain now lives in a lone-parent family.[55]

Chart 3.3: Average Household Size: 1951-2004



Office for National Statistics, 2006

All of these trends have created their own unique pressure on public services, from growing use of family courts to new policies to assist lone parents as well as campaigns to reduce teenage pregnancy. And as the family changes and traditional family support diminishes, public services will come under continuing pressure to adapt further.

Demographic change is not only creating demand for increased provision of some services (such as health and social care) but is also creating demand for new services (such as adult education services that recognise people's extended working careers), new ways of delivering services for people who are less mobile and a higher quality of service in general in the health and social care sectors.

…economic change…

Over the last half century, the economy has also undergone huge structural changes. Jobs in service industries have almost doubled as a share of total jobs in the last 60 years, while those in manufacturing have fallen by around three-quarters over the same period.[56]

The numbers of women entering the workforce has been steadily increasing, often in part-time roles (see Chart 3.4).

These economic changes have also led to new demands on public services, from improvements in education and training; to more extensive and better quality childcare provision; to the substantial expansion of higher and further education.

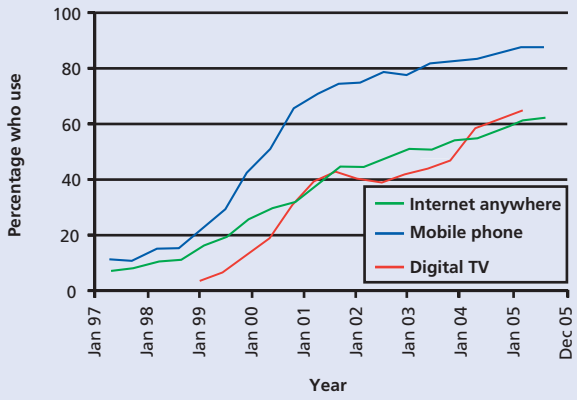
The global economy is also undergoing a profound transformation, with fundamental changes in trading patterns and in the use of technology. For example, world exports have grown from $84 billion in 1953 to $6,272 billion in 2002 and emerging economies such as China and India have grown by over 700 per cent and 250 per cent respectively since 1980.[57] In a more global economy, there is likely to be a key role for government and public services in equipping people with the skills that enable them to adapt rapidly to change and to move into new high value-added areas of economic activity.

…technological change…

Modern technology has had, and is having, massive impacts on most people's lives and the way they access services. At the end of December 2005, almost 70% of UK households had digital television.[58]

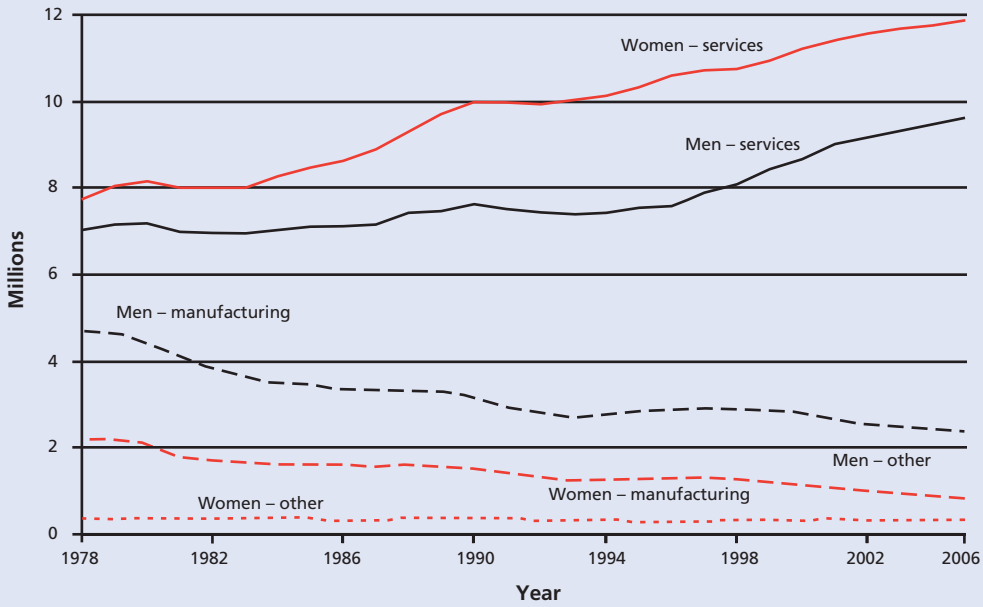
Telecommunications devices like the internet and mobile phone have fundamentally changed the way we interact and communicate – especially for the young who have grown up with computers in their homes and schools. Many young people now spend more time surfing the web than they do watching television. The mobile phone revolution has been particularly rapid: at the end of December 2005, there were 61.2 million active mobile phones in the UK, more than one for every individual.[59] This compares to the less than one million subscribers that existed in 1990.[60]

Chart 3.5: Technology Trends 1997-2005



Source: *Technology Trends*, MORI, 2006

Chart 3.4: Employee Jobs: By Sex and Industry



Source: *Social Trends*, Office for National Statistics, 2006

Technological and scientific progress opens up exciting oportunities not only to improve quality of life for everyone but to transform the efficiency with which public services are provided. But new technology and innovation (e.g. in medicines) can also increase costs not only because new drugs, for example, may be expensive but because many more patients can find out much more quickly about new or experimental treatments that could benefit them. They can also make contact with fellow sufferers far more easily and form support or campaigning groups to gain access to such treatments.

…and changing attitudes and expectations

Growing affluence and widening educational opportunity during the second half of the 20th century have contributed to profound changes in public attitudes and expectations. Real incomes are much higher, many more people own their own home and women lead lives that would be barely recognisable to their mothers and grandmothers.

In addition, as real incomes have increased, so people's expectations of standards of service have risen. Compared with half a century ago, people are accustomed to much greater choice and control over their lives. And higher educational standards mean that they are better equipped to exercise choice, much less likely to settle for second best and less likely to accept government or 'expert' advice without question or to allow others to make choices and decisions on their behalf.

Public services have not of course stood still over the past 50-60 years. Gone are the days, for example, when council tenants had to have the same colour doors, and had no say over the timing of repairs to their homes and when we had to get married in the Town Hall registry office if we weren't having a church wedding.

Services need to be more responsive to and better able to meet the needs of all users…

The private sector has, on the whole, responded swiftly to these changes improving the variety of goods on offer, opening hours, methods of payment and delivery, and improving levels of customer service. It would be surprising if the public who are now used to relatively high levels of choice, control and influence in almost every aspect of their lives, did not expect public services to deliver the same.

And surveys show (see Box 3.1) that the majority of the population want public services that are responsive, flexible and match the level of customer service they find in the private sector. The challenge is for public services – established originally on the assumption of uniform provision to a relatively compliant, homogenous population – to adapt to meet the complex needs of an increasingly diverse and assertive population.

Box 3.1: Public Attitudes to Choice in Public Services

Recent surveys suggest the public want more choice over public services.

For instance:

- the most recent British Social Attitudes Survey found that 63% of people believe that they should have "a great deal" or "quite a lot" of choice over which hospital they go to for treatment; and
- a MORI survey in 2004 found that 59% of people favoured giving parents the choice over which school they send their children to.

Those who most rely on public services are most in favour of choice. In the British Social Attitudes Survey quoted above:

- 69% of women favoured choice compared to 56% of men; and
- 69% of those with no GCSE-O level qualifications favoured choice compared to 56% of those with higher education.

Source: Research conducted by MORI for the Audit Commission in July 2004; Park A., et al (eds), *British Social Attitudes: Two Terms of New Labour: the Public's Reaction*, 2005.

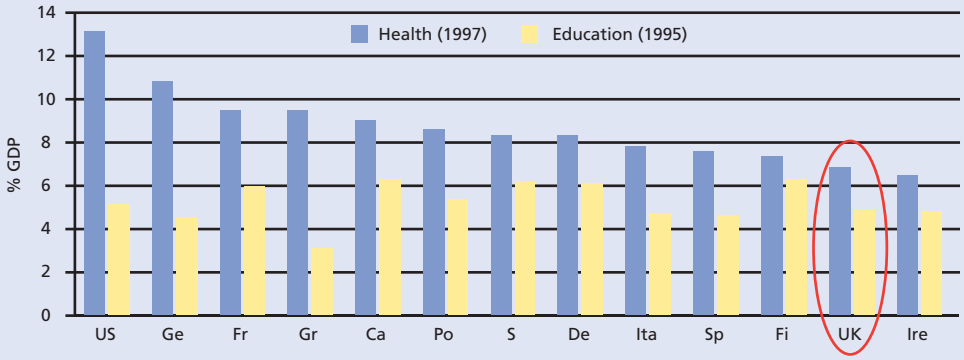
The Government has responded to this challenge by substantially increasing investment in public services …

Since 1997 expenditure on health has more than doubled in cash terms and in schools,[61] funding per pupil has increased by more than £1000 in cash terms.[62] In total, £20bn pa more in cash terms is now being spent on the NHS and £10bn pa more in cash terms on education than if spending levels had remained at their 1997 levels as a percentage of GDP (see Charts 3.6 and 3.7).[63] There have also been more than 45,000 jobs created in the police service (including civilians and support), 300,000 in health and social work and 224,000 jobs in education since 1998.[64]

…which has delivered, and is delivering, results…

Increased spending on public services has been accompanied by a sharpened performance management

Chart 3.6: Total Expenditure on Education and Health, % GDP 1995 and 1997

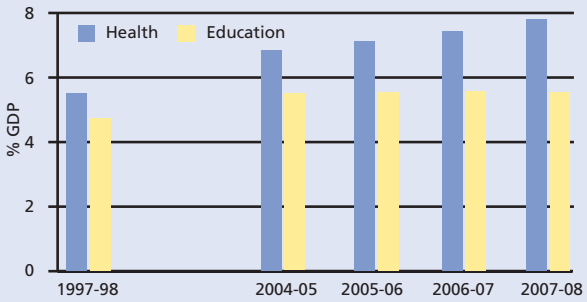


Source: *Choice*, Presentation to Social Market Foundation Seminar by Stephen Aldridge, September 2004

regime which has led to many improvements across public services. For instance:

- the quality of teaching has been transformed, through the literacy and numeracy programmes in the Government's first term and the Key Stage 3 strategy for 11-14 year-olds in its second term;[65]
- over 56% of 16 year-olds now achieve five or more good GCSEs, up from 45% in 1997. In inner London progress has been even greater – with 50% more young people getting five good GCSEs;[66]
- there are now 5,800 more good or excellent primary and secondary schools today than in 1997;[67]
- health outcomes are improving. England is on track to meet the target of reducing mortality from heart disease and stroke and related diseases in people under 75 by 40% by 2010, and the target to reduce mortality from cancer in the under 75s by 20%;[68] and
- crime levels have fallen. Between 1997 and 2004-05 overall crime rates fell by 35% and there have been larger falls in domestic burglary and vehicle crime;[69] 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)[70] 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.[71]

Chart 3.7: Projected Public Expenditure on Health and Education, % GDP 1997-2008



Source: *2004 Spending Review,* HM Treasury, 2004

…but reform is needed too…

It is clear, however, that improvements in services and in educational, health and other outcomes are not the product of increased funding alone. The differences in health service performance between England, Scotland and Wales in 2002 were not for example, related to the differences in per capita levels of spending in the three countries.[72] Similarly, a recent review of the relationship between spending on schools and pupil achievement finds no identifiable link between the two.[73] Nor is there a relationship between local authority spending on library services and user satisfaction with those services.[74] Similarly, only modest amounts of cross-national differences in performance are explained by funding differences.

…to make services responsive for everyone, including the disadvantaged…

In particular, the disadvantaged – those who are most in need of public services – tend to receive a poorer service than everyone else. For example:

- the professional classes 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 lower socio-economic groups;[75]

- hip replacements are 20% less common among lower income groups despite 30% higher need;[76]

- deprived areas tend to have fewer primary care workers per person than other areas and on average, doctors spend less time with patients in deprived areas.[77]

- children from poorer backgrounds do consistently less well than their middle class peers at every stage in their school career.[78] Consequently, 74% of 16 year olds whose parents are in higher professional occupations are studying for A levels or equivalents compared with 31% of 16 year olds whose parents are in routine occupations;[79]

- the socio-economic gap in university participation widened in the 80s and early 90s because expansion allowed even more students from middle class backgrounds to gain a university place. Between 1981 and 1999, the proportion of children from the top income quintile who had a degree by age 23 rose from 20% to 46%, whereas for the bottom quintile the proportion rose from 6% to 9%;[80] and

- the challenges facing the education system are summed up in the fact that there are currently twice as many black men in prison as there are at university.[81]

…to improve quality and efficiency…

Reform is needed not only to ensure increased spending on public services delivers commensurate increases in public service outputs and outcomes but to ensure existing resources are more effectively used. Given the size of the public sector, public sector productivity has an important impact on whole economy productivity – notwithstanding the considerable measurement problems.[82]

There are wide variations in performance across the public sector. For instance, although there has been a steady increase in the number of good and excellent schools, there are a disproportionate number of special schools catering for children with behavioural, emotional and social disorders which are failing.[83] In health, the worst NHS trusts have costs per treatment more than twice the average, and there are also significant differences in the uses of resources such as operating theatres.[84] At a local level, seventy per cent of councils are assessed as improving "strongly" or "well", although ten councils are failing to deliver services of an acceptable standard.[85]

…and to strengthen incentives to innovate and to replicate best practice

There are some inspiring examples of innovation in the public sector such as the West Midlands Ambulance Service with its paramedics on bikes and rapid 'First Response' message-handling service or Irwell Valley Housing Association's Gold Service for responsible tenants. NHS Direct is the world's largest provider of telephone healthcare advice and handles around 600,000 telephone calls a month.[86] But these examples are too few and far between – largely because best practice spreads too slowly around the public services system and because there are few incentives to innovate.

The goal of public service reform should be to put the citizen at the heart of public service provision and drive improved outcomes

The Government is determined to meet these challenges head on. Its 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 healthcare) 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 following chapters set out the UK Government's model for delivering public services that live up to this vision.

Chapter 4
The UK Government's Reform Model

Chapter Summary

The Government's approach to public service reform has evolved since 1997.

In the earlier part of the period, increased spending on key public services was accompanied by a considerably sharpened top down performance management regime – intended to drive a step change in performance as well as on-going improvements.

But though they will have a continuing role, reliance on essentially central top down management pressures alone (targets, regulation and performance assessment/inspection) has largely run its course.

These top down approaches have increasingly been complemented by horizontal pressures (of competition and contestability), bottom up pressures (of user choice and voice) and measures to build the capability and capacity of public services and public service workers to deliver better services such as improved leadership, investment in skills, workforce reforms and the application of new technology.

The UK Government's model of public service reform therefore comprises a mix of challenge from top down, horizontal and bottom up pressures, on the one hand, and support to build capability and capacity, on the other, which are intended to combine to produce a 'self-improving system'. This model is described as self-improving because it seeks to embed incentives for continuous improvement and innovation within the system.

The right balance of pressures will vary between services (e.g. policing and schools) and within services (e.g. between emergency care and elective care in health) and depends on the characteristics of each service.

The Government's approach to public service reform has evolved since 1997, focusing initially on rectifying past under-investment supported by a sharpened performance management regime

When it first came into office in 1997, the Government's primary focus was on increasing investment in key public services to address previous years of under-investment.

Increased spending on public services was accompanied by a tougher performance management regime which was intended to provide a clear and rapid signal that improved outputs and outcomes were expected from the additional expenditure. This regime consisted of new Public Service Agreement targets intended to set out unambiguously the improvements the Government wished to see in areas like hospital waiting times and standards in education; new regulatory approaches intended to ensure more wider adoption of best practice (e.g. the literacy and numeracy strategies); extended inspection of public services through for example Ofsted; and new powers of intervention to tackle failing schools, hospitals and local authorities.

This regime provided an important shock to the system as well as playing an on-going role. It has led to demonstrable improvements in a number of key areas:

- education standards have risen, with over 56% of 16 year-olds now achieve five or more good GCSEs, up from 45% in 1997. In inner London progress has been even greater – with 50% more young people getting five good GCSEs;[87]

- 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;[88]

- crime levels have fallen. Between 1997 and 2004-05 overall crime rates fell by 35% and there have been larger falls in domestic burglary and vehicle crime;[89]

- 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 ODPM (now the Department for Communities and Local Government) 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.[90]

But, though it will have a continuing role, reliance on these top down pressures alone to drive public service improvements may now have largely run its course

In its earlier period in office, the Government needed to move quickly to address past under-investment in public services and to achieve a step change in performance. A top down emphasis from central government on targets, regulation, performance assessment including inspection and intervention in failing providers addressed this urgent need.

Notwithstanding the benefits, there are a number of potential limitations to relying on the top down pressures alone. Top down approaches are poorly suited to increased personalisation of public services to meet the needs and preferences of individual users. As individual needs and preferences become more diverse, it becomes harder for central government to shape public services that meet these very different needs directly from Whitehall and more urgent to find ways of capturing users' preferences and requirements in decisions about service provision closer to the front-line where service providers and users interact. Top down approaches may also increase bureaucracy; stifle innovation and de-motivate front-line professionals by restricting initiative; and create perverse incentives (e.g. where targets are expressed as inputs or outputs rather than outcomes to be achieved).

These top down pressures have therefore increasingly been complemented by horizontal drivers (of competition and contestability), bottom up drivers (of user choice and voice) and…

Competition – or the threat of competition from other providers in a contestable market – can be a powerful way of incentivising organisations to innovate, respond to individual needs and become more efficient. This can be thought of as horizontal pressure because the incentive to improve comes from other providers – peer organisations or companies.

Similarly, the pressure for improvement resulting from users can be thought of as a bottom up driver. Giving individuals the opportunity to choose between different schools, hospitals and other services strengthens the incentives providers have to offer a better service. In those situations in which individual choice is not feasible because of the nature of the service (e.g. local policing priorities or street lighting), it may be possible to give groups of users collective choice to determine aspects of the service provision.

Choice in public services will nearly always need to be complemented by 'voice' (and vice versa). Voice empowers users by giving them the opportunity to express their views and engage with providers in order to influence and shape the services they use – be it in respect of the design, delivery or governance of services.

A public service characterised by competition and contestability on the supply side and by user choice and voice on the demand side will have powerful dynamics within it to improve the effectiveness, efficiency and quality of that service. This doesn't mean, as we will see, that the need for top down pressures is eliminated, but it does mean that the potential downsides of over-reliance on top down pressures can be avoided and new and strengthened incentives for high quality services that meet the needs of users put in place.

…supported by measures to strengthen capability and capacity

The quality of a public service depends ultimately on the workforce delivering it. To get the best from them requires a mix of *challenge*, from the various pressures described above, and *support* through good leadership,

workforce development and reform, investment in skills and technology and other measures which build the capability and capacity of public service workers and organisations to deliver reformed public services.

The UK Government's model of public service reform brings these different elements together in a 'self-improving system'

Chart 4.1 shows how top down, horizontal and bottom up pressures, and measures to improve capability and capacity combine to create a self-improving system to deliver better public services for all. This model is described as 'self-improving' because it is intended that incentives for continuous improvement and innovation should be embedded in the system itself.

The key elements are described in more detail below:

Top Down Pressure

1. Stretching outcome targets: that define outcomes to be achieved (e.g. better health, less crime) rather than the resources used to achieve them (e.g. numbers of doctors, number of warranted police officers).

2. Regulation and standard setting: officially prescribed basic service levels that users can expect to receive (e.g. the National Curriculum, the literacy and numeracy hours).

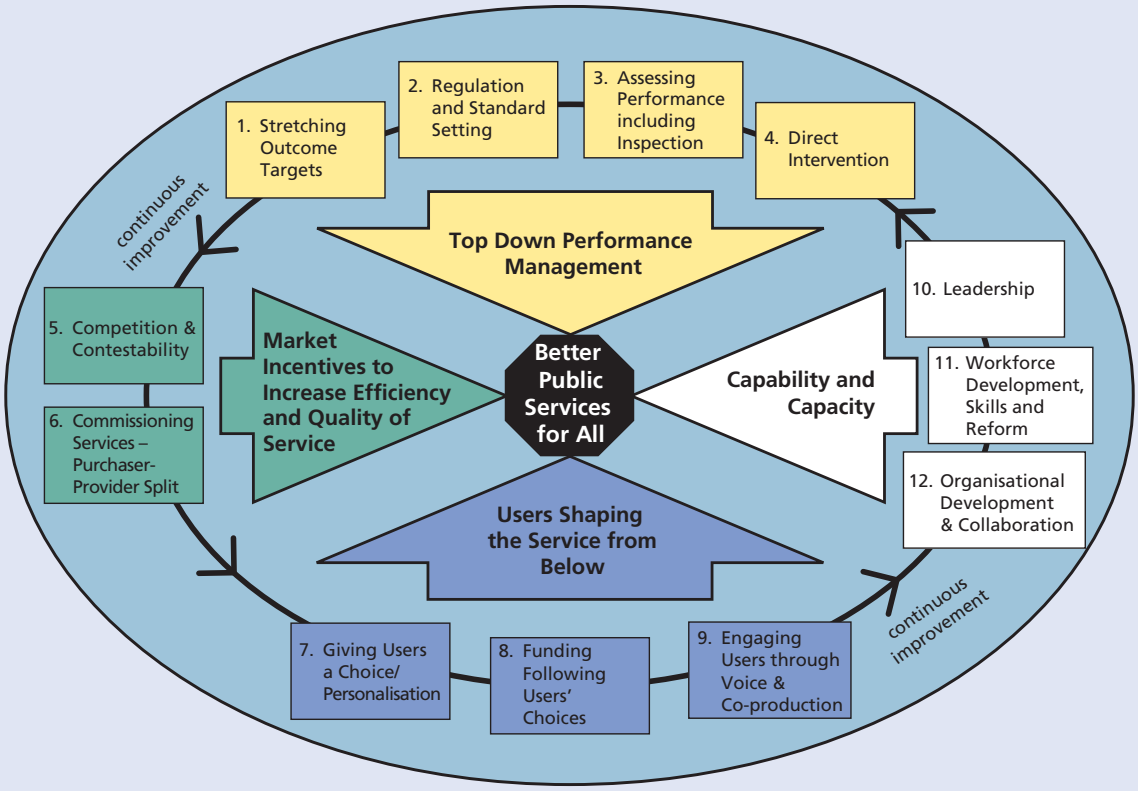
3. Performance assessment: the inspection and assessment of organisations with the aim of improving service performance by identifying failings and promoting best practice.

4. Direct intervention: engaging with or intervening in organisations identified as failing or needing assistance (usually following inspection).

Horizontal Pressure

5. Competition and contestability: creating incentives or removing barriers to encourage new providers to enter a service area (e.g. the abolition of School Organisation Committees).

Chart 4.1: The UK Government's Model of Public Service Reform: A Self-Improving System



6. Commissioning services, and separating purchasers and providers: separating the 'purchaser' from the 'provider(s)' of a service enables the purchaser to focus on getting the best service at the best price for the user and encouraging competition between providers (whether public, private or voluntary sector).

Bottom up Pressure

7. Giving users a choice/personalisation: making services more responsive by giving users the ability to decide where, when, by whom or how a public service is provided to them. Personalisation takes this a step further by enabling individuals to tailor a service to their specific needs.

8. Funding following users' choices: paying service providers per user or procedure (as opposed to giving a block grant based on historical need) to incentivise providers to offer services that encourage service users to choose them.

9. Engaging with users: describes the opportunities given to service users to express their opinions about the service and to have these views heard and acted upon. Individuals or communities may also become co-producers, i.e. either directly involved in delivering the public service concerned or 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).

Capability and Capacity

10. Leadership: supporting and motivating civil servants and public service workers through inspirational leadership.

11. Workforce development, skills and reform: effective workforce and pay strategies, investment in workforce development and skills and creating new roles to support public service professionals.

12. Organisational development and collaboration: providing public service organisations and their workers with the capacity to undertake their work effectively, including building new capabilities using IT; acquiring new skills in areas like procurement, strategic thinking, system design and commissioning; engaging customers and workers in the change process; and using networks through which organisations can collaborate, engage and learn from each other (e.g. specialist schools sharing best practice).

The right balance of pressures and support will vary between and within services depending on the characteristics of each service

Inevitably the model has to be tailored to the service concerned. It is not a one-size-fits-all proposition. Charts 4.2 - 4.4 below apply the model to three key public services – schools, hospitals and local policing – and show how the role of elements of the model needs to be varied from service to service. Table 4.1 gives additional details of the application of the model to each service.

The top down elements are very similar between the three services. All three:

- are driven by key nationally set PSA targets;
- have to adhere to certain nationally set standards: the National Curriculum in the case of schools, National Service Frameworks in the case of hospitals, and the assessment by the Home Office of each police force's performance and its comparative performance in relation to similar forces elsewhere in the country; and
- have well defined inspection and intervention regimes (through Ofsted, the Healthcare Commission and Her Majesty's Inspectorate of Constabulary (HMIC)).

There is also a great deal in common between the three services in terms of what has been done to support front-line workers and strengthen the capability and capacity of the services for the benefit of the user, including:

- strengthening leadership. 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. For example, a new Leadership Centre for Local Government and a National College for School Leadership have been set up;[91]
- workforce development, skills and reform, such as the introduction of more flexible workforce roles by: giving nurses the opportunity to carry out tasks like prescribing medicine, thus allowing doctors to concentrate on tasks where their skills are most needed; recruiting more teaching assistants to free up teaching staff; and introducing entirely new roles such as Community Support Officers to provide more visible policing and to help tackle low level crime, freeing up warranted police officers for more serious crime;

- organisational development and collaboration, such as facilitating the establishment of a range of federations, partnerships and collaboratives particularly in education, health and local policing. For example, specialist schools are required to collaborate with other schools.

The major differences are around competition and contestability and user choice: [92]

- in the case of schools and healthcare, individual user choice is perfectly feasible – but it is essential, for example, that individual users have access to robust information, advice and other support to make those choices. By contrast, individual user choice is manifestly not feasible in the case of local policing though local communities may be able to make collective choices at regular intervals about the level or types of community safety or local policing services they need;

- similarly, in the case of schools and hospitals, it is possible to envisage a plurality of providers (from the public, private and voluntary sectors) offering services to users and, provided funding follows users' choices, a competitive market should generally be possible e.g. in urban areas. In the case of local policing, on the other hand, competing providers will not be feasible, though at regular intervals local communities may be able to choose between different ways of achieving their community safety goals which could introduce some element of contestability into police services; and

- the characteristics of local policing suggest that the extension of user voice and engagement (through accountability to local communities) may be particularly important in this case in ensuring a more balanced set of performance pressures on the service.

There will be variation within, as well as among, services in what combination of pressures is best at sustaining performance improvement:

- when someone dials 999 for an ambulance the patient's need is for immediate access to effective emergency medical care in minutes to diagnose and stabilise their condition. In elective surgery, by contrast, there is scope for the patient to decide when and where the surgery takes place, and for providers

Chart 4.2: Schools

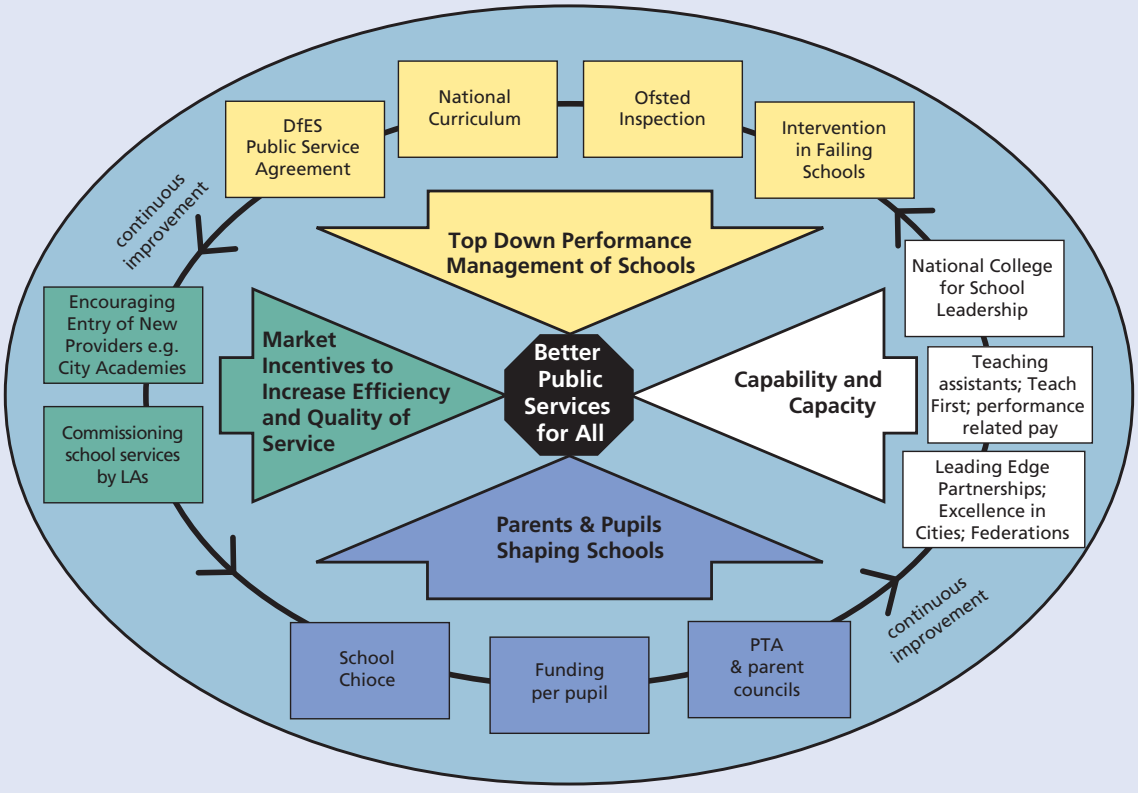


Chart 4.3: Hospitals

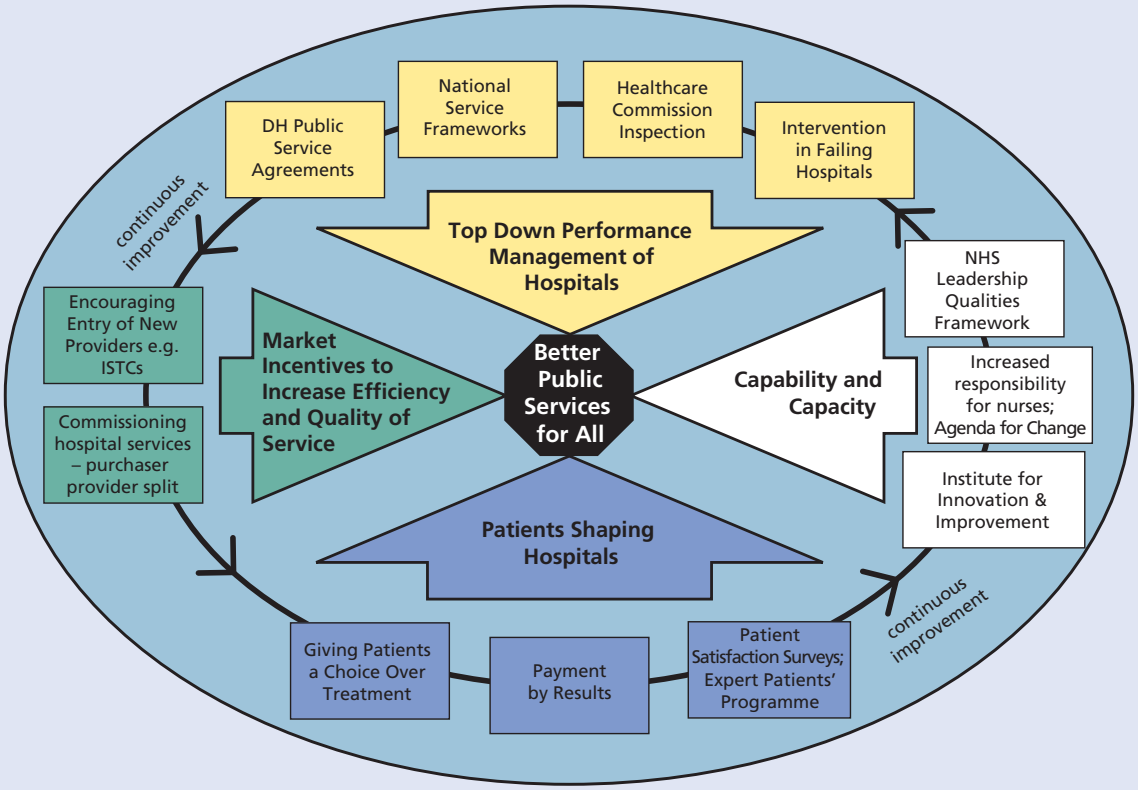
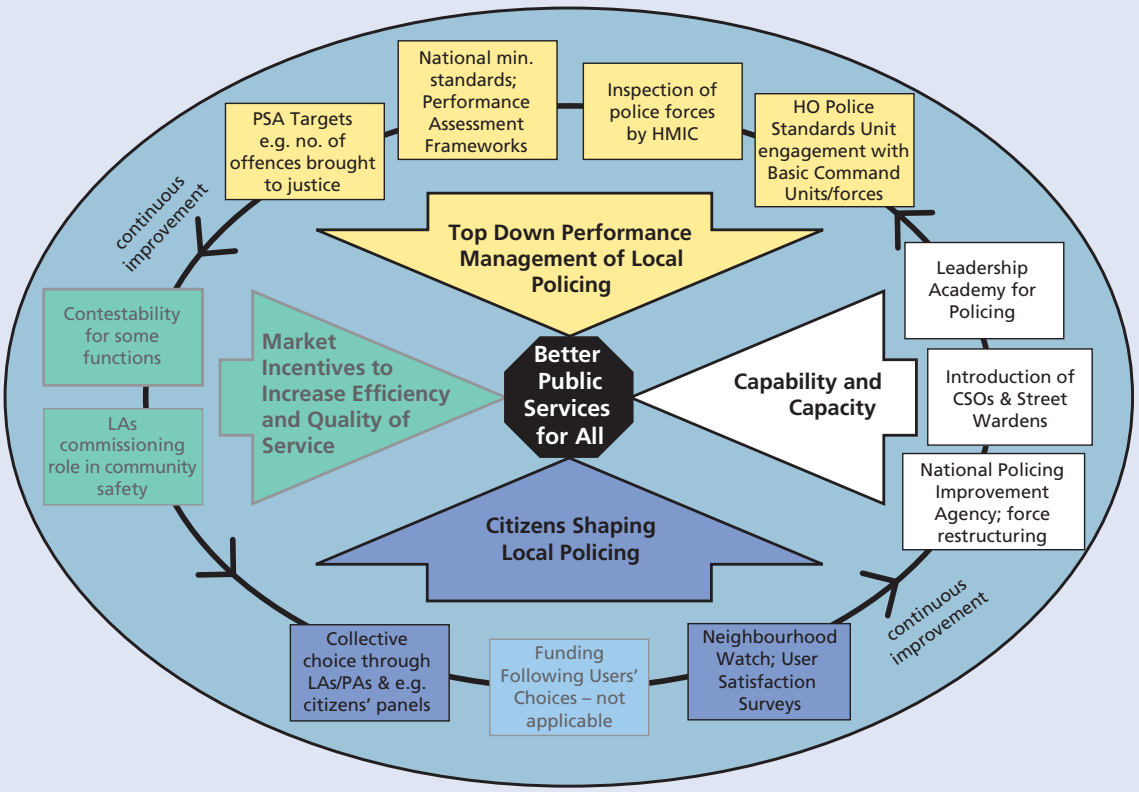


Chart 4.4: Local Policing



This discussion paper is not a statement of Government policy
Prime Minister's Strategy Unit, 2006.

to specialise in particular services. This will affect profoundly the role played by user choice and other pressures; and

- similarly, the scope for the average citizen to influence performance management of neighbourhood policing is not the same as that possible or appropriate for police investigation of organised crime where the extent to which the service can be 'opened up' to public scrutiny, the tier of government to which the police service should be accountable, and measures of success are all likely to be different.

Clarity is also needed about the role of different tiers of government

In applying the public service reform model in practice, clarity is needed about whether responsibility for designing and putting in place the system for any particular service should rest with central government, local government or some other tier (e.g. neighbourhoods) or some combination of two or more tiers (in which case the elements that each is, or should be, responsible for need to be defined).

Working from first principles, it is possible to develop criteria for determining what should be done at what level of government (see Box 4.1).

Other countries are implementing similar reforms

Many developed countries are facing very similar challenges to the UK and are adopting comparable approaches (see Box 4.2). A common theme is that government should play a strategic role (setting objectives, planning and designing systems of provision so they are responsive to users, commissioning services and building market capacity) rather than directly provide services. Increasingly, government's role is to 'steer' the boat rather than to 'row'[93].

The UK Government's public service reform model seeks to combine dynamic market forces and user choice with intelligent system design to achieve social justice and an improved quality of life for everyone. The following chapters spell out the details of the UK Government's approach in more detail.

Note: the following Chapters give more details on many of the below reforms and institutions.

Table 4.1: The UK Government's Approach to Public Service Reform – Reforms to Schools, Healthcare and Policing

	Top down performance management	**Competition & contestability**	**Choice & voice**	**Capability & capacity**
Schools	Public Service Agreements Common standards/regulation • National Curriculum • Literacy and numeracy strategies Inspection & reporting • Ofsted inspection regime • Department for Education and Skills (DfES) target & reporting regime • League tables (including value added measures) Intervention regime for failing schools	Diversity of supply side • Trust schools • Specialist schools • Academies • Federations • Expansion of successful and popular schools • National Schools Commissioner Reduced barriers to new entry • Abolition of school organisation committees • Competitions for new schools Separation of commissioning & provision • LA commissioning role	Choice of school • Funding follows choices Choice and access • Admissions Code • Choice advisers • School transport reforms Personalisation • Dissemination of best practice • Personalised learning e.g. Gifted and Talented programme Co-production • Parental engagement	Leadership • National College for School Leadership Workforce development, skills and reform • Raising Standards & Tackling Workload: A National Agreement • Training and Development Agency for Schools • Additional teaching assistants • Performance related pay • Planning, Preparation and Assessment Organisational development and collaboration • Leading Edge Partnerships • Excellence in Cities

Note: the following Chapters give more details on many of the below reforms and institutions.

Table 4.1: The UK Government's Approach to Public Service Reform – Reforms to Schools, Healthcare and Policing

	Top down performance management	**Competition & contestability**	**Choice & voice**	**Capability & capacity**
Hospitals	Public Service Agreements • Dept of Health targets Common standards/regulation • National Service Frameworks Inspection & reporting • Healthcare Commission performance assessment & annual healthcheck • Monitor regulating Foundation Trusts Intervention regime for failing trusts	Diversity of supply side/new entry • Foundation Trusts • Independent Sector Treatment Centres Separation of commissioning & provision • Practice-based commissioning • Commissioning at the Primary Care Trust (PCT) level	Choice of provider • Funding follows choices / Payment by Results • Choose & Book • Transport schemes • Patient Choice Advisors Choice of access • NHS walk-in centres • NHS Direct Co-production • Expert Patients Programme	Leadership • NHS Leadership Qualities Framework Workforce development, skills and reform • Agenda for Change • New primary care contracting – GMS etc. Organisational development and collaboration • National Institute for Innovation and Improvement • Clinical Governance Support Team • Improvement Foundation
Policing	Public Service Agreements Common standards • Police Performance Assessment Framework Inspection, regulation & reporting • HMIC inspection regime Intervention regime • Policing Standards Unit	• Increasing role for neighbourhood wardens etc. in delivering community safety	Citizen-focused Policing Programme • Neighbourhood policing • Local Policing Summaries Co-production • Community Safety Accreditation Schemes • Neighbourhood Watch schemes • Special constables • Citizens' panels	Leadership • Leadership Academy for Policing Workforce development, skills and reform • Workforce modernisation (e.g. Community Support Officers; Initial Police Learning & Development Programme) • Centrex Organisational development and collaboration • National Policing Improvement Agency (operational in 2007) • Force restructuring

Box 4.1: Criteria for Establishing the Role of Different Tiers of Government in Public Service Reform

There are four main criteria which can help decide the role to be played by different tiers of government. These may not point unambiguously in one direction when applied to a particular service, so a judgement may have to be made about the weight to be attached to each criterion. But they permit a systematic approach to be taken. These criteria are as follows:

(1) The geographical scope of the service and in particular whether it provides a national, regional, local or neighbourhood public good

Public goods (in the strict economic sense that those who do not pay for them cannot be excluded and the marginal cost of which is zero) range from services such as defence whose geographical scope is nationwide, to culture and the arts whose geographical scope is regional/city regional, and to community safety services whose geographical scope is local or at a neighbourhood level. The tier of government responsible for a service ought, unless one of the other criteria suggest otherwise, to reflect the economic characteristics of the service in question.

(2) The extent to which the preferences of users vary from place to place and whether there is a case for setting (national) minimum standards for equity or other reasons

All other things being equal the greater the variation in users' preference between areas, the stronger the case for leaving responsibility for that service to a lower tier of government. In some services, there may be concern about (excessive) variation in service standards between areas, e.g. because of fears that an unfair 'post code lottery' will then drive the quality of service users receive. This may then require national government to set minimum service standards for the major public services. But beyond these minima, the case for devolving standard setting to lower tiers of government and letting users decide locally will be strong.

(3) The extent to which there are synergies with other services

Where two or more public services work towards common or related goals, or serve the same client groups, it may make sense to bring together responsibility for these services at the same tier of government even if considered individually they might be assigned to different levels. For example, there are strong synergies between regional economic development and the learning and skills agendas. It makes sense for both sets of objectives to be set at the same level and the structure of Learning & Skills Councils now corresponds to that of the Regional Development Agencies.

(4) Cost-effectiveness

Decision-making should take place at the tier of government where it is done most cost-effectively. For example, development planning for local areas could not be delivered cost-effectively by central government. The centre sets the framework and the responsibility for the setting of planning objectives is then cascaded down through regional and local government. Value for money and cost-effectiveness considerations have also driven recent changes in the NHS and in relation to the organisation of procurement:

– *Commissioning a Patient-Led NHS* proposed consolidation of Primary Care Trusts in order to strengthen their commissioning power and deliver savings in procurement.

– *The Gershon Review* pointed the way to large scale savings through shared public sector procurement of common goods and services in central and local government.

Box 4.2: International Approaches to Public Service Reform

Despite national differences, the following examples show that there are similarities in the approaches that developed countries are taking to public service reform.

In the 1980s **New Zealand** introduced a broad range of market-based reforms across almost all public services – even policy advice – but the lack of safeguards resulted in increased inequalities in some areas (e.g. segregation in schools).

Australia has outsourced numerous key services including its employment services where there is now a contestable placement and case management market**.**

The United States extended UK-style performance-based accountability to all schools from 2001, including targets, league tables and swift intervention in the event of school failure – a system which has been successfully deployed in Florida.

Sweden has reformed its education and healthcare systems through greater involvement of the independent sector, the extension of user choice and the splitting of commissioners from providers.

This year, 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.

Similarly, **Germany** faced a significant (and illegal) deficit in 2003 in its statutory health insurance funds of €3bn. Within a year this deficit was turned round through the introduction of greater competition among providers which improved both quality and efficiency.

Sources: Fiske and Ladd *When Schools Compete: A Cautionary Tale,* 2000; Lofgren, *The Swedish Health Care System: Recent Reforms Problems and Opportunities*, Fraser Institute Occasional Paper 59, 2002; Ahlin *Does School Competition Matter? Effects of a Large Scale Choice Reform on Student Performance*, Uppsala University, 2003; US Department of Education, www.ed.gov/nclb; *The User of Contestability and Flexibility in the Delivery of Welfare Services in Australia and the Netherlands,* DWP, 2005; Speech by the Prime Minister to the New Health Network, 18 April 2006, www.number10.gov.uk

Chapter 5
Targets, Regulation, Performance Assessment and Intervention

Chapter Summary

Top down performance management in the public sector currently consists of four key elements, the balance of which may differ between services:

- **objectives, targets, and performance indicators, which set specific ambitions for improvement in priority areas of public service;**
- **regulation, including the setting of minimum service standards, which specifies the quantity, quality and type of service users should receive;**
- **performance assessment, including inspection, to monitor and assess whether providers are meeting those standards; and**
- **intervention mechanisms to tackle failing or under-performing providers.**

Top down reforms have been highly successful since 1997 in improving outcomes in England in key public services such as education and health.

But top down performance management is not without its limitations. It is therefore important that it is designed in a way that maximises performance improvements and minimises the risks. Top down performance management may:

- **create unwarranted bureaucracy;**
- **stifle innovation and local initiative;**
- **create perverse incentives; and**
- **de-motivate front-line professionals.**

However, none of these limitations is insurmountable. The effectiveness of top down performance management can be enhanced by:

- **ensuring that the overall mix of different top down performance management levers is appropriate and coherent for specific service areas;**
- **reforming and decentralising targets; and**
- **reducing the burden of regulation and streamlining performance assessment through, for example, more self-assessment, the merger of inspectorates and other measures.**

Top down performance management regimes have been adjusted in recognition of these issues. Above all, there is also now recognition that top down targets, regulation and performance assessment can only be one part of a 'self-improving' system.

Top down performance management is a key element of the 'self-improving' model of public service reform

Top down performance management exerts pressure for improvement on providers of public services through measures imposed from above (usually central government). These measures typically include: the setting of challenging performance targets for service providers; regular monitoring of performance data and indicators; regulation of activities; performance inspection; and external interventions to tackle failing or under-performing providers. The pressure is intended to motivate management and staff delivering front-line services and, in some respects, to replicate the internal management structures and processes found in well-managed private sector companies.

However, such top down performance management is not without potential limitations and needs to be carefully applied if these are to be avoided.

This chapter therefore aims to:

- review the main elements of top down performance management;
- set out the main potential benefits of a top down approach;
- review the extent to which the top down approach has driven performance improvement in the public services in practice; and
- consider the ways in which the potential downsides of a top down approach can be avoided, including clearly establishing the limits to such an approach.

The top down approach to public service reform comprises four elements

The four key elements of a top down approach, highlighted in Chart 5.1, are:

- targets. These set specific ambitions for improvement in public services and provide publicly available performance information allowing comparisons of the performance of different providers;
- regulation. This includes the setting of (national) minimum standards – which specifies the quantity, quality and/or type of service providers should offer users;
- performance assessment, under which providers are monitored and inspected and their performance assessed as to whether they are providing an acceptable level and quality of service. Performance assessment provides triggers for intervention to tackle poor performance; and
- intervention mechanisms, which are used to tackle failing or under-performing providers.

Each element can not only drive improvements in the efficiency, effectiveness and quality of public services but can also help to ensure that all groups, including the least well off, benefit from the resulting improvements.

Targets can be used to set specific ambitions for improvement in public services

National performance targets for the main public services are set out as part of the Public Service Agreements (PSAs) produced at the culmination of each Spending Review.[94] PSAs (including associated targets) for public services, and all other government activity, are reviewed and updated in each Spending Review. The forthcoming 2007 Comprehensive Spending Review will be a further opportunity to continue these improvements.

PSAs provide:

- a clear statement of what the Government is trying to achieve;
- a clear sense of direction;
- improved public accountability;
- a focus on delivering results; and
- a basis for monitoring what is and isn't working.[95]

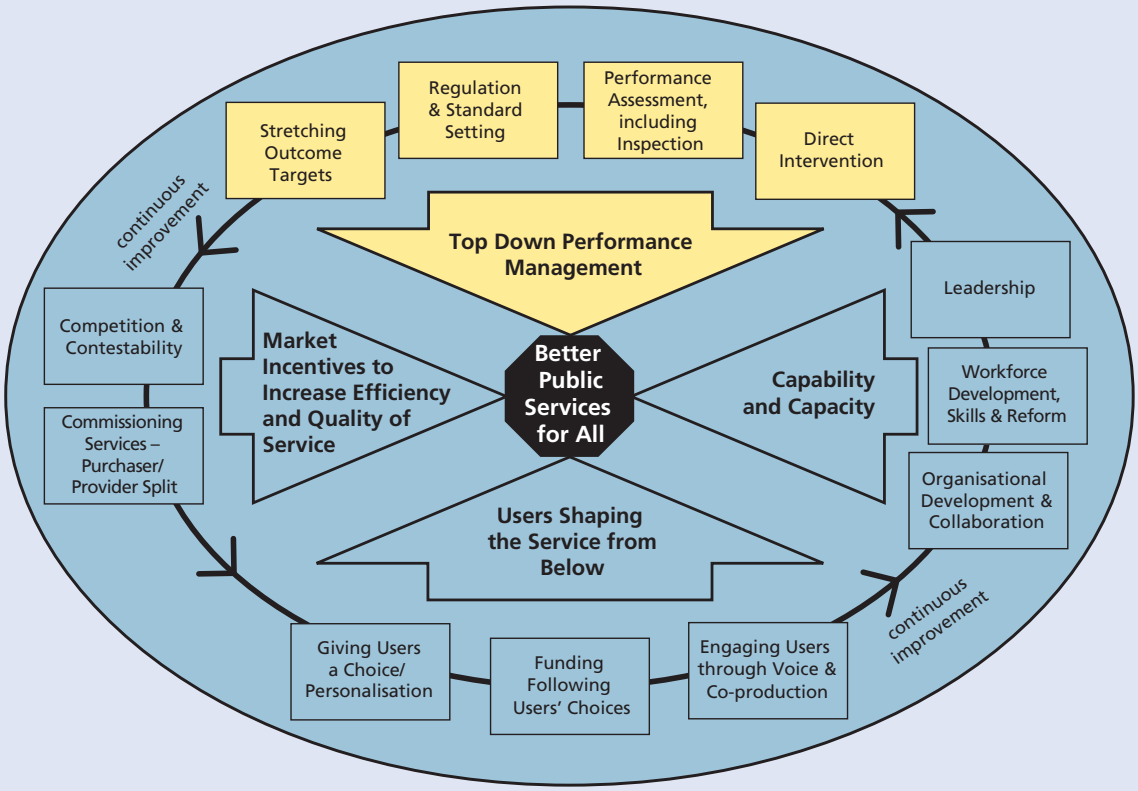
PSAs can also provide 'shock therapy' to force poor performers to improve.[96]

In total the 2004 Spending Review set out some 110 targets for all areas of government activity over the period 2005-06 to 2007-08.[97] Examples of the targets set for education, health and social care and criminal justice are set out in Box 5.1 below.

Box 5.1 shows that targets may seek to:

- improve the efficiency and effectiveness of a service, e.g. the target to increase the number of crimes for which an offender is brought to justice;

Chart 5.1: The Top Down Approach



Box 5.1: Examples of PSA Targets for the Main Public Services in the 2004 Spending Review

Education

Objective: Raise and widen participation in higher education.

Target: By 2010, increase participation in higher education towards 50% of those aged 18 to 30 and also make significant progress year on year towards fair access, and bear down on rates of non-completion.

Health

Objective: Improve health outcomes for people with long-term conditions.

Target: Improve health outcomes for people with long-term conditions by offering a personalised care plan for vulnerable people most a risk.

Criminal Justice

Objective: More offenders are caught, punished and stop offending, and victims are better supported.

Target: Improve the delivery of justice by increasing the number of crimes for which an offender is brought to justice to 1.25 million by 2007-08.

Source: *Stability, Security and Opportunity For All: Investing for Britain's Long-Term Future*, HM Treasury, 2004.

- improve the quality of a service, e.g. the target to provide a personalised care plan for vulnerable people; and

- ensure the above improvements benefit all, e.g. the target to raise and widen participation in and access to higher education.

In other words, targets are about equity as well as efficiency and effectiveness.

In addition to national PSAs, targets and performance indicators are also set at a local level. For example, the 14 health PSAs translate into 44 targets in the Department of Health's planning and priorities guidance, and then into 200 targets in assorted NHS organisations.[98] Sometimes it is relatively straightforward to simply cascade national targets down to a local level through the setting of local targets. For example, the Department for Environment, Food and Rural Affairs (Defra) has a target to enable at least 25% of household waste to be recycled or composted by 2005-06, with further improvements by 2008.[99] Each local authority is then set individual targets by Defra to help achieve this objective.

But, in other cases, the relationship between national and local targets will be more complex and careful design will be needed if national targets are to be achieved. For example, in the 2004 Spending Review, the Department of Health (DH) and the Department for Education and Skills (DfES) were set a national target to reduce the under-18 conception rate by 50% by 2010 as part of a broader strategy to improve sexual health.[100] In this case, a simple cascading down of targets to local authorities is not possible since a number of different organisations at the local level will have a role to play in achieving the overall targets (notably local authorities' education and social services departments and Primary Care Trusts). In these cases, it is necessary to have joint accountability for progress.[101]

More generally, the exact nature of the relationship between national and local targets will depend on a range of factors, such as the similarity of users' preferences across the country, and the extent to which local professional judgements will need to be made.[102]

Regulation, including the setting of minimum standards, can be used to specify the quantity, quality and/or type of service that providers should offer users

From the perspective of public service provision, two of the most important elements of regulation are quality regulation (through, for example, the licensing of providers) and the setting of minimum standards (through, for example, health and safety requirements).

These aim to:

- safeguard and/or raise the quality of public service provision; and

- promote equity in the provision in public services by helping to ensure that everyone can access at least the minimum standard of provision irrespective of their income or where they live or some other characteristic.

In general, regulation and the setting of minimum standards will be appropriate where people expect a similar standard of service across the country and providers have good knowledge about the best way to achieve the outcomes specified in the regulations. Three examples of this are set out below:

- the literacy and numeracy strategies. Introduced in 1998 and 1999 respectively, the literacy and numeracy strategies required primary schools to provide a structured lesson each day on both literacy and numeracy for reception years and Key Stages 1 and 2 (i.e. from age one to six). Their introduction was based on evidence from the Literacy and Numeracy Task Forces that found a coherent approach to the teaching of literacy and mathematics was the major driver of standards of achievement.[103] In 2003 the strategies were amalgamated into a single Primary National Strategy which also encourages teachers to interpret flexibly guidance on organisation and structure of lessons. Literacy and numeracy performance of children leaving primary school has subsequently improved: since 1998 the number of pupils reaching the expected level in English at age 11 has risen by 14 percentage points to 79% in 2005 and the number reaching the expected level in maths at that age has risen 16 percentage points to 75% in 2005;

- National Service Frameworks. Introduced in 1998, National Service Frameworks specify minimum standards across a number of health service areas, with the aim of reducing variations in performance in healthcare, and raising the quality in specific service areas. For example they introduced national standards for treatment of coronary heart disease for the first time, helping to reduce deaths by heart disease substantially. They are discussed in more detail in Box 5.2; and

Box 5.2: Setting National Minimum Standards in Healthcare – National Service Frameworks

What are National Service Frameworks?

The Department of Health has established a series of National Service Frameworks (NSFs) covering coronary heart disease, cancer, paediatric intensive care, mental health, older people, diabetes, long term conditions, renal services, and children.

The NSFs, which started in 1998 as part of a rolling programme, set out long term strategies for improving care and set out measurable goals to be achieved within set time frames. Specifically NSFs:

- set national standards and identify key interventions for a defined service or care group;
- put in place strategies to support implementation;
- establish ways to ensure progress within an agreed time scale; and
- form one of a set of measures to raise quality and decrease variations in service, introduced in *The New NHS* and *A First Class Service*. *The NHS Plan* re-emphasised the role of NSFs as drivers in delivering the Modernisation Agenda.

Each NSF is developed with the assistance of an external reference group which brings together health professionals, service users and carers, health service managers, partner agencies, and other advocates to engage the full range of views.

How do they work in practice? The case of coronary heart disease

There were no national standards for the treatment of coronary heart disease in 1997, despite it being the biggest cause of premature death in the UK. There were also huge variations in how the disease affected different social groups – men of working age in the lowest social class being more than 50% more likely to die of the disease than men in the overall population. There were also variations in treatment and services across the country.

To tackle these problems, the Government published the National Service Framework for Coronary Heart Disease in 2000. It lays down national standards for prevention, treatment and care. **Heart operations are now up by over two thirds, the use of cholesterol-lowering drugs has increased by around a third each year since 2000, and there were 15,300 fewer deaths from coronary heart disease in 2004 than in 1997.**

Sources: *The New NHS: Modern, Dependable*, Department of Health, 1997; *A First Class Service: Quality in the NHS*, Department of Health, 1998; *The NHS Plan: A Plan for Investment, A Plan for Reform*, Department of Health, 2000; *Creating the New NHS*, Prime Minister, 24 April 2006.

- national standards for childcare. The 14 standards, published in 2003, represent a national baseline of quality below which no provider (public, private or voluntary sector) may fall, covering issues from the suitability and qualifications of the carer to the adequate provision of food and drink for the children. Ofsted inspects childcare providers to ensure that they are complying with these standards. The criteria for how the outcome could be achieved differ according to the type of provider (e.g. child-minding, full day care or crèches). By March 2005 almost half of childcare provision was judged as "good", with the overwhelming majority of the remainder at least "satisfactory".[104]

Performance assessment can be used to gauge whether service providers are delivering an acceptable level and quality of service

Regulation sets the standards which service providers must adhere to. Performance assessment provides a judgement about providers' performance against these standards. This can take many forms including, for example, formal inspection of the provider, monitoring of key performance indicators, and engaging in regular self-assessment and/or structured peer reviews.

Performance assessment varies by sector, but will typically involve the following elements:

- gathering objective information on whether providers are meeting quality standards;
- making that information publicly available to help push up standards – by motivating staff, by improving accountability to users, and helping users make better informed choices between providers; and
- depending on the resulting assessment of performance, triggering some intervention to tackle failure or under-performance.

Box 5.3 gives details of the inspection regimes for schools, local government, healthcare, policing and social care.

Intervention mechanisms can be used to tackle failing or under-performing providers

Where inspection shows that providers are not meeting their targets or minimum standards of service, intervention mechanisms will be needed to address the problems identified. The form and severity of these interventions will depend on whether the problem is one of fundamental failure, rectifiable under-performance or coasting performance (schools taking advantage of, for example, a well-off school intake in a prosperous area). In some of these cases (most notably closure), further questions will arise – such as how to minimise disruption to the users of the service, the best way to deal with the treatment of assets, and redundancy payments.

A failure regime model therefore serves two purposes: (i) to provide incentives for providers not to fail and (ii) to turn around or speed up exit of poorly performing providers.[105] A key issue for both of these is speed of intervention.

Box 5.4 sets out the intervention mechanisms currently available in some of the main public services: schools, healthcare and local government. Box 5.5 sets out the intervention mechanisms used to deal with poor performance in the US schools system.

Box 5.3: Inspection Regimes in Schools, Local Government, Health, Policing and Social Care

The **Office for Standards in Education (Ofsted)** was established in 1992 with the objective of providing parents with up to date information about the performance of their local schools. Its role has subsequently been expanded to cover the inspection and regulation of childcare, schools, colleges, children's services, teacher training and youth work. School inspections are now short and focused, with inspection teams taking no longer than two days in the school. Dialogue with senior managers in the school plays a central part. The school's self evaluation provides the starting point for inspectors, and account is taken of the views of pupils, parents and other stakeholders. Inspections result in a written report covering areas such as the school's achivement and standards, quality of provision, and leadership and management. There is a three year cycle of inspection for schools and childcare.

The **Audit Commission** carries out Comprehensive Performance Assessments (CPAs) of English councils. CPAs were introduced in 2002 and include an assessment of a council's use of resources, an annual service assessment (to assess how well local services such as social care and housing are delivered), and a corporate assessment (focusing, for example on community leadership and engagement with the community). These three areas are used to give the local authority an overall score – which now range from zero to four stars. Recent changes to the inspection system include an assessment of the authority's direction of travel – for example whether it is "improving well" (65% of authorities) or "not improving adequately" (1%).

The **Healthcare Commission** was created in 2003 to promote and drive improvement in the quality of healthcare and public health. The Commission inspects healthcare organisations and rates NHS trusts against performance targets. In March 2005 the Healthcare Commission launched a new assessment mechanism known as the Annual Healthcheck, which has replaced the previous star ratings system. The Annual Healthcheck will still give NHS Trusts an overall rating, but will assess healthcare organisations against a broader range of standards and will reduce the burden of inspection by focusing on areas of concern and making better use of available information.

Her Majesty's Inspectorate of Constabulary for England and Wales (HMIC) has been operating since the mid-19th century. It is tasked with inspecting police forces in England and Wales. Its central aims are to ensure that performance is improved, good practice is spread, and that standards are agreed and achieved. The Police Performance Assessment is made up of HMIC's assessment of 26 key policing areas, and the Home Office's analysis of 32 performance indicators. Police forces are graded in each policing area from excellent to poor and are assessed on whether they are improving or not.

The **Commission for Social Care Inspection (CSCI)** was launched in 2004 in order to create a more joined-up approach to the inspection of social care services in England. CSCI has responsibilities for inspection, registration of care providers and handling of users' complaints.

Sources: Ofsted website (www.ofsted.gov.uk); *Assessment for Improvement*, Healthcare Commission, 2005; CSCI website (www.csci.org.uk); *CPA: The Harder Test*, Audit Commission, 2005; *The Role of Her Majesty's Inspectorate of Constabulary*, HMIC, 2006.

The use of these top down mechanisms of performance management has been highly successful since 1997 in improving public service outcomes in England

The ultimate test of whether a top down approach to performance management has brought benefits is whether public services have seen improvements. It is of course far from straightforward to establish causally how and to what extent specific top down reforms have contributed to observed improvements in public services. Nevertheless, the evidence drawn from education and healthcare strongly suggests that improvements have occurred at a time when the top down performance management regime has been strengthened.

In education …

- Ofsted reports the proportion of good or excellent teaching in primary schools rising from 45% in 1997 to 74% in 2004-05, and from 59% to 78% in secondary schools. The proportion of badly-taught lessons has been halved;[106]

- since the introduction in 2001 of the Key Stage 3 strategies for strengthening teaching and learning across the curriculum, many more 14 year olds reach the expected standards in English and in maths – in 2005, 54,000 more 14 year olds achieved the target level for their age in English compared with 2001, and 48,000 more did so in maths compared with 2001[107];

Box 5.4: Intervention Mechanisms for Dealing with Poor Performance in Public Services in England

Schools: The intervention mechanism for schools depends on the seriousness of the failure/under-performance identified by Ofsted. In the most serious cases – where Ofsted considers that a school is failing to give learners an acceptable standard of education, and when the persons responsible for leading, managing or governing the school are not demonstrating the ability to achieve the necessary improvement – a school will go straight into special measures after an adverse Ofsted report. It is given one year to demonstrate real progress in tackling its problems. If it fails, the presumption will be that the school will be closed with a replacement school or Academy opened on the same site. In other cases a school will be given a one year "notice to improve". If it still fails to make progress it will be put into special measures.

Since 1997, over 1,400 failing schools have been successfully turned around and a further 200 closed as a result of the triggering of these intervention mechanisms. National Audit Office (NAO) analysis shows that the number of schools in special measures halved between 1998 and 2005.

Local Government: If a local authority is rated by the Audit Commission in the Comprehensive Performance Assessment as only meriting one or no stars and is considered to be "not improving" or "not improving adequately", the Department of Communities and local government will undertake formal engagement proceedings with the authority in question. Engagement will usually involve the authority producing a recovery plan within eight weeks that sets out details of the measures it will take to achieve rapid improvement which is then overseen by a Government Monitoring Board. In extreme cases, the Department has the legal power to ensure that the local authority takes actions to improve its performance – which could include seeking external support or obtaining an external supplier of services.

Of the 15 local authorities that underwent engagement with the Department following the first CPA assessments in 2002, only one is now in the lowest CPA category.

Healthcare: The Department of Health has set up task forces for each of its priority areas (such as cancer waits and MRSA). On the basis of this work the Department's Recovery and Support Unit can instruct an intensive support team to work with individual trusts that need support in these specific priority areas. Each intensive support team brings additional expertise and challenges hospitals to develop an improvement plan with specific milestones demonstrating recovery. While these teams have targeted priority areas, the Performance Support Team is tasked with improving across-the-board performance in failing acute hospital trusts. It works with eight of the Trusts facing the largest challenges on an on-going basis and, in contrast to the intensive support teams, across different service areas with the aim of sustainable improvements in Healthcare Commission ratings.

Sources: *Every Child Matters: Framework for the Inspection of Schools in England*, Ofsted, 2005; *Improving Poorly Performing Schools in England*, NAO, 2005; *Higher Standards, Better Schools for All: More Choice for Parents and Pupils*, DfES, 2005; Department of Health; *Supporting Improvement in Local Authorities: A Joint Statement by ODPM*, the Audit Commission and the LGA; Department of Health.

Box 5.5: UK-Style Accountability in US Education

In the US education system there has traditionally been little choice of school for most children (places are normally allocated on the basis of where pupils live) and schools have had fewer requirements to be formally accountable to parents or the State for pupil performance than in the UK.

Some have argued that the No Child Left Behind Act passed by Congress in 2001 was influenced by UK top down accountability measures. Under No Child Left Behind each US State must assess student progress in reading, maths and science by 2007/8. These results are circulated to parents in annual report cards on school districts and individual schools.

If schools do not meet what a State defines as "Adequate Yearly Progress", intervention is triggered. Under-performance for two consecutive years will result in pupils being offered a choice of alternative public school in the district. If the Adequate Yearly Progress target is not met for five consecutive years, the school will be restructured, which can include replacing staff and turning over management of the school to the State or a company with a record of effectiveness.

No Child Left Behind is still in the implementation stage, so evaluation its long-term impact is not yet available. However, evidence from the pre-'No Child Left Behind' Florida system suggests enhanced accountability can raise performance, finding that schools which were noted to be failing (and therefore had their pupils reallocated to non-failing schools) made significantly greater progress in pupils' test results the next year than those judged not to be failing.

Source: http://www.ed.gov/nclb/landing.jhtml

- there have been big improvements at GCSE, with 50% more young people gaining five good grades in inner London, and faster than average improvements in specialist schools;[108] and

- most schools and LEAs have agreed minimum targets for pupil attainment and these are usually being achieved. In 2005 there were only 105 secondary schools where less than a quarter of pupils gain five good GCSEs. In 1997, there were 616. There has been a similar improvement in the number of non-selective schools in which at least 70% of pupils get five good GCSEs (from 83 in 1997 to 515 in 2004-05).[109]

In health …

- outcomes are improving. 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,[110] and to achieve a target to reduce mortality from cancer by 20% in the under 75s by 2010;[111] and

- long hospital waiting times have fallen drastically; maximum waiting times for operations have been halved from 18 months in 1997 to 9 months in April 2004.[112]

Top down performance management is not without its limitations. It is therefore important that it is designed in a way that maximises performance improvements

Some of the key risks associated with top down approaches are set out below. They:

- create unwarranted bureaucracy. The pursuit of targets and associated inspection regimes may make informational and other demands on management and front-line workers that take up disproportionate amounts of time that might otherwise be used more productively. A Government report on further education, for example, found evidence of excessive, unco-ordinated data demands flowing from audit, monitoring and inspection requirements;[113]

- limit space for innovation and foster a one-size-fits-all approach which fails to reflect individual or local needs. For example, some further education colleges have argued that the National Qualifications Framework (which sets out a classification for different levels of qualifications, showing how skills and knowledge relate to job roles) does not provide the most appropriate curriculum offer for young learners.[114] Ofsted found in 2002 that the literacy and numeracy targets narrowed the focus of teaching and resources towards English and mathematics at the expense of other subjects. The amount of time for foundation subjects – geography, history, design and technology, art and music and

physical education at Key Stage 2 had been cut by about 10% between 1998 and 2002. In 2001, half of the timetable was given over to English and mathematics.[115] This is not necessarily the wrong outcome, given the need to raise basic standards in English and maths and the role of these subjects as 'gateways' to much of the rest of the curriculum. However, it clearly carries risks;

- create perverse incentives. For example, it has been argued that the target for an appointment to see a GP within 48 hours led to some practices not taking advance bookings;[116] and

- dis-empower professionals working in front-line delivery such as teachers and nurses. Some have claimed, for example, that "unachievable" targets can undermine staff morale, and that high percentages of recently-departed staff in the education and health sectors blamed targets and related bureaucracy for leaving.[117]

None of these potential limitations of top down performance management are insurmountable

The limitations of top down performance management can be addressed in the following ways:

- by balancing top down performance management with horizontal pressure from competition and contestability, bottom up pressure from choice and voice, and measures to increase the capacity and capability of front-line public service workers to deliver improvements through more effective leadership, investment in skills and technology and other ways. Contestability between providers, user choice and/or inspirational leadership are all powerful ways of driving performance without the need for so much top down control and bureaucracy;

- by expressing targets as outcomes to be achieved rather than as inputs or outputs. Such targets leave professionals free to select the most appropriate means of delivering the target reducing the risk of perverse effects;

- by giving greater freedoms (earned autonomy) to high performing providers and focusing regulation, inspection and associated interventions on poor performers; and

- by reducing the number of overlapping inspectorates and by taking a more risk-based approach to regulation.

The effectiveness of top down performance management can be enhanced by reforming and decentralising targets including …

Since their introduction in 1998, PSA targets have been reformed in a number of ways to enhance their effectiveness and to reduce the potential downsides associated with them.[118]

… setting fewer, simpler PSA objectives and targets…

There has been a significant move towards fewer, simpler PSA objectives and targets. For example, the Home Office has changed its approach towards setting objectives: it adopted seven in 2002 but only five in 2004. The new objectives are also more concise. A good example is the contrast between Objective III in the 2004 SR and Aim 5 in the 2002 Spending Review:[119]

> "Objective III, 2004: Fewer people's lives are ruined by drugs and alcohol."
>
> "Aim 5, 2002:
>
> – to reduce the availability and abuse of dangerous drugs, building a coherent, co-ordinated drugs strategy covering education and prevention, supply and misuse;
>
> – to focus on effective intelligence and detection, preventative measures at local level, community regeneration and – with other relevant Departments and agencies – the provision of necessary treatment and rehabilitation services;
>
> – to reduce the incidence of drugs in prisons and provide appropriate follow-up and remedial services."

The change in approach towards setting objectives has been matched by similar changes in respect of PSA targets. There are fewer targets than in the past. There are seven Home Office 2004 PSA targets compared with ten in the 2002 Spending Review and eighteen in the 2000 Spending Review – a pattern that has been replicated across Whitehall. Overall, there has been a reduction in the number of targets, from 250 in 1998 to 110 in 2004.[120]

…introducing more outcome-based targets…

Second, there has been a move towards more outcome-based targets, which focus on what is to be achieved

(e.g. reducing health inequality) rather that what is being used to achieve it (e.g. numbers of doctors). An independent study analysing the 1998 PSAs found that only 11% were outcome targets,[121] while a separate study, looking at the PSAs for the period 2001-2004, found that 67% of them were outcome-based targets.[122]

Although outcome-based targets are harder to define, they reduce the risk that priorities are distorted because they focus on final end-point improvements (such as reduction in mortality rates) rather than intermediate measurable outputs (such as the number of new patients seen, which can lead to incentives for hospitals to cancel follow-up appointments to enable the target to be met).

The National Audit Office has described the move to more outcome-based targets as putting the UK among the world leaders in performance measurement practice.[123]

The increasing interest in the use of customer/citizen satisfaction measures also reflects a stronger focus on measuring ultimate outcomes:

- customer satisfaction indicators increasingly feature within PSA targets. In the 2002 Spending Review, seven different departments had PSA targets explicitly linked to customer satisfaction measures, several of which were rolled forward to the 2004 Spending Review.[124] For instance, the 2002 Spending Review included a target for the Crown Prosecution Service to increase year on year the satisfaction of victims and witnesses with the Criminal Justice System;[125]

- the recent *Further Education White Paper*[126] proposed a performance indicator to judge colleges' performance against learners' satisfaction; and

- the Audit Commission's corporate assessment methodology for local authorities places emphasis on how well councils engage with their service users and wider communities and what difference this engagement makes in practice. The evidence base for this part of the assessment includes measures of satisfaction with a council and with its individual services.

…introducing more cross-cutting targets…

Third, the 2000 Spending Review introduced cross-cutting targets that aim to break down artificial barriers in policy-making and delivery, using the PSA process to make departments jointly responsible for delivering some key policy objectives. One example of this is shown in Chart 5.2 below, which shows the different PSA targets that government departments were set in order to achieve the overall aim of reducing the number of young people at risk of adverse outcomes.

The number of cross-cutting targets under the 2004 Spending Review varies by department, for example DfES shares five of its 14 targets with other government departments (with the Department for Work and Pensions, the Department of Health, and the Department for Culture Media and Sport), while Defra shares three of its nine targets (with the Department of Trade and Industry and the Department for Transport).[127]

… introducing more floor targets…

Fourth, floor targets were introduced in 2000 with the aim of promoting minimum standards for all and narrowing the gap between disadvantaged groups or areas and the rest of the country, as illustrated by the Defra 2002 floor target to:

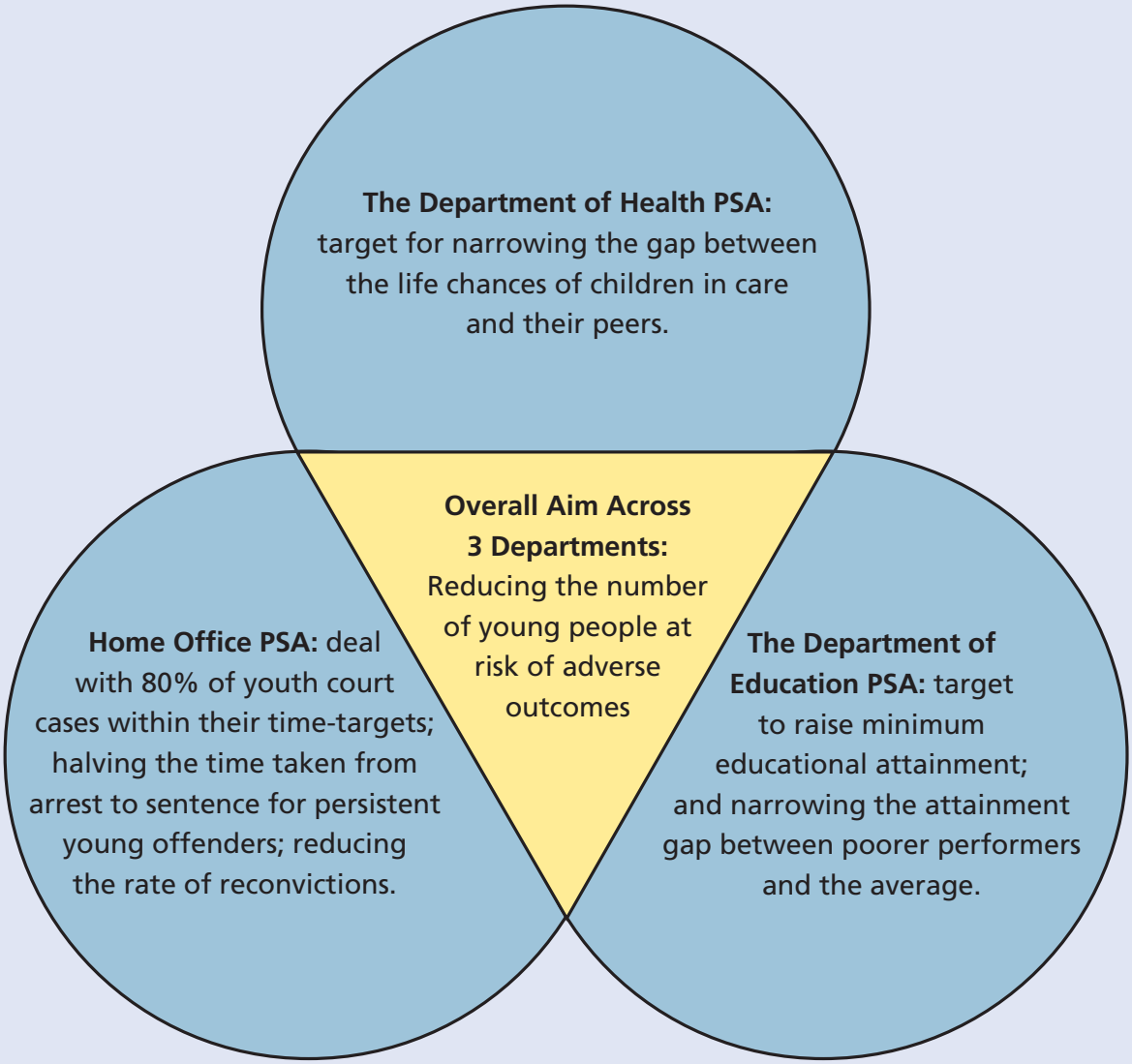
> Reduce the gap in productivity between the least well performing quartile of rural areas and the English median by 2006, and improve the accessibility of services for rural people (Defra Target Four).[128]

The 2002 Spending Review listed 17 floor targets, which cut across nine government departments.[129] The 2004 Spending Review re-emphasised the need for cross-Government working and the need to narrow the gap between the most deprived neighbourhoods and the rest of the country in six key areas – health, education, housing, worklessness, crime and liveability. The 2004 Spending Review also refined and strengthened the list of floor targets.[130]

…decentralising target setting…

Fifth, there has been an emphasis on greater decentralisation of target setting, in particular through the Local Public Service Agreements (LPSAs), and more recently with Local Area Agreement (LAA) targets. The original LPSAs were negotiated between central and local government, reflecting both national and local priorities, but subsequent agreements have more clearly focussed on local priorities. LAAs, which by 2007 will be in place for all top tier local authority areas, now incorporate LPSAs as a reward element. LAAs are broader than LPSAs, and set out priority outcomes and targets for the locality agreed between central government and the local authority and their partners on the Local Strategic Partnership. They are based around four main spending blocks – Children and Young People, Safer and Stronger

Chart 5.2: An Example of a Cross-Cutting Target, Introduced in the 2000 Spending Review



Communities, Healthier Communities and Older People and Economic Development and Enterprise – providing localities with more flexibility to use funding to meet local priorities.

…giving greater autonomy to good providers…

Top down performance management through target setting, regulation and inspection has been increasingly focused on lightening the burden for good performers. The prospect of a less onerous regime can strengthen incentives for better performance whilst also helping to ensure that the benefits of top down approaches outweigh the costs.

Examples of such earned autonomy include:

- reduced monitoring and reporting requirements for top tier local authorities, and increased flexibilities in the use and management of central funding;
- opportunities for well-managed schools to apply for greater freedom from the National Curriculum and greater flexibility over teachers' pay and conditions. Ofsted has recently completed a consultation on an even lighter touch inspection regime for high performing schools;[131]
- greater freedom for public service managers to make

Box 5.6: Greater Freedom for Public Service Managers – the Case of Workforce Reform: CSOs, Nurses and Teaching Assistants

Community Support Officers (CSOs) were introduced in 2002. They are partially warranted police staff who may have a range of powers delegated to them by Chief Constables. For example, 90% of forces have given CSOs powers to combat low-level crime and anti-social behaviour without having to call on police officers. There are now 6,000 CSOs and the Government has committed to there being 24,000 by 2008.

Nurses are being given increased responsibilities in areas such as referral to hospitals and prescribing medicine. For example, after achieving the necessary qualification, specialist nurses running diabetes and coronary heart disease clinics will be able to prescribe drugs for their patients, taking pressure off GPs and helping to improve the speed and availability of care for patients.

Teaching Assistants offer valuable classroom support to teachers. The Government has substantially increased the funding for and numbers of teaching assistants – of which there are now 150,000 in the UK (twice as many as there were in 1997). Evidence assembled by Ofsted suggests that the quality of lessons with teaching assistants is better than those without them. For example, results from the 2002-03 Teaching Assistants in Year 6 Pilot found that Key Stage 2 results rose by 3% in English and by 2% in mathematics.

Sources: *Nurse and Pharmacist Prescribing Powers Extended*, Department of Health, 2005; *Teaching Assistants in Primary Schools: An Evaluation of the Quality and Impact of Their Work*, Ofsted, 2002; www.connexions-direct.gov.uk.

Box 5.7: Foundation Trusts – Additional Freedoms and Flexibilities

Foundation Trusts are a new type of organisation within the National Health Service in England. They are part of the NHS but established as independent legal entities – not-for-profit Public Benefit Corporations. Foundation Trusts are accountable to their local community rather than central government.

The first NHS Foundation Trusts were authorised in 2004 and there are now 35 in operation. The Government is committed to offering all NHS Trusts the opportunity to apply for Foundation status by 2008.

Foundation Trusts have:

- freedom from Whitehall control and performance management by Strategic Health Authorities;
- greater financial freedom (to build up operational surpluses, to retain proceeds from asset sales and to raise capital in the public and/or private sectors); and
- flexibility to tailor new governance arrangements to local community circumstances.

NHS Foundations Trusts can borrow to support the capital investment needed to improve services and increase capacity without the need for external approval. Access to PFI and public capital for major schemes continues as before. Borrowing limits are set by a formula that is linked to their ability to repay debt from revenue raised.

Foundation Trusts are subject to NHS standards, performance ratings and systems of inspection. They are accountable to commissioners (e.g. NHS Primary Care Trusts) for the delivery of NHS services via legally binding agreements. They are overseen by an independent regulator called Monitor.

Sources: *A Short Guide to NHS Foundation Trusts*, Department of Health, 2005.

changes to the composition of their workforce so they are better able to achieve the outcomes expected of them (see Box 5.6). For example, there are now much greater numbers of teaching assistants supporting the work of teachers; and

- opportunities for highly-rated hospitals to become NHS Foundation Trusts, which for example allows them (in contrast to other trusts) to build operational surpluses, retain proceeds from asset sales, and to raise capital in the public and/or private sectors free from central government control (see Box 5.7).

Box 5.8: Ofsted's Modified Inspection Regime

From September 2005, Ofsted replaced the previous school inspection regime with a lighter-touch and more targeted alternative. The main changes have been:

- cutting the notification period for inspections to the minimum possible (two days notice for a school);
- increasing the frequency of inspection to every three years, rather than every six, and
- introducing lighter-touch inspections more focused on the key aspects of a school (such as leadership quality) rather than seeing every teacher teach.

These changes place greater responsibility on schools to provide an honest self-evaluation of their performance in the areas which the inspector doesn't reach, and to use their self-evaluation to make improvements outside of the inspection cycle.

Source: Ofsted

… and streamlining the burden of regulation and inspection through for example more self-assessment, the merger of inspectorates and other measures

A number of steps have been taken to streamline the burden of regulation and inspection, including structural reform to reduce the number of inspecting bodies and align inspectorates more closely with their relevant sector. There has been a move towards self-regulation, for example, in schools;[132] as part of the new Annual Healthcheck[133] for healthcare organisations; and under the Comprehensive Performance Assessments of local authorities.[134] The latter has been rated highly by councils who regard it as an opportunity to undertake an honest appraisal of their performance.[135] More generally, some inspection regimes have been made less onerous – an example being Ofsted, whose lighter touch regime is discussed in Box 5.8.

The Government has set out a clear strategy[136] for public sector inspection reform over the medium term, intended to refocus, rationalise and reduce the amount of inspection activity undertaken. The direction of change was reinforced by the conclusions of the Hampton Review.[137]

The key elements of the inspection strategy are:

- structural reforms, which will see eleven public sector inspectorates merging into four new bodies having oversight of four main areas of public service provision:
  - services for children and learners;
  - adult social care and healthcare provision;
  - local services; and
  - justice, community safety and custody.

  The inspectorates described above will be merged with other bodies to create a rationalised landscape that reduces duplication and multiple requests for information. Each inspectorate will have gatekeeper powers and responsibilities;
- practice reform, so that inspectorates develop common approaches, based on agreed principles of government inspection endorsed in the Hampton review, including greater proportionality and risk-based inspection regimes; and
- reduced inspection burden as fewer inspectorates will enable better co-ordination and reduced duplication. This, coupled with a risk-based and proportionate approach focusing on freeing good providers and ensuring swift action for poor performers, should reduce the amount of inspection activity and the associated burden on the front-line. The Government has tasked the Better Regulation Executive with reducing administrative burdens across the private, public and voluntary sectors. The Executive is measuring the administrative costs that organisations incur complying with particular regulations. Burdensome regulations will be identified and targets set to reduce them so that businesses can be more productive and public services more efficient. Measures to reduce the burdens of inspection and regulation will be particularly beneficial for small providers (such as child-minders) who are disproportionately affected by the costs of inspection and regulation.

Peer pressure can also be a positive influence…

Using the rich sources of information now available public sector managers can compare themselves with their peers and raise their performance accordingly. League tables not only allow the public to make better informed choices and aid top down performance management, but also

allow public servants to benchmark themselves and learn from others. The reform of New York's police was, for example, driven by monthly comparisons and learning between police force areas.[138]

Although the key elements of top down performance management have evolved considerably in recent years, they will not disappear

There has been considerable reform to centrally imposed top down performance management drivers in recent years. Smarter targets and more refined inspection strategies promise the benefits of top down systems with less distortion of the systems they regulate and a lower overall cost.

Top down measures will remain an integral part of the UK Government's approach to performance management. They have a continuing role alongside horizontal pressures (of good commissioning, competition and contestability), bottom up pressures (of choice and voice) and measures to build the capacity and capability of public services and public service workers. However, where these other pressures increase, there will be much more scope to reduce the role of top down performance management.

The following chapters will explore these other dimensions of a 'self-improving' system in more detail.

Chapter 6
Competition and Contestability

Chapter Summary

Horizontal pressures involve the use of competition and contestability to drive improvements in public services.

Competition and contestability open up public services to new providers, bringing a number of potential benefits:

- **improved efficiency and effectiveness;**
- **better quality of service;**
- **stronger incentives to innovate; and**
- **more equitable provision.**

But if the full potential benefits of competition and contestability are to be realised, the policy framework needs to be carefully designed:

- **the separation of provision from commissioning will help promote competition;**
- **strong accountability and governance arrangements exercised by commissioners will ensure that providers know what to deliver, by when and to whom;**
- **commissioners will need to provide clarity about how the market is defined, regulated and operated;**
- **commissioners may need to be proactive in building market capacity to ensure that there are enough alternative providers who are keen to enter the market;**
- **where possible, funding should follow user choices; and**
- **measures will be required to minimise transaction costs.**

And the policy framework must make the most of the strong traditions of public service:

- **The fostering of collaboration within a competitive framework can be important in improving public services; and**
- **In exposing public services to greater competition, it will be important that public service ethos is not undermined.**

Horizontal pressures involve the use of competition and contestability to drive improvements in public services

Horizontal pressures (see Chart 6.1) strengthen the incentives for service providers to improve efficiency and effectiveness, to raise quality and continuously to develop their services for the benefit of all users.

This Chapter:

- sets out the key elements of horizontal reforms to public services;
- reviews the potential benefits of competition and contestability in public services; and
- discusses the detailed design conditions that need to be in place to realise the full potential benefits.

Competition and contestability open up public services to new providers

The supply of a public service can be opened up to competition in two main ways: (i) competition ***in*** the market and (ii) competition ***for*** the market. Which is appropriate in any particular instance will depend on the characteristics of the service in question.

Competition *in* the market. Here, a range of providers continually compete with each other for the custom of individual users. For example, in public transport, bus operators compete with train operators to attract customers.

Competition *for* the market. Here providers compete at a point in time for a contract to supply services, but do not compete on an on-going basis as the services are supplied. For example, street cleaning contractors compete to get a contract and the winner delivers the service to all users, since generally it is efficient to have only one provider in any particular area at a point in time.[139]

Competition for the market is a form of contestability.[140] The provider faces competition whenever the contract is re-tendered, but does not face competition on an on-going basis. Such contestability can be particularly beneficial where an existing provider is judged to be failing or under-performing, effectively triggering the re-tendering of the contract.

Competition in the market is generally preferable to competition for the market. Competition driven by the presence of many small providers continually competing for the custom of individual users will generate bigger benefits compared to when there is only competition at a point in time. But, particularly in the case of public services, it will not always be possible to introduce competition ***in*** the market and, therefore, competition ***for*** the market will be the next best alternative.

The single most important factor that will determine whether it is possible to introduce competition in or for the market will be the extent to which there are barriers to entry. Generally speaking, it will be difficult to introduce competition in the market where there are high costs of market entry, and competition for the market may then be the only option.

Contestability can also apply to the commissioning of services, with similar potential benefits

Commissioning public services involves the securing of services that meet the needs of the population within the resources available.

Contestability can be applied to those commissioning services as well as those providing services. This should provide incentives for commissioners to be efficient and innovative. This approach has been adopted in Hackney where The Learning Trust (described in Box 6.1), a private, not-for-profit company, has commissioned education services for the whole of the borough since August 2002, a role previously undertaken by the LEA.

Competition offers a number of potential benefits including...

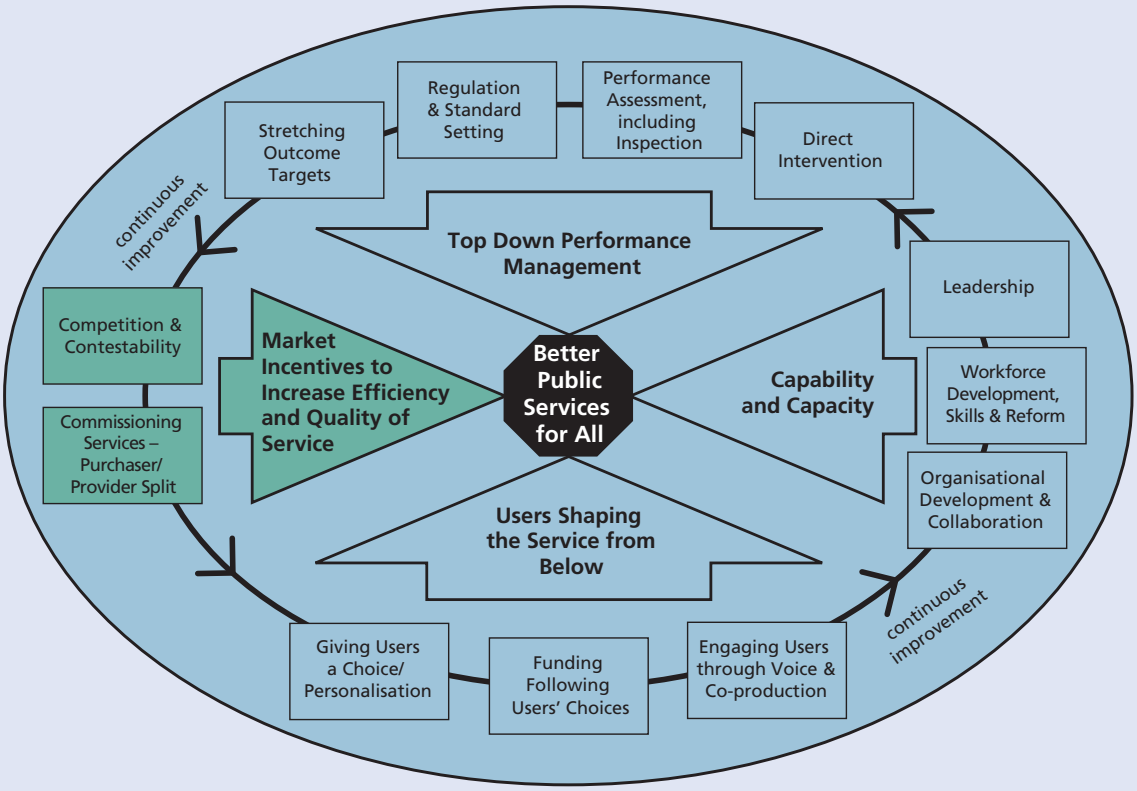
Both competition and contestability offer a number of potential benefits:

- improved efficiency and effectiveness;
- better quality of service;
- stronger incentives to innovate; and
- more equitable provision.

...improved efficiency and effectiveness...

Competition and contestability provide incentives for producers to drive down costs and improve outcomes. There is evidence, for example, that the introduction of contestability in both prison services and local government services has reduced costs without sacrificing quality (see Boxes 6.2 and 6.3). And schools reforms in Milwaukee, Michigan and Arizona provide evidence that

Chart 6.1: Horizontal Pressures



Box 6.1: Hackney Learning Trust – an Example of Contestability in the Commissioning Function

Hackney Learning Trust commissions educational services for adult learners and over 27,000 pupils in more than 70 schools, nurseries, and play centres in the London Borough of Hackney. It is an independent, not-for-profit trust.

The Trust was established in 2002, in response to an Ofsted inspection in October 2000 that criticised the council for failure to provide "a secure context for the improvement of educational standards". The Trust has been contracted to run education services for the Borough to "secure maximal revenue and capital funding for Hackney's schools, including the exploration of a PFI/PPP bid to bring the condition of Hackney's schools up to standards appropriate to the 21st century". Its contract is managed by the council and they retain ultimate authority for education in the Borough.

Since its inception, the Trust has made steady progress in improving educational attainment in Hackney. For example:

- **the percentage of pupils gaining 5 good GCSEs rose from 32.1% in 2002 to 47.8% in 2005; and**
- **the Adult Learning Inspectorate judged all of the Learning Trust's Adult and Community Learning services satisfactory or better in 2005 compared to only 3 of 6 service areas in 2003.**

Source: *Reinspection Report: the Learning Trust Reinspection*, Adult Learning Inspectorate, 2005; The Guardian, "Crowded Out", 17 June 2003 and Hackney Learning Trust website www.learningtrust.co.uk

Box 6.2: The Benefits of Contestability – the Case of Prisons

Contestability was first introduced to prison services in 1991 by contracting out management to a private sector provider; since 1994 private sector involvement has been extended to the design, construction and finance of new prisons. There are currently eleven privately managed prisons responsible for 10.1% of the prison population.

Independent studies have found that competitive tendering has led to cost savings, in construction and operation, of £40m-60m per year. Even when the total costs incurred in running competitions are taken into account, the net benefits are still substantial.

The cost per prisoner of privately managed prisons is 10-15% lower than comparable publicly managed prisons. Operational cost savings in privately managed prisons are achieved mainly through innovation in staffing and staff deployment.

The stimulus of competition has in turn prompted innovation in the public sector, so that the relative cost savings from using the private sector have declined over time.

Sources: DTI Economics Paper No. 14 – *Public Policy: Using Market-Based Approaches*, 2005. *The Operational Performance of PFI Prisons*, NAO, 2003.

Box 6.3: The Impact of Introducing Contestability in Local Government Services

Empirical studies strongly suggest that where competition for the market has been introduced in local government services, it has tended to lower the cost of services while quality has remained the same or has often improved.

A DETR review in the early 1990s on the impact of contracting out of services found that services were no worse and there were average cost savings of 6.5%. Another study found that costs of waste collection tendering were reduced by 20%.

A study for the Joseph Rowntree Foundation found that contracting out has driven a process of cultural change in which customer requirements were made more explicit, activities properly priced and customer satisfaction prioritised.

Source: Domberger et al, *The Determinants of Price and Quality in Competitively Tendered Contracts, 1995; Competition, Contracts and Change: The Local Authority Experience of CCT*, Joseph Rowntree Foundation, 1995.

the introduction of competition has raised the productivity of their schools – that is, school performance per dollar spent.[141]

It is important to emphasise that private sector or voluntary sector organisations are not inherently more efficient than the public sector. When the public sector faces competition, there is evidence that its efficiency improves, as the prisons case illustrates. Interestingly, in the run-up to privatisation, utility companies also became more efficient as their markets were opened up to competition.[142] A recent International Monetary Fund report on the involvement of the private sector in public services and public infrastructure across countries and sectors concluded that:

> [I]f a common theme emerges, it relates to the importance of competition as a source of efficiency in both the private and public sectors.[143]

In other words, the important distinction for service users is not public versus private *per se*; it is monopoly versus competition.[144] This is consistent with the fact that the public are largely unconcerned about who provides the service – their priority is high quality provision.[145]

...better quality of service...

Box 6.4 on the Australian Job Network provides an example of how contestability can lead to higher satisfaction ratings amongst users. In the UK, older people who receive Direct Payments (to arrange and pay for their own care services instead of receiving services directly from their local council) report higher satisfaction levels from opening up the market to competition.[146] Private prisons also tend to be highly rated by HM Inspector of Prisons.[147]

...stronger incentives to innovate...

Competition strengthens incentives to innovate both in terms of the way in which services are provided and the range of services on offer.[148] Examples include:

Box 6.4: The Benefits of Contestability – the Case of the Australian Job Network

In 1998, Australia made radical changes to the delivery of its employment services by establishing a contestable market. This put in place a federally-funded Job Network which is a network of private and voluntary sector organisations that deliver job placement and case management services through two to three year revolving contracts.

The aims of the Job Network include offering employers a wider choice of organisations from which to fill vacancies, and offering jobseekers a better chance of finding a job. Strengthened financial incentives have been used to deliver these goals, with payments to service providers based on the number of successful placements with premium payments for the placement of disadvantaged job seekers.

An independent report on the Job Network found that costs of Job Network programmes were significantly lower than previous programmes. The study estimates, for example, that the aggregate cost of all active labour market programmes (assistance and training) had fallen by around half. Other measures of performance, such as job seekers' and employers' satisfaction, suggest that the Job Network is more highly rated than the public employment service it replaced.

Source: *Independent Review of the Job Network*, Productivity Commission, 2002; *The Use of Contestability and Flexibility in the Delivery of Welfare Services in Australia and the Netherlands*, DWP, 2005.

Box 6.5: The Benefits of Competition – the Case of Independent Schools in Sweden

Since reforms in 1992, Swedish parents have had the right to choose between state-operated schools and state-funded independent schools. New providers are licensed to enter the state system by an independent agency if they meet certain conditions including sufficient parental demand for the school, adopting fair admissions policies, adherence to the national curriculum and openness to inspection. Local education authorities are consulted, but cannot veto new school entry. Capital funding is not provided for new schools but limited regulation on school premises reduces the cost of entry.

By 2003, 5.7% of all pupils were attending state-funded independent schools, many more in urban areas. While the impact of these reforms appears modest, most of Sweden is highly rural, reducing the possibility of choice.

Parental satisfaction is very high, with 90% of parents now in favour of having a choice over which school their child attends. Lack of standardised achievement data makes quantification hard, but studies (Bergström and Sandström (2002), Ahlin (2003) and Björklund *et al* (2004)) have found mathematics standards in government-operated schools have improved fastest in areas where there is more competition between schools and parents have more choice.

Innovative organisations have entered the school system (e.g. Montessori and Steiner) and some of their techniques have been adopted by existing state schools. Competition has also been associated with the emergence of large school chains, which can spread best practice and take advantage of economies of scale (30% of independent schools in Sweden are part of these chains).

Sources: *School Choice and Its Effects in Sweden,* National Agency of Education Report, 2003; Bergström, F. and Sandström, F., *School Choice Works! The Case of Sweden,* 2002; Bergström, F. and Sandström, F., *School Vouchers in Practice: Competition Won't Hurt You* – Research Institute of Industrial Economics (IUI) Working Paper 578 (2002); Ahlin, A., *Does School Competition Matter? Effects of a Large-Scale Choice Reform on Student Performance,* – Uppsala University Department of Economics Working Paper (2003); Björklund, A., Edin, P., Frederiksson, P and Krueger, A., *Education, Equality and Efficiency – An Analysis of Swedish School Reforms During the 1990s*, 2004.

- the introduction of competition into the Swedish schools system (see Box 6.5) which has allowed innovative organisations such as Montessori and Steiner to enter the market;

- the change in the relationship between staff and prisoners as a result of the introduction of contestability in prisons in Great Britain. A CBI report notes:

  While there were staff in the publicly managed prisons who wanted to break from the confrontational culture of the past, it required the creation of a new class of prison with a profoundly different management regime to bring about a new and more constructive culture.[149]

- public service broadcasting in the UK. The recognition that competition could be beneficial led to the licensing of ITV in 1955 and subsequently Channel 4 and Channel 5, which are all required to fulfil public service broadcasting remits to varying degrees. The introduction of competition in public service broadcasting has stimulated greater innovation.[150]

... and more equitable provision...

Competition and contestability offer opportunities for disadvantaged households to access better quality services. For example, research undertaken for the Audit Commission shows that many local authorities believe that the introduction of Direct Payments for social care has improved equity. Half of the local authorities surveyed said the introduction of Direct Payments gave minority groups better access to appropriate care. Some local authorities also said that the greater use of personal assistants in place of agency workers had expanded care provision, particularly in rural areas.[151]

Research on a large sample of primary schools in the South East of England shows that competition may improve schooling for the 20% of the school population attending religious primary schools.[152] In particular, the benefits of competition seem strongest amongst pupils in church schools with the highest concentrations of low income children.

But, if the full potential benefits of competition are to be realised, the policy framework needs to be carefully designed with effective commissioning being crucial

Unless the wider policy framework is carefully designed, the introduction of competition could result in:

- few efficiency improvements being realised, for example because of ineffective commissioning or lack of interest amongst potential new entrants;
- poor quality services if there are: (i) insufficiently robust arrangements to hold new providers to account; and/or, (ii) if competition for or in the market ultimately leads to a reduction in the number of suppliers because a relatively small number of providers win the contracts[153]; and
- high transaction costs for government and providers in tendering for contracts.[154]

To ensure that the benefits of competition are fully realised, the policy framework needs to be carefully designed.[155] Ideally there should be:

- a separation of provision from commissioning;
- strong accountability and governance arrangements exercised by commissioners to ensure that providers know what to deliver, by when and to whom;
- clarity about how the market will be defined, regulated and operated;
- sufficient market capacity, so commissioners may need to play a role in attracting new entrants and/or acting as 'match-makers' to identify market opportunities for potential new providers who are keen to supply public services;
- funding following user choices, so successful providers are rewarded with extra revenues and encouraged to expand whilst unsuccessful providers are penalised; and
- measures to minimise contracting costs, such as the use of model contracts to enable potential providers to put forward proposals quickly and with the minimum of bureaucracy.

The Government already has a good deal of experience of commissioning and contestability through the Public Finance Initiative (PFI), which involves the competitive procurement of services such as managed buildings. By requiring the private sector to put its own capital at risk and deliver clear levels of service to the public over the long term, PFI promotes quality public service provision and ensures that public assets are delivered on time and to budget.[156]

Commissioning should generally be separated from provision

The commissioning of services generally needs to be clearly separated from the provision of services to avoid conflicts of interest.[157] Establishing an independent commissioner will help to promote effective competition as it should ensure that only the most efficient providers enter and remain in the market.

In health, there are a number of examples of the separation of commissioning from provision. Primary Care Trusts (PCTs) commission services from Independent Sector Treatment Centres (see Box 6.8). More generally, PCTs are the main local commissioning body purchasing services from NHS Trust hospitals and Foundation Trusts, even though they are also providers of community and primary care services. The move towards Practice-Based Commissioning will also provide a separation between commissioners (GPs) and providers (hospitals) in the NHS.

Box 6.6: The BBC: An Example of an Integrated Commissioner-Provider

The BBC provides a good example of a commissioner-provider.

The BBC's television output is sourced from various types of producers. Indeed, the Communications Act 2003 states that 25% of "qualifying programmes" on BBC television must be independent productions. This target is intended to provide an incentive for the BBC to focus on ensuring high-quality output of programmes. The aim is to enhance efficiency, diversity of content and the growth of the independent sector (particularly innovative small and medium sized enterprises) within the UK.

There are risks associated with combining commissioning and provision. But as the largest programme maker in the market, the BBC can have a role in incubating talent for example, through the commissioning of programmes written by up and coming writers.

Source: *Communications Act 2003*, www.opsi.gov.uk

Box 6.7: The Inter-relationship between Contestability and Autonomy of Governance – the Case of Spanish Foundation Hospitals

Spanish foundation hospitals were, from 1999, effectively taken out of the control of the health department and established as independent bodies. The hospitals continue to treat patients free of charge and are publicly funded, but have a number of additional freedoms compared to other public hospitals, such as the freedom to vary rates of pay; the ability to negotiate procurement contracts for medicines and equipment; and the freedom to borrow money on the open market.

The Director of the Alorcon hospital in the suburbs of Madrid says that they have, "much greater freedom of manoeuvre as managers and this in turn has allowed us to improve the medical care we provide".

Source: www.reform.co.uk; Financial Times, 7 May 2003

In criminal justice, contestability will be improved in the corrections market through the National Offender Management Service (NOMS). NOMS is tasked with separating interventions (custodial capacity, punishment, rehabilitation and education) from end-to-end offender management. Once the separation is complete ten Regional Offender Managers (ROMs) will eventually commission both types of work from a range of providers, including the commercial and not-for-profit/voluntary sector.[158] The 42 existing Probation Boards will become Trusts, competing for interventions work while retaining the offender management function in the medium term.

However, there will be times when there may be benefits from integrating commissioning with provision as illustrated by the BBC (see Box 6.6). A combined commissioner-provider can be beneficial, particularly when a single player has such an important role in the market. A combined commissioner-provider may be better able to guarantee security of supply and quality, critical mass, training and development and greater efficiency.[159]

There must be strong accountability and governance arrangements to ensure that providers know what to deliver, by when and to whom

It is important that there are clear lines of accountability in place for service providers – they should know to whom they are accountable, for what and by what mechanisms.

In a competitive setting where funding follows user choices, commissioners may adopt a relatively light touch, as users can move to other providers by themselves if they receive an unsatisfactory service. In these circumstances, providers are effectively directly accountable to service users and, as Box 6.7 illustrates with the case of Spanish foundation hospitals, it may be possible to use the introduction of competition as a way of easing top down performance management.

In other cases, for example where individual user choice is not possible, the commissioner will have to hold the providers to account more directly. Contracts with service providers will need to define more precisely the nature and

the quality of the service that is to be delivered. If the contract incorrectly identifies the set of performance indicators that the provider will be evaluated against, and as a result the public receive services that are of poor quality, then there will be little that can be done until the contract is up for renegotiation. There may be other incentives that drive providers to supply a good service – in particular where poor performance compromises a company's chances of winning another contract – but it is clearly undesirable to rely on these and it would be much better to avoid the costs and disruption caused by badly drawn contracts.

Commissioners need to provide clarity about how the market will be defined, regulated and operated

Where competition is being introduced for the first time, alternative providers and their investors will need clarity about the operation of the market including:

- how it will be defined;
- how it will be regulated; and
- what the failure regime will be.

In the absence of such clarity, new providers and the financial institutions and investors backing them will be unable to assess the risks associated with entering the market thus holding back its development**.** Duration of contracts and ownership/transfer of assets will also be important in ensuring there are suitable investment incentives.

In particular, establishing a robust failure management regime will be critical in ensuring that the benefits from competition emerge, since the regime will determine the conditions under which poor or failing providers are made to exit the market. This also helps promote equity, as effective failure management will ensure that users do not have to rely on service providers whose delivery is below par.

Key issues in the design of the failure regime include:

- the definition of failure.[160] In the private sector this is usually linked to the bottom line – persistent financial under-performance. In the public sector, however, it is more appropriate for failure to be linked to under-performance against a wider range of indicators than just financial ones, such as persistently low user satisfaction ratings; and
- the consequences of failure. These consequences should be sufficiently undesirable that providers will receive the message that it ought to be avoided at all costs. This may require a fundamental change in mindset away from the belief that government will always bail out failing public sector organisations in the event of problems.

There is a balance to be struck between providing help to failing organisations to avoid the negative consequences of failure and signalling clearly that persistent under-performance will not be tolerated. The Government has therefore undertaken a lot of work to devise the most effective failure management regimes (see Box 5.4).

Commissioners may need to be proactive in building market capacity

Competition will only succeed if there are enough alternative providers who are keen to provide services. This can be difficult when the barriers to entry are high, perhaps because the skills and expertise needed to deliver the service are scarce or, related to this, significant investment in capital, skilled labour, marketing or other assets is required. For example, in the waste management market, regulatory changes have driven the need to develop expensive new facilities and this, in turn, has promoted a consolidation of suppliers of waste management services. As a result, there are now relatively few suppliers of waste treatment and disposal services – eight to nine suppliers manage at least 78% of municipal waste by weight.[161]

Commissioners may therefore encourage and support the creation of new organisations able to deliver the service concerned. In health, independent providers of treatment centres (see Box 6.8) have been offered higher than national tariffs initially to cover market entry costs and the costs of workforce development[162] whilst, in children's services (see Box 6.9), local authorities have been given a key facilitation role.

Making choice more meaningful means offering a range of service providers with different strengths and specialisms. That is why charities, social enterprises and other third sector organisations, with their wealth of practical experience have a great deal of potential to contribute to the diversity of services on offer (see Box 6.10). At the moment, the third sector accounts for around 0.5% of central government expenditure, so there is clearly scope for growth. The newly created Office of the Third Sector, which brings together work from across Government under a single Minister for the third sector in the Cabinet Office, will be developing this agenda.

Ensuring funding follows user choices where possible

The benefits from competition will be greatest where funding follows user choices. Successful providers will be

Box 6.8: The Importance of Effective Commissioning – the Case of Independent Sector Treatment Centres within the NHS

Independent Sector Treatment Centres (ISTCs) are publicly funded, independently-run centres commissioned to undertake NHS work. First established in 2003, they help to increase NHS capacity in key areas (such as cataract and hip surgery, and in ophthalmology), increase patient choice, introduce greater competition into areas of elective surgery and diagnostics, promote innovation and increase productivity.

By the beginning of 2006 there were 21 ISTCs and over 250,000 patients had either been treated or have received a diagnostic service from an ISTC.

Satisfaction rates across the programme consistently run at over 94% and significant improvements in efficiency have been achieved:

- **average length of stay for hip replacements is up to 51% greater in the NHS than for equivalent procedures in ISTCs;**
- **average length of stay for knee replacements is 42% greater in the NHS;**
- **average operating times for hip replacements are 33% greater in the NHS; and**
- **theatre utilisation in ISTCs is 16-33% higher than the NHS.**

The Department of Health actively encouraged new providers from overseas to bid for contracts to run ISTCs. The Department also ran a procurement programme which looked at international best practice and helped the Department better understand the world market. The ISTC initiative has resulted in changes within the independent sector – four new healthcare providers have now entered the market.

Sources: *Independent Sector Treatment Centres (A Report from DH Commercial Director)*, Department of Health 2006; unpublished study, Department of Health, 2006

Box 6.9: The Importance of Effective Commissioning – the Case of Services for Children

The Childcare Bill (in Committee stage in House of Lords at time of writing) will increase accessibility to high quality childcare and services for children under 5 and their families.

Local authorities will become strategic leaders, working in partnership across all sectors in order to shape the future provision of childcare and early childhood services, raising quality of provision and improving outcomes for all children. In particular, local authorities will be given the duty to ensure the sufficient supply of childcare in their local area.

As the 'market facilitator', local authorities will monitor, map and analyse local markets for childcare and nurseries, ensure coverage (number of places as well as opening hours), and promote supplier diversity (e.g. through facilitating entry of new providers).

In addition to providing services, local authorities will be expected to commission services from the voluntary and private sector. Commissioning can also be done through third parties, for example through Children's Centres, which are at the heart of the Government's strategy to deliver better outcomes for children. Local authorities may run tenders for the management of Children's Centres, which could be taken on by private and voluntary organisations, schools, or other agencies. Children's Centres could then be given budgets to commission childcare services for the local population.

Source: Every Child Matters website – www.everychildmatters.gov.uk

rewarded with extra revenues and encouraged to expand whilst unsuccessful providers will be penalised. In these circumstances providers will have strong incentives to offer responsive, high quality services that attract users and increase revenues.

Measures need to be in place to minimise contracting and other transaction costs

As with any kind of contracting out – that is allowing a non-public sector organisation to deliver a service – there

Box 6.10: The Role of the Third Sector

The third sector describes the variety of institutions which occupy the space between the public and private sectors. It includes small local community and voluntary groups, registered charities (both large and small), foundations, trusts and the growing number of social enterprises and co-operatives. Examples of third sector organisations which provide public services are:

- **the Prince's Trust,** a national charity which works with disadvantaged young people aged between 14 and 30, providing personal development support, business start-up loans and other services such as support for ex-offenders. The Prince's Trust has a turnover of around £50 million per year. It receives a mix of public and private funding;

- **the Family Welfare Association**, based in East London, which provides a variety of services to support families, including mental health services, residential care, day centres, marriage and family support services. Of its annual turnover of £12.5 million, £11 million comes from contracts and grants from various government sources, including Sure Start, the Children's Fund, Connexions and funding from the local Primary Care Trust. The remaining £1.5 million comes from fund-raising; and

- **DIAL Shropshire Telford and Wrekin**, which is part of national charity DIAL UK, provides disability advice services in Shropshire. It has offices in Shrewsbury and Telford and a team of 45 volunteers. The charity provides information and advice on disability issues, as well as supporting its clients to apply for appropriate benefits and to challenge benefits applications which are rejected. More than 50% of its £200,000 annual turnover comes from Learning and Skills Council funding for two projects. Other significant funders include the Legal Services Commission (£12,000) and Telford and Wrekin District Council (£13,000).

Sources: *Home Office Working With the Third Sector*, NAO, 2005 and *Exploring the Role of the Third Sector in Public Service Delivery and Reform: A Discussion Document*, HM Treasury, 2005.

are likely to be costs involved in setting up and running competitions and commissioning services.[163] Management and monitoring costs, tendering and contract costs, one-off transition and market regulation costs will all need to be assessed and weighed up against the potential benefits of competition. For example, the benefits of competition, relative to costs, are likely to be more limited where there are complicated contacts or where contestability has to be heavily monitored by government.

Costs can be reduced by using standard and/or aggregated contracts wherever possible. And commissioners should be well-trained so that they understand the principles and economics of competition and know exactly when and how it will generate benefits.

The policy framework must make the most out of strong traditions of public service

In opening up public service provision to competition and contestability, policy makers should make the most out of the strong traditions of public service. This will include considering whether collaboration can be fostered within a competitive framework, and ensuring that public service ethos is not undermined.

Government has a role in fostering collaboration to improve public services

Collaboration offers potential benefits that include:

- cost sharing;[164]

- the pooling of risks and the promotion of experimentation;

- speeding the diffusion of best practice;

- offering support mechanisms for failing or under-performing providers. For example, the evaluation of the Excellence in Cities (EiC) initiative, which encourages partnerships between successful and less successful schools, reports a statistical relationship between effective EiC funded collaboration and pupil progress at Key Stage 3;[165] and

- facilitating more 'joined-up' approaches and improved access. Higher education institutions have, for example, collaborated with further education colleges to widen access.[166]

Concern is often expressed that competition may discourage beneficial collaboration. In considering these

Box 6.11: Collaboration in the Private Sector Film Industry

Partnerships and networks play an important part in stimulating innovation in the private sector. The film industry, for example, has for many years involved a shifting set of partnerships organised around particularly projects. This is an industry where a large number of contractors come together around projects – a single film or a single album – often with similar memberships, before dispersing to form new teams around the next project. There are a number of factors that explain this high degree of collaboration in the creative industries. The main reason lies with the nature of media production which involves co-operation between many different specialised functions and individuals.

Source: De Fillipi, R. and Arthur,M., *Paradox in Project Based Enterprise: the Case of Film-Making*, 2002 in *Managing Innovation and Change* by Henry, J and Mayle, D. and Nachum, L. and Keeble, D. *Foreign and Indigenous Firms in the Media Cluster of Central London*, 2000

Box 6.12: The Benefits of Spreading Best Practice through Federations

A school federation is an arrangement between two or more schools to share senior management staff and to be governed by a single or a joint governing body.

All schools are free to enter into a federation if they want to, but as discussed in the Schools White paper – *Higher Standards, Better Schools for All* – there is an expectation that all secondary schools will form or join a partnership to improve the management of bad behaviour and persistent truancy and will have admissions protocols for bad behaviour.

Federations can bring substantial benefits. The combined GCSE A* - C pass rates for schools in a federation has risen by 5.8% since 2002, compared to an England average of 2.1%. And by federating, schools have improved standards by sharing best practice in:

- behaviour policy;
- use of IT; and
- expanding the curriculum.

Source: *Higher Standards, Better Schools for All*, DfES, 2005 and DfES Performance Tables.

arguments, a number of points may need to be borne in mind:

- the risks to collaboration posed by competition need to be weighed against the benefits of competition in terms of stimulating innovation and the diffusion of best practice;
- collaboration is only one way of sharing and disseminating best practice. In the private sector intermediaries, such as consultants, play a key role in sharing and disseminating best practice; and
- competition may stimulate forms of organisation that actively promote collaboration and the sharing of best practice (see Box 6.11 on the film industry).[167]

Nonetheless, without the right incentives, there is clearly a risk that organisations may be deterred from undertaking otherwise beneficial collaborative activities as a result of competitive pressures. This suggests there is a role for government and the commissioners of public services in ensuring that the right incentives are put in place.

There are various ways in which government and the commissioners of public services can do this:

- Measures to promote the clustering[168] of public service providers, either close to each other or close to related private sector providers, would encourage providers to realise the collective external economies of scale achieved by co-operation, networks and inter-firm linkages. For example, proposals to allow strong schools to federate more easily, as discussed in the recent Schools White Paper, *Higher Standards, Better Schools for All,* open up the way for collaboration and diffusion of best practice across geographical areas (see Box 6.12). Similarly, research institutes can act as drivers of cluster development and have done so in places like Silicon Valley in the USA and Cambridge in the UK.[169]
- Government can establish different structural models in the public sector to facilitate the spreading of best

Box 6.13: Spreading Best Practice in the NHS – the Role of Health Collaboratives

Health collaboratives are a recent initiative to help spread best practice through the healthcare system. They operate by bringing together practitioners in the field to share and trial new methods of working.

One of the most successful collaboratives was the National Primary Care Collaborative (now the Improvement Foundation). This was launched in June 2000 to help GP practices and PCTs to systematically improve their services to patients. In phase one of the National Primary Care Collaborative, 80 PCTs were selected to focus on delivering improvements to:

- the management of people with established coronary heart disease;
- primary care access; and
- the patient journey between primary and secondary care.

The results have been impressive. The scheme has delivered a four-fold reduction in coronary heart disease, a 90% reduction in waiting times for GPs, and it has had substantial success in reducing delays between primary and secondary care. These results have now been more widely disseminated across the healthcare sector, and the collaborative now engages almost 5000 practices covering more than 32 million patients.

Source: *The National Primary Care Collaborative – The First Two Years*, NPDT, 2002.

Box 6.14: Requiring the Adoption of Best Practice: the Case of Phonics

Phonics is a system of breaking words down into their constituent phonetic parts (eg. 'dog' becomes 'd – o – g'). The National Literacy Strategy recommended a mixture of approaches. However, trials showed that more focussed phonics work, particularly using what is known as 'synthetic phonics' for early readers, could substantially improve literacy standards. When synthetic phonics was piloted in Clackmannanshire, at the end of primary 9 (year 6 in England), word reading was 3 years 6 months ahead of chronological age, spelling was 1 year 8 months ahead, and reading comprehension was 3.5 months ahead.

To ensure that children in England have the best opportunity to read, this year the Government has made a commitment to make synthetic phonics the prime method of teaching reading across the country.

Source: Rose, J., *Independent Review of Teaching of Early Reading*, 2006.

practice and collaboration. A number of different structural models have been adopted in post-16 education such as the confederacy model (where organisations agree to co-ordinate and combine some of their services and functions such as payroll, whilst still maintaining their individual identities) and federations (where higher and further education institutions are brought together within a single partnership).[170] Health collaboratives have also spread best practice through the healthcare system (see Box 6.13).

- Making collaboration a condition that must be fulfilled, particularly when the condition is tied to extra funding, can be an effective way of ensuring that it occurs. For instance, collaboration with other schools is a requirement for specialist schools. Similarly, as announced in the 14-19 White Paper,[171] 14-19 partnerships will have a dedicated source of funding to put in place the necessary systems to support choice, diversity and collaboration, enabling 14-19 year olds to study the programme of their choice at the institution of their choice.

But even if government makes collaboration a requirement, this may still not be enough to encourage the spread of best practice. In these circumstances, the best response may be for government to simply take a top down approach and to require the adoption of best practice, as it did with the literacy and numeracy strategies and most recently with the extension of phonics (see Box 6.14).

In exposing public services to greater competition, it will be important that public service ethos is not undermined

In exposing public services to greater competition, it will be important that 'public service ethos' – the 'knightly'[172] or altruistic behaviour of those working in the public sector – is not undermined. In other words, competitive forces should not suppress the motivation that drives doctors and teachers to improve the welfare of their patients and pupils.

In the 1970s there was a gradual corrosion of confidence in the reliability of the public service ethic as a motivational drive and a growing conviction that self-interest was the principal force motivating those involved in public services.[173] This led to a view that public service workers could be more correctly characterised as 'knaves' rather than 'knights'.

There has been much discussion about public service ethos and the question of what motivates people working in the public and private sectors more generally.[174] The evidence is mixed about how far professionals, such as doctors and teachers, can be assumed to be only concerned about the interest of the people that they are serving.

There is evidence that many people are motivated by altruism:

- Titmuss' report, *The Gift Relationship,*[175] looked at the motivations of people who had given blood to the National Blood Transfusion Service. Many donors were motivated by compassion and feelings of duty; and

- a study by Steele[176] involving interviews with over four hundred managers from the public, private and voluntary sectors found considerable evidence of knightly motivations in the public sector and that these were much more pronounced than in the private sector.

But this evidence is far from conclusive. Equally, evidence on the motivations of dentists suggests that altruistic behaviour in the public sector appears to interact in complex ways with self-centred motivations.[177] Against this backdrop, a significant challenge for public service reform is the need to construct a system which motivates the most self-interested and also gives knights the space and the encouragement to allow altruism to flourish. This is not easy and a key concern is that the introduction of market forces can stifle opportunities for altruism.[178]

The evidence on the impacts of market mechanisms on altruism is mixed. Certainly studies show that altruism can be driven out by the introduction of the market mechanisms.[179] But evidence also suggests that market based approaches have no adverse impact on motivation or ethos. An analysis of care homes in the health and long-term care sectors suggests that there is little systematic difference in the prevailing ethos between for-profit and not-for-profit providers.[180]

And there are plenty of studies demonstrating that public service workers respond positively to pay incentives, without this necessarily crowding out altruistic motivations. For example, Burgess, Propper and Wilson[181] examined the impact of financial incentives on public sector workers, outside of the healthcare sector. They concluded that public sector workers do work harder and produce more output when they have a financial incentive to do so. Nevertheless, they also found evidence that public sector workers can behave altruistically, even when this may have an adverse impact on the financial rewards they receive. For example, case workers in a job-training scheme in the United States took on hard-to-place workers even though their narrow financial interests would have been better served by accepting more employable workers.

Competition may even encourage knightly behaviour, or at least outcomes, as public service workers are incentivised to offer a higher quality customer-friendly service. In some instances the private sector appears to have succeeded in turning around a failure in public sector ethos. For instance, it is argued that some of the gains from private management of prisons resulted from the introduction of a new and more respectful culture between staff and prisoners.[182] This is in contrast to more traditional top down approaches, which as discussed in Chapter 5, can de-motivate professionals and constrain innovation.

The Government needs to build on the ways a market based approach can encourage knightly behaviour, whilst also giving public service workers recognition for excellent performance – as discussed in Chapter 8.

Chapter 7
Choice and Voice

Chapter Summary

Bottom up pressures of choice, personalisation, voice and user engagement are means of ensuring that public service users' needs, preferences and aspirations are transmitted directly to and acted upon by commissioners and providers of public services.

There are different dimensions to choice: depending on the nature of the service, it may apply at the individual or collective level.

Individual user choice gives users the ability to decide where, when, by whom and/or how a public service is provided. It is sometimes possible for a provider to personalise a service to the requirements of the individual user.

Where individual choice is not feasible because of nature of the service (e.g. policing) collective user choice may give groups of users the ability to decide where, when, by whom and/or how a public service is provided.

Voice offers opportunities for public service users to express opinions and have them heard and acted upon. This may be particularly important in future in relation to the commissioners of public services since competition, contestability and choice will increasingly be used to hold providers to account.

By providing alternatives to poor or failing providers and by improving access to good public services, bottom up reforms – particularly the introduction of choice – offer benefits that include:

- **better, joined-up and more responsive services;**
- **strengthened dynamic incentives for efficiency, effectiveness and innovation; and**
- **more equitable services and more empowered users.**

But choice initiatives need to be carefully designed if these benefits are to be fully realised. Properly designed choice-based systems for public services can reduce inequalities and social segregation. But this means that:

- **disadvantaged groups may need to be provided with better information and guidance;**
- **users may need practical support to help them cover the costs of making choices e.g. for transport to alternative providers;**
- **measures to prevent providers from 'cream-skimming' may need to be built more explicitly into the system; and**
- **an increased supply of good service provision may need to be encouraged (or barriers to it eliminated) to make a reality of choice of provider for all. Competition and contestability are key drivers of an increased supply of high quality services and are therefore crucial to achieving greater equity as well as greater efficiency and excellence in public service provision.**

Bottom up pressures are means of ensuring that public service users' needs, preferences and aspirations are transmitted directly to and acted upon by decision makers in public services

Bottom up pressures (see Chart 7.1) on public services come from their users exercising powers of choice and voice. These drive improved service performance by creating incentives for providers to shape their services to better meet the demands of their users. If they do not do so they risk the exit of their customers and (ultimately) external interventions in their management to correct failings as a result of feedback from their customers. Choice and voice are given leverage when the funding for public services follows the choices that users make.

As with the other elements of the model, getting the detailed design conditions right is crucial if everyone is to benefit from the efficiency, effectiveness and quality improvements that bottom up pressure can deliver.

This Chapter therefore:

- discusses in more detail what is meant by choice and voice;
- reviews the potential benefits of these bottom up approaches; and
- reviews the issues that need to be considered and the detailed design conditions that need to be put in place if these benefits are to be fully realised.

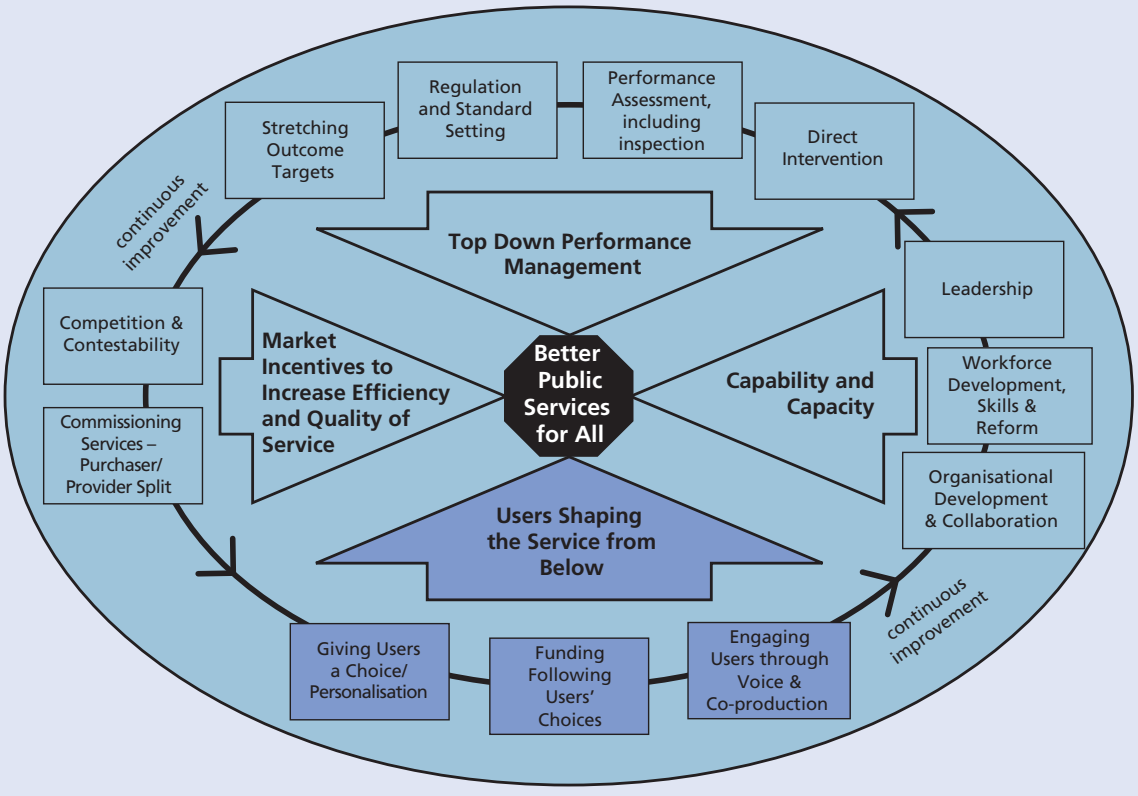
There are different dimensions to choice: depending on the nature of the service, choice may apply at the individual or collective level

Providing opportunities for **individual user choice** means giving users the ability to decide where, when, by whom or how a public service is provided to them (see Boxes 7.1 and 7.2). Offering a choice of location and timing can improve convenience. When there is a choice of provider the user has opportunities to secure the sort of service they want and to avoid poor quality providers. For the service as a whole this leads to gains in efficiency, effectiveness and service quality.

Collective user choice may be exercised in those public services, such as policing, community safety and various local environmental services (e.g. parks, refuse collection services and street lighting provision) where *individual* user choice is not feasible. For example:

- local authorities such as Croydon and Bristol have used referenda to test local public opinion about council tax levels and have given service users the ability to vote for more or less provision of services in return for higher or lower taxes;

Chart 7.1: Bottom Up Pressures



Box 7.1: The Different Forms Choice Can Take

Choice can take a number of different forms:

- choice over the *quantity or quality* of a service consumed. For example, choice-based lettings systems for allocation of social housing allow applicants on the housing register to choose the size of the property that they would like and the features that it has (e.g. garden, ground floor access);
- choice over the specific *form or content* of the service. For example, whether the education children receive is faith based or not;
- choice over the *channel* through which the service is delivered. For example, a local authority may provide information about its services on the internet as well as having a phone-based customer access centre and the option of talking to an official face-to-face;
- choice between *alternative providers*. For example, a choice for patients of treatment in an NHS hospital or in the independent sector; and
- choice through *personalisation* by tailoring services to fit 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 (see Box 7.3).

Source: *Strategy Unit.*

- some community organisations or 'panels' have been empowered by their local authority to choose how to spend a set budget or determine priorities for local policing. Area Committees in Birmingham are a good example of this devolution of a range of powers and a budget from the local level; and
- parish councillors have budgets to spend and often make decisions on ways of reducing crime and anti-social behaviour in their community. They raise their funds by levying a 'precept' or extra charge on the council tax and receiving funds from the local authority to deliver specific services.

Personalisation means tailoring services to meet the specific needs of an individual

Choice offered within institutions, and the tailoring of the service offered by a particular provider to the needs and preferences of its users is often referred to as **personalisation.**[183] Box 7.3 shows how personalisation has been introduced in education.

Box 7.4 describes some examples of choice and personalisation in the health service.

Box 7.2: Different Types of Choice in the NHS

Choice of Access: NHS Walk-in Centres

NHS Walk-In Centres are run by experienced nurses. Situated in convenient locations (e.g. town centres, railway stations) they offer treatments for minor illnesses and injuries. No appointments are needed, and they are generally open at more convenient times than traditional GP surgeries – often with evening and weekend opening hours. The Colchester Walk-In Centre, for example, is open 365 days a year, from 7am to 10pm.

Choice of Provider in the NHS

Recent reforms to the NHS provide a good example of how users can now choose whom they get their service from. Traditionally, NHS patients have been allocated to the providers of healthcare on the basis of a GP referral. 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 cost by 2008.

Source: *Choice Matters: Increasing Choice Improves Patients' Experiences*, DH, 2006.

Box 7.3: Personalised Learning in Education

Personalised learning is about tailoring education to an individual's needs, interests and aptitudes so as to develop better every young person's potential. Though the concept of personalising learning is by no means new, the Government has stepped up efforts to facilitate best practice in the area.

£585 million of additional resources were allocated to schools in England over 2006-07 and 2007-08 specifically to support personalised learning at the 2006 Budget.[184] Priorities identified by the Department for Education and Skills include the extension of school hours and intensive small group tuition in English and maths for those that are falling behind, as well as extra stretch for particularly gifted pupils.[185]

For Struggling Pupils: the Every Child a Reader project will channel a total of more than £10m to place specialist literacy teachers in schools across 20 local education authorities, focusing on around 4,000 children with the severest literacy difficulties.

For Talented Pupils: the programme for gifted and talented pupils seeks to provide extra stretch for those who are most able. This includes the establishment of a National Academy for Gifted and Talented Youths which has provided a residential summer school for up to 1,000 pupils each year from 2002. Secondary schools are now being advised on how to use all available data to them help identify particularly talented children from all backgrounds.

Sources: *Budget 2006: A Strong and Strengthening Economy*, HM Treasury, 2006; *Higher Standards, Better Schools for All*, DfES, 2005; http://www.standards.dfes.gov.uk/personalisedlearning/[186]

Box 7.4: IT Enhancing Choice and Personalisation in the Health Service

NHS Choose and Book

Choose and Book is a national service that, for the first time, combines electronic booking and a choice of place, date and time for first outpatient appointments. When patients need to be referred to a consultant or other healthcare practitioner they will be asked by their GP where they want the treatment to take place. They will then be able to book the appointment on the spot and leave the surgery with their appointment time and date.

Choose and Book completely changes the way the paper-based referral system currently works. It removes the lengthy wait (often weeks) between visiting the GP and receiving an appointment from a hospital. More than a quarter of a million patient appointments have now been made using the Choose and Book service.

Electronic Prescription Service

The Electronic Prescription Service (EPS) will allow a patient's prescription to be sent electronically from their GP to a pharmacy. Once fully operational, a patient will be able to nominate a preferred pharmacy to which their prescriptions can be sent automatically.

The EPS will mean that patients will not have to visit their GP surgery just to collect a prescription – saving time for both patients and GP surgery staff. Accuracy and safety will be improved because prescription information will not need to be typed in by both the GP and again by the pharmacist. The service will be fully operational across England by the end of 2007.

Source: Department of Health.

Voice offers opportunities for public service users to express opinions and have them heard and acted upon

Voice (sometimes referred to as user engagement) provides a route by which users can influence the nature of the services on offer. In particular it allows users of local public services to express their views about the effectiveness of services, to complain and seek redress if things go wrong and to press for improvements where providers under-perform.

Voice can take a variety of forms – from 'soft' voice mechanisms that help to inform organisations about public opinion to 'loud' voice systems that play a more direct role in shaping policy decisions. Examples of soft voice include the use of user satisfaction surveys and focus groups. Examples of louder mechanisms include Citizens' Juries, petitions (see Box 7.5) and the use of processes like Planning for Real (discussed in more detail below in Box 7.16).

Voice is not necessarily an alternative to choice – the two should in fact be complementary. As David Miliband has argued, "the threat of exit makes companies and parties listen; the ability to make your voice heard provides a vital

Box 7.5: An Example of Voice: E-petitioning

E-petitioning allows citizens an accessible means of expressing opinions on local issues and participating in local democracy. E-petitioning schemes were implemented and piloted by the Royal Borough of Kingston upon Thames and by Bristol City Council for a year up to March 2005, allowing individuals to lodge and sign petitions on-line. Anyone who lives, works, goes shopping, visits, goes to school or owns a business in Kingston can raise a petition. Recent petitions have campaigned to maintain bus routes and change parking regulations.

E-petitioning was used by hundreds of citizens in each council area, and showed early signs of impacting on decision making. The main benefits have been the improved transparency of decision making, and greater convenience for citizens.

Source: Whyte, A., Renton, A. and Macintosh, A., *e-Petitioning in Kingston and Bristol: Evaluation of e-Petitioning in the Local e-Democracy National Project,* 2005; www.kingston.gov.uk/petitions

tool to the consumer who does not want to change shops, or political parties, every time they are unhappy".[187] In some ways robust voice mechanisms are similar to failure management regimes described in Chapter 6. They provide a way of registering discontent and securing change to avoid failure.

Voice – whether loud or soft – may be particularly important in strengthening the accountability of commissioners and providers of services when it is difficult to introduce choice and contestability. Voice can offer opportunities for users' views to influence the criteria that commissioners consider when deciding which providers are to be allowed to enter the market – for example, social service users and carers in Ealing, west London, were actively involved in the development of a new specification and contract for the external homecare service and the tender process.[188]

Users can also play an active and more responsible role in the delivery of public services or contribute to successful outcomes from public services

Choice and voice allow users to become more assertive customers and help to ensure that public services respond more promptly and precisely to their needs. But assertive customers can become active participants or citizens by taking greater responsibility for delivering services or increasing the chances of services producing positive outcomes. This is often called co-production.[189]

There is a range of ways users can contribute to the success of public services. At one end of the 'co-production spectrum' are activities that enable citizens actively to participate in the production of services at a community level. Volunteering and involvement in community governance are good examples of how individuals can contribute directly to the delivery of services. At the other end of the spectrum, co-production involves individuals helping themselves or their families to get the most out of public services. Examples include parental involvement in their child's education, individuals looking after their health,[190] or patients taking more control over their own treatment. Self-management in healthcare is facilitated by the Expert Patients Programme, which recognises that it is often patients who are best placed to manage their own chronic conditions (see Box 7.6).

Box 7.6: Elaine Curno and the Expert Patients Programme

Set up in April 2002, the Expert Patients Programme is based on research which indicates that the chronically ill, given the right training, are often in the best position to manage their own condition.

Elaine Curno was diagnosed with Myalgic Encephalomyelitis (ME) in late 2000. She tried, "medication after medication," in her fight to regain a normal life, but with little success. In May 2003 she was offered the opportunity to take part in an Expert Patients Programme course with 14 other patients suffering from acute fatigue. Elaine was taught a variety of techniques aimed at enabling her to better manage her illness, and was given more general advice on issues such as healthy eating.

By the end of the six week programme she felt that her life had been transformed, so much so that Elaine is now a volunteer tutor on the Expert Patients Programme.

Source: http://www.expertpatients.nhs.uk/stories_ep-004.shtml

Bottom up reform – particularly the introduction of user choice – offers a range of potential benefits …

The potential benefits of introducing or extending user choice include: improved efficiency; better, more responsive services; more equitable outcomes; and empowered users better able to care for themselves and their families.

Although choice and contestability often go hand in hand, this need not be the case. It is possible to introduce choice without competition – as is evident in choice-based lettings. It is also possible to have competition without individual choice – such as when a council awards a contract for domestic refuse collection.

On its own the introduction of choice is unlikely to drive dynamic efficiency improvements but, coupled with competition, choice can provide powerful and continuing incentives for service providers to improve efficiency and raise service quality for all. In the absence of competition, providers have few incentives to introduce choice and may only do so if forced to through top-down pressures.

… including improved efficiency …

Where choice is introduced alongside competition, and funding follows users' choices, providers face stronger incentives to make the best possible use of resources. Box 7.7 discusses the impact of choice and competition on the efficiency of healthcare provision in Stockholm.

In England:

- Bradley et al have found that schools with competitors are more efficient in their use of resources;[191] and
- Choice-based lettings (CBL) schemes have led to a more efficient use of housing stock by significantly reducing rates of abandonment. This in turn facilitates the creation of more stable communities and can add to social capital as people living in their neighbourhoods take more interest and pride in their local surroundings (See box 7.9).

… better, joined-up services …

Choice places continuing incentives on providers to improve the quality of their services if they are to retain existing users and encourage new users to switch to their service. This, in turn, can lead to improved outcomes, as shown in Box 7.8.

Moreover, giving users greater choice puts pressure on organisations to provide more joined-up services. For example, under the Government's 14-19 reforms, young people will be able to choose from a wider range of vocational and academic programmes.[192] This will necessitate more collaboration between local institutions to make the full range of 14-19 options accessible through models such as:

- a sixth form, perhaps in a separate centre, jointly managed by local partnership institutions, which will enable students to study a much wider range of subjects, including vocational subjects;
- a community learning centre incorporating all, or a selection of, pre-school, primary, secondary, further education, learner support, social and other services on a single site; or
- more informal collaboration between schools, colleges and training providers to jointly plan and

Box 7.7: Efficiency Gains from Choice and Competition: the Case of Stockholm

Stockholm has been far more active at introducing choice in healthcare than the rest of Sweden. 60% of primary healthcare centres are operated within the private sector, with patients free to choose between them. Patients also have the freedom to choose which hospital they are treated in, including private hospitals.

There have been clear gains from competition between hospitals due to patient choice – the private hospital in Stockholm is 10-15% less costly than other hospitals in Sweden, and studies show that many patients chose the hospital due to its reputation for high quality care – indicative of higher efficiency. Costs per procedure have fallen, and throughput has increased.

More generally, evidence from Sweden suggests greater competition between healthcare providers has enhanced efficiency by approximately 13% and productivity by around 19% while at the same time improving access and standards.

Source: Lofgren, R., *The Swedish Health Care System: Recent Reforms Problems and Opportunities* - Fraser Institute Occasional Paper 59, 2002; Hjertqvist, J., *Swedish Healthcare in Transition: An AIMS Health Care Commentary*, 2001-02 (several papers in series).

Box 7.8: How Choice of School in the US Has Improved Educational Outcomes – the Florida A+ Programme

The Florida A+ Programme gives children in schools that persistently fail the Florida Comprehensive Assessment Test the opportunity to choose an alternative school (through support to attend private schools). Grades are assigned to schools (A through to F) on the basis of the performance of children in each school. Choice of another school is offered to all children attending schools assigned an F-grade in any two years during a four year period.

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.

Source: Greene,J. and Winters, M., *Competition Passes the Test*, 2004.

Box 7.9: Choice-Based Letting in Newham

Traditionally, social housing in the UK has been allocated by housing officers on the basis of the comparative needs of those applying for housing. By contrast, choice-based letting systems give tenants a say over where they live.

The Newham system works on a relatively simple basis: once you are on the local authority housing register, you apply for the house you want; the bids are ranked according to the Council's selection criteria, and a winning bidder is found. Each bidder is not necessarily successful, but the individual applicant is given the opportunity to make decisions about things like property size and location, rather than having somebody else do it for them. The reduction in staff required to run the new service has resulted in Newham making £165,000 worth of efficiency gains between 2001-02 and 2005-06, while levels of complaints have significantly reduced.

The pilot evaluations of choice-based letting schemes found a sharp reduction in transfer requests among those who had been re-housed under the scheme. In one pilot area, the turnover rate dropped from 6.34%, to 5.77%, to 4.48% and then 3.23% in successive quarters. Another pilot found that rates of abandonment had dropped much more sharply in the CBL areas than in non-CBL areas. In September 2001 abandonment rates were 11.86% and 9.66% in the CBL and non-CBL areas respectively, whereas by September 2002 they had dropped to 4.25% and 4.75% respectively.

Sources: *Audit Commission* website: www.audit-commission.gov.uk and *Choice-Based Lettings: An Evaluation*, ODPM, 2004.

provide a 14-19 curriculum for their area, supported by ICT networks and a common approach to student guidance.

The introduction of Individual Budgets for social care also holds out the prospect of much more joined-up service provision. Under this system, individuals requiring social care are given a personal budget, determined by their needs and means, which they can take in cash to buy services of their choice or as services brokered by a care manager or as council commissioned services. This not only empowers individuals, by giving them the opportunity to tailor their care to their personal needs, but also ensures that different organisations respond to customers' individual demands, resulting in the provision of a more joined-up service.[193]

… more responsive services …

Choice-based mechanisms can often lead to better matching of users to services because individuals are better placed to understand their preferences and needs than a provider or institution that takes decisions on their behalf. Moreover, allowing people to choose services yields valuable information to providers about the service characteristics that users value most – users reveal their preferences though their choices. Providers can then draw on this information to develop their services further so that they meet users' needs even more.

With choice-based lettings, it is no longer housing officers who identify which houses are best suited to future tenants, but the individuals themselves, who are better

placed to identify the houses that most suit their needs and circumstances (see Box 7.9).

Collective choice mechanisms such as Tenant Management Organisations (tenant controlled providers of housing management and maintenance services) have given tenants a much greater say in how their services are provided. This has led to improvements in the responsiveness and quality of the service. 77% of tenants surveyed agree that the Tenant Management Organisation had led to improved quality of life, and satisfaction ratings (at 81%) are particularly high amongst black and minority ethnic residents.[194]

… more equitable outcomes …

Some studies indicate that under certain circumstances, choice can lead to more equitable outcomes. For example, studies show that choice can improve access to good public services for all users – particularly where it gives people with lower incomes more opportunities to use services that had previously been the preserve of the middle-class.[195] Personalisation can also improve equity if it leads to services that better reflect individual need.[196]

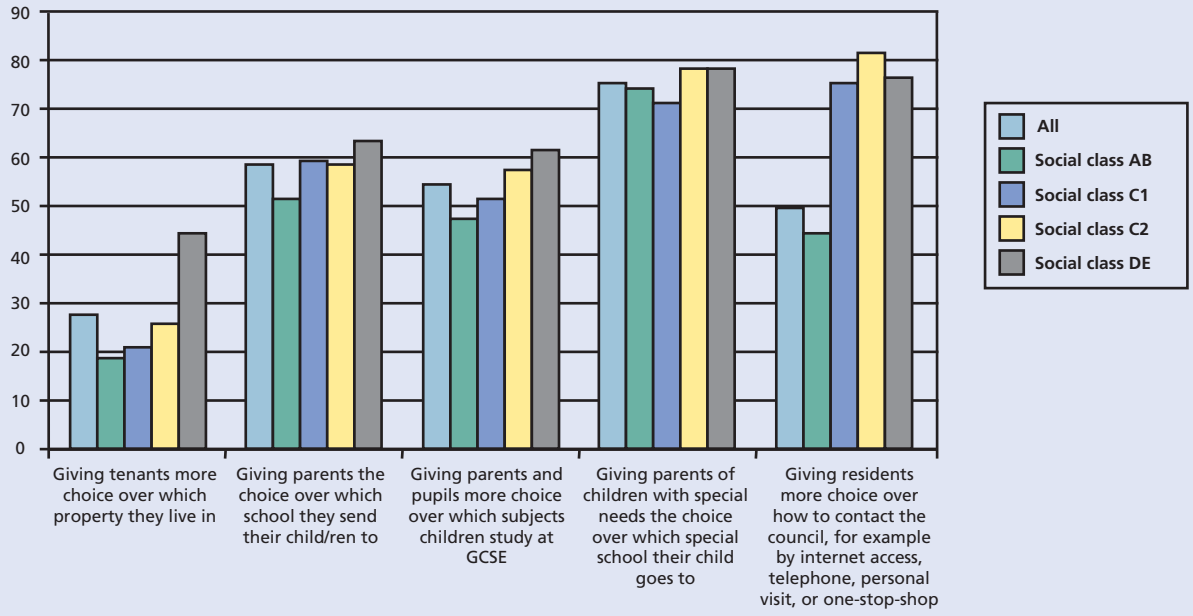
Evidence from schools also supports the view that the introduction of choice can reduce segregation – Gorard et al found that segregation; modestly decreased following the introduction of the 1988 Education Act which allowed greater parental choice.[197]

Many community-owned and tenant-run organisations have paid particular attention to helping the more disadvantaged residents. For example, some Arms Length Management Organisations – such as Ashfield Homes set up in 2001 in Nottinghamshire – have played an active role in empowering tenants and responding to community needs. Ashfield Homes manages the Ashfield District Council's housing, and has established high quality tenancy support services to assist vulnerable people in managing and maintaining their tenancies, as well as playing a role in signposting them to education, training and employment opportunities.[198]

However, it is hard to generalise about the impacts of choice-based approaches on equity, as in practice (discussed in more detail below) outcomes will often depend upon the detailed policy design and the extent to which support mechanisms are embedded in policy design to ensure that equity is safeguarded [199].

But this is certainly not to say that systems with limited or no choice are equitable. On the contrary, there is evidence that when choice is constrained it may result in

Chart 7.2: The Relative Importance that Individuals in Different Social Classes Attribute to Choice in Different Local Government Service Areas.



Source: Research conducted by MORI for the Audit Commission, July 2004[208]

greater segregation,[200] and there is long-standing evidence of inequalities in the use of NHS care in relation to need between different social classes.[201]

Studies have found:

- intervention rates of coronary artery bypass grafting or angiography following heart attack are 30% lower in the lowest socio-economic group than the highest;[202]
- hip replacements are 20% lower[203] amongst lower socio-economic groups despite roughly 30% higher need; and
- a one point move down a seven point deprivation scale results in GPs spending 3.4% less time with the individual concerned.[204]

Survey evidence certainly shows that the public like choice. A recent nationally representative cross-sectional survey of parents of children in school years 5 to 7 found very high satisfaction ratings outside London, both with the process of choice and with the school chosen.[205]

Similarly, a poll undertaken by YouGov suggested that 76% of those with children in state schools consider it very important or fairly important that they have more choice over which schools their children attend.[206] Furthermore, people from lower socio-economic groups are most in favour of more choice. A MORI poll in 2004 found that people in social classes D and E were most likely to consider choice "absolutely essential" (see Chart 7.2 below), a finding supported by the British Social Attitudes Survey.[207]

...improved outcomes ...

Experience in health has also shown that self-management techniques can have significant beneficial effects on recovery rates and can also be more cost-effective than conventional treatment (see Box 7.10). Similarly individuals playing an active role in helping themselves or each other get the most out of public services can lead to improved outcomes e.g., parental involvement in their child's education.[210]

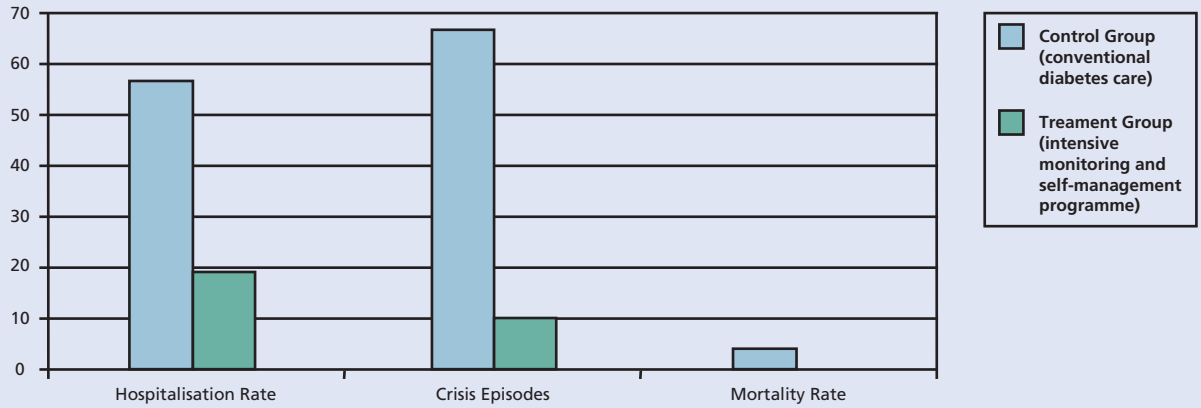
... and more empowered users better able to help themselves

There is evidence that the active involvement of citizens in the delivery of services empowers them and improves their sense of well-being. Research shows that a range of initiatives to involve users in decision making and to devolve powers to the neighbourhood level have had

Box 7.10: The Impact of Behaviour Change Programmes on Health – the Case of Diabetes

The Bucharest-Dusseldorf study compared hospitalisation, crisis and mortality rates amongst two groups of 100 diabetes sufferers. A control group was given conventional diabetes care, whilst the treatment group were put through an intensive programme of monitoring and self-management techniques. **The treatment group was found to have significantly lower rates of medical crises and hospitalisations.**

Bucharest-Dusseldorf study into the effects of self-management of Diabetes



Source: Mulhauser et al, *Evaluation of an intensified insulin treatment and teaching programme as routine management of type 1 (insulin-dependent) diabetes 1989,* Diabetologia, Sept;30(9):681-90.

Box 7.11: Funding Following the User – the Case of Schools and Healthcare

If the benefits of choice and contestability reforms are to be fully realised, the funding for service provision should follow individuals' choices rather than be block allocated irrespective of how many people are using a provider's services. There are a number of public services where this principle has been adopted.

In **schools, further education colleges and universities**, funding is based on a formula that is largely driven by the number of people studying at the institution, with additional adjustments or premiums that reflect factors such as costs of provision and need. As a result, popular providers who attract more users will receive more funding, while the additional adjustments (e.g. extra funding for those qualifying for Free School Meals) reduces the incentive to 'cream-skim'.

In **health**, the Payment by Results system was introduced for a limited number of services in 2003-04, and from 2005-06 has applied to all NHS Trusts for elective care, and will apply to A&E, out-patient and non-elective admissions from 2006-07 (though this already applies to Foundation Trusts). Payment by Results has introduced a national price list for all activities within its scope, as opposed to giving hospitals block contracts for the provision of a broadly specified service. By being paid specifically for the procedures they actually perform (adjusted for the mix of patients treated and the type of treatments administered) Payment by Results encourages NHS Trusts to increase their activities, to become more efficient, and facilitates patient choice (as providers will be encouraged to attract patients).

Source: Strategy Unit.

positive outcomes in terms of self-esteem, self-confidence, greater sense of responsibility and higher aspirations for areas which, in turn, has a positive impact on the community.[209]

Realising the benefits of choice requires funding to follow choices

It is important that once users have made their choice, the payment for the service follows users.[211] In essence this means that rather than providers being block-allocated funding irrespective of how successful they are in attracting users, payments will be made to providers on the basis of how many users choose their services. Such a system sharpens incentives for providers to improve their services to attract more users (see Box 7.11)

But choice-based systems need to be carefully designed to fully realise these benefits

Badly designed choice-based initiatives may lead to the following problems:

- they may favour the better off. Appleby et al, suggest that choice can worsen equity as the articulate, confident middle classes profit at the expense of the less capable poor;[212]
- they may lead to increased segregation between social or ethnic groups. Le Grand discusses the possibility that, "in education, selective schools may cream-off the most able pupils leaving 'sink' schools for the remainder".[213] Other evidence also supports the view that choice can lead to increased segregation, in the absence of appropriate design conditions;[214] and
- they may lead to inappropriate outcomes. For example, the Audit Commission reports councils' concerns that under Direct Payments, vulnerable clients may make inappropriate decisions about their choice of carer.[215] Similarly, unguided or unconstrained choice in healthcare can lead to patients wanting services that are clinically inappropriate for their symptoms or not cost-effective.

It is particularly crucial to pay sufficient attention to equity when designing choice-based initiatives

A well designed choice-based system can be more equitable, as evidence from other countries' experiences suggests.[216] However, where appropriate safeguards are not put in place, increasing inequality can be a consequence.

New Zealand went further than most countries in the late 1980s in introducing choice and contestability. But the New Zealand government failed to embed sufficient safeguards in their new system to prevent inequity. Because they failed to get the detailed design conditions right, segregation based on income and ethnicity increased and the quality of teachers in deprived schools declined (see Box 7.12).

Box 7.12: Choice and Equity - School Reform in New Zealand

The 1989 'Tomorrow's Schools' reforms radically changed the New Zealand school system. They created a system of 'independent state schools' which removed the running of schools from local education boards and gave parents a choice over which school their child attended. But with, (i), few safeguards beyond anti-discrimination legislation to protect against 'cream-skimming' (schools selecting the pupils who are most likely to do well) and, (ii), the failure to establish pay arrangements that encourage teachers to stay in deprived schools, the reforms resulted in greater inequities.

Impact on Equity

Educational Inequalities: The quality of teachers at the most deprived schools appeared to have declined due to the way teachers' salaries are financed by the government. Schools receive full reimbursement for a number of teachers rather than a fixed monetary sum, giving schools no incentive to hire a mix of (more expensive) experienced teachers and newly qualified teachers. The best teachers have tended to move to the least deprived schools, leaving the most deprived schools with the fewest experienced teachers. This has disadvantaged children from poorer backgrounds who are less likely to exercise choice and are most likely to opt for their local school irrespective of the quality of teaching on offer.

Segregation: Research suggests that schools attempted to obtain an improvement in quality by 'cream skimming' – selecting pupils who are most likely to do well rather than improving the quality of the education that they provided. In the five years following the reforms, segregation increased as students sorted themselves by ethnic group and, to a lesser extent by socio-economic status, to a degree that cannot be explained by changes in ethnic and demographic patterns.

Source: Ladd H., and Fiske E., *When Schools Compete*, 2000; Hughes D., et al, *Trading in Futures: Why Markets in Education Don't Work*, Open University Press, 1999.

Sweden introduced parental choice over schools (places had previously been allocated based on place of residence) and encouraged the entry of independent schools from the early 1990s (see Box 6.5). Various studies have shown improvements in standards as a result of the reforms,[217] and while there are no direct studies on the impacts of the choice reforms on segregation, post-reform segregation is still at a very low level in comparison with other countries. In contrast to New Zealand, all new schools in Sweden have to be open to all, regardless of ability, religion or ethnic origin. Given Sweden's low levels of segregation and relatively homogenous population few further steps to promote equity were considered necessary, but the Organisation for Economic Co-operation and Development (OECD) argues that safeguards could have been stronger, with:

- greater support for disadvantaged groups, including help with transport costs;
- more guidance and support for school choice; and
- greater targeting of funding to reflect needs.[218]

The 1988 education reforms in the UK increased parental choice but did not in themselves lead to increased social segregation in schools. Indeed, the evidence suggests a modest decrease in segregation since 1988.[219] And, whilst it is true there are still significant variations in the social make up of schools in different areas, this is not due to choice *per se* but to a combination of admissions policies based on geographical catchment area and the ability of better off parents to move into areas with the best schools.[220]

The evidence from countries such as New Zealand and Sweden shows that it is critical that the detailed design conditions are properly thought through to help guard against inequitable outcomes. In practice this will mean that:

- disadvantaged users are provided with good information[221] through such mechanisms as choice advisers;
- measures are taken to help users overcome barriers to choice (e.g. travel and time spent gathering information) such as provision of funds to cover travel and free internet access;
- measures are taken to avoid 'cream-skimming' e.g. funding regimes that reflect the true costs of service provision to vulnerable groups to ensure that providers are not deterred from accepting them as patients or pupils; and
- measures to increased the supply of good service provision, through e.g. contestability to tackle failing or under-performing providers, alongside choice.

Box 7.13: Measures to Promote Choice and Access for All in Schools

The Education and Inspection Bill (currently before Parliament) aims to improve choice and access for all in a number of ways.

The cornerstone of the approach consists of measures to increase provision of more good places and more good schools, so that no pupil or parent has to put up with poor standards. This has been supported by:

- **information:** providing better information to all parents to help them choose the right school when their child enters primary and secondary school, and dedicated choice advisers to help the least well-off parents to exercise their choices;
- **measures to overcome the barriers to choice:** extending the right to free school transport to children from poorer families to their three nearest secondary schools within a six mile radius (when they are outside walking distance) and piloting transport schemes to support such choices for all parents;
- **initiatives to avoid 'cream-skimming':** making it easier for schools to introduce banding into their admissions policies, so that they can keep a proportion of places for students who live outside traditional school catchment areas to secure a more comprehensive intake; ensuring that vulnerable groups, such as children in care, are given priority over other children in the schools admissions process; and strengthening the status of the Admissions Code, requiring schools to "to act in accordance with" the Admissions Code, rather than merely having "regard to it"; and
- **supply-side reforms:** allowing good schools to expand or federate more easily and making it easier for groups of parents to set up new schools where they are dissatisfied with existing provision, thus increasing the supply of good school places and improving parental choice.

Source: *Higher Standards, Better Schools for All*, DfES, 2005; *Education and Inspection Bill 2006*

These lessons have been fully reflected in recent reforms to extend choice in schools in England, as described in Box 7.13.

Good information and support are vital if choice is to promote equity as well as efficiency

Good information is key to the success of choice reforms. Although individuals will generally have better knowledge of their own needs and preferences than the government, this will not always be the case. Providers often have more information than users[222] – for example, in education, parents and students seldom know the most effective teaching methods or the best way to learn mathematics, science, languages, and other subjects. In health, patients do not necessarily know which treatments are effective and appropriate, the side effects of such treatments or the potential adverse consequences of treatments. Although these problems can never be overcome in their entirety, they can be diminished through the use of:

- performance information. For example, local authorities are required to publish school performance information which helps parents to compare different schools;
- choice advisers. These have been used in health, education and local government (see Box 7.14 on patient support for choice in health);
- the internet. This has been used in a number of service areas to provide better information about the different options available to service users. For example, a number of councils advertise properties available through choice-based lettings systems on the internet. On the NHS in England website[223] users can identify their nearest GP practices and hospitals and compare hospitals on a wide range of indicators; and
- support from other organisations to make information more widely available. This has involved making information and literature available in, say, local libraries, rural post offices or parish councils. A number of councils have provided equipment in community centres in order to facilitate access to their choice-based lettings website.

In addition to improving information about the benefits of different options, it is also important for users to be aware of the costs of choice so that the best use can be made of scarce resources. In an ideal world users of public services should be aware of both the costs and benefits of the choices they make, in the same way that they do when shopping for goods and services elsewhere. In some services, choice-based approaches that work within some form of assigned budget make this possible. For example:

- in choice-based lettings, applicants on the housing register can bid for properties using the points that

Box 7.14: Facilitating Choice in the NHS

The introduction of patient choice in the NHS was preceded by a number of pilot schemes which tested what support was needed in order to ensure all patients benefited.

As part of the Cardiac Choice Pilots, for example, clinically trained Patient Care Advisers offered support and reassurance to patients on options for elective surgery. Other choice pilots used less specialist Patient Care Advisers (based in call centres) to provide patients with information on waiting times and the options available to them.

The pilots enjoyed a high take up – 57% in the Cardiac Choice Pilots, and up to 67% in other schemes and there was evidence of positive effects on waiting times (in the ophthalmology London Choice Pilots there was a 17% reduction in waiting times against a 4% reduction elsewhere in the UK).[224]

Source: Coulter A., le Maistre N. and Henderson L., *Patients' Experience of Choosing Where to Undergo Surgical Treatment: Evaluation of London Patient Choice*, Picker Institute 2005; Department of Health.

they amass from their needs assessment. They are therefore made aware of the 'cost of' (i.e. the number of points required to bid for) a property that has an extra bedroom, or is in a desirable location, compared with the 'cost of' bidding for a less desirable property at the top of a high rise block of flats;

- under Direct Payments for social care, recipients pay an hourly rate for care workers. A more qualified personal assistant is likely to command a higher hourly wage rate than a less qualified one. As a result, Direct Payment users will be aware of the financial costs of hiring a more experienced or more sought after assistant compared to one that is not in demand; and

- learner accounts for people wishing to study level three qualifications, as announced in the recent White Paper, *Further Education: Raising Skills, Improving Life Chances*, provide an opportunity for people to select a programme and provider of their choice, but at the same time, the accounts reveal information to learners about the costs of their different options.

Addressing the barriers to choice will also tackle equity concerns

Although choice brings benefits, it can also impose costs on individual service users:[225]

- travel costs. Choice in some services has implications for access and transport. For example, people looking for social housing through the choice-based lettings system may wish to visit properties that are being advertised before they feel able to identify which property most suits their situation. Similarly, pupils may need to travel further to their preferred school but the costs of transport may be beyond the means of lower income households; and

- costs of information. Exercising choice can also pose problems for low-income groups if it involves an investment in time to gather information or takes people away from employment, leading to a loss of earnings.

Possible responses to these concerns include:

- subsidising transport costs. For example, NHS patients on low incomes are entitled to free non-emergency transport under the patients' transport scheme;[226] and

- support mechanisms for vulnerable groups. For example, many local authorities have contracts with organisations that assist Direct Payment users in selecting and managing personal assistants. These organisations (often from the voluntary and community sector) even go as far as providing payroll services on behalf of Direct Payment recipients. Shaw Direct, for example, is a partnership between Ealing Social Services and a national charity – the Shaw Trust. Shaw Direct deals with all aspects of tax and National Insurance, producing payslips and liaising with the Inland Revenue on behalf of Direct Payment users.[227]

Measures to avoid 'cream skimming' will limit the chances of increased segregation

International and UK evidence suggests that badly designed choice-based approaches will increase segregation. The risks of 'cream-skimming' can be avoided by:

- putting in place funding regimes that reflect the higher costs of providing a service for certain groups. For example, local authorities receive more funding for pupils with special educational needs or those who qualify for Free School Meals (recognised as a proxy for disadvantage). A stop-loss insurance

Box 7.15: Regulations and Statutory Guidance to Prevent 'Cream-Skimming' in Schools

The Admissions Code states that local authorities should **aim to ensure that admission criteria are clear, fair and objective**, for the benefit of all children. It also states that **academic selection should never be used to decide entry into primary education**. The Education and Inspections Bill (currently before Parliament), requires schools to "to act in accordance with" the Admissions Code, rather than merely having "regard to it".

Local Education Authorities (LEAs) are also required to establish admission forums, whose membership includes representatives nominated by LEAs, schools, and parent governors. They provide a vehicle for admission authorities and other interested parties to get together to:

- discuss the effectiveness of local admission arrangements;
- seek agreements on how to deal with difficult issues; and
- advise admission authorities on ways in which their arrangements can be improved.

These admission forums effectively have an oversight role over admissions in a local area. Under the Education and Inspections Bill, admission forums will be able to object to the schools adjudicator if they feel schools are not abiding by the admissions code. The Bill also includes a prohibition on interviews for the purposes of admission.

Source: *School Admissions Code of Practice*, DfES 2003; and *Education and Inspections Bill*, 2006.

scheme, where health authorities allocate extra resources to fund-holding GPs for patients whose costs of treatment lie well outside the normal range of costs (limiting the personal financial exposure of GPs), has succeeded in restricting the scope for 'cream-skimming' in health.[228]

- using regulation and Statutory Guidance to prevent inappropriate selection. For example, service guarantees in health and the Admissions Code for schools (see Box 7.15);
- adopting fair admissions policies in schools, such as banding. Banding means that schools offer places based either on the range of abilities of applicants, or on the local or national ability range, to achieve an all-ability intake**.** Evidence suggests that banding can reduce levels of segregation by around half of what would have been expected, other things being equal;[229] and
- making more use of well designed performance measures. For example we can measure how much a school has improved on its pupils' prior attainment (value-added measures), how much improvement there has been taking into account external factors such as socio-economic status (contextualised value-added measures) and the percentage of pupils that have made expected rates of progress. All these measures will give schools more incentive to focus on developing their lowest performers than traditional targets for maximising the percentage of children reaching a certain attainment level.

An increased supply of high quality public services matters above all else

An increased supply of good providers of high quality public services will mean choice makes service providers more responsive to users without compromising equity. The greater the supply of good schools, good hospitals and other service providers, the less the risk of choice-based systems compromising equity or increasing social segregation. An increased supply of high quality service providers in turn requires a flexible supply side which facilitates ease of entry by new providers to replace failing or poorly performing existing providers.

It is worth noting that in some circumstances choice can still bring benefits even in the absence of increased supply. Giving people the ability to choose the type of service or provider that they would like will lead to improved outcomes compared to a world of no choice (where the government, or some other delivery organisation, allocates services to users) as long as users have a better understanding of their own needs and preferences than government does. For example, choice-based lettings need not be accompanied by an increased housing supply to be effective; they are effective because prospective tenants (as opposed to housing officials) are the people best placed to make judgments about the relative priorities they give to qualities such as house size and location of property.

Box 7.16: Planning for Real – a New Approach to Community Consultation

Planning for Real is an innovative community consultation process. Members of the local community are invited to participate in a discussion focused on improving the well being of a community, often with regard to physical aspects of the area. For this reason, the consultation process revolves around a model of the local area, often built by a local school. Cards with around 300 potential options (as well as blank cards for new ideas) are provided which members of the community can use to show what they think needs to be done to improve the area.

In High Hazels, Sheffield, a Planning for Real project was undertaken in 2000 to help improve the quality of life of the local area. On the basis of the consultation, landscape architects were employed to draw up a regeneration plan.

Source: www.nif.co.uk/Projecys/Consultancies/East Dulwich.htm

However, properly designed choice-based approaches when accompanied by increased supply will usually be the best way of ensuring that all the benefits of choice described in this chapter are fully realised.

Careful policy design is also important for voice mechanisms

As has been pointed out by Anna Dixon and others the voices of the poor tend to be notably quieter than those of the rich.[230] But again these risks can be mitigated to some extent through careful design:

- people who lack confidence and communication skills to articulate their views need to be supported, perhaps by building on a number of initiatives at the neighbourhood level such as the use of community champions and Community Empowerment Networks established in the 88 most deprived areas to drive regeneration;[231]

- innovative ways of consultation can appeal to a wider range of people. Models used by councils to engage communities include Citizens' Panels, Planning for Real (see Box 7.16), Citizens' Juries, youth juries, focus groups and service users' forums; and

- technological innovations such as Customer Relationship Management (CRM) systems which help people working in public services to better understand users' needs, as they record a full history of users' transactions with a provider. CRMs are increasingly being adopted in local government where they provide a record of the number of times a member of the public has contacted the council, and a summary of their query. Similarly, telephone customer contact centres open up opportunities for council staff to obtain the views of users on a wide range of issues when they contact the council with a query. More generally, the Local e-Democracy National Project will provide local authorities with a range of new and enhanced tools and techniques to encourage increased participation and create stronger bonds between the citizen, their council and their representative.[232]

Chapter 8
Capability and Capacity

Chapter Summary

Successful delivery of the UK Government's model of public service reform depends not only on putting in place the right mix of challenge from top down, horizontal and bottom up pressures but on ensuring central and local government capabilities and civil and other public servants the capacity (leadership, motivation, skills and support) to deliver it.

A great deal has been done to enhance the capability of the public service workforce through stronger and more visible leadership; investment in workforce development and professional skills; bringing in and bringing on more talent; and workforce reform.

Much has also been done to enhance the capacity of central and local government by strengthening strategic and delivery capability, improving the adoption of best practice and making better use of IT.

The Departmental Capability Reviews will provide incentives for further improvements in capability and capacity.

The scale of the change associated with public service reform is substantial and carries risks but these can be mitigated by good risk management; intelligent sequencing of change; and by effectively engaging both service users and the public service workforce.

Building capability and capacity is no less important than the challenge from top down, horizontal and bottom up pressures

Successful delivery of the UK Government's model of public service reform requires:

- engagement of front-line and other staff;
- highly motivated, well-led, high calibre civil and other public servants including front-line workers; and
- central, local and other tiers of government with the capability and capacity to design and put in place the necessary systems.

This Chapter (see Chart 8.1) sets out the steps being taken:

- to strengthen leadership, talent and skills in both the civil and the wider public service – including the front-line;
- to strengthen the capability and capacity of central, local government and the wider public service; and
- to manage the risks associated with change.

Supporting and engaging with front-line and other staff is vital to the successful delivery of high quality public services

The quality of service a user experiences depends not only on the level of spending on that service and how its provision is led and organised but on the calibre, skills, attitude, ethos and motivation of the workforce delivering them. For this reason, front-line and other staff is central to the public services reform agenda. Research shows that if staff are dissatisfied so too are customers.[233]

Front-line staff can provide helpful support to the change process. Given their proximity to users, front-line staff are often the first to know when a policy is not working and when users are displeased. Engaging staff in the change process is also essential because they are potentially key advocates of public service reform.[234] The public places a great deal of trust in public service workers (for instance, 91% of the public trusts doctors compared to only 71% who trust the NHS; 77% of the public trust judges but only 53% trust the legal system) and front-line workers provide credible opinions about how public services should be operated. If staff do not understand or believe the rationale for change, they are unlikely to be able to advocate it.

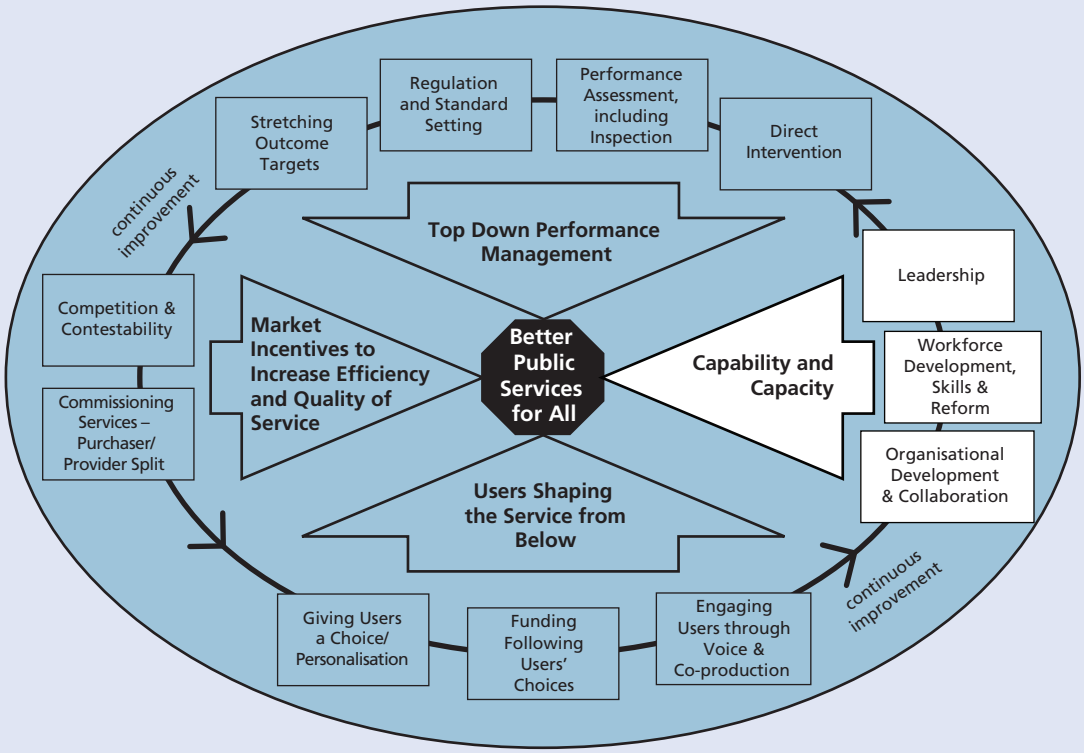
A great deal has been done to strengthen leadership and to improve skills in Whitehall, in local government and in front-line services

Measures taken to improve the leadership and skills of the Civil Service include:

- stronger and more visible leadership. The Civil Service is investing more in the development of future leaders (e.g. through the High Potential Development Scheme)[235] and giving high flyers more responsibility earlier;

- better professional skills. The changing role of the Civil Service and the reform of public services mean there is a greater demand for skills such as leadership, strategic thinking, financial management, commissioning and procurement, system design, programme and project planning and management, and marketing. Professional Skills for Government is a long term programme to equip the Civil Service with people who, wherever they work, have the right mix of skills and expertise to enable their Departments or agencies to deliver effective services (see Box 8.1). The programme provides clarity about the skills that individuals need to develop and progress in the Civil Service, and access to more consistent opportunities to develop those skills;

Chart 8.1: Capability and Capacity



- bringing in and developing talent. Many of the skills and capabilities that today's Civil Service needs can be met by broadening the pool from which it recruits. The traditional graduate intake is being supplemented by an increasing number of people joining mid-career. An increasing proportion of Senior Civil Service (SCS), including Board level appointments, are made from outside (for instance, 16% of the total SCS were external recruits in 2003, by 2005 this was 21%);[236]

- increased diversity so that the Civil Service represents the composition of the society that it serves;

- tightened performance management, exemplified by the Performance Improvement Plans introduced for senior civil servants in need of structured development each year; and

- a professionalisation of support services. The Civil Service's approach to service delivery is being professionalised with new career paths opening up in areas such as IT, finance and human resource management.

Together these various elements provide a comprehensive skills and workforce development programme that aims to produce an organisation capable of consistently delivering high performance, while preserving the traditional values of the Civil Service – honesty, objectivity, integrity and impartiality.

Measures taken to improve leadership and skills in local government include:

- increased support and guidance on leadership development. Good leadership is one of the key drivers of local authority performance.[237] Surveys undertaken as part of the evaluation of the Best Value regime have consistently shown that local authority officers and elected members believe that leadership is the most important factor driving improvement.[238] Local government leadership is improving. Over the last three years, local authorities have reported consistent improvements in the leadership qualities of their officers,[239] and both local authorities and the Government have supported measures to continue this improvement including the establishment of a new Leadership Centre for Local Government (see Box 8.2); and

- improved workforce development planning. The Comprehensive Performance Assessments overseen by the Audit Commission have revealed a direct correlation between authorities that score poorly in CPA assessments and under-investment in workforce development.[240] Local authorities have improved workforce planning; increased spending on training (up 23%, from £176 per person in 2001 to £216 in 2004); and 20% of authorities now have succession planning place compared to 4% in 2001.[241] But some local authorities have been slower to develop

Box 8.1: Professional Skills for Government

Proposals for the introduction of Professional Skills for Government (PSG) were launched in October 2004. Its aims are to enable staff in all areas of the Civil Service to develop the skills and experience needed to design and deliver 21st century services.

All staff – not just specialists – will be expected to have the professional skills and experience needed to do their job well, under three broad career groupings:

- operational delivery;
- policy delivery; and
- corporate services delivery.

The particular skills that that PSG is seeking to develop in the Civil Service include:

- leadership;
- people management;
- financial management;
- programme and project management;
- analysis and use of evidence;
- strategic thinking;
- communications; and
- marketing.

The PSG programme is currently being rolled out across government.

Box 8.2: The Leadership Centre for Local Government (LCLG)

The Leadership Centre for Local Government was set up in 2004 to address the shortage of leadership training programmes which catered specifically for the complex needs of local government. The main functions of the LCLG include:

- enhancing top-level leadership by working on a long-term basis with the top managerial and political teams;
- improving the quality and supply of leadership development services available to local government; and
- bringing together and developing the latest thinking on local leadership.

A major part of the Leadership Centre's work involves a 'leadership advisor' spending an intensive period working with the senior political and managerial team to:

- help to map out a tailor-made leadership development programme to bring about lasting changes;
- identify the leadership issues they face and do this in a positive and constructive way; and
- explore and help to identify ways to improve leadership capacity with local government.

The Centre is currently in discussion with almost 50 of the country's local authorities on how it can help the development of senior leadership.

The work of the Centre complements some of the schemes run by the Improvement and Development Agency (IDeA) such as the Leadership Academy and Academy for Executive Leadership.

Box 8.3: The Local Government Pay and Workforce Strategy

The Local Government Pay and Workforce Strategy (PWS) provides a framework and support to help councils with the organisational transformation and workforce reforms required to deliver improved services, greater efficiencies and better customer focus in front-line services. The key priorities of the 2005 strategy are:

- **organisational development** – to achieve excellence in people and performance management, process redesign, job design, equality and diversity in service delivery and partnership working;
- **developing leadership capacity** – among both officers and members, including attracting effective leaders into local government from outside the sector;
- **developing workforce skills and capability** – across the corporate centre of authorities, specific services, management and the front-line workforce;
- **recruitment and retention** – ensuring councils recruit, train and retain the staff they need; and
- **pay and rewards** – having pay and reward structures that attract, retain and develop a skilled and flexible workforce while achieving both value for money in service delivery and fairness.

One of the main indicators of the strategy's success is the take-up of workforce development plans. By 2005, 23% of authorities had completed or partially completed a workforce development plan, while 60% were working towards developing a plan for the whole or part of the organisation.

Source: Information supplied by Improvement and Development Agency (who are now responsible for delivery of the strategy).

comprehensive workforce strategies. To address this issue, the then[242] Office of the Deputy Prime Minister in conjunction with the Employers' Organisation for Local Government[243] produced the Local Government Pay and Workforce Strategy (see Box 8.3) which aims to ensure that, "…local government in England has the visionary leadership, organisational flexibility and people capacity required to deliver improved services, greater efficiency and better customer focus in front-line services".

Measures to improve leadership and skills in the wider public sector and in front-line services include:

- developing comprehensive strategies across public services to address current and future workforce issues.[244] Comprehensive pay and workforce strategies have been developed across the public services. These plans cover recruitment and retention issues such as dealing with potential future workforce shortages (such as teachers and doctors), professional development, setting out clear career paths and progression, pay levels and structures, and roles and responsibilities. Examples include the Agenda for Change in the NHS which provides a national framework with clear career progression, pay bands and development opportunities for over 1 million staff in the NHS (see Box 8.4); the Police White Paper 2004 which lays out a consistent approach to police career management based on national occupational standards and an effective performance and development review system;[245] the *Raising Standards & Tackling Workload: A National Agreement* signed in 2003 between teachers unions, employers and the Government that provides the foundations for a schools workforce modernisation strategy;[246] and the Children's Workforce Strategy which, for the first time sets out an action plan to ensure that there are the skills, ways of working and capacity in the children's workforce to deliver the best opportunities for children.[247]

- building on these workforce strategies, a number of new workforce initiatives:

  – introducing new roles. One of the most significant changes in the public service workforce in recent years has been the creation of a new set of roles to support public service professionals. For instance, teaching assistants to support teachers in the classroom; Community Support Officers to provide more visible policing, reduce low level crime and anti-social behaviour and support front-line police officers; and nursing support staff to allow nurses to spend more time with patients. These new support staff have an important role in their own right and also free up front-line professionals from administrative and other duties, improving the effectiveness of the services concerned;

Box 8.4: Investing in People for Better Public Services – the Agenda for Change in the NHS

Agenda for Change is the most radical shake up of NHS pay, terms and conditions since the NHS was created 1948. It provides a national framework for pay and workforce development that affects over one million NHS staff (excluding doctors and dentists). It collapses the 11 separate negotiating bodies and 650 staff grades into one national system of just two sets of nine pay bands.

Agenda for Change creates a more transparent and fairer pay structure. With clearer job specifications, people doing the same job will be paid the same amount and there will be more standardisation of terms and conditions. The reform is underpinned by a job evaluation scheme specifically designed for the NHS. Agenda for Change also harmonises pay rates, provides greater opportunities for job flexibility, puts in place a knowledge and skills framework designed to enhance career progression and gives every staff member the right to learning and development.

The system is intended to provide:

- greater scope to create new kinds of jobs, bringing more patient-centred care and more varied and stimulating roles for NHS staff;
- fairer pay based on job evaluation;
- movement towards harmonised conditions of service for NHS staff; and
- better links between career and pay progression.

Overall, the Agenda for Change programme aims to ensure that the entire NHS workforce is capable of delivering high-quality, responsive public services. The roll-out of Agenda for Change began in late 2004 and as of April 2006, it was 97% completed.

Source: *Agenda for Change*, NHS, 2004.

– modern and effective pay systems. New workforce plans attempt to use a much wider range of incentives such as pay, training, work-life balance and non-financial recognition to better align employer and employee interests.[248] Performance-related pay schemes are one example which – provided they are well designed – can be highly cost-effective as a means of rewarding the public service workforce and delivering service improvements (see Box 8.5). There is evidence that a well designed school based performance award scheme could also improve outcomes;[249]

– faster career progression and more flexible entry into public services. The Civil Service has long had a fast track scheme for attracting high quality candidates into the public service. In recent years similar schemes have been introduced for local government, teaching (e.g. through the Teach First[250] initiative) and health (e.g through the Gateway to Leadership[251] scheme); and

– greater recognition. For instance, the Government part-sponsors the annual Teaching Awards[252] which reward exceptionally talented head teachers, teachers, teaching assistants and school governors. The Health and Social Care Awards[253] also fulfil a similar function.

- increasing investment in effective leadership. There is evidence of a strong correlation between effective leadership and organisational performance.[254] Over the last 5 years, significant effort has been put into developing specific leadership initiatives across the public sector e.g. the establishment of a National College for School Leadership in 2000.[255] However, more recently there have also been efforts to develop a more flexible cadre of 'public service' and 'customer focused' leaders that can lead reform and collaborate effectively across the delivery landscape, including the establishment of, e.g., the Public Services Leadership Consortium (see Box 8.6);

Much has also been done to strengthen the capability and capacity of Whitehall departments…

The Prime Minister's 2004 speech on Civil Service reform[256] argued that central government needed to be 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

Box 8.5: Performance Related Pay: Job Centre Plus

In 2001, offices in 19 out of 90 Job Centre Plus (JC+) districts experimented with a group based incentive scheme:

- the scheme was carefully designed, with close attention paid to defining performance measures that were strongly linked to organisational goals, and providing staff with the right incentives to improve effort, while minimising gaming or adverse responses;
- each team was set specific quantitative and qualitative targets in five key areas of performance: job entry rates, customer service, employer evaluations, business delivery, and the monetary value of fraud and error;
- each team member received a bonus equivalent to 1% of basic pay for each target met (provided at least 2 targets were met), with an extra 2.5% bonus if all 5 targets were met; and
- the number of offices in each district varied from a minimum of 31 to a maximum of 151, with between 500-2,000 people on each team.

Evaluation shows that the average effect of this incentive scheme was nil. However, this varied substantially between large and small offices. In large offices, "free rider" effects were strong and the incentive scheme worsened performance.

However, in smaller offices there was a dramatic and positive impact on performance, with an impressive 10% increase in job placements overall, equivalent to 2,300 extra people placed into work per month.

The overall cost of the JC+ incentive scheme for all 19 districts was just 0.2% of the total salary bill. Researchers have calculated that an equivalent improvement in job outcomes could be achieved in other ways, but that it would cost much more – 19% if through a pure increase in staff numbers, 60% if through an increase in staff wages generally. **So, for smaller offices, the incentive scheme proved a highly cost-effective way of improving JC+ outcomes**.

Source: Burgess, S., *Incentives in the Public Sector*, 2004.

Box 8.6: Public Services Leadership Consortium

The Public Services Leadership Consortium was established to drive joint action on leadership development across the public services. Formed in January 2005, it brings together the CBI and over 10 major leadership academies across the public services including the Police, Prison Service, NHS, Schools, Higher Education, Civil Service, Social Care, Further Education, Local Government sectors.

The Consortium aims to:

- create a driving coalition for a new breed of leaders who see leadership as a collective widely distributed activity;
- deliver efficiencies in leadership development;
- develop the scope for the exchange of leaders across the public services; and
- championing and disseminating best practice.

The Consortium is currently overseeing work to develop a common framework of leadership development resources for customer focused leadership, to strengthen the approach to leadership and diversity, and to assess the scope for greater value for money in the leadership development market.

providers than in the past. The Department of Health, for example, now concentrates more on strategic leadership of the whole system by setting priorities, directions and standards, developing capability and making sure the system is accountable, rather than micromanagement.[257]

Most Departments have sought to strengthen their strategic and delivery capability. Board level directors of strategy have been appointed, strategy sub-boards, reporting to departmental boards have been established, as have strategy teams. This has led to a better alignment of strategy, policy, finance, HR, research, delivery and other functions.

There has also been a more planned and directive approach to public sector procurement. The Office of Government Commerce has a key role in leading that effort and manages a number of initiatives to open up government markets to competition and encourage private sector organisations to work better with the public sector. It also helps by providing guidance on procurement policy and introducing new ways of managing procurement.

… and to build capacity in local government and across the public services

IDeA was created by local government to stimulate and support self-sustaining improvement and development within local government. Its primary focus is on improving the quality of leadership, strengthening corporate capacity, improving service delivery in the areas of education, children's and adult social care services and helping councils to build sustainable communities.

Local authorities have increasingly sought to use partnerships with other local authorities, the private sector and the voluntary sector to strengthen their capacity and increase their efficiency. Local authorities have established a variety of innovative models for operating such partnerships and collaborations.[258]

In addition, Nine Regional Centres of Excellence are acting as lead change agents for local government efficiency.[259] They are working with councils throughout the country to secure millions of pounds in efficiencies that are being re-invested in better front-line services, bringing together local authorities, the wider public sector and other partners to showcase best practice and share learning in partnership working and excellence in service delivery with all councils within an area.

Across the wider public service, the Government has set up a number of agencies to capture and disseminate best practice and facilitate change in schools, hospitals and the police service. For instance, the NHS Institute for Innovation and Improvement[260] aims to support the NHS with high-impact solutions to some of its biggest challenges, as well as innovative ideas, new practices and technologies. The current priorities of the Institute include reducing delays in treatment, hospital associated infections and primary care and long term conditions. The proposed National Policing Improvement Agency, due to begin operation in 2007,[261] will play a comparable role in supporting the police service to implement some of the Government's mission critical priorities such as neighbourhood policing and a national information technology system for police intelligence. The Innovation Unit in the Department for Education and Skills plays a similar role in the education sector.[262]

Public service organisations are also seeking ways to improve their own capability and capacity. One way in which they have done this is through the collaborative

networks and partnerships to share best practice as discussed in Chapter 6. For instance, some of the notable school partnerships include:

- emerging federations of schools.[263] A federation is a joint governance arrangement between two or more schools which allow schools to improve standards by sharing best practice on such things as behaviour policy, use of IT and expanding the curriculum;

- Leading Edge Partnerships. Partnerships between schools to raise school achievement amongst under-achieving pupils. These partnerships are distinguished by the fact that one school usually takes the lead in the programme. There are currently 205 partnerships in the programme;[264]

- the Specialist Schools Programme. This helps schools, in partnership with private sector sponsors, to establish distinctive identities through their chosen specialisms, and to raise standards. Specialist schools work with a minimum of five partner schools, of which at least one must be a secondary school, as well as with local businesses and voluntary groups;

- Learning Partnerships. These are voluntary groups of local learning providers (ranging from schools to higher education institutions) that come together to promote provider collaboration in support of lifelong learning. Evaluations of Learning Partnerships have shown that they have added value across a significant number of localities;[265]

- the Networked Learning Communities (NLC) programme. This uses technology to bring together groups of schools, local authorities, Higher Education Institutions and the wider community to enable them to work collaboratively to raise standards and improve opportunities for their pupils. and

- the Excellence in Cities (EiC) programme. The programme seeks to raise standards in schools in deprived areas. The programme is delivered locally by schools working in partnership with their local authorities. It both increases diversity of provision for pupils and encourages schools to work together to raise standards, improve behaviour and reduce exclusions by working collaboratively.

Finally, the third sector has and will continue to have an important part in strengthening the capacity and capability of the public sector either through delivery of services or support to those services. A number of initiatives have been launched to strengthen the third sector's capacity to deliver public services. For example, the ChangeUp[266] programme is attempting to modernise the infrastructure and improve the reach of the third sector while the Futurebuilders scheme provides grants to help the sector deliver public services.[267]

These capacity building measures have led to a stronger focus on customers…[268]

Both central and local government have sought:

- to ensure services are more accessible to users. Information about services across UK central and local government is now available through a single internet portal – DirectGov[269] – which has between two and three million visits every month whilst NHS Direct provides everyone in England and Wales with access to medical support and professional advice over the telephone and to health-related information over the internet and digital TV.[270] At a local level, many authorities have established 24 hour call centres and almost all councils have services available online; and

- to join up the delivery of public services. Welfare benefits and employment advice for helping people back into work are for example now provided in the same place through the Jobcentre and Jobcentre Plus networks. As part of the Transformational Government strategy[271] Customer Group Directors are being appointed to sponsor research into the needs of their customer group, lead the design of services for that group and represent the interests of their customers in the machinery of government. The Chief Executive of the Pension Service, for example, is responsible not just for pensions but for many other services for older people.

… supported by more effective application of information technology …

The Transformational Government strategy[272] sets out how technology can help government respond to the challenge of public service reform. The 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). The strategy also emphasises the possibilities for sharing services in the public service (both front and back offices) and how the standardisation of common underlying processes will eventually make it easier for individuals to gain access to a range of services.

To steer and co-ordinate the work of Customer Group Directors and others, the Government is also setting up a Service Transformation Board of officials from the wider public sector who run major services and have

Box 8.7: Departmental Capability Reviews

The Departmental Capability Reviews were announced by Sir Gus O'Donnell, the Cabinet Secretary, in October 2005. The reviews will be used to assess how well equipped Departments are to meet the challenges they face.

The reviews will help Departments to identify where they need to improve and what support they need to do so. They are targeted at underlying capability issues that impact on effective delivery such as:

- Departments' strategic, delivery and leadership capabilities;
- how aware they are of their performance, and whether they have the tools to fix their problems when they underachieve;
- their people strategies (whether their people have the right skills to meet both current and future challenges); and
- how effectively they engage with their key stakeholders, partners and the public.

The approach has been developed with input from external experts such as the National Audit Office and Audit Commission. The review teams will be recruited from outside the Departments, with the majority of team members coming from outside Whitehall.

The first Departments to be reviewed are the Department for Constitutional Affairs, the Home Office and the Department for Work and Pensions, the Department of Trade and Industry, the Department for Communities and Local Government and the Department for Education and Skills. The programme will be rolled out across 17 Departments by the middle of next year.

operational delivery responsibility. The Board will set overall operational strategy and focus on the practical mechanisms to deliver service transformation. In particular, it will set overarching service design principles, promote best practice, signpost the potential of technology, identify common design and development needs, and challenge inconsistency or deviation from agreed standards or best practice.

Transformational government also has a local dimension.[273] As of the beginning of this year, over 97% of local councils were e-enabled meaning that technology was being used to offer services that were accessible and more convenient to people such as being able to go online to submit planning applications, check Council Tax balances and calculate benefits/entitlements.

The Department for Communities and Local Government with the IDeA have put in place a programme to help Councils get up to speed with e-government implementation, and to provide specialised advice and guidance. The Implementation Support Unit has provided onsite support to 45 Councils, whilst the Strategic Support Unit has directly engaged over 100 Councils through workshops and other activities.[274]

The Departmental Capability Reviews will provide powerful incentives for further improvements in capability and capacity

The Cabinet Secretary, working with the Permanent Secretaries, has launched a series of Departmental Capability Reviews (Box 8.7). These reviews will help to ensure that Whitehall Departments have the capability and capacity to rise to the challenge of the new model of public services. The reviews are being undertaken by high level teams which include external members and reports on the reviews will be published.

The scale of the change involved in putting self-improving systems in place may be substantial. The risks need to be well managed

The scale of the changes resulting from public service reform are substantial, as illustrated by the reforms to the NHS (see Box 8.8).

Almost by definition, any change process involves risk. The process of moving from a system that is centrally controlled to a more distributed, self-improving system is no different. There are at least three ways of managing that risk:

- taking a systematic approach to risk management. The Government's approach to risk management has strengthened considerably in recent years, as reflected in the development of Departmental 'Statements on Internal Control', and the production of HM Treasury guidance.[275] All government organisations now have basic risk identification and management processes in place and Departments are using a commercially tested risk management technique – The Gateway™ Process – to provide better strategic control over the implementation of major government construction, IT

and PFI projects (see Box 8.9) and so reduce their implementation risks.

- the intelligent sequencing of change. The sequencing of the elements of a change programme needs very careful consideration to minimise disruption, safeguard user interests during the transition and to ensure that any dependencies on other programmes are taken into account (e.g. programmes that will provide the financial and information flows necessary to support the new system). Professor Michael Barber suggests a reasonable sequencing for reform is first, to introduce standards and accountability, second to create further collaboration and capacity-building and third, to introduce market-based or quasi-market reform; and [276]

- securing the understanding of stakeholders (including staff and the public). A crucial part of establishing the vision and strategic direction for change is securing widespread stakeholder[277] agreement to them. Staff must be brought into the process, because as the delivers of any change, their engagement is essential to successful implementation. Studies show that staff feel change is being well-managed when their views are being listened to and when reasons for change are well-communicated.[278] Engaging with the public is also very important - an example of a successful consultation is the recent community health consultation held in Birmingham which fed into the Community Health White Paper.[279] Ultimately, this is the only way of delivering services that really put people first.[280]

Box 8.8: The Scale of the Challenge Posed by System Reform – the Case of the NHS

The NHS reforms involve moving to a radically different type of service, replacing the old monolithic NHS with one that is devolved and decentralised, with far greater power in the hands of the patient.

The 10-year NHS Plan published in 2000 set a new direction:

- first build up capacity and introduce new pay and conditions for staff and set strong central targets for improvement; and

- over time, move to a devolved and decentralised system with more power in the hands of the patient. The idea is to make reform self-sustaining so that instead of relying on centralised performance management and targets, there is fundamental structural change with incentives for the system and those that work within it, to respond to changing patient demand.

The NHS is now at the point of transition from the old system to the new, when the new forces within the system are starting to take effect and drive improvement. Four different but interlocking changes are happening at once:

- care in the secondary sector will be commissioned by GP practices (which will give GPs an incentive only to transfer to the hospital sector those cases that really need to be there);

- a payment by results system for hospitals (which allows patients to move across the NHS to choose where they want their operation);

- patients are being given a choice of NHS provider. So, if they have to wait too long at one hospital or are dissatisfied with the standard of care, they can go elsewhere; and

- new independent providers will be encouraged in the NHS (of which the Independent Sector Treatment Centres are the first wave).

This is a huge process of re-engineering but, by the end of 2008, there will, in practical terms, be an end of waiting lists in the NHS.

Box 8.9: The Gateway™ Process

The Gateway™ Process provides a common 'cradle to grave' approach to strategically controlling procurements which are large, complex, or novel throughout their life cycle.

As the name suggests, major projects must pass through a series of 'gates' (i.e., rigorous tests) during the planning and implementation stage before being allowed to proceed. The process seeks to ensure that:

- the best available skills and experience are deployed on the programme or project;
- all the stakeholders covered by the programme/project fully understand the programme/project status and the issues involved;
- there is assurance that the programme/project can progress successfully to the next stage of development or implementation;
- more realistic time and cost targets are achieved for programmes and projects;
- knowledge and skills among government staff are improved through participation in review teams; and
- advice and guidance to programme and project teams are provided by fellow practitioners.

Source: http://www.ogc.gov.uk/sdtoolkit/deliveryteam/gateway/index.html for further details of the process.

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[92] It is important to emphasise that there is no 'one size fits all' public service reform model. But there is a toolkit, developed throughout this report, that can be used selectively to help improve individual service areas. This means that, if choice or contestability will not achieve the Government's goals with respect to a particular service area, they should not be used.
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[138] http://www.nyc.gov/html/nypd/html/chfdept/compstat-process.html.
[139] It would also be difficult to have robust accountability arrangements if there were more than one provider of street cleaning services in a particular area.
[140] In a contestable market, it is the threat of entry and exit that generates benefits. As long as the existing or incumbent provider believes that a new provider might enter the market, or that it might be made to exit the market, then it has incentives to produce as efficiently as it can, to provide a high quality service and to innovate in order to deter new entrants from 'stealing' its customers or to ensure that it is not forced out of the market. Thus, in a contestable market, there need not be many different providers – it is possible to have contestability even when there is a single monopoly provider. In contrast, a competitive market is a market characterised by many small providers and low barriers to entry. This ease of

entry and exit means that competition in the market is possible. See *Contestable Markets and the Theory of Industry Structure*, Baumol, W., Panzar, J. and Willig, D.,1982 for further details.

[141] Hoxby, C., *School Choice and School Productivity (or Could School Choice be a Tide that Lifts All Boats?),* 2001 in Hoxby, C., ed. *The Economics of Schools Choice*, University of Chicago Press, Chicago.

[142] Bishop, M., and Kay, J., *Privatization in the United Kingdom: Lessons from Experience*, *World Development*, 1989.

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[144] Osborne, D. and Gaebler, T., *Reinventing Government*, 1992.

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[146] *Making Direct Payments Work for Older People,* Joseph Rowntree Fund, February 2004.

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[153] *Assessing the Impact of Public Sector Procurement on Competition*, OFT, 2004.

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[158] See http://www.noms.homeoffice.gov.uk/roms/ for details of the timetable.

[159] *Building Public Value*, BBC, 2004.

[160] Palmer, K., *How Should We Deal With Hospital Failure?,* King's Fund, 2005.

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[162] *Growing Capacity, Independent Sector Diagnostic and Treatment Centres,* Department of Health, 2002.

[163] *Public Policy: Using Market Based Approaches*, DTI, 2005 estimates that the average total costs (i.e. to bidders and to HM Prison Service) involved in introducing competition for the provision of prisons is around £1.5m per competition; these costs, however, are generally a small proportion of the benefits.

[164] See De Fraja, G. and Hartley, K., *Defence Procurement: Theory and UK Policy*, Oxford Review of Economic Policy, 1996, for examples of the benefits of collaboration in the defence industry.

[165] *Excellence in Cities: National Evaluation of a Policy to Raise Standards in Urban Schools 2002-03*, DfES, 2005

[166] See *The Future of Higher Education*, DfES, 2003.

[167] See Piatt, W., *Diverse Missions*, IPPR; and *Competition and Collaboration,* CIHE, 2001.

[168] See *Opportunity for All in a World of Change*, DTI, 2000 for a discussion of the benefits of regional clusters.

[169] *A Practical Guide to Cluster Development*, DTI, 2004.

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[171] *14-19 Education and Skills*, DfES, 2005.

[172] Broadly speaking, a 'knight' can be defined as someone who is motivated to help others. This contrasts

with a 'knave' whose principal concern is to further his or her self interest. See Le Grand, J., *Motivation, Agency and Public Policy*, 2003.

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[174] See for example Plant, R., *A Public Service Ethic*, 2001.

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[178] Ware, A., *Meeting Need through Voluntary Action: Does Market Society Corrode Altruism?* in Ware, A., and Goodin, R., *Needs and Welfare*, 1990.

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[182] *Competition: A Catalyst for Change in the Prison Service*, CBI, 2003.

[183] See, for example, *Choice, Voice and Public Services,* House of Commons Public Administration Select Committee Fourth Report, 2004-05.

[184] *Budget 2006: A Strong and Strengthening Economy*, HM Treasury, 2006.

[185] *Higher Standards, Better Standards for All,* DfES, 2005.

[186] See also speech by David Miliband to the DfES Innovation Unit/Demos/OECD on Personalising Education, 18 May 2004.

[187] Speech by David Miliband to the DfES Innovation Unit/Demos/OECD on Personalising Education, 18 May 2004.

[188] *Integrated Commissioning Strategy Update Adults, 2005-06*, available from http://www.ealing.gov.uk/ealing3/export/sites/ealingweb/services/social_services/adult_services/_home_page_docs/IC Strategy.pdf

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[190] Leadbetter, C., *Personalisation through Participation,* Demos, 2004.

[191] Bradley, S., Johnes, G and Millington,J., *School Choice, Competition and the Efficiency of Secondary Schools in England,* European Journal of Operational Research, 2002.

[192] *14-19 Education and Skills*, DfES, 2005.

[193] See *Opportunity Age*, DWP, 2005 and *Independence, Well-being and Choice*, 2005 for details of Individual Budgets. The DH website, http://www.dh.gov.uk/PolicyAndGuidance/HealthAndSocialCareTopics/SocialCare/SocialCareArticle/fs/en?CONTENT_ID=4125774&chk=/Ubh1q provides details of the pilots.

[194] *New Localism – Citizen Engagement, Neighbourhoods and Public Services: Evidence from Local Government*, ODPM, 2005.

[195] See for example Arend, N. and Lent, A., *Making Choices*, NGLN, 2004, and Hoxby, C., *School Choice and School Ccompetition: Evidence from the United States*, Swedish Economic Policy Review, 2003.

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[198] *Citizen Engagement and Public Services: Why Neighbourhoods Matter,* ODPM, 2005.

[199] Neal, D., *How Vouchers Could Change the Market for Education,* Journal of Economic Perspectives, 2002.

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[203] Ibid.

[204] Ibid.

[205] Flatley J., Connelly H. and Higgins V., *Parents' Experiences of the Process of Choosing a Secondary School*, DfES Research Report, 2001.

[206] Quoted in *Higher Standards, Better Schools for All*, DfES, 2006, based on a survey commissioned by *The Economist.*

[207] *The 22nd Report*, British Social Attitudes, 2005. For example, 59% of managerial and professional people said that people should have a great deal or quite a lot of say over which hospital they go to if they need treatment, which is 8% lower than the percentage of semi-routine and routine individuals responding positively to this question. See also evidence from New Zealand which shows that those with lower incomes are more likely to be in favour of greater school choice: Thomas, S. and Oates, R., *The Parent Factor Report Four: Access to*

Education, the Maxim Institute, 2005.

[208] Respondents were given a scorecard of 1-10, where 10 is "absolutely essential". Figures shown denote the 'net important' figure: the percentage of those responding 8-10 minus the percentage of those responding 1-3.

[209] *Benefits of Community Engagement*, IPPR, 2004.

[210] Feinstein, L. and Symons, J., *Attainment in Secondary Schools,* Oxford Economic Papers, 2002.

[211] This is particularly important when thinking about competition in the market.

[212] Appleby, J., Harrison, A. and Devlin, N., *What is the Real Cost of More Patient Choice*, The King's Fund, 2003. However, this argument relies on the 'lump of quality' fallacy which assumes that there is a fixed amount of good provision in the system and ignores the possibility that competition can lead to an increase in the overall quality of provision across the board. See Matthew Taylor's speech to the Guardian Public Services Summit held in January 2006 for further discussion.

[213] Le Grand, J., *Equity and Choice: Essays in Applied Economics and Philosophy*, 1991.

[214] See for example Björklund, A., Edin, P-A., Fredriksson, P. and Krueger, A., *Education, Equality and Efficiency – An Analysis of the Swedish School Reforms During the 1990s*, 2004.

[215] *Choosing Well*, Audit Commission, 2006.

[216] Burgess, S., Propper, C. and Wilson, D., *Choice: Will More Choice Improve Outcomes in Education and Healthcare*, CMPO, 2005 conclude that a review of the evidence on schools suggests that 'parental choice plus flexibility in the supply of school places reduces sorting of students by income and ability'.

[217] For a review of the evidence, see Nacaise, I., Esping-Andersen, G., Pont, B. and Tunstall, P,. *Equity in Education: Thematic Review: Sweden, Country Note,* OECD, 2005; Björklund, A., Edin, P-A., Fredriksson, P. and Krueger, A., *Education, Equality and Efficiency – an Analysis of Swedish School Reforms During the 1990s,* IFAU, 2004.

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[219] See Gorard, S. and Fitz, J., *Investigating the Determinants of Segregation Between Schools, Research Papers in Education*, 2000. More precisely, Gorard and Fitz found that initially segregation increased when choice was introduced and then declined because of what they term the 'starting-gun effect'. They explain this pattern by the fact that initially more privileged families are better informed about their rights under choice legislation, but after a while less advantaged sections of the community become more capable of realising their choices as they become more aware of their options. Also see Fitz, J., Gorard, S. and Taylor, C., *Markets in Education: The Impact of 12 Years of School Choice and Diversity Policies in the UK*, 2002.

[220] Black,S., *Do Better Schools Matter? Parental Valuation of Elementary Education, Quarterly Journal of Economics*, 1999; Gibbons, S. and Machin, S., *Valuing English Primary Schools, Journal of Urban Economics*, 2003.

[221] Corrigan, P., *Registering Choice: How Primary Care Should Change to Meet Patient Needs,* SMF, 2005.

[222] Economists refer to the problem of different information levels amongst different groups of people as informational asymmetries. This can lead to adverse selection which is a form of 'cream-skimming'.

[223] www.nhs.uk/England/Choice

[224] Length of waiting time is an important factor in influencing hospital choices. A study by RAND Europe, the Kings Fund and City University showed that where waiting times are above 10 weeks, there is a negative impact on people's choices – hospitals with relatively longer waiting times were less likely to be chosen. See Burge, P., Devlin, N., Appleby, J., Rohr, C. and Grant, J., *London Patient Choice Evaluation*, 2005.

[225] *Choice: The Evidence,* SMF, 2004.

[226] See *The Hospital Travel Costs Scheme (HTCS),* Department of Health, 2005. Available to download from Department of Health website at www.dh.gov.uk.

[227] See Shaw Direct website www.shopethic.com/shawdirect/direct.html for further details.

[229] Goodwin, N., GP Fundholding in Le Grand, J. et al (eds)*, Learning from the NHS Internal Market,* King's Fund, 1998.

[229] Gorard, S., Fitz, J. and Taylor, C., *Markets and Choice Policies,* London, 2003.

[230] See Dixon A., Le Grand J., Henderson J., Murray R. and Poteliakhoff E., *Is the NHS Equitable? A Review of the Evidence*, LSE Health and Discussion Paper, 2003

[231] See www.idea-knowledge.gov.uk/idk/core/page.do?pageId=1092347; *Getting Citizens Involved: Community Participation in Neighbourhood Renewal,* National Audit Office, 2004.

[232] *Citizen Engagement and Public Services: Why Neighbourhoods Matter*, ODPM, 2005.

[233] See for e.g., Fosam, E. et al, *Exploring Models for Employee Satisfaction: with Particular Reference to a Police Force*, Total Quality Management, 9, (2 & 3), 1998; Atkins, P. et al, *Happy Employees Lead to Loyal Patients*, Journal of Health Care Marketing, 16(4), 1996; Berthardt, J. et al, *A Longitudinal Analysis of Satisfaction and Profitability*, Journal of Business Research, 47(2), 2000.

[234] In a project sponsored by the Public Services Forum, the Cabinet Office and TUC have developed a toolkit for engaging staff systematically to promote engagement of the workforce in change and service improvement. See http://www.driveforchange.org.uk/index.asp for more details.

[235] See http://www.civilservice.gov.uk/archive/delivery_and_reform/senior_civil_service/learning_and_development/index.asp
[236] SCS Database, Personnel Statistics, Cabinet Office.
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