

**‘An Obsession with Delivery’:
Lessons from Public Service Reform in the UK
by
Gary L. Sturgess,
Executive Director, The Serco Institute**

**Menzies Research Centre,
Canberra, Australia
11 September 2006**

Introduction

Within a year, Tony Blair will have gone. The manner of his leaving is still unclear, but as the longest-serving Labour Prime Minister in British history, there is little doubt that he will be judged a political success.

Politics aside, it is a little early to say what will be made of his Premiership, but in so far as public service reform is concerned, I believe that history will look kindly on the Blair years.

To say that is not to say that he has done everything right. It is not to say that he achieved all that he set out to achieve. But he has made significant improvements in a number of key areas, and he has changed forever the way that we in the English-speaking world look at the delivery of public services.

It was for that reason that I suggested to Julian Leeser that I might speak today about what has been happening in public service reform over the past decade.

In doing so, I propose to refer draw heavily on the language that Blair and his closest supporters have used, for two reasons:

- firstly, because it means that you can hear their voices, rather than relying entirely on my interpretation;
- and secondly, because political language matters. Language creates space – political language creates the space within which policy can be implemented.

It is fundamental to understanding what has been happening for these past ten years to understand that Tony Blair sees policy as a ‘work in progress’.

He told a meeting of permanent secretaries in 1998:

What of policy? Our approach is ‘permanent revisionism’, a continual search for better means to meet our goals, based on a clear view of the changes taking place in advanced industrialised societies.

There is a great deal in that brief statement, so let’s unpack it:

(i) Blair says that he has had a clear view of the changes taking place in society – not only in his country, but in ours as well.

(ii) He has held a strong belief that those changes will redefine the way in which the public relates to government (and vice versa).

(iii) Unsurprisingly, he has a firm conviction that the social democratic parties must preside over that re-definition.

(iv) He acknowledges that he has only a vague idea of what public services will look like in the future.

(v) And he is agnostic about means – there would be a continuous search for a new model of public service delivery.

What are the changes taking place in industrialised societies that he regards as so important to public service delivery?

(i) Globalisation – markets, mobility, migration.

(ii) Technological innovation – to use his term, ‘remorseless’ innovation.

(iii) Mass communication and mass culture.

(iv) Rising consumer expectations – perhaps the one that has concerned him most of all.

(v) And finally the speed with which all of these changes are taking place.

These changes are seen as inevitable: the question is not how they might be avoided, but what government must do to adapt.

In June, I attended a conference on public service reform, commissioned by the British Prime Minister, at which a number of front-line public servants pleaded for a moratorium on reform. They asked the Prime Minister to slow down.

It was the perfect opportunity to signal that he was prepared to give them breathing space within which to consolidate these reforms.

He declined to do that. A moratorium was not an option. The world outside is changing, he said, and changing at a faster pace. And it is not going to pause while governments draw breath.

In an era of rapid globalisation, there is no mystery about what works: an open, liberal economy, prepared constantly to change to remain competitive.

When he speaks about the impact of globalisation on the British economy, the Prime Minister is clear that only an open, liberal economy is capable of remaining competitive, capable of ongoing adaptation and innovation.

It means replacing monolithic, ‘one-size-fits-all’ state provision with a far more flexible and adaptable system that encourages innovation.

He takes the same view of government – it must be open, liberal and capable of continuous innovation. Monolithic, ‘one-size-fits-all’ state provision is not capable of adapting to the rapid changes taking place in society.

We have to confront the 20/60/20 society – 20 percent well off; 60 percent reasonably off; 20 percent left behind.

Of course, as a social democratic government, New Labour has laid down some fundamental principles that it regards as non-negotiable: (i) public services must be available to all regardless of postcode; and (ii) core public services must remain free at the point of delivery.

Predictable enough. But what was less predictable was the way in which they have used the principle of universality to drive the public service reform agenda harder.

To the Prime Minister and his followers, evidence of inequality in the provision of core public services is evidence that these services are still in need of fundamental transformation.

The professional classes are 40% more likely to get a heart bypass than those from low socio-economic groups, in spite of having a much lower mortality rate from heart disease.

Hip replacements are 20% less common among lower income groups in spite of 30% higher need.

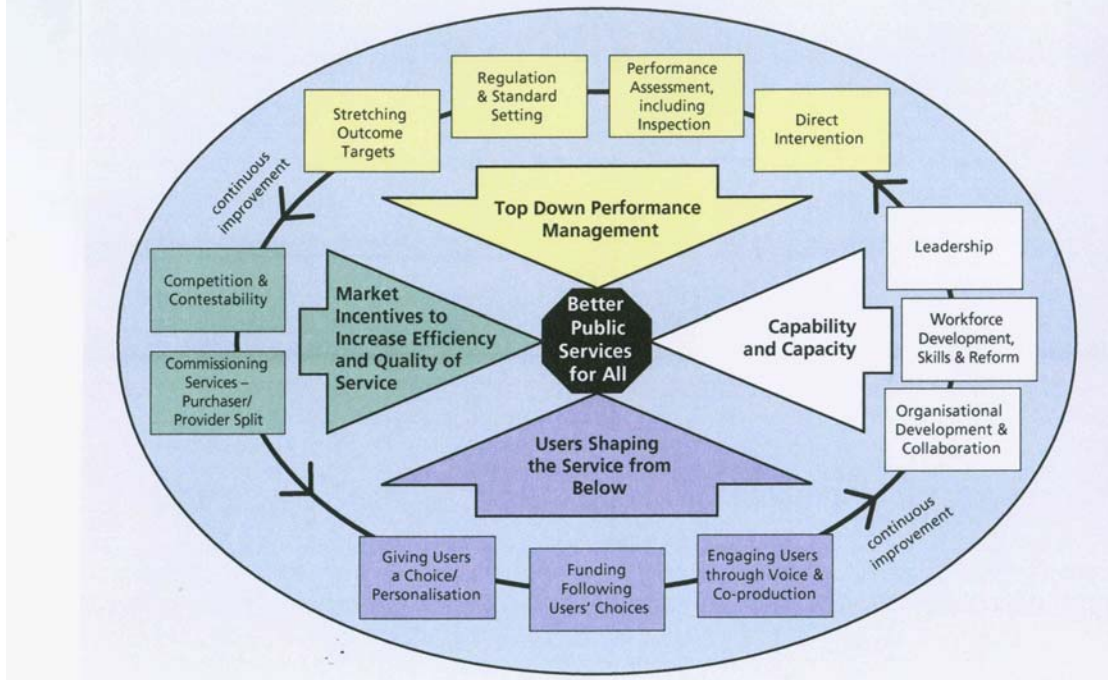
Therefore, the NHS is clearly not working as it was intended to, and must be fundamentally reformed.

One of the frustrations of the Prime Minister’s ‘permanent revisionism’, his pragmatic ‘what-matters-is-what-works’ approach, is that until very recently, there has not been a clearly-articulated framework.

In recent months, however, the government has begun to assemble the various elements of its reform agenda into a coherent model.

Chart A is taken from the government’s recent publication on Public Service Reform.

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



This rather busy diagram is based on an earlier and much simpler version developed by Matthew Taylor, one of the Prime Minister's senior political advisers (Chart B). Let me work with that instead.

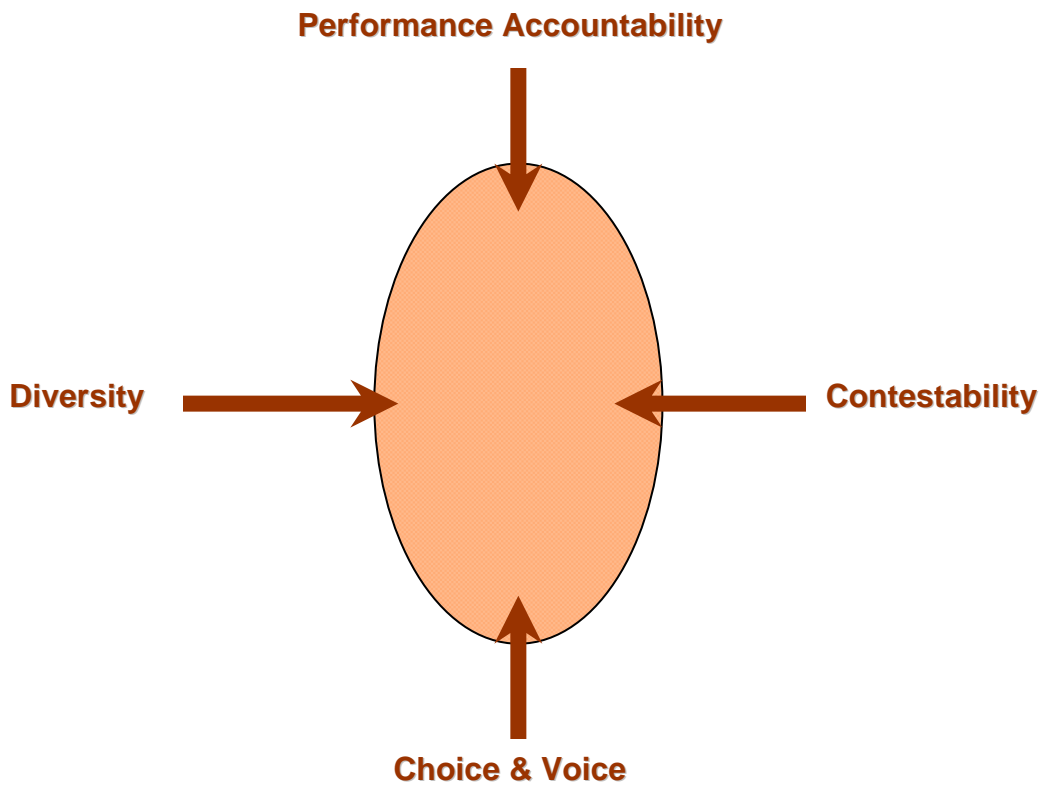
The term that lies at the heart of the current phase of the reform agenda is 'self-improving' or self-sustaining' public services. This is partly an attempt by Tony Blair to ensure that his reform agenda survives him.

But there has also been a realisation on the part of those at the centre of government that they do not have the energy, the resources or the political capital to drive all of these reforms from the top.

There is, of course, a profound inconsistency between self-sustaining reforms and reforms driven from the centre by a system of performance targets.

New Labour understands this, and there is now something of a rebalancing taking place. As a leading Blairite Minister said recently, 'We have reached the high-water mark of centrally imposed targets'.

Chart B: A Model for Self-Improving Public Services



1. Performance Accountability

But it is fair to say that, until very recently, performance accountability has lain the heart of the reform agenda. And at the heart of performance accountability lies a remorseless focus on outcomes.

One of the greatest modern policy experts, Aaron Wildavsky, once said that if policy analysts carried bumper stickers, they should read, 'Payment on Performance'.

It's harder than it sounds. What we normally do in government – even when operating under a performance measurement regime – is pay for good intentions.

Michael Barber, the former head of the Prime Minister's Delivery Unit, expressed it this way: 'It only becomes delivery when it makes a difference.'

Now the concept of performance management isn't new. It goes back to Fred Taylor, the father of 'scientific management', in the 1880s, and we have seen a new performance accountability movement every couple of decades ever since.

They have achieved some good, but as one analyst said of the zero-base budgeting movement of the 1970s:

‘Some butterflies were caught; no elephants stopped’.

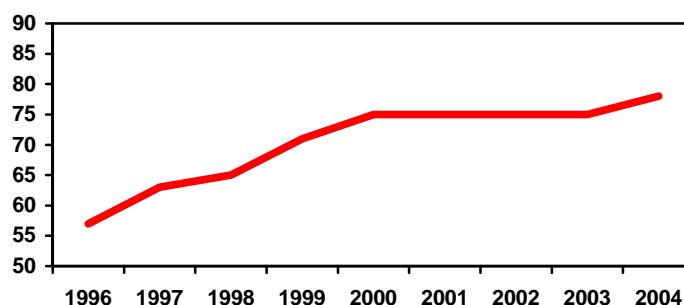
We still face significant challenges with performance budgeting, but this time round, we have had some notable successes – both in North America, where these ideas were pioneered, and in Britain.

In the UK, the greatest success stories have been in primary and secondary education, which appears to be particularly well-suited to performance management.

This is not the place to go into the detail, but Chart C documents the improvements that have taken place at one of the ‘key stages’ in student learning.

You will notice that the improvement begins before Labour was elected in 1997, and that is because the performance management model was first developed under the Conservatives, a fact that the current government readily admits.

Chart C: Percentage of 11-year olds achieving Level 4 or above in English



There are a number of factors that account for its relative success, but broadly, the performance management model consists of three elements: the setting of measurable objectives, the monitoring and reporting of performance, and the application of consequences for success or failure.

(i) Targets: Ministers have been required to work with departments in setting performance objectives couched in terms of outputs or outcomes. These targets are meant to be cascaded down through departments and agencies, with budget allocations tied to outcomes.

(ii) Monitoring and reporting: In most portfolio areas, there is an independent inspection regime, which measures and reports publicly on performance.

The public had grown accustomed to scorecards or ‘League Tables’ on the performance of individual schools and Local Education Authorities. Parents are able to go on-line and find out precisely how well an individual school is performing, both

in terms of student outcomes, and as assessed by Ofsted, the independent 'Office of Standards in Education'.

Labour has taken this principle of measurement and performance much further, extending it to hospital trusts, local authorities, and even policing authorities.

(iii) Consequences: But a performance regime means little if there are not consequences for success or failure. And this can be difficult where services are owned and operated by public sector organisations.

Rewards

The government has attempted to reward high-achieving public sector organisations, by giving them greater managerial autonomy. These include:

- Greater freedom from inspection & monitoring
- Freer access to capital resources
- Authority to vary national agreements on pay & conditions
- Freedom to trade & take over failing institutions

But these are blunt tools and they have met with only limited success.

Penalties are even more difficult to administer, as Alan Milburn, then Health Secretary, acknowledged in 2002: "We have to deal with failure, which we have never managed to do inside a state monopoly." Penalties include:

- Closure, 'fresh start' or 'reconstitution'
- Send in 'hit squads' of proven managers
- 'Take-over' by a successful public service
- Market-testing and full private operation

There has been central intervention in some persistently failing institutions, either through closure and fundamental reconstitution; sending in 'hit squads' of proven managers; take-over by other, successful public service organisations; and, in rare cases, market-testing and contracting out.

How has performance management fared? Well, the results have been mixed.

In education, for example, there have been impressive results. By focusing on key outcomes at key learning stages, providing targeted in-service training to teachers, and replacing senior managers and entire faculties where required, the government has been able to make a discernable impact on student performance.

But in other sectors, such as hospital care, performance management driven from the centre of government has been less successful. In the NHS, the imposition of centrally-driven targets seems to have created perverse incentives and encouraged gaming behaviour to comply with the rules.

What accounts for these mixed results? Target-setting and performance measurement can be politically difficult. Ministers have sometimes been politically embarrassed by the failure of their departments and agencies to meet ambitious targets.

Top-down target-setting seems to be better suited to some functions of government than others. The experience in North America as well as in the UK suggests that schooling is particularly amendable to such an approach.

Even where it does work, there may well be limits to its effectiveness. Performance improvement in the education sector has started to level out and as Michael Barber has argued, it may be that performance accountability can take institutions from 'poor' to 'good,' but a totally different set of incentives are needed to take them from 'good' to 'excellent'.

Performance management is useful where there is a need to focus on making a significant improvement across a handful of key targets. It is less well-suited to continuous reform in an organisation with a large number of complex and inconsistent objectives.

In the beginning, at least, departments had far too many targets. The design of performance regimes were not always ideal, resulting in gaming behaviour. Front line service delivery agents have complained about excessive interference, and the central agencies have run out of the energy needed to drive such reforms from the top.

Performance management has by no means been abandoned, but there is now a recognition that reform must be self-sustaining, that other incentives must be built into the system.

2. Diversity and Contestability

The second element of the framework is the most radical, and not just for a social democratic government – the creation of a mixed economy in public services. As Prime Minister Blair suggested in 2004, “Long gone are rigid demarcations between public, private and voluntary sectors, at least in the public’s mind.”

Creating a mixed economy in public services consists of three elements: (i) separating the demand side and the supply side of the public service economy – what a recent policy paper calls ‘commissioning’; (ii) diversity – replacing the monopolistic structure that has long characterised the supply side, with a diverse range of providers from the public, private and voluntary sectors; and (iii) competitive sourcing (or contestability) – competition for the right to manage defined public services as a monopoly.

Needless to say, this has been a controversial subject within the Labour Party, but based on the opinion polls, the Prime Minister has taken the view that, as far as the general public are concerned, the rigid distinctions between public, private and voluntary sectors are rapidly disappearing. What matters is what works.

I don’t believe that Australians generally appreciate just how far the reform of the public service economy in the UK has gone. Let me give just a few examples:

- A contract for the management of the Atomic Weapons Establishment has been awarded to a private consortium for 25 years.

- The registration and tracking of fissionable material within the UK has been contracted to a private firm.
- The military's new air tanker fleet is being acquired and managed under a PPP contract, with the crew trained as 'sponsored reserves' who can be switched to military control in case of war.
- The management of the Criminal Records Bureau – which coordinates background checks on people who work with children – was contracted to the private sector.
- Private firms have been contracted to design, build, own and operate police custody-suites, including the transportation of offenders from the crime scene to the lock-up.
- The left-wing mayor of Greater London contracted out the management of the city's congestion charging scheme.
- Private companies are managing entire Local Education Authorities – roughly the equivalent of a region within the state education systems in this country.
- A new offender manager scheme is being introduced, which will case-manage offenders from the time they are sentenced until probation is completed. The private and voluntary sectors have been invited to participate in this scheme.
- A welfare-to-work market is being created (in imitation of Australia's pioneering scheme), with private companies and voluntary providers coaxed into the job placement market.
- Some local authorities have talked seriously about becoming enabling authorities, contracting out the actual delivery of *all* services.

Lest there be any misunderstanding, this is not just competitive tendering and contracting. This is nothing less than the creation of a public service economy.

(i) *Commissioning* lays the foundations. What was once a monopoly provider, setting its own standards and regulating itself, is broken into demand and supply functions. In many cases, independent inspection or regulatory agencies are established.

This need not involve competition from the private sector (although in the UK model, typically it will). Separation of supply and demand, enables government to pay more attention to the ultimate objectives of public service delivery, and to negotiate appropriate performance measures.

There will be greater freedom to experiment with the scale and scope of production units. And commissioners will have greater flexibility to build cross-departmental partnerships to deliver core objectives.

Where the private and voluntary sectors are to be engaged on the supply side, then commissioning also involves ensuring that there is a level playing field between the three sectors. The Department of Work and Pensions is presently conducting a competitive neutrality review, as part of its work in creating a welfare-to-work market.

(ii) *Diversity*: The second element in the creation of a viable public service economy lies in building a diverse supply market.

The UK government has an active programme to assist voluntary providers and social enterprises to enter this market, including management training and financial assistance. They have passed legislation to facilitate the creation of new forms of independent provision, such as community interest companies.

And with the commercial freedoms being granted to successful public service organisations, we are seeing the emergence of more flexible public or quasi-public entities – foundation hospital trusts, trusts schools, probation trusts and local trading enterprises.

Diversity brings a number of different benefits to the public economy:

Choice: Different people and different communities have different needs. Diversity matters, because it increases the effective choice available to the consumers of public services, at both the individual and collective level.

Adaptability: Institutional diversity is good for the same reason that biological diversity is good. It means that public services as a whole are more flexible. They are better able to adapt to changing circumstances.

Innovation: Different kinds of service providers, with different backgrounds, bring different perspectives to the challenge of delivering better and more cost-effective public services. They are inclined to see the problem in different ways.

Recombination: Diversity also allows for discovery through the mixing and matching of institutional forms – public-private partnerships, public-voluntary joint ventures and private-voluntary hybrids. Diversity and contestability brings with it the possibility of splicing together strings from different institutions to generate entirely new solutions.

(iii) *Contestability:* Finally, there is the actual process of competitive sourcing (to borrow a North American phrase). In fact, the term that has been popularly used by the UK government is ‘contestability’, an economic term that refers to the mere threat of competition.

(Economists realised some years ago, that you don’t need actual competition to make monopolists act competitively – it is enough to expose them to a credible threat of competition.)

For a long time, it was unclear whether politicians and public officials actually meant ‘competition’ when they were using this term, or whether they really did mean threatened competition.

In some cases, ministers are seeking to create a diverse economy, with a variety of new providers delivering public services that used to be provided exclusively by the state.

But it is now clear that in certain sectors, they mean to invoke the threat of competition to incentivise agencies being ‘performance tested’. And only then, when they have proven themselves incapable of self-improvement, will actual competition

be employed. Indeed, at that stage, it is likely that services will be contracted out, without internal competition.

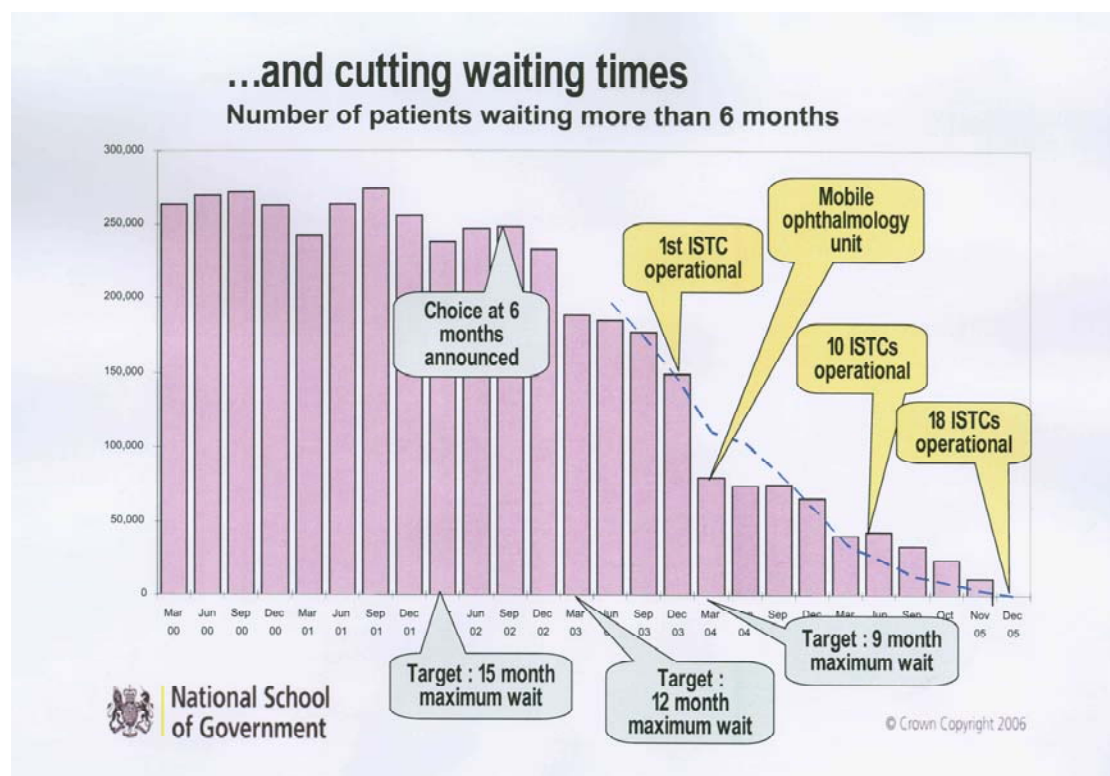
There is some recent evidence which demonstrates the impact that contestability can have on performance. Chart D has been used by the Health Secretary, Patricia Hewitt, in recent presentations. It shows that performance targets had a relatively limited impact on NHS waiting lists.

However, the announcement that the government proposed to introduce privately-managed 'Independent Sector Treatment Centres' (ISTC) into the provision of elective surgery caused waiting lists to crash.

Moreover, there is clear evidence that it was the *threat* of competition, and not the introduction of additional capacity, that made the difference. In Newcastle, waiting lists crashed shortly after an ISTC was announced, with the result that the additional capacity was never required.

It appears that surgeons and hospital administrators changed their behaviour once a credible threat of competition emerged.

Chart D: Patricia Hewitt's Chart on the Impact of Contestability



3. Choice and Voice

The third element is concerned with placing greater emphasis on the end-users of public service – choice, voice and personalisation.

While there has been some experimentation with ‘voice’, particularly in the use of information and communications technology, it must be said that there have been no evident breakthroughs in this respect.

Of much greater interest in New Labour’s unequivocal commitment to ‘choice’ and where that is not possible, to treating the users of public services as though they are government’s customers. Tony Blair believes that “The public want the consumer power of the private sector, but the values of the public sector.”

This arises directly out of his deeply-held belief that the public’s relationship with government is undergoing a fundamental change.

In his view, ‘the state must provide the same level of customer service as the public have come to expect in every other aspect of their lives’.

New Labour takes the view that this shift in behaviour need not compromise its fundamental commitment to universal provision.

The Prime Minister argues that the right to demand the best and refuse the worst (in public services) is the right of every citizen by virtue of their membership in society and should not be confined to the wealthy.

The Secretary of State for Work and Pensions, John Hutton, argues that that public want uniformly high standards; they just don’t want uniformity.

And in Scotland, the First Minister, Jack McConnell is using the phrase: ‘Fair to all, personal to each’.

Much greater individual choice is being introduced in education, health and housing. In the health sector, for example, most patients now have a choice of four or more providers when referred to elective care at a hospital. From 2008, they will be able to choose from any healthcare provider, including those from the independent sector.

When collective decision-making is more appropriate, then the government is also seeking to broaden the range of choice. And when choice is limited, then there is a drive to personalise public services.

The sceptics have argued that the public doesn’t really want all this choice – what they really want is the quality that tends to come with greater choice.

The research suggests that the sceptics are wrong – choice is important to people because it increases the sense of control over their lives.

- More than two-thirds of people say choice in public services is important to them.
- 80% believe that public services need to start treating users as customer.
- 74% believe that choice of hospital will push up standards for everyone.
- 50% say patients need more control over their treatment.
- Only 37% say the NHS needs more money.

And contrary to what many had expected, choice is more important for the disadvantaged than it is for the well-to-do.

- The strongest support for choice came from lower socio-economic groups, women & the north.
- Choice is regarded as being more important for the disadvantaged.
- There was no enthusiasm about paying more for choice through higher taxes.

The public places as much, if not more importance on the soft side of public services – how they are treated from the moment they first encounter the system, and not just the final outcome.

‘Ask me, Involve me, Value me’ was how one recent piece of research summed up the public’s views on this subject.

Conclusion

I made the observation at the outset that I believe that Tony Blair will change forever the way that we in the English-speaking world look at the delivery of public services.

What do I mean by that? We here in Australia have already been influenced by this new public service agenda.

Over the past four or five years, state governments have embraced public-private partnerships, heavily influenced by the British model.

And there is evidence of a greater willingness to use performance management to drive through the reform of public services.

But I believe that a much more fundamental shift in mindset will take place in the years ahead.

- A ‘delivery’ model of public services will replace the traditional policy model.
- Government will increasingly pay for results rather than just for good intentions.
- Public services will be recognised as one of the most important – and most neglected – sectors in the economy.
- Governments will replace the industrial monoliths that have characterised this sector for the past century with a vibrant public service economy.
- Much greater emphasis on how public services are commissioned, with politicians and public servants taking the side of the consumer in demanding higher standards of provision.
- New forms of public service provision will emerge that we cannot yet imagine – public service companies, social enterprises, quasi-public enterprises and public-private-voluntary sector hybrids.
- And government will become increasingly customer-centric. The consumers of public services will demand that services are organised around them, rather than being structured so that they make sense to politicians and public officials.

While he has not been alone in shaping this new model of government, there is little doubt that history will recognise the seminal role played by Tony Blair in giving shape to this new public service economy.

It is still unclear quite when he will exit the political stage, but this much is clear: until that time, the reform of public services will not slow down.

This time last year, when Prime Minister Blair was under pressure to make way for his successor, he was defiant in declaring the continuing importance of public service transformation:

‘Every time I’ve introduced a reform in government, I wish in retrospect I had gone further.’