

# Better Public Services



A roadmap for revolution

Sean Worth



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## About the Author

**Sean Worth** is a senior consultant to Policy Exchange and heads our Better Public Services Project and its series of research and events. Until the summer of 2012, Sean was Special Adviser to the Prime Minister and worked on public services reform for the UK Government. Sean is a former head of the Conservative Party's Policy Unit and worked in politics and policy for a decade before joining us. He holds a PhD in public policy.

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Published by

Policy Exchange, Clutha House, 10 Storey's Gate, London SW1P 3AY

**[www.policyexchange.org.uk](http://www.policyexchange.org.uk)**

ISBN: 978-1-907689-49-9

Printed by Heron, Dawson and Sawyer

Designed by Soapbox, [www.soapbox.co.uk](http://www.soapbox.co.uk)

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# Acknowledgements

We would like to pay particular thanks to Northgate Public Services, Carillion and Microsoft for their corporate support of this important research project. We would also thank the hundreds of people from charities, businesses and government, and also service users themselves, who contributed their thinking and insights to the research.

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# Executive Summary

This report calls for a wholesale revolution in our public services: a radical shift of control away from government, to people and communities.

Too many people today are treated as supplicants when they need services. Access is controlled by state bureaucrats, performance is at best opaque and the only way to guarantee choice is the ability to pay to go private. This situation must be completely overturned.

People must be enabled as never before to be powerful consumers, able to compare, choose and switch services from an open field of providers. In turn, the machinery of government must embrace competition as a proven force for social good.

There is plenty of evidence that people overwhelmingly want this change. This is confirmed by new polling commissioned for this report. More choice is especially strongly desired by poor people who rely on government services most and lack spending power in regular consumer markets. Properly managed and targeted, competition will drive transformative social progress.

On top of popular demand for change lies an urgent practical need. Reducing spending on services, while demand for them increases because of a growing and ageing population, simply means that without reform, they will deteriorate. In essential areas like education, health and social support, this will only harm the most vulnerable in our society.

Real reform is hard to achieve. Powerful vested interests controlling our public sector command vast resources of institutional, financial and political patronage, and actively oppose the progress people want to see. As Mrs Thatcher and Tony Blair both realised, taking on these reactionary elites requires concerted political effort driven in the interests of ordinary families' aspirations. Government has moved to try to open up services, but progress has been dulled by both institutional and political timidity. This must change.

## The Better Public Services Project

This report details the findings of an ambitious research programme, conducted over a period of eight months, which sought to mobilise the ideas to tackle the challenge set out above. As well as extensive analysis of public service reforms, we undertook discussion events, interviews and surveys with experts from charities, social enterprises, businesses, the public sector and service users themselves. Key findings included:

- Over the last 15 years, spending has increased on social services, yet the social problems which absorb that money grew worse. The size of the state has had to increase to keep pace: a vicious cycle of failure that only reform can break.

- Extensive public attitudes research, including for this project, shows that people overwhelmingly want more choice and control over services. They also believe in provider competition, especially to turn around poor services, but also want to see safeguards against potential abuses, such as profiteering at the expense of quality.
- Competition in itself can improve cost efficiency, but it must be driven where possible by choice and quality, and properly managed for public good. Competition led by bureaucrats and based on price can lead to a ‘race to the bottom’ where providers only compete to be the cheapest.
- There is a scandalous lack of openness about the results which services deliver and too little use of the data that government holds about services. This masks performance, stifles choice and innovation, and serves only the vested interests which oppose change.
- Outsourcing markets are crippled by poor commissioning and procurement, and a lack of independent oversight that can champion competition in the interests of people.

This evidence was used to develop concrete policy ideas for how best to reform services for the benefit of users; a new **five-stage model** for achieving successful reform:

#### Step 1: Unlock as much information and transparency as possible

##### *The problem*

The lack of simple information about the results that services deliver is without doubt the most important first problem to tackle. Lack of openness about how widely services vary in quality is a major hurdle to making an effective case for reform. In extremes, it also causes real harm, as the recent Mid-Stafford Hospital scandal showed.

Government is now releasing more data than ever before, but little is being done with it: data is too often dumped on obscure websites. Apart from schools, rafts of important public services still offer people no simple tools, such as league tables, to allow people to judge which services best meet their needs. This situation only benefits the opponents of choice.

##### *Key recommendations*

- **Speed up the release of information about the comparative costs and performance of all public services** to unmask variation and promote choice.
- Government should not wait for web developers to volunteer to use the public data being released; **more should be done to promote innovation in priority areas** – starting with tools to inform and enable choice.
- Linked to the above, **there should be contracts with online comparison site operators to ensure the rapid production of simple league tables**, similar to those available for schools: priorities must be **hospitals, GP surgeries and care homes**.
- Transparency should be used to reassure people about external providers. **Contractors on major projects should publish periodic results** to help avoid high-profile failures on contracts. **State providers should be subject to exactly the same requirements**.

## Step 2: Create powerful consumers of services

### *The problem:*

Research reviewed in this report describes a mountain of bureaucracy that thwarts choice, even where the government purports to be offering it. In many cases, customers are forced to choose from ‘preferred provider’ lists. In other cases, the frustration occurs because services are only partially opened to new providers. The system is simply not matching people’s needs and expectations.

Poorer people are most disadvantaged by the current system. Lacking the skills to negotiate with the elites which run services, or the finances to move into good catchment areas, it is no surprise that the poorest are those who most want choice to be properly extended.

### *Key recommendations*

- Introduce new **legal rights for people to exercise choice in public services** wherever possible, as soon as possible.
- Practices such as allowing choice through **‘preferred lists’ and fixed catchments for GP surgery providers should be banned.**
- People should be given a genuine right to choose **any provider deemed qualified and capable** of delivering a service for the price paid.

## Step 3: Build safeguards against failure and abuse

### *The problem*

There is not enough appreciation of the way in which high-profile contracting failures can sap faith in open commissioning. Private sector failure has been used to justify state intervention; there should be a similar awareness of state or public sector incompetence. Measures to safeguard services against exploitation and provider failure will reassure people about reform, as well as help boost service quality.

We must also safeguard people and services against ‘provider failure’ in the public sector, especially the wilful withdrawal of the very most essential services through militant activism. Strikes in emergency services are now thankfully rare, but when they do occur, they cause widespread harm, as was seen during the most recent ambulance strike over pensions.

### *Key recommendations*

- **The minimum standards which providers must meet should be explicitly defined** and there should be **sanctions against providers who fail to meet them.**
- The **provider of last resort must be legally defined** to reassure people about failure. Emergency services should not be open to competition.
- Vulnerable people must be protected against militancy in emergency services, so **action should be taken to ban strikes**, starting with ambulance workers.



#### Step 4: Stop government providing services and instead boost its buying skills

##### *The problem*

Government procurement and commissioning was by far the biggest cause of concern highlighted in the interviews, events and workshops that contributed to this research. Bodies ranging from the Institute for government to the CBI have published repeated research on civil servants' shortcomings in contracting skills.

There are also serious local issues. While local government can be the most innovative part of the state sector, too many councils' ambitions for better services are thwarted by risk aversion and ideological resistance to commissioning from external providers. EU rules are creating absurd barriers to innovation.

Government is not good at service delivery, so must focus its efforts on commissioning services from the best possible charities, businesses and other suppliers.

##### *Key recommendations*

- **Replace civil servants in central government contracting and delivery roles.** The rules that restrict ministers from making appointments from experts outside government to push forward reform should be swept away.
- **Pay fewer top public sector leaders more money. Recruit outside government to find those tasked with delivering major change.** The better they perform, the more they should earn.
- Government should get tougher on poor procurement by local authorities, starting by **looking at whether the worst performing 10% or 25% of councils could receive stronger central oversight, with mandated plans to improve** procurement practices.
- Procurement bureaucracy has to be reduced further, especially when originating from the EU. **Government should use the review of EU procurement rules to press for exemptions** as well as the repatriation of some responsibilities.

#### Step 5: Create a thriving field of competition

##### *The problem*

In too many instances, government is the provider of the very public services which it also purchases. This conflict of interest is the root cause of inefficiency and must be swept away.

While opening services to competition is an antidote to this, many contributors to this project saw independent economic regulation as another essential for encouraging a mixed economy of provision.

Some markets also need to be opened more fully. Restrictions on who can provide services leads to shortages of potential providers so that 'choices' in effect only amount to restricted preferences – schools are the notable example. Charities and smaller enterprises are also finding great difficulty in entering markets that have for years been dominated by state providers and preferred contractors.

### Key recommendations

- A right for users of services to be given a choice of providers (above) must be met with an equivalent right for any qualified provider to meet this demand. This means that **the state's right to monopoly provision or to restrict people's choice of any provider must also be legally swept away.**
- **Introduce a legal requirement for a 'purchaser-provider split'** in every area of government service where it is possible to have a service delivered by a range of providers. This means wherever it is practical, purchasers and providers must be split into specialised commissioning and provision functions.
- We must also **maximise the number of providers:** breaking up state monopolies and blocking the emergence of alternative private sector ones. To meet ministers' desire to encourage charities and smaller providers, they should consider stronger **ways of seeding this mixed economy, such as quotas.**
- Non-state providers must be treated on equal and fair terms: the 'level playing field' ministers say they want can only be achieved if contracts **recognise the higher VAT and pensions costs which contractors face.** In addition, contract terms, particularly in the NHS, must cover longer periods in order to encourage providers to invest in raising quality, and to allow them time to turn around services that need major improvement.
- Ensure that **in every major public service area, especially where user choice can be exercised, there is independent and separate regulatory oversight of (a) market entry and exit and (b) the expected standards.** Standard-setting bodies must be independent of government in order to be independent of provider interests.
- End restrictions around national pay bargaining and automatic pay progression in the public sector so that staff like nurses can be paid more when they do an excellent job.

The biggest lesson in the analysis and evidence presented here is that while reform is urgently needed, it must be complete, not piecemeal, in order to benefit people fully. It means ensuring that a virtuous circle of choice, competition and freedom from bureaucratic control can emerge.

While advances have been made along these lines in some areas, progress is too slow. Poor public services from which there is no realistic escape only compound the social problems our poorest families face.

The challenge of radical public service reform is to eradicate this scourge once and for all. This report provides a roadmap for this revolution.

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# Part One

## The Change We Need

This section outlines the case for further and more radical public service reforms and contextualises the debate around how exactly to reform them. It discusses:

- How reduced public spending and rising demand for public services is creating an inescapable need for more urgent and radical reform.
- How rising public spending failed to tackle persisting social problems and why an entirely new approach to reform is needed, especially to help the poorest.
- The sharp contrast between vested interests' wilful resistance to reform and what ordinary people say about their ambitions for better public services.
- Commentary and analysis on the research which shows that the poorest people display a stronger desire for reforms that expand choice and provider diversity.

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# 1

## Crunch Time: Why We Need More Radical Reform

The principal reason that the Coalition Government was formed after the 2010 General Election was to tackle the UK's economic crisis by reducing our public deficit (the shortfall in the government's annual income compared to its outgoings) and the huge compounded national debt it sustains. Reducing the amount we spend on our public sector, including government services, was seen as the main means by which the economic turnaround would start to be achieved.

Our public sector today represents around 45% of GDP<sup>1</sup> and has around 5.75 million people in direct employment.<sup>2</sup> Since 2010, some difficult questions have been asked of practically all services and staffing in this sector, including whether government needs to provide them at all, and if so, how far they can be reduced.

There is a directly countervailing pressure, however, in the form of rising demand for many services, such as health, social care and education due to population growth and ageing. This all creates a very simple formula: unless we reform the way that services are delivered, we will be putting less resources into them while more is demanded out of them – meaning that there will be an unpleasant choice between rationing or quality reduction, or both. This would be true even if we maintained budgets at the same level rather than cut them. The process would take longer: the end result would be the same.

There are also big questions of productivity. Years of rising spending on services did not, in many areas, produce better outcomes for people using them. There is a wide gap between the kinds of choice, control and accountability that people want to exercise over the services they use and what they have actually been offered by government.

This chapter discusses these points to show that the evidence all points in one clear direction: an urgent need for wholesale reform to the way our public services are designed and delivered. It also shows, however, the extent of opposition that successive governments have faced from vested interests in the public sector who oppose essential reform.

### The size and cost of the public sector has grown, but its output is poor

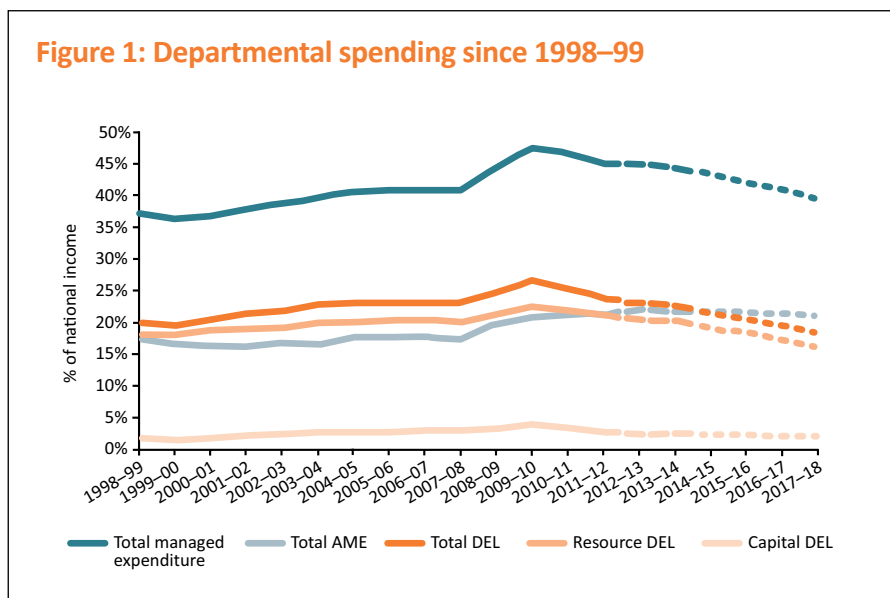
Over the past 15 years, the public sector has grown significantly. Until the present agenda of spending cuts began with the Coalition's 'Emergency Budget' of June 2010, direct public spending had risen from around 38% to 48% of national income.<sup>3</sup>

<sup>1</sup> Debt and Deficit Statistics, Office for National Statistics, January 2013

<sup>2</sup> Public Sector Employment, Office for National Statistics, December 2012

<sup>3</sup> Institute for Fiscal Studies, March 2013

The trend in spending is shown in the graph below, broken down by the different types of spending accounted for by the Treasury, and including the current government’s actual and forecast spending, which will be discussed later.



The totality of government spending is represented by the top line, and known as Total Managed Expenditure (TME). The Treasury subdivides TME first by Departmental Expenditure Limits’ (DEL), which are the annual limits government places on how much departments can spend on the programmes they run and on general administration. This spending can be planned and set in advance and is split between general ‘resource DEL’ spending and ‘capital DEL’ for investment spending. The second main type of spending is known as Annually Managed Expenditure, referring to spending the Treasury has less direct control over, such as welfare and debt interest spending, which can change according to financial and economic changes. Figure 1 shows that all these types of spending increased significantly to 2010.

A large part of the record levels of planned departmental spending was accounted for by a sharp rise in public sector employment, which saw an extra **849,000** people employed over the decade to 2010.<sup>4</sup> Along with this planned expansion of the public sector, a major programme of top-down, centrally-controlled performance management developed. The most notable was the creation of 30 Public Service Agreements in 2007, which was effectively a list of high-level service targets for desired results in areas like educational attainment and health inequality, and from which a multitude of service-specific targets was designed, including an extensive regime of targets and inspection in local-level services.<sup>5</sup>

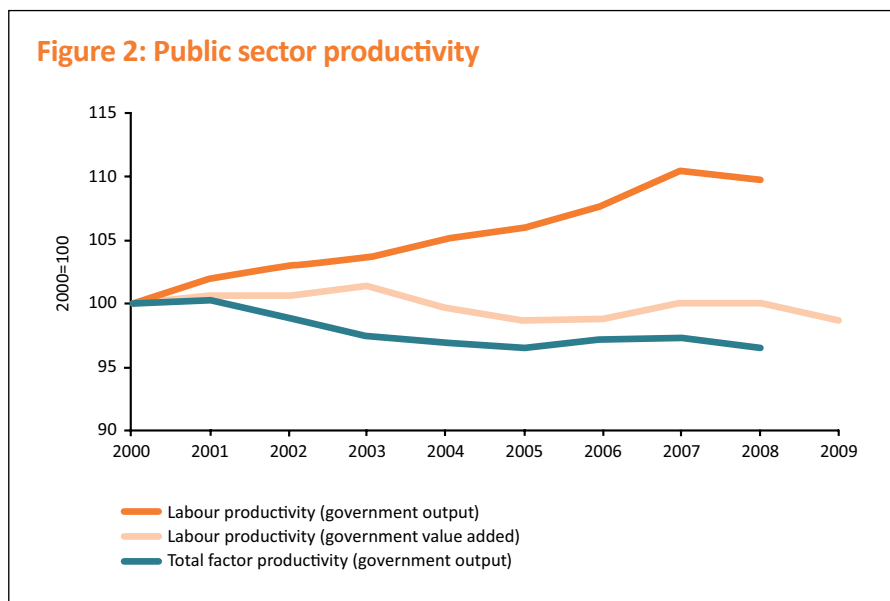
The big problem with all this planned expansion has been its performance. In spite of the record spending, record levels of public sector employees delivering programmes and the unprecedented performance control exerted by central government, official figures show that the results delivered for people did not improve in accordance with the investment made.

4 Open Public Services White Paper, Cabinet Office, July 2011

5 Lyons Inquiry into Local Government – Final Report, 2007

The first problem has been productivity. Until 2009, when the exponential growth in public sector recruitment started to be reined in, this presented a major problem. The independent Institute for Fiscal studies notes that, “during the decade up to 2009, measures of public sector productivity growth suggest that the average growth rate was zero or even negative in that period.”

The trend is shown in the graph below. The only measure to have been rising is labour output, due to the rise in the number of public sector workers. The ‘value added’ they achieve, as well as the productivity of the sector as a whole, are both shown to have been in steady decline.



Against this backdrop, it is no surprise that the second major problem with our public services has been their quality – especially a lack of real progress in the actual outcomes achieved for people. The Cabinet Office’s recent ‘Open Public Services’ White Paper shows that while there are some very good services provided in some areas, key ambitions for improving social outcomes have been missed. It noted:

“On key international comparisons such as school results and cancer survival rates, the UK has been treading water. The differences in the social outcomes experienced by the most and least well-off have remained static over the last ten years despite these huge increases in public spending.”<sup>6</sup>

The report gives several examples of this, including the following in relation to crucial areas of education and health services:

- “The attainment gap in schools between rich and poor is stark: children who qualify for free school meals are half as likely to get five good GCSEs as their better-off peers, and this gap has remained constant over the past five years despite a per-pupil funding increase of around 20 per cent between 2005 and 2010.”

- “In education, we are falling behind international competitors – in the most recent Organisation for Economic Co-operation and Development Programme for International Student Assessment survey, we fell from 4th in the world in science in 2000 to 16th in 2009, from 7th to 25th in literacy, and from 8th to 27th in maths.”
- “In 2003, the Department of Health created 82 ‘indicators’ to measure factors that would contribute to reducing health inequalities: by 2006, departments had met 72 of them, and yet health inequalities continued to widen.”
- “In England today, people living in the poorest neighbourhoods will, on average, die seven years earlier than people living in the richest neighbourhoods.”

Tackling poverty and spreading opportunity have always particularly important ambitions for the outcomes the public sector can help deliver, as well as welfare regimes, and these were formally institutionalised in the mid-2000s into Public Service Agreements mentioned earlier. But as well as the above examples, core ambitions have been missed.

The income gap between rich and poor actually widened to record levels by 2010, according to the Institute for Fiscal Studies, and while they say this has narrowed since, the closing of the gap is a product of the recession reducing capability to earn by high earners rather than any signal that policy is yet spreading opportunity among the poorest.<sup>7</sup> The government’s flagship child poverty targets

were also missed by 600,000 children by 2010 and have since been abandoned in the form originally conceived.<sup>8</sup>

Perhaps the worst example of the failure of social policy is our poor rate of intergenerational social mobility. This refers to how far children are able to escape poverty forced on them by the circumstances of their birth and relies primarily on good education systems,

but also on other core health and social services. The OECD’s last major study into this, published in 2010, produced the shocking result that a child born to poverty in Britain has less chance of escaping it than almost anywhere else in the developed world.<sup>9</sup>

It all adds up to the failure of not just specific policies or departments in government, but of a whole public sector policy paradigm, based on centrally-controlled services structured around basic entitlements and delivered largely by the state. Politicians today, whatever their political persuasion, have an urgent moral duty to tackle this.

### The Coalition and spending on public services

The Coalition Government came to office in 2010 with an explicit mandate to ‘rebalance the economy’. In terms of the public sector, this meant trying to rein in the trend of growth.

The principal problems, as noted above, were that the public sector had grown significantly since 1997, absorbing a rising proportion of national income, but the actual productivity achieved had been low compared to the wealth-creating sectors. This was an unsustainable situation and the key task of the government has

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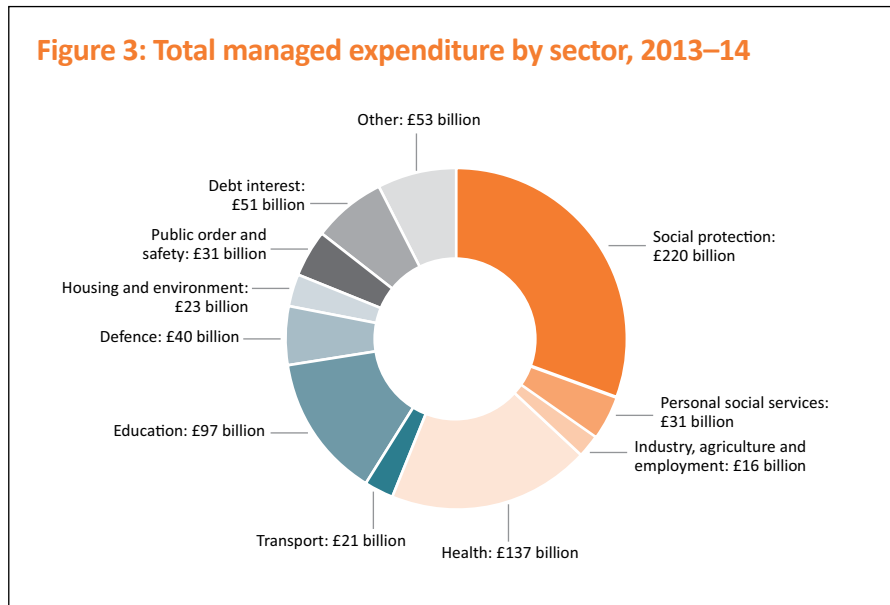
<sup>7</sup> Income and Equality Statistics, Institute for Fiscal Studies, 2010

<sup>8</sup> Channel 4 News Report, 14 June 2012

<sup>9</sup> Changes in Intergenerational Mobility, OECD, 2010

been to try to reduce the budget deficit through progressive cuts to departmental spending.

The latest Budget at the time of writing (March 2013) set total Managed Expenditure for the year at around £720 billion and the breakdown for this spend is shown in the graphic below.<sup>10</sup>



The latest figures show that the above settlement, and those forecast for the rest of this Parliament, should produce a reduction in departmental spending of around 10% in real terms by 2015. Apart from in a few protected areas, notably the NHS part of health spending, the cuts being implemented are not going to produce that large a cut to the amount of money we spend on government, at least in recent historical terms.

First, figures released for Budget 2013 by the Treasury showed that the public sector current budget deficit was still around £13 billion and will only have reduced by around a quarter by 2015. In addition, net public debt still stood at over £1 trillion, equivalent to around 70 per cent of our GDP. On current forecasts, our debt will still rise rapidly to reach £1.6 by 2015.<sup>11</sup>

This means the Chancellor's original plans to have cleared the deficit and made progress in reducing the national debt by 2015 have had to be relaxed. In his 2012 Autumn Statement, he indicated that the fiscal consolidation programme will extend well into the next Parliament.

Forecasts by the Office for Budget Responsibility thus show that departmental spending is to be cut by more than 18% in real terms from its 2010–11 base by 2017,<sup>12</sup> but this would only bring the share of national income we spend on government back to the level of 2002–3. The likelihood is that further action will be needed before we genuinely rebalance our economy.

The key problem for the government has been a lack of growth which has been so slow that in February 2013, the UK lost its 'triple A' credit rating status.<sup>13</sup> This of course creates even more pressure to reduce government spending further, unless a fundamental change of policy direction is undertaken.

<sup>10</sup> Source: HM Treasury Red Book, March 2013

<sup>11</sup> Office for Budget Responsibility; HM Treasury, March 2013

<sup>12</sup> Office for Budget Responsibility; HM Treasury, March 2013

<sup>13</sup> Rating Action Press Release, Moody's Rating Agency, 22 February 2013



## Demand pressures are rising

Working against the government's appetite for less spending on services is the actual demand for them. Aside from any qualitative measure, such as people's expectations about the level and quality of services delivered (which is discussed in later chapters), the sheer numbers of people in need of services is increasing sharply.

Demography is the key driver. The youngest and oldest are the most intensive users of the most essential and costly public services, notably education, health and social care, and the number of these consumers is rising sharply. For example:

- The latest census data for England and Wales shows our population is growing at a rate of around 1,000 people a day. There are now 400,000 more under-fives than there were a decade ago and record numbers of older people; those aged over 85 will double in just the next 20 years.<sup>14</sup>
- The cost of providing services to people increases as they age. The average cost of providing public services for an 85-year-old is around three times greater than for a person aged 65.<sup>15</sup>
- Due to the rising birth rate, fuelled in part by immigration, the government predicts a shortfall of over 450,000 primary school places by 2015.<sup>16</sup>

Given these demands, and the government's plans for ongoing fiscal consolidation, the urgency of the need to reform public services becomes starkly clear. Unless more value is obtained from the spending we put into the public sector, the only alternatives are to cut services significantly in terms of both provision and quality. Reform is the only option.

Indeed, the government has explicitly acknowledged the central role of public service reform in efforts to restore fiscal control and economic growth:

*"Against the enormously difficult economic background, it has become increasingly clear that the medium- and long-term prospects for the UK's competitiveness, growth and jobs depend heavily on public service reform ... But, as the fiscal pressures intensify, it has also become increasingly evident that we cannot hope to provide the needed improvements in public services by spending yet more money on them. The case for radical reform has therefore become even stronger."<sup>17</sup>*

## Vested interests make reform inherently controversial and difficult

The institutional challenges in reforming public sector systems and cultures are covered in later chapters, but it is worth noting here some general points about the difficulty of reform due to the sheer power of vested interests.

First is the internal institutional resistance. After only two years in office, Tony Blair made the famous comment about having "scars on my back" as a result of trying to convince the public sector to reform.<sup>18</sup> He would face such difficulties with vested interests throughout his premiership and this was described starkly in a recent paper for the Institute for Public Policy Research by Charles Clarke, a former Labour Home Secretary and Education Secretary who served during the Blair government's reforming periods. He wrote:<sup>19</sup>

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14 Census 2011, Office for National Statistics, December 2012

15 Value for Money in Public Services, House of Commons Library, May 2010

16 National Pupil Projections, Dept for Education, July 2012

17 Open Public Services 2012, Cabinet Office, March 2012, pp 3–4

18 Tony Blair, speech to the British Venture Capitalist Association, 6 July 1999

19 Grasping the nettle: Labour's challenge on public sector reform, IPPR, 31 May 2012

*“Many in the public sector found it psychologically difficult to acknowledge that the motivation for reform was a direct consequence of the failure of the public sector as a whole to confront difficult managerial challenges. There were outstanding exceptions, but they really only went to prove the general rule that fundamental reform was essential to improve public sector performance.”*

Noting that increased spending provided significant pay increases and larger numbers of employees throughout the public sector, Clarke notes that these factors “didn’t help make the case for reform. If anything, they suggested that higher quality services only needed more resources and that reform was an unnecessary and distracting luxury.”

Today’s ministers appear to be experiencing the same frustration. In a recent speech at the Institute of Government, the Cabinet Office Minister, Francis Maude, openly attacked top public sector officials for intentionally blocking ministers’ reform plans.<sup>20</sup> He noted that:

*“Ministers from this government, and in previous ones, have too often found that decisions they have made do not then get implemented. There are cases where permanent secretaries have blocked agreed government policy from going ahead or advised other officials not to implement ministerial decisions – that is unacceptable.”*

Then there are the public service trade unions, which have a long history of opposing practically any change to public services, however progressive and even when delivered by Labour Governments. Charles Clarke, in the above-mentioned paper, describes the struggles his government experienced. He described the unions as “an inward-looking and defensive public sector enclave” that poses a “formidable political hurdle” to reform.

This oppositionism from the trade union sector has in fact increased sharply since 2010, fuelled by activists’ anger at public sector pay and pensions changes and general spending cuts. A motion calling for a General Strike to hit back at these policies dominated the latest annual conference of the Trade Union Congress, where Len McCluskey, the leader of the country’s biggest union, Unite, even called for a “mighty campaign of direct action, protest and civil disobedience” in addition to strikes.<sup>21</sup>

Conference delegates were also called upon to subvert government policy through a localised campaign to infiltrate the public bodies delivering new reforms in areas like schools and health, which aim to give public services more freedom from state (and thereby trade union) control. For example:

- Against government plans to give NHS patients a choice of providers for their care, the unions called for the penetration of new citizen panels being set up to help govern NHS bodies. A guidebook called ‘Influencing the NHS’ was launched listing these bodies, instructing that “the involvement of local activists can help identify at the earliest stage when there are moves to bring in private providers so that this can be challenged.”<sup>22</sup>
- Against plans aiming to increase standards and choice by creating more academies and free schools, pamphlets and letters are being distributed by the teaching union NASUWT to school children’s homes claiming the purpose of

<sup>20</sup> Speech to the Institute of Government, 2 October 2012

<sup>21</sup> Motion to support a General Strike, TUC Annual Conference, 11 September 2012

<sup>22</sup> A Unison Guide to Influencing the NHS, September 2012

free schools and academies is “to turn state education into a free-market free-for-all and to provide opportunities for the private sector to make a profit.”<sup>23</sup>

Trade unions have a long history in workplace representation and staff support, but such propaganda activity is crude and dishonest.

While the absolute number of activists has declined somewhat over recent decades, the proportion of trade-unionised public sector workers has grown from around 50% to 60% since 1997.<sup>24</sup> They now command huge financial resources for the organisation of campaigns and the funding of elected politicians. All of this presents a significant barrier to reform.

<sup>23</sup> Free Schools: Information for Parents and Local Communities, NASUWT, 2012

<sup>24</sup> What do the public want, need and expect from public services? Ipsos Mori/2020 Public Services Trust, March 2010

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# 2

## What Users of Public Services Say About Them

This chapter provides an overview of the public's attitudes to key issues of public services reform. It uses new polling carried out for this report, as well as examining what is known from existing research. In summary, the top themes emerging from the research are:

- While satisfaction rates with some services are fairly high, many people lack access to what they feel are good public services, including schools and core health services.
- People overwhelmingly want more choice of providers delivering public services. This is especially true of poorer and more vulnerable groups.
- People see competition as a key means to tackle poor quality services. Most people (including a majority of public sector workers) support the idea of allowing business and charity providers to replace poor services or to set up new ones to provide alternatives.
- What matters most to people is how good their services are, not whether they are provided by the public or private sector.
- While there is support for private, charity and social enterprise provision, this is less strong in the case of for-dividend private sector provision in some front-line services, notably schools.

Research shows strong appetite for change and for diverse competitive provision of services. Politicians should understand that controversy created over allowing more diverse provision is largely manufactured by vested interests who oppose this change. It should not be confused for public opposition.

### Public opinion in some places poses a challenge to change

It is important to look at what the public see as the positives in public services and the elements that they do not want to see change, some of which could be a challenge to bringing about reform.

First, it is clear that very large increases in public spending and the sheer expansion of the public sector over the years have led public expectations over provision to become very high. As the polling and research company, Ipsos Mori, observed:<sup>25</sup>

25 What do the public want, need and expect from public services? Ipsos Mori/2020 Public Services Trust, March 2010

“Public expectations for public services are high . . . more than half of the public agree that they now expect more of government than they do of God.”

Mori’s research shows the biggest expectation is that a “good standard of services is available locally”, which is an understandable desire, but there is also a level of expectation that, even with the best of will and vast public spending, will simply never be met. For example, the research found a lot of people who believed that the NHS should offer unlimited treatments and medicines “regardless of how much they cost.”

In terms of resource more generally, people tend not to agree with cuts to services, especially front-line provision. People understand the need for budget savings, but most (75%) believe this should be achieved by making services “more efficient”, reflecting some perceptions that the public sector can be inefficient and wasteful.

“There is also a level of expectation that, even with the best of will and vast public spending, will simply never be met”

There is little appetite from people to fund services through more taxation: only around a third of people (38%) think spending on public services should be maintained using increases in taxes.”

Ipsos Mori summed up the challenge of high expectations by concluding: “It is clear that in difficult economic times, it will simply not be possible for Britain’s public services to meet the public’s expectations in full.”

There are also reasonably high satisfaction rates with many government services, as well as high expectations. The most comprehensive analysis, which compared different public services, was compiled by Consumer Focus (itself a government body) in November 2011. It found general satisfaction with public services among 79% of people, and showed that the NHS had the highest comparative approval rates, including:

- 83% satisfaction with GPs
- 82% satisfaction with hospital outpatient services
- 80% satisfaction with hospital inpatient services
- 78% satisfaction with A&E services

These were the highest approval ratings in any government-funded public service, the next nearest being secondary schools, with 77% satisfaction overall.<sup>26</sup> The lowest scoring services were ones generally used out of absolute necessity or hardship, including social housing, social care and Jobcentres.<sup>27</sup>

Even a relatively high 79% general satisfaction rating, however, still means more than one in five people do not report to be satisfied with services. And while resource reductions are controversial, people have far stronger appetite for change when considering quality issues, such as the amount of choice, control and accountability they have in services – as the next sections will show.

## Significant numbers of people lack a choice of good public services

To understand whether people feel they have a genuine choice of good services, it is important to look not just at whether they have different options available, but

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26 Public Sector Service Satisfaction Index, Consumer Focus, November 2011

27 Public Sector Service Satisfaction Index, Consumer Focus, November 2010

what kind of choice they say that they have. Specifically, we need to understand the quality people feel they can obtain. People in isolated communities, for example, have few schools, but may be happy with the quality of those they have access to. People in urban centres may be near many schools, but be unable to find a good one. Choice and quality go hand in hand.

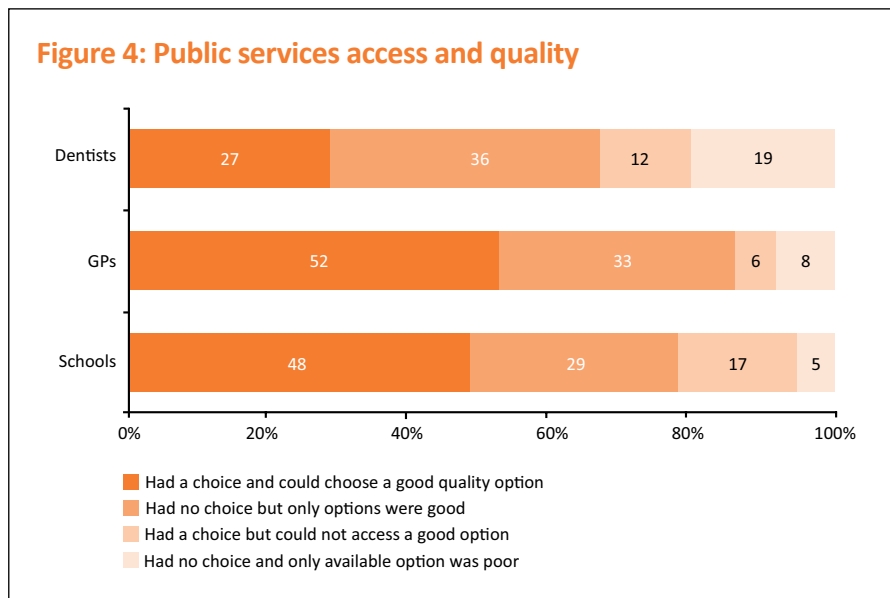
This is the problem with the bulk of previous research, which has tended to view quality and choice separately, so we commissioned new research from the independent pollsters, YouGov, into people’s experiences and perceptions of the choice and quality of public services on offer.

We selected health and education. Within those, we fixed on schools, GP surgeries and NHS dentists, since these services are very numerous and most people have at least some experience of using them. Other main services, such as hospitals and post-16 education institutions, are not used universally.

For each of our core services, people were asked whether they believed:

- they had a choice and could choose an option they felt was good quality;
- they did not have a choice but their only options were good;
- there was a choice, but they had no access to a good option; or
- they had no choice and the only option available was poor.

A summary of key findings is shown in the graph below, followed by more detailed breakdowns of the findings. Note that for simplicity, the figures refer to responses where an opinion was recorded (i.e. ‘don’t know’ answers were excluded).



A more detailed description of the findings is as follows:

**a) Schools**

- Around half of parents who expressed a view (48%) said there was a choice of state schools in their area and that they could have access to a good one,

while 29% said they had no choice of different schools but that the local one was of good quality (this latter figure rose to 48% for people who lived in rural areas);

- One in five parents who expressed a view (22%) felt that they no means of access to a good school in their area: most because they could not get their children into one of the good ones (17%) and others because there was no choice and the local one was poor quality (5%);
- Numbers of people who said they lacked access to any good schools rose to nearly one in three living in cities (30%), almost twice as many as in rural locations (17%). The worst area was London, where the figure was 34%.

#### b) GP surgeries

- Of people who expressed a view, about half (52%) said that they had a choice of different surgeries in their area and could have access to a good one, while a third (33%) said they had no choice but that the local one was of good quality. This view was highest among people living in rural areas, at 52%.
- Of those who expressed a view, one in seven people (14%) said they had no way of access to a good surgery in their area, either because they were not able to use one of the good ones in their area (6%) or because there was no choice and the local one was poor quality (8%).

#### c) NHS dentists

- Just over a quarter (27%) of people who expressed a view said they had a choice of different NHS dentists in their area and could find a good one (the figure was 19% in rural areas), while over a third (36%) of people said they had no choice but that the local NHS dentist was of good quality.
- Nearly a third of people who expressed a view (31%) said they had no means of finding a good NHS dentist: either because they could not use one of the good ones in their area (12%) or because there was no choice and the local one was poor quality (19%).

### People put great value on choice in public services, especially the poorest

A basic question which has to be understood is whether people positively want a choice of different providers of public services, including non-state providers, or not. The most recent study of the public's opinions on this was conducted by the Confederation of British Industry (CBI) in association with the Association of Chief Executives of Voluntary Organisations (ACEVO), a representative body for charities.<sup>28</sup>

The CBI-ACEVO research, published in July 2012, showed that a clear majority of people (75% of those polled) were in favour of a variety of different providers delivering services rather than monopoly government provision. This research also showed that diversity in provision was perceived by the public to have clear advantages, including greater financial efficiency (65%), better results (70%) and a better focus on service for users (71%).

Another larger-scale study into this issue was the 2009 release of the *Social Attitudes* survey, which made public attitudes to choice in public services a key focus of the edition.<sup>29</sup> The conclusion of the research was clear:

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<sup>28</sup> Provider diversity poll, Confederation of British Industry, July 2012

<sup>29</sup> British Social Attitudes 2009 Sage Publishing, January 2009

“There is widespread public support for the idea that people should be able to exercise choice when using public services.”

The earliest more detailed programme of research on the public’s views about choice in public services was carried out in 2004 by the Audit Commission, involving large-scale polling as well as more qualitative interviews with service users. Carried out to inform the debate over the then Labour Government’s plans to bring a greater choice of providers, including private firms, into public services the report concluded that:<sup>30</sup>

“There is no doubt that the public want more responsive public sector services and to see more choice of provider and of services as a way of getting them.”

For health services specifically, the 2009 *Social Attitudes* survey showed that “three quarters (75%) feel that people should be able to exercise ‘a great deal’ or ‘quite a lot’ of choice about which hospital they attend.” This was followed up in 2011 by the Department of Health, which ran a survey on whether people wanted more choice in the NHS.<sup>31</sup> The study showed that 81% of respondents favoured more choice in terms of which hospital or clinic they were treated in, while 79% wanted a greater say over the kind of treatment they got from the NHS.

For schools, the 2009 *Social Attitudes* research showed that “more than eight out of ten people (81%) believe that parents should have ‘a great deal’ or ‘quite a lot’ of choice about which state secondary school their child attends.” The latest edition (2011) followed this up, asking whether people thought choice should be a fundamental right for people. It said: “Almost seven in ten (67%) agree parents should have a basic right to choose their children’s schools.”

The research clearly shows that people with fewer resources or greater vulnerability, such as poorer or elderly people, are keenest on choice:

- The 2009 *Social Attitudes* survey also said that: “Choice is most popular among people on low incomes.”
- The Audit Commission found that: “Generally, the least privileged people (social classes D, E) were most in favour of choice as ‘absolutely essential’ in all of the service areas we tested in our survey – these are the people who have the least spending power to secure choice at present and depend more on council services than other people.”... “Fewer respondents from the highest socio-economic groups rated the choices as ‘absolutely essential’ – this may be because they already have the buying power to secure what they want in the marketplace.”

In terms of health services specifically, the 2009 *Social Attitudes* research mentioned above showed that poorer parents most wanted a choice of provision, while the aforementioned 2011 Department of Health survey showed that women and older people were most likely to want more choice over their NHS treatment.

Editions of the *Social Attitudes* survey have attempted to go further than this and ask people to try to rate choice in education and health services against other priorities in those service areas. They placed choice of services against the most important access and quality issues, and unsurprisingly found that choice is not as urgent a priority as is the core fundamental purpose of the health and education systems themselves:

<sup>30</sup> Choice in public services. The Audit Commission, September 2004

<sup>31</sup> Department of Health press release: ‘The Public Wants More Choice’, 11 October 2011



- **Health services:** The 2009 study showed that, when asked to rate four options in terms of most important to least important, 78% of respondents chose “make sure people who are ill get treatment quickly” while 6% chose “make sure people have a lot of choice about their treatment and care”.
- **Schools:** the latest edition (2011) showed 67% of people agreed that “Make sure all children, however able they are, do the best they can” was the highest priority for schools, while 4% thought the biggest priority was to ensure “parents have a lot of choice about the kind of school their child goes to”.<sup>32</sup>

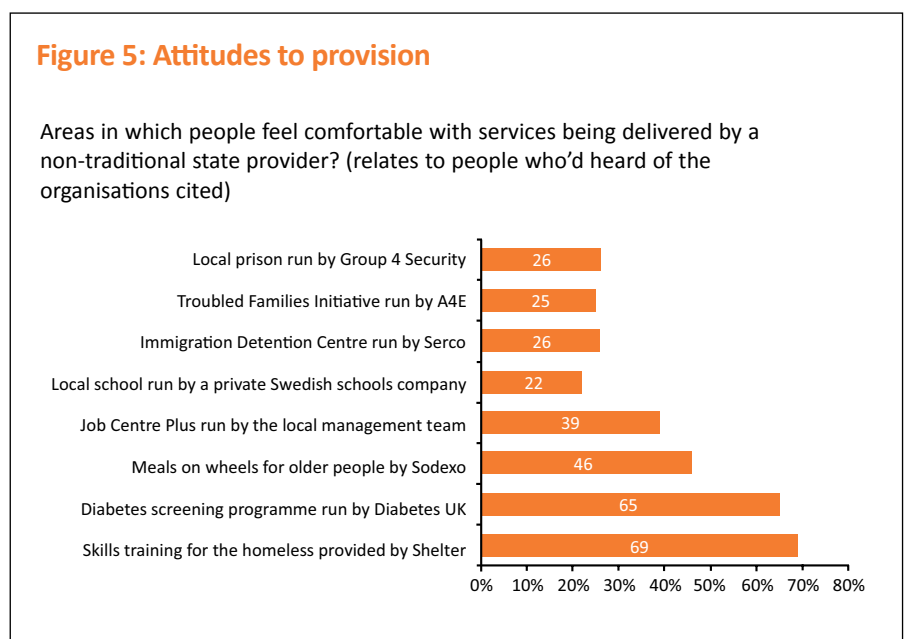
### People are positive about all provider sectors, but there are some caveats

A key aspect of the public service reform debate has been the entry of different providers from the private, charity and state sectors. The most recent research attempting to gauge the public’s views on this was a Populus survey published in July 2012.<sup>33</sup>

The first question Populus looked at was the degree to which people were concerned about non-state providers operating in public service. The study showed that this was not a priority concern: 75% of people agreed that ‘the most important thing is to have high quality, free, public services not who is involved in running them.’ Only 25% of people agreed with the statement that, ‘Private contractors and voluntary organisations have no role to play in delivering frontline public services’.

However, support for different types of provider varied, depending on the activity performed. The survey found that there was relatively less enthusiasm for seeing services traditionally seen as state-provided, including prisons and policing, run by private firms. 73% of people were happy for private firms to provide catering in schools, but only 22% were comfortable with ‘private for-profit Swedish companies’ actually running schools. People were comfortable with charities delivering certain services (65% happy with a diabetes screening programme run by Diabetes UK).

Some of the attitudes in relation to the above are summarised in the following graph.



<sup>32</sup> *British Social Attitudes 2011*, Sage Publishing, January 2011

<sup>33</sup> *Public Service Priorities to 2015*, Populus poll, July 2012

The idea of using non-state provision becomes most appealing if it is shown to be attached with clearly defined benefits. The Populus research found that 65% of people believed that private or voluntary sector providers should be allowed to deliver a service if it can be done more efficiently than the state.

This concept was also identified in the Royal Society of Arts' work on public services through its '2020 Public Services Trust' project, showing that support for reform and introducing more choice is higher when clear benefits are shown.<sup>34</sup> Their work showed that only 11% of people thought that the private sector should be prevented from providing public services, while 81% accepted the treatment of patients in private facilities if that meant quicker treatment.

While the public appear to accept the concept of NHS services being run by non-state providers, including for-profit firms, there is relatively less appetite for this in schools. A poll by the think tank, Reform, in May 2011 found that 49% of still people thought state schools should be delivered by government. However, more people thought that government, charities and the private sector (31%) should deliver services than just government and charities (17%).<sup>35</sup>

Research explicitly testing attitudes to public service delivery in the context of the financial motives of the delivering organisation is sparse, but a recent poll conducted on behalf of the Social Enterprise Coalition appears to show relatively lower appetite for the creation of shareholder value.<sup>36</sup> The figures must be treated with caution (particularly because the 'social enterprise' option is the only one where the concept of service improvement forms the question), but the figures showed that, when asked which type of organisation is best-placed to provide public services (cited as leisure, health and transport services) UK adults chose the following:

- 43% chose 'A community business that reinvests its profits to improve services'
- 36% chose 'The government or public sector'
- 4% chose 'A business that makes profit for its owners and shareholders'
- 3% chose 'A charity'

In conclusion, there is support for different providers from the private, charity and state sectors running public services. But there are clear qualitative differences in views on which kinds of services different providers run. For-profit or for-dividend firms can be preferred for 'back-office' functions unless linked to specific problems, such as improving efficiency, while charities can be preferred for work with vulnerable or sick people.

## People see competition as a key means to improve poor services

The research presented above shows that people certainly see positive qualities in having a diversity of providers delivering public services, such as improving choice, efficiency and innovation. But whether introducing new providers into public services is seen as a good way of improving services for people, as opposed to trying to improve the performance of existing providers, remains the least well-researched subject. We conducted new polling into this issue.

Because the government has explicitly chosen a course of not increasing the funding going to public services (in fact most services have been affected

<sup>34</sup> Citizen engagement: testing policy ideas for public service reform, Ipsos MORI, May 2010, 2020 Public Services Trust at the RSA

<sup>35</sup> Reform, Quantitative poll – attitudes to private sector involvement in public services, May 2011

<sup>36</sup> Poll conducted by YouGov for The Social Enterprise Coalition, May 2011

by reductions in spending), we asked people what they thought was the most effective way of improving the quality of services, without increasing public spending on them. The options were:

- Appointing new managers in the existing organisations, under strict performance targets
- Bringing in external providers, like charities or businesses, to take over the existing services
- Allowing new providers, like charities or businesses, to set up alternative services so there was more choice

In analysing the results, we looked at differences between people in terms of voting alignment, social class and whether they worked in the public sector or not. The summary of our findings is below. Again, all figures reflect those who expressed an opinion: respondents simply answering ‘don’t know’ were excluded from the analysis:

- A majority of people (60%) thought that if a school, GP surgery or NHS dentist was providing a poor service, businesses and charities should be brought in to run it – either via expanding choice by opening new alternatives (40%) or taking over the management of existing ones (20%).
- A minority (40%) of people thought that the best way to improve the quality of services was to stick with existing providers but use new management and performance targets.
- Labour voters were most likely to believe in sticking with poorly performing existing providers, under new management and performance targets – with 56% of Labour voters in favour, compared to only 28% of Conservatives and 31% of Lib Dems.
- Public sector workers were more likely than those in the private sector to think that new targets for existing providers would be the best way to give people better services (by 47% to 37%), but 53% of public workers still thought that allowing in new provision would be more effective.
- The social group ‘C2’ (skilled working class) was most likely to want businesses and charities brought in to run services, with 65% in favour, followed by 60% of C1 people (lower middle class), 58% of the top social groups (known as AB) and 55% of the bottom groups (known as DE).

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# 3

## Concluding Points

One of the UK's most successful business leaders, Sir Terry Leahy, gave an overview of his work on why governments struggle to make improvements to their services in a public event at Policy Exchange in October 2012, as part of the project behind this report. The most basic problem, he said, was that government simply does not make nearly enough effort to listen to what the end-users of its services say.

Sir Terry said that this lack of focus on what the customer wants inevitably translates, as it would in any other area of business or charity activity, into politicians not being able to stand up for what ordinary people need from services, and those services then failing to hit the outcome ambitions we have for them, such as reducing inequalities.

There is also too little public voice reflected in wider debates over reforming services, which typically become media battles between ministers wanting to advance change and vested interests in the trade unions and public sector who oppose it. The voice of ordinary people is completely lost.

The main implication for government of the research outlined in this chapter is to understand that the controversy created by allowing in charities and enterprises to run services is largely manufactured by vested interests who oppose this change. It should not be confused with public opposition.

It is true that in terms of top priorities, people would not see choice and diversity of provision as more important than urgent issues such as getting timely treatment in the NHS. But the public does think that choice has intrinsic importance and value.

Politicians should therefore not shy away from radical reform. But it is important to understand people's anxieties. There are clear qualitative differences in views on which kinds of services different providers should run. For-profit or for-dividend firms are preferred for 'back-office' functions unless linked to specific problems, such as improving efficiency, while charities are preferred for work with vulnerable or sick people.

Above all, the most interesting set of findings is to do with the seemingly more pro-reform views of poorer and more vulnerable people. Given that so many of our public services are being used by the poorest, and that so much of their consumption power is invested in them, increasing choice and control within these services has to be a good in itself. The scope for increasing choice as a means of helping tackle the most disempowering effects of poverty is explored further in the next chapter.

“There is too little public voice reflected in wider debates over reforming services, which typically become media battles between ministers”

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# 4

## Focus Point: Why the Poorest are Most Keen on Reform

Most arguments for increasing people's choice in public services (apart from the fact that people want it) have been broadly economic, advancing the view that a diversity of providers of services allows for competition which will improve quality and efficiency. Different choices also mean that people are far less likely to be forced to accept a poor service.

Analysis by researchers presented above, such as the Audit Commission, say that poorer people want more choice in services because they rely on services more, and lack the ability to have much choice in other areas of their lives. Analysis of the latest data from the OECD on the use and value of public services for different income groups shows why this is a particularly urgent issue for the poor in Britain.<sup>37</sup>

### What the OECD data shows

The recent data report from the OECD examined the goods and services households pay for directly, as well as the main government-funded public services they consume – including education, healthcare, children's services, social care and social housing – in order to assess the value of public services to a household's consumption power.

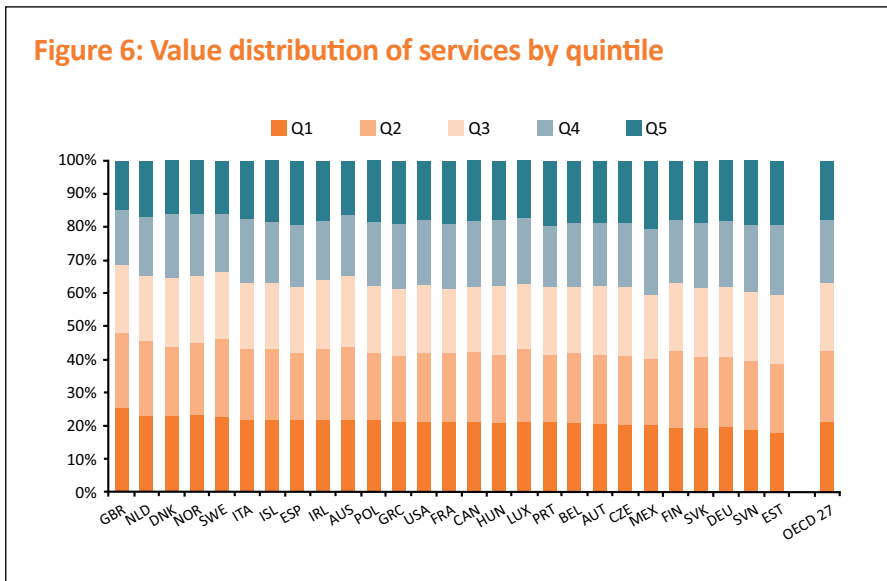
Looking at the average level of public services households use, the report showed (unsurprisingly) that poorer households relied on public services by far the most in terms of their overall consumption of goods and services.

In Britain, the main public services were shown to be worth more than a quarter (around 27%) of the average household income, and this rose to around 80% for households in the poorest fifth of the population. For the richest fifth of households, the value of public services was barely 10% of their income.

In reality, this difference is likely to be wider still, because rich and poor households do not use public services equally: the poorest tend to be the biggest consumers. The data did not measure the relative use of different groups explicitly, but we can see the differences in data on the proportion of public service spending taken up by different income groups.

The report shows that the poorest 20% of households in Britain consume 27% of government spending on the main public services, while the richest 20% consume only around 14%. This difference is the widest in the entire OECD. The data showing this, ranked by country, is summarised by the OECD as below.

37 Forster, M et al, (2012) "The Impact of Publicly Provided Services on the Distribution of Resources, OECD Publishing



There is a positive way to look at the disparity in spending between the poorest and richest in Britain observed by the OECD. It could be argued that resources are targeting the poorest. It also means that public services dominate poor households' consumption and that Britain's poorest families are the most dependent of any in the developed world on government-funded public services, notwithstanding relative differences in the proportion of GDP actually spent on them.

### The implications for policy

Increasing choice in public services is crucial once you accept that poverty in Britain today is not just about income: it is about disempowerment, lack of choice, lack of control over the decisions that affect you and your family.

This reflects the modern conception of the real nature of poverty which is now used by organisations that measure and define it, such as the United Nations and the OECD. Modern approaches to understanding and tackling poverty have moved beyond the old conception of just a lack of money, and instead adopt what is termed the 'capabilities approach', involving issues of choice, power and control: central to the ability of people to escape poverty or protect themselves from it.

Given that so many of our public services are being used by the poorest, and that so much of their 'consumption power' is invested in them, increasing choice and control within these services has to be a good in itself. Along with more traditional policies, such as paying benefits to ease immediate financial hardship, increasing choice becomes a vital means of helping tackle the most disempowering effects of poverty.

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# Part Two

## The Road to Reform

This section charts the development of public service reforms pursued by successive government over the past 30 years, putting the present government's new set of reforms in their developmental context. It also provides a focused discussion on some key reform issues. It discusses:

- The size of the public sector market today and how it has developed through 30 years of reform.
- Analysis that shows how successive administrations have developed four underlying core drivers of reform: choice, competition, provider autonomy and per-user funding.
- The present Coalition's emerging public service reform landscape and how it broadens, but 'tames' previous competition reforms.
- A discussion of how far the present reforms take us towards the public services people want.

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# 1

## Public Services and the Road to Reform

Governments around the world are under rising pressure to deliver more productive public services. They face increasing demands for essential provision such as healthcare and education in growing, ageing populations, and many are at the same time exerting downward pressure on spending to balance budgets in the global downturn, compounding the need for productivity improvements.

Creating or accelerating the development of market mechanisms is the common response to this challenge, and Britain is no exception. While a degree of debate and controversy surrounds the current government's moves to expand markets in public services, which is often presented as though it represents a new wave of policy, public sector markets were in fact already huge.

It is the contention of this chapter that while the present government's reforms and stated intentions to reform do widen the scope of market-like reform, they also 'tame' some key areas of previous competition policy.

### Our public sector has seen 30 years of market-based reform

Our public sector today represents around 45% of GDP<sup>38</sup> and has around 5.75 million people in direct employment.<sup>39</sup> Private and other independent providers from outside the state have long been a core feature of this large and diverse market and have been expanding progressively throughout the NHS, social care, schools, social work and many other areas of frontline provision for many years.

At the end of 2012, the financial consultancy, Oxford Economics, published its annual assessment of the value of the public services market to private sector outsourcing firms. The latest data is to 2010, so represents the inheritance of the present government from the last one, rather than the result of any new reforms. It shows the outsourced public sector market was already worth over £72 billion, comprising services ranging from facilities management and waste collection for councils, through to "£7.5 billion of frontline healthcare" and "£1.5 billion of frontline education" provision."<sup>40</sup>

The value of the whole market will certainly increase with the present government's reforms. Policies like the Work Programme, allowing more non-state providers in the NHS and extensions of outsourcing in rehabilitation and other services, should increase the size of the market from that £72 billion base by several billions.

38 Debt and Deficit Statistics, Office for National Statistics, January 2013

39 Public Sector Employment, Office for National Statistics, December 2012

40 UK Outsourcing Across the Public and Private Sectors, Oxford Economics, November 2012



It is no surprise that our public markets are so large, given that the history of our public services over at least the past 30 years has been a steady progression towards market or quasi-market mechanisms.

Reforms since the 1980s have centred on introducing more competition and choice into the public sector. This has developed in two main ways. First, in reasonably open markets, as with the outsourcing of council services purchased on behalf of communities, like waste collection or property facilities management. Second, ‘quasi-markets’, where state providers compete with each other internally, sometimes with a limited degree of independent provision allowed in too. The latter are more common in individually-consumed services, including health and schools, but there are open provider markets for individual services, notably social care.

Varying forms of choice and competition policy were initiated by the Conservative governments of the 1980s and 90s and then accelerated and expanded rapidly under the Labour Governments of 1997–2010. They are set to be pushed further still by the present Coalition Government.

Some events illustrating key reforms in each era are listed in sections below. But to help identify the common threads, the following four principal aims can be seen in successive governments’ reforms:

<b>USER CHOICE</b>	<b>COMPETITION</b>
<b>FUNDING REFORM</b>	<b>PROVIDER AUTONOMY</b>

- Introducing more *choice* for users of services, ideally from a competing field of providers
- More *competition* between providers for those choices – either in open or internal markets
- Making *funding* follow the number of users the provider has, so the more they attract and retain, the more money they receive
- Allowing more *provider autonomy* to enable them to innovate to try to raise standards and attract more users and funding

The theory behind all this is simple. Choice will empower people to select the best services that meet their needs, and to switch from them if dissatisfied. In turn, competition between providers for people’s choices raises standards as providers vie to attract and retain users. With funding following people’s choices, and providers being able to innovate to attract them, it creates a virtuous cycle of efficiency and competitive improvement.

In larger-scale commissioned services, such as councils’ outsourcing of service provision, the rationale is simpler: that competition through a tendering process should produce the best value and quality for the price paid. So success depends on the effectiveness of commissioning and procurement systems.

### Case study 1: Partnership working to deliver energy efficiency in Birmingham

The 'Green Deal' is a government scheme that aims to reduce carbon emissions from housing by helping people make their homes more energy-efficient, at no up-front cost to them. It does this by paying for improvements like cavity wall insulation for people and repaying the cost of those works using part of the resulting energy savings delivered to the householder over the long term. So everybody benefits.

The scheme is delivered locally and Birmingham Council are letting the country's first Green Deal contract. They are using an innovative partnership approach with a contractor, Carillion, to deliver the work. The scheme will deliver 15,000 Green Deal packages across the City in its first three years.

The partners are co-locating their respective staff to promote genuine co-working and also using a 'local-first' supply chain of plumbers, fitters and other trades, to visit people's homes. This helps the contractor achieve the scale required to make the contract commercially viable, using trusted local trades people to help promote the scheme in local communities. And Birmingham Council benefits by meeting their carbon reduction responsibilities efficiently and in a way that helps promote local jobs.

## Conservative Governments of 1980 to 1997 initiated new market mechanisms

After years of economic decline and industrial unrest, the early 1980s saw the introduction of some radical measures (for the time) to try to make public services operate more like markets, either to get them to work in the interests of their users' choices, rather than their producers' interests, or to bring in financial efficiency through competition.

Compulsory competitive tendering for council services was introduced in 1980 to try to bring in much-needed quality and efficiency to local services. It meant that services could only be provided by local authorities themselves if the in-house team won in a fair bidding process, in competition with other providers. The practice was later extended to further council services.

In education, a raft of reforms was instituted to shift power away from councils and towards families. The 1980 Education Act gave parents a new right to choose the school for their children, ending the old system of 'closed enrolment' in fixed catchments. To support this, early efforts were made to mandate the publication of information on the results schools achieved.

Later on, funding was pushed further towards the number of pupils schools attracted, rather than 'block' funding for the institution itself. The first school league tables were also introduced, in 1992, to help empower parents' choices between different schools.

The roots of modern welfare reform appeared in the late 1980s, as efforts to support the unemployed into work increased. This included the commissioning by local authorities of independent providers to offer training schemes to the unemployed.

The social care market also began to develop rapidly. Local agreements by councils to fill care home places provided by independent providers were initially funded by central government. This led to a market but also to soaring

costs as the commissioners (local authorities) had no incentive to prevent or limit care home entry. So in 1990, funding was transferred to councils themselves. It led to the development of the first fairly advanced commissioner-provider market, which would draw in large amounts of private investment for care homes provision.

In the NHS, the 1980s saw the introduction of competitive tendering for some services and initial efforts to grant more autonomy to local health authorities. But it was later that more substantial reforms were introduced, including the initial development of a quasi-market in the NHS, whereby different providers would effectively compete with each other for funding.

A purchaser-provider split was introduced whereby hospitals became fairly autonomous organisations which were contracted by bodies that commissioned care on behalf of patients. These included 'GP fundholders' who were given budgets to purchase their patients' care from NHS hospitals, clinics and other settings.

### Labour's reforms of 1997 to 2010 expanded competition rapidly

Labour came into office with the aim of improving core public services through better funding, but also further extended a raft of market-based reforms – some extending those initiated under the previous administrations, but also some new ones.

In schools policy, the existing league tables were augmented with better information, including 'value added' measures which better signalled the efforts of schools to improve grades. Physical barriers to parents choosing different schools were also tackled with free school bus travel for poorer pupils.

Greater operational autonomy was also introduced with the Academies programme, set up in 2000. Schools that became Academies were freed from local authority control and given new freedoms over operations and staffing, teaching specialisms, and to an extent, the curriculum. Explicit duties were also placed on councils to promote school choice and diversity in the kinds of schools being set up.

In local government, Private Finance Initiatives were encouraged, involving the private sector taking over council building schemes.

Stronger efforts to reform welfare were instituted, including Scandinavian and US-inspired 'active' welfare policies which placed conditions on the unemployed to seek work in return for benefits. This was combined with an increasing use of the contracting of independent providers to help the unemployed back to work. The 'prime providers' model was initiated, whereby very large companies would take on large contracts and then themselves contract a supply chain of smaller local specialists, including charities.

The social care market had become reasonably mature in comparison to other services, but further efforts were made by some local authorities to extend choice by giving care users control over their service through personal budgets.

Health policy arguably faced the biggest reforms. Alan Milburn started a new wave of reform to deepen the internal market operating in the NHS and to introduce the private sector, in order to increase competition in some core activities that were in need of improvement.

NHS Trusts were allowed to become Foundation Trusts, which like academies, were free-standing organisations with autonomy over their own operations. Independent Sector Treatment Centres were created, which allowed the private sector to enter the NHS market to help clear problems like high waiting times, but also to inject competition to local health economies.

From 2008, NHS patients were given the right to choose to have certain routine treatments performed at any hospital, including private sector ones, as long as they took NHS prices. This was supported by the development of a system of fixed tariffs for items of NHS care, which could theoretically be earned by any provider who could meet the quality standards required. It was the beginning of a regular market in the NHS.

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# 2

## The Present Landscape of Reform

We have seen how successive administrations of different political colours have developed a consistent progression of four essential market-based elements of reform: choice, competition, provider autonomy and per-user funding. Other reforms have of course been implemented, such as better information or payment-by-results systems, but these are largely ancillary and support those main drivers – the primary two of which are choice and competition.

This chapter looks at the present Coalition's emerging public service reform agenda and contends that it is certainly more radical, in that it broadens the scope of the main reform drivers of previous governments and augments them through ancillary reforms that help sharpen them. But the analysis is that the agenda actually appears to dilute or at least further contain the previous government's competition reforms.

### How the Coalition is widely extending but 'taming' previous reforms

The Coalition has fully embraced the broad thrust of the previous Labour Government's direction of policy and is extending the four central themes picked out from the history of reform summarised above. For example:

#### **To extend choice:**

- Opening a choice of GP practice beyond people's catchments is being tested in pilot schemes.
- In social care, personal budgets will be universally available by 2015.
- New free schools and university technical colleges are being set up to expand choice locally.
- In the NHS, more routine services will be open to a choice of any provider.

#### **To extend competition:**

- New providers are being encouraged into public service markets, through a 'right to challenge' in local services.
- Allowing independent providers to bid for more NHS work, while banning the practice of allowing them to cherry-pick easy work,
- Allowing new Free Schools to be set up in the state sector by community groups.
- Extending contracting for welfare to work provision.

**To extend provider autonomy:**

- Academy schools are being rapidly extended and the aim is for all NHS Trusts to in time become Foundation Trusts.
- Councils have been given much more power to provide services without central diktat and ring-fenced budgets.
- Public sector staff are given the right to take over the services they operate as spin-out businesses.

**To extend funding that follows service users:**

- Per-pupil funding is being strengthened, along with a ‘pupil premium’ that pays extra resources to children of poor families.
- The NHS per-patient tariff is being extended to more services.

There is arguably nothing radically new being added to the core formula set out above of increasing choice, competition, provider autonomy and per-user funding. Rather, the themes seen in previous governments’ reforms have been consolidated in their existing areas and then widened to new areas, such as the probation and rehabilitation services.

The thrust of new policy has in fact focused on ancillary mechanisms that aim to sharpen the operation of the central drivers of choice and competition. The government’s key aim is to ensure that competition works more strongly in the favour of the user rather than the provider of services, by offering fair access and better value and accountability. For example:<sup>41</sup>

- **‘Outcomes-based commissioning’:** Payment by results systems, developed by the previous government, notably in the NHS and welfare provision, are being used more intensely and in more areas to ensure that providers deliver value for money.
- **Sharper financial systems:** such as new penalties for poor performance, including hospital readmissions after treatment.
- **Devolving funding:** to try to close the gap between the people using services and those commissioning them. For example, NHS funding is being devolved to consortia of doctors.
- **Better information to enable choice:** More information is being published about the results different providers achieve, what they spend and the overall costs of providing services.

A great deal of controversy has centred on the Coalition’s current public sector reforms. These largely focus on cuts to budgets, staff, pay and pensions. But a significant amount of heated debate has addressed competition as the biggest issue, particularly in the Coalition’s schools and health reforms.

Our analysis of competition reform, however, is that while it is indeed being expanded across new areas, giving the impression perhaps of the expansion of aggressive pro-market reforms, they are fundamentally actually more contained than those of previous governments.

The current health reforms, for example, are criticised by the unions for increasing competition from private sector operators which would be ‘damaging’ to the NHS.<sup>42</sup> There is indeed evidence that competition from private firms can

41 Open Public Services 2012, Cabinet Office, March 2012

42 A Unison Guide to Influencing the NHS, September 2012

be harmful to NHS providers and this is detailed in the next section's discussion on competition in public services.

A particular problem in health was that where private providers were allowed into the market by the 1997–2010 government, they were allowed to cream off easy, high-volume types of work, such as simple hip operations, leaving complex and more expensive cases to NHS providers (known as 'cherry-picking'). Private firms were also allowed to negotiate far higher payments than NHS providers (on average 11%), even when doing exactly the same work.

What is often misunderstood, however, is that the competition elements of the current NHS reforms are specifically designed to be targeted at patient services paid for at a *fixed-price tariff*. This makes providers compete on the basis of delivering as much benefit as possible for the fixed price. If they could compete on price, quality could suffer as corners were cut. Indeed, the specific problems mentioned above with cherry picking and price variation were outlawed in the 2012 Health and Social Care Act.

In schools policy too, it was mentioned earlier in this report that the creation of more free schools and academies to increase the supply and autonomy of schools in the state sector has come under fierce criticism for turning "state education into a free-market free-for-all and to provide opportunities for the private sector to make a profit."<sup>43</sup>

Running schools for profit is still banned, but there are expanding areas of provision for support services like facilities management (which have always included the private sector incidentally<sup>44</sup>). But there is little understanding presently of how the present reforms, while widening the scope of competition between autonomous providers, actually contain this via a large programme of inter-school collaboration.

Starting in 2007, under the previous Labour Government, there had been some effort to build positive, collaborative relationships between schools to allow them to help each other to improve. This particular aspect was expanded radically by the Coalition's Education Secretary, Michael Gove, who said his explicit intention was to see schools "collaborating on a scale that has never been witnessed before."<sup>45</sup>

The Institute for Government's appraisal of the development of a 'quasi-market' in education over the succession of previous governments notes the particularly strong emphasis on collaboration in the present reforms, outlining, "a raft of measures designed to boost collaboration:

- significantly increase the number of local and national leaders of education introduce the idea of 'teaching schools' (designating excellent schools as providers of professional development and training to neighbouring schools)
- publish data about contextually similar 'families of schools' within a local area to allow learning from the best
- create a 'collaborative incentive' which will financially reward strong schools who demonstrably improve the performance of nearby schools."<sup>46</sup>

What is clear from the current political debate is that a great deal of heat is generated about issues of competition, but this is focused around ideological rather than factual analysis. There has been precious little analysis of how competition has developed from previous reforms.

43 See Groves, J. *Social Enterprise Schools*, Policy Exchange, 2011

44 *Free Schools: Information for Parents and Local Communities*, NASUWT, 2012

45 Michael Gove speech to the Education World Forum, 11 Jan 2011

46 Sims, S. *The Development of Quasi-Markets in Secondary Education*. Institute for Government, November 2012

### Case study 2: New business and technology practices combined with detailed local knowledge to improve front-line services

Northgate Public Services runs unique partnerships with councils and other service providers, which provide clients with professional support, additional staffing capacity when demand rises and smarter information processing solutions to deliver economies of scale. The approach has delivered impressive results, for example:

- Technological support that helped South Wales Police identify and proactively target local ‘hot spots’ of crime, reducing it significantly while at the same time delivering £841k in cashable savings in the first year alone.
- Improving the delivery of Hammersmith and Fulham’s Decent Homes Programme of housing improvements, while also saving £5.7 million over three years.
- 90% reduction in call centre waiting times for Housing Services at Brent
- 50% saved on external provision of child transport at Barking and Dagenham
- 101 days faster processing of housing claims at Nottingham (from 128 to 27 days)
- £10m saved at Trafford: £5m saved in Transport Services (3-year target was £1.8m)

While this is welcome in areas where the users’ interests would be harmed or where the competition between providers could be skewed towards the benefit of private firms, later chapters will show that in many areas positive market mechanisms should actually be increased, not reined back.

### Concluding thoughts on the state of today’s reform agenda

As in all previous stages of public service reform, choice and competition are at the centre of the Coalition reforms today. Increasing choice is the driver for major reforms in the frontline services people tend to consume individually, such as NHS services and schools. Sharper competition is the driver for reforms that tend to be commissioned on behalf of people, such as employment services, rehabilitation, and prisons.

This is all welcome as far as it goes. If we think about the ‘virtuous circle’ model that previous reforms sought to move towards – providers competing for people’s free choices, and funding following those choices, with providers in turn freed to innovate to attract more users – the Coalition is adding more pieces of that jigsaw to more areas.

In both health and education, for example, more providers are being allowed into the field from which people can choose. Funding is more closely following patients and pupils, and more schools and hospitals are being freed from state control.

Public service markets, however, are different from regular consumer ones, where it would be fairly easy to emulate the choice-competition model above. People do not pay for most of the public services they receive and instead, funding and access is a political decision. In addition, all the architecture of the markets, such as arrangements for commissioning services, funding allocations, regulation, and so on, which must all be put in place to make the choice and competition formula work, are usually introduced as and when it is politically expedient to do so.



“Reform has progressed in a very piecemeal fashion over the years... Real people’s choices drive change much more slowly as a result”

As we have seen in the previous chapter, this means that reform has progressed in a very piecemeal fashion over the years. The different elements of the ‘virtuous circle’ formula are rarely fully aligned in the interests of service users. Real people’s choices drive change much more slowly as a result.

The next section of this report goes through the very specific areas where our research and interviews with many experts, providers and users of services showed the government’s present policy does not go far enough towards giving people what they want from services. Particular problems highlighted were:

- Lack of transparent information means that choice is too often meaningless
- There are too many barriers to what is offered
- There is a need for reassuring safeguards against the abuse of services
- Government must get expert help with procuring and commissioning
- Much more action is needed to create a thriving field of providers for people to choose from

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# 3

## Focus Point: Competition and Procurement

As with all social markets, competition in the public services has to be properly managed. This is because the services themselves are very different: we will tolerate far less performance flexibility in the provision of surgery than we will over the collection of waste.

The following section illustrates this with a discussion of competition on two very different levels. The first is a look at competition in healthcare, because of its relatively advanced state in the UK compared to other service areas, and its direct relevance to many other individually-consumed front-line service areas. The second is a discussion of government procurement – the most centrally important process in the provision of public services commissioned for populations at large.

### Using the right kind of competition: an illustration from healthcare

The London School of Economics (LSE) has undertaken a great deal of primary research on competition in public services, as well as reviews of existing research conducted around the world. Its research on healthcare has been particularly instructive as to why competition must be managed in the right way, depending on the context of the service itself.

One of the LSE's most important works was a 2012 review of the effects of the hospital competition with private firms introduced into the NHS by the previous Labour Government.<sup>47</sup> It showed that while NHS patients did benefit from efficiencies such as shorter waiting times, competition had a negative financial effect on NHS providers in the market and quality in some service areas suffered.

It is crucial to understand the kind of competition and regulation involved. This was largely *price competition*, where providers bid to run services and can negotiate their pay. Private providers were often contracted for the relatively easy cases of high-volume types of work, such as hip replacements, while complex (and thus more expensive) cases were left to NHS providers. Private firms were also allowed to negotiate far higher payments (on average 11%) than NHS providers, even when doing exactly the same work. The LSE's reported productivity efficiencies were good for bureaucrats running services, but clearly not for patients or the NHS as a whole.

So in hospital care, price competition achieves lower costs and greater efficiencies, but can also mean that quality suffers as providers undercut each other in a race to be the cheapest option for commissioners.

47 Cooper, Z. 'Does Competition Improve Public Hospitals' Efficiency? Evidence from a Quasi-Experiment in the English National Health Service.' London School of Economics, February 2012

However, competition can also be based around quality, not price, if services are offered to providers at a fixed tariff. In this case, the research clearly shows the picture to be wholly different, with both efficiency and quality improvements. This is because providers have to compete on the basis of delivering as much benefit as possible for the fixed price paid.

A major UK study, again by the London School of Economics, showed that where competition in the NHS focuses on tariff services, there are improvements in care and mortality rates in hospitals fall.<sup>48</sup> In other words, if based on quality, competition in the NHS saves lives.

The important distinction between types of competition in the NHS and their effects underlines why policymakers cannot just follow the attitude research which shows that people want more choice in public services, and simply open markets in an unmanaged way to meet that demand.

Indeed, the Institute for Fiscal Studies (IFS) recently showed that, in regard to the expansion of NHS price competition for private firms under the last government, much of it was actually demand-led, with people choosing private provision, which may explain why the government increased it so rapidly. The IFS says that by 2010, one in five NHS hip operations was conducted by a private firm.

Thankfully then, price is not the central focus of competition in the current NHS reforms, which are primarily about quality and the opening up of provision for patient services paid for at the NHS fixed-price tariff. The tariff system was first developed in the early 2000s to encourage an internal market in the NHS, whereby existing state providers could be given more autonomy and asked to compete with each other. The present government intends to apply more services to the tariff and open these to competing providers so as expand choice and raise quality.

There are some perfectly legitimate concerns remaining, however. One has been the effect of competition on 'service integration' – i.e. the need for the different sections of the NHS involved in a patient's care to be joined up, co-operating with each other.

Services provided in competitive markets will ordinarily converge around consumers' demands for convenient, joined-up services, which is why so many retail services are offered in bundles made up of different providers. Indeed, the Office of Health Economics recently undertook a major study which addressed concerns over integration, concluding: "Competition can help the integration of care and there is no evidence that competition hampers integration."<sup>49</sup>

The real question that people should be asking is how long it takes competition to deliver this. As a transition measure, further initial system-led integration schemes should be used until the choice market matures.

Another area to focus on is local GP practices. As largely-independent enterprises, they are effectively in competition within the NHS, but there is clearly more to do to make this market more open to patients' choices.

Where there is GP competition, it produces better results. In 2010, a competition authority set up by the previous Labour Government published a study showing that the more competitive pressure GP practices faced – i.e., the easier it was for patients to find and choose local alternatives – the better

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48 Cooper, Z et al. 'Does Competition in Hospitals Save Lives? Evidence from the English NHS Choice Reforms,' London School of Economics, 2010

49 Commission on Competition in the NHS: Final Report, Office for Healthcare Economics, January 2012

quality of care the patients received.<sup>50</sup> But this competitive pressure is currently very low.

The key issue is making this market more responsive to people's choice and, as discussed elsewhere in this report, the biggest problem is a lack of information. While people can easily look up the quality of local schools via official league tables, they cannot find out how GP practices compare at diagnosing, managing conditions or prescribing medicines. This needs to be addressed urgently.

### Commissioning and procurement: central government

Some public services operate in a simple quasi-market setting where the user can select between different available providers. The obvious example would be schools. Other services, notably health and social care ones, are often chosen by the user, but commissioned on behalf of them by intermediaries like GPs. Many services, however, are commissioned on behalf of populations by bodies such as government departments and local councils.

Because these latter services are arguably a step removed from the choice and control of people using them, good commissioning is crucial to their effectiveness. This is often where the problems start.

Commissioning has been subject to a great deal of study and there is a well-documented concern over the skills of commissioning agents. Some of the most extensive work on central government commissioning has been conducted by the Institute for Government (IfG), which though a pro-civil service think tank, has been highly critical of the lack of contracting skills among civil servants.

Its most recent study found that opening public sector contracts to competition was being frustrated because "too few Whitehall departments understand the skills shortages they have or have clear plans to address them."<sup>51</sup> The Cabinet Office itself agreed, telling a newspaper reporting the findings that, "We absolutely agree that the Civil Service lacks sufficient commercial and commissioning skills."<sup>52</sup>

The IfG identified four key areas in need of urgent improvement:

- Skills: too few Whitehall departments understand the skills shortages they have or have clear plans to address them.
- Choice: some departments lack a coherent strategy for ensuring that users can make informed choice which incentivises good provider performance.
- Continuity of service: many defective regimes need improvement in order to protect service users.
- Collaboration between commissioners: public service offerings are often too fragmented to provide good value for money.

The government has, to its credit, made extensive moves to try to address some of these issues. It has mainly focused on streamlining and centralising procurement systems across the 17 main central government departments, and is looking to extend this further to other public sector organisations. Standard commissioning guidelines, central contracts and other such strategies aim to cut bureaucracy and make savings. Significant concerns remain, however, and will be discussed in Part Three.

50 An Empirical Analysis of the Effects of GP Competition, Competition and Cooperation Panel, August 2010

51 Gash, T. Commissioning for Success. Institute for Government, August 2012.

52 Cabinet Office spokesman quoted in Daily Telegraph: 'Civil servants lack skills to reform public sector, says Institute for Government', 31 August 2012

## Local government procurement

Local authorities are among the biggest commissioners of services, and are facing the biggest budget squeeze in the public sector, with an intended 28% reduction of funding from central government from the 2010 level by 2015. With pressure from central government not to raise council tax to plug the gap, councils have to innovate to deliver more for less.

The government attempted to facilitate this with new freedoms and flexibilities granted under the 2011 Localism Act, and innovation in the provision of services is seen as a principal way that the sector will deliver more value.

Councils do of course provide services directly themselves and are not required by law to tender out services to different providers. But they operate under a 'Best Value' regime outlined by the 1999 Local Government Act, which requires them to ensure that their services offer the best value, among those available, for the taxes local people pay.

While there is widespread recognition among council chiefs of the value of competitively procuring services,<sup>53</sup> and research showing the clear value to councils derived by external providers,<sup>54</sup> the system is beset by inefficiencies which often block effective procuring.

There is no reason why outsourcing should be favoured over in-house provision if in-house can be done better, but while most local authorities are open in principle to the commissioning of best value services, research shows this tends to be in discrete service areas with a long history of contracting.

Only around a third of council services are currently delivered by external providers currently, a situation that the CBI has been highly critical of, saying that failure to outsource to the best value providers contributes to the waste of around £20 billion of public money.<sup>55</sup>

The leading local government think tank, Localis, has carried out extensive research on council commissioning and identifies the following main problems:<sup>56</sup>

- Gaps in understanding around what they can and cannot do with regard to EU procurement rules;
- Risk aversion, which tends to limit the use of new provision;
- Ideological and political biases against anything but in-house state provision of services.

That said, local authorities are ahead of central government in terms of innovating to commission better services. Research by the Association for Public Service Excellence has argued that restricted budgets are prompting local authorities into developing commercial acumen and entrepreneurship, so the attitudinal and political prejudices listed in the problems above may well abate as a function of necessity.<sup>57</sup>

Some councils are indeed moving beyond traditional models of outsourcing, towards more innovative deals with small businesses, staff-led spin-outs from council services and new partnerships with providers.

The EU rules identified above pose a far greater problem. The research showed that EU bureaucracy trumped all other commissioning concerns to act as a brake on innovation.

<sup>53</sup> See, e.g., Catalyst Councils: a new future for local government delivery, Localis, September 2012

<sup>54</sup> See, e.g., Government Procurement: still a painful process for business. CBI, 12 November 2012

<sup>55</sup> Government Procurement: still a painful process for business. CBI, 12 November 2012

<sup>56</sup> Catalyst Councils: a new future for local government delivery, Localis, September 2012

<sup>57</sup> Municipal Entrepreneurship, Association for Public Service Excellence, 2012

### Case study 3: Staff-led innovation transforming NHS provision

In February 2012, the first NHS hospital to be franchised to the private sector went operational: Hinchingsbrooke hospital in Cambridgeshire, which is now run by Circle Health. Once under threat of closure and described as a 'basket case' by ministers, the hospital presented a huge turnaround problem on both financial and care quality grounds.

Circle's unique operating model was to transfer the most decision-making power to those closest to patients, including nurses on the ward floor, giving them real freedom to innovate to improve care. They also promoted doctors directly to principal leadership roles, meaning clinicians now make up over 80% of the hospital board.

The effect of this change of culture has been transformational. Once among the worst quality hospitals of its region, Hinchingsbrooke is already now consistently ranking in the top 5 of hospitals, and its previously poor A&E department has achieved the **highest place for overall performance in the Cambridgeshire and Peterborough area**. And by improving quality, value for money also increases. Because fewer mistakes are made and patients recover better, bed stays are shorter, meaning more patients to be seen.

All major public works and most public service provision is covered by EU procurement regulations, which insist that any commissioning body, including all councils, opens services to competition. The aim is to help facilitate the EU's aim of open markets and free movement of labour, but also, frankly, to help prevent corruption in some areas of the EU.

While some services, including health and some education-related ones, can be advertised primarily in the UK, most services over a value of around £175,000 must be offered to firms from all 27 EU Member States, as well as a number of other countries with international trade agreements with the EU, including China. The rules are enforced through the European Court of Justice.

The rules mean councils often face millions of pounds of costs and two years of process just to select an external partner for delivering services. It is the biggest barrier to the exploration of innovative service delivery models. Providers interviewed for this report also cited the EU framework as a major deterrent for smaller companies and charities which might come forward to help improve services. The Local Government Association has shown that, with such a low threshold for the application of the rules, much commissioning of services is not of interest to cross-border markets, so the regime is inherently flawed.<sup>58</sup>

There is a current review by the EU of procurement directives and it is vital that government presses to redress these complexities. While the corrupt backwaters of Europe may well benefit from EU procurement rules, they have far less relevance to democratic nations with advanced public service markets.

58 EU Proposals for Procurement Reform: response by the Local Government Association, February 2012

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# Part Three

## A Roadmap for Reform

**This section details the conclusions of our research, informed by many interviews with users and providers of services from all sectors, as well as discussion events and public opinion research. It sets out a clear, five-stage model for reform.**

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# 1

## Conclusions to the Research

All around us and in practically all we consume, the forces of globalisation and competition, driven by rapid advances in new technology, are putting in ordinary people's hands the kinds of knowledge, information and choice that were previously the preserve of a wealthy few.

As this report has shown, however, and despite welcome recent advances, our public services remain way behind this curve. This report calls for a wholesale shift of power to address this. Control must be taken further away from government elites and handed over to ordinary people and families. It needs a revolution in choice and competition to make it happen. All the evidence is that people overwhelmingly want this change.

The fact that our poorest and most vulnerable citizens are those who most want this reform says something very powerful. Despite how embedded vested interests in our public sector, government should see radical public service reform as nothing less than a mission of social progress.

This is all quite apart from the urgent practical need for reform as we reduce spending on services while demands for them increase. Without fundamental change, they will get worse and the fall-out will be borne by the most vulnerable in our society.

The biggest lesson in all the analysis presented here and in all the expertise that contributors made to this research is that reform must be complete, not piecemeal, in order to work. It means ensuring that across our public services, the 'virtuous circle' of choice, competition and freedom from state control is completed, so that the revolution which took its first faltering steps 30 years ago is not only finished, but extended universally.

### A roadmap for reform

This is a brief overview of the main recommendations resulting from this project, before a full list follows with more detailed arguments and evidence in the next chapter.

#### Step 1: Unlock as much transparency as possible

Fully exposing the results public service providers deliver is without doubt the most important first step in building the case for reform:

- Government should be much more proactive about empowering people to use this information and **to oblige providers of commercial comparison sites to produce simple league tables**, similar to those available for schools.



- Priority areas for unmasking safety and quality performance are **hospitals, GP surgeries and care homes**, where very little public understanding exists, followed by all possible public services providers.
- Other measures should be taken to **reassure people about the contractors engaging with the public sector**.

#### Step 2: Create powerful consumers of services

Politicians should do all they can to empower the consumer of public services over the producer. At present, power relationships too often flow in the wrong direction:

- Introduce new **legal rights for people to exercise choice in public services** wherever possible.
- Practices such as allowing choice through **'preferred lists' of providers should be banned**.
- People should be given a genuine right to choose **any provider deemed qualified and capable** of delivering a service for the price paid.

#### Step 3: Build safeguards against abuse of public goods

Proposals for reform should be drawn up at the same time as clear measures to reassure people against the exploitation of public goods:

- **The minimum standards which providers must meet should be explicitly defined** and policed with **clear sanctions against providers who fail to meet them**.
- The **provider of last resort must be legally defined** (usually the state itself) to reassure people about failure and **emergency services should not be open to competition**.
- Encourage **safeguards against profiteering to be used when giving contracts to independent providers**, such as requirements to reinvest profit over a certain level back into the service, or asset locks on public service property so it cannot be closed and sold off.
- While emergency services should not be subject to open choice, vulnerable people must be protected against their wilful withdrawal, so **ban strikes in emergency services or give the public powers to seek injunctions to prevent them**.

#### Step 4: Stop government providing services and boost its buying capability

Politicians must set out a clear vision for reform and stay out of trying to manage service design and delivery:

- **Get tougher on poor procurement locally**. The worst performing 10% or 25% of councils should receive stronger central oversight and be required to use methods employed by the best performers.
- **Replace civil service arrangements in key areas of delivery**: Sweep away restrictions on ministerial hirings and allow more money to be paid for delivering big change management projects. The better they are, the more they should earn.

### Step 5: Create a thriving field of competition

Too often, government provides the services it also pays for. This is the root of poor standards and must be swept away in favour of an open economy of new providers:

- **The state's right to retain monopoly provision must be legally swept away.** A new right for users to be given a choice of providers must be linked with an equivalent right for any qualified provider to meet this demand.
- **Introduce a legal requirement for a 'purchaser-provider split'** in every area of government service where it is possible to have a service delivered by a range of providers.
- **Independent oversight to tackle provider cartels.** Tough new sector-specific regulation to champion choice, ensure healthy competition and promote a fair mix of charities, public sector and business providers.
- End restrictions around national pay bargaining and automatic pay progression in the public sector so that staff like nurses can be paid more when they do an excellent job.

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# 2

## Research Results and Expanded Recommendations

This chapter details the principal issues that our research identified as areas where the government's present policy does not go far enough towards delivering better public services. It is presented in line with the five-stage reform plan proposed above.

### Step 1: Unlock as much transparency as possible

Making publically accessible as much information as possible about the costs and variation in performance of different public services providers is the most important first step in reforming them.

This must be done before attempts at system reform for two reasons. First, information about the cost and performance of services helps create the basic market needed to attract providers to compete. Second, it helps make the initial case for reform against vested interest groups who would oppose the change people need. It allows the real picture of variation in performance to be exposed, which is so often masked in public services today by bureaucrats, and assures

people that new providers cannot exploit services.

Too little data about public service performance is made available to people, and governments understand too little about what their end 'customers' want. These two information problems are self-reinforcing: they mean the public

cannot realistically make informed choices about many services while politicians find it hard to make the case for reforming them.

The government has made efforts to improve information through a 'big data' initiative which asks departments to release information about the performance of services so that the public can make use of it. But this light-touch approach fails to tackle the wilful withholding of performance data that is endemic throughout the public sector – probably based on fear of the huge variation in quality and outcomes it will expose.

The point was made by MPs on the Public Accounts Committee in a recent review of the situation. They criticised attempts to release data about public services, saying civil servants are “dumping” data out in formats that ordinary people cannot hope to use. They said:

“Too little data about public service performance is made available to people, and governments understand too little about what their end ‘customers’ want”

“It is simply not good enough to dump large quantities of raw data into the public domain. It must be accessible, relevant and easy for us all to understand. Otherwise the public cannot use it to make comparisons and exercise choice, which is the key objective of the transparency agenda.”<sup>59</sup>

The importance of this cannot be overstated. In health, a basic reason for the recent Mid Stafford Hospital scandal, where over 1,000 patients needlessly died due to neglect, was a lack of openness about the care being delivered.<sup>60</sup> Unlike with schools, there is still no system of simple league tables which allows patients to see which hospital is best for treating their problem, or which GP is best at treating their child’s asthma. We have no such system for care homes or rafts of other important public services.

Addressing this scandalous lack of openness is an urgent priority. Government should be much more proactive about releasing data and empowering people to use it: waiting for ‘innovators’ to develop ‘apps’ from the data currently released, as is the government’s position, is not working. Also, while worries about people who cannot access the internet are important, the priority must be to just get the job started so the reform is in place and can be built on.

#### Key policy recommendations

- Government should **release as much clear information about the comparative costs and performance of different public services as possible.**
- Government should **require providers of commercial comparison sites to produce simple league tables**, similar to those available for schools.
- Priority areas for unmasking safety and quality performance are **hospitals, GP surgeries and care homes**, where very little public understanding exists, followed by all possible public services providers.
- **Contractors on major projects should publish mid-term results against agreed performance indicators** – so we help avoid situations like recent high-profile failures of companies to deliver commitments on public contracts.
- Make **state providers subject to exactly the same reporting regime**, requiring them to publish their results as well as the cost they incur while delivering services. All that is currently far too opaque.

## Step 2: Create powerful consumers of services

Choice turns supplicants into consumers who can ditch poor providers and switch to the best, while competition between providers raises standards and improves the choice on offer to people.

Politicians should do all they can to empower the consumer of public services over the producer. At present, the power relationships too often flow in completely the wrong direction: users normally have only an entitlement of access to services rather than a right to choose which ones best meet their needs. This must be completely overturned.

A recent policy review published this year by the Cabinet Office, the ‘Boyle Review’, gave an independent overview of the barriers to choice in our public services.<sup>61</sup> It describes a mountain of bureaucratic obstacles that still thwart people’s choices and needs, and even identifies a host of system barriers where the government purports to be actually offering people a choice. These include:

59 Implementing the Transparency Agenda, House of Commons Public Accounts Committee, 1 August 2012

60 Francis, R. Final Report of the Independent Inquiry into Care Provided by Mid Staffordshire NHS Foundation Trust. 6 February 2013

61 Boyle, D. Barriers to Choice Review, Cabinet Office, January 2013

- strictly fixed GP catchment areas within which you must make your choice
- lists of ‘preferred providers’ compiled by bureaucrats from which people can exercise choice of services
- constraints on the expansion of school places so there is “no choice, only preferences”
- too much bureaucracy for vulnerable people to cope with to receive personal budgets

The report echoes the opinion research here, showing that poorer people are most frustrated by the current system, lacking the cultural skills to negotiate with elites running services, or the finances to move into good GP and school catchments. Boyle concludes:

*“Bureaucratic barriers to choice remain powerful if you are less confident or articulate; and if you want something slightly out of the mainstream then there is inequality present in the scope of choice available to everyday people across the UK.”*

While the government has consulted on creating a right to choice as part of its Open Public Services agenda, progress appears to have stalled. In addition, such a right for people is meaningless unless that choice was reinforced by an equivalent right for different providers to meet that demand (dealt with later).

Barriers to choice conspire with other blocks on information and innovation to exert the most crushing effects on the ability of our services to tackle urgent social problems. The only winners are the trade unions, civil servants and other bureaucrats who would deny reform to preserve the privileges they inherit from the status quo. They must all be swept aside.

#### Key policy recommendations

- Introduce new **legal rights for people to exercise choice in public services** wherever possible, as soon as possible.
- Practices such as only allowing choice through **‘preferred lists’ or catchments of GP surgeries should be banned.**
- People given a genuine right to choose **any provider deemed qualified and capable** of delivering a service for the price paid.

### Step 3: Build safeguards against abuses of public goods

It is important for reformers to understand not only the positives people see in reform, but also the common anxieties – identified in the opinion chapters – which opponents of reform can exploit to create undue fear of change.

Proposals for reform, especially for multi-provider competition in the public sector, should be drawn up at the same time as proposals for clear regulatory measures that reassure people against the exploitation of public goods. These should include safeguards against the wilful withdrawal of the most essential services through civil service militancy.

Governments often want to push ahead with open competition in the public sector in order to make rapid improvements, which quickly lead into conflict with vested interests and anxieties stoked by opponents of change. Assurances can

be used to tackle common anxieties, such as profiteering or the loss of valuable public assets, while still allowing for competition to flourish.

It is also important to protect people from abuses by agents of the public sector itself. Industrial relations have improved hugely over the decades, and while strikes are perfectly lawful, there is a problem where emergency services which the public rely on in their hour of most urgent need, and do not have alternatives, can be willfully withdrawn by militants.

This thankfully does not happen frequently, but when it does, it is desperately serious. In November 2011, London ambulance drivers went on strike over their pensions, action which an inquiry in March 2012 found to have caused widespread “pain and distress”. One case study detailed the death of an 83 year-old man who fell at home and died on the floor in front of his family after repeated 999 calls over several hours were ignored. Calls to unions to call off the strike in light of increasing pressure from emergencies were also ignored.<sup>62</sup> Unison in response blamed the government and said the man could have died anyway.<sup>63</sup>

#### Key policy recommendations

- **The minimum standards which providers must meet should be explicitly defined** and policed with **clear sanctions against providers who fail to meet them.**
- The **provider of last resort must be legally defined** to reassure people about failure and the **emergency services should not be open to competition.**
- Encourage discretionary **safeguards against profiteering to be used when contracting independent providers**, such as requirements to reinvest profit over a certain level back into the service, or asset locks on public service property so that it cannot be closed and sold off.
- While emergency services should not be subject to open choice, vulnerable people must be protected against their militant withdrawal, so **ban strikes in emergency services or give the public powers to seek injunctions to prevent them.** This should be an urgent priority.

### Step 4: Stop government providing services and boost its buying capability

As Sir Terry Leahy said in his overview of government procurement for the Better Public Services project, politicians must show leadership, not obsess over technicalities in delivering reforms. They should set out a clear vision, based on what real people using government services say they want, and they should stay out of trying to manage service design and delivery. Instead, they must focus on getting the right people in the right places doing the right things to deliver their goals.

Government procurement and commissioning were indeed by far and away the biggest cause of concern in the public service reform agenda highlighted in the many interviews, events and workshops that contributed to this research.

A recent CBI report similarly argued that “we need to see urgent improvement in the level of commercial skills that are second nature to businesses, but are too often absent in public sector procurement.”<sup>64</sup>

As well as confirming strongly these general problems with perceived skills shortages, the key issues highlighted in our engagements with providers of services were:

62 30 November Industrial Action: impact on London Ambulance Service, 27 March 2012

63 ‘Response to NHS London Ambulance Service Strike Action’, Unison Press Release, 27 March 2012

64 Government Procurement: still a painful process for business. CBI, 12 November 2012

- TUPE and EU procurement rules, and difficult tendering processes, continue to thwart efforts to increase the numbers of small enterprises and charities
- Tenders are skewed to reward replication and scale, so benefit very large firms, particularly incumbent contractors. There is too little room to recognise innovators, charities and SMEs, and little space for new thinking or different delivery models
- Potential suppliers are limited to those who have large capital adequacy so can therefore take on big amounts of financial risk. Much more experienced smaller firms and charities wanting to spread good practice into new areas are blocked
- There were several allegations of intellectual property being stolen by local authorities who asked for detailed bids for the improvement a service area, only to pull the contract but keep all the implementation proposals for in-house use. Many providers suggested that there should be some sort of **'kill fee' paid at final procurement stages** to tackle this, especially for smaller providers in bidding processes.

Issues of provider diversity and including charities are dealt with in the next section, but it must be noted that the government has made significant efforts to improve procurement processes themselves, after starting from a very poor base. Advances are being made to streamline, standardise and improve central government procurement, but more attention is needed and especially at local level, where a quarter of all public spending is channelled. There is too much variation and poor performance, for example in pre-qualification processes for tenders.

#### Key recommendations

- **Get tougher on poor procurement locally.** The government should look at whether the worst performing 10% of councils could receive stronger central oversight to improve their procurement practices, using methods employed by the best performers. There is nothing localist about tolerating failure in what is a basic administrative function.
- **Where possible, government must stop trying to provide services itself.** Government is not good at service design or delivery, so must focus on commissioning and procuring services for people from the best possible charities, businesses and other suppliers.
- **More focus on customers in the procurement process.** More engagement with and feedback from customers is needed to ensure that this genuinely focuses on their needs. Too many big suppliers are winning contracts because they have become good at the bidding process, not because they prove they deliver end results that real people want.
- **More ministerial discretion over hirings for key delivery-of-change roles.** The rules effectively restricting ministers from making appointments from experts outside government to push forward their reform plans should be swept away. They are pointless and obsolete.
- **Pay fewer public sector leaders more money.** Government must realise that the best people at delivering major change and serious procurement improvements – which could potentially save huge amounts of money – will not be attracted into public service unless we pay higher wages, but to fewer top civil servants. The better they become, the more they should earn.

## Step 5: Create a thriving field of competition

In too many instances, governments have arrangements which make them providers of public services which they also themselves pay for: they are both the purchaser and provider. This is the root cause of inefficiency and must be swept away.

While opening services to competition where possible is an antidote to this, it is necessary to have independent economic regulation overseeing the standards within which markets function and providers operate, to encourage a thriving mixed economy of provision.

This was seen by many contributors to this project as essential for real change to occur. One large social enterprise provider summed up the issue thus:

*“The culture of the civil service, and especially the Treasury, is way too risk averse and they’re most definitely biased toward their big preferred corporates. It’s one monopoly replaces another.*

*“The biggest issue is still creating new markets for providing services. Despite the talk, there are big problems... Either government is not opening up quickly and widely enough, or they are creating restrictive criteria which basically allows them to use a few preferred providers and block everyone else. In energy or supermarkets it gets broken up, so why not the public sector?”*

Apart from in health, and to some extent education, there is no sector-specific independent regulation that can effectively police the market in the interests of users.

Some markets just need to be opened slightly more fully. Education is the notable example. The restriction whereby only charitable providers can run schools is preventing extra investment from other providers, including for-profit ones, entering the system to boost school places. This is becoming a real problem since there are acute shortages, especially in poorer urban areas, and a projected shortfall of over 450,000 places will hit the primary sector alone by 2015.<sup>65</sup>

There are, however, technical issues with contracting that the government simply must recognise and address. Almost all providers interviewed as part of this project, from small charities to bigger outsourcing firms, cited the failure of contracts to recognise the differential tax and pensions treatment of government and independent providers as a major barrier to encouraging a more vibrant mix of different providers in public services. The length of contracts, especially in the NHS, also needs to be extended to allow more investment in improving quality.

### Key recommendations

- A right for users of services to be given a choice of providers must be met with an equivalent right for any qualified provider to meet this demand by providing services in any service area. This means **the state’s right to retain monopoly provision or to restrict people’s choice of any provider must also be legally swept away.**
- **Introduce a legal requirement for a ‘purchaser-provider split’** in every area of government service where it is possible to have a service delivered by a range of providers. This means wherever it is possible and practical, purchasers and providers must be split apart through specialised commissioning and provision functions.

65 National Pupil Projections: future trends in pupil numbers. Dept for Education, July 2012



- We must also **maximise the number of providers**: breaking up state monopolies and not tolerating the emergence of alternative private sector ones. To meet ministers' desire for more charity and small providers, they should consider **stronger ways of seeding this mixed economy, such as targets for forcing their inclusion for a transition period** only, until these provider markets mature.
- Non-state providers must be treated on equal and fair terms: the 'level playing field' ministers say they want can only be achieved if contracts **recognise the higher VAT and pensions costs contractors face**. In addition, **contract terms, particularly in the NHS, must be longer** to encourage providers to invest in raising quality, and especially to allow time to turn around services that need major improvement.
- Ensure that **in every major public service area, especially where user choice can be exercised, there is independent and separate regulatory oversight of (a) market entry and exit and (b) the expected standards**. Standard-setting bodies must be independent of government in order to be independent of all providers, including public sector ones.
- End restrictions around national pay bargaining and automatic pay progression in the public sector so that staff like nurses can be paid more when they do an excellent job.

Our public services are in urgent need of reform. Demand for them in our growing and ageing population is rising, while the money we put in to meet this demand is in most areas being reduced. This simply means that without fundamental change to bring in more innovation and the best possible provision, the quality of services will get worse. In essential areas like education, health and social support, this will damage our economy and harm the most vulnerable in our society.

This report calls for wholesale reform to meet this challenge. We must enable people to become genuine consumers of services like healthcare and schools, with the legal right to be able to compare, choose and switch them from a completely open field of providers, aided by comparison sites akin to the commercial ones we are all used to. Public sector staff should be paid according to achievement, and we must force back the EU and civil service bureaucracy that puts off charities and small businesses from providing services.

All the evidence is that people overwhelmingly want this change, reflecting the increased information and choice they have in all other areas of their lives. This is especially strongly desired by the poorest and those who rely on government services most – people who often lack choice in regular consumer markets.

People also want assurances about the protection of public services, which they see as public goods, not like regular commodities. This research calls for clear measures that would ensure a proper continuity of services in the event of provider failure, and against profiteering by operators. It also says the provision of essential emergency services should not be put at risk by trade union strikes.

Taking on the vested interests controlling our public sector and giving people the choice and control they want in public services requires real political drive in the concrete interests of ordinary families. This report sets out the policy roadmap along which that drive can be made.

£10.00  
ISBN: 978-1-907689-49-9

Policy Exchange  
Clutha House  
10 Storey's Gate  
London SW1P 3AY

[www.policyexchange.org.uk](http://www.policyexchange.org.uk)