

2020 Public Services Trust  
*at the RSA*

# A Brief History of Public Service Reform

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2020  
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SERVICES

**SCOPING THE CHALLENGES FOR  
2020 PUBLIC SERVICES**

# A Brief History of Public Service Reform

A report prepared for the  
Commission on 2020 Public Services

# About the 2020 Public Services Trust

**The 2020 Public Services Trust** is a registered charity (no. 1124095), based at the RSA. It is not aligned with any political party and operates with independence and impartiality. The Trust exists to stimulate deeper understanding of the challenges facing public services in the medium term. Through research, inquiry and discourse, it aims to develop rigorous and practical solutions, capable of sustaining support across all political parties.

In December 2008, the Trust launched a major new **Commission on 2020 Public Services**, chaired by Sir Andrew Foster, to recommend the characteristics of a new public services settlement appropriate for the future needs and aspirations of citizens, and the best practical arrangements for its implementation.

For more information on the Trust and its Commission, please visit [www.2020pst.org](http://www.2020pst.org)

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# Contents

	<b>Authors</b>	<b>5</b>
	<b>Acknowledgements</b>	<b>5</b>
	<b>Foreword to the Scoping the Challenges Series</b>	<b>7</b>
<b>1</b>	<b>Introduction</b>	<b>10</b>
	The legacy of Beveridge	11
	The need for a new critique	14
	Towards a new settlement	15
<b>2</b>	<b>An historical narrative, 1979–present</b>	<b>16</b>
	<b>Margaret Thatcher 1979–1990</b>	<b>16</b>
	1979. A watershed election.	16
	The rise of monetarism and supply side economics	18
	Centralising local government	21
	Bringing market disciplines to public services	21
	Next Steps Programme	24
	<b>John Major 1990–1997</b>	<b>24</b>
	The extension of New Public Management	24
	The Citizen’s Charter enshrines six new principles for public services	25
	<b>Tony Blair 1997–2007</b>	<b>26</b>
	New Labour. New Britain.	26
	Education	27
	Health care	33
	Private Finance Initiative (PFI)	34
	Public service reform under Blair	36

	<b>Gordon Brown 2007–2009</b>	<b>36</b>
	Brown's Britain	36
<b>3</b>	<b>Themes of reform</b>	<b>40</b>
	<b>The changing nature of public services</b>	<b>40</b>
	Extending the scope of public services	40
	New public services institutions	42
	Budget, not service, entitlements	42
	<b>Improving public service delivery</b>	<b>43</b>
	Top down pressure	43
	Bottom up pressure	46
	Alternatives to public sector provision	50
	<b>Accountability to whom?</b>	<b>51</b>
<b>4</b>	<b>Directions for the future</b>	<b>52</b>
	<b>Realising the potential of citizen engagement with public services</b>	<b>53</b>
	Digital Era Governance (DEG)	54
	Outcome entitlements, not service entitlements	54
	Localism	55
	New professionalism	55
	<b>Towards a new settlement</b>	<b>56</b>
<b>5</b>	<b>Conclusion</b>	<b>59</b>

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# Foreword to the Scoping the Challenges Series

Effective public services are vital to our individual and collective wellbeing and prosperity, as well as being the foundation for a fair and cohesive society. They enable us to cope with the uncertainties of life, develop our potential, and extend our opportunities. They act as a practical expression of our shared values and aspirations. They work to correct underlying inequalities, and to advance other shared social, economic or environmental objectives.

The Commission on 2020 Public Services is a major inquiry into how our public services can respond to the significant challenges of the next decade. Chaired by Sir Andrew Foster (Deputy Chairman of Royal Bank of Canada, formerly Chief Executive of the Audit Commission and Deputy Chief Executive of the NHS) and including 21 leading public policy thinkers, the Commission will deliver a practical but compelling vision for the future of public services.

## The role of the Commission on 2020 Public Services

Long term social trends and the inherent difficulties of delivering a largely centralised welfare system have challenged the viability of our traditional welfare model. At a time when economic hardship and rising unemployment puts additional strain on our public services, and the short to medium term outlook for the UK's public finances looks bleak, the need for a comprehensive debate on our public services is all the more pressing.

The Commission on 2020 Public Services exists to transform the nature of the debate on public services. We intend to do this in three main ways:

- 1 By broadening the national conversation.** The debate about public services often focuses narrowly on delivery and piecemeal adjustments to the existing model. The Commission will steer the conversation toward the purpose of public



services and the underlying nature of the relationship between the citizen and the state. Everyone has an interest in this debate; as citizens, as users of public services, and as taxpayers. Any successful vision for change must make full use of the experience and know-how of citizens, including those engaged in frontline delivery.

- 2 By bringing new structure to the debate.** Where existing debates on public services sometimes lack coherence, the Commission gives the debate shape – bringing new insights from academic literature and citizen engagement to articulate new opportunities, constraints and trade-offs for policy makers in the future.
- 3 By liberating thinking about solutions.** Our national conversation on public services must wrestle with the content and meaning of social citizenship appropriate to our times. This means thinking about the obligations, entitlements, rules and expectations that define the relationship between citizen and the state. More than ever, in these tough economic times we need to work together and think beyond traditional parameters to improve our individual and collective wellbeing.

## Scoping the Challenges

The *Scoping the Challenges* series is the first step in the beginning of a new national conversation. It seeks to survey the landscape of issues and questions we need to pose to hold a coherent and comprehensive debate on the future of public services.

*Scoping the Challenges* consists of three research reports:

- **A Brief History of Public Service Reform** – an analysis of UK welfare and public services from before 1945 to the present day. It explores the evolution of the system and when, why and how change took place. It seeks to answer how have we got here and identify the prospects for radical reform.
- **Drivers for Change: Citizen Demand in 2020** – this project examines over 30 social, cultural and technology trends that will have a bearing on the demand for public services, and explores three scenarios which illustrate life as it might be in 2020.
- **The Fiscal Landscape** – this forthcoming project will set the scene for the funding of public services between now and 2020. In a time of considerable uncertainty and a likely change of government, forecasting the economic conditions and fiscal policy of the future is very difficult. What is certain is that borrowing now will need to be offset by tax increases and/or spending cuts later. The question

remains as to how this will effect the provision of public services. Is there anything that we can learn from previous experiences or other countries?

The underlying theme throughout the *Scoping the Challenges* series is a consideration of the relationship between the citizen and the state: What risks and challenges do citizens face? What is the role of government? Can the state afford to pay for public services that meet increasingly complex needs and demands?

These papers, along with other future research, will all feed into the Commission's final report due for publication in summer 2010.

The 2020 Public Services Trust invites to you to engage in our national conversation. For more information on how to get involved, please see [www.2020publicservicestrust.org](http://www.2020publicservicestrust.org).



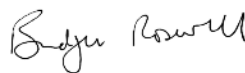
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# 1

## Introduction

The current financial crisis has sparked a period of political, economic and social instability. The global economy has been in shock, credit markets have dried up, and the values of global assets have plunged. The crisis may have been driven by a collapse in the financial sector, but its ramifications are far wider.

The 2009 Budget made clear the impact that the global recession has had upon the UK public finances. Recent figures from the Institute for Fiscal Studies indicate that total public spending will be cut by 0.1% per year in real terms over the Spending Review 2010 period, and investment spending will suffer ‘real cuts’ of 17.3% a year between 2011 and 2014. Public sector net debt is set to increase from less than 40% of GDP in 2008–2009 to nearly 80% of GDP by 2013–2014, with debt this year forecast to be £175 billion.<sup>1</sup>

Even without the specific pressures created by the fiscal crisis, longer term trends are already changing the nature and level of demand for public services. These long term trends include domestic factors such as an ageing population, changes in citizen expectations, entrenched inequalities in outcomes for citizens, and changes in family structures and household organisation. They also include global trends such as climate change, financial instability and threats to personal security.

How we square this circle – between long term trends that are increasing the demands on public services and more immediate budgetary constraints – has become one of the challenges of our age.

The fiscal crisis will make some public service reform inevitable. The task is to find directions of change that are within our means, but which strengthen the

<sup>1</sup> Chote, R. ‘Two Parliaments of Pain’ Institute for Fiscal Studies (2009)

support offered to citizens in difficult times. To do so will require us to think creatively and holistically, developing a new, coherent and long-term settlement for public services. This settlement must:

- 1 Be responsive to the existing and new sources of insecurity and disadvantage that citizens face today – including how these are distributed across the lifecycle, how they differ can by gender, ethnicity, class, and spatially, and how they can combine in ways that entrench and perpetuate disadvantage; and
- 2 Have at its heart the positive aspirations of citizens – for themselves and the lives they want to lead, for their families, and for their communities.

At the same time any new settlement must be more honest about limits on the state's capacity and capability to respond, even where this is appropriate. In drawing limits, it must be much more open to identifying, mobilising and coordinating alternative sources of support. The state will sometimes be too small to protect citizens from risks that are global in source – but it could help to mitigate those risks through its actions at home and abroad. It cannot be held solely responsible for risks that have their roots in many of the choices citizens make day to day – but it could do much to build individual decision-making capacity and shape the environment in which choices are made. It will be constrained in its freedom to act by the fragile and shifting nature of citizen priorities, concerns and alliances. These constraints can be exacerbated by freer movements of capital and labour, which limit taxation options and complicate cradle to grave notions of the social contract. Perhaps most of all, the state will be constrained by the fiscal straightjacket it is currently measuring up.

If we are to forge a radically new consensus, we must first understand how we have got to where we are. This requires us to understand the continuities and changes that have carried us to the present day, and how these trends might enable or constrain our choices for the future.

## The legacy of Beveridge

Throughout history and across countries, meeting the welfare needs of citizens has depended on an interplay between different sources of welfare: the family, civil society, the market, and the state (at a variety of levels). In different places and at different times, the emphasis placed on each of these sources of welfare has changes, sometimes resulting in dramatic shifts in the level or distribution of citizen welfare.

One story of Britain over the last hundred years has been the increasing role of the central state in citizen welfare. Earliest concepts of formal welfare provision in the UK can be traced back to at least the seventeenth century when the first Poor Law was passed under Elizabeth I. In the nineteenth century The Poor Law Amendment Act (1834) furthered the level of assistance for the very poorest members within each parish. The Factory Acts of 1833, 1844 and 1867 also brought attention to the conditions of the workforce. In turn, these restrictions on the working practices of children helped to catalyse support for elementary education for all (culminating in the Education Act, 1870). Liberal reforms during the first few decades of the twentieth century then saw the introduction of welfare services at a national level, such as the Labour Exchanges Act (1909) and National Insurance Act (1911).

However, it was not until the 1940s that public services and welfare provision moved away from a highly fragmented locally-based system towards becoming a core function of the central state. Until then, municipal and voluntary insurance schemes predominated, with services such as basic utilities funded through local taxation or contribution schemes. Mutual societies also provided a way for individuals to purchase private insurance or to access capital. Yet reliance upon these municipal and/or voluntary insurance schemes created a loose, patchy framework of welfare with huge variation in service availability and quality.

The 1942 Beveridge Report can be seen as a reaction to the fragmented and uneven locally-based provision, and a catalyst for change. Following the experience of planning for war, the radical change in approach was also a concrete expression of the state's new willingness and capacity to intervene at a national level. This dovetailed with the increasing acceptance of Keynesian economic orthodoxy, which signaled a shift away from laissez-faire and towards a model of central demand management.

Identifying the 'Five Giants' of Want, Disease, Ignorance, Squalor and Idleness, Beveridge set out a response that would "improve the present schemes of social insurance in three directions: by extension of scope to cover persons now excluded, by extension of purposes to cover risks now excluded, and by raising the standard of benefits".<sup>2</sup> He sought to address the chronic inequalities in service availability and quality by proposing a comprehensive system based on the principle of universal access to services. It would ensure that "all citizens without distinction of

2 Beveridge, W. 'Social Insurance and Allied Services' (1942)

status or class (were) offered the best standards available in relation to a certain agreed range of social services".<sup>3</sup>

The report was implemented almost entirely as recommended by Clement Atlee's post-war government (1945–1951), marking an historical transition point and defining the contours of a settlement that still survives to this day:

- 1 The central state as the guarantor of universal access to services of the highest quality based on need not ability to pay;
- 2 Services are mostly funded by general taxation; and
- 3 Delivered primarily by the state itself.

This paper argues that, despite waves of reform to aspects of this settlement over the last 60 years, the dominant theme has been continuity not change. This may come as a surprise to those working in public services who have lived through repeated service reorganisations. Indeed, this paper is devoted in a large part to explaining the rationale and impact of these public service reforms – particularly over the last 30 years – such as the Citizen's Charter, targets, and the introduction of quasi-markets and other market disciplines. But the argument remains that, despite these changes – and the extensions of service guarantees to cover new areas of need – the core elements of the Beveridge settlement have survived.

The current fiscal crisis may force a re-evaluation of this settlement for two reasons. First, it poses real questions as to the efficiency, affordability and spending priorities of our existing settlement. It will leave an unprecedented set of challenges to be addressed by future policy makers.

Second, the crisis forces new reflection on our public service settlement as a whole. Rather than focusing on the minutiae of individual services, it forces us to think holistically. In particular, we must evaluate:

- How far our services match up to the needs and aspirations of citizens;
- How far existing delivery mechanisms result in tangible outcomes;
- The relevance and coherence of rules, norms and values that underpin our settlement; and
- The distributional impacts of any changes in the patterns of public spending.

<sup>3</sup> Beveridge, W. 'Social Insurance and Allied Services' (1942)

## The need for a new critique

In retrospect the Beveridge settlement offers multiple trade-offs. The formation of a central bureaucracy has ensured much greater fairness in access to high quality services, reducing the harmful variations in quality and access that characterised the situation in the 1940s. The success of a centralised system has not been without implications for other objectives we might value, for example, in the tensions between:

- **Inputs and outcomes:** although the settlement had a clear focus on outcomes (the Five Giants), entitlements were expressed in terms of inputs (universal access). In the 1940s this may have been the most important priority given the inequalities in service access at that time, but the relationship between inputs and outcomes can change. A narrow focus on fair access is insufficient to tackle other entrenched inequalities, and can sometimes even increase them;<sup>4</sup>
- **A national guarantee and local flexibility:** the unit of comparison for service access and quality is national. This (together with the centralised funding mechanism) strictly limits the scope for variation in the response to local priorities or in search of innovation.

The role of the state as the dominant provider of public services has been increasingly challenged over the last thirty years. However, there has been little dispute over the state's role as guarantor of uniformity in service access across areas. In fact, it is reinforced whenever the spectre of the 'postcode lottery' is raised. As a result, the national guarantee, combined with national financing and national accountability structures, have created a mutually reinforcing cycle that has kept power at the centre.

A centralised welfare system has many benefits – going beyond access guarantees to include uniformity in adherence to rules, prices, and minimum standards – but also costs. The central state has maintained political, economic and administrative power at the expense of local modes of delivery and accountability. This has stunted its ability to respond to changing citizen needs at the local level. The centralising impulse has also stifled incentives to innovate, to take responsibility for services, and to push for better outcomes, not just equal access.

4 Le Grand, J. 'The Strategy of Equality: Redistribution and the Social Services' (1982)

## Towards a new settlement

The history of our public services described in this paper is of incomplete answers to fragmented questions, leading to partial, incremental and sometimes contradictory directions for reform. The gathering storm of growing demand pressures and profound fiscal constraints should force reflection about what we seek and what we get from our public services. Asking these questions in a holistic way holds out the possibility of developing comprehensive solutions that are better attuned to the lives of citizens today. In this way, a new settlement might improve the welfare of citizens, even in the face of fiscal pressures.

But policy never begins with a clean slate. Pre-existing attitudes, systems and cultures can be very powerful in determining what change happens, when, how and why. We can see how difficult it is to effect far reaching reforms when continuity of political systems and the values that underpin them are firmly embedded. Despite repeated calls for localism, for example, political and administrative power has remained at the bureaucratic centre. Nevertheless, far from discouraging further attempts to reform our public services, the conclusion of this paper argues that this should give us cause to be radical, creative and bold about our visions for the future.

## About this document

Chapter two tells the story of public service reform since 1979 – the year that marked the end of the post-war consensus. It was the beginning of a period of challenge to assumptions about the efficacy of state delivery that had gone largely unchallenged in the previous three decades. It is during this period that market-style disciplines become key tenets of public service reform.

Chapter three takes a thematic approach to developments in public services since 1979. It first considers how the nature of public services has changed over that period. It then identifies some of the lessons about more effective delivery of public services that have emerged.

Chapter four identifies some of the promising directions for reform in the future. It argues that to be successful it must take a holistic approach, considering the purposes of public services alongside any reform of the means.

Chapter five offers a brief conclusion and calls for fundamental change on the scale of “revolution, not... patching”.



# 2

## An historical narrative, 1979–present

This chapter sets out an historical narrative of domestic policy issues since 1979, the year which marked the start of a departure from many of the axioms of the post-war consensus. It offers a contextual backdrop to the thematic evaluation of policy reform in Chapter three, and the directions for reform that might follow.

### Margaret Thatcher 1979–1990

#### **1979. A watershed election.**

The 1979 general election saw the Conservative Party regain office. At the helm was Britain's first female Prime Minister, Margaret Thatcher, who had secured an effective working majority for the Conservative Party. Despite the fact that only three members from 22 within her new Cabinet had not served under the last Conservative Prime Minister, Edward Heath (1970–1974), Margaret Thatcher was to launch what many commentators regarded as a 'revolution'. Indeed, 1979 marked a watershed for British politics – particularly with regards to the welfare state and provision of public services.

The post-war Labour government regarded the state and its administrative apparatus as the main instruments of social change.<sup>5</sup> Institutions of public administration – central departments in Whitehall, elected local authorities and the newly created National Health Service – were thought to be the most effective mechanisms through which to deliver the core welfare services of social security, health, education, housing and social care.<sup>6</sup> Such an 'administrative model'

<sup>5</sup> Butcher, T. 'Delivering Welfare' (2002)

<sup>6</sup> Butcher, T. 'Delivering Welfare' (2002)

represented a deliberate shift from the voluntary, localised and piecemeal organisation of welfare provision of the nineteenth and early twentieth centuries. Instead, a bureaucratic structure was established, mirroring dominant patterns of industrial organisation. As Pinker (1982) observed, it was “taken for granted” that the state had a dominant role to play as both the funder and provider of social services.<sup>7</sup>

This administrative model placed a large degree of dependence upon effective decision making by frontline public service workers (doctors, teachers and social workers, for example). Butcher (2002) refers to the development of “welfare professionalism” as “an inevitable concomitant of the expansion of state social services in the post-war period”. At the forefront of delivery and with control of much of the resources, public service professionals were responsible for the nature and extent of services, and their subsequent development. In this way, doctors and teachers (in particular) were able to strengthen their collective hold on policy makers via their respective unions and/or within the hierarchical structure of the “administrative machine” of which they become a part.<sup>8</sup>

Whether or not the 1979 government came into power with a complete vision for the future of the welfare state, senior figures in the Conservative Party had begun to challenge the assumptions of the post-war administrative welfare state model. This challenge had several dimensions, both in opposition to the prevailing economic orthodoxy (which had seen Keynesianism flourish within the general equilibrium model) and in terms of political thought. The ‘New Right’ – heavily influenced by Friedrich Hayek – embodied the starkest challenge to the Keynesian model. Committed to the concept of free markets and social conservatism, this school of thought was also influential in the USA. President Ronald Reagan was an enthusiastic advocate of its policy implications – of minimal government intervention (including, welfare provision) and regulation. Similarly, Margaret Thatcher did, through privatisation of many state-owned monopolies, particularly utilities, trim the remit of the state.

At the micro level, issues of accountability and managerial effectiveness became increasingly prominent concerns, particularly as fiscal pressures intensified in the wake of UK economic decline throughout the 1960s and 1970s. Until then, public service management accounting practices, were – according to Richards (1994) –

<sup>7</sup> See also Glennerster (1992a)

<sup>8</sup> Klein (1973) quoted by Wilding (1982), in Butcher, T., ‘Delivering Welfare’ (2002)

“rudimentary in the extreme”.<sup>9</sup> In addition, top civil servants – the only people with visibility of inputs and outputs of public service management – were rarely concerned with day-to-day matters such as efficiency. Instead they were oriented towards the high-level policy aspect of civil service work: “With the growth of the welfare state, government had taken on new service management functions but the culture of the mandarin class at the top had not shifted significantly to accommodate this change.”<sup>10</sup>

This meant there were only very crude controls on spending on public services. Although the new government ultimately wanted to cut back public expenditure quickly, an important reform task was first “to create a managerial culture where before an administrative culture had prevailed”.<sup>11</sup> The move towards ‘New Public Management’ had begun.

### **The rise of monetarism and supply side economics**

Alongside the development of New Public Management and in accordance with the ideology of the New Right came the rise of monetarism and supply-side economics. Although David Childs (2002) argues that it was in fact Denis Healey (Chancellor of the Exchequer, 1974–1979) who had introduced monetarism to the UK (via his cuts to public expenditure as proposed by the IMF in the midst of the 1976 financial crisis), Margaret Thatcher’s reforms nevertheless represented “a radical departure from the basic beliefs of previous post-war governments....”<sup>12</sup>

After the oil shock of 1973, rampant inflation was the underlying dominant economic issue of the decade as the price level proceeded to reach double-digit rates of increase by 1974. Where Keynesianism had been concerned primarily with deflationary situations – via stimulation of demand – an input-cost based downturn required a different approach. As such, the ‘neoclassical synthesis’ that had justified much of the post-war settlement started to break.<sup>13</sup> An alternative policy framework was proposed by the ‘monetarists’, who believed that controlling the money supply

9 Richards, S. ‘Devolving Public Management, Centralizing Public Policy’ Oxford Review of Economic Policy Vol.10, No.3 (Autumn 1994)

10 Richards, S. ‘Devolving Public Management, Centralizing Public Policy’ Oxford Review of Economic Policy Vol.10, No.3 (Autumn 1994)

11 Metcalfe and Richards, S. (1984) quoted in Richards, ‘Devolving Public Management, Centralizing Public Policy’ Oxford Review of Economic Policy Vol.10, No.3 (Autumn 1994)

12 Crafts, N. ‘Reversing Relative Economic Decline? The 1980s in Historical Perspective’, Oxford Review of Economic Policy, Vol. 7, No. 3 (1991)

13 Keynesian economic orthodoxy was particularly challenged by the empirical break down of the Phillips Curve; demand-side policies were no longer a viable instrument when economies began to experience simultaneous rising inflation *and* unemployment.

was the only way to tackle inflation. Central to the supply-side reforms of monetarism was a belief in limited government intervention and the power of the free market. It was thought that public expenditure should be cut to enable taxes to be reduced and money put in the hands of individuals who could spend far more efficiently than any public agency. Whilst monetarism was not implemented wholly or in its strictest form, the ascendancy of supply-side economics and the accompanying belief in small government represented a watershed shift in political and economic orthodoxy.

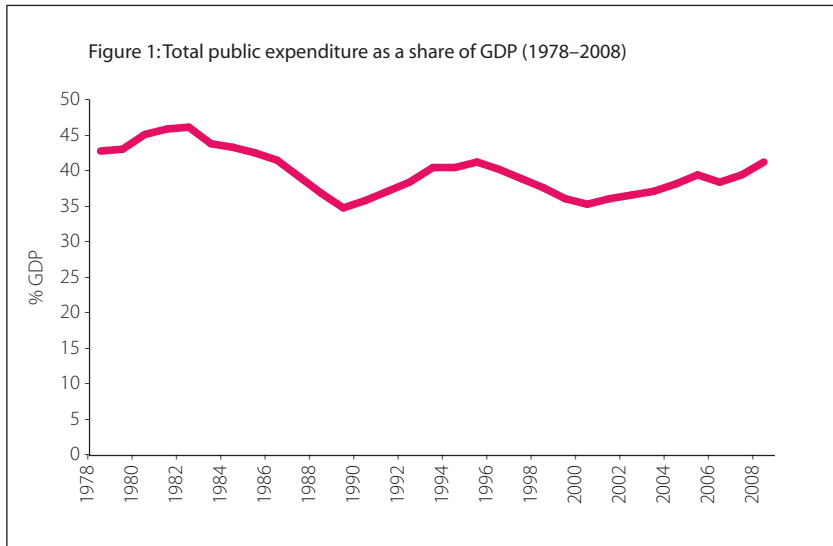
Persistently rising unemployment throughout the 1970s had also put inexorable pressure upon the post-war cross-party commitment to maintaining full employment. In an attempt to tackle double-digit inflation and to close the productivity gap between the UK and competitor countries, the administration accepted rising unemployment as a consequence. The labour market also felt the strain of economic policy as Margaret Thatcher sought to curb the power of the trade unions. The dependence upon public service 'professionalism' (especially education and health) during the 1960s and 1970s had served to heighten wider public sector collective bargaining and trade union power. However, as Campbell (2003) makes clear, Margaret Thatcher's "...real purpose was much more political: purging what she called socialism from the real economy by encouraging enterprise in place of subsidy and regulation, cutting over-manning and restrictive practices, particularly in the public sector, and above all curbing the power of the over-mighty unions".

The 'Winter of Discontent' of 1978–79 had bolstered the Conservative government's mandate to bring the unions under control, and Thatcher – learning from the mistakes of former Prime Minister Edward Heath – went about this to great effect.<sup>14</sup> "Over the whole decade, 1979–1990," Campbell argues, "curbing the power of the unions was perhaps the Thatcher government's most unarguable achievement, ending a culture of institutionalised abuse which had hobbled enterprise and broken three governments – Labour and Conservative – in the previous three years."

Contrary to traditional Keynesian orthodoxy, which advocated an increase in public spending when unemployment increased, Margaret Thatcher was determined to cut public borrowing and reduce public expenditure as outlined above. Nevertheless, although borrowing was indeed eventually cut, spending actually increased (see

<sup>14</sup> See the Employment Acts 1980 and 1982.

Figures 1 and 3). As Esping-Andersen (1990), Campbell (2003) and others have pointed out, “this is almost exclusively a function of very high unemployment”.<sup>15</sup>



Source: HM Treasury, 2009

In the 1981 Budget, Chancellor of the Exchequer Geoffrey Howe slashed £900 million of public expenditure, mainly out of social services. Sickness and unemployment benefits became liable for income tax; child benefit was increased by less than the rate of inflation and prescription charges were doubled so that they reached five times the level of just the year before.<sup>16</sup>

The social and (for a short time at least) economic costs of restructuring away from manufacturing towards services were high: “Productivity and investment remained stubbornly low, there was relatively little improvement in the skill base, investment in infrastructure and science was seriously underfunded, along with most of the public services.”<sup>17</sup> Nevertheless, by encouraging foreign direct investment – inwards and outwards – extensive deregulation, and increased labour

<sup>15</sup> Esping-Andersen, G. (1990) quoted in Pierson, C. and Castles, F. (eds) ‘The Welfare State Reader’ (2006)

<sup>16</sup> Campbell, C. ‘Margaret Thatcher’, Vol III (2003)

<sup>17</sup> Gamble, A. ‘The British Economic Miracle: New Labour and the economy (a version of this paper was presented to Political Studies Association Conference, 2006). Quoted with permission of the author and can be found: [doc.cerium.ca/serv1/AndrewGamble.doc](http://doc.cerium.ca/serv1/AndrewGamble.doc)

market flexibility, a new political economy was established and built upon by subsequent Conservative and Labour administrations.

### Centralising local government

Between 1980–1981 and 1989–1990, central funding allocated to English local authorities declined from £14.6 billion to £9.5 billion (adjusting for inflation).<sup>18</sup> In addition, the amount that local authorities could raise independently was also limited, first through a system of penalties for ‘over-spending’, then through rate capping and finally through the imposition of the Community Charge or poll tax and then capping of that tax. Burns *et al* (1994) suggest that “particularly after 1987...” the squeeze on resources was such that “some of the more ambitious [local authority] strategies had to be ruthlessly cut back and some virtually collapsed”.<sup>19</sup>

The political implications of heightened central grip on power over local authorities were also significant, especially in response to the flat rate poll tax. The unemployed, students and certain other groups in society could claim exemption, but, as Nigel Lawson (Chancellor 1983–1989) himself said as early as 1985; “The biggest gainers would be the better off households in high rateable value properties; the losers would be poorer households, particularly large ones.”<sup>20</sup> Dissent towards the poll tax came to a head in March 1990 when rioting broke out in London.

Burns *et al* (1994) suggest that the election of the Conservative Party into office in 1979 was “to put it mildly, something of a turning point for local government”, as Margaret Thatcher “launched a sustained attack not only on local spending, but also on the institutions of local democracy”.<sup>21</sup> It may have been, as Childs (2001) believes “...largely an attempt to undermine the power of Labour in local government...” but it had much broader consequences for public services.

### Bringing market disciplines to public services

During the late 1960s and 1970s, the public had become increasingly dissatisfied with the administrative hierarchy of public sector service delivery and the inflexibility that came from a focus upon impartiality and uniformity.<sup>22</sup> In response to demands for

18 Willmott and Hutchinson (1992), quoted in Burns, Hambleton and Hoggett, ‘The Politics of Decentralization, Revitalising Local Democracy’ (1994)

19 Burns, D. Hambleton, R. and Hoggett, P. ‘The Politics of Decentralization, Revitalising Local Democracy’ (1994)

20 Childs, D. ‘Britain Since 1945’ (2001)

21 Burns, D. Hambleton, R. and Hoggett, P. ‘The Politics of Decentralization, Revitalising Local Democracy’ (1994)

22 Burns, D. Hambleton, R. and Hoggett, P. ‘The Politics of Decentralization, Revitalising Local Democracy’ (1994)

greater quality and accountability, and in pursuit of cost efficiency and reduced government expenditure, market principles were applied to the provision of public services. Whilst those on the more radical right argued for state services to be replaced entirely by the private sector, the principles of diversity of providers and competition between them was encouraged at every level of delivery. The 'quasi-markets' of the Conservative government were brought into being through: the Education Reform Act (1988), which – along with establishing the National Curriculum and Grant Maintained Schools outside of Local Authority control – also introduced a degree of parental choice over schooling, with performance information provided through league tables of examination; the Housing Act (1988) and Local Government Acts (1980 and 1988), which established compulsory competitive tendering (CCT) for a range of council services; and large scale NHS reform in the late 1980s.

CCT was a significant step in the marketisation of public service delivery, and one that sparked considerable controversy at the time. Part and parcel of the Conservative Party's drive to expand private sector provision, CCT was also largely designed to improve public service efficiency. At first, CCT was limited to ancillary, domestic services in the NHS, such as cleaning, laundry and catering. Between 1984-85 and 1989-90 the cost of domestic services fell by 29% in real terms.<sup>23</sup>

In 1992, CCT was extended via the market testing programme, a requirement for government departments and executive agencies to compare the cost of providing services in-house against the cost of purchasing them from a private provider. Notably the services contracted out tended to be peripheral support services. However, the significance of CCT and market testing was greatest in its fashioning of "a new style of management in these key delivery agencies of the welfare state, encouraging in the introduction of market mechanisms and disciplines."<sup>24</sup>

CCT was often criticised for its narrow emphasis on price competition, and the Blair government was later to replace it with Best Value, where executive agencies and local authorities were bound by duty to deliver services to clear standards by the most economical, efficient and effective means possible.

Whilst nearly all of these steps towards greater marketisation of public service delivery were through compulsion, there are some important examples of voluntary and sometimes radical initiatives. For instance, the London Borough of Wandsworth contracted out residential care and, by 1997, nearly 250,000 council houses were

<sup>23</sup> HM Treasury (1991) quoted in Butcher, T. 'Delivering Welfare' (2002)

<sup>24</sup> Butcher, T. 'Delivering Welfare' (2002)

voluntarily transferred from local authorities to housing associations.<sup>25</sup> Transfer of council homes into the private or third sector was a radical way of improving the quality the stock of social housing by attracting new, alternative investment.

The ‘internal market’ reforms of the NHS began after the 1987 general election, when Margaret Thatcher came under attack over her government’s funding of the health service. The opposition and media were so frequently highlighting stories of cancelled operations, closed wards and tragic medical errors that it became politically necessary to “save our NHS”.<sup>26</sup> With privatisation of the health service recognised as a bridge too far,<sup>27</sup> the government took inspiration from the Enthoven Report (1985) in reaching for a new way of achieving the goals of a universal NHS, free at the point of need. Enthoven’s ideas of an internal market within the NHS provided a template for reform, the most innovative aspect of which was General Practitioner (GP) fund-holding, facilitating the so-called ‘purchaser-provider split’.<sup>28</sup>

The transfer of budgets to GPs to buy health care for patients was twinned with the encouragement of large hospitals to become trusts within the NHS. According to this model, trusts would sell their services to NHS health authorities and to private hospitals and patients. They too would be responsible for their own budgets. Ancillary services across the NHS were opened up to competitive tendering, prescription charges were increased and charges for eye tests were introduced. The emphasis throughout was on a broad separation between the commission and provision secondary healthcare services.

Whilst radical in its approach to delivering universal healthcare, free at the point of need, the underlying objective and role of the state in healthcare was upheld. Furthermore, these reforms complemented the strategy to increase transparency of input and output data as part of the New Public Management (NPM) model. Greener (2002) goes further to suggest that “the internal market was a means to the end of changing the structure of the NHS in favour of the managers, in an attempt to secure greater efficiency and cost control”.<sup>29</sup>

25 Butcher, T. ‘Delivering Welfare’ (2002)

26 O’Neil, quoted in Greener, I. ‘Understanding NHS Reform: The Policy-Transfer, Social Learning and Path Dependency Perspectives (2002)

27 See Gilmour (1993), quoted in Childs, D. ‘Britain Since 1945’ (2001)

28 See Ham (1996), Le Grand, Mays and Mulligan (1998)

29 Greener, I. ‘Understanding NHS Reform: The Policy-Transfer, Social Learning and Path Dependency Perspectives (2002)



## Next Steps Programme

In 1988 the Prime Minister's Efficiency Unit published an influential paper called 'Improving Management in Government: the Next Steps'. The 'Next Steps' programme broke up service delivery and policy work previously undertaken by single, large (and often unwieldy) government departments. Over 130 Executive Agencies were created with the expressed aim of improving the efficiency and performance of the civil service.

These Executive Agencies were run according to private-sector business principles, and held to account by ministers for their use of financial resources and their ability to meet their own performance targets. In addition to placing a greater emphasis upon value for money, the Next Steps programme also encouraged more 'customer' responsiveness and paved the way for targets as a key government performance management tool. The New Public Management era of reform was in full swing.

According to Butcher (1995), Next Steps "transformed the structure and culture" of the benefits system and the Benefits Agency (established in 1991) became the "flagship" of the programme.<sup>30</sup> Despite certain problems (such as those created via perverse target incentives, or administrative failures – notably the Child Support Agency) the separation of policy and delivery has remained a cornerstone of government organisation.

## John Major 1990–1997

### The extension of New Public Management

Pursuit of cost efficiency and reduced public expenditure was a primary, but not the only, driver of Conservative government policy during the 1980s. Calls for greater accountability of public administration and services had been growing throughout the 1970s as people became more dissatisfied with the inflexibility and "paternalistic 'we know best' attitude" of central planning and professionalised delivery. Admirable attempts to provide impartial services to all meant that the system was seen as unresponsive to the particular needs of individuals.

The processes of marketisation and decentralisation started under Margaret Thatcher were two themes of reform that sought to tackle the issue of accountability and increase the quality of more consumer-centric provision. However, by the time John Major took office in 1990, it was clear to many that the general programme to reduce

<sup>30</sup> Butcher, T. 'Delivering Welfare' (2002)

the role of the state in public services delivery had not resulted in a systemic, cultural change. As John Major's Public Service Minister William Waldegrave wrote in 1993:

“By a process that was, in retrospect, inevitable, it turned out that we had designed public services where the interests of the providers systematically outweighed those of the users, and which, driven only by the natural tendency of all provider organisations to claim that they can only do better with more money, contained an overwhelming dynamic for increased cost which was bound to end in conflict with reality.”<sup>31</sup>

### **The Citizen's Charter enshrines six new principles for public services**

In the same pamphlet, Waldegrave suggests that it was not until the launch and language of the Citizen's Charter that reform started to turn in the right direction. The Citizen's Charter was billed as Major's 'big idea' and set out six principles for public services:

- Clear published standards
- Consultation of users and customers
- Increased information to enable citizens to find out what services are available
- More and better choice
- Greater accessibility
- Greater responsiveness when things go wrong

These principles were an attempt to lock-in the requirement for information so to make marketisation of services as effective and efficient as possible, and to hold service providers (whether public sector agencies, arms-length private contractors or other types of organisation) to account. It also sought to affirm the commitment of the Conservative government to uphold quality public services (however delivered) as a central feature of citizenship.

In conjunction with the publication of regular performance league tables, especially in education and health, the Citizen's Charter represented an extension of the New Public Management reforms that had characterised the Thatcher period. Although it conferred no legal entitlement, by being clear about the quality of

31 Quoted in Drewy, G. 'Citizens as Customers – Charters and the Contractualisation of Quality in Public Services' (2005 EGPA Conference , Bern, Switzerland 31 August - 2 September)

services that service users could expect the Citizen's Charter sought to strengthen the accountability of service providers to service users.

By May 1997, Tony Blair inherited from his predecessor 41 national charters (covering the major public services and including the Patient's Charter, the Parent's Charter, and the Taxpayer's Charter); over 10,000 local charters established by local agencies in consultation with service users (e.g. hospital trusts, schools, local job centres), and the annual Charter Mark Scheme to recognise excellence and innovation in public services.

## Tony Blair 1997–2007

### **New Labour. New Britain.**

Tony Blair's landslide victory for Labour in 1997 signified another watershed moment in twentieth century British politics. May 1997 marked an end to 18 years of Conservative Party hegemony, leaving it "exhausted, divided and discredited"<sup>32</sup> in opposition, and 'New' Labour buoyant with the tangible sense of excitement and anticipation amongst much of the electorate. Building on this, and the strong economy he inherited, "[Blair] set a new path for the public services".<sup>33</sup>

By 1997, the UK economy had recovered from the downturn of the early 1990s recession. There was little need for radical change in terms of economic management, and it was this continuity that reassured voters – and the City of London – of Labour's credibility in these matters. Gordon Brown's sudden granting of independence to the Bank of England (along with his fiscal rules and emphasis upon 'prudence') also served to disassociate the New Labour government from the old Labour 'tax and spend' label. It was not until 1999 that public expenditure was allowed to increase at all. Between 1997 and 1999–2000, public spending was squeezed down from 40.8% GDP to 37.4%, the lowest proportion of national income since 1960.<sup>34</sup> Low, stable inflation and sound public finances were the priority of the day.

Once Chancellor Gordon Brown had released the government from the self-imposed freeze on public spending levels, "huge investment began to be pumped into the public services".<sup>35</sup> Retrospectively Labour has claimed that its first term in office was 'planned' to be a period for 'laying the foundations for reform' through

32 Kavanagh, in Seldon, A. (eds), 'Blair's Britain' (2007)

33 Kavanagh, in Seldon, A. (eds), 'Blair's Britain' (2007)

34 Peston, R. 'Gordon Brown's Britain' (2005)

national minimum standards. The second term would be about implementing structural change.<sup>36</sup> However, it is difficult to argue that Blair's public service reform agenda followed a pre-planned narrative from the start. Lack of a cohesive, ideological narrative was apparent in, for example, the way that Blair had scrapped NHS internal markets and City Technology Colleges as soon as he took office, only to advance very similar policies in his second and third terms. Even by the end of the second term: "Blairism had yet to establish itself, and consisted to date of a 'crazy salad', mixing traditional Labourite beliefs in high spending with a Harold Wilson belief in managerialism and a neo-Thatcherite antenna to markets."

Seldon (2007) believes that Blair pushed through the most comprehensive programme of public services reform in the last two years of his premiership. Despite considerable decline in political capital, particularly in light of wars in Iraq and Afghanistan, Blair increased competition and choice within the NHS and schools, and made considerable headway with welfare reform (especially with regards to incapacity benefit) and pension reform.

His programme of radical constitutional change – establishing the Welsh and Northern Irish Assemblies and the Scottish Parliament within his first term – allowed policy making in most areas of public services to be devolved to the national level. While lessons could be drawn from the variety of policy initiatives trialled in these areas, the disparity in public service provision and entitlement between the four countries of the Union remains a contentious issue.

## Education

Prior to his election in 1997, Blair declared, "Ask me my three main priorities for Government and I tell you: education, education, and education".<sup>37</sup> This reflected a belief both in the importance of education to extending individual opportunity, but also for national competitiveness: "We are 35th in the world league of education standards today – 35th... Well give me the education system that is 35th in the world today and I will give you the economy that is 35th in the world tomorrow."<sup>38</sup>

Despite the rhetoric, Labour's early commitments were relatively modest, such as the commitment to cut class sizes in primary schools, included on Labour's pre-election

35 Seldon, in Seldon, A. (eds), 'Blair's Britain' (2007)

36 Cabinet Office, 'Excellence and Fairness, Achieving World Class Public Services' (2008)

37 Blair, T. speech to Labour Party Conference 1996

38 Blair, T. speech to Labour Party Conference 1996

'pledge card'. "Labour...inherited a structure for schools, of centralised control plus parental choice – and retained it."<sup>39</sup> Once in government the early focus was on top-down reform; 'standards, not structures'. The national literacy strategy was followed soon after by a similar scheme for numeracy and involved designing training and materials at a national level; test and inspection results were published and there was 'zero tolerance' of failing schools.

Of this reform process, Labour education policy architect, Michael Barber, said in 2006: "If you cut the New Labour education reform into three slices you could say the first was about standards and accountability. The second was about collaboration and capacity building (securing the supply of teachers, improving teachers' pay, creating opportunities for schools to collaborate, investing in professional development, building capacity in the system, etc.). And the third is about market-based or quasi-market reform."<sup>40</sup> It was hoped that by redesigning system incentives, self-sustaining – rather than centre-led – quality improvements could be generated. Building on many of the Conservative Party's reforms since the last major Education Act (1988), the Labour Government's 2006 Education Bill "was important as a 'test case' of how radical the New Labour project tried to be, and to what lengths the government was prepared to go to reform the public services generally."<sup>41</sup> Choice, competition, transparency and incentives were the key themes of education reform in particular and public services in general.

## Schools

The extension of the choice agenda in schools was perhaps the most far-reaching of Tony Blair's education reforms. It was implemented in piecemeal fashion until the 2006 Education Act consolidated Labour's attempt to diversify supply in the market. Prior to this, top down policy changes predominated.

For example, the 1998 School Standards and Framework Act placed a duty on Local Education Authorities (LEAs) and schools to restrict class sizes to 30 in Key Stage One classes from September 2002. Local authorities also had a duty to raise the standard of schools in their area, and powers of intervention were legislated to take tough action on underperforming schools. A first step towards supporting

39 Wolf, A 'Education', in *Options for a New Britain*, Uberoi (eds) 2009

40 Mead, 'Educational Lessons from England; an interview with Sir Michael Barber' (2006) [www.educationsector.org/analysis/analysis\\_show.htm?doc\\_id=344385](http://www.educationsector.org/analysis/analysis_show.htm?doc_id=344385)

41 Blakemore and Griggs, 'Social Policy; an Introduction' (Third edition, 2007).

choice in schools was instigated through the 1998 Act as secondary schools were able to apply for ‘specialist status’ (by the end of 2006 over 80% of secondary schools were specialist<sup>42</sup>). Diversity of supply was also increased through Education Action Zones, which were designed to improve educational opportunities in inner-city areas in partnership with local businesses.

David Blunkett (Secretary of State for Education and Employment, 1997–2001) furthered the idea of diversity of supply in schools through his announcement of ‘city academies’ in March 2000. Modelled on American charter schools and the Conservative government’s City Technology Colleges, academies (the ‘city’ was soon dropped to allow for the creation of academies in rural areas) represented a move away from the top-down, targets driven approach towards greater autonomy for secondary schools. Academies were created with private business, philanthropic, religious or other third sector sponsorship, situated in low-achieving and deprived areas and often involved the setting up of completely new facilities (frequently at a substantial capital cost). They were established on the premise that that autonomy and a fresh start can drive improvement. In so far as they are part of a more diverse supply of schools, they formed a central part of Blair’s choice agenda.<sup>43</sup>

Capital investment in schools was also increased through a specific scheme, ‘Building schools for the future’ (BSF). Announced in 2003, BSF set out to renew all 3,500 English secondary schools over the 15-year period 2005–2020 subject to future public spending decisions. Over half the school estate would be rebuilt, 35% structurally remodelled, and the rest refurbished (includes providing new ICT to recently built schools). Local authorities would be responsible for commissioning and maintaining the schools.<sup>44</sup>

Whilst local authorities were responsible for overseeing the implementation of Building Schools for the Future and had a duty to ensure that standards for schools in their area improved, their influence in education was elsewhere being eroded. In May 2006, the Education and Inspection Act finally passed into Statute (after considerable amendment, most notably due to high profile Labour rebels, and reliance upon Conservative Party support<sup>45</sup>). In many ways, this Act brought together years of piecemeal education reforms, many of which originated

42 Clarke *et al* (eds), *Social Policy Review 19: Analysis and debate in social policy 2007*

43 Astle and Ryan (2008) in Wolf, A. ‘Education’ in Uberoi *et al*, ‘Options for a New Britain’ (2009)

44 [www.nao.org.uk/publications/0809/schools\\_for\\_the\\_future.aspx](http://www.nao.org.uk/publications/0809/schools_for_the_future.aspx)

45 Although the Education Act (2006) cleared the Commons by 422 votes to 98 - a majority of 324, 69 Labour MPs rebelled. High profile dissenters included Deputy Prime Minister John Prescott, former Minister for Education Estelle Morris and John Denham: [news.bbc.co.uk/1/hi/uk\\_politics/5011814.stm](http://news.bbc.co.uk/1/hi/uk_politics/5011814.stm)

in the Conservative government's 1988 Education Reform Act. The 2006 Act consolidated the ideas of choice and diversity of supply by the establishment of foundation secondary schools and local councils were tasked with helping parents to express their preference; "Labour's independent trust schools idea bore a striking resemblance to the Conservatives' 'grant maintained' schools that had been introduced after their 1988 reforms. But if implemented in full, Labour's proposals would go further than any previous education reforms in completely breaking up the long standing local authority-based system of providing education that has formed the main framework for state schools for over a hundred years."<sup>46</sup>

Despite this attempt to increase diversity of supply, Gordon Brown (then Chancellor) announced in the 2006 Budget that his 'long term aim' was to raise average per pupil government spending to the same level as in private schools. This would involve increasing per pupil funding from £5,000 to £8,000 a year, and would be on top of the 48% real increase in core funding per pupil (between 1997 and 2006–2007).<sup>47</sup>

Meanwhile, the 14-19 years agenda was in the process of radical overhaul. David Blunkett first signalled government interest in this area at a keynote speech in early 2000 and it built momentum following the Tomlinson Reviews (2003–2004). The most far-reaching of Tomlinson's recommendations would see GCSEs and A-levels, along with their vocational equivalents, become part of a four-stage, graded diploma. Designed to increase participation post-16, raise the status of vocational qualifications and to give stretch to the brightest pupils, Tomlinson's proposals were to undergo a series of pilots and lengthy consultations before appearing in the 2005 Education and Skills White Paper and finally in the Education and Skills Act (2008).

### Further Education and Skills

In 1997 a wide ranging National Skills Task Force was established. Skills were to be the driver for growth so that the UK would be a "high-skill, high-value-added 'knowledge economy' in the 21st century".<sup>48</sup> Individual Learner Accounts and piloting of Educational Maintenance Allowance (EMAs) were two early attempts to incentivise learning. Unfortunately widespread fraud led to the close of Individual Learner

46 Blakemore and Griggs, 'Social Policy: An Introduction' (3rd edition, 2007)

47 [www.news.bbc.co.uk/1/hi/education/6564933.stm](http://www.news.bbc.co.uk/1/hi/education/6564933.stm); [www.news.bbc.co.uk/1/hi/education/4833780.stm](http://www.news.bbc.co.uk/1/hi/education/4833780.stm)

48 [www.eurofound.europa.eu/eiro/2000/10/feature/uk0010196f.htm](http://www.eurofound.europa.eu/eiro/2000/10/feature/uk0010196f.htm)

Accounts and EMAs – rolled out nationally in 2004 – “have encouraged some additional young people to stay in school, though with substantial dead-weight costs.”<sup>49</sup>

The 2006 Foster Review on the future role of Further Education (FE) emphasised again the need for this sector to be the “engine for economic growth”. This was followed soon after by Lord Leitch’s Review on Skills (2006) which made clear the extent to which the UK has to upskill its workforce if it is to increase productivity and compete favourably with emerging economies such as India and China.

The rhetoric of Leitch spoke of creating a ‘demand-led’ system, where the needs of learners and employers were to be met by a flexible system of supply. In practice there were (and still are) inherent tensions within this demand led approach, not least between balancing the demands of the learner, the demands of employers and the strategic productivity needs of the wider economy. Meanwhile, FE colleges were then tasked with delivering set numbers of the new ‘Train to Gain’ qualifications according to centrally set targets and priorities. Finally, according to Wolf (2009) – despite a moderate increase in labour productivity – most of the sustained economic growth throughout the Blair government was a result of greater total employment and capital, rather than improved efficiency via skills.

### Higher Education

Throughout the mid-1990s, concern was growing as to the quality of UK Higher Education and the issue of how to fund our universities. The Dearing Review, commissioned under John Major (but on the understanding of bipartisan support) reported in 1997. In accordance with Dearing’s recommendations, the new Labour government set up the Quality Assurance Agency in 1997 and introduced flat ‘up-front’ means-tested tuition fees in 1998. The government also stated its aim to increase the proportion of students going on to Higher Education to 50% by 2010.

Charging for undergraduate education sparked considerable debate, not least between those who thought education should remain a free public service and those who supported the government’s view that fees were the best means of providing much-needed funding.

The Higher Education Act (2004) introduced ‘top-up’ fees (which came into effect in 2006–07) and pushed the boundaries of the debate all the more. Universities were free to charge up to a maximum of £3,175 per year (with bursaries – designed at first

49 Wolf, A. ‘Education’ in Uberoi *et al.*, ‘Options for a New Britain’ (2009)



to help the most disadvantaged families, and then (in 2008) extended to help a broader section of society – those households with a joint income of less than £60,000). Top-up fees caused great controversy at the time, with students protesting vehemently and some universities expressing concern that longer courses (typically in the sciences) might be under threat due to cost.<sup>50</sup> Meanwhile other universities claimed (and continue to do so) that the cap on fees should be abolished.

### Early years

Until mid-1990s the UK provided relatively little subsidy for pre-school years and childcare (compared to most other European countries). Towards the very end of his administration, John Major introduced a nursery education voucher scheme redeemable in the public or private sector.

Even before Labour was elected in 1997, David Blunkett announced his intention to abolish the voucher scheme and replace it with “a co-operative system based on local forums which, with all providers in the area, will develop a coherent system.”<sup>51</sup> The National Childcare Strategy (1998) formalised this plan to establish locally run Early Years Development and Childcare Partnerships. It also set targets for achieving high quality, affordable childcare in every local community.

Alongside Labour’s Sure Start Programme, designed to coordinate health, education and childcare for 0–3 year olds (especially those in the most deprived areas), Labour more than doubled expenditure in early years during its first two terms – from just over £2 billion in 1997–1998 to around £5 billion in 2005 (at 2005–2006 prices).

Local authorities were tasked with meeting targets on the number of children’s centres within their communities and, in the government’s 10-year Childcare Strategy (2004), they were given a duty to ensure sufficient childcare in the local area. This would be delivered by a mixed market of public, private and third sector providers, with local authorities acting as ‘market managers’ to coordinate supply.<sup>52</sup> Despite an explicit commitment to the needs of working parents on low incomes, an evaluation by the National Audit Office (2006) found that most of the benefits of Sure Start centres, for example, were taken up by more affluent families, not those most disadvantaged.<sup>53</sup>

50 [www.news.bbc.co.uk/1/hi/education/4646920.stm](http://www.news.bbc.co.uk/1/hi/education/4646920.stm)

51 David Blunkett MP, Shadow Education and Employment Secretary, speech at the North of England Education Conference, Sheffield University (4 January 1997)

52 See SMF, ‘Implementing the 10-year Childcare Strategy’ (2006)

[www.smf.co.uk/assets/files/publications/SMF\\_10-Year\\_childcare\\_strategy.pdf](http://www.smf.co.uk/assets/files/publications/SMF_10-Year_childcare_strategy.pdf)

53 National Audit Office, ‘Sure Start Children’s Centres, a value for money report’ (2006)

## Health care

When Labour came to office the British Social Attitudes survey (BSA 1997) revealed that net satisfaction with the NHS was only 15 percentage points, the worst rating since the first survey in 1983. Real spending in the NHS had fallen by nearly 0.4 percent in 1996–1997 and waiting lists in England were rising upwards of 1.2 million.

Labour’s manifesto targeted waiting lists and spending head-on: public NHS expenditure would increase year-on-year, to be spent on “patients not bureaucracy”, and waiting lists would be cut by 100,000. Moreover, Tony Blair declared his commitment “to restore the NHS as a public service working cooperatively for patients, not a commercial business driven by competition”.<sup>54</sup>

Over the next two years the internal market was dismantled to an extent. Spending increased slightly more than the Conservative budgets, and waiting lists were eventually reduced by their target of 100,000. However, as the spending cap period drew to a close, “the clamour from the NHS for a boost in funding – not least to cope with meeting an increasing number of centrally-inspired targets – was growing.”<sup>55</sup> In response, Blair announced in January 2000 his aspiration to increase the percentage of GDP spent on health up to the average for the EU over the next five years. The 2000 Budget allowed for a considerable boost in funding shortly before the NHS Plan was released. The 2002 Budget then also provided an extra £40 billion over five years via a 1 percent increase on NI contributions.<sup>56</sup>

The justification for increased NHS funding was then formally articulated by the independent Wanless Review (2002), which concluded that the UK had slipped behind other countries in terms of health outcomes due to under-spending. New Labour’s health policy continued under Alan Milburn (having replaced Frank Dobson as Secretary of State for Health in 1999) to emphasise the role of tight regulation and the publication of achievements against targets. It was not until 2002 with the release of ‘Delivering the NHS Plan: Next Steps on Investment, Next Steps on Reform’ that incentives were to be structured around a market based approach.

Strategic Health Authorities (SHAs) were set up to manage the NHS in local regions, delivered by a network of Primary Care Trusts (PCTs).<sup>57</sup> Originally there

54 Labour Party Manifesto (1997)

55 Appelby, J. and Coutts, A. ‘NHS, Health and Wellbeing’ in Oberoi *et al* ‘Options for a New Britain’ (2009)

56 [www.hm-treasury.gov.uk/d/Budget\\_2002.pdf](http://www.hm-treasury.gov.uk/d/Budget_2002.pdf)

57 “The SHA has a responsibility to deliver strategic leadership and strategic oversight of PCTs in relation to commissioning, and a responsibility to assure itself through assessment and performance management that PCTs have effective commissioning and contracting arrangements in place that can respond to the combined challenges of Practice Based Commissioning, Choice, Plurality and Payment by Results.”

[www.kentmedwaysha.nhs.uk/aboutus/theboard/papers/documents/29-06-2Strategiccommissioningreform.pdf](http://www.kentmedwaysha.nhs.uk/aboutus/theboard/papers/documents/29-06-2Strategiccommissioningreform.pdf) See also the NHS Reform and Healthcare Professionals Act (2002) [www.opsi.gov.uk/acts/acts2002/ukpga\\_20020017\\_en\\_1](http://www.opsi.gov.uk/acts/acts2002/ukpga_20020017_en_1)

were 28 SHAs, but on 1 July 2006 this number was reduced to 10. Fewer strategic organisations were thought to be able to deliver stronger commissioning, leading to improved services for patients and better value for money for the taxpayer. Funded by, and accountable to SHAs, PCTs were free to purchase healthcare services from the most appropriate provider – whether public, private or third sector.

Meanwhile, performance related incentive structures were formalised through the introduction of ‘payment by results’,<sup>58</sup> and a vision for choice for patients was first articulated. It was hoped that “By 2005 all patients and their GPs will be able to book appointments at both a time and a place that is convenient to the patient,” Milburn said. “This might include NHS hospitals locally or elsewhere, (independent) diagnostic and treatment centres, private hospitals or hospitals overseas.”<sup>59</sup> Hospitals would have to compete for patients. Although this degree of choice was not realised, diversity of supply was increased. Independent Sector Treatment Centres, for example, opened up access to the private sector and were integral to the government meeting its commitment to reduce waiting lists.

The NHS Reform and Healthcare Professionals Act (2002) also gave room for PCTs to seek ‘foundation status’ in an attempt to devolve decision-making from central government control to local organisations and communities. NHS foundation trusts (often referred to as ‘foundation hospitals’) were to be accountable to their own governors and an independent regulatory body. In this way, despite many central targets remaining in place, Foundation Trusts represented a major step in moving away from central government micromanagement. Indeed, Bosanquet (2007) says that Labour’s NHS policy between 2001 and 2005 represented “a new direction for the health services involving patient choice, more rapid access, new incentives and more pluralism in providers. In many ways this was a highly promising agenda for change, which fitted to the long term challenges of working with a different age structure and higher expectations in a different kind of society....” However, Bosanquet (2007) also believes that funding preceded reform too quickly. As a result, “the investment margin was taken over by the cost increases already in the system” and “the Blair era also left a legacy of serious problems in quality of care”.

A focus upon quality of care was the central message of the 2008 Next Stage Review, High Quality Care for All (Darzi, 2008). While most of the previous structural reforms remain, a focus on preventative public health and clinical leadership are two

58 Under ‘payment by results’ hospitals were to be rewarded with more funding if they could meet their targets (according to a national tariff derived from the average national cost of specific treatments and operations).

59 [www.independent.co.uk/life-style/health-and-families/health-news/the-new-nhs-promise-choose-where-you-want-to-be-treated-750682.html](http://www.independent.co.uk/life-style/health-and-families/health-news/the-new-nhs-promise-choose-where-you-want-to-be-treated-750682.html)

key drivers towards the ultimate end – safe, quality care for all patients. As discussed in Chapter three, Darzi also announced that there would be no new national NHS targets and that much greater focus would be put upon health outcomes and patient satisfaction.

### **Private Finance Initiative (PFI)**

A large part of New Labour's success in 1997 was its commitment to investment in public services. However, it stated early on that it would adopt a pragmatic approach to delivery, "looking hard – but not dogmatically – at what services government can best provide itself, what should be contracted to the private sector, and what should be done in partnership".<sup>60</sup>

PFI has been a central pillar of a broader strategy of Public Private Partnerships and of Blair's strategy for improving the quality of public services. PFI was originally introduced under John Major as a way of raising capital for large scale infrastructure projects at a time when investment in public services was a record low. It was also an important way of sharing risk between the public sector (which commissioned infrastructure projects) and the private sector (which was contracted to complete the work). Historically this form of contractual relationship was flawed and led to expensive large scale failures (especially in housing, for example) for which the public sector was left to bear the full cost. By raising money in private markets, this risk was shared more evenly between the public and private sectors.

New Labour redesigned and relaunched the scheme, and private sector consortia have invested extensively in the NHS and other asset-based public services. These assets are leased to the public sector for a certain period of time (typically 30 years). Throughout New Labour's tenure in office, the success of some PFI projects has been matched by some other notable failures – most notably major IT projects. The failure of Metronet, London Underground's infrastructure company, in 2007 also raised many questions about the viability of the model.<sup>61</sup>

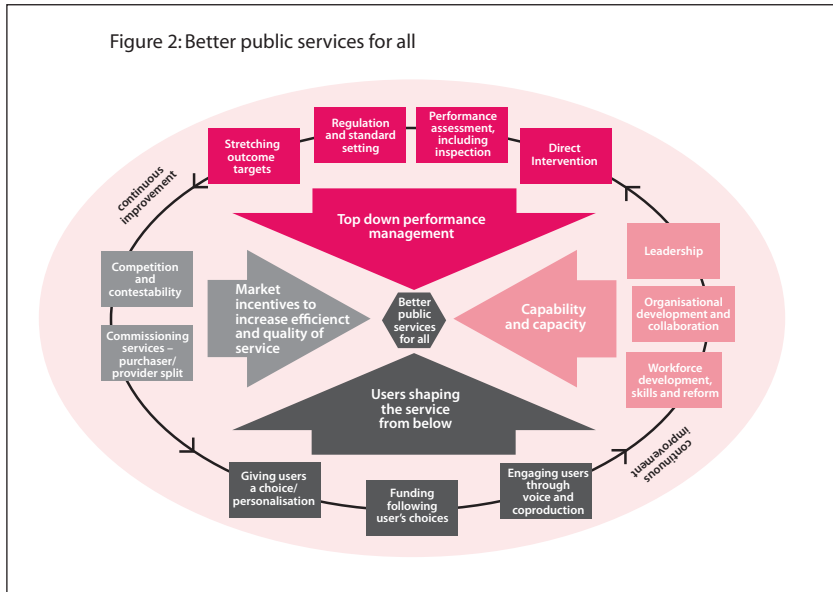
The current financial crisis sharpened these questions all the more; at a time when it is extremely difficult to raise large amounts of capital in the private markets there is limited scope for private sector firms to take the (increased) risk. If, on the other hand, the public sector intervenes to reduce that risk and ease access to funding, the reward and incentive for investment drops markedly. Public and private partnership and risk sharing are likely to continue, but perhaps not in this specific form.

<sup>60</sup> Cabinet Office, 'Modernising Government' (1999)

<sup>61</sup> See for example, [www.telegraph.co.uk/finance/migrationtemp/2812611/Metronet-black-hole-bodes-ill-for-PFI.html](http://www.telegraph.co.uk/finance/migrationtemp/2812611/Metronet-black-hole-bodes-ill-for-PFI.html).

## Public service reform under Blair

Overall, Tony Blair's approach to public service might be summarised by the diagram shown in Figure 2. This figure illustrates the points of pressure applied by New Labour to improve public services – top down (through regulation and targets), bottom up (through user choice and voice), and side on (through commissioning, contestability and workforce capacity and capability). Notably, many of these reform ideas were built on the work of the previous Conservative government. However, Bogandor (2007) believes Tony Blair to have 'humanised' the reforms of Margaret Thatcher and John Major. Seldon (2007) also notes the extension: "Blair took the Thatcherite project forward as far as it was politically possible to push it. Overall he had not repudiated any of Margaret Thatcher's policies (bar the first term rowing back on foundation schools and GP fund holding): her privatisations remained and were even added to; no ground of any significance was given on trade union reform; and PFI was extended."



Source: Prime Minister's Strategy Unit (2006)

## Gordon Brown 2007–2009

### Brown's Britain

Gordon Brown entered Number 10 in June 2007 after ten years as, arguably, the most powerful Chancellor in UK history. He brought with him the rhetoric of change;

“...as people’s aspirations and priorities change, we the Labour Party must renew ourselves as the party of change”. Nevertheless, he also carried a great deal of continuity, especially with regards to public services and welfare reform; “Everything we have done since 1997...is driven by one thing: our united commitment to fair rules, fair chances, and a fair say for all.”<sup>62</sup> Robert Peston attributes Gordon Brown’s fairness agenda and dedication to spending on health and education to “socialism in practice, redistribution of a particularly effective kind”.<sup>63</sup> As such, the continued focus on health, education and work-based welfare spending (particularly for families) was in keeping with Labour’s pursuit of social justice along the principles of the Third Way. Over a decade of economic boom enabled the government to fund policy initiatives designed to support this objective, and – for the first time since before Margaret Thatcher – full employment had become an explicit and realisable goal.

According to a recent analysis of the Labour government since 1997, dedicated investment in innovation, research and development and technology policy have also been a fundamental to economic growth in the short and long term.<sup>64</sup> Active supply side policies such as the National Apprenticeship Scheme, National Skills Academies and recent promise of publicly funded graduate internships. The focus upon skills reaffirms a key underlying premise of New Labour’s approach to welfare – that work should pay – skills and employment are the insurance policy of the modern age. Predominantly a result of sustained economic growth and Brown’s supply-side emphasis (including, for example, the New Deal), welfare spending continued to fall after 1997 and plateaued thereafter. Note, however, that the latest data is likely to show an increase in welfare expenditure following the effects of the global downturn.

While frequently less of a public advocate for choice and competition than Tony Blair, Gordon Brown has largely continued the work of his predecessor in public service reform. For example, in launching the latest white paper on public services reform Rt Hon Liam Byrne MP said “Up to 80 more Academies will open in 2009 and up to 100 more in 2010. Almost twice as many academies have already opened since Spring 2007 than all previous years.”<sup>65</sup> Gordon Brown has also continued policies to contract out employment services to private and third sector providers.

62 Brown, G. ‘Fairness is still our guide’ in the Guardian, Saturday 20 Sept 2008

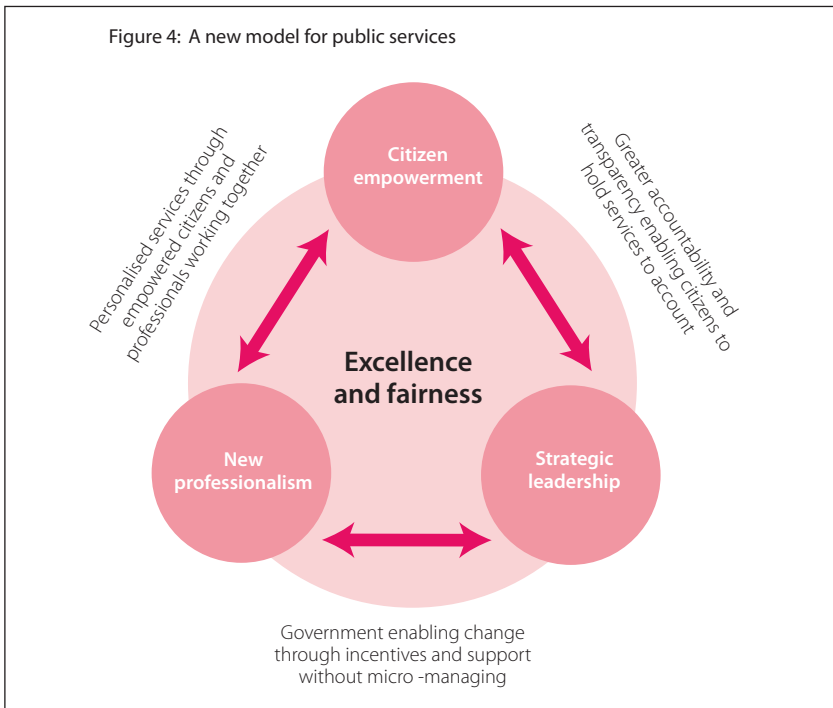
63 Peston, R. ‘Brown’s Britain’ (2005)

64 Uberoi *et al*, ‘Options for a New Britain’ (2009)

65 [www.cabinetoffice.gov.uk/newsroom/news\\_releases/2009/090310\\_workingtogether.aspx](http://www.cabinetoffice.gov.uk/newsroom/news_releases/2009/090310_workingtogether.aspx)



Source: Data from HM Treasury, 2009.



Source: 'Excellence and Fairness, Achieving world class public services' (Cabinet Office, 2008)

Where there have been differences, they are on the emphasis placed upon standards, quality and professional leadership. This is set out in the Cabinet Office's 'Excellence and Fairness' report (2008) – see Figure 4.

In particular, the theme of 'new professionalism' makes clear that innovation amongst public service staff is vital for raising quality and enacting genuine reform: "The lesson of public service reform is that real excellence depends upon liberating the imagination, creativity and commitment of the public service workforce." 'New professionalism' is thus an attempt to drive up quality from within public services, drawing upon the expertise of the workforce. Examples of this in practice include the central role of clinical leadership within the NHS, and the freeing of the police from all national targets except for one – public confidence in policing.

A new focus has also been on 'citizen empowerment' as laid out in the 2008 white paper, 'Communities in Control'. Uniting ideas of citizen empowerment and choice has been the development of individual budgets. First trialled in social care in 2005, Gordon Brown announced in early 2009 that individual budgets would be extended to other public services.<sup>66</sup> The idea is that by giving individuals a personal budget to spend on the support that they need most, they will be able to design and receive an overall higher quality, tailored service.

An evaluation of the first pilot scheme found that individual budgets helped to give service users a sense of control and empowerment, especially amongst people with very diverse needs.<sup>67</sup> Although difficult to extrapolate firm conclusions from a single, relatively small study, the benefits of the policy are thought to include greater personalisation of services, a better quality of life for individuals and a lower cost of delivery of up to 15%.<sup>68</sup> Despite these potential gains, however, the experience of Individual Learner Accounts illustrates some of the difficulties of implementing such an approach. In this case, providers – rather than service users – were found guilty of widespread fraud that swiftly brought the initiative to a halt.<sup>69</sup>

With a general election at most a year away and Labour trailing in the polls, it remains to be seen as to the direction of future UK public service reform.

66 Gordon Brown speech at the NESTA Public Services Laboratory launch, at which the White Paper, 'Working together; public Services on your side' was released (March 2009): [www.number10.gov.uk/Page18579](http://www.number10.gov.uk/Page18579)

67 "Almost half of people surveyed (47 per cent) reported improvements in their general health and well-being since starting self-directed support, with a similar number reporting no change (49 per cent) and 5 per cent reporting that their health had got worse." However, "More than three-quarters (77 per cent) said their quality of life had improved since starting on self-directed support..." and a similar number (72 per cent) said they "had more choice and control over their lives." Evaluation of the Individual Budgets Pilot Programme (2008)

68 Leadbetter, C. *et al*, 'Making it personal', DEMOS (2008)

69 See [www.nao.org.uk/whats\\_new/0102/01021235.aspx](http://www.nao.org.uk/whats_new/0102/01021235.aspx)



# 3

## Themes of reform

The previous chapter told the story of public service reform since 1979. This chapter takes a thematic approach. First it considers how the nature of public services has changed over that period, and then it identifies some of the lessons about more effective delivery of public services that have emerged, and some of the tensions and dilemmas for the future that remain.

### The changing nature of public services

As explained in Chapter one, the principle of universal access that Beveridge advocated was to apply to “...a certain agreed range of social services”.<sup>70</sup> Over time, agreement over the particular services that should be included within this guarantee has shifted in response to the changing priorities, with three trends apparent:

- Extensions to cover new types of social need, such as childcare;
- New approaches to integrating services to improve the response to existing social needs, such as SureStart; and
- A shift away from defining entitlements in terms of specific services towards entitlements to purchase the service mix that best meet an individual’s needs, as is the case for individual budgets.

#### 1. Extending the scope of public services

Over recent years the remit of public services has expanded to include childcare. As explained in Chapter two, a trend that began in the 1990s under the Conservatives with the introduction of nursery vouchers was continued with some enthusiasm by

<sup>70</sup> Beveridge, W. ‘Social Insurance and Allied Services’ (1942)

New Labour. Described by Blair as opening up, "...a new frontier of the welfare state"<sup>71</sup> new commitments included a duty on local authorities to secure sufficient provision of childcare to meet the requirements of working parents in their area.

Aside from the obvious interest in the extension of public services to this emergent area of social need, what is also of interest is the particular model of service entitlement and organisation chosen. In contrast with the way that entitlements to many 'older' public services are distributed and delivery organised, four features of this extension are particularly noteworthy:

- 1 The responsibility was given to local government. Where for most of the period in question the control of public services has moved from local to central, the Childcare Act of 2006 gave new responsibilities to local government.
- 2 This new responsibility on local government was not for delivery of childcare services, but for securing supply from a mixed base of provision across public, private and third sectors. Local authorities were to be market makers and market managers.
- 3 Parents controlled the money. Control over the spending of public resources went directly to parents – paid either in the form of a voucher in all but name for free entitlements for 3 and 4 year olds, cash in the form of means tested tax credits, or tax relief. Parents could then use these resources towards the mix of childcare provision that best suited their circumstances.
- 4 Co-payment is a major feature of the way entitlement is allocated. Beyond free hours for all 3 and 4 year olds, tax credit support is conditional on work and is means tested, and tax relief both dependent on parental expenditure on childcare and capped.

Some of these features, such as co-payment, might be to do with the particular nature of childcare as a public service. Childcare combines a broad public interest in child development and the removal of (often gendered) barriers to labour market participation, with a narrower private interest in the financial returns to working. However, it is also clear the features of the system that have proved controversial in other (even similar) areas of public services – such as vouchers and private sector provision – have been accepted as quite normal in a new public service. The level at

<sup>71</sup> Blair, T. 'Speech to Labour Party Conference' (27 September 2005)

which the government is willing to fund demand for childcare might remain an issue – for distributional reasons as well as to ensure viable local childcare markets – but much less the fact that this money is channeled through parents.

## **2. New public services institutions**

How to combine deep professional expertise in particular service areas with the needs of individuals that cut across service boundaries remains a key challenge for public services. One solution has been new types of public service institutions, such as Sure Start. Sure Start was designed to provide preventative, community based, integrated support to young children and their families, improving health and well-being. Services include early education, childcare, health and family support.

Another approach has been to change the way in which services are commissioned, particularly where this is done across service boundaries. By bringing together public service managers and focusing on shared goals, Local Strategic Partnerships have encouraged joint commissioning. Framed in outcome terms, the new local government performance framework should provide additional encouragement for innovative thinking about holistic services.<sup>72</sup> Indeed, the new Comprehensive Area Assessment that is now being used to measure the performance of local government will explicitly acknowledge areas where joint commissioning across service boundaries is used.<sup>73</sup>

## **3. Budget, not service, entitlements**

One alternative to trying to get services to conform to the diverse needs of individuals is to give individuals the means to buy a package of services that meets their particular needs. The (so far limited) introduction of individual budgets in social care was discussed in Chapter two, as well as the similar approach in relation to childcare, above. In both of these cases, the government may know what it is trying to guarantee to citizens, but only the citizen knows how that guarantee can be realized. In relation to childcare, for example, households will differ in relation to the number of hours they need, as well as the specific mix of group or individual provision that suits their preferences, age and number of children.

<sup>72</sup> See <http://www.idea.gov.uk/idk/aio/6017225>.

<sup>73</sup> See, for example, [www.lga.gov.uk/lga/core/page.do?pageId=18417](http://www.lga.gov.uk/lga/core/page.do?pageId=18417), or [www.communities.gov.uk/localgovernment/performanceframeworkpartnerships/inspectioncomprehensive/caaoverview/](http://www.communities.gov.uk/localgovernment/performanceframeworkpartnerships/inspectioncomprehensive/caaoverview/)

There are risks with the approach, as the experience of fraud with Individual Learning Accounts showed.<sup>74</sup> However, with the right controls, there are good reasons for extending the approach to a range of services where the needs of service users are varied and/or complex, and there is (or could be) a diverse supplier market. The approach is already being tried again in skills, with the piloting of Skills Accounts. Individual budgets may also be effective in other areas of policy where it may be important to change the incentives facing service users, such as in welfare services or probation.

## Improving public service delivery

As the nature of public services has changed over time, the second on-going trend since 1979 has been the struggle for improved performance in delivery. As Chapter two demonstrated, governments in this period have tried a great variety of approaches. Even where they have been drawn from a consistent idea (such as New Public Management), they have not always been applied consistently across services, or over time. Indeed, Taylor has written of the futility of the search for a consistent narrative of public service reform over time, preferring to describe this history as a “messy dialectic”.<sup>75</sup> In this argument, ongoing debates about public services are often cyclical, reflecting the continuing struggle for dominance of four competing ideas about the best ways to organise social relations – characterised as “the hierarchical, the individualist, the egalitarian, and the fatalist”.<sup>76</sup>

While acknowledging that the path of public service reform since 1979 has not been a straight one, three trends have recurred and are worth considering further:

- 1 Top down pressure – for example, using targets, regulation and inspection to improve public sector provision
- 2 Bottom up pressure – for example, choice (premised on a diversity of supply) and voice, again to improve public sector provision
- 3 Alternatives to public sector provision – for example, private or third sector provision as a complement to, threat to, or the result of a transfer from public provision

74 [www.dcsf.gov.uk/lla/investigations.shtml](http://www.dcsf.gov.uk/lla/investigations.shtml)

75 [www.matthewtaylorsblog.com/socialbrain/my-new-progressivism-part-four-public-services/](http://www.matthewtaylorsblog.com/socialbrain/my-new-progressivism-part-four-public-services/)

76 [www.matthewtaylorsblog.com/socialbrain/my-new-progressivism-part-four-public-services/](http://www.matthewtaylorsblog.com/socialbrain/my-new-progressivism-part-four-public-services/)

Cutting across these trends are tensions about the extent to which:

- Services should be managed centrally or locally; and
- Accountability should be primarily upwards towards public sector managers and/or commissioners of services, or downwards to service users.

### 1. Top down pressure

A variety of top down approaches have been used to improve public services. Under New Labour, regulated minimum standards (and ‘zero tolerance’), inspection and targets have been the main levers applied by central government. Building on many of the NPM reforms enacted by Margaret Thatcher and John Major’s Conservative administrations, these approaches have tended to shift power away from practitioners to managers. Examples of inspection and regulation include the extension of powers exercised by Ofsted<sup>77</sup> and the introduction of Comprehensive Performance (later, Area) Assessment of local public services in 2002. Moreover, although part of the Citizen’s Charter and an extension of NPM, targets have been used more extensively by New Labour since 1997 and proved to be the most contentious form of top-down pressure.

The power of performance targets to shape organisational incentives and behaviour is not in doubt. Rather, critics have tended to emphasize how this power can have negative consequences, in three broad areas:

- Organisational focus – targets are frequently measurable proxies for broader outcomes that are other less easy to measure accurately or quickly enough to aid management decision making. The risks of choosing the wrong proxy can lead to a significant misallocation of resources. Similarly, elevating the achievement of narrow performance targets can put at risks the achievement of broader organisational goals – leading to organisations ‘hitting the target, but missing the point’.
- Organisational behaviour – the focus on hitting targets can lead to gaming by providers, or wasteful spending on the often high marginal costs of the final units of output needed to precisely hit a target.
- Professional discretion – by defining organisational priorities at management levels, targets undermine the ability of professionals to use their discretion in responding to individual’s needs flexibly.

<sup>77</sup> The Office for Standards in Education, Children’s Services and Skills

The complexity of the impact of targets on organizational performance can be seen in relation to education. Driven by targets, GCSE candidates achieving five A-C grades or equivalent increased from 45% in 1995–96 to 59% in 2005–06. But this headline improvement has masked underlying complexities. Wolf highlights widespread concerns that teachers are ‘teaching to the test’ rather than nurturing the underlying skills these tests are intended to measure.<sup>78</sup> Jacob and Levitt (2003) and Burgess *et al* (2005) find evidence of schools focusing resources on those students whose attainment is most likely to help schools meet performance targets (i.e. students who are on the borderline between receiving C grade or D grade) rather than on higher achieving students or those most at risk of educational failure.<sup>79</sup>

But the evidence is not all bad. In health, for example, Propper *et al* (2007) compared changes in hospital waiting times in England and Scotland after 2001 when hospitals in England were subject to a regime of targets while Scottish hospitals were not.<sup>80</sup> They find that the use of targets (in combination with the publication of performance and sanctions for poorly performing managers) did reduce the proportion of people waiting for planned treatment.

How governments have used targets has also changed over time in response to learning, being used more sparingly and with a greater focus on outcome targets. Public Service Agreements were introduced in the 1998 Comprehensive Spending Review (CSR), which set around 600 performance targets for 35 services. Over subsequent Spending Reviews in 2000, 2002 and 2004 the number of performance targets fell to 160 to 130 then 120. The 2007 CSR contained only 30 cross cutting PSAs. At the local level the new Local Government Performance Framework in operation from 2008 cut the number of targets local government was to report on from around 1,200 targets relating to inputs and processes to less than 200 outcome focused targets, from which local areas are required to prioritise up to 35.

What next for targets? The shift towards outcome focused targets is now starting to be seen in commissioned services, such as in the contracts with private and third sector providers of the Flexible New Deal. This is an approach that might be

78 Wolf, ‘Education’, in *Options for a New Britain*, Uberoi (eds) 2009

79 Burgess *et al* ‘Who wins and who loses from school accountability? The distribution of educational gain in English secondary schools’ (2005); CMPO Working Paper 05/128 (2005) Jacob, B. and Levitt, S. (2003). “Rotten Apples: An Investigation of the Prevalence and Predictors of Teacher Cheating.” *Quarterly Journal of Economics*. 118(3): 843-877; and Jacob, B. and Levitt S. (2003). “Catching Cheating Teachers: The Results of an Unusual Experiment in Implementing Theory.” In William G. Gale and Janet Rothenberg Pack, eds., *Brookings-Wharton Papers on Urban Affairs* 2003. Washington, D.C.: Brookings Institution Press. (pp: 185-209).

80 Did ‘targets and terror’ Reduce Waiting Times in England for Hospital Care? Carol Propper, Matt Sutton, Carolyn Whitnall and Frank Windmeijer, CMPO Working Paper Series No. 07/179

extended to other areas of public services. Developments in health are also interesting. Lord Darzi's 2008 Review<sup>81</sup> proposed that there should be no new national targets. Instead, a National Framework will be used to publish comparable data on key quality measures, including patient satisfaction which will be specifically incentivised through the NHS funding mechanism. As Lord Darzi said in 2007, "For the first time, patients' own assessments of the success of their treatment and the quality of their experiences will have a direct impact on the way hospitals are funded."<sup>82</sup> For a district general hospital it is estimated that around £7 million to £9 million a year will be dependent on factors like outcomes and patient satisfaction.<sup>83</sup>

## 2. Bottom up pressure

Top down incentives draw power to political and managerial centres. By contrast, bottom up incentives can force more direct accountability to service users. User voice, both individual and collective, can offer service providers important insights into how their services need to change. Similarly, where service users can exercise choice over the particular service they use, the flow of resources to frequently chosen providers should create incentives for less popular providers to improve as they compete for custom. This has been the basis of the trend since the 1980s towards the creation of quasi-markets within the public sector, most notably in education and in health.

As Chapter two records, both Conservative governments in 1988 and Labour in 2006 sought to increase parental choice over schooling. This has been part of a global trend that have seen variations of the approach tried in countries from Chile to New Zealand and Sweden to the United States.

For advocates of the approach, the benefits are clear. First, the policy is equitable as it extends to all parents the choice over schooling that had previously existed only for a few who could afford to live close to good neighbourhood schools. Second, on efficiency grounds, it should increase the productivity of schools, through:

- The threat of school closure encourages teachers to work more effectively, and to be more responsive to parents (choice reinforcing voice);
- Better matching of students to appropriate schools; and
- Effects on the market for teachers, as linking pay to performance attracts better teachers into the profession.

81 Department of Health, 'High quality care for all: NHS Next Stage Review final report' (2008)

82 Department of Health, 'High quality care for all: NHS Next Stage Review final report' (2008)

83 [www.independent.co.uk/news/uk/politics/nhs-care-quality-pledge-after-darzi-review-857067.html](http://www.independent.co.uk/news/uk/politics/nhs-care-quality-pledge-after-darzi-review-857067.html)

By contrast, critics worry about competition reducing school productivity by undermining the public service ethos of teachers, with any improvements in performance most likely to result from covert selection not genuine efficiency gains. On equity grounds, critics worry about the differential abilities of parents to make the best choices for their children and on the impact on students who remain in poor quality schools, even as other students exercise their right to leave.

Overall the comparative evidence is mixed. Burgess *et al* (2005)<sup>84</sup> found that there is some “empirical evidence of test-score gains for some of the students who exercise choice”, although “this is not a general result, either across different types of student or different types of choice programme”.

Fiske and Ladd (2000)<sup>85</sup> studying school choice in New Zealand found that constraints on supply meant that good schools became rapidly oversubscribed. As a consequence, parental choice became selection by schools, with the combination of local autonomy and constrained supply leading to increasing segregation by ethnic group, socio-economic status, and levels of achievement. They found that choice in this context was ineffective at raising standards in failing schools. Björklund *et al* (2004)<sup>86</sup> studying Swedish reforms found that the managed expansion of supply using non-state providers resulted in expanded choice within a cohesive system. However, beyond increased choice as a virtue in itself, they found few positive improvements in school performance, with data limitations possibly masking larger sorting effects.

The Netherlands is the most extensive and mature choice based system in the world. It is also relatively successful when compared with other countries. In the Dutch system, choice and school autonomy are combined with a tough regulatory framework, strong accountability mechanisms, and active system coordination by state and non-state actors. The Dutch school system demonstrates that choice and competition can have a positive effect on educational outcomes, without necessarily implying greater inequality. This has been achieved without a market free for all, but through a combination of market flexibility, coordinating institutions, and firm state control.<sup>87</sup>

84 Burgess *et al* 'Who wins and who loses from school accountability? The distribution of educational gain in English secondary schools' (2005)

85 Fiske, E.B., and Ladd, H.F. 'When Schools Compete: A Cautionary Tale' (2000) Brookings Institution Press, Washington D.C.

86 Björklund, A., Edin, P., Fredriksson, P., and Krueger, A. 'Education, equality, and efficiency – An analysis of Swedish school reforms during the 1990s' (2004)

87 Dijkstra, A., Dronkers, J., and Karsten, S. 'Private Schools as Public Provision for Education: School Choice and Marketization in the Netherlands and Elsewhere in Europe. Occasional Paper No. 20' (2001) National Center for the Study of Privatization in Education, Teachers College, Columbia University. And Patrinos, H. A. 'Private Education Provision and Public finance: The Netherlands as a Possible Model' (2002) National Center for the Study of Privatization in Education, Teachers Colleges, Columbia University, Occasional Paper No 59.



This mixed picture is partly because the impact of school choice is very dependent on differences in national contexts, but also on the precise nature of the policy design. As Figure 5 shows there are a continuum of school choice models, from neighbourhood allocation (no choice) on the right to top up vouchers on the left. Each design has specific consequences for both efficiency and equity, which may need to be corrected by other features of the overall policy framework. For example, risks of 'sorting', where pupils do not reflect a broad socio-economic mix can be overcome by robust admissions procedures, including – at the extreme – lotteries. Following the introduction of Academies and the 2005 Act, the English system falls somewhere between the 'Open Enrolment' and 'Vouchers, coordinated supply'.

The evidence of the impact of choice in health care is also mixed, with much of the evidence based on the US experience. As in the case of school choice, a lot depends on specific features of the policy design. Le Grand – a strong advocate of choice in public services – acknowledges as much, "...the choice-and-competition model for delivering [health care] services is indeed an effective instrument for improving the quality, efficiency, responsiveness and equity of those services – especially when compare with the alternatives. However, the critics of the model of choice and competition have a point (indeed several points), for the model will only achieve these desirable ends under the right conditions. As with the similar argument in the context of education, the design of the relevant policy instruments so that these conditions are fulfilled is crucial."<sup>88</sup> Le Grand argues that, to be most effective the policy design must ensure that competition is real, choice is informed, and cream-skimming is avoided.<sup>89</sup> These conclusions are broadly supported by Propper *et al* (2006)<sup>90</sup>. They argue that to be most effective in improving patient outcomes, competitive pressures between hospitals will need to be stronger than was the case during the operation of the internal market in the 1990s. In addition, adjustments to current policies are needed to prevent 'dumping' and 'skimming' on the treatment of patients with more severe conditions, and to allow all patients to exercise choice effectively.

88 Le Grand, J. 'The other invisible hand: Delivering Public Services through Choice and Competition' (2007) Princeton University Press, p95.

89 Le Grand, J. 'The other invisible hand: Delivering Public Services through Choice and Competition' (2007) Princeton University Press, p105.

90 Propper, C., Wilson, D. and Burgess, S. 'Extending Choice in English Health Care: The Implications of the Economic Evidence' *Journal of Social Policy* 35, 4, 537-557.

Figure 5: A Spectrum of School Choice Regimes

Degree of choice/ level of state control	More choice, less state control over supply			Less choice more state control over supply		
<b>Type of system</b>	Top up vouchers	Vouchers, right to supply	Vouchers, regulated supply	Vouchers, coordinated supply	Open enrollment	Neighbourhood school
<b>Demand features</b>	Vouchers that parents can use in state or private schools. Parents can 'top up' if tuition fees if fees exceed voucher amount	Vouchers that parents can use in state or private schools. Parents cannot 'top up' vouchers	Vouchers that parents can use in state or private schools. Parents cannot 'top up' vouchers	Vouchers that parents can use in state or private schools. Parents cannot 'top up' vouchers	Free choice within state system	Students allocated to schools by state
<b>Supply features</b>	No institutional barriers to entry. Minimal regulatory standards to claim vouchers	No institutional barriers to entry. Minimal regulatory standards to claim vouchers. Fees capped at level of voucher	No institutional barriers to entry. Equivalent regulatory standards. Fees capped at level of voucher	Entry to market under state control. Equivalent regulatory standards. Fees capped at level of voucher	No market entry. Exclusively state provided services	No market entry. Exclusively state provided services
<b>Examples</b>	England (Nursery)	US (Charter schools) Chile	(No examples in practice)	Sweden Netherlands	New Zealand US (Chicago)	England (1970s)
<b>Advantages</b>	Can invest in education at most efficient level.	Could exploit any productivity gains from competition. Most options for 'constrained' students	Most flexible supply consistent with high regulatory standards	Balances expanded supply with high standards and system cohesion	Maximum choice consistent with state monopoly provision	Fosters community cohesion
<b>Potential problems</b>	1. Sorting 2. Decline in standards	1. Decline in standards 2. Sorting 3. Lack of coordination 4. Students stuck in failing schools	= 1. Sorting = 2. Students stuck in failing schools 3. Lack of coordination	1. Sorting 2. Students stuck in failing schools	1. Sorting 2. Students stuck in failing schools	1. Students stuck in failing schools 2. Sorting (by housing)
<b>Possible solutions</b>	1. Increase value of vouchers. 2. Effective inspection.	1. Help with choice 2. Enrollment by lottery 3. Failure regime	1. Enrollment by lottery 2. Failure regime 3. Help with choice	1. Enrollment by lottery 2. Failure regime 3. Help with choice	1. Enrollment by lottery 2. Failure regime 3. Help with choice	1. Introduce a choice regime
<b>Overall</b>	Significant relaxation of control. Sorting by income inevitable	No direct controls over standards. Sorting may be inevitable due to diverse school offers. Flexibility of supply means failure regime less of a worry	Failure regime must be aggressive given potential sorting problems	As choice becomes more constrained by restrictions on supply, fair access becomes more important, and an aggressive failure regime fundamental	Restricted supply tends to increase risk that schools choose pupils, so need to focus on fair access	Choice exercised outside of the system, through residential choices

### 3. Alternatives to public sector provision

Thirty years after the Margaret Thatcher's first election brought public choice critiques of public sector provision to the heart of government, and more than a decade and a half after Osborne and Gaebler's cry that governments should "steer not row" the state remains the dominant (or even monopoly) provider of large areas of public services. However, alongside efforts to improve the performance of public sector providers of public services through top down and bottom up pressures described above, there has also been a trend towards alternative providers. Even if state provision remains dominant, there are now few areas where non-state provision would be viewed as inconceivable at some stage in the future.

This trend towards alternative providers has taken three basic forms:

- 1 Contestability – where the threat of competition from external providers has been used to improve the performance of public sector incumbent providers, or supplant them. As described in Chapter two, this objective lay behind the policy of Compulsory Competitive Tendering (CCT) applied to local authorities some NHS services, and to its Best Value successor.
- 2 Transfers – of services from the public sector to a specific alternative legal form, usually some form of third sector organisation. This was seen in the transfers of local authority housing to Housing Associations, and more recently – in a slightly different form – in social enterprise spin-offs from the NHS.
- 3 Mixed markets – where services are provided by a range of providers, with business going to those providing services of the best mix of price and quality, whatever their type or legal form. These services could be provided on the basis of a contract from a government department, agency or local authority. This is the case with welfare services for the long term unemployed. Contracts for the provision of Flexible New Deal have recently been awarded to a range of private, third sector and – in the case of Working Links, a partnership across all three sectors – public providers. Alternatively, providers could form part of a mixed market of supply, with citizens engaging the provider whose provision best suits their circumstances or needs. Childcare provision is an example here, with services being provided by public, private and third sector providers.

Although the rate of progress to date may not have been fast, it is quite like to quicken in the future. The establishment of the Office of the Third Sector in the

Cabinet Office signaled the support within the Blair and Brown governments for a greater role for third sector organisations in the delivery of public services, and the Conservatives have showed similar enthusiasm for the sector. Independent treatment centres have provided additional capacity to the NHS and – depending on the performance of alternative providers in the provision of welfare services – that could be model adopted in other areas of public services.

## Accountability to whom?

There are unresolved tensions about who service providers should be accountable to that run through all of these trends. One consequence of many NPM approaches has been to strengthen the power of the central government at the expense of local government, reinforcing other tendencies towards centralism that were described in Chapter one.

A second tension relates to whether the primary accountability of service providers should be upwards to public service managers and politicians (whether central or local) or downwards towards service users. Upwards accountability is often the default, reflecting historical norms of public service provision. But emphasising more direct accountability to service users, whether through choice, voice, or through democratic means might offer the more direct route to services that are more flexible and responsive to the needs of individuals.

# 4

## Directions for the Future

Chapter one argued that the problem in the 1940s was unacceptable variations in the availability and quality of services. In response, the model that emerged from the 1942 Beveridge Report emphasised universal access – guaranteed, funded, and largely delivered by the central state. Even at the time of its inception, the model's designers and commentators (including Beveridge) highlighted the shortcomings of the system, and as time went on it ran into considerable difficulties. Increasingly heterogeneous citizen needs and preferences, rising public expectations and excessive supply-side control imposed significant pressures. The fundamental critique was that the system was unresponsive to the needs of service users.

The introduction of ideas from New Public Management theory as detailed in Chapters two and three – such as choice and competition – was designed to appease the problems of unresponsive service delivery. Cross-party consensus has since largely been created around the need for increased diversity of providers and local initiatives to deliver consumer responsive public services. There is now widespread agreement that top-down central planning that provides a uniform 'one size fits all' approach cannot deliver the quality of service modern citizen-consumers demand and that their frequently complex needs dictate.

Making services more 'consumer focused' has been a theme of reform since the early 1980s. But as we have moved into the twenty-first century, there is recognition that the relationship between citizens and public services is richer and more nuanced than the term 'consumer' implies. Citizens have concerns for public services that go well beyond personal consumption benefits to include both the broader impacts of services on societal outcomes, and the efficient and effective use of taxpayers' money.

There is increasing recognition that how citizens engage with public services is as important to the outcomes those services deliver as the quality of the services

themselves. The old Beveridge idea of universal access to services is arguably no longer sufficient. This focus of efforts to improve delivery has shifted towards the interface, or relationships, between citizens and services. Former Secretary of State for Health Alan Milburn gives a condensed history of this shift, commenting that “in 1979, the new idea was for power to be vested in the free market and its policy expression was privatisation. In 1997, the new idea was for power to be vested in reformed institutions and its policy expression was modernisation. Now, the new idea is to vest power in the citizen and the community and to make its policy expression empowerment.”<sup>91</sup>

All of the parties are engaging with this idea of ‘empowerment’ or ‘citizen-centricity’ in different ways. The Conservative Party has more recently spoken of devolving power to citizens in a ‘post-bureaucratic age’; for David Cameron, this means a “massive redistribution of power...from the powerful to the powerless – from the political elite to the man and woman in the street.”<sup>92</sup> Meanwhile the Liberal Democrats have recently committed to a healthcare policy that “(gives) power to citizens to take control of their lives.”<sup>93</sup> Underpinning the theme of citizens taking more control is the recognition that Whitehall does not necessarily ‘know best’. As the Cabinet Office acknowledges in *Excellence and Fairness* (2008), empowerment “(enables) more personalised services by giving citizens the information and power to shape services around their needs and aspirations, rather than by assuming that someone in the Government knows best.”<sup>94</sup>

## Realising the potential of citizen engagement with public services

Four emergent ideas offer some direction for how this policy objective of citizen engagement with public services might be realised:

- Digital Era Governance (DEG)
- Outcome entitlements, not service entitlements
- Localism
- New Professionalism.

91 Milburn, A. ‘More state is not the answer’, *Independent* (7 May 2009)

[www.independent.co.uk/opinion/commentators/alan-milburn-more-state-is-not-the-answer-1680337.html](http://www.independent.co.uk/opinion/commentators/alan-milburn-more-state-is-not-the-answer-1680337.html)

92 Cameron, D. ‘A New Politics: the post-bureaucratic age’ *The Guardian* 25th May 2009 accessed at

[www.guardian.co.uk/commentisfree/2009/may/25/david-cameron-a-new-politics3](http://www.guardian.co.uk/commentisfree/2009/may/25/david-cameron-a-new-politics3)

93 Liberal Democrats. ‘Empowerment, Quality and Fairness in Healthcare: Policies for an Effective NHS’ Liberal Democrat March Conference 2008, accessed at [www.libdems.org.uk/policies/empowerment-fairness-and-quality-in-healthcare-401586;show.p.1](http://www.libdems.org.uk/policies/empowerment-fairness-and-quality-in-healthcare-401586;show.p.1)

94 Cabinet Office, ‘Excellence and Fairness: Achieving World Class Public Services’ (2008)

[www.cabinetoffice.gov.uk/strategy/publications/excellence\\_and\\_fairness/report/html/citizen\\_empowerment.aspx](http://www.cabinetoffice.gov.uk/strategy/publications/excellence_and_fairness/report/html/citizen_empowerment.aspx)

## Digital Era Governance (DEG)

Digital Era Governance (DEG)<sup>95</sup> sets out a new approach to public services, based on a critique of New Public Management (NPM). It argues that NPM has disempowered citizens by fragmenting services: any improvements that have been made through NPM approaches have to set against the additional burdens they have placed upon citizens who have to navigate an increasing complex and impenetrable public services infrastructure.

The DEG approach advocates government taking a more active interest in citizens' experiences of using public services, particularly using technology more effectively. The approach emphasises three main ideas. First, that of 'reintegration'. This advocates for a 'putting back together' of distinct strands of 'corporate hierarchies', with the aim of moving away from NPM-style individual target-setting, and towards a more holistic idea of service delivery. Second, 'needs-based holism'. This "seek(s) to simplify and change the entire relationship between agencies and their clients", providing citizens with a one-stop-shop interface to public services. This would be facilitated by the third idea of 'digitization changes"', utilising new technologies to transform this service-citizen interface. NHS Choices can perhaps be seen as an attempt to move towards this ideal.

### Outcome entitlements, not service entitlements

The alternative to improved joining up of services by government as advocated by DEG is greater individual control over the package of support they need. This would mean a shift from thinking in terms of entitlements to access particular services, towards outcome guarantees that individuals could realise in any number of ways. This would be akin to the approach taken for individual budgets in social care.<sup>96</sup> Although this approach may seem to pull in exactly opposite directions to DEG, the two may still be complementary, with one approach more suited to some areas of social need, and the other more suited to other areas.

Here the role of government would be market making and market management – ensuring sufficient, high quality supply. It would also require funding markets for these 'social goods' at levels sufficient to meet citizen needs and create viable markets. There would be lessons to draw from the experience to date of market

95 Dunleavy, P., Margetts, H., Bastow, S., Tinkler, J., 'New Public Management Is Dead – Long Live Digital-Era Governance' (2005)

96 Glendinning, C. *et al* 'The national evaluation of the individual budgets pilot programme' (2008)

making, management and control in local childcare markets. There is also relevant learning from this experience about how best to channel money into such markets and the level of investment required to make them viable.

### **Localism**

The tensions between central and local government in the responsibility for and control of public services have been a running theme of this report. The forces towards centralisation – from national guarantees regarding service access, to national taxation, to strong national accountability for service failures – are mutually reinforcing. By contrast, there are few countervailing pressures in the other direction, and central government is poorly placed to understand and meet the complex and diverse needs of service users which requires differentiated and to some extent ‘unpredictable’ approaches.<sup>97</sup>

Real movement towards a localist agenda will depend upon a concomitant transfer of power and accountability away from the political centre. Thus far, meaningful devolution has come with strings attached.<sup>98</sup> Within a centralist paradigm the new local government performance framework discussed in Chapter two goes almost as far as possible to increase local flexibility – offering significant local control over priorities (from a central government menu), means and spending.

Getting beyond this heavily constrained version of local democracy will require a more fundamental dismantling of the current paradigm, perhaps providing more viable local political executive leadership and more significant local revenue raising powers.

### **New professionalism**

Politicians across the political spectrum have talked recently about the need to foster a new sense of trust and responsibility between central government and front-line service professionals. In effect, this agenda looks to empower citizens by empowering their local gatekeepers to public services. In ‘Excellence and Fairness: Achieving World Class Public Services’, the government argued that “once core standards have been reached, international evidence shows that to continue to improve, services need to unleash the creativity of those who work at the frontline,

<sup>97</sup> Reeves, R. and Collins, P. ‘The Liberal Republic London’ (2009) Demos p.12

<sup>98</sup> See Pollitt and Gouckaert (2004)



from the hospital doctor to the classroom assistant to the adviser at the Job Centre.”<sup>99</sup> The implication is that excessive recourse to central targets has emasculated public service professionals – a sentiment apparently reflected in the Conservative Party agenda for health service reform.<sup>100</sup>

There are, of course, risks involved in re-establishing professional discretion in some areas. Indeed, the original NPM critique played on patterns of ‘trust and distrust’, and in particular on ‘low trust in public servants and professionals’<sup>101</sup>. And in Julian Le Grand’s famous words, the distinction between (and combination of) the behaviour and motivations of ‘knights’ and ‘knaves’ was seen to have a qualitative effect on variation in the delivery of public services.<sup>102</sup> His solution was to design incentive structures that encouraged the intrinsic motivation of professionals, while discouraging ‘knavish’ behaviour. Ultimately, ‘new professionalism’ will need to be combined with opportunities for public service users to take control of their own needs (perhaps through individual budgets), alongside the means to motivate public service professionals while holding them properly to account.

## Towards a new settlement

Chapter one described how the current fiscal crisis is combining with longer term drivers of change to create a perfect storm. This storm poses a real challenge to our public services, but it can also open a window of opportunity. Failure to think creatively and holistically will almost certainly lead to a weakening of the support available to citizens. But doing so may open up new possibilities that could enhance citizen welfare.

Bringing together the lessons from our recent history suggests that a comprehensive new settlement must address five key challenges, systematically and simultaneously:

- 1 **Purpose:** To what extent do public services reflect the needs and aspirations of citizen’s today? Beveridge’s purpose was to combat his Five Giants, within the context of a deeply unequal society. What should be the purpose of public

99 Cabinet Office, ‘Excellence and Fairness: Achieving World Class Public Services’ (2008)

[www.cabinetoffice.gov.uk/strategy/publications/excellence\\_and\\_fairness/report/html/citizen\\_empowerment.aspx](http://www.cabinetoffice.gov.uk/strategy/publications/excellence_and_fairness/report/html/citizen_empowerment.aspx)  
100 Observation from a speech by Rt Hon Andrew Lansley MP delivered at the Royal Society of the encouragement of Arts, Manufactures and Commerce (RSA), London, 28th May 2009

101 Hood, C ‘The ‘New Public Management in the 1980s: variations on a theme’ in ‘Accounting, Organizations and Society’ (1995) 20(2/3): 93-109 p.94

102 Le Grand, J. ‘Motivation, Agency, and Public Policy: Of Knights and Knaves, Pawns and Queens’ (2003).

See also Simon Griffiths *et al* ‘Assertive Citizens: New Relationships in the Public Services’ (2009) London: Social Market Foundation p.87

services today? In the 1940s it was the central state that decided. Who should decide today? A key finding of this paper is the danger of over-reach by the centre in relation to how it determines priorities and what it can feasibly monitor or control. Local actors are frequently better placed to make judgments about service requirements (quality and quantity) than central government and to manage performance, but are not always empowered to do so.

- 2 **Alignment:** What form should public action take to best advance the purposes? When should the state provide services, fund, or regulate? Different citizens will require different relationships with the state; the challenge is facilitating a means to achieve necessary diversity, reflexivity, responsiveness and effectiveness. How should risk be managed effectively, including:
  - How should risks be allocated between individuals, localities, regions, states, or supra national bodies?
  - How should risk be managed in the context of greater service choice for individuals, as this shifts the balance of risks for the failure of a particular service from the state to the individual?
- 3 **Distribution:** For Beveridge, combating the Five Giants was best achieved through the guarantee of universal access. Is this still right measure of fairness? Should access be more related to prior contributions or desert? Should fairness in relation to outcomes play a larger role? Overall, how redistributive should the system be?
- 4 **Creation/Outcomes:** Creating value from public services is not just about the availability and quality of the services, but also about the response of the citizen to those services. Alongside measures to create the right incentives for service providers and to manage performance, the capability and motivation of citizens to get the most out of services will also be fundamental. It also requires a keen understanding of how differences in institutional and legal forms of delivery organisations might affect motivation and performance.
- 5 **Accountability:** This implies the need for information, transparency, and the ability of citizens to have a stake in the way decisions are taken about public services. Both bottom-up (to service users and local communities) and top-down (to local government, regional tiers, and central government) approaches are relevant, through:
  - Effective measurement of performance that is not distorting, and
  - Transparency and effective democratic control and scrutiny.

The other important lesson of history is that change is difficult to bring about. For over fifty years, reform has consisted largely in ‘patching’ the cracks in the Beveridge model. Privatisation and marketisation represented a bold transition towards a more citizen focused system, but ultimately the state still controlled from the top-down. So, whilst Margaret Thatcher had intended on rolling back ‘big government’, she presided over an expansion in welfare expenditure (as a result of the 1980s recession) and increased control at the centre.

Such a tendency towards central control is underscored by a continuing sense that variation, on whatever dimension, raises serious questions. This is evident, for example, in concerns over:

- **‘Postcode lotteries’** where there is seen to be variation in either the level or quality of service entitlements, which conflicts with a conception of fairness that implies uniformity. In many cases, spatial variations are not randomly distributed in the way that the term ‘lottery’ implies. Instead they reflect – and may perpetuate – other structural inequalities between areas. Above a certain minimum, however, some variation in services could be beneficial where it is in response to local priorities, or where it becomes a spur for service improvement and innovation;
- **‘Service lotteries’** where there is variation in the level of entitlement by type of service. For example, the relatively comprehensive nature of free service entitlements in health could be contrasted with those in social care or childcare which place a much greater financial burden on the individual; and
- **‘Choice’** where opponents often argue that differences in the capacity of individuals to make good choices about particular services might lead to unacceptable differences in access to higher quality services.

Perhaps because of these concerns, the centre has frequently acknowledged the benefits that could be gained from greater local control over services, but has resisted the practical steps needed to realise them. While the electorate hold the centre accountable for many problems at the local level it will demand control. But the very exercise of this control undermines any attempt to shift accountability. As a consequence, despite commitments on the part of all three main parties to more localism, policy consensus has not proved to be enough to bring about real change in practice. This illustrates the difficulties of trying to overcome path dependency to bring about real change.

# 5

## Conclusion

The UK has moved from a fragmented, locally based system of welfare pre-Beveridge, to one which is highly centralised in its control of supply (whether ultimately produced by the private, public or third sectors). Since 1979, attempts have been made to move away from uniformity of centralised provision towards increasingly diverse and responsive public services. Privatisation and marketisation represented the first steps in breaking the state's supply-side monopoly. Choice and competition have been designed to meet the challenge of demand-side pressures to make public services more personalised. But much more radical reform is required if services are to become genuinely citizen-centric.

The paper has detailed how the shadow of historical legacy can constrain choices for the future, often in very unhelpful ways. In his 1942 report, Beveridge asserted that the war wiped clean the political and policy landscape, providing a unique opportunity to enact radical, third order reform:

“A revolutionary moment in the world's history is a time for revolutions, not for patching.”

In the face of an unprecedented global recession, could 2009 also be a revolutionary moment? It may not be a juncture in history as significant as the Second World War. But the current state of the public finances and the potential length and depth of global recession could mark a critical point in time for re-evaluating the nature and mix of our welfare settlement. This will require a clear analysis of where our current system is succeeding and failing, as well as an understanding of the changing nature of the risks faced by citizens and their aspirations. But if we are to break away from historical precedent and forge new consensus appropriate to our times, honest debate and engagement about the choices we face must begin now.

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perspectives state  
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