

2011 *Reform* scorecard

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February 2011

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Contents

Executive summary	5
Policy league table	8
Implementation scorecard	9
1. The case for change	10
2. The big ideas of successful reform	12
3. The 1997-2010 legacy	16
4. Evaluation of the Coalition	22
5. An air of unreality	40
6. Recommendations	44
References	45
Appendix	49

Executive summary

In his major speech of 17 January 2011, David Cameron said: “I want one of the great achievements of this Government to be the complete modernisation of our public services.” That objective is right and made all the more urgent by the grim state of the public finances. The reform equations are straightforward. Spending reductions plus comprehensive reform would equal better public services delivered in different ways. Spending reductions without effective reform would equal worse services and a discrediting of Ministers’ reform rhetoric at the same time.

This report draws on *Reform’s* extensive research and 46 seminars and policy conferences held since June 2010 and attended by 7 Cabinet Ministers, 16 other Ministers and 11 senior civil servants, as well as many experts and practitioners. It includes an assessment of where the previous Government left public service policies to enable a comparison of progress.

The report provides two scorecards of the Coalition’s key public service policy decisions. The first, on page 8, assesses the Government’s own principles for successful reform. The second, on page 9, assesses the Coalition Government against the practical requirements of successful reform.

Policy league table

The Government has set out the principles for successful reform: accountability to the user; diversity of provision; and value for money. These are exactly the same as those espoused by figures in the last Government including Tony Blair, Alan Milburn and David Miliband. They will deliver the pressure on managers to innovate, change services and save money along with the freedom to enable that to happen.

This scorecard highlights the success of the Home Office’s policing reforms which are a model package. The Government is making police services accountable in the right way, to their local electorates. It is conducting an independent review of the pay and conditions of the police workforce. It is arguing that the police should deliver value for money and that there is no simple link between resources and crime.

The mid-ranking departments include Communities and Local Government and the Department for Work and Pensions. Both have embarked on major reforms to improve accountability: respectively, to link local taxation and local spending, and to end the payment of universal benefits to better-off people. The Treasury has made the right call on the big question of reducing the deficit but has undermined the Government’s commitment to value for money by ring-fencing certain public sector budgets.

Most departments are lagging behind. Despite much rhetoric to the contrary, neither Health nor Education have dismantled central regulation and made services accountable to their users. Defence has failed to reduce the nation’s strategic ambitions in line with reduced budgets. The higher education reforms may be controversial but they do not provide significant extra freedoms to institutions. The Cabinet Office has made one of the strongest attacks on the reform programme by deciding against making the Civil Service accountable.

Delivery scorecard

The second scorecard assesses the Coalition Government against the practicalities of successful reform. Successful reform isn’t just about policy – it’s also about the implementation in the face of resistance and inertia from vested interests. These practicalities can be deduced from the experience of the previous Government and other reforming Governments around the world.

Above all, that experience points to the importance of consistency. Sir Roger Douglas, the successful reforming former Finance Minister of New Zealand, has set out the three Cs of successful reform.

Consistent reform policies create **confidence** amongst voters that reform will happen which in turn generates **credibility** for the government.

The Coalition Government is failing the test of practical reform. Its policies are inconsistent between departments and sometimes within them, often failing to observe the Government's own principles of reform. Key examples include:

- > At times the Coalition Government is neutral as to the provider of public services; at other times it favours particular sectors whether private sector companies, mutuals, social enterprises, small firms or even public sector organisations.
- > The Coalition has withdrawn the National Curriculum from academies and free schools yet is retaining and rewriting the National Curriculum for other children. It wants the schools system to develop according to parental demand yet retains a strong commissioning role for local authorities.
- > The Coalition Government argues that reduced budgets do not mean worse services in areas such as policing and local government yet says that it is "protecting" health, schooling, international aid and so on by guaranteeing them spending increases.

The Coalition may argue that these inconsistencies are good politics. In fact they are bad politics because they undermine confidence that the Government is serious about reform. Viewed as a whole, the Government's public service reform policies are all over the place. The Government's failure to adhere consistently to its principles gives an air of unreality to the whole programme.

The Government has rightly made transparency a central part of its efficiency and reform agenda. However, much of the data released has been criticised for being in an unusable form, of questionable accuracy, or simply that the really useful data have not been published. The release of the Treasury's COINS database was described as "confused and botched" by developers and freedom of information campaigners. Many of the local councils that have published their spending data have done so in formats that are not machine-readable, or with missing details.

The Coalition has claimed that its policies mark an advance on the last Government. In fact what is striking is the degree of continuity. In both cases, a committed group of reformers at the heart of Government failed to see through a consistent and coherent programme. In both cases, Ministers have offered "halfway house reform", such as free schools, rather than comprehensive reforms of the mainstream of public services. The previous Government also attempted to put mutuals and social enterprises at the centre of its reforms.

The failure to take advantage of the current need for spending reductions to implement genuine reform would be a tragic missed opportunity. On 17 January the Prime Minister said, "I have to say to people: if not now, then when?" Yet he is in danger of failing to heed his own advice.

Conclusion

The report identifies the key policies that determine the success of the Coalition's reform programme. Around a third of these are outstanding reforms that move the policy debate forward, from police reform to the outsourcing of rehabilitation and unemployment services, and from the reform of public sector pensions to the abolition of Child Benefit for higher earners. But most are backwards-looking announcements that contradict the Government's principles of reform. The report identifies four key priorities as a constructive immediate agenda:

- > *Health*. Make NHS accountable to patients rather than to GP consortia, local government and the National Commissioning Board.
- > *Work and Pensions*. Extend the means-testing of middle class welfare.
- > *Education*. Allow free choice of school, whether for-profit, state or charitable.
- > *Cabinet Office*. End the doctrine of Ministerial responsibility and introduce clear lines of personal accountability and performance-related incentives for civil servants.

The forthcoming Public Service Reform White Paper is expected to give greater definition to the Government's principles for reform, such as payment by results. In fact its task is much more urgent than that. It is the chance for the Government to set out this revised vision and to build on the brave reforming policies that the Coalition has proposed. Such a vision would indeed represent, in the Prime Minister's words, a "great achievement" and a fitting legacy for his Government.

Policy league table

B	Home Office and Justice Policing reform is the success story
C	Work and Pensions Means-testing Child Benefit will limit poor value benefit spending. But the Universal Credit will be complex and expensive and the cost of the state pension will rise sharply
C	Local government Review of business rates could be first step to proper link between local taxes and spending
C	HM Treasury Overall spending cuts are right but the public service policies in the Spending Review are incoherent
D	Education Central direction of National Curriculum and schools workforce remains in place, as does refusal to allow choice of for-profit schools
D	Health The Government is right to reform the NHS, but its proposals fail to provide accountability to patients or workforce flexibility
D	Higher education The low cap on tuition fees will limit competition while the regulations on access strengthen the hand of government against institutions
D	Defence The Government needs to adjust its strategic ambitions according to realistic resource allocations
E	Cabinet Office The Cabinet Office has failed to make civil servants personally accountable for performance and value for money. It is intervening into public service markets in favour of mutuals and SMEs

Implementation scorecard

The Coalition Government is also failing the practical, political test of successful implementation as well as the policy test.

D	Accountability Services accountable to many are in practice accountable to no one. Only policing reform is a real advance
D	Flexibility Public services should not be run under tight rules and direction. Key regulations remain: National Curriculum, NHS workforce, local government workforce, university admissions.
C	Value for money Success should be judged on outcomes, not inputs or expenditure. Ministers still define success through the levels of spending, especially through the ring-fencing of budgets.
E	Be consistent Reform principles should be applied uniformly across policy areas. Aside from policing, the Government has been inconsistent between departments and sometimes within departments.
D	Quality reforms that last Halfway house reforms are often washed away. Free schools are the key example.
E	Reform the Civil Service The Government must not leave the Civil Service alone. The Coalition has actually strengthened the position of Whitehall.

1

The case for change

The beginning of this Parliament has seen a fierce debate between the supporters and opponents of reform. The opponents of reform have argued against greater diversity of provision and consumer choice, and in favour of government ownership and management. But these are exactly the structural flaws that have prevented public services delivering value for money. The Coalition Government is right to seek to reform public services in the name of better performance and better value.

Near-monopoly provision

Monopoly providers tend to be characterised by lower output at higher cost than competitive providers. The UK continues to have near-monopoly public services. Internal markets in health and education do exist but choice of services operates within very strict limits, so that the internal market is loaded heavily in favour of the producer. Good schools are often held back from expanding and so cannot be chosen by parents. Less than half of patients report being offered a choice of hospital when visiting their GP.¹ Commissioning bodies – such as local authorities for schools – tend to act as administrators of services, protecting the historic pattern of provision, rather than being commissioners that achieve change.

Weak accountability and poor management

A lack of accountability, whether to the users of services, to local electorates or to Ministers, is a root cause of the poor performance of the public sector. The result of poor accountability is poor management and performance. A series of studies over a number of years have shown that public sector management, both in Whitehall and in individual public services, performs more poorly than the private sector.² Good managers do exist in the public sector and achieve better performance at lower cost, but they do so despite the system not because of it.³

There has been much focus on performance management in the public sector over the last decade, but this has been of the wrong kind. Targets have been mistaken for genuine performance management. Good performance management focuses on improving the performance of people and organisations within a budget constraint.

A particular problem of accountability lies in local government. The Liberal Democrat partners in the Coalition have argued with particular force that local government will only be properly accountable when it is financially responsible for much more of its spending.⁴

Outcomes failing to match spending increases

Estimates from the Office for National Statistics suggest that between 1998 and 2008 public sector productivity fell by 0.3 per cent per year on average, while productivity in the private sector grew by an average of 2.3 per cent a year between 1997 and 2007.⁵ The outcomes for consumers of public services have not lived up to the scale of the spending increases seen in this period:

- > In health outcomes, the UK continues to fare poorly compared to other countries on key measures such as infant mortality and life expectancy. International comparisons suggest that the quality of treatment for major health conditions such as cancer, stroke and dementia could be significantly improved. The UK continues to rank behind other European and OECD nations for public health indicators such as smoking, alcoholism, obesity and sexually transmitted diseases.⁶

1 National Audit Office (2008), *Good government*. “Greater citizen choice often requires providers to change their behaviour. The Department of Health had a target that by the end of 2005 every hospital appointment would include the right of the patient to choose the hospital. However, by May 2008, only 45 per cent of patients surveyed recalled being offered a choice of hospitals by their GP.”

2 Haldenby, A. et al. (2009), *Fit for purpose, Reform*.

3 Ibid.

4 See for example Huhne, C. (2007), “The case for localism – the liberal narrative”, in Brack, D. et al. (2007), *Reinventing the State – social liberalism for the 21st century*. “Money is power, so finance must be local. Local authorities have to be able to raise their own finance. At present, they raise about a quarter of their spending, which means that they are not financially responsible for most of their spending.”

5 Phelps, M., S. Kamarudeen, K. Mills and R. Wild (2010), *Total Public Service Output and Productivity*, UK Centre for the Measurement of Government Activity, Office for National Statistics; Office for National Statistics (2009), *Output per worker: whole economy: percentage change per annum, seasonally adjusted*, Time Series Data.

6 Cawston, T. et al. (2010), *Briefing note: Health, Reform*.

- > The UK has the most expensive criminal justice system in the world, spending more on law and order as a proportion of total government spending and as a per cent of GDP per capita than any other country in the OECD.⁷ Yet police forces are not accountable to the citizens they serve.
- > The quality of school education is poor. England performs badly in international education league tables and has a narrower, shallower curriculum than most of our international peers.⁸
- > In welfare, despite spending at European levels, the UK has poor American results. Benefits are poorly targeted – for example, 42 per cent of spending on the Child Benefit goes to families not in need. Long-term unemployment has been rising since 2003. Social mobility has barely improved.⁹

Growth in workforce costs

The majority of the costs of public services – about two thirds – are in the workforce. Looking at all government spending, including benefits, the public sector workforce is just under a third of the total, or around £200 billion out of £697 billion total government expenditure in 2010-11. This pay bill has risen as the productivity gap between the private and public sectors has widened. The public sector enjoys higher pay, pensions and redundancy terms while working shorter hours and taking more sickness leave.¹⁰

Table 1: Public and private sector comparison of labour force conditions

Source: Haldenby, A. et al. (2009), *The front line, Reform*; Office for National Statistics (2010), *Annual Survey of Hours and Earnings*

	Public	Private
Mean gross hourly rate of pay (for all employee jobs), 2010	£16.08	£13.94
Pay growth (nominal), 1998-2010	66.0%	53.0%
Average annual post-tax income in retirement, 2007	£28,900	£11,600
Mean weekly hours worked (all employee jobs), 2010	31.4	34.8
Average annual sick days per employee, 2008	9.7	6.4
Average redundancy costs, 2007	£17,926	£8,891

The gains to reform

Public sector reform is not easy. If it was, it would have happened by now. But an awareness of the practical challenge of reform must go together with an awareness of the potential benefits. The size of spending increases in recent years – including an increase in the NHS budget of over 100 per cent in real terms over a decade¹¹ – mean that potential savings are significant. In interviews with *Reform*, public sector managers in different services have independently reported that cost savings of 20 per cent are possible without damaging outcomes. That finding is consistent with a series of research reports which have identified savings of between 10 and 30 per cent from the introduction of tendering into public sector markets.¹²

The real reform challenge – not whether but how

What this means is that the real reform challenge is not *whether* to reform but *how*. The following chapters describe the principles of successful reform and the reform policies of the previous Government and the Coalition, before drawing conclusions.

7 Haldenby, A. et al. (2008), *The lawful society, Reform*.

8 Bassett, D. et al. (2009), *Core business, Reform*.

9 Haldenby, A. and K. Trehwhitt (2010), *Briefing note: Welfare, Reform*; Cawston, T. et al. (2009), *The end of entitlement, Reform*; Bosanquet, N. et al. (2008), *Shifting the unequal state: From public apathy to personal capability, Reform*. On some measures social mobility appears to be quite good in the UK relative to other countries (see, for example, Saunders, P. (2010), *Social Mobility Myths*, Civitas). However these rely on basic and artificial high-level “class” distinctions that bear little resemblance to the reality of the situation most people face. At best social mobility may be improving but very slowly, and on the most important measures, such as the differences in educational attainment between those with the highest and lowest incomes, it is falling.

10 Haldenby, A. et al. (2009), *The front line, Reform*.

11 House of Commons Health Committee (2010), *Public Expenditure on Health and Personal Social Services 2009*.

12 The research was summarised in Department for Business, Enterprise and Regulatory Reform (2008), *Understanding the Public Services Industry: How big, how good, where next?*

2

The big ideas of successful reform

Leading politicians have succeeded in articulating the principles to reform in the public services. Put simply, they are to make public services:

- > Accountable to their users.
- > Flexible in their delivery.
- > Provide value for money.

Accountability – Simple but profound

Leading politicians in the previous Government and the current one have set out the idea of making public services accountable to their users. It may seem a simple point but it is actually profound. The temptation is to think of public services in terms of their physical characteristics – their workers, their buildings, their information technology and so on – so that “schools” are a proxy for education and “hospitals” for health. But if services are accountable to their users, their physical characteristics are entirely secondary. A genuine focus on the user can lead to a revolution in the way that public services are delivered.

The key ideas on accountability were in place in the second term of the 1997-2010 Government. By 2001, Tony Blair defined “choice” as one of the key principles of public service reform, followed by other Ministers.¹³ In the same year, Alan Milburn argued choice was a key means to reconnect communities with public services.¹⁴ By 2003, Tony Blair argued that choice had two essential effects: to enhance equity, by giving the same choices to less well off people that the better off had always enjoyed, and to improve services, through competitive pressure.¹⁵ David Cameron and Nick Clegg have made exactly the same arguments.¹⁶

Politicians have also expressed the idea that accountability needs to take a different form according to the public service. In 2004, Alan Milburn explained that individuals can exercise choice over health or education, and so those services should be accountable to them. Other services, such as policing, cannot be chosen and so should be accountable through the ballot box to local electorates.¹⁷ David Miliband expressed the idea under the heading of “double devolution” in 2006.¹⁸ Again, David Cameron has made exactly the same case.¹⁹

13 See for example Blair, T. (2001), Speech to the Labour Party conference, 10 October. “There has to be choice for the user of public services and the ability, where provision of the service fails, to have an alternative provider.”

14 Milburn, A. (2001), Speech to the Fabian Society, 21 October. “But beyond that I believe the old top-down model of the 1940s cannot deliver in the twenty first century. Vesting control at the centre has diminished control where it counts – in local communities where local health services interact with local people. In the modern age that will no longer do. For public services to command public confidence today they have to give greater control and more choice to the people who use them. The NHS has always been strong on fairness but weak on choice. It was born into a world where everyone was given the same rations. In a top down model where there was rationed care, capacity shortages and a culture of paternalism, the NHS strove for equity for the population but at the expense of choice for the individual. Today we have an opportunity to reconcile equity and choice. As the NHS expands its capacity, our task – as we make the investment and reforms necessary over the months and years ahead – is to demonstrate that we can expand choice without compromising equity.”

15 Blair, T. (2003), “We must not waste this precious period of power”, Speech given at South Camden Community College, 23 January. “If we provide greater choice we begin to correct such inequities. Choice mechanisms enhance equity by exerting pressure on low quality or incompetent providers. Competitive pressures and incentives drive up quality, efficiency and responsiveness in the public sector. Choice leads to higher standards. The over-riding principle is clear. We should give poorer patients or parents the same range of choices the rich have always enjoyed. In a heterogeneous society where there is enormous variation in needs and preferences, public services must be equipped to respond.”

16 See for example, Cameron, D. (2010), “We will make government accountable to the people”, Speech to the Civil Service, 8 July; Cameron, D. (2011), Speech on modern public service, 17 January.

17 Milburn, A. (2004), “The voluntary sector: a partner in reform”, Speech to the Association of Chief Executives of Voluntary Organisations, 6 May. “Power should be passed to the lowest possible level as we seek to enshrine the new principle of subsidiarity at the heart of public service governance. Where it is feasible for users to exercise individual choice – as over elderly care or hospital operations – that should be the norm as we redistribute opportunities that have always been there for those with wealth to those without. And where there is less opportunity for individuals to choose – policing being a good example – it will mean passing power downwards and outwards to local communities. In other words, the accent should be on strengthening both individual and community power. Either way the move has to be away from top down and towards bottom up control.”

18 Miliband, D. (2006), Speech to the National Council of Voluntary Organisations, 18 January. “At the local level we need a stronger framework of opportunity and responsibility in which to express these rights – in fact a double devolution, not just to the Town Hall but beyond, to neighbourhoods and individual citizens.”

19 Cameron, D. (2010), “Government business plans”, Speech at the Foreign and Commonwealth Office, 8 November. “Wherever we can put power directly into people’s hands, we are doing it. That’s what our plans to give parents and patients more choice are all about – having personal control about where your child goes to school or where you get treated. Where such direct control isn’t possible we’re bringing in other forms of democratic accountability. In policing we are bringing in directly elected police commissioners so that local forces will be more accountable to people in their area.”

Successful accountability also means that one body needs to be accountable for all of the service in question. That means that the managing organisation can choose where to put its resources in order to do the most good. For example, the Department of Health has pointed to American health organisations which invest in preventative care and early intervention in order both to improve health and to make savings in their hospitals down the line.²⁰ Similarly, *Reform* authors have described the experience of the Merseyside Fire and Rescue Service after 2000 which invested in fire safety not only to reduce fires and fire deaths but also to manage within reduced budgets.²¹

The previous Government made some progress on this idea in local government. The concept of “total place” involved the idea that all council budgets might be brought together, to allow innovative spending to develop quality of life rather than within the traditional silos.²² This idea is also implicit in the idea of “payments by outcomes” – that is, for government to buy a public service in terms of the outcomes to be achieved rather than the physical inputs. This will be a particular theme of the forthcoming Public Service Reform White Paper.²³

This captures the essential idea that what matters is the consumer of the service rather than the supplier. This is not a guarantee of real accountability, however, since it could allow government to commission a service such as schooling which should actually be chosen by individuals.

Flexible delivery

Open-mindedness about who delivers services has been a hallmark of the reform debate since the last Parliament. Many politicians have argued that government should be blind as to which sector delivers a service, whether public, not-for-profit or for-profit. Another way of saying this is that, in many cases, the role of government should change from being the funder and provider of services to being the funder alone. As with accountability, this captures the idea that public services are trying to deliver a service rather than any particular style of supply. Alan Milburn set this out particularly clearly in 2004, and Patricia Hewitt in 2006.^{24, 25}

The type of organisation that supplies a public service, or its headcount, or turnover, or salary structure, or infrastructure, is an entirely secondary question.

20 See for example NHS Institute for Innovation and Improvement (2006), *In View*, Issue 10, June. “Professor Ham has helped foster links between the NHS and Kaiser since 2003 when he was director of the Department of Health’s strategy unit. His comparison then of how the NHS and Kaiser each used hospital beds revealed that the US company needed only a third as many as the NHS, even after allowing for differences between the populations they served. ‘Kaiser achieved these results through a combination of relatively low admission rates and much shorter hospital stays,’ says Professor Ham. Key to its approach was its emphasis on integration: it provided care in hospitals and the community, enabling patients to move easily between the two. It also focused on chronic care rather than primary or secondary care, adopting the philosophy that ‘unplanned hospital admissions are a sign of system failure.’”

21 See Bassett, D. et al (2010), *Budget 2010: Taking the tough choices, Reform*.

22 See for example HM Treasury and Department for Communities and Local Government (2010), *Total place: a whole area approach to public services*. The previous Government set up 13 Total Place pilots.

23 HM Treasury (2010), *Call for evidence on public service reform*, 26 November. “The Government particularly wants to explore how the following could drive reform further in a range of service areas:

- > Promote independent provision in key public services.
- > Develop new rights for communities and public employees to buy and run services.
- > Attract external investment and expertise into the public sector to deliver better and more efficient services.
- > Extend innovative payment and funding mechanisms, such as personal budgets and payment-by-results commissioning in more areas.
- > Increase democratic accountability at a local level.
- > Maintain continuity of service and managing risks in light of these reforms.”

24 Milburn, A. (2004), “The voluntary sector: a partner in reform”, Speech to the Association of Chief Executives of Voluntary Organisations, 6 May. “Of course there are functions only the State can perform. Defence and security are obvious examples. Immigration and criminal justice are others. But when it comes to the provision of other services, such as health or education, they do not need to be exclusively provided by the State. Indeed, as the State’s role evolves from one of exclusive provider to becoming more of a purchaser, schools and hospitals, alongside councils and surgeries, should be able to enjoy more autonomy within the public sector. And new providers will be able to join them from outside. The job of government can then focus on setting and overseeing standards, raising and distributing resources and ensuring the overall integrity of the system.”

25 Hewitt, P. (2006), Speech to the Institute for Public Policy Research, 19 September. “The test is not who owns the organisation – public, private or not-for-profit – but whether they can provide the best services for NHS patients with equal access for all, free at the point of need, with the best value for the public. That is why there needs to be competition – as well as co-operation – in the system.”

Value for money

This theme has become more important since the collapse of the public finances in 2008. Public services operate within a budget constraint and an unfettered increase in their cost has damaging economic consequences in terms of higher taxation, higher borrowing and reduced stability.

This principle is particularly challenging for politicians since they have to make the argument that the success of a service does not depend on the level of its budget. This argument has been best made during this Parliament by Nick Herbert, the Minister for Policing and Criminal Justice, who has said, “the test of effective criminal justice is not how much money we’re spending” and “the test of an effective police force is not how much it costs or the number of officers it employs”.²⁶ David Cameron has repeatedly argued that while his Government would have reformed public services anyway, the reforms have the “big, important by-product” of efficiency.²⁷

A user’s guide to reform

We have the further benefit of being able to draw on the experience of those who have reformed public services in practice, including the previous Prime Minister, Tony Blair. If public sector reform is to move from idea to reality, it needs to be delivered in the real world of Parliaments, politics and organised opposition. Several of these practitioners presented at *Reform* events of 2009 and 2010 and these further lessons can be distilled from their remarks:

- > Be consistent. Public service reform covers many fields and the temptation is always to apply certain reform principles in some areas but not others. Yet a consistent approach is necessary to win the practical political problem. Sir Roger Douglas, former New Zealand Finance Minister (1984-88), has defined it as the “three C’s”: “You have to be consistent because if you are consistent that will lead to confidence among the community and in turn confidence leads to a level of credibility.”²⁸ In government, Alan Milburn made the same call to his Government and raised concerns over inconsistency.²⁹
- > Carry out quality reform. The phrase “structural reform” (which the Coalition Government has used) embodies the idea of a fundamental change that sets public services on a new and different direction. The Coalition Government’s departmental action plans are in fact labelled “structural reform plans.” Tony Blair made a similar point when he said, in a celebrated phrase, “Every time I’ve ever introduced a reform in Government, I wish in retrospect I had gone further.”³⁰ David Cameron referred to that point in his recent major speech on public service reform.³¹ Roger Douglas reminded politicians that they only have a certain amount of political capital, and it can be just as costly to implement “halfway house reform” (which generates little political support) as real reform (which generates a lot).³²

26 Herbert, N. (2010), “PC Public will bring down crime”, *The Sunday Times*, 3 October. “The test of effective criminal justice is not how much money we’re spending. Ensuring access to justice is not the same as the size of the legal aid budget (more than £2 billion a year, greater than almost any other country). A successful penal system cannot sensibly be measured by the number of offenders in prison, certainly not when most of them re-offend shortly after release. And the test of an effective police force is not how much it costs or the number of officers it employs.”

27 Cameron, D. (2010), “We will make government accountable to the people”, Speech to the Civil Service, 8 July. “All these different approaches are designed to put people in charge and give us services that are more local, more responsive and more effective. And there’s another big, important by-product of these reforms. They’re going to help us save money. Not just because we can scrap the whole expensive apparatus of top-down bureaucracy and inspection. But because when people have the power to hold public services to account, they’ll help make sure they’re less wasteful and more effective. When social enterprises and charities have the power to compete in the public sector, that will increase competition, drive costs down and put pressure on existing providers to raise their game. And when these providers are paid by the results they achieve, we can get value for money.”

28 Douglas, R. (2010), Speech to *Reform* conference *Reducing the deficit and reforming public services*, 7 July, in Nolan, P. (ed.), *The first hundred days, Reform*.

29 Miburn, A. (2007), Speech to the London School of Economics, 16 May. “There has, however, been inconsistency across the reform programme. In the police, courts and probation services many powers have been centralised. In the health service they have been devolved. In education parents have no right to choose the school that is right for their child whereas in health patients do enjoy the right to choose hospital. The Government argues – for example in its recent policy review document – that different services require different approaches. And there may be something in that. But I think the real explanation lies elsewhere.”

30 Blair, T. (2005), Speech to the Labour Party conference, 27 November.

31 Cameron, D. (2011), Speech on modern public service, 17 January. “Reading his intriguing memoir over the summer, I was struck by how many times he himself admits that opportunities were lost and Labour should have ‘pushed further and faster on reform.’”

32 Douglas, R. (2010), Speech to *Reform* conference *Reducing the deficit and reforming public services*, 7 July, in Nolan, P. (ed.), *The first hundred days, Reform*.

- > Reform the Civil Service. Ministers need to work through central government departments to change policy. Successful reformers have had to reform their Civil Services in order to make wider reforms. In her introduction to *Reform's Budget 2010: Taking the tough choices*, Ruth Richardson, said: "Faced with a fiscal crisis as New Zealand's incoming Minister of Finance in 1990, experience tells me that success hinges on... A performance driven Civil Service, restructured and reduced so that as to form and function it is fit for purpose."³³

The idea of "halfway house reform" deserves particular attention. The temptation for Ministers is to leave the structure and regulation of existing services alone while bolting on some new, reformed provision alongside. Examples would include Independent Sector Treatment Centres. A similar temptation is to allow a small proportion of government provision to "opt out" of central or local regulation. Examples would include grant maintained schools or academies. But these initiatives have little impact on the mainstream service which is where nearly all provision is carried out. They are also vulnerable to abolition since they create a focus for opposition without generating significant public support. Subsequent governments abolished grant maintained schools, removed a key freedom from city academies and loaded the NHS market against Independent Sector Treatment Centres.

33 Bassett, D. et al. (2010), *Budget 2010: Taking the tough choices, Reform*.

3

The 1997-2010 legacy

Tony Blair's final comments on public service reform as Prime Minister suggest that he knew that he did not deliver on his public service reform ambitions. As the preceding chapter showed, his principles for reform were excellent and his presentation of the case arguably more passionate and better articulated than his successor's. But the history of his Government demonstrates how reform is defeated when it is not true to principle and when it departs from the practical guide to successful reform. In summary:

- > **Accountability.** Tony Blair's Government argued that public service reform could combine national standards with consumer choice and flexible delivery and labour markets.³⁴ In fact central direction trumped reform. Ministers themselves came to doubt the efficacy of central targets, and sought to reduce their number. But the principle of central direction remained, manifested in particular through the Public Service Agreements, agreed by spending departments and the Treasury, and the National Curriculum.
- > **Flexibility.** The previous Government made much use of top down programmes at the expense of devolved local and organisational drivers. In addition, it advocated flexibility in the public sector while making national agreements with each of the key public sector workforces and keeping control of manpower planning. By 2007, Tony Blair was to say: "Public sector unions can't be allowed to determine the shape of public services."³⁵
- > **Value for money.** The previous Government argued that it would link "investment" and "reform". In practice it defined success in terms of inputs, from extra staff in the NHS to refurbished school buildings to extra police officers. Each of the previous Government's Budgets asserted a link between spending and results.³⁶ As a result, value diminished in public services.
- > **Consistency.** The inconsistency of the Government undermined its reform arguments. For example, the Government's controversial plans to allow private sector operators to treat NHS patients were undermined by its refusal to allow parents to choose privately operated schools.
- > **Quality reforms that last.** The Blair Government preferred tactical, "halfway house" reforms which were vulnerable to opposition and which left the mainstream of public services untouched. Particular examples included the academies programme of a few dozen schools, which came under attack and which lost one of its key freedoms (on the National Curriculum) when Tony Blair left office. The Independent Sector Treatment Centres programme, again of a small number of privately-owned treatment centres, also came under attack.³⁷ The Brown Government ended up favouring public NHS providers over charitable and for-profit providers.³⁸

34 Blair, T. (2001), Prime Minister's speech on public service reform, 16 October. "We are backing investment with reform around four key principles:

- > First, high national standards and full accountability
- > Second, devolution to the front-line to encourage diversity and local creativity
- > Third, flexibility of employment so that staff are better able to deliver modern public services
- > Fourth, the promotion of alternative providers and greater choice."

35 Blair, T. (2007), "What I've learned," *The Economist*, 31 May.

36 For example, HM Treasury (2010), *Budget 2010: Securing the recovery*. "Total public spending has increased by 57 per cent in real terms, compared with 15 per cent in the preceding 12 years, with unprecedented levels of real terms investment in frontline public services.

Since 1997, NHS spending in England has more than doubled in real terms, education spending in the UK has increased by 65 per cent, spending on universities has increased by 25 per cent, spending on the police by central government has increased by 19 per cent, and the defence budget has increased by over 10 per cent. This has enabled public services to deliver high quality and sustainable outcomes, for example:

- > almost all people who need it receive hospital treatment within 18 weeks, referral to a cancer specialist within 2 weeks and A&E treatment within 4 hours;
- > the number of pupils gaining five or more good GCSEs has increased from 45 per cent in 1997 to 70 per cent in 2009;
- > more students are able to go to university than ever before, with 390,000 more students in 2009-10 than in 1997; and
- > there are now over 16,000 more police officers and 16,500 Community Support officers than in 1997, playing a vital role in keeping Britain's communities safe and secure."

37 CBI (2008), *ISTCs and the NHS: Sticking plaster or real reform?*

38 Burnham, A. (2009), Speech to the King's Fund, 17 September. "With quality at its core, I think the NHS can finally move beyond the polarising debates of the last decade over private or public sector provision. Let me begin with where I stand in this debate, and that is that the NHS is our preferred provider."

- > **Reform the Civil Service.** Tony Blair made two speeches on the Civil Service. In 1998, he praised the Whitehall model. By 2004, his praise was modified by a call for Whitehall to change radically.³⁹ In 2007, Alan Milburn, the former Secretary of State for Health, said: “Whitehall is the one part of the public services that has largely escaped Tony Blair’s reforming zeal. It should do so no longer.”⁴⁰

Health

Accountability in the NHS was subject to a twin track approach. Early initiatives aimed to contain costs and lead from the centre through the use of targets for waiting times, National Service Frameworks and organisations such as National Institute for Clinical Excellence (NICE). Following the publication of the NHS Plan in 2000 the Government also implemented a set of reforms that have sought to make the health service more accountable to patients.⁴¹ However, attempts to develop patient choice and local accountability were undermined by consistent centralisation. Consequently the reforms were incomplete.

Before the Government made the NHS the “preferred provider” in 2009, reforms sought to encourage diversity of provision and competition.⁴² Yet foundation trusts only had limited autonomy and private providers continued to face significant barriers to entry and delivered only a small proportion of NHS funded care.⁴³ NHS providers remained dominant. The failure to effectively implement these reforms meant that the NHS did not achieve increased value for money.⁴⁴ Over the last decade government policy focused on increasing inputs into healthcare, even with growing evidence of low productivity.⁴⁵ Despite some improvements, the UK continues to perform poorly compared to international competitors in transferring resources into health outcomes.⁴⁶

Education

In his foreword to the 2005 Education White Paper, Tony Blair gave a clarion call for parental choice and school freedom.⁴⁷ He had come to realise that his Government’s great increase in the central regulation of schools – particularly of the schools workforce, the curriculum and school admissions – had not guaranteed an adequate standard for all children.⁴⁸ But each of those constraints remained in place. Crucially, the 1997-2010 Governments decided to forbid parents choosing a private sector education with taxpayers’ funds, even though it allowed it in the NHS, prisons and other areas of policy. This maintained the divide between an independent school system available to those with funds and a state system with heavy regulation.

39 Blair, T. (2004), Speech on modernisation of the Civil Service. “Government has to become an instrument of empowerment, quick to adapt to new times, working in partnership with others, to deliver clear outcomes so that the public sees a return on its investment through taxation. It has to go through exactly the same process of change as virtually every other functioning institution in Britain... What does it mean in practical terms? It means the following:

- > a smaller, strategic centre;
- > a Civil Service with professional and specialist skills;
- > a Civil Service open to the public, private and voluntary sector and encouraging interchange among them;
- > more rapid promotion within the Civil Service and an end to tenure for senior posts;
- > a Civil Service equipped to lead, with proven leadership in management and project delivery;
- > a more strategic and innovative approach to policy;
- > Government organised around problems, not problems around Government.”

40 Milburn, A. (2007), “A 2020 vision for public services”, Speech at the London School of Economics. “The same disciplines that nowadays apply to other parts of the public services should finally and equally be applied here. Departments should work to transparent outcome-based contracts agreed with No 10. Senior civil servants’ pay should be made more dependent on performance against such contracts. Where Whitehall functions (aside from those covering vital constitutional and propriety matters) can be subject to periodic external competition they should be.”

41 Department of Health (2000), *The NHS Plan: a plan for investment, a plan for reform*. See also: Department of Health (2002), *Delivering the NHS Plan: next steps on investment, next steps on reform*; Department of Health (2004), *The NHS Improvement Plan: Putting people at the Heart of Public Services*.

42 Ibid. See also Department of Health (2009), *The operating framework for the NHS in England 2010/11* for “preferred provider”.

43 Sussex, J. (2009), “How fair? Competition between independent and NHS providers to supply non-emergency hospital care to NHS patients in England?”, OHE Briefing, No 50.

44 See Office for National Statistics (2010), *Public Service Output, Inputs and Productivity: Healthcare*; National Audit Office (2010), *Management of NHS hospital productivity*; Audit Commission (2009), *More for less: Are productivity and efficiency improving in the NHS?*; Audit Commission (2010), *More for less: 2009/10: Are efficiency and productivity improving in the NHS?*; Wanless, D. (2002), *Securing Our Future Health, Taking a Long Term View*, HM Treasury, for funding projections.

45 Wanless, D. et al (2007), *Our Future Health Secured? A Review of NHS Funding and Performance*, The King’s Fund. “The NHS has failed to generate the relatively modest improvements in unit cost productivity that might have been expected and were assumed by the 2002 review. Overall, in terms of productivity, this places the NHS closer to the slow uptake scenario.”

46 OECD (2010), *Health Care Systems: Efficiency and Policy Settings*.

47 Department for Education and Skills (2005), *Higher Standards, Better Schools for All: More choice for parents and pupils*. “Now, with the best teaching force and the best school leadership ever, we are poised to become world class if we have the courage and vision to reform and invest further and put the parent and pupil at the centre of the system. Our reforms must build on the freedoms that schools have increasingly received, but extend them radically. We must put parents in the driving seat for change in all-ability schools that retain the comprehensive principle of non-selection, but operate very differently from the traditional comprehensive. And to underpin this change, the local authority must move from being a provider of education to being its local commissioner and the champion of parent choice.”

48 On the schools workforce, the 2003 workforce agreement set a framework for the employment of teachers and teaching assistants. The 1997-2010 Governments maintained the National Curriculum that had been introduced in 1988. The Admissions Code for school admissions was tightened throughout the decade 2000-2010.

Tony Blair's departure from office saw one of the classic examples of halfway house reform: Gordon Brown's Government reimposed the National Curriculum on academies removing one of their essential freedoms. Evidence continued to mount about poor value for money.⁴⁹ Partly driven by the 2003 National Agreement, the number of teachers increased by 10 per cent and the number of teaching assistants increased two-and-a-half-fold over the same decade, despite falling pupil numbers during this period.⁵⁰

Higher Education

Recognising the financial unsustainability of the existing higher education funding system, the last Government introduced tuition fees for full-time higher education in England.⁵¹ This had the very significant effect of putting the power of accountability in students' hands for the first time. Nevertheless, these fees were at a very low level: initially up-front fees of £1,000, rising to deferred fees capped at £3,000 (rising in line with inflation).⁵² Capping fees at this low level denied universities income, increasing their dependence on government funding. Crucially, the low level of fees also dulled the power of competition to drive value for money, since there was only very limited leeway for universities to vary their charges and, in practice, all institutions charged the maximum amount. The last Government introduced a zero real interest rate loan to cover maintenance costs and deferred fees. Intended to ensure that disadvantaged applicants were not discouraged, in fact these loans subsidised wealthier students.⁵³ Since these subsidised loans placed a significant financial burden on the public finances, the Government had no choice but to restrict the number of undergraduate places, preventing good institutions from expanding.

Home Office and Justice

To its credit, the last Government became dissatisfied with the lack of accountability of the police and suggested, in 2004 and 2008, that police forces should be made locally accountable.⁵⁴ On both occasions, however, the Home Office backed down, leaving police forces accountable in theory to the Home Office, local police authorities and the law, but in practice only accountable to themselves. The Government recognised the need to diversify the police workforce and dramatically increased the number of civilian police staff. But the police officer workforce itself remained unreformed, with limited changes to shift patterns, overtime or performance management. The middle ranks of the service remained over-inflated and it remained impossible to make a police officer redundant.

The Government also raised the prospect of radical reform to prisons and probation in the Carter Report, *Managing Offenders, Reducing Crime*, in 2003, which proposed an open market in these areas of provision.⁵⁵ The benefits that private sector involvement can bring through competition and innovation were also explored by the National Audit Office later in 2003.⁵⁶ The Government acted upon the recommendation for a National Offender Management Service (NOMS), but did not heed the NAO support for a competitive market in the prison system or Carter's recommendation that "there is a danger that the benefits of contestability [effectiveness and value for money] will not be realised if the involvement of the private sector is limited to new and failing prisons."⁵⁷ The 2009 Ministry of Justice report, *Capacity and Competition Policy for Prisons and Probation*, only specified private and third sector involvement for new-build contracts, previously contested contracts and high cost or low performing prisons.⁵⁸ As a result

49 See Audit Commission (2009), *Valuable lessons: Improving economy and efficiency in schools*; Bassett, D. et al. (2010), *Every teacher matters. Reform*; Department for Children, Schools and Families (2009), *Departmental Report 2009*.

50 Department for Children, Schools and Families (2009), *School Workforce in England*; Department for Education and Skills (2005), *School Workforce in England*.

51 Teaching and Higher Education Act 1998.

52 Ibid; Higher Education Act 2004.

53 Haldenby, A. et al. (2008), *The mobile economy. Reform*.

54 Home Office (2004), *Policing: building safer communities together*; Home Office (2008), *From the neighbourhood to the national: policing our communities together*; Bichard, M. (2004), *The Bichard Inquiry Report* was important in the debate.

55 Carter, P. (2003), *Managing Offenders, Reducing Crime*. Patrick Carter recommended the introduction of contestability and market forces into prison and probation provision on the basis that "effectiveness and value for money can be further improved through greater use of competition from private and voluntary providers."

56 National Audit Office (2003), *The Operational Performance of PFI Prisons*. The report argued that, "The competitive market has been beneficial to the Prison Service as it allows the performance of public prisons to be assessed against that of alternative providers."

57 Carter, P. (2003), *Managing Offenders, Reducing Crime*.

58 Ministry of Justice (2009), *Capacity and Competition Policy for Prisons and Probation*. The report made three proposals with regards to the involvement of private and third sector providers:

1. For the next three years, only the private and third sector will be invited to bid for the construction and operation of new build prisons. This will stimulate market engagement and encourage new providers to enter the market.
2. Five previously competed prisons will be re-competed at the end of the existing agreements, with bids invited from public private and third sectors.
3. Two high-cost or low performing public sector prisons will be market tested in 2009, with bids invited from the public, private and third sectors.

the Government's key legacy was a greatly expanded prison system almost entirely provided by the state sector and lacking in real competition between providers.⁵⁹

The Cabinet Office

On coming to power the Labour Government did not make Civil Service reform a priority, with attempts to improve performance limited to the *Modernising Government* initiative.⁶⁰ Slowly the Government began to recognise the need for greater change in Whitehall. The 2001 Manifesto called for radical reforms to make the Civil Service more "effective and entrepreneurial."⁶¹ However the Government encountered significant resistance to the perceived politicisation of the service. Reforms to the accountability of the Civil Service went by the wayside despite the steadily mounting evidence of poor delivery and leadership presented by the Capability Reviews and the National Audit Office.⁶²

In the meantime the Cabinet Office sought to promote voluntary delivery of public services and social enterprises in a way that prefigures almost exactly the efforts of the Coalition Government.⁶³ In its 2002 report, *Private Action, Public Benefit*, the Prime Minister's Strategy Unit pushed for greater public service delivery by third sector organisations. Recommendations included a greater role for social enterprises and new organisational forms, for example Community Interest Companies. A paper by the Employee Ownership Association (EOA), *Shared Company*, was launched in October 2005 by Gordon Brown, then Chancellor of the Exchequer, who described it as a "landmark report".⁶⁴ In February 2007 the EOA's paper *CoCo Companies: Work, Happiness and Employee Ownership* was launched by then Environment Secretary, David Miliband.⁶⁵ Statutory funding of third sector organisations has more than doubled over the past decade, changing the sector significantly, but it is not clear that these organisations changed public services to the same degree.

HM Treasury

The previous Government created a public spending framework that centralised decision making and strengthened central control over the outputs of public services. The Public Service Agreements (PSAs) introduced with every Comprehensive Spending Review held individual Secretaries of State accountable for performance to the Treasury.⁶⁶ In a reformed system, local public service managers would be held accountable to their users.

Upon entering office in 1997 the Labour Government recognised the need for reform of public sector pension schemes and outlined significant reforms in the 2002 Pensions Green Paper. These included raising the Normal Pension Age (NPA) from 60 to 65 for new entrants to the NHS, Teachers' and Civil Service schemes, and the introduction of cap and share pension valuations that attempted to share risk more equitably between taxpayers, employers and employees.⁶⁷ However these reforms did not fully address the question of sustainability in public service pension policy, and not only did all existing public servants retain their NPA of 60 years old, but the majority of public sector schemes, including the Armed Forces, Police and Fire Services, failed to increase the age of retirement.

Furthermore, as Lord Hutton's 2010 *Interim Report* argued, cap and share schemes "do not address the rising costs of pensions in recent years because people are living longer."⁶⁸ Although some changes to accrual rates were enacted, all aside from the Civil Service are still based on final salary rather than career average. The reforms reduced the value of public sector pensions by around 3 per cent, but in the decade to 2008-09 the cost of public service pensions increased by 38 per cent in real terms. What is clear is that the Treasury has not reduced its liabilities to a sustainable level in the long-term.

59 House of Commons Justice Committee (2009), *The role of the prison officer*. One contributor to the Committee's consultation argued that, "For some years now it has been public knowledge that there have been problems with getting private companies interested in tendering for UK prison services. With only a handful of providers operating in the UK, there is little real competition between private providers."

60 HM Government (1999), *Modernising government*.

61 Labour Party (2001), *Manifesto 2001: Ambitions for Britain*.

62 For a full discussion, see Haldenby, A. et al. (2009) *The front line, Reform*; Haldenby, A. et al. (2009), *Fit for purpose, Reform*.

63 See Cabinet Office (2006), *Partnership in Public Services: an Action Plan for Third Sector Involvement*.

64 www.employeeownership.co.uk

65 Ibid.

66 Douglas, R. et al. (2002), *Spending without reform, Reform*.

67 Department for Work and Pensions (2002), *Simplicity, security and choice: Working and saving for retirement*.

68 Public Service Pension Commission (2010), *Interim Report*.

Local Government

In 2006, Ministers such as David Miliband sought to encourage a debate on stronger local accountability under the heading of “double devolution.”⁶⁹ But in 2007 the landmark Lyons Review of local government was clear that basic problems of accountability remained.⁷⁰ In May 2009 the House of Commons Communities and Local Government Committee came to exactly the same conclusion.⁷¹ The Lyons Review warned of a significant increase in central government regulation of local government and recommended a great increase in the flexibility enjoyed by local government.

Central government attempted to encourage flexibility in local government by inspecting its efforts to achieve outcomes - through Comprehensive Area Assessments and Local Area Agreements (LAAs). In evidence to the Communities and Local Government Select Committee, local government leaders reported that LAAs would represent a real devolution, but only to a certain extent. Warwickshire County Council noted “the fact that LAAs have 16 mandatory education indicators speaks for itself” and asked “How do we encourage people to engage in local democracy and empower communities to believe they can make a difference when there is this level of prescription?”⁷² In February 2010, the various local government inspectorates, in the guise of Oneplace, reported that a lack of management capacity in local government was preventing the development of new ways of working.⁷³

Important reports at the end of the period of the last Government showed that the drive to efficiency had a considerable way to go. In 2008, the Audit Commission found that local government workforces were the key part of their costs (50 per cent of all spending, at a cost of £55 billion per year, for a total workforce of 2.2 million people). Despite that, it found that only a minority of councils were taking a strategic approach to their workforces.⁷⁴ Also in 2008, the Julius Review found that only a minority of local government services were outsourced, and only a tiny minority of the most expensive services such as education and policing. Some councils even continued to deliver refuse collection in-house.⁷⁵ The shift from compulsory competitive tendering to Best Value reduced the pressure on councils to act as commissioners rather than commissioners and providers.

Work and Pensions

Welfare is the biggest budget. Yet while welfare spending between 1980 and 2000 largely reflected economic conditions, since 2000 this spending increased even when the economy was growing and living standards were improving across the board, rising to £218 billion in 2010.⁷⁶ This was due to the introduction of new benefits and the rising cost of pension entitlements. The Labour Government of 1997 to 2010 failed to address the costs of universal benefits and introduced new benefits,⁷⁷ such as the Winter Fuel Allowance and Child Trust Fund, which were poorly targeted, lacked rationale and brought significant

69 Miliband, D. (2006), Speech to the National Council of Voluntary Organisations, 18 January.

70 Lyons, M. (2007), *Lyons inquiry into local government*. “Clear lines of accountability are a precondition for an effective relationship between central and local government and are essential to allow people and communities to engage with, understand and challenge the decisions which affect their lives. Without such clarity local communities cannot know who to hold responsible for taxation and spending decisions.”

71 House of Commons Communities and Local Government Committee (2009), *The Balance of Power: Central and Local Government*. “We advocate further cultural change within central government to facilitate a lasting pendulum swing towards a more decentralised balance of power structure, stressing the need for consistency across Communities and Local Government Committee Whitehall, and the extent to which this is yet to be achieved. We also focus on the other key challenge for central government in this area, the pressing need for reform of local government financial arrangements.”

72 House of Commons Communities and Local Government Committee, (2009), *The Balance of Power: Central and Local Government*.

73 Oneplace (2010), *Oneplace national overview report*. “Local leadership builds consensus around priorities and motivates public service workers to tackle the hardest challenges. Without it, plans to tackle local priorities are disjointed or unambitious, and responses to critical inspection findings can be slow or inadequate. Information from front-line services is used to direct activity in health, social care, children’s services, policing and transport where it is most needed. In the absence of good information, money is wasted on unfocused initiatives. Good partnership working crosses organisational and geographical boundaries. Neighbouring bodies have collaborated on issues like gun crime, public transport and local procurement. Building capacity does not just mean securing public money; local public bodies have drawn on capacity from the private and voluntary and community sectors, and have helped their communities to improve access to services, to encourage recycling and to establish businesses.”

74 Audit Commission (2008), *Tomorrow’s people – building a local government workforce for the future*.

75 Department for Business, Enterprise and Regulatory Reform (2008), *Public Services Industry Review – Understanding the public services industry – how big, how good, where next? A review by Dr DeAnne Julius CBE*.

76 Cawston, T. et al. (2010), *The money-go-round: Cutting the cost of welfare*.

77 HM Treasury (1998), *Budget 1998: New ambitions for Britain*; HM Treasury (2003), *Budget Report 2003: Building a Britain of economic strength and social justice*; HM Treasury (2005), *Budget 2005: Investing for our future: Fairness and opportunity for Britain’s hard-working families* and HM Treasury (2007), *Budget 2007: Building Britain’s long-term future: Prosperity and fairness for families*.

costs. As well as failing to address the costs of middle class welfare, the Government did not reform the rising costs of pension entitlements. Raising the retirement the age was delayed and the Government committed to linking pensions to wages from 2012.

Following the Freud report the Government reformed the commissioning framework for welfare to work services for JSA recipients.⁷⁸ Under the Flexible New Deal, providers had greater freedoms and were incentivised to deliver long term job outcomes over longer contracts. Despite attempts to improve the administration of benefits the National Audit Office reported significant overpayment of tax credits and benefits due to error.⁷⁹ The complexity of the system has been a major cause of poor administration, but Benefit Simplification Unit has only had a “piecemeal” approach and limited impact.⁸⁰

Defence

On coming to power the Labour Government conducted a Strategic Defence Review, published in 1998, to reassess the UK’s security interests and defence needs.⁸¹ However the review was limited and undermined by optimistic financial assumptions of future cost.⁸² While the 2004 and 2007 Spending Reviews increased resources for the armed forces, many from within and outside the services claimed funding was insufficient.⁸³ Subsequent attempts to fill the gap and make short term efficiencies through procurement delays and trimming programmes arguably caused shortages in equipment and undermined long term value for money.⁸⁴ Growing evidence, not least the Bernard Gray Review, suggested military procurement was poorly managed.⁸⁵ Furthermore, protectionist policies exacerbated the already poor procurement process.⁸⁶ The National Audit Office estimated that the financial shortfall in the defence budget could rise to £36 billion by 2020 if the Ministry of Defence received no cash terms increase in funding.⁸⁷ In addition, the NAO concluded that the MoD “does not place financial management at the heart of its decision making”, leading to over-commitments, subsequent short term cuts and poor value for money.⁸⁸ In evidence given to the Public Accounts Select Committee in 2011, Sir Nicholas Macpherson, Permanent Secretary to the Treasury, admitted there “was a point in the middle of the last decade where the MoD lost control of public spending.”⁸⁹

78 Freud, D. (2007), *Reducing dependency, increasing opportunity: options for the future of welfare to work*, Department for Work and Pensions.

79 National Audit Office (2010), *Minimising the cost of administrative errors in the benefit system*; National Audit Office (2011), *Reducing losses in the benefits system caused by customers’ mistakes*.

80 House of Commons Work and Pensions Committee (2007), *Benefits Simplification*.

81 Ministry of Defence (1998), *Strategic Defence Review: Modern Forces for the Modern World*.

82 Dorman, A. (2010), “A new SDR must not repeat the mistakes of 1998”, *Parliamentary Brief Online*, 2 March.

83 Simpson, A. (2007), “British forces ‘underfunded and over-stretched’”, *Daily Telegraph*, 8 November; House of Commons Defence Committee (2010), *Readiness and recuperation of the Armed Forces: looking towards the Strategic Defence Review*, Fourth Report of Session (2009-10), 2 February.

84 National Audit Office (2009), *The Major Projects Report 2009*. See for example the Queen Elizabeth Class Aircraft Carriers which were delayed in early years. See also Chalmers, M. (2010), “A Question of Balance? The Deficit and Defence Priorities”, *Future Defence Review*, Working Paper Number Seven, RUSI, June 2010. “But, despite a series of mini-reviews and small-scale capability reductions, this has not been enough to bridge the gap between commitments and available resources. The consequence, all too often, has been that short-term savings have had to be made, even at the expense of longer-term cost increases.”

85 Gray, B. (2009), *Review of Acquisition for the Secretary of State for Defence: An independent report by Bernard Gray*.

86 Ministry of Defence (2002), *Defence Industrial Policy*; Ministry of Defence (2005), *Defence Industrial Strategy*.

87 National Audit Office (2009), *The Major Projects Report 2009*.

88 National Audit Office (2010), *Strategic Financial Management of the Defence Budget*.

89 House of Commons Public Accounts Committee (2011), Transcript of uncorrected oral evidence: *Accountability*, 19 January.

4

Evaluation of the Coalition

Previous chapters showed how the principles for public sector reform have been shared by the current and the previous Governments. These chapters also evaluated the legacy of reform, and showed that although many of the correct principles have been adopted the execution of reform has been limited. This chapter evaluates the execution of reform of the Coalition Government so far. This highlights those areas where positive lessons from the reform process can be identified and also areas where further work is required. This evaluation is based on a standard template that can be used to measure performance over time. The areas discussed below are:

Health

Education

Higher Education

Home Office and Justice

Cabinet Office

HM Treasury (Public Sector Pensions)

Local Government

Work and Pensions

Defence

Health

Overall	Accountability	Flexibility	Value for money
D	E	D	D

The Government has recognised the need for fundamental reform of the NHS. The proposals announced in the July 2010 White Paper aim to reorganise the commissioning structure and give greater freedoms to providers. Successful reform would make services accountable to patients through choice and create a real market in health delivery by freeing providers from central control. However, the Government's NHS White Paper on 12 July and the Health and Social Care Bill that was introduced on 19 January have left accountability divided between patients, doctors and local authorities.⁹⁰ The delivery of healthcare continues to be centralised: an announcement on 21 May put extra limits on service redesign, placing a moratorium on hospital closures, and on 20 December the Department's new national workforce strategy revealed that the Coalition Government will maintain national direction of the workforce.⁹¹

Given the cost pressures on the NHS, the Health Select Committee has found that the service will struggle to make ends meet despite the generous settlement, pointing out that "the Government's commitment to a real terms increase in health funding throughout the Spending Review period will not be met".⁹² This means that the efficiency savings of £15-20 billion identified in 2009 by Sir David Nicholson may not be met. Yet the decision to ring-fence health spending in the Coalition Agreement means that health policy is based on increasing inputs and not value for money, and it sends out a message that it is a service where significant waste that has been identified should still be protected.⁹³

Accountability

The Government's flagship reform to the health service is reorganising the commissioning structure. This reform aims to engage clinicians with commissioning healthcare services from a plurality of providers and put patients at the heart of the NHS. However, rather than consumer choice, the NHS White Paper sees professional empowerment and localisation as the key drivers of change. This has left accountability divided between GPs, local authorities and the National Commissioning Board: the reforms make GPs responsible for commissioning medical services on behalf of patients; consortia are accountable to the Commissioning Board; local authorities will be responsible for public health, joining up commissioned services and leading strategic needs assessment.

Moreover, the Health Bill gives the Commissioning Board significant powers over consortia. But it also gives the Secretary of State power to direct the Commissioning Board not only in what it does but in how it does it. The Secretary of State will also have powers of intervention over Monitor and the Care Quality Commission. Consequently accountability runs to the centre with "the Secretary of State...hold[ing] the NHS to account for improving healthcare outcomes."⁹⁴

Sitting before the House of Commons Health Select Committee, Sir David Nicholson stated that "we'll have to centralise more power in the very short term to deliver benefits", and it is clear that the Commissioning Board – which Sir David Nicholson has been chosen to chair – will be able to wrest funds from allocations to commissioners for the purpose of creating risk sharing arrangements and to bail overspending consortia out, implying that surplus generating consortia might not have their full underspends returned to them each year. This disincentivises success and indicates that the desired healthcare market may advance no

⁹⁰ Department of Health (2010), *Equity and Excellence: Liberating the NHS*; Department of Health (2011), *Health and Social Care Bill 2011*.

⁹¹ Department of Health (2010), "Health Secretary outlines vision for locally led NHS service changes", Press release, 21 May; Department of Health (2010), *Liberating the NHS: developing the healthcare workforce*.

⁹² House of Commons Health Committee (2010), *Public Expenditure*, Second Report of Session 2010-11, Volume 1.

⁹³ HM Government (2010), *The Coalition: our programme for government*.

⁹⁴ Department of Health (2010), *Equity and Excellence: Liberating the NHS*; Department of Health (2011), *Health and Social Care Bill 2011*.

further than it did under the PCT structure, which was subject to such top-slicing under the previous Government. In addition, having abolished targets, the Department of Health's technical guidance for the 2011-12 Operating Framework runs to 261 pages and contains more than 100 indicators "against which the NHS will be held accountable".⁹⁵

Flexibility

One of the central objectives of the Government's reforms is to liberate the NHS from central control and create "the largest social market in the world."⁹⁶ However the freedoms of providers continue to be curtailed. The Government's first policy announcement was to introduce new tests for redesigning hospital services.⁹⁷ The Secretary of State still has the power to intervene in the reconfiguration process, and has imposed a penalty upon hospitals which continue to house patients in mixed sex wards, as well as acting immediately to stop NHS London's proposed reorganisation of its healthcare facilities and services.⁹⁸

Existing proposals would see a new national workforce strategy for NHS employment. Despite a stated desire "to empower healthcare providers, with clinical and professional leadership, to plan and develop their own workforce", the proposed strategy calls for "sector-wide oversight of key aspects of workforce planning, education and training" and "mechanisms that allow the NHS Commissioning Board to have strategic influence on the national picture for education and training."⁹⁹ Despite the rhetoric of the White Paper, the Department of Health has also strengthened national controls during the transition and the Health Bill has given "draconian" powers to the National Commissioning Board.¹⁰⁰

Value for money

The last Government doubled health spending and failed to achieve value for money. The parlous state of the public finances means that continuing to fund rising healthcare costs is not affordable, while the NHS will need to find savings of £15-20 billion by 2014.¹⁰¹ However the new Government continues to focus on increasing inputs into the NHS and ring-fenced the health budget¹⁰² despite overwhelming evidence of waste and low value for money.¹⁰³

95 Department of Health (2010), *Technical guidance for the 2011/12 Operating Framework*.

96 Burns, S. (2010), Speech at *Reform's conference Delivering a new health agenda*, in Nolan, P. (ed.) (2010), *The first hundred days, Reform*.

97 Department of Health (2010), "Health Secretary outlines vision for locally led NHS service changes", Press Release, 21 May; Department of Health (2010), *Revision to the Operating Framework for the NHS in England 2010/11*.

98 Department of Health (2010), *Liberating the NHS: developing the healthcare workforce*.

99 Department of Health (2011), *Health and Social Care Bill 2011*.

100 Following the July White Paper Sir David Nicholson, Chief Executive of the NHS and Chief Executive designate of the National Commissioning Board, announced that he would strengthen "central controls on quality, finance, operations and QIPP delivery through the next two years." Department of Health (2010), *Equity and Excellence: Liberating the NHS – Managing the Transition*, Letter from Sir David Nicholson, 13 July. In evidence to the Health Committee he argued over the transition period the Department of Health would "centralise more power in the very short term to deliver the benefits in the medium and long-term." House of Commons Health Committee (2011), *Commissioning*; Department of Health (2011), *Health and Social Care Bill 2011*; *Health Service Journal* (2011) "Commissioning board give 'draconian' powers", 20 January.

101 Department of Health (2009), *The Year: NHS Chief Executive's annual report 2008/09*.

102 HM Government (2010), *The Coalition: our programme for government*; HM Treasury (2010), *Spending Review*.

103 Bosanquet, N. et al. (2010), *Fewer hospitals, more competition, Reform*.

Education

Overall	Accountability	Flexibility	Value for money
D	D	D	D

The Government is pursuing a dual agenda in education reform, altering structures (to increase decentralisation and autonomy) and centralising standards (to increase rigour and central accountability). The proposals in the Schools White Paper increase the Government's grip on teaching.¹⁰⁴ Profit-making schools have been denied a role in the state-funded education system. The Coalition has frozen the schools budget in real terms.¹⁰⁵ This ring-fencing is unjustifiable given that per-pupil funding is double in real terms the level of a decade ago, and given the significant waste and inefficiency in the school system.¹⁰⁶

Accountability

Key Government reforms include giving all schools the right to convert to academy status and allowing charities and groups of parents or teachers to establish new, independent, state-funded schools with the same freedoms as academies.¹⁰⁷ Yet key features of the regulated school system remain. The Government still refuses to fund parental choice into the for-profit sector, maintaining the divide between an independent sector and a state sector under considerable regulation.¹⁰⁸ The Schools White Paper continues central regulation of teacher training, recruitment and supply.¹⁰⁹ It maintains national pay bargaining for teachers and the central accreditation of headteachers.

Flexibility

The Government also proposes rewriting the National Curriculum to focus on "core knowledge", giving teachers more autonomy in how they teach and introducing an "English Baccalaureate", as well as league tables based on this and other measures. The Government will require a minimum 2:2 degree for eligibility for state-funded teacher training.¹¹⁰

While central control is being abolished in some areas, in others it is being strengthened, for example through a re-written National Curriculum and increased powers for central government to take over "failing" state schools. The schools admissions code remains in place although the Coalition Government has pledged to "simplify" it.¹¹¹ The Coalition's attempts to increase the number of academies and free schools are halfway-house reforms. Like grant maintained schools before them, these peripheral reforms fail to alter the central control and regulation that governs the main schools system, and are therefore likely to be easily reversed. There is a basic inconsistency between a policy that seeks to free academies and free schools from the National Curriculum yet strengthen it for the rest of state schools.

Although academies are free to deviate from them, the existence of national pay and conditions for teachers hampers headteachers' freedom to reward teachers for high performance or additional commitments and can make it more difficult to hold them to account for their performance. Many teachers feel there is a cultural entitlement to an annual increase in salary, irrespective of performance.¹¹² The free schools initiative is intended to raise standards in all schools through competition, but this systemic change can

104 Department for Education (2010), *The Importance of Teaching: Schools White Paper*.

105 HM Treasury (2010), *Spending Review 2010*.

106 Bassett, D. (2010), *Election Briefing Note: Education, Reform*.

107 Academies Act 2010.

108 Bassett, D. et al. (2010), *Every teacher matters, Reform*.

109 Department for Education (2011), Letter from the Secretary of State for Education to the Chief Executive of the TDA, 31 January.

110 Department for Education (2010), *The Importance of Teaching: Schools White Paper*.

111 Ibid.

112 Bassett, D. et al. (2010), *Every teacher matters, Reform*.

only happen if free schools are established on a sufficient scale.¹¹³ Profit-making companies should be allowed to inject their expertise and capital into the system to significantly increase the number of new schools. The profit motive is also a useful incentive to encourage good schools to expand.

The increase in the number of academies will mean that more schools are able to operate independently of local authorities (often achieving better value for money by directly procuring necessary central services). However the Schools White Paper proposed a new “strategic role” for local authorities, encouraging them to “ensure fair access”, “stand up for the interests of parents and children”, “develop their own school improvement strategies” and “promot[e] a good supply of strong schools”.¹¹⁴ This is inconsistent with a flexible school system that responds to demand, and with making parents solely and directly accountable for schools’ performance.

Value for money

The Government will consult on developing and introducing a “clear, transparent and fairer” national per-pupil funding formula.¹¹⁵ The Government will introduce a pupil premium, giving poorer pupils an additional element of funding that will go directly to their school, in an attempt to improve social mobility and eliminate disadvantage.¹¹⁶ The Building Schools for the Future programme has been halted; other capital spending is being reviewed.¹¹⁷

The Coalition has, however, frozen the schools budget in real terms. This ring-fencing is unjustifiable given that per-pupil funding is double in real terms the level of a decade ago, and given the significant inefficiency that has been identified in the schools system. Despite a reduction in bureaucracy and an increase in teachers’ autonomy, the fundamental assumption that government can and should drive an improvement in the quality of teaching continues to underpin the system. The bureaucratic structure that fails to achieve this should be abolished, and schools should be held accountable for improving the quality of their teaching.¹¹⁸

113 See evidence on Sweden and USA for example in New Schools Network (2010), *Summary of Evidence for New Schools*.

114 Department for Education (2010), *The Importance of Teaching: Schools White Paper*

115 Ibid.

116 HM Government (2010), *Spending Review 2010*.

117 Ibid.

118 Bassett, D. et al. (2010), *Every teacher matters, Reform*.

Higher education

Overall	Accountability	Flexibility	Value for money
D	D	E	B

The Coalition Government has raised the cap on tuition fees for full-time higher education in England. The new funding system for higher education will come into effect from 2012 and will include measures such as the ability for universities to charge fees of up to £9,000, the provision of loans to cover tuition fees and living costs, and maintenance grants to students in need of this. Graduates will only start repaying these loans after graduation when they start earning £21,000.¹¹⁹ In order to make the system more financially sustainable, a real rate of interest will be charged on loan repayments, but with a progressive taper.¹²⁰ Alongside the introduction of tuition fees, new requirements to widen participation and improve access for those from disadvantaged backgrounds were placed on universities.¹²¹ Previously existing quality regulations remain.

Accountability

While the Coalition Government has raised the cap on tuition fees for full-time higher education in England, the ongoing cap places unnecessary strain on the public finances, caps student numbers and results in poor course value judgments by students.¹²² Lifting the cap on tuition fees would allow universities to charge what their courses are worth and students to select them on that basis. The power of students to impact directly on universities also continues to be reduced due to the centrally determined allocation of places to universities and departments by the Higher Education Funding Council for England (HEFCE).

Flexibility

When tuition fees were first introduced, new requirements were placed on universities to widen participation and improve access for those from disadvantaged backgrounds. This included the establishment of the Office for Fair Access (Offa) and the expansion of the size and remit of the Quality Assurance Agency (QAA).¹²³ The Coalition Government has reduced flexibility through expanding these requirements.¹²⁴ A national scholarship scheme worth £150 million a year will be introduced.¹²⁵

For those universities that intend to charge above £6,000, the Government has suggested that it will impose even greater regulatory requirements for widening participation than currently exist. On 8 February 2011 Nick Clegg floated the idea of allocating places at top universities for disadvantaged students with lower grades. This is unfair (depriving higher-performing students of places), erodes the autonomy of universities and will damage the calibre of the UK's elite institutions, whose world-class reputations are based on the quality and meritocracy of their intake. Further, it fails to solve the problem since students who have underperformed at A-level are likely to fall further behind in higher education.

Value for money

The Spending Review emphasised a further move towards a system where those who benefit make a greater contribution to the cost. This means the overall resource budget for higher education, excluding research funding, will reduce from £7.1 billion to £4.2 billion, a 40 per cent, or £2.9 billion, reduction by 2014-15.¹²⁶ The restrictions on supply will increase the cost of the sector, restrict the growth in total places available to students and put upward pressure on costs and fees.

119 Willetts, D. (2010), Statement to the Houses of Parliament on higher education funding and student finance, 3 November.

120 Ibid; Education Bill 2011.

121 See Department for Business, Innovation and Skills (2011), Guidance to the Director of Fair Access, Issued by the Secretary of State for Business, Innovation and Skills and the Minister for Universities and Science.

122 Haldenby, A. et al. (2008), *The mobile economy, Reform*.

123 Harris, M. (2010), *What more can be done to widen access to highly selective universities?*, Office for Fair Access.

124 Department for Business, Innovation and Skills (2011), Guidance to the Director of Fair Access, Issued by the Secretary of State for Business, Innovation and Skills and the Minister for Universities and Science.

125 HM Treasury (2010), *Spending Review 2010*.

126 Ibid.

Home Office and Justice

Overall	Accountability	Flexibility	Value for money
B	A	B	B

In home affairs and justice, real reform means genuine accountability for performance across all of policing, prisons and probation; flexible provision by public, private and charitable sectors; and an understanding that levels of spending do not equate to outcomes. The Coalition Government's policing consultation paper, *Policing in the 21st century: reconnecting police and the people* (26 July 2010), outlined changes that would deliver accountability for policing.¹²⁷ The justice green paper, *Breaking the cycle: effective punishment, rehabilitation and sentencing of offenders* (7 December 2010), would successfully deliver diversity in justice provision.¹²⁸ Rt Hon Nick Herbert MP, the Minister for Policing and Criminal Justice, has explained more clearly than any Minister that resources do not equal results.¹²⁹

Accountability

Elected commissioners, held directly to account by the public for the police's performance, are exactly the right way to improve the quality and value for money of a public service like policing, where the idea of "choice" cannot apply. Bernard Hogan-Howe, former Chief Constable of Merseyside Police, told the Home Affairs Select Committee that Police and Crime Commissioners could increase public trust since "first of all, [there would be] a public debate about what the priority should be and, of course, then the Commissioner has to deliver."¹³⁰ There remain questions over the planned introduction of Police and Crime Panels to supervise Commissioners but the overall direction of the reform is right.¹³¹

Flexibility

The Coalition Government has also made encouraging steps towards increasing flexibility in policing. Tom Winsor's review of police officers' and staff's pay and conditions is the only independent review of a public sector workforce commissioned by the new Government. As such it could deliver a real increase in chief constables' freedom to structure their workforce appropriately.

Value for money

The Coalition's policies to increase the diversity of the provision of prisons and probation are also a genuine step forward. But the Government has kept the divisions between policing, probation and prisons that prevent these services being properly accountable and achieving value for money. In particular, there is no economic reason for local government to invest in new, innovative solutions to reduce crime since any savings would be made in the separate policing and prisons budgets. One of the key findings of the major *Reform* conference on criminal justice reform in February 2011 was the need for a full integration of criminal justice services. The gold standard reform would be the replacement of Police Commissioners by Criminal Justice Commissioners with end to end responsibility for the whole local criminal justice system and with local revenue raising powers.

¹²⁷ Home Office (2010), *Policing in the 21st Century: reconnecting police and the people*.

¹²⁸ Ministry of Justice (2010), *Breaking the Cycle: Effective Punishment, Rehabilitation and Sentencing of Offenders*.

¹²⁹ Herbert, N. (2011), Keynote address at the CityForum policing strategy round table, 25 January. "Of course there has been much focus on the expectation that police officer and staff numbers will fall. But as I have consistently argued, this is a narrow focus. The test of the effectiveness of a police force cannot be how much is being spent on it or how many staff it employs. There is no simple and automatic link between officer numbers and crime levels. There is no simple and automatic link between officer numbers and their visibility to the public. Of course, to use the great Bill Bratton's phrase when he visited us last year, cops count. But, as he also argued, the effectiveness of a police force – like any organisation – depends primarily on how well the resources available to it are used."

¹³⁰ House of Commons Home Affairs Committee. (2010), *Policing: Policing and Crime Commissioners*.

¹³¹ Ibid.

The Cabinet Office

Overall	Accountability	Flexibility	Value for money
E	E	E	D

The Cabinet Office Draft Structural Reform Plan (16 July 2010) made Civil Service reform and opening up public sector markets key priorities. Successful reform would make civil servants personally accountable for performance and value for money, and would create real markets in public service delivery. However, the Plan included not one mention of accountability and in a speech to *Reform* on 7 July 2010 Francis Maude pledged to safeguard the Civil Service, not reform it. Select Committee evidence from three Permanent Secretaries in February 2011 shows that accountability has not improved. On 1 November 2010 the Government announced that one quarter of government contracts should be awarded to SMEs, contrary to the principles of decentralisation and open public service delivery. On 10 February 2011 Nick Clegg confirmed that public service delivery would be skewed in favour of charities and co-ops and against the private sector.

Accountability

In Opposition, Francis Maude, speaking at the 2009 Conservative Party conference, set out proposals for reforming Whitehall, most importantly making senior civil servants accountable for performance.¹³² By the time the Conservatives wrote their manifesto accountability had been replaced by protection of “impartiality.”¹³³ Once in Government, speaking at the *Reform* conference in July 2010, Francis Maude confirmed this stance.¹³⁴ One of Francis Maude’s key ideas for making Permanent Secretaries accountable was to strengthen departmental boards, giving them the ability to remove ineffective Permanent Secretaries.¹³⁵ Lord Browne of Madingley has been appointed to bring in big hitters from business to do this. But evidence from three current Permanent Secretaries to the Public Administration Select Committee in

132 Maude, F. (2009), “Ready to deliver change”, Speech at the Conservative Party conference, 5 October.

133 The Conservative Manifesto 2010. “We will...make government more accountable and safeguard the independence of the civil service... We will put a limit on the number of special advisers and protect the impartiality of the civil service.”

134 Maude, F. (2010), Speech to *Reform* conference *Reducing the deficit and reforming public services*, 7 July, in Nolan, P. (ed.), *The first hundred days, Reform*. “I am a big fan of the Civil Service. I have a huge regard for our system of politically impartial, permanent civil servants. But too often in recent years, civil servants have felt marginalised, partly because particularly in the early days special advisors interposed themselves to too great an extent between official advisors and Ministers, and partly because there was an over use of consultants.”

135 Maude, F. (2009), “Ready to deliver change”, Speech at the Conservative Party conference, 5 October. “We’ll strengthen departmental boards. They’re a really good idea, to create accountability, and bring together political and official leaders. But they’re woefully under-used. Ministers rarely attend. Non-executive board members are themselves mostly from the public sector. These boards frankly look a bit marginal and toothless. All that will change. My colleagues will chair their boards. A majority of the non-execs will come from the commercial private sector. The board will agree a business plan so the department can be held to account for its success in delivering ministers’ policy objectives, and crucially their success in delivering efficiency savings and value for money. There’ll be a senior non-exec with access to the Prime Minister, meeting other departmental non-execs regularly to track progress. We want to attract really big hitters to these boards, to bring serious commercial experience to bear on officials and ministers alike. And to ensure that these have teeth, the non-execs will be able, in the last resort, to recommend to the Head of the Civil Service and the PM that the Permanent Secretary should be removed. In this new world we need public sector managers to be as accountable as those in the private sector.”

February 2011 shows that the role of Boards remains advisory at best.¹³⁶ The best idea in the Cabinet Office draft structural reform plan published in July 2010 was to put Permanent Secretaries on fixed term contracts.¹³⁷ This remains “ongoing” in the latest Cabinet Office Structural Reform Plan review.¹³⁸ The plans for Civil Service accountability do not extend to specific individuals being held responsible for their work. The Government’s publication of each Department’s organisational charts, while welcome, is of limited use without knowing who is responsible for what.

Transparency is also a key part of the Government’s efficiency and reform agenda. Better transparency is intended to improve accountability and value for money. The Government has established a Public Sector Transparency Board and has committed to establishing a legal right to data.¹³⁹ Significant amounts of data are being published, including crime maps and school spending data. In June the Treasury published its previously secret COINS spending database.¹⁴⁰

However, much of this data has been criticised for being in an unusable form, of questionable accuracy, or simply that the really useful data have not been published. The release of COINS was described as “confused and botched” by developers and freedom of information campaigners. Many of the local councils that have published their spending data have done so in formats that are not machine-readable, or with missing details.¹⁴¹

Flexibility

A key ambition of the Cabinet Office is to “enhance public sector markets” by “examining opportunities for further private and voluntary sector involvement in service delivery” and “creating a level playing field” in procurement contracts.¹⁴² In fact the opposite approach is being taken. In a speech on 11 February 2011 Nick Clegg, the Deputy Prime Minister who sits in the Cabinet Office, explained that “opening up public services”

136 House of Commons Public Administration Committee (2011), Uncorrected transcript of oral evidence, *Good governance and civil service reform*, 1 February.

“Q190 Chair: Is there a tension between accountability to a board and accountability to Parliament?”

Ian Watmore: The interesting difference from business, which I have experienced, is the accountability to Parliament is different... Having been here six or seven years now, I think what we ought to be able to do is use the boards to focus on areas that we perhaps have not been focusing on, but I do not see it changing the relationship between the primary officers, whether they be elected or unelected, and Committees such as this one, which I think play a vital role.

Dame Helen Ghosh: I have an example similarly where I asked for a direction and got a direction, but again it was a classic instance of having to make a very quick decision, in talking to my Secretary of State, then Hilary Benn, about a financial decision, and that was the basis on which, in the space of about an hour, we had to take a decision that wouldn’t have gone anywhere near a board. Again, these are circumstances that could arise in the future. I don’t think it will change those fundamental accountabilities. It will enrich the debate.

Having very experienced powerful nonexecutives on an advisory and supervisory board will enrich the debate around things like, is this delivery, timetable and scope of the thing you are trying to deliver realistic? That kind of input from some experienced nonexecutives will be terrific in terms of successful change programmes and growing our skills as civil servants. We can learn a lot from them, so I think it is a very rich prospect, myself.

Q191 Chair: You do not anticipate a situation where something controversial occurs and the permanent secretary tells the Committee, “Well, that’s what the board decided. That’s why we did that.”

Dame Helen Ghosh: No, because the board will not be the decision making body. This is back to Ian’s point. It is the Secretary of State, under their statutory authority, who makes the decisions. The position will be exactly as it is now. You could summon me to talk about how the decision was implemented, the financial implications of it and so on but, if you wanted to talk about why the decision was taken, it would be for the Secretary of State to come.

Q192 Chair: These boards do not actually have fiduciary responsibilities?

Dame Helen Ghosh: No.

Ian Watmore: Not in the way you would expect them to have in the private sector, no.

Q193 Chair: They are advisory boards.

Dame Helen Ghosh: And supervisory of our performance, yes.”

137 This follows the model used successfully in New Zealand and would be an improvement on the current system. See Haldenby, A. et al. (2009), *Fit for Purpose, Reform*.

138 Cabinet Office (2010), *Structural Reform Plan Monthly Implementation Update - October*. No further monthly updates are available.

139 Cabinetoffice.gov.uk

140 Rogers, S. and C. Arthur (2011), “Government data UK: what’s really been achieved?”, *The Guardian*, 21 January.

141 Ibid.

142 Cabinet Office (2010), *Draft Structural Reform Plan*.

really means skewing the market, in this case in favour of public sector employee co-ops and charities, and against for profit-providers.¹⁴³

Value for money

One area that the Coalition Government has tackled is inflated redundancy pay for civil servants. On 7 October 2010 the Cabinet Office concluded negotiations with five public service unions which resulted in bringing the “cap” for compulsory redundancy pay down from 24 months’ salary to 15 months’ salary (12 month cap plus new 3 month notice period).¹⁴⁴ Following the Department for Business, Innovation and Skills’ pledge that one quarter of government contracts will be awarded to SMEs, the Cabinet Office has set out plans to facilitate this.¹⁴⁵ Here the ambition is to reduce waste by centralising much procurement and commissioning. This again skews the market, in favour of small suppliers and against big ones. It also misses the crucial point that value for money comes from accountability, not central dictat. If individual government departments were really held accountable for performance, departments would naturally club together to gain economies of scale.

143 Clegg, N. (2011), Speech on the future of the public sector to the Guardian Public Services Summit in St Alban’s, 10 February. “New and alternative providers – from the private, community and voluntary sectors – have a vital role to play in our public services. But I will also take a hard line against the kind of blanket privatisation which was pursued by governments in the past. Because replacing a public monopoly with a private monopoly achieves nothing but reduced accountability. And I will take a hard line, too, against any attempts to replicate Labour’s mistake of skewing the market against public sector providers. Effectively bribing private companies by offering them more money to do exactly the same job as you. That was wrong. We will not repeat Labour’s rigged market in the NHS with higher tariffs for private providers. I categorically do not believe that private providers are inherently better than public sector providers, and I would not support an approach to reform that implied that they were. So while we are opening up diversity of provision there will be no for-profit providers in our publicly funded schools system. That is why we will publish all the big contracts government signs with business to make sure there are no secret soft deals. That is why we have designed a “Community Right to Challenge” to allow communities and charities to trigger a procurement exercise for local public services. But we will not extend that right to challenge to businesses. And let’s be clear – moving from a monopoly to diverse providers doesn’t mean closing you down and bringing in someone new to do your job at half the salary with half the training as it did sometimes in the past. It means putting you in the driving seat. Under our Right to Provide, tens of thousands of public sector workers will be able to turn your department, your ward, your team into an employee-run coop, with a contract to your parent public service. And run things the way you know best.” The Cabinet Office has also made spending commitments to this end with a £100 million fund for charities announced on 5 November 2010 and a £10 million fund for mutuals announced on 17 November 2010.

144 civilservice.gov.uk (2010), “Government concludes negotiations on Civil Service redundancy scheme”, 7 October. Voluntary redundancy cap remains at 24 months’ salary (21 months cap plus 3 months notice period). This leaves redundancy payments for most civil servants on low and middle wages above the average payments for private sector counterparts, but brings redundancy payments for higher paid civil servants in line with private sector practice.

145 Department for Business, Innovation and Skills (2010), “Cross government action to unleash enterprise and help small business”, Press release, 1 November; Cabinet Office (2010), “Plans to open up government to small business”, Press release, 1 November. In February 2011 the Cabinet Office launched a new website to give SMEs easy access to details of government contracting opportunities.

HM Treasury



The Treasury is not a spending department but under the Coalition Government it has played a key role in public service reform. The Spending Review (20 October 2010) set out the spending levels for departments throughout this Parliament and more importantly set out policy objectives for public service reform.¹⁴⁶ The Treasury is also co-operating with the Cabinet Office on the forthcoming Public Service Reform White Paper. Further, it is the responsible department for the Hutton Review of public sector pensions and the Hutton Review of public sector pay. The interim report of the Hutton Review of public sector pensions reported on 7 October 2010 and the Hutton Review on pay on 1 December.

The Coalition has said that its “Structural Reform Plans” and departmental business plans are a radical departure from the previous Government’s public spending framework.¹⁴⁷ In fact they have equivalent effects. The departmental business plans set targets for inputs and outputs in the same fashion as the previous Public Service Agreements. In the case of the Department of Health, for example, the Coalition will continue to target mortality rates and health inequalities. It has introduced new output measures such as hospital admissions and readmissions. It has also introduced input measures, such as the number of mutual providers and number of health visitors, which will skew direct NHS activity from the centre.

The Spending Review set out the principles of reform and value for money in public services.¹⁴⁸ But some of its policy recommendations contradicted those principles. In particular it set out the principle of diversity of provision. But it went on to propose that some public sector markets should be skewed in favour of the private and independent sectors.¹⁴⁹

¹⁴⁶ HM Treasury (2010), *Spending Review 2010*.

¹⁴⁷ The Departmental Business Plans commit the Government to releasing information to measure progress. The measures focus on service outputs. Key indicators for the Department of Health include: Proportion of population covered by NHS 111 service, by local authority; Proportion of patients with greater control of their care records, by local authority; Proportion of NHS trusts that have converted to foundation trust status, by local authority; Names of businesses, voluntary and community organisations and local authorities which are part of the Responsibility Deal, nationally; Numbers of health visitors and distribution in relation to children under 5, and progress with training for new health visitors and the current workforce; Number of co-operatives and mutuals established in health and social care services, by local authority. The last Government’s business plans also set out Public Service Agreements based on outputs. For example: Number of emergency bed days per head of weighted population; Proportion of carers receiving a ‘carer’s break’ or a specific service for carers as a percentage of clients receiving community-based services; Adults and older people receiving direct payments and/or individual budgets per 100,000 population (aged 18 and over); The proportion of people with long-term conditions supported to be independent and in control of their condition. See, Department of Health (2010), *Business Plan 2011 – 2015*; Department of Health (2009), *Business Plan 2009 – 2011*.

¹⁴⁸ HM Treasury (2010), *Spending Review 2010*. “The Spending Review is underpinned by a radical programme of public service reform, changing the way services are delivered by redistributing power away from central government and enabling sustainable, long term improvements in services. This programme is built on the Coalition principles of increasing freedom and sharing responsibility, by:

- > localising power and funding, including by removing ringfencing around resources to local authorities and extending the use of personal budgets for service users;
- > cutting burdens and regulations on frontline staff, including policing, education and procurement;
- > increasing diversity of provision in public services through further use of payment by results,
- > removing barriers to greater independent provision, and supporting communities, citizens and volunteers to play a bigger role in shaping and providing services; and
- > improving the transparency, efficiency and accountability of public services.”

¹⁴⁹ *Ibid.* “The Government will look at setting proportions of appropriate services across the public sector that should be delivered by independent providers, such as the voluntary and community sectors and social and private enterprises. This approach will be explored in adult social care, early years, community health services, pathology services, youth services, court and tribunal services, and early interventions for the neediest families.”

The Call for Evidence for the Public Service Reform White Paper repeated this contradiction in its focus on mutuals and social enterprises.¹⁵⁰ Mutuals and other social enterprises should find their place in public service markets according to the decisions of consumers and commentators rather than central policy decisions.

The interim report of the Hutton Review identified the right issues for public sector pensions reforms, ie, the inadequate level of contributions by public sector employees towards their pensions and the difficulty this poses to independent sector organisations who wish to take on the provision of public services.¹⁵¹ It paves the way for a successful package of reform which would increase public sector contributions and free independent sector providers from the need to provide pensions on the same terms as the public sector.

The interim report of the Hutton Review of public sector pay was not so positive.¹⁵² Its key recommendation was a maximum pay multiple of 20:1 between the highest and lowest earners. In a public sector with weak accountability, it is highly likely that some workers are overpaid compared to their level of performance. But the solution to this is to make services accountable for performance rather than to impose external regulation, which itself weakens that accountability.

150 HM Treasury (2010) "Government to seek experts' views on public service reform", Press release, 26 November. "The Government particularly wants views on how to drive reform further in the following ways:

- > Extending innovative payment and funding mechanisms, such as personal budgets and payment-by-results commissioning in more areas.
- > Developing new rights for communities and public employees to buy and run services.
- > Setting proportions of certain services that should be provided independently.
- > Bringing external investment and expertise into service reform.
- > Increasing democratic accountability at a local level."

151 Independent Public Service Pensions Commission (2010), *Independent Public Service Pensions Commission: Interim Report*.

152 Hutton Review of Fair Pay (2010), *Hutton Review of Fair Pay in the public sector: Interim Report*.

Local Government

Overall	Accountability	Flexibility	Value for money
C	C	D	C

In local government, real reform means greater funding of local spending from local taxation, a flexible local government workforce and an understanding that levels of spending do not equate to outcomes. The White Paper, *Local growth – realising every place’s potential* (13 November 2010), and the local government finance statement (13 December 2010) did not offer immediate changes to councils’ tax-raising powers but did offer a consultation on greater powers to vary business rates.¹⁵³ Also on 13 November, the Coalition Government announced that it would maintain the restrictions on outsourced local government workforces that it was lifting in other areas of government.¹⁵⁴

Accountability

As noted above, the key determinant of local government accountability is the link between tax and spend. Local government will only be properly accountable when it raises tax to fund its local spending to a much greater extent than currently.

The initial decisions of the Government, in its local government finance statement, maintained the key features of the existing system. Local government will have no greater discretion over the raising of funds. Central government prevention of spending above a certain level – “capping” – will remain. Arguably the new Government has imposed a further restriction on local government by encouraging a freeze on council tax for two years by paying councils even more central grant.¹⁵⁵

There is however the prospect of a major increase in local accountability in two years’ time. The new Government will shortly launch a review which will investigate giving councils the power to vary business rates and retain the income from them. The Local Government Resource Review, to be launched in early 2011, will aim to “scale back central government’s control and redistribution of this local business tax”, in the words of the Secretary of State for Communities and Local Government, Eric Pickles. Initial details were

¹⁵³ Department for Business, Innovation and Skills (2010), *Local growth – realising every place’s potential*.

¹⁵⁴ Cabinet Office (2010), “Two-tier code withdrawn”, Press release, 13 December.

¹⁵⁵ Hansard (2010), 13 December 2010. Column 680. The Secretary of State for Communities and Local Government (Mr Eric Pickles). “In the meantime, the Government will take capping action against councils that propose excessive rises. When the House debates the final local government finance report next year, I will set out the capping principles. I will also publish shortly details of the figures that will be used to compare authorities’ budgets between years, should capping be necessary. The previous Government had planned to cap the police authorities of Greater Manchester and Nottinghamshire after they set excessive increases in 2010-11. Subject to challenge, we will ensure that, should they decide not to freeze the council tax, neither can impose an increase of over 2.5 per cent in 2011-12.”

set out in the local growth White Paper in October 2010.¹⁵⁶ The Government is also committed to introducing Tax Increment Financing. But if it goes on to localise business rates that would be overtaken, in effect, since councils would be able to borrow against this new income stream.

Nick Clegg has however argued that these measures are insufficient and that councils should have significantly greater revenue raising powers. In a leaked letter to the Communities and Local Government Secretary, the Deputy Prime Minister called for the Local Government Resource Review to be expanded to include a full review of local government financing and said that councils should be able to impose a wide range of taxes and charges, and have greater freedom over borrowing.¹⁵⁷

Flexibility

On flexibility, little has changed, in particular on the employment of local government workers. The “two tier code” – a series of regulations on the employment of new staff in outsourced businesses – has been withdrawn in central government but retained in local government.¹⁵⁸

Value for money

In terms of flexibility of finance, the Government has placed great store on its removal of ring-fencing for local government spending.¹⁵⁹ But very considerable ring-fencing remains, such as in public health. The Government has also emphasised its replacement of councils’ “power of well-being” with a “general power of competence”, for which the House of Commons Communities and Local Government Committee argued in the last Parliament.

156 Department for Business, Innovation and Skills (2010), *Local growth – realising every place’s potential*. “As work on decentralisation and the Spending Review has progressed, the Government has also been examining other, more radical, options. In particular, we have considered ways of enabling councils to retain locally-raised business rates. This would go further than the Business Increase Bonus scheme, with incentive effects likely to be stronger and more predictable, over longer time periods. Changing the system to allow retention of business rates would mean that many local councils are set free from dependency on central funding. We would also expect the proportion of councils to whom this would apply to increase over time. This would represent a radical departure from the way in which the existing local government finance system operates. In considering this option, the Government is clear that businesses should not be subject to locally imposed increases in the burdens of taxation that they do not support. We have already made clear that businesses would have the right to hold a binding vote on any local authority proposals to introduce a local supplement on business rates (as already applies for Business Improvement Districts). This is a principle that we remain firmly committed to. Equally, we will ensure that all councils will have adequate resources to meet the needs of their local community; rewarding growth is also about fairness in the local government finance system. The coalition agreement also set out plans to undertake a Local Government Resource Review. Local business rate retention will be considered within this review, which we intend to launch in January after a period of consultation on the proposals in this document. This is a significant opportunity to consider a range of options to provide genuine incentives for local economic growth through the business rates regime, and to equip local authorities with the tools to support that role. Local authority, business and other stakeholder views will be vital in informing the Government as we carry out this work. The Review will need to consider a number of important issues in relation to this more radical option, including: how to fund councils where locally raised funding would be insufficient to meet budget requirements and control council tax levels, as well as councils who do not collect business rates, such as upper tier authorities; the position of councils whose business rate yield would be significantly higher than their current spending; and how to ensure that proposals retained a genuine incentive effect and reward for promoting growth. Consideration of these issues should take into account the national picture, due to the significant variations in need and current business rate yield, in different parts of the country. We will however consider a range of options to balance this.”

157 Hayman, A. (2011), “Clegg goes into battle over finance review”, *Local Government Chronicle*, 19 January.

158 Cabinet Office (2010), “Two-tier code withdrawn”, Press release, 13 November.

159 Pickles, E. (2010), Statement on local government financing, 13 December. “With very few exceptions, we have ended grant ring-fencing so that councils can decide for themselves how their money is spent. We will also allow them to borrow against future business rates receipts. Councils now have the freedom and responsibility to concentrate on what residents want: protecting front-line services. To support them, I have set aside £200 million to help councils to modernise and reduce back-office costs.”

Work and Pensions

Overall	Accountability	Flexibility	Value for money
C	C	B	D

The Government's welfare reforms are significant. The 2010 Emergency Budget and Spending Review announced cuts of £18 billion to benefits, the Work Programme aims to incentivise providers to deliver better outcomes from welfare to work services and the Universal Credit promises to create a simpler system where "work always pays". Most importantly, the Government has for the first time broken the principle of universality of payments such as Child Benefit. However the Government's reforms are in danger of promising too much and delivering too little. Iain Duncan Smith's Universal Credit is untested, expensive and will be hard to implement.¹⁶⁰ The Work Programme gives similar levels of flexibility as James Purnell's Flexible New Deal.¹⁶¹ Benefit cuts have focused on out-of-work benefits, made a start at means-testing middle class welfare, but have failed to address the cost of pensions.¹⁶² The pre-election pledge of both Coalition Parties to re-link the Basic State Pension to wages will mean welfare spending will continue to rise.¹⁶³

Accountability

The flagship reform is the Universal Credit that will make the welfare system simpler and easier to administer.¹⁶⁴ Combining out-of-work and in-work benefits into a single Universal Credit will also ensure "work always pays." It is also hoped that take-up and levels of error and fraud under the new system will be improved. However, the Universal Credit and smart automation is not a silver bullet and involves significant trade-offs and costs.¹⁶⁵ Implementing the universal credit requires more information from individuals that cannot be achieved without significant administration and compliance costs. This is aside from the poor record of implementing national technology programmes in the UK.

Flexibility

One of the first initiatives the Government announced was a new Work Programme that will outsource all welfare to work services.¹⁶⁶ The new commissioning framework will give providers longer and larger contracts, greater freedom and will fund welfare to work services through the savings made in reductions in benefit expenditure. The Work Programme builds on the Flexible New Deal, giving similar levels of freedom for providers but now covers all welfare to work services.¹⁶⁷

¹⁶⁰ Department for Work and Pensions (2010), *21st Century Welfare*; Department for Work and Pensions (2010), *Universal Credit: welfare that works*.

¹⁶¹ HM Government (2010), *The Coalition: our programme for government*; Also see, Freud, D. (2010), Address to welfare providers, 2 June, Church House.

¹⁶² HM Treasury (2010), *Budget 2010*; HM Treasury (2010), *Spending Review 2010*.

¹⁶³ Liberal Democrats (2010), *Manifesto 2010: Change that works for you*; Conservative Party (2010), *Manifesto 2010: Invitation to join the Government of Britain*.

¹⁶⁴ Department for Work and Pensions (2010), *21st Century Welfare*; Department for Work and Pensions (2010), *Universal Credit: welfare that works*.

¹⁶⁵ See Cawston, T. et al. (2010), *The money-go-round: Cutting the cost of welfare* and evidence from Dr Patrick Nolan, House of Commons Work and Pensions Committee (2011), Uncorrected transcript of oral evidence, *White Paper on Universal Credit*, 26 January.

¹⁶⁶ HM Government (2010), *The Coalition: our programme for government*; Also see Freud, D. (2010), Address to welfare providers, 2 June, Church House.

¹⁶⁷ Freud, D. (2007), *Reducing dependency, increasing opportunity: options for the future of welfare to work*, Department for Work and Pensions.

Value for money

The Government has set out to make significant spending cuts through welfare reform. It has attempted to address middle class welfare through scrapping the Child Trust Fund, targeting Child Tax Credits and means-testing Child Benefit.¹⁶⁸ However means-testing the Child Benefit for households with a high rate taxpayer is unfair and very difficult to implement, and could bring the whole idea of means-testing benefits into disrepute.¹⁶⁹ Most of the savings will be achieved through reducing the value of out-of-work benefits and introducing greater conditionality. The Government has also failed to adequately address the rising cost of pension benefits and protected low value pension “gimmicks” such as the Winter Fuel Allowance. Raising the retirement age to 66 by 2018 will not compensate for the rising costs of pensions that will grow even faster due to the Government’s decision to link basic state pension to wages not prices. Increasing the costs of pensions will exceed other savings made in benefits in the long term.¹⁷⁰

¹⁶⁸ HM Treasury (2010), *Budget 2010*; HM Treasury (2010), *Spending Review 2010*.

¹⁶⁹ See Cawston, T. et al. (2010), *The money-go-round: Cutting the cost of welfare, Reform*.

¹⁷⁰ Even before the Government committed to increasing the value of the basic state pension in line with wages, the cost of basic state pension was going to increase by £6.6 billion from 2010 – 15, this will be a 16.2 per cent increase. By 2050 the cost of all pension benefits will increase by £162 billion to 6.1 per cent of GDP. Projections by the Pensions Policy Institute suggest that following the decision to link pensions in line with wages the costs of pension benefits will rise to 7.3 per cent of GDP by 2055. See Department for Work and Pensions (2008), *Benefit expenditure tables : Table LT3: Pensioner benefit expenditure projections*; Pensions Policy Institute (2011), *Towards more effective savings incentives: a report of PPI modelling for AEGON*.

Defence

Overall	Accountability	Flexibility	Value for money
D	E	D	C

In defence, the real reform challenge is putting forward a realistic strategy reflective of Britain's place in the world. The National Security Strategy (NSS) and the Strategic Defence and Security Review (SDSR) (both October 2010) were the Government's chance to do just this. However, both the NSS and the SDSR focused on pursuing global power projection.¹⁷¹ In the SDSR, objectives and capability were not aligned with resources available and some spending decisions were merely delayed. Despite the Green Paper on Defence Equipment, Support and Technology stating "At a time of very tight financial constraints, we cannot afford to spend taxpayers' money on anything that is not absolutely necessary to protect our nation,"¹⁷² the document overall misses the point that strategy needs to be more realistic and that improved procurement alone is insufficient.

Accountability

In defence spending, accountability means having a realistic defence strategy and matching resources with the budget available, or as Nick Harvey, Minister for the Armed Forces, has put it: "Just like the rest of Government, Defence must learn to live within its means."¹⁷³ But the reforms from the Ministry of Defence so far have not highlighted the extent to which this means adopting a more realistic approach to defence strategy. The SDSR was a wasted opportunity to tackle Ministry of Defence overspend and delayed many difficult decisions that need to now be made in the next Spending Review period.¹⁷⁴ In terms of matching resources with available budget, the SDSR still aspires to: "strategic military power projection to enhance security, deter or contain potential threats, and support diplomacy."

Flexibility

Since 2009 the Ministry of Defence has made improvements in the management of procurement.¹⁷⁵ These advances have been built on with greater focus on transparency in the procurement process. The new Head of Defence Materiel, Bernard Gray, has pledged to bring the budget in balance and remove inefficiencies from procurement, while a review of single supplier defence contracts will look at modernising the

171 HM Government (2010), *A Strong Britain in an Age of Uncertainty – The National Security Strategy*, which states: "In order to protect our interests at home, we must project our influence abroad"

HM Government (2010), *Securing Britain in an Age of Uncertainty – The Strategic Defence and Security Review*.

172 Ministry of Defence (2010), *Equipment, Support and Technology for UK Defence and Security: A Consultation Paper*.

173 Harvey, N. (2011), "Transforming defence (again)", Speech to the Royal United Service Institute, 10 January.

174 In terms of delayed decisions, see Chalmers, M. (2010), "Unbalancing the Force? Prospects for UK Defence after the SDSR", Future Defence Review, Working Paper Number 9, Royal United Services Institute, November.

"Despite the initial hope that the SDSR would set the MoD on a path towards a sustainable force structure for 2020, the overriding priority has been to provide the capabilities necessary to sustain current Afghanistan commitments. As a result, as the SDSR implicitly conceded, work has only just begun on identifying how to close the funding gap that remains for the period 2015-2020."

175 See Ministry of Defence (2010), *Strategy for Acquisition Reform*, which aimed to improve transparency and the acquisition framework to ensure affordability.

procurement framework to make these contracts more competitive.¹⁷⁶ The Government's Green Paper on procurement states that "Our default position is to use open competition in the global market, to buy off the shelf where we can, and to promote open markets in defence and security capabilities." However the Ministry of Defence still stresses sovereign capability, and also the need to support SMEs to bid for defence contracts.¹⁷⁷

Value for money

While the Ministry of Defence is building on improved performance in managing procurement, the failure to set out a realistic defence policy in the SDSR will mean that poor procurement decisions will be made. Moreover the Government has not set out a long term financial strategy for the defence budget and the ambitions put forward in the NSS and SDSR have not been put into line with available funding.¹⁷⁸ So despite improvements in the procurement process that have been implemented in recent years,¹⁷⁹ the problem remaining is between decisions over what equipment is necessary and then how to procure it.¹⁸⁰ Better procurement can only go so far in contributing to value for money.

¹⁷⁶ On 26 January 2011 it was announced that Lord Currie of Marylebone would conduct a review of single supplier procurement.

¹⁷⁷ Ministry of Defence (2010), *Equipment, Support and Technology for UK Defence and Security: A Consultation Paper*.

¹⁷⁸ House of Commons Public Accounts Committee (2010), *Managing the defence budget and estate*.

¹⁷⁹ See National Audit Office (2010) *Major Projects Report*: "The improved performance reflects, in part, a number of initiatives to better understand drivers to project performance. Notably, Defence Equipment and Support, the part of the Department charged with buying and supporting defence equipment, has recently started using a project monitoring system called Sentinel. This system uses a number of metrics to quantitatively assess the overall 'health' of selected projects. By providing early warning of emerging issues Sentinel is a potentially important step forward for the Department as it seeks to sustain the emerging trend of improving project performance."

¹⁸⁰ House of Commons Public Accounts Committee (2011), Transcript of uncorrected oral evidence, *Defence procurement*, 1 February. Bernard Gray: "I am responsible for being accountable for the outcome of that ask, in the sense that the Ministry of Defence says, 'We want this laundry list of things bought,' and I then have to go and get them... What do you do under circumstances where they are asking for significantly more than they can afford to pay for? How do you make sure that you being asked for a sensible amount of equipment, when technically you do not control the part of the Department that is asking? If one looks at one issue, that is the biggest single issue the Department has to get right."

5

An air of unreality

In a major speech on 17 January 2011, the Prime Minister said:

“I want one of the great achievements of this Government to be the complete modernisation of our public services”.¹⁸¹

As Tony Blair argued before him, the Prime Minister then went on to argue that the principles of his reforms would be accountability, flexibility and value for money:¹⁸²

“Make public service professionals answer to people, rather than the government machine.”

“We will also liberate the people who work in our public services So we are taking apart the targets, the inspection regimes, the thickets of guidance that smother doctors, nurses, teachers and police officers.”

“We have to be completely focused on getting more for less in our public services.”

David Cameron described this programme as “a complete change in the way our public services are run.”¹⁸³

The right direction

In the Emergency Budget, the Government rightly put deficit reduction at the heart of its programme for Government: “The most urgent task facing this country is to implement an accelerated plan to reduce the deficit.”¹⁸⁴

In the Spending Review, the Government determined that reform of public services would be central to this process: “The Spending Review is underpinned by a radical programme of public service reform, changing the way services are delivered by redistributing power away from central government and enabling sustainable, long term improvements in services.”¹⁸⁵ In the face of sustained opposition from vested interests across the public sector, the Prime Minister has insisted that there will be no backing down: “I have to say to people: if not now, then when? We should not put this off any longer.”¹⁸⁶

181 Cameron, D. (2011), Speech on modern public service, 17 January. “I start this year incredibly optimistic about what our country can achieve. Yes, cuts in spending will be felt – and yes, they will be difficult but they are absolutely vital in restoring the credibility and confidence that will mean jobs and growth in the future. But the scale of this coalition’s ambitions for Britain goes beyond simply fixing our economy. I want one of the great achievements of this Government to be the complete modernisation of our public services. I want us to make our schools and hospitals among the best in the world. To open them up and make them competitive, more local and more transparent. To give more choice to those who use our public services and more freedom to the professionals who deliver them. I don’t want anyone to doubt how important this is to me.”

182 Ibid.

183 Ibid. “Services that are more local, more accountable and more personal where people are the drivers, not passengers which call on every part of society – from churches to charities, businesses to community organisations – to come in and make a difference. It really is a complete change in the way our public services are run. From top-down bureaucracy to bottom-up innovation. From closed markets to open systems. From big government to big society.”

184 HM Government (2010), *Budget 2010*.

185 HM Government (2010), *Spending Review 2010*.

186 Cameron, D. (2011), Speech on modern public service, 17 January.

The Coalition has also set out broadly correct principles for public service reform. The Spending Review described these as:

- > Localising power and funding.
- > Cutting burdens and regulations on frontline staff.
- > Increasing diversity of provision in public services through further use of payment by results, removing barriers to greater independent provision, and supporting communities, citizens and volunteers to play a bigger role in shaping and providing services.
- > Improving the transparency, efficiency and accountability of public services.¹⁸⁷
- > Some of the Government's key reforms fit well with these principles. The introduction of Police and Crime Commissioners, the police workforce pay and conditions review, and the move to payment by results and non-state provision in welfare to work and rehabilitation are correct reforms, implemented in the right way. The Coalition has broken through important barriers including the principle of universality in welfare. It was right to shift undergraduate tuition from being state funded to being largely funded by the individual beneficiary.

Not real reform

However, in many areas of policy, the Prime Minister's ambitions have not been translated into practice by the initial decisions of his Government.

This can be shown in the contrast between policing reform and reform in the other areas. For policing, the Government has got its reforms largely right. It is making police forces *accountable* in the right way, to their local electorates. It is conducting an independent review of the employment of police officers to improve *flexibility*. It is arguing that the police should deliver *value for money* since the test of police success is not police resources, and that there is no simple link between resources and crime.

The picture in the other big spending areas could not be more different.

On accountability, the Government is weakening the accountability of the NHS by dividing it in three: to the new GP consortia, to local government and to the National Commissioning Board. In the end the NHS will remain accountable to the Secretary of State for Health. In education, it is maintaining key aspects of central direction such as the National Curriculum, national teaching standards and Ofsted inspection.

On flexibility, the Government is maintaining central direction over the NHS workforce and making it even harder to carry out service redesign. It is not conducting an independent review of the education workforce. It will not allow parents to choose for-profit schools. It is prioritising certain kinds of public service delivery organisations – mutuals, “social enterprises” and small firms – over others.

On value for money, the Government is ring-fencing current budgets including health, schooling and international aid.

Local government policy represents a potential advance in accountability through the relocation of business rates, which would create a stronger link between local taxation and spending decisions. But this would only be an incremental improvement and is only, at this stage, a potential reform, subject to consultation.

¹⁸⁷ HM Government (2010), *Spending Review 2010*.

Inconsistency

The fundamental problem is one of inconsistency. Roger Douglas explained that consistency builds confidence and then credibility. The Coalition Government's programme is inconsistent between departments and sometimes within them. Key examples include:

- > The Coalition Government will allow providers to make profits from the delivery of NHS services and prisons and policing services but not schooling services.
- > At times the Coalition Government is neutral as to the provider of public services, at other times it favours private sector companies, mutuals, social enterprises or small firms (see below).
- > The Coalition Government argues that reduced budgets do not mean worse services in areas such as policing and local government, yet says that it is "protecting" health, schooling, aid and so on by guaranteeing them spending increases.
- > The Coalition Government has withdrawn the National Curriculum from academies (and sought to increase the number of academies), yet has retained and is revamping the National Curriculum for other children.
- > The Coalition Government claims to support flexible delivery of public services, yet has maintained central oversight of the NHS and schooling workforces.

The contradictions gravely undermine confidence that the Coalition will see through its reform policies. For example, how serious is the Government about increasing the role of the private sector when it thinks that the private sector would be, in some sense, dangerous to the education of school children? How committed is it to deregulation in public services when it supports a National Curriculum and national oversight of the NHS workforce?

This lack of confidence will directly reduce the likelihood of reform because of its impact on investment. Investors are more likely to come into these markets when they see stable policy and consistent signals from Government. They will be put off when policy is turbulent and signals are inconsistent. The Coalition cannot help a certain amount of turbulence given the scale of the reform that is needed. But it can ensure that its messages are clear and consistent. At present they are not, meaning that the wave of new investment that the Government seeks is unlikely to materialise.

In turn the lack of confidence undermines the Government's credibility. The contradictions mean that there is an air of unreality about the whole cuts and reform package.

Inputs-led approach

The most accepted idea in public service reform is to open up delivery so that it is neutral between different providers, whether public, private or charitable. The Coalition has said this many times, and indeed has criticised the previous Government for favouring one sector over another. Yet the Coalition itself has favoured particular sectors throughout its policy programme. The key examples are:

- > Small and medium size firms. The Cabinet Office has set a target that 25 per cent of public sector contracts should be taken by SMEs.
- > Social enterprises. The Secretary of State for Health, Andrew Lansley, has called for the NHS to become "the largest social enterprise in the world".
- > Non-state providers. In the Spending Review, the Government canvassed the idea of guaranteeing a certain level of provision to for-profit and charitable organisations. The Spending Review has given particular interest to mutuals.
- > Public and charitable providers. Only charitable organisations are able to run free schools.

The Coalition is following the policy mistakes of its predecessor – but can it afford to?

A comparison between the previous Government and the Coalition Government reveals that the striking advances are in policing policy and the reduction in “middle class welfare” via the removal in Child Benefit for higher rate taxpayers. Otherwise what stands out is how the Coalition is repeating the policies – largely, the policy mistakes – of its predecessor. In particular:

- > Both have favoured particular public service providers, contrary to the stated principle of choice. The Coalition Government is just as prone to giving central direction over the provision of public services as its predecessor. The previous Government excluded for-profit operators from schooling and, in its last months, the NHS. It took great interest in fostering the third sector and social enterprises. The Coalition Government has also excluded for-profit operators from schooling and excluded other operators from other markets, as noted above. On 10 February 2010, the Deputy Prime Minister attacked the principle of private sector provision.¹⁸⁸
- > Both have taken an inputs-led approach. Both the previous Government and the Coalition Government have argued that extra spending is needed to improve the NHS and schools.
- > Both have refused to undertake Civil Service reform. The Coalition Government have actually strengthened the position of Whitehall, for example by reducing the use of management consultants. Tony Blair and Alan Milburn both came to the realisation that Whitehall reform was essential to support wider public service reform.
- > Both have advocated the greater use of mutuals and social enterprises, with workstreams within the Cabinet Office. This part of the Coalition’s Big Society rhetoric is not a radical innovation.

The difference for the Coalition Government is the public finance environment. The previous Government was able to mask the inefficiency of public services with historic increases in public spending. That option is not open to the Coalition. The pressure on public finances makes its lack of rigorous reform very surprising. The equations are straightforward. Spending reductions plus reform would equal better public services delivered in different ways. Spending reductions without reform would equal worse services, and a discrediting of Ministers’ reform rhetoric at the same time.

Don’t delay reform

None of this is to argue that the opponents of reform are right. The Coalition’s policies have aroused opposition from some of the leaders of organised labour in the public services, some local government leaders and from some higher education students. Their typical argument is that reform should be delayed because of its economic damage, for example higher unemployment. They also argue that reform should not be countenanced because of an ideological objection to anything other than public services paid for by government and provided by government. These arguments are wrong. More efficient public services by definition help the economy since they are a better use of the nation’s resources. Private sector and charitable operators are able to provide high quality public services, as are public sector operators.

But opposition to reform does not mean that the Coalition’s policies are right. Many of these opponents are vested interests who would oppose any change that decreased their budgets or sought to introduce more accountability or flexibility into their services. The opposition to their policies does not absolve the Coalition from reviewing them and seeking to improve them.

¹⁸⁸ Clegg, N. (2011), Speech on the future of the public sector to *The Guardian* Public Services Summit in St Alban’s, 10 February.

6

Recommendations

At one level, the recommendation of this paper is to learn the lessons of history, for as Albert Einstein is said to have remarked “If you always do what you always did, you’ll always get what you always got.” The Coalition Government can learn the lessons of the Blair Government as set out above. This means that the Government should reflect on the true implications of its reform principles, which are right, and on the ways to win the practical battle of implementation. The challenge is not only to do the right things, but to do the right things in the right ways. Above all, that means finding a consistency of policy that would see each reform policy make the case for the others in a mutually enforcing cycle.

At another level, the recommendation of this paper is to review the specific policy announcements that have taken the Coalition in the wrong direction. The analysis in chapter four has identified the key policy announcements made by the Coalition. Several of these are outstanding reforms that move the policy debate forward, from police reform to the outsourcing of rehabilitation and unemployment services, to the reform of public sector pensions, to the abolition of Child Benefit for higher earners. But more are backwards-looking announcements that contradict the principles of reform.

As this paper makes clear, the Government has a long way to go. It must be more consistent in its policies and more comprehensive in the implementation of its reform programme. To achieve a constructive agenda for reform, Ministers and senior officials need to review each of their announcements against the reform principles set out by the Prime Minister in his major speeches. They should aim for gold standard reform in each of these areas. If the Government does nothing else, it should work to four priorities:

Health. Make NHS accountable to patients rather than to GP consortia, local government and the National Commissioning Board.

Work and Pensions. Extend the means-testing of middle class welfare.

Education. Allow free choice of school, whether for-profit, state or charitable.

Cabinet Office. End the doctrine of Ministerial responsibility and introduce clear lines of personal accountability and performance-related incentives for civil servants.

The task for the Government in its forthcoming Public Service Reform White Paper is to set out a revised vision and to build on the brave reforming principles that the Coalition has proposed. Getting the policies and implementation right would indeed represent, in the Prime Minister’s words, a “great achievement”, and a fitting legacy for his Government.

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Appendix

2011 Reform scorecard has been informed by Reform's programme of high level policy seminars, lectures and conferences since the General Election in May 2010. Speakers at Reform events in this period have included:¹⁸⁹

Health

Ministers

Rt Hon Andrew Lansley CBE MP, Secretary of State for Health
Simon Burns MP, Minister of State for Health
Paul Burstow MP, Minister of State for Care Services
Anne Milton MP, Parliamentary Under-Secretary of State for Public Health
Earl Howe, Parliamentary Under-Secretary of State for Quality
Norman Lamb MP, Chief Parliamentary and Political Advisor to the Deputy Prime Minister

Backbenchers

Dr Phillip Lee MP, Member of Parliament for Bracknell
Margot James MP, Member of Parliament for Stourbridge

Opposition

Liz Kendall MP, Shadow Minister for Health
Rt Hon Andy Burnham MP, Former Secretary of State for Health,
Rt Hon Lord Warner of Brockley, Former Health Minister

Civil Service

Christine Connelly, Chief Information Officer, Department of Health
Matthew Swindells, former Chief Information Officer, Department of Health
Sophia Christie, former Chief Executive, Birmingham East and North Primary Care Trust
Ben Dyson CBE, Director of Primary Care, Department of Health
David Behan CBE, Director General of Social Care, Local Government and Care Partnerships,
Department of Health

Independent bodies

Rt Hon Stephen Dorrell MP, Chair, Health Select Committee
Steve Bundred, Chair, Monitor
Dr Peter Carter OBE, Chief Executive and General Secretary, Royal College of Nursing
Cynthia Bower, Chief Executive, Care Quality Commission
Andy McKeon, Managing Director, Health, Audit Commission

Practitioners

Hannah Farrar, Director of Strategy and Commissioning Development, NHS London
Professor Steve Smith, Chief Executive, Imperial College Healthcare NHS Trust
Professor Bernard Crump, Chief Executive Officer, NHS Institute for Innovation and Improvement
Dr Simon Eccles, Medical Director, Connecting for Health

Academia

Dr Nicolaus Henke, Director and Head of Healthcare Practice, McKinsey & Co
Professor Alan Maynard, Professor of Health Policy, University of York
Paul Corrigan CBE, former Special Advisor to Alan Milburn and John Reid
Mark Pearson, Head of Health, OECD

189 NB These events informed Reform's thinking and the views expressed in this report in no way represent the views of the speakers listed here.

Education

Ministers

Nick Gibb MP, Minister of State for Schools

Lord Hill of Oareford CBE, Parliamentary Under-Secretary of State for Schools

Backbenchers

Elizabeth Truss MP, Member of Parliament for South West Norfolk

Opposition

Rt Hon Lord Knight of Weymouth, Former Minister of State for Schools and Learners

Practitioners

Shaun Fenton, Headmaster, Pate's Grammar School

Ros McMullen, Principal, David Young Community Academy

Academia

Professor Dylan Wiliam, Emeritus Professor of Educational Assessment, Institute of Education

Professor John Bangs, Visiting Professor, Institute of Education

Professor Sir John Holman, Former Director, National Science Learning Centre

Professor Francis O'Gorman, Head of English, University of Leeds

Professor Judy Sebba, School of Education and Social Work, University of Sussex

Professor Deborah Eyre, Visiting Senior Research Fellow, University of Oxford

Higher Education

Ministers

Rt Hon Vince Cable MP, Secretary of State for Business, Innovation and Skills

Rt Hon David Willetts MP, Minister of State for Universities and Science

John Hayes MP, Minister of State for Further Education, Skills and Lifelong Learning

Home Office and Justice

Ministers

Rt Hon Nick Herbert MP, Minister of State for Policing and Criminal Justice

Damian Green MP, Minister of State for Immigration

Crispin Blunt MP, Parliamentary Under-Secretary of State for Prisons and Probation

Opposition

Helen Goodman MP, Shadow Minister of State for Justice

Civil Service

Glyn Williams, Head of Immigration, UK Border Agency

Helen Edwards CBE, Director General, Justice Policy Team, Ministry of Justice

Savas Hadjipavlou, Head Partnerships and Health Strategy Unit, Ministry of Justice

Mike Maiden, Chief Executive, Staffordshire and West Midlands Probation Trust

Independent bodies

John Samuels QC, Chair, Prisoners' Education Trust

Kevin Lockyer, Director of Services, Nacro

Practitioners

Sir Hugh Orde OBE QPM, President, Association of Chief Police Officers

Nick Gargan, Chief Executive, National Policing Improvement Agency

Mark Rowley QPM, Chief Constable, Surrey Police

Julie Spence OBE QPM, Chief Constable, Cambridge Constabulary

Cabinet Office

Ministers

Rt Hon Francis Maude MP, Minister of State for the Cabinet Office

Oliver Letwin MP, Minister for Government Policy

Nick Hurd MP, Minister of State for Civil Society

Opposition

John McTernan, former Political Secretary to Tony Blair

Civil Service

Ian Watmore, Chief Executive, Efficiency and Reform Group, Cabinet Office

Dr Martin Read, Member, Efficiency and Reform Group, Cabinet Office

Sir Peter Gershon KBE, Member, Efficiency and Reform Group, Cabinet Office

Sir David Rowlands, former Permanent Secretary, Department for Transport

Independent bodies

Bernard Jenkin MP, Chair, Public Administration Select Committee

Rt Hon Margaret Hodge MBE MP, Chair, Public Accounts Select Committee

Amyas Morse, Comptroller and Auditor General, National Audit Office

John Fingleton, Chief Executive, Office of Fair Trading

International

Colm McCarthy, Chair of Irish Special Group on Public Service Numbers and Expenditure

Programmes and Lecturer in Economics, University College Dublin

The Hon Sir Roger Douglas MP, New Zealand Finance Minister

The Hon Ruth Richardson, New Zealand Minister for Finance

HM Treasury

Ministers

Rt Hon Danny Alexander MP, Chief Secretary to the Treasury

Mark Hoban MP, Financial Secretary to the Treasury

David Gauke MP, Exchequer Secretary to the Treasury

Backbenchers

Matthew Hancock MP, Member for West Suffolk

Ben Gummer MP, Member of Parliament for Ipswich

Opposition

Chris Leslie MP, Shadow Financial Secretary to the Treasury

Independent bodies

Lord Newby, Co-Chair, Liberal Democrat Parliamentary Treasury Committee

Paul Tucker, Deputy Governor – Financial Stability, Bank of England

Hector Sants, Chief Executive, Financial Services Authority

Communities and Local Government

Ministers

Rt Hon Eric Pickles MP, Secretary of State for Communities and Local Government
Andrew Stunnell OBE MP, Parliamentary Under-Secretary of State, Department of Communities and Local Government

Opposition

Rt Hon Caroline Flint MP, Shadow Secretary of State for Communities and Local Government

Local government

Cllr Colin Barrow CBE, Leader, Westminster Council

Independent bodies

Stephen Howard, Chief Executive, Business in the Community

Work and Pensions

Ministers

Rt Hon Iain Duncan Smith MP, Secretary of State for Work and Pensions
Steve Webb MP, Minister of State for Pensions
Rt Hon Chris Grayling MP, Minister of State for Employment
Lord Freud, Minister for Welfare Reform

Backbenchers

Douglas Carswell MP, Member of Parliament for Clacton

Opposition

Rt Hon Yvette Cooper MP, Former Shadow Secretary of State for Work and Pensions
Rt Hon Angela Eagle MP, former Minister of State for Pensions and Ageing Society
Rt Hon Stephen Timms MP, Shadow Financial Secretary to the Treasury and Shadow Minister for Digital Britain

Independent bodies

Sir Stephen Bubb, Chief Executive, ACEVO
Andrew Harrop, Director of Policy and Public Affairs, Age UK
Sally Burton, Chief Executive, Shaw Trust

Academia

Professor Julian Le Grand, Richard Titmuss Professor of Social Policy, London School of Economics

Defence

Ministers

Peter Luff MP, Minister of State for Defence Equipment

Opposition

Rt Hon Lord Hutton, Former Secretary of State for Defence

Independent body

Rt Hon James Arbuthnot MP, Chair, Defence Select Committee

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ISBN number 978-1-905730-34-6