

The front line

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Contents

Executive summary	5
1 Reform government, reform the workforce	7
2 Disobedient servants	17
3 Governance reform and fiscal discipline	20
4 Good management despite the system, not because of it	25
5 The right plan	33
References	37
Appendix 1: How much needs to be cut from the cost of the workforce?	41
Appendix 2: Transcript of “Implementing change”	43

Executive summary

The Prime Minister and the Leader of the Opposition have said that they will cut public spending and protect front line services. They are wrong for two reasons. The basic cost of front line services means that the deficit cannot be sufficiently reduced without tackling the front line. Research for this paper indicates that the public sector workforce needs to reduce by at least One million people (15 per cent of the total) if the structural deficit is to be eliminated, over a period of years. Jobs will fall by the greatest amount in the services that have seen greatest increase, such as the NHS. The rates of natural wastage are so high that relatively few redundancies will be needed, although some will be.

Contrary to popular perception, the great majority of the public sector workforce are front line workers. Of the 1.4 million people working in the NHS, for example, only just over 200,000 provide administrative support. Since 1999, the central civil service has grown by 5 per cent compared to a 30 per cent rise in the NHS headcount.

More importantly, if public services are to improve radically, as all Parties want, then the front line needs to change radically too. Measures such as sickness absence and staff morale show that the public sector workforce performs significantly worse than the private sector. “Performance management” has meant answering to central targets rather than the real management task of achieving an outcome within a budget. Financial management is extremely weak. The root cause is a lack of accountability, whether to the users of services, to local electorates or (for senior civil servants) to Ministers. Tackling the deficit means changing the public sector fundamentally, from unmanaged, bureaucratic, monopolistic and secretive, to managed, accountable, competitive (where possible) and transparent.

Both Government and Opposition have rightly called for radical reform of public services that makes them accountable to their users. But with the exception of policing, both have fought shy of the actual policies that would deliver it. Both have pledged to hedge around reform of education and in particular health with limits and constraints. Opposition to change in the health service is especially misguided since it is the biggest budget of all and the service most in need of change.

It has to be different this time. The next government will have to achieve the radical reform which has eluded every other post-War government. A key lesson is that governments must seize the day and begin reform on day one when their political capital and mandate are at their highest. The challenge is so great that the next government should focus on the following key priorities in its first year:

- > **Harnessing a united Cabinet to the task.** Only a united Cabinet can take through the programme of change across Government that is needed. An unequivocal demand for more for less from Ministers will support public sector managers who want to do the right thing. That means an end to spending commitments and opposition to reform, such as pledges to protect the NHS from change or make the NHS the preferred provider of care.
- > **Transforming the accountability of public sector workers.** For senior civil servants, this means putting appointments in the hands of Ministers. For all public sector workers, it means an end to the culture of a job for life through transparent fixed term contracts and the end of generalised recruitment, such as the civil service faststream. It means greater transparency over salaries, contracts and performance for every public sector worker and an end to the civil service monopoly of advice to Ministers. And it means removing barriers to competition and private sector delivery. The Bernard Gray review of the Ministry of Defence is a fantastic example of how independent advice can help Ministers understand the costs of departments and how to reduce them. Ministers need to repeat that for every department.
- > **Reforming the NHS.** The NHS is the largest budget (£110 billion per year). Allowing costs to rise in the NHS defeats the purpose of making savings elsewhere. Good NHS managers are ready to reduce costs and improve access by shifting resources from expensive hospitals into more convenient local settings, but face political opposition. The NHS needs to be fundamentally depoliticised by giving people freedom to choose where their share of the NHS budget is spent, in practice by giving them choice of Primary Care Trusts.

Good public sector managers are ready to achieve more for less. They take for granted that costs can be reduced by 20 per cent without reducing quality of service, by redesigning the front line. But they need political leadership to explain to the electorate the consequences of greater efficiency in the public sector, and to allow managers to manage. Ministers and their Shadows are not yet making that case for change. They still confuse the performance of services with their inputs, such as the size of the workforce.

In fact, reform will be positive for the public sector workforce. The current model traps public sector workers in low productivity employment. Reforming the front line will increase productivity and allow sustainable higher wages in the long term.

1

Reform government, reform the workforce

The scale of the deficit in the public finances is the clearest possible evidence of the need to reform government. The government will need to borrow at least £175 billion this year alone – the highest level of borrowing since the Second World War.

A credible plan

There is now a political consensus that tackling the deficit is critical for the economic recovery and long-term growth, and that most (if not all) of the fiscal tightening must come from public spending cuts, not tax rises. The Government has announced it will reduce the deficit by half by 2014, with a fiscal responsibility bill to enshrine this commitment into law.¹ David Cameron has announced that his Party would hold an “emergency growth budget” within the first 50 days of a Conservative Government which would include a plan to bring down the deficit.² Vince Cable has set out the Liberal Democrats’ proposals for a fiscal tightening of around 8 per cent of GDP over 5 years to tackle the structural deficit.³

In a Treasury Select Committee hearing in June 2009, Mervyn King issued caution over the timing of the fiscal tightening.⁴ However, the Governor of the Bank of England was adamant that a clear plan to show how the deficit will be reduced during the next Parliament is imperative for the health of the economy.⁵ This is the Chancellor’s challenge in the Pre-Budget Report. In his last chance to set out his fiscal plans to the electorate, Alistair Darling should reveal a detailed, long-term plan for reducing the public deficit. Central to this should be what no politician has yet dared say – that the real plan means tackling the public sector workforce, front line included.

A lack of public control

Controlling the machinery of state is a challenge that any incoming government will face. Overseas experience has shown that democratically elected governments may find their efforts to implement their electoral mandate resisted or held back by unelected government employees.⁶ *Reform*’s research has shown that a new government will find that the levers it can influence exert little control over the government machine.⁷

Sidelining democratically elected representatives in this way is not only undemocratic but leads to poorly performing public services. Too often jobs in government are viewed by those who hold them as a right and change is largely motivated by the interests of providers and not the people who need and rely on government services (members of the public).

This creates an environment where public services are provided on a take what you are given basis, where productivity in public services is lower than in the private sector, where managers are not incentivised to improve performance and where workers do not feel personally accountable for their performance.

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- 1 State Opening of Parliament 2009-10, *Queen’s Speech*, 18 November 2009. Full transcript available at www.number10.gov.uk.
 - 2 Cameron, D. (2009), “Tackling the deficit is not an alternative to economic growth”, Speech to the Confederation of British Industry, 23 November.
 - 3 Cable, V. (2009), *Tackling the fiscal crisis: A recovery plan*, *Reform*.
 - 4 Others have supported this view on the timing issue. See for example, Dominique Strauss-Kahn, Managing Director of the IMF: “We recommend erring on the side of caution, as exiting too early is costlier than exiting too late”, speech in London, 23 November 2009; Larry Elliott, Economics Editor, *The Guardian*: “The alternative to state spending would be weaker overall demand and an even more painful recession”, Elliott, L. (2009), “A deficit of patience”, 25 November. Many others, including *Reform*, support the opposite view. See, for example, Jean-Claude Trichet, President of the European Central Bank: “There is an increasingly pressing need for ambitious and realistic fiscal exit strategies and for fiscal consolidation”, speech in Spain, 23 November 2009; Bassett, D. et al (2009), *Back to black*, *Reform*; Bassett, D. et al (2008), *The hole we are in*, *Reform*.
 - 5 House of Commons (2009), *Bank of England May 2009 Inflation Report: Oral evidence taken on 24 June 2009*, Treasury Select Committee. Mervyn King: “I think the Chancellor will no doubt want to say more when he comes to present his Pre-Budget Report which will spell out what the exit strategy for fiscal policy is. One of the points that does not attract sufficient attention in the public debate is that the speed at which the fiscal stimulus should be withdrawn has to depend on the state of economy. There is no point presenting a profile for the reduction of deficits that is independent of the state of the economy, it has to depend on the state of the economy. That is not easy to get across, but I think it is a very important part of the debate. Having said that, I think that we are confronted with a situation in which the state of the deficit is truly extraordinary, 12.5 per cent of GDP is not something that anybody would have anticipated even a year or two ago, and this reflects the scale of the global downturn. It also reflects the fact that we came into this crisis with fiscal policy along a path that was not itself sustainable and a correction was needed. There will certainly need to be a plan for the lifetime of the next Parliament, contingent upon the state of the economy, to show how those deficits will be brought down if the economy recovers to reach levels of deficits below those that were shown in the Budget figures.”
 - 6 Schick, A. (1996), *The Spirit of Reform: Managing the New Zealand State Sector in a Time of Change*, State Services Commission and the Treasury, Wellington; Scott, G. (2001), *Public Management in New Zealand: Lessons and Challenges*, New Zealand Business Roundtable, Wellington.
 - 7 Haldenby, A. et al (2009), *Fit for purpose*, *Reform*.

Growth in spending outpacing growth in services

Spending in the public sector is a key factor in explaining the scale of the public finance deficit. The public finances have been on a spending escalator which has only been going upwards. But the benefits from spending have not increased with the growth in spending. Much of the sharp rise in public spending over the last decade has gone on higher salaries and bonuses for public sector workers, rather than increases in the output of services such as healthcare and education.⁸

Data from the Office for National Statistics shows a sharp difference in productivity growth between the public and the private sectors in the last decade.⁹ Between 1997 and 2007 public service productivity fell by 3.4 per cent, equivalent to an annual average fall of 0.3 per cent. During this time the unit cost of public service output grew by 13.7 per cent more than the unit costs for the whole economy.¹⁰ In the same period, productivity in the private sector grew by an average of 2.3 per cent a year, while productivity for the whole economy grew by an annual average of 1.9 per cent.¹¹ It is estimated that this declining productivity in the public sector could be costing taxpayers £58 billion a year.¹²

Table 1: Annual growth in productivity in the UK

Sources: Phelps, M. (2009), *Total Public Service Output and Productivity*, UK Centre for the Measurement of Government Activity, Office for National Statistics; Office for National Statistics (2009), *Statistical Bulletin: Productivity Q2 2009*; Office for National Statistics (2009), *Output per worker: whole economy: percentage change per annum, seasonally adjusted*, UK, Time Series Data.

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	Average annual growth 1998-2007
Public sector	0.2	-0.7	-0.9	0.4	-1.2	-1.4	-0.3	-0.6	0.6	0.6	-0.3
Private sector	3.4	2.6	3.3	1.7	1.2	2.1	2.8	1.6	2.2	2.4	2.3
Whole economy	2.7	2.2	2.7	1.4	1	1.9	1.8	1.3	2.1	1.9	1.9

Note: Public sector productivity is measured as quantity of output divided by quantity of input, while private sector and whole economy productivity are measured as output per worker. Market sector productivity is used as an estimate for private sector productivity. This measure includes almost all market activity and excludes most non-market activity, in particular that of general government. It includes the output of public corporations (for example, British Nuclear Fuels).

These figures cannot be relied upon exclusively in comparing productivity in the public and private sectors given the differences in the way the government measures the two and the difficulties in measuring quality (rather than just quantity) of outputs in the public sector, although this is now attempted for some services.¹³ Further evidence that productivity is lower in the public sector is included in the proceeding chapters of this paper.

8 Phelps, M. (2009), *Changing Costs of Public Services*, UK Centre for the Measurement of Government Activity, Office for National Statistics.

9 Phelps, M. (2009), *Total Public Service Output and Productivity*, UK Centre for the Measurement of Government Activity, Office for National Statistics (revised version published on 14 August).

10 Ibid.

11 See table above for sources for private sector and whole economy productivity.

12 McWilliams, D. (2009), *The UK's public sector productivity shortfall is costing taxpayers £58.4 billion a year – in other words, not far short of half our income tax is paying for public sector inefficiency*, Centre for Economics and Business Research. This estimate is based on the saving if costs in the public sector had risen in line with costs in the private sector over this period.

13 The Office for National Statistics has been developing its measurement of public sector productivity following the 2005 Atkinson Review. For healthcare and education services, which account for half of all spending on public services, the estimates now include an adjustment for quality (although the quality adjustments are not necessarily comprehensive). The remaining services are currently measured using the "output=inputs" convention. That is, the output is deemed to be equal to the volume of the inputs used in generating the output. Absence of quality adjustment can distort productivity measures, for example, by leading to measured output falling if high cost activities are replaced by lower cost activities with improved or equivalent quality (or rising if the converse is true).

The myth that all will be revealed

The expectation that a new government will be able to open the books on day one and all will be revealed is a myth. The Opposition's claim that the Government is denying them access to detailed spending information which would allow them to set out their cuts plan is naive.¹⁴ The Government is not withholding information – it cannot find it itself amongst the cobwebs of departmental budgets. *Reform's* research has shown that departments themselves do not know exactly where all their money is spent.

The Department for Communities and Local Government has spread to labyrinthine proportions, with a large chunk of its £38 billion budget being spread among a plethora of non-governmental bodies, executive agencies, charities and programmes.¹⁵ Trying to decipher from the 260 odd pages of CLG's annual report where exactly it spends all of its money is near impossible. Officials at the Home Office have told *Reform* that no one in that department can give a detailed account of where the estimated £11 billion of taxpayer's money spent on the police goes.¹⁶ In health, *Reform* reported in 2008, "the realistic situation is that the [national health] service is spending £100 billion per year but it does not know what it is spending the money on nor how any particular sum of money has contributed to gains in waiting times."¹⁷ Opposition parties must be under no illusion that complete and detailed spending information exists.

The expanding public payroll

The public sector accounts for around a fifth of total employment in the UK¹⁸, with 6.04 million workers employed by the government.¹⁹ After dropping in the late 1980s and early 1990s, public sector employment has been rising every year since 1999.²⁰ This trend has continued during the recession. In the second quarter of 2009 employment in the private sector decreased by 230,000 (1.0 per cent), while employment in the public sector increased by 13,000 (0.2 per cent).²¹ Certain sectors have, however, already frozen workforce numbers or started reducing headcount in response to the constrained fiscal and economic position, including local government and some parts of the NHS (see sections below).

Table 2: UK public sector employment by industry (headcount, seasonally adjusted)²²

Source: Office for National Statistics (2009), *Statistical Bulletin: Public sector employment Q2 2009*.

	1999	2004	2008	2009	Growth 1999-2009, percentage
NHS	1,212,000	1,475,000	1,519,000	1,580,000	30
Education	1,151,000	1,337,000	1,403,000	1,418,000	23
Police	227,000	264,000	286,000	294,000	30
Civil service	503,000	568,000	521,000	526,000	5
Local government	2,722,000	2,874,000	2,910,000	2,903,000	7
Total public sector headcount	5,190,000	5,745,000	5,750,000	6,039,000	16

The expanding public sector payroll means that in each of the major public services well over half of the costs of services are taken up by workforce costs.

14 See, for example, Robinson, N. (2009), "What would Tories cut?", *BBC Newslog*, 30 June. George Osborne: "Gordon Brown is denying to the opposition the information on individual spending items in the government Budget that would help us plan for government, help us plan for dealing with the debt crisis."

15 Bassett, D. et al (2009), *Back to black, Reform*.

16 For further see Bassett, D. et al (2009), *A new force, Reform*.

17 Bosanquet, N. et al (2008), *NHS reform: National mantra, not local reality, Reform*.

18 Office for National Statistics (2009), *Statistical Bulletin: Public sector employment Q2 2009*.

19 Ibid.

20 Ibid.

21 Ibid.

22 The total public sector headcount figure as shown in this table is not the sum of the rows above. Local government headcount overlaps with education and police numbers as school staff (with the exception of city academy staff) and police forces and their civilian staff are employed by local authorities. Civil servants are also employed by various departments so some will be included in the NHS, education and police numbers. Other categories, such as other health and social workers, have not been shown in this table.

Table 3: Public sector labour costs as a proportion of total costs

Sources: Healthcare and education: Phelps, M. (2009), *Changing Costs of Public Services*, UK Centre for the Measurement of Government Activity, Office for National Statistics; Police: UK Centre for the Measurement of Government Activity (2009), *Public Service Output, Input and Productivity: Measuring Police Inputs*, Office for National Statistics.

Service	1997	2002	2007	Average annual growth 1997-2007
Healthcare	51.6	53.0	53.6	5.6
Education	69.6	70.2	68.3	5.5
Police	-	74.6 ²³	75.8	-

Note: Earlier data for police costs is not available.

Although similar data is not available for the civil service as costs are spread across departments, it can be estimated that the proportion of costs associated with labour will also be at least 50 per cent. After peaking in 1977, a third of the civil service workforce was steadily shed under the Conservative governments of the next twenty years.²⁴ The number has since been creeping back up. The number of senior civil servants has grown at a particularly fast rate, rising by over a third since 2000.²⁵ While the growth in total headcount has not been that fast, the wage bill for civil servants has gone up at a faster rate – the average wage of a civil servant has risen by a third in real terms in the last ten years.²⁶

Reform the front line

However, reform should not only target the civil service but must also include change to the front line of service provision. Some commentators confuse the outcomes of services (the benefits to the community from them) with the number of front line workers. This is wrong as much of the poor use of budgets lies in the front line. Services will only become much more efficient when their staff are employed, and their buildings are used, in different ways.

The front line of any more efficient system is going to look very different and pledges to protect the front line will simply embed poor performance and compound current problems. Changes to the front line of services can be disruptive for workers and communities, so well managed change management and prior planning (for example, the possible development of living wills for assets like schools and hospitals) are an essential part of the process of change.

The NHS

The NHS is the last practitioner of national manpower planning on a gigantic scale. It has seen the biggest rise in staff numbers in the last decade of all public services, with headcount growing by nearly a third between 1999 and 2009. More than half of all health costs are now spent on staff, with labour costs in healthcare rising faster than those in the whole economy over the last decade, particularly since 2003. This increase in workforce was partly driven by Government targets for increasing numbers, but the growth in headcount has far exceeded the targets. For example, the NHS Plan target for increasing nursing numbers by 20,000 between 1999 and 2004 was exceeded by some 340 per cent as the number of nurses grew by more than 67,000 during this period.²⁷ This has been a direct consequence of the increase in NHS spending.

²³ This figure is for 2003.

²⁴ Office for National Statistics (1998), *Civil Service Statistics 1998*; "Civil service employment since 1902", accessed at www.civilservice.gov.uk, November 2009.

²⁵ Cabinet Office (2008), *Government evidence to the Senior Salaries Review Body on the Pay of the Senior Civil Service*. There are now 4,212 senior civil servants up from 3,100 in 2000.

²⁶ Office for National Statistics (1998-2008), *Civil Service Statistics*. The average median wage of full time civil service employees has increased by 45 per cent since 1998, not controlling for inflation. If the increase in earnings is adjusted for an assumed 2.8 per cent average annual increase in inflation, real wages have increased by 32 per cent.

²⁷ House of Commons Health Select Committee (2007), *Workforce Planning*.

Table 4: NHS headcount, EnglandSource: The Information Centre for health and social care (2009), *NHS Staff 1998 – 2008 Overview*.

	1998	2008	Growth, headcount	Growth, percentage
Doctors	91,837	133,662	41,825	46
Nurses	323,457	408,160	84,703	26
Scientific, therapeutic & technical staff	99,656	142,558	42,902	43
Ambulance staff	14,781	17,451	2,670	18
Clinical support	289,363	355,010	65,647	23
Infrastructure support	168,448	219,064	50,616	30
Other GP practice staff	82,081	92,436	10,355	13
Other	1,939	353	-1,586	-82
Total	1,071,562	1,368,693	297,131	28

Note: The total numbers in this table are for England only and are therefore lower than those in table 2 which also include Scotland, Wales and Northern Ireland.

Pay rises have also driven up the NHS wage bill. The King's Fund has shown that pay in the NHS outstripped pay in the whole economy by around 15 per cent between 2002 and 2007.²⁸ As *Reform* has previously documented, higher paid members of staff – i.e. registrars, consultants, GPs and managers – have done especially well from pay rises.²⁹ This has had a particularly big impact on total costs as the growth in the number of doctors has been almost twice that of the rise in lower paid employees, such as nurses and support staff.³⁰

Since 2005, the growth in NHS staff has slowed down and even started contracting in some areas.³¹ As a result of the time lags for investment, much of the new equipment and staffing in the NHS is only coming into full use as the funding increase slows down or stops. The full effects of the recent increase in inputs, particularly of doctors, have yet to come through. Between 1997-98 and 2006-07 there was a 71 per cent increase in medical school places.³² Intake to English medical schools increased by two thirds from 3,749 in 1997-98 to 6,194 in 2006-07.³³ Thus the NHS is double banking. It did not wait for the expansion of training to recruit more staff — so now for the next twenty years it will have two streams moving up in career grades. The net effect will be to increase the number of senior doctors relative to junior doctors.

Police

Following closely behind healthcare, the police has also seen an overall increase of in headcount of nearly 30 per cent in the last decade. The number of police officers has grown by 12 per cent since 1999 and the number of civilian police staff has risen by 46 per cent.³⁴ There are now over 16,000 Police Community Support Officers. This expanding workforce has absorbed the bulk of the £4.5 billion (a 43 per cent) real increase in central police funding in the last ten years.³⁵ More than three quarters of the total policing budget is spent on staff costs. The 2008 government commissioned review by Sir Ronnie Flanagan found this proportion to be even higher and as such warned that “maintaining police numbers at their current level is not sustainable”.³⁶

28 Wanless, D. (2002), *Securing Our Future Health, Taking a Long-Term View*, HM Treasury; Wanless, D. et al (2007), *Our Future Health Secured? A Review of NHS Funding and Performance*, King's Fund.

29 Bassett, D. et al (2009), *Back to black, Reform*. For example, the latest consultant contract has increased annual earnings by £17,500 to £119,400.

30 The Information Centre for health and social care (2009), *NHS Staff 1998 – 2008 Overview*. The number of doctors rose by 46 per cent between 1998 and 2008, while the number of nurses grew by 26 per cent and support staff by 25 per cent.

31 House of Commons Health Select Committee (2007), *Workforce Planning*.

32 Higher education funding council for England (2008), *Healthcare, medical and dental education and research: Numbers of medical and dental students*.

33 Ibid.

34 Home Office (2009), *Statistical Bulletin 13/09: Police Service Strength England and Wales, 31 March 2009*.

35 Giangrande, R. et al (2008), *The lawful society, Reform*.

36 Flanagan, R. (2008), *The Review of Policing, Final Report*.

Table 5: Police workforce, England and Wales, full-time equivalent

Source: Home Office (2009), *Statistical Bulletin 13/09: Police Service Strength England and Wales, 31 March 2009*.

	1999	2009	Growth, headcount	Growth, percentage
Police officers	126,096	141,647	15,551	12
Civilian police staff	53,031	77,609	24,578	46
Police Community Support Officers	N/A	16,331	16,331	N/A
Special constables ³⁷	16,484	14,251	-2,233	-14
Designated officers	3,342	3,516	174	5
Total police strength	198,953	253,354	54,401	27

Note: The numbers in this table are for England only and are full-time equivalent numbers and are therefore lower than those in table 2 which also include Scotland, Wales and Northern Ireland and are headcount numbers.

Education

Education has also seen significant growth in employment, with a headcount increase of nearly a quarter since 1999. Staff numbers have increased steadily in the last decade and labour costs have grown by 5.5 per cent a year on average. Over 68 per cent of total education spending goes on staff costs and in some sectors this is even higher. A recent Audit Commission report found that primary and secondary schools spent more than £24 billion in 2007-08 on their workforce, equivalent to 78 per cent of their revenue expenditure.³⁸ This is despite the fact that school pupil numbers have fallen during this time.³⁹

Table 6: Schools education workforce, England, full-time equivalent

Source: Department for Children, Schools and Families, *Statistical First Release: School workforce in England (including Local Authority level figures) January 2009 (revised 29 September 2009)*

	1999	2009	Growth, headcount	Growth, percentage
Teachers	400,300	442,700	42,400	11
Teaching assistants	60,600	183,700	123,100	203
Other schools support staff	73,300	162,200	88,900	121
Total schools staff	534,200	788,600	254,400	48

Note: School numbers have been rounded to the nearest thousand. Higher education figures have not been included as the equivalent data is not available. Figures that are published by HEFCE show a rise of 28 per cent in academic higher education staff in England from 2000 to 2006-07 (from 101,346 to 129,945) and 106,187 non-academic staff in 2006-07. Higher Education Funding Council for England (2008), *Staff employed at Hefce-funded HEIs: update*, issues paper 2008/26.

The increase in teacher and teaching assistant numbers and the slight fall in pupils has meant a significant reduction in pupil:teacher ratios. Including support staff, this ratio has fallen from 17.9 to 11.6 between 1997 and 2009 in primary schools and from 14.5 to 10.7 in secondary schools.⁴⁰ The Audit Commission concluded that: "Ensuring good quality teaching is the most important factor, but schools that plan well will deploy teachers and teaching assistants where they have the greatest impact. The deployment of classroom staff is the most important financial decision in a school."⁴¹

³⁷ Headcount numbers.

³⁸ Audit Commission (2009), *Valuable lessons: improving economy and efficiency in schools: Briefing for head teachers and school staff with financial responsibilities*, p. 10.

³⁹ Department for Children, Schools and Families (2007), *Number of pupils in England in January each year*, Time Series Data.

⁴⁰ Audit Commission (2009), *Valuable lessons: improving economy and efficiency in schools: Local government and national report*.

⁴¹ Ibid.

Local government

Compared to the large increases in health, education and police employment, local government has seen less than a 7 per cent rise in employment in the last ten years. Many local authorities have also already started preparing for the years of restraint to come by cutting numbers. As such, the total number of employees in the local government sector fell between 2008 and 2009. However, the size of the local government workforce – almost half of all public sector employment – means that significant reductions will be needed.

Pay

Public sector salaries have been growing faster than private sector salaries since 2001.⁴² Observed annual gross pay for full time employee jobs is higher in the public sector than the private sector at most levels of pay, except for at the highest pay levels.⁴³ Job-for-job type comparisons of pay are difficult to make, but the evidence suggests that women and low-skilled male workers are paid relatively more on average in the public than the private sector, while high-skilled male workers are paid more in the private than the public sector.⁴⁴

Table 7 Mean gross hourly rate of pay in the public and private sectors, nominal terms

Source: Office for National Statistics (1998-2009), *Annual Survey of Hours and Earnings*

	1998	2002	2006	2009	Growth 1998-2009
Public	£9.67	£11.53	£13.85	£15.55	61
Private	£9.14	£11.29	£12.62	£13.88	52
Not classified	£9.50	£11.26	£13.23	£14.86	56

Pensions and retirement age

It is often argued that public sector wages are lower than private sector salaries and hence public sector workers need to be “compensated” with larger pensions. However, evidence shows that not only is this not the case, but that these pensions create a serious unfunded liability.⁴⁵ Recent research by PricewaterhouseCoopers estimated that the average annual post-tax income of someone in the public sector was more than two and a half times that of someone in the private sector with an equivalent working life. Research from the Institute for Fiscal Studies analysing the disparity between public and private sector pensions found that “the key drivers of this public sector pension advantage [are]: longer job tenures; the option of claiming pensions earlier; and lifetime earnings profiles that peak in workers’ late 50s rather than their late 40s.”⁴⁶ Estimates of the unfunded public sector pension liability range from £835 billion (using the Government’s measure as at 31 March 2007) to £1.1 trillion (as estimated by the Institute of Economic Affairs).^{47,48}

42 Office for National Statistics (1998-2009), *Annual Survey of Hours and Earnings*; Bozio, A. and B. Johnson (2008), *Public sector pay and pensions*, Institute for Fiscal Studies.

43 Pensions Policy Institute (2008), *An assessment of the Government’s reforms to public sector pensions*, The Nuffield Foundation.

44 Ibid.

45 Growing government spending on pensions is reflected in high levels of public debt and growing costs of debt servicing, which puts bond ratings at risk, crowds out government spending in other areas and reduces incentives for a large proportion of the population to save.

46 Institute for Fiscal Studies (2009), *The pension advantage of public sector workers*.

47 Record, N. (2008), *Sir Humphrey’s Legacy: An Update – UK Public Sector Unfunded Occupational Pensions*, Institute of Economic Affairs. Calculating the precise value of public sector pension liabilities is almost impossible, not least due to inconsistency in how the government measures them and the interest rate it applies

48 Silver, N. (2008), *A Bankruptcy Foretold: The UK’s Implicit Pension Debt*, IEA Discussion Paper No. 22, p. 8.

Table 8: Average annual post-tax income in retirement in the public and private sectors

Source: PricewaterhouseCoopers (2009), *The Tortoise and the Hare: A modern fable*; Farrow, P. (2009) "Pensions apartheid gap widens to £17,300", *The Daily Telegraph*.

	Average annual post-tax income in retirement
Public sector	£28,900
Private sector	£11,600

Note: Average pension is based on employment in sector from 21 to 60.

Over 80 per cent of public sector employees are members of one of the seven main public sector pension schemes (the NHS, local government, teachers, civil service, armed forces, police and fire).⁴⁹ These schemes are all unfunded with the exception of the local government scheme.⁵⁰ This means that pension benefits are met by current government income as and when they fall due. In contrast, all registered occupational pension schemes in the private sector are funded, which means that scheme members' pension rights should be covered by assets held under trust.

Public and private employment frameworks also differ in the rules around retirement. As the OECD has noted, while the normal retirement age was between 60 and 65 in the 20 EU countries surveyed in 2004, the earliest possible retirement age for some government employees is as low as 50 years in France and the United Kingdom and below 60 years in six more EU countries.⁵¹ Some efforts have been made towards reducing the norm of early retirement but the normal retirement age in the public sector remains 60 (it has been raised to 65 for new employees).⁵²

Working hours

Although the mean working hours in the private sector have fallen in recent years and there has been a small increase in hours of work in the public sector, average hours are still significantly higher in the private sector. In some segments of the public sector, the increase in funding has been directly related to a fall in work effort. In the health sector, for example, the more generous consultants' contract has seen a significant fall in hours worked.⁵³

Table 9: Mean weekly hours worked in the public and private sectors

Source: Office for National Statistics (1998-2009), *Annual Survey of Hours and Earnings*

	1998	2002	2006	2009
Public sector	31.7	31.4	31.6	31.6
Private sector	36.7	36.1	35.3	34.7
Not classified	31.1	31	30	29.7

49 Pensions Policy Institute (2008), *An assessment of the Government's reforms to public sector pensions*, The Nuffield Foundation.

50 CBI (2008), *Clearing the pensions fog: Achieving transparency on public sector pensions costs*, p. 4. Local government pensions already account for £1 in every £5 of council tax paid. Figures show a total deficit in the local government plans of £4.75 billion. The liability for local taxpayers will keep on rising unless action is taken to tackle this growing cost.

51 OECD (2008), *The State of the Public Services*, "Chapter 2: Towards Employment Conditions in Central Governments that Are Closer to General Employment Rules", p. 29.

52 Berry, M. (2009), "Retirement age to be scrapped for senior civil servants", *Personnel Today*, 1 October. In the civil service, Sir Gus O'Donnell recently abolished the mandatory retirement age for senior civil servants having previously banned it for all staff below senior level.

53 National Audit Office (2007), *Pay Modernisation: A New Contract for NHS Consultants in England*. The report found that within the first three years of the new consultants' contract: "The number of hours worked by full time consultants for the NHS has decreased by an average of 1.4 hours per week since the introduction of the new contract (from 51.6 to 50.2 hours)."

Sickness and absenteeism

The long term sickness rate is much higher in the public sector than in the private sector, accounting for 50 per cent of working time lost in the public sector compared to 31 per cent in the private sector.⁵⁴ This is most pronounced in healthcare which has 10.3 million work days lost every year to sickness and absenteeism, or 10.7 days on average per employee.⁵⁵ This compares to an average of 6.4 days a year in the private sector and 9.7 days across all public services.⁵⁶ The cost to the UK economy is significant – £784 per employee in the public sector, compared to £666 per employee in the private sector services and £754 for the manufacturing and production sector.⁵⁷

Table 10: Average annual sick days per employee in the public and private sectors

Source: Figures for 1998 to 2007: CBI / AXA Absence Surveys (latest published 2008); figures for 2008: Chartered Institute of Personnel and Development (2009), "Improvement in private sector workplace absence highlights scope to reduce £4.5 billion annual cost of high public sector absence", Press Office, 20 July.

	1998	2002	2007	2008
Public sector	9.2	8.9	9.0	9.7
Private sector	7.5	6.5	5.8	6.4
Total estimated cost of sickness and absenteeism to the UK economy	£10.2 billion	£11.6 billion	£13.2 billion	£17.3 billion

These high rates of absenteeism and sickness not only increase costs (the government-commissioned Boorman review estimated an annual cost of £1.7 billion a year to the NHS alone)⁵⁸, but reduce the quality of care.⁵⁹ Although these differences in outcomes may partly reflect differences in the composition of workforces, it nonetheless highlights that the NHS could gain significantly from improving the well-being of its staff.⁶⁰ The Boorman review found that measures to improve the health of NHS staff could reduce rates of sickness absence by a third, saving £555 million annually.⁶¹

Job security and redundancy costs

The OECD's 2006 *Survey on Strategic Human Resources Management* found that in 16 out of 22 respondent countries "public employees had better job security and protection against dismissal than private employees" and often "public employees could have employment for life."⁶² In the UK, increased job security for public sector workers is reflected in longer average lengths of job tenure, averaging 10.1 years in the public sector compared to 7.7 years for private sector workers.⁶³

Another feature of these conditions is that average redundancy costs tend to be much higher in the public sector than in the private sector. This is the case in the UK where in 2007, for example, the average redundancy payment received by a public sector employee was more than double that received by someone in the private sector.⁶⁴

54 Wanless, D. et al (2007), *Our Future Health Secured? A Review of NHS Funding and Performance*, King's Fund.

55 Boorman, S. (2009), *NHS Health and Well-being Review, Interim Report*, Department of Health.

56 Chartered Institute of Personnel and Development (2009), "Improvement in private sector workplace absence highlights scope to reduce £4.5 billion annual cost of high public sector absence", Press Office, 20 July.

57 Ibid.

58 Boorman, S. (2009), *NHS Health and Well-being Review, Final Report*, Department of Health.

59 NHS Employers (2009), *Leading the NHS workforce through to recovery*, Briefing 66, p. 10.

60 See Bosanquet, N. et al (2009), *Fit for recovery, Reform*.

61 Boorman, S. (2009), *NHS Health and Well-being Review, Final Report*, Department of Health.

62 OECD (2008), *The State of the Public Services*, "Chapter 2: Towards Employment Conditions in Central Governments that Are Closer to General Employment Rules", p. 27.

63 Millard, B. and A. Machin (2007), "Characteristics of public sector workers", *Economic & Labour Market Review*, Vol. 1 No.5, Office for national Statistics.

64 Chartered Institute of Personnel and Development (2008), "Redundancy fears haunt labour market", Press Office, 31 October.

Table 11: Average redundancy costs in the public, private and voluntary sectors

Source: Chartered Institute of Personnel and Development (2008), "Redundancy fears haunt labour market", Press Office, 31 October.

	Average redundancy payment, 2007
Public sector	£17,926
Private sector	£8,891
Voluntary sector	£7,629

In August 2009, the Cabinet Office published proposals for changes to the civil service compensation scheme.⁶⁵ These proposals included a new "cap" for redundancy (voluntary and compulsory) and early retirement pay from January 2010 of two years' salary (compared with the existing three years). For compulsory redundancy, existing terms would be replaced by cash only payments of a month's pay for each year of service, doubling after 5 years service. While a significant change, these proposals would still mean that a civil servant who has worked less than 24 years could expect to receive a severance payment of more than three times the average elsewhere.⁶⁶

Managers versus professionals

The days of a cadre of qualified civil servants leading the UK's public services is over. Managers are pulled in to run budgets and workforces straight from university. They may be well qualified – in fact, nearly half of all public sector workers have a higher education qualification compared to around a quarter of workers in the private sector⁶⁷ – but they have no experience of the front line. Ed Ball's recent proposals for cutting school managers misses the point on where spending priorities should be.⁶⁸ Managers of public services are incredibly important. One good manager in a school can be worth ten teaching assistants. But, as happens in the private sector, public sector managers must come from the front line, rising through the ranks of the services and developing the knowledge and skills needed to run them.

The role of civil service will also change, from a focus on advice to a focus on delivery. The civil service cannot expect to continue having a monopoly on the provision of advice to Ministers. There is an abundance of research institutions out there providing proposals for improving public services. Ministers should be free to take their advice from a range of bodies, with the civil service becoming better at delivering the services.

65 Cabinet Office (2008), Letter from Dusty Amroliwala, Director Civil Service Workforce, to Charles Cochrane, Secretary Council of Civil Service Unions, 31 July.

66 Calculations by Collinson Grant based on sixty severance payment schemes applied in the private sector, third sector, health and local government. For example, a civil servant who is aged 45, has been working for 15 years and receives a salary of £40,000 would receive a redundancy payment of £80,000. The average payment for an equivalent worker in the private sector would be £25,099.

67 Millard, B. and A. Machin (2007), "Characteristics of public sector workers", *Economic & Labour Market Review*, Vol. 1 No.5, Office for National Statistics.

68 Oliver, J. (2009), "Labour's £2bn cuts for schools", *The Sunday Times*, 20 September.

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Disobedient servants

The following chapter reviews attempts to reform the civil service and the public sector since the 1960s. This review shows that many of the current arguments regarding public sector reform are not new and, when tried in the past, have failed to lead to real change due to the scale of the resistance from vested interests. The lesson is that any government serious about reforming Whitehall and the UK's public services must be prepared to invest substantial political capital and to take these vested interests head on.

A recurring dilemma

This is not the first time that political debate has focussed on the need to reform the civil service and it is unlikely to be the last. There has been a systemic inability of the civil service to deliver the efficiency savings to which politicians aspire. As the former head of the civil service, Lord Wilson, pointed out in a lecture to the RSA in 2006, "Wave upon wave of politicians, of whatever political party, have borne down on the civil service over the years, like an ocean beating against the shoreline, and urged it to transform its performance."⁶⁹ But they have been less effective than they might have hoped.

Deep rooted problems

The roots of the 21st Century Whitehall's weaknesses are to be found in the stagnation that gripped the civil service under Warren Fisher, its head during the 1920s and 1930s. As Professor Peter Hennessy, the doyen of Whitehall studies, has observed: "By the late 1930s the civil service was a staid organisation at every level... a service in which the clerks were drawn from secondary schools, the executive officers from the grammar schools and the administrators from the universities – careers for life with very precious little movement from grade to grade."⁷⁰ Orthodoxy and hierarchy had become entrenched in Whitehall, with the "expert caged and the generalist roaming free."⁷¹ The benefits of earlier innovations, in particular the determination to ensure that the top of the civil service was self-selecting, were not realised until too late.⁷²

The irregular bunch

During the Second World War, the obstacles erected under the Fisher era to prevent the ventilation of Whitehall by "outsiders" were temporarily removed and the contribution of "irregulars", including J. M. Keynes, Alan Turing, C. P. Snow, Harold Wilson and Hugh Gaitskell, were an important leavening of civil service talent, as the work of temporary civil servants like William Beveridge had been during the First World War.⁷³

As Peter Hennessy has written "the mix of career regulars and outside irregulars blended between 1939 and 1945 represents the high point of achievement in the history of the civil service."⁷⁴ But post-war, when the mandarins pulled down the shutters and returned the civil service to the custom and practise of the Fisher era, little attention was paid by politicians to the question of whether this would impair its performance and effectiveness. There were a few civil servants, such as Oliver, later Lord, Franks,⁷⁵ who urged that wartime experience be harnessed and that the civil service adapt itself more effectively to the managerial and delivery role it was increasingly expected to perform, but they were ignored.⁷⁶ For Peter Hennessy this was "probably *the* greatest lost opportunity in the history of British public administration."⁷⁷

Whitehall left out

It was only in the 1960s that serious questions were raised about the effectiveness of the civil service and in 1966 Harold Wilson established a committee of inquiry under Lord Fulton. Reporting in 1968, the Fulton Commission contained great criticisms of the effectiveness of Whitehall.⁷⁸ It urged massive expansion of recruitment mid-career – but a limited scheme was "quickly dropped" under pressure from trade unions. Fulton urged a substantial increase in the numbers of qualified accountants in the civil service. A year

69 Lord Wilson of Dinton (2006), *Tomorrow's Government Lecture, RSA*, 1 March.

70 Hennessy, P. (1989), *Whitehall*, p. 87.

71 *Ibid.*

72 Before Warren Fisher's Whitehall nearly "thirty per cent of permanent secretaries appointed between 1900 and 1919 had begun life in another profession. Their average age was under 40. It was not unknown for former MPs and junior ministers to become permanent secretaries" (Lord Wilson of Dinton (2006), *Tomorrow's Government Lecture, RSA*, 1 March).

73 Hennessy, P. (1989), *Whitehall*, p. 88.

74 *Ibid.*, p. 88.

75 *Ibid.*, p. 124.

76 *Ibid.*, p. 125.

77 *Ibid.*, p. 120.

78 House of Commons (1968), *The Civil Service, Vol. I, Report of The Committee 1966-68*.

before the Fulton Report there were just 309 accountants; by 1979 there were still only 364.⁷⁹ While the civil service claimed in evidence to Parliamentary select committees in the 1970s to have implemented the main recommendations of the Fulton report in full, it had not in fact done so.

Better management

Edward Heath, meanwhile, brought in private sector consultants to improve efficiency in public services such as the NHS. Their recommendations urged better management, but instead of improving efficiency this led to the growth of “managerialism”, bureaucracy and red tape. Instead of better management the NHS got more managers; the two are often not the same thing. And managers remained keener on cutting front line staff and spending on tangible outcomes rather than streamlining themselves.

A notable exception among civil service managers of the 1970s was Leslie Chapman, who was appointed Southern Regional Director at the Ministry of Works (later the government’s Property Services Agency) during the late 1960s. Chapman investigated whether every job on his patch really needed to be done.⁸⁰ Chapman took action, made savings and found efficiencies. His civil service colleagues were horrified.

Increasingly frustrated, he resigned from the civil service in 1973 and in 1978 published an account of his experience in a book entitled *Your Disobedient Servant* which was acclaimed by the media. For *The Guardian*, it was “a rare chronicle of how millions of pounds of public money has been wasted”. For the *Spectator*, it was “worth a dozen Royal Commissions.” Chapman’s book also became a reference point for Margaret Thatcher and her team as they built up a case for how a Conservative Government could cut taxes by eliminating waste and inefficiency.⁸¹

Axing programmes rather than securing efficiencies

Chapman’s book ought to have proved useful for Labour Ministers struggling to address the consequences of the post oil-shock downturn. But when the Labour government of the 1970s came to focus on efficiency savings, the internal discussion became essentially about axing programmes rather than securing efficiencies. The reality of programmes and front line services being cut in preference to efficiency savings being secured was not because Labour Ministers were not keen to achieve efficiencies – the civil service machine largely ignored these efforts.⁸²

The mechanisms to enable Ministers to secure insights into where efficiencies might be were also not in place. The system of deciding public spending priorities owed little to rational planning and more to the political weight of departments, Ministers and vested interests. As Joel Barnett, Chief Secretary to the Treasury throughout the Labour government of 1974-79, explained in his memoir: “Expenditure priorities... [were] decided on the strength of a particular spending minister and the extent of support he or she could get from the Prime Minister.”⁸³

Public service capture of reform

So when Margaret Thatcher became Prime Minister in 1979 there was no shortage of places for her to follow through on her pledge to cut waste and inefficiency. And there was evidence to underpin it. A report on the DVLA found that about a third of posts could be abolished and “much of the staff’s time is spent sitting about waiting for work to arrive.”⁸⁴ There was also a great deal of initial political enthusiasm for confronting systemic weaknesses in the bureaucracy.⁸⁵ Yet despite pledging to tackle the cost of running central government, over the first two years of Margaret Thatcher’s Government, costs increased by 22 per cent.⁸⁶

So what had happened? While Margaret Thatcher appointed Derek Rayner of Marks and Spencer to lead a small Efficiency Unit based in the Cabinet Office, the team allocated to him was too small for the scale of

79 Ponting, C. (1986), *Whitehall: Tragedy & Farce*, pp. 197-198.

80 The first study he undertook, at the Army Stores Depot at Bicester, revealed that the grass was cut to lawn standards even under pipes and cables, empty warehouses were heated to office standards and inter-city standards were applied to the depot railway. Other studies Chapman commissioned revealed the same pattern and suggested potential savings were available of 30 per cent in expenditure and more than 40 per cent in staff.

81 It also made waves abroad in those countries such as New Zealand and Australia which had inherited the British system of government.

82 Leslie Chapman very pointedly credited the Labour ministers under which he served, including John Silkin, Bob Mellish and Jack Winterbottom, with having given his efforts every possible support. It was simply that the civil service machine had not followed through and the structure of Whitehall gave Ministers insufficient opportunity to take remedial action. When Conservative MP Paul Channon – later to serve in Margaret Thatcher’s Cabinet – became the Minister responsible for Chapman’s Department after the Conservative victory at the general election of 1970, he was as enthusiastic as his Labour predecessors and had just as little effect.

83 Barnett, J. (1982), *Inside the Treasury*, p. 59.

84 West, D. (1985), “Taking the axe out of storage”, *The Times*, 26 June.

85 Chapman, L. (1984), *Waste Away*, p. 41.

86 *Ibid.*, p. 42.

the task it faced. Moreover, it lacked Ministerial engagement: too many Ministers “felt that the management of their departments was not very far removed from doing a clerk’s job, and far beneath their dignity as policy-framing intellectuals and statesmen.”⁸⁷ Worse still, “new Ministers... could soon be taught [by the civil service] that Ministerial effectiveness, loyalty and ability were to be measured by their success in “fighting their corner” – which, freely translated, amounts to ensuring that whoever else faces the consequences of cuts, it is not their department.”⁸⁸

In 1985, a report of the Efficiency Unit summed up what had been achieved: only half the planned savings had been made and even then they had taken twice as long as expected.⁸⁹ Forays into wider aspects of civil service pay and conditions hit the rocks. Early consideration of reform to civil service pensions was abandoned after it was realised that the army and police shared the same system and might object.

Failure to manage

Margaret Thatcher’s Government found itself led into cutting back on capital investment and infrastructure projects, raising money to cut taxes through selling off nationalised industries and council houses, capping local government spending through cash limits and reducing the size of the state through salami-slicing departmental budgets, imposing departmental recruitment freezes and reclassifying state employees as non-state employees.⁹⁰ As Clive Ponting, who had been one of the main officials working in the Rayner Efficiency Unit in 1979-81, wrote in 1986: “The civil service is therefore smaller than it was when Thatcher came into office in 1979, but there is little evidence to show it is more efficient, that reductions have been made in areas where there was over-staffing, or that there have been major financial savings as a result.”⁹¹

Development of the quanocracy

The late 1980s saw a second effort which gave birth to the “Next Steps” agencies. Ministers hoped that by transferring “delivery” functions out of Whitehall and into modern, new agencies, run by managers and free from the day-to-day meddling of Ministerial whim, that efficiency would be improved. On a superficial level it was profoundly successful.⁹² But all too often the agencies operated simply as government without the Minister. They were staffed by former Whitehall officials who modelled their empires on the systems and processes with which they had been comfortable before.⁹³

In many respects the creation of agencies was little more than a reshuffling of the proverbial deckchairs. As Clive Ponting observed in 1986, “politicians have, particularly over the last twenty years or so, deluded themselves into believing that by changing the lay-out of departments real changes can be made in the way Whitehall works. This is an illusion, because the new departments are just like the old, manned by the same sort of people and operating within the same set of rules.”⁹⁴

Capability reviews

Ministers in the Blair/Brown Labour Governments have in many cases cared passionately about efficiency and effectiveness. The Capability Reviews are well-intentioned, but serious questions can be raised as to whether the follow-through is enough to transform performance and to deliver the capability and efficiency needed. As Lord Wilson pointed out, contrary to being a new innovation, the process of Capability Reviews ought to have been ongoing since the 1970s.⁹⁵ Moreover, the contrast between the findings of the Ministry of Defence capability review, which suggests that most challenges are now on the way to being solved, and the leaked contents of Bernard Gray’s review of the Ministry of Defence, which suggests that they are not, implies that the Capability Review process will be insufficient to remedy the systemic weaknesses in the structure and performance of Whitehall.

87 Ibid, p. 41.

88 Ibid, p. 39.

89 *The Guardian* (1985), 1 November.

90 Under Margaret Thatcher cuts to civil service numbers were achieved by ceasing to count the 425 staff at Kew gardens as part of the then Ministry of Agriculture, reclassifying the staff at Chelsea Hospital so as they were no longer part of the MoD and the 400 staff at the Historic Monuments and Ancient Buildings division of the Department of the Environment so as they were no longer counted as being part of the Department of the Environment. Their pay, conditions and employment terms remained essentially the same, as did their numbers and operation.

91 Ponting, C. (1986), *Whitehall: Tragedy & Farce*.

92 Peele, G. (2004), *Governing the UK: British politics in the 21st century*, p. 184.

93 Indeed, the systems of pay, grading, promotion and recruitment owed a great deal to the standard civil service model, and higher managers were deemed to be part of the Senior Civil Service, defeating the very point of the independence they had been granted.

94 Ponting, C. (1986), *Whitehall: Tragedy & Farce*, p. 123.

95 Lord Wilson of Dinton (2006), *Tomorrow’s Government Lecture, RSA*, 1 March. See Summary of Main Findings in the Fulton Report (paragraph. 2): “We propose a simple guiding principle for the future. The Service must continuously review the tasks it is called on to perform; it should then think out what new skills and kinds of men are needed and how these men can be found, trained and deployed.”

3

Governance reform and fiscal discipline

Restoring fiscal discipline requires governance reform

Governance reform is a pre-requisite to restoring fiscal discipline. Much of the debate on spending cuts views reform as a one-off event. Restoring the public finances will, however, require more than this.

Halving the deficit within four years (the Government's pledge) will require improved economic growth and a sustained effort to run government surpluses:

- > Economic growth will help repay some debt. This has been the approach typically taken in the UK, but given the scale of the current crisis will not be enough. This approach postpones inevitable decisions on spending cuts, as spending should be cut when growth returns – otherwise the government will simply continue to accumulate unnecessary debt and destabilise the economy (the extra debt will threaten economic recovery).
- > The fiscal restraint required to maintain surpluses is almost unheard of in the UK. Governments have often run persistent deficits since the 1970s.⁹⁶ However, turning these around and running surpluses is certainly not impossible, as the Swedish and Canadian examples of the 1990s show.

Difficulty of maintaining fiscal discipline

The history of fiscal reform in the UK is one of feast and famine. Reductions in spending are followed by an expansion in budgets once the immediate crisis has passed. The problem has not just been one of introducing fiscal discipline but one of maintaining it.

This failure to maintain fiscal discipline has partly reflected earlier approaches to spending cuts with “slash and burn” policies leading to a public perception of underfunding and a consensus in favour of big spending increases. Any cuts in expenditure need to form part of wider structural reforms. Arbitrarily reducing budgets can often generate bigger inefficiencies as managers look to reduce the most visible expenditure rather than the least productive.

The fiscal reset button

Introducing and maintaining fiscal discipline requires civil service reform.⁹⁷ In discussions on restoring the public finances, civil service reform is often discussed in the context of its direct costs (such as civil service wages and pensions), but the real costs arise when the service fails to provide accurate and comprehensive advice and ensure effective delivery.

It is far less likely that Ministers will make good decisions if the advice they receive is inaccurate or fails to reflect the full picture. A bias against economic reasoning in policy advice, for example, exposes weaknesses that may be avoided with better economic analysis and constrains options for increasing productivity and national wealth.⁹⁸

Civil service reform is required to provide Ministers with the mechanisms to secure insights into where savings could be made. This system of deciding public spending priorities should owe more to rational planning and less to the political weight of departments, Ministers and vested interests. Expenditure priorities should not be decided on the strength of a particular spending minister, but should instead reflect:

- > A detailed road map to take public expenditures back to a sustainable level over a short to medium term period.

⁹⁶ Bassett, D et al (2009), *Back to black, Reform*.

⁹⁷ See for example, National Audit Office (2008), *Good government: NAO Paper for the Public Administration Select Committee on Good Government*.

⁹⁸ Scott, G. (2008), “Productivity in New Zealand”, speech to Annual General Meeting of NZIER, 28 August.

- > A modern set of public expenditure tools and employment practices that allows performance to be maximised, measured and made accountable.
- > A new architecture that involves Ministers, officials, Parliamentarians and the public having new roles in the quest for fiscal responsibility.⁹⁹

A civil service unfit for purpose

Systemic weaknesses in Whitehall have built up over the years and are now of critical proportions. The recent series of Capability Reviews of government departments provide compelling evidence of poor management in the civil service.¹⁰⁰ This evidence from the first 28 months of the reviews was summarised in *Reform's* report *Fit for purpose* and includes:¹⁰¹

- > On a scale ranging from “strong” to “serious concerns”, with “well-placed”, “development area” and “urgent development area” in between, the most common score for departments was “development area” at 41 per cent. Barely 40 per cent of scores were “well placed” or “strong”, while 60 per cent were rated “development”, “urgent development” or “serious concern”.
- > Only four departments were assessed as “strong” or “well placed” for more than half of the elements of capability,¹⁰² and eight departments have not managed a “strong” rating in even one category.
- > In the crucial “build capability” area – which covers talent and leadership development, managing poor performance, and diversity – only one department has managed to avoid a rating of “development”, “urgent development” or “serious concerns”.

Main areas of weakness

There are four main areas where these weaknesses in Whitehall are most apparent.

- > **Inability to prioritise.** Current structures and processes give Ministers insufficient opportunity to decide. This is partly because performance and financial management data are often poor (for example, value for money upon which to base individual decisions)¹⁰³ and partly due to poor leadership.
- > **Performance management.** People management is not a routine part of effective line management and staff do not have confidence that the skills and systems required to manage performance effectively are in place. Further, while many central government organisations have made significant progress in developing and implementing effective performance measurement frameworks, significant challenges remain if Government is to get a full return on the investment in those frameworks in the form of better performance and clearer accountability.¹⁰⁴
- > **Skills development.** Most departments lack a clear skills baseline to build on and an understanding of their future workforce and its skills needs. This means that skills development programmes are often short term and focused on technical skills such as programme management and finance.
- > **Human resources.** These functions are not yet capable of making a strategic input to change or the design of the future workforce. They are seen as transactional and not providing the support required by the business.

99 Richardson, R. (2009), “The fiscal crisis: what does ‘finish’ look like?”, *A new government agenda, Reform*.

100 In total 34 reviews have been carried out. This includes 17 Capability Reviews in the eighteen months from July 2006 to December 2007, three Baseline Assessments for the newly formed Ministry of Justice and Department of Innovation, Universities and Skill as well as for the Government Communications Headquarters, and fourteen Progress and Next Steps reports in 2008 and 2009 updating the scores two years on.

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

102 Departments were assessed against three capabilities of “leadership”, “strategy” and “delivery”.

103 National Audit Office (2008), *Managing financial resources to deliver better public services*; National Audit Office (2006), *PSA Target: Performance Information. A survey report on the views of departmental Finance Directors and PSA Target Owners on working with Public Service Agreements*; National Audit Office (2005), *Public Service Agreements: Managing Data Quality – Compendium Report*.

104 National Audit Office (2008), *Performance Frameworks and Board Reporting*.

Continued evidence of the need for reform

The most recent round of Capability Reviews provides evidence that these weaknesses have not been addressed. For example:

- > Department of Health staff feel that poor performance is not consistently addressed and want to see senior leaders do more to support managers and act as role models of good management. Staff feel that there has been some drift of posts to higher grades and that people could be used more effectively across the Department.¹⁰⁵
- > The review of the Department for Transport raised concern over the Department's leadership and its ability to make change. Where progress had been made this was seen as being down to individual senior appointments rather than structural factors.¹⁰⁶
- > The review of the Crown Prosecution Service was more positive, with the suggestion that increased investment in training and development has resulted in stronger management more empowered to tackle poor performance.¹⁰⁷

Failure to improve

In the three and a half years since the first Capability Review was published there have been a large number of new appointments into HR departments, new appraisal systems and new skills audits, but outcomes in terms of changed behaviours and perceptions are harder to identify. In other words, despite these efforts not much has changed.

This begs the question of why attempts to tackle the challenges exposed by the Capability Reviews have not been more fruitful. Part of the answer is a lack of a shared commitment to a reform agenda by the top of the civil service:

Opinion Leader Research (OLR) research ... [shows that] 83 per cent [of Pay Bands 1 and 2 of the Senior Civil Service] felt achieving civil service reform was extremely or very important for the future delivery of public services This is yet, however, to develop into strongly positive commitment and action, and the ability to make change stick is still viewed with scepticism by some.¹⁰⁸

Addressing these weaknesses requires a mix of system changes and deeper cultural change.

Culture holding back improvement

In the UK the rules of public sector employment are not as rigid as they may appear from the way the organisations operate. Indeed the rules (with some important exceptions) are not that different from those in the private sector. Often it is the culture of management that is different, and good managers in the public sector have been able to effect change.

OECD data compares the level of openness of the recruitment process in central government (especially the openness to applicants coming from outside the public service at all levels of the organisation). A composite index based on these data show that the UK has the second most open Human Resources Management system in central government of 26 OECD countries (below only the Netherlands).¹⁰⁹

However, as the Public Administration Committee has noted, there is a need for a fundamental change in the approach to open external recruitment.¹¹⁰ In applying a prescriptive rules-based approach to recruitment, Civil Service Commissioners have failed to open these services to external applicants. The proportion of staff employed on fixed term contracts is, furthermore, relatively low in the UK, while a relatively high proportion of staff are employed on open term contracts or lifelong guarantees.¹¹¹

¹⁰⁵ Cabinet Office (2009) *Civil Service Capability Reviews – Department of Health: Progress and next steps*.

¹⁰⁶ Cabinet Office (2009) *Civil Service Capability Reviews – Department of Transport: Progress and next steps*.

¹⁰⁷ Cabinet Office (2009), *Civil Service Capability Reviews – Crown Prosecution Service: Progress and next steps*.

¹⁰⁸ Cabinet Office (2007), *Civil Service Capability Reviews: Progress and Next Steps*.

¹⁰⁹ OECD (2008), *The State of the Public Services*, "Chapter 2: Towards Employment Conditions in Central Governments that Are Closer to General Employment Rules", Paris, p. 27.

¹¹⁰ Haldenby, A. et al (2009), *Fit for purpose, Reform*.

¹¹¹ OECD (2008), *The State of the Public Services*, "Chapter 2: Towards Employment Conditions in Central Governments that Are Closer to General Employment Rules", Paris, p. 28.

Creating gaps in skills

Through creating a shortage of people with the right skills, the current system of recruitment and retention leads to an over-reliance on external consultants to plug the gaps. Attempts to improve efficiency since 1997 have, for example, often entailed a recruitment freeze and voluntary redundancy packages. The packages are often taken by talented people whose experience cannot be missed and so will return, off the books, as consultants. Moreover, the current system is unlikely to aid the civil service in fulfilling its role of managing contracts effectively.

Ineffective procurement and contract management

Systemic weaknesses in Whitehall are reflected in poor use of taxpayers' money in large public projects. This poor use of resources is well documented.¹¹² At the larger end, it can range from the multi-billion pound over-run on the NHS computer system to the £2.5 billion annual wasted expenditure identified in the leaked draft of Bernard Gray's independent report into the Ministry of Defence.^{113, 114} At the smaller end, there is a great deal that occurs below the radar of media outrage. This highlights that systems of procurement and contract management are inadequate to the task of managing public money with prudence.

A recent National Audit Office report revealed that public projects worth £200 billion – including the Olympic Games, Crossrail, defence infrastructure and ID cards – are at risk because the government lacks the commercial skills to deliver them.¹¹⁵ There is “an even greater risk” to many other complex government projects where the shortage of skills among the people working on them has not even been systematically assessed.¹¹⁶

Growing consensus for reform

The remarks by the then Cabinet Office minister Rt Hon Liam Byrne MP at the launch of *Reform's* report on the state of the civil service, *Fit for Purpose*, in March 2009, reflected a growing awareness among senior Labour policymakers of the systemic flaws in the civil service and concerns that the remedies proposed by officials are insufficient to the task.¹¹⁷

Politicians from across the political divides have started to think practically about what needs to change. Shadow Cabinet Office Minister, Rt Hon Francis Maude MP, speaking at the 2009 Conservative Party conference, set out proposals for reforming Whitehall, the most significant of which would entail the conversion of the top two tiers of civil servants to fixed term contracts, tied to performance.¹¹⁸

He also proposed strengthening departmental boards to “create accountability and bring together political and official leaders of a department.” These boards, chaired by Ministers and with a large number of private sector non-executive members, would, in extreme cases, be able to recommend to the head of the civil service and to the Prime Minister the removal of a permanent secretary. Under the current system this has not occurred in more than seventy years.^{119, 120}

112 National Audit Office, *Central government's management of service contracts*.

113 National Audit Office (2008), *The National Programme for IT in the NHS: Progress since 2006*.

114 Peck, T. (2009), “Brown buried report showing £2.5 billion wasted on defence”, *The Independent*, 6 August.

115 National Audit Office (2009), *Commercial skills for complex government projects*.

116 Timmins, N. (2009), *Financial Times*, 6 November: “Each of the 43 schemes on the Treasury's “major projects list” had a civil servant who was its senior responsible owner. But 44 per cent of those civil servants lacked any substantial commercial experience, the NAO said. The biggest skills gaps were in contract management, commissioning and managing advisers, risk identification and management – and plain old business acumen. While the government had tried to plug the gaps using temporary staff, consultants and specialist advisers, that was costly and could lead to a loss of knowledge when temporary staff moved on.”

117 Liam Byrne's concerns were echoed by senior Labour figures, including David Blunkett and Caroline Flint, at a fringe meeting organised by *Reform* at the September 2009 Labour conference.

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

119 Kirkup, J. (2009), “Whitehall mandarins face sacking threat under Conservative plans”, *The Daily Telegraph*, 27 October: “In 1992, Sir Peter Kemp, the second permanent secretary at the Cabinet Office, was ousted after clashing with the then Minister for Public Services, William Waldegrave. Even then, he was allowed to take early retirement. The only permanent secretary to be forcibly sacked was Sir Christopher Bullock, dismissed from the Air Ministry in the 1936 over improper contact with an airline company.”

120 There will be a need for further amplification of Maude's proposals. It is not clear, for example, how the top two layers of the civil service would be recruited and appointed under his proposals. Nor is it clear how he could ensure that the boards would be any more effective in themselves at tackling bureaucratic inertia and poor performance as those business-led boards that already exist to run the RDAs, which themselves have been much-criticised by Maude's colleagues. Nevertheless, Maude's work is an important step in the right direction, for unless those at the top of the civil service are accountable for their performance, which currently they are not, any attempt to embed effective performance through the rest of the public services is condemned to ultimate failure.

Early change is vital

These ideas represent recognition that previous governments of all political flavours have given insufficient consideration to the effectiveness and efficiency of the machinery of government at the beginning of their term of office and too often have only fully realised the scale of civil service ineffectiveness when it is too late in the day.

Harness the public sector ethos

The OECD identified a range of strengths and weaknesses of the traditional rules and arrangements for employment in central government administration.¹²¹ Strengths include the development of a set of desirable core values and strong public service ethos. Weaknesses include the development of a risk averse culture that inhibits innovation and a lack of flexibility and customer-orientation.¹²² However, as Tony Blair once argued, “The world has changed and the civil service must change with it.”¹²³ He argued that the greater pace of change in the modern world placed a premium on the ability to adapt. The civil service must learn to adapt while retaining its core values and strong public service ethos. A true public sector ethos requires greater customer-orientation.

121 The OECD has noted that traditionally employment conditions and human resources systems (recruitment procedures, career development, pay systems and social security benefits) differ between the public and private sectors. This segmentation has “come under increasing pressure as societies have evolved, private enterprises have become more attractive employers and citizens’ preferences have changed as a result of better education and higher affluence” (OECD (2008), *The State of the Public Services*, “Chapter 2: Towards Employment Conditions in Central Governments that Are Closer to General Employment Rules”, Paris, p. 20).

122 OECD (2008), *The State of the Public Services*, “Chapter 2: Towards Employment Conditions in Central Governments that Are Closer to General Employment Rules”, Paris, p. 22.

123 Blair, T. (2004), Speech on modernisation of the Civil Service, 24 February.

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Good management despite the system, not because of it

As in the civil service, the causes of the inefficiency of the wider public services are not due to a different employment law regime. Employment law is exactly the same in the public sector and the private sector (with the only exception being police officers).¹²⁴ The difference is a culture of management, or rather a culture of absent management, both of people and of other resources. In the end this is an issue of behaviour and so of incentives. As in the civil service, the incentives in the wider public services are to be risk averse (and so opposed to innovation and change), to be process-oriented, to hide behind broad and vague objectives, to put no value on time and to accommodate special interest groups. These stem from a lack of accountability whether to consumers (in services such as health and education) or to citizens (in services such as the police).

Clearly good managers exist in the public sector and achieve better performance at lower cost, often taking on local opposition to do it. Examples range from the NHS to the fire service to education.¹²⁵ But they do so despite the prevailing culture and structure of their services, not because of it. Successful public sector managers are heroes whose personal commitment to value and performance transcends those of their services. What is needed is to transform the structure of these services to support these leaders and to change the behaviour of the rest of the public service workforce.

Absence of performance management

The UK has seen a surfeit of performance management over the last decade, but of the wrong kind. The UK has mistaken a target regime for genuine performance management and especially management of people. Good performance management focuses on improving performance of people and organisations within a budget constraint. It is local, personal and harnesses the real time insights and energy of managers. But “performance management” in the UK public sector has forced managers to pursue targets set remotely, changed frequently and separate from resource allocation.

In 2002, the current Cabinet Secretary and Secretary of State for Children, Schools and Families explained that a target-based performance management regime, expressed through Public Service Agreements, was the Government’s most important method of controlling public spending.¹²⁶ But in the same year, *Reform’s* Commission on the Reform of Public Services warned that such a framework would weaken public services by taking responsibility for service delivery away from those local managers who could actually do it.¹²⁷ It concluded: “Without radical change, the Government’s colossal increases in public spending are programmed to fail. The economy as a whole will suffer; the credibility of public services will be damaged irreversibly; Britain’s competitiveness in world markets will suffer significantly and real incomes will be reduced ultimately at every level of society.”

¹²⁴ Police officers, like members of the armed services, are officers of the Crown rather than employees. This gives them a different employment position; for example, they cannot be made redundant.

¹²⁵ Audit Commission (2008), *Rising to the challenge*. “Fire services often face considerable opposition to changes in fire cover, from both the public and staff representatives. As a result, some changes have been introduced more quickly than others. Yet, as the case studies show, some fire services have overcome those difficulties, and tackled that opposition to make changes they thought necessary. Others can follow suit.”

¹²⁶ Balls, E. and G. O’Donnell (2002), *Reforming Britain’s Economic and Financial Policy*.

¹²⁷ Douglas, R., R. Richardson and S. Robson (2002), *Spending without reform, Reform*. “Under its new framework for public spending, Ministers, not managers, are accountable for performance, giving managers a ready-made excuse for failure. This explains the extraordinary increase in activity at the centre of government. More than 20 new Whitehall units are no substitute for freeing and encouraging managers. Worse, tangled reporting lines and additional reporting requirements can lead to higher costs. Departments have many complicated targets and are not penalised for failing to meet them. Crucially, there is no link between each target and spending, so it is impossible to assess value for money.”

The National Audit Office's useful review of UK performance management provides evidence that supports the *Reform Commission's* argument.¹²⁸ It shows that, compared to other countries, the UK has a "uniquely target-driven approach to performance management" and much lower public confidence in services themselves.¹²⁹ In further evidence, the NAO has also reported the poor use of performance mechanisms in the public sector.¹³⁰ It found that the public sector does not typically use bonuses and sanctions for performance even though they are effective. When they are used, they tend to measure the performance of organisations rather than people.

The current Government has sought to change direction by minimising the use of national targets.¹³¹ But they remain integral to the performance management of public services via Public Service Agreements, last updated as part of the 2007 Comprehensive Spending Review. The programme of legislation in the 2009 Queen's Speech enshrines some targets in legislation, such as the target of a maximum wait of 18 weeks between a visit to a GP and a hospital operation.¹³²

Other surveys have shown that the lack of performance management of people identified in the Capability Reviews is repeated across the public services. For example, the Chartered Institute of Personnel and Development's review on employee engagement found the following differences in the public sector:

- > A lower likelihood that senior managers have a clear vision for the organisation and have less trust and confidence in their senior managers.
- > Fewer opportunities to use their abilities.
- > Higher stress and pressure.
- > Higher criticism of their own organisation.
- > Less trust in organisational communication.
- > A higher degree of bullying and harassment.¹³³

The review of police force modernisation published by the Institute for Public Policy Research in 2008 provided considerable evidence of poor performance management and inflexibility in that public service.¹³⁴ The 1993 Sheehy Report, commissioned in 1992 by the then Home Secretary Kenneth Clarke, recognised these problems and proposed radical solutions including fixed-term contracts for officers and performance-related pay to replace promotion by length-of-service, the abolition of several middle police ranks, and tighter controls on medical retirement.¹³⁵ But the proposed reforms sparked furious opposition from the leaders of the Police Federation and, deemed too politically painful to implement, they caused huge controversy and almost all were quickly abandoned by Kenneth Clarke's successor as Home Secretary, Michael Howard.

128 National Audit Office / Accenture (2008), *An International Comparison of the United Kingdom's Public Administration*. "The UK, however, is highlighted in some of the literature as having a particularly target-driven approach to performance management, something that is unique. Questions have been posed about the effectiveness of such a target-driven system, as have questions about whether targets serve as perverse incentives that drive unintended behaviours."

129 Ibid. "Despite possessing characteristics that together make the UK's public administration comparable to those of Canada, New Zealand or Sweden, the British public have a lesser level of confidence, trust and satisfaction with the performance levels of their public services. Finally, the public in the UK feel particularly pessimistic about how public services will progress in the coming years. They also feel as if they have no influence over how public services are delivered."

130 National Audit Office (2008), *The use of sanctions and rewards in the public sector*. "The overall use of sanction and reward mechanisms is low. Only around 40 per cent of those who responded to our survey reported using an explicit sanction or reward mechanism somewhere in their programme. To some extent, this reflects a lack of familiarity with the terminology: in a number of cases, follow-up to the survey uncovered that sanction and reward mechanisms were being used where none had been reported. Such responses, however, raise questions over the extent to which programme managers have systematically considered the use of incentives More sanction and reward mechanisms are aimed at the organisational level rather than the team or individual employee level. This reflects, among other things, the intrinsic difficulties of measuring the contribution of individual employees to many public sector outcomes."

131 For example, HM Treasury (2007), *Meeting the aspirations of the British people – 2007 Pre-Budget Report and Comprehensive Spending Review*. "Since their introduction in the 1998 CSR, Public Service Agreements (PSAs) have played a vital role in ensuring that the sustained increases in resources have been translated into higher standards across public services and led to major improvements in outcomes. But the challenges of the next decade are different, and so following extensive consultation with the public and front line professionals over the last two years the Government has decided to make a decisive shift in the way it sets its priorities and drives performance. The 2007 CSR therefore announces a new performance management framework based on a stronger relationship with public sector professionals, with a streamlined set of 30 new PSAs setting the Government's priority outcomes for the CSR07 period."

132 State Opening of Parliament 2009-10, *Queen's Speech*, 18 November 2009.

133 Chartered Institute of Personnel and Development (2006), *How engaged are British employees?*

134 Gash, T. (2008), *The New Bill: Modernising the police workforce*, ippr. The report called for better performance management structures, performance-related pay, a more flexible workforce and an emphasis on developing personal skills rather than supervision.

135 Hansard (1993), *Police Responsibilities and Rewards*, Column 975, 28 October.

Who would be a public sector manager?

A culture of poor performance management presents a barrier to those effective managers who do want to effect change. Speaking at the *Reform* conference that preceded this paper, Zenna Atkins, chair of Ofsted, said:

“the public service...has no ability to deal with failure. It colludes with it and it covers it up... The other side of that is you need to incentivise and reward good behaviour. And there is absolutely no incentive for these poor sods, either personally or departmentally. In the National Health Service (I came in chairing a Primary Care Trust in 2001), we created an organisation that began to generate a profit from day one, people’s lives were extended by two years in Portsmouth because of the ill-health prevention work that we did and we transformed pathways of care. And all the profit we made went directly to the failing organisations all around us. Hmm, I feel like carrying on with that plan! Absolutely no reward. We need to incentivise and reward good behaviour.”¹³⁶

The ippr’s review of policing found similar evidence for the police service:

“There are currently barriers that prevent the removal of low-performing and negligent officers from policing. Ippr interviews revealed that many senior officers find the procedure for dismissing underperformers is in fact so convoluted that it prevents many managing officers from attempting to dismiss officers altogether. One senior officer estimated that it had taken nearly two years for him to remove a grossly incompetent officer from his Basic Command Unit, a finding that has been supported by other interview-based studies (Loveday et al 2007).”¹³⁷

In comments on this paper, a chief executive of a Primary Care Trust said: “there are huge disincentives to performance management in the public sector at the moment. It feels very much as though the onus is on organisations to demonstrate poor performance and odds are stacked in favour of the employee, particularly if they can have a go at claiming discrimination. It requires huge tenacity, emotional resilience and time (with associated opportunity costs) for a manager to pursue someone through the process.”¹³⁸

In its review of successful reform in the fire service, the Audit Commission concluded:

“Change has not been, and will not be, easy. The examples cited in this report have often been implemented by fire service staff, Fire and Rescue Authority (FRA) members and Chief Fire Officers (CFOs), sometimes at significant personal cost in the face of public, political, staff and staff representative opposition. The common factor in making changes is strong leadership by FRA members and CFOs in taking difficult decisions and engaging with communities to explain those decisions.”¹³⁹

¹³⁶ See Appendix One for full transcript.

¹³⁷ Gash, T. (2008), *The New Bill: Modernising the police workforce*, ippr.

¹³⁸ From *Reform* discussions.

¹³⁹ Audit Commission (2008), *Rising to the challenge*.

Absence of financial management

The Audit Commission has conducted a great deal of valuable research which shows the lack of effective financial management in the big public services, from PCTs to schools to the police. In some cases, such as for PCTs, the Commission has found that financial planning does exist, but is in practice ignored by senior management.¹⁴⁰ In other cases, such as for schools, financial management is basically absent – schools do not have to account for their use of resources. In its recent report, the Commission was unable to conclude whether schools were delivering value for money because of the basic lack of information.¹⁴¹

The National Audit Office has provided similar evidence in regard to the NHS. In 2009, it found that the programme for pay modernisation, *Agenda for Change*, was introduced without any accompanying measurement, so that the impact on productivity was unknowable.¹⁴²

In his most recent review of NHS reform, Professor Nick Bosanquet said: “There is an air of unreality over the whole discussion of NHS finances. The Government has not succeeded in anchoring the NHS financial system in service level profit and loss accounts. The realistic situation is that the service is spending £100 billion per year but it does not know what it is spending the money on nor how any particular sum of money has contributed to gains in waiting times.”¹⁴³ Certainly there is a basic disconnect in the debate on the NHS budget. While NHS organisations reported a surplus of £1.67 billion in 2008-09, David Nicholson, the chief executive of the NHS, has said that the service needs to find “efficiency savings” between £15 billion and £20 billion between 2011 and 2014.¹⁴⁴

Focus on inputs

A characteristic of good management is to focus on outcomes rather than inputs, in order to allow innovation in process. The UK public sector has tended to measure success on inputs, both people and capital. Ministers have routinely described improvements in services in terms of greater inputs.¹⁴⁵

140 Audit Commission (2008), *Improving medium-term financial planning – a practical guide for primary care trusts*. “Based on our research, the main weaknesses of the medium-term financial planning process were:

- > PCTs not using the MTFP as the key financial strategy;
- > a lack of engagement by the PCT Board in financial issues;
- > a failure to integrate financial planning with commissioning and service planning;
- > a reliance on poor quality activity and planning information; and
- > an inadequate response to the impact of externally imposed factors beyond the direct control of the PCT, both in the development of the MTFP and during monitoring achievement of the MTFP.”

141 Audit Commission (2009), *Valuable lessons – Improving economy and efficiency in schools*. “The Audit Commission concludes that it can’t be sure whether the taxpayer is getting value for money... Schools have weak incentives to be economical and efficient:

- > Value for money requires economy and efficiency as well as effectiveness.
- > Schools’ accountability for spending is weak; they do not have to report efficiency savings, or respond to DCSF’s targets.
- > Ofsted’s value for money assessment has focused more on effectiveness than economy and efficiency.
- > The financial management standard in schools focuses on processes rather than the real achievement of economy and efficiency.
- > Councils focus on processes and helping schools in difficulty.
- > Governors can challenge schools to improve economy and efficiency, but this challenge is not always strong enough.”

The Audit Commission went on to estimate that £400 million could be saved if all schools followed the management practices of the top quartile. It recommended that schools should save resources by:

- > considering the financial implications of their plans.
- > reviewing their financial surplus (or deficit).
- > ensuring that the goods and services they buy represent value for money.
- > using the school workforce to best effect.
- > collaborating with other local schools.
- > using data and information to support better decision making.

142 National Audit Office (2009), *NHS Pay Modernisation in England: Agenda for Change*. “Achieving the benefits of *Agenda for Change* was predicated on staff working differently to deliver improvements to patient care and improving productivity in return for better pay. Measuring productivity benefits would have required trusts to have developed productivity measures when they introduced changes in the way staff work. The Department did not put in place the necessary arrangements with trusts, so the Department has limited evidence to show what impact pay modernisation has had on productivity ... As a result we conclude that *Agenda for Change* cannot yet be shown to have enhanced value for money.”

143 Bosanquet, N. et al (2008), *NHS reform: national mantra, not local reality, Reform*.

144 National Audit Office (2008), *Financial Management in the NHS: Report on the NHS Summarised Accounts 2007-08*; NHS (2009), *The year – NHS Chief Executive’s annual report 2008-09*. “Looking ahead to the next Spending Review, we need to be planning for a much tighter financial environment than we have had in recent years. We need to start that work in earnest now. We know that NHS investment will grow by 11 per cent over the next two years. That growth will be locked in on a recurring basis, so we have a real opportunity to prepare for harder times. After those two years, we must be prepared for a range of scenarios, including the possibility that investment will be frozen for a time. We should also plan on the assumption that we will need to release unprecedented levels of efficiency savings between 2011 and 2014 – between £15 billion and £20 billion across the service over the three years. This is so that we can deal with changing demographics, the implementation of the regional visions and cost pressures in the system. That level of productivity gain can only be realised through the kind of quality improvements and advances in innovation described earlier in this report.”

145 See for example, Blair, T. (2006), Speech to the Labour Party conference, 26 September. “And why is reform so important in public services? Over the past ten years Britain has invested more in our public services than any comparable nation in the world. From near the bottom in Europe to the average in a decade. 300,000 more workers, treble the money, 25 per cent more pay in real terms and the largest ever hospital programme; that is an NHS being re-built not privatised. Refurbishing or rebuilding every state secondary school in the country. 92,000 more classroom assistants, 36,000 more teachers, pay also up 17 per cent in real terms. This isn’t privatising state education; it’s producing the best schools results ever.”

To take only three examples, the 2000 NHS Plan set targets for the recruitment of teachers and doctors and the building of facilities.¹⁴⁶ The 2007 Comprehensive Spending Review defined progress on education policy in terms of new buildings and new entitlements to contact time with childcare workers and teachers.¹⁴⁷ Throughout this decade, Ministers took action to guarantee levels of police officer numbers via the Crime Fighting Fund.

Absence of accountability

Good management requires discipline and can be onerous. It is supported by clear accountability at the level of the organisation, so that good organisational performance can determine incentives for managers. Without those incentives, it is far less likely that managers will manage effectively. The poor level of accountability within the UK public sector is therefore a determining cause of poor management.

The current Government has rightly and repeatedly pledged to make services such as health and education accountable to the consumer. That ambition was set in the Government's first term and has been repeated ever since.¹⁴⁸ But, as *Reform* reports have pointed out, this ambition has not been delivered upon.¹⁴⁹ 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.¹⁵⁰ Good schools very rarely expand and so cannot be chosen; less than half of patients report being offered choice of hospital when visiting their GP. The commissioning bodies – Primary Care Trusts and local education authorities – tend to act as administrators of services, protecting the historic pattern of provision, rather than commissioners that achieve change.

In services such as policing or fire, where choice does not apply, services are insufficiently accountable to the electorate because of the weakness of the structures.¹⁵¹ Sir Hugh Orde's recent proposal of nine regional police forces would further reduce police accountability since there is no structure of regional government to which forces can be accountable.¹⁵²

- 146 Department of Health (2000), *The NHS Plan – a plan for investment, a plan for reform*. Cmd 4818-I. "The March 2000 Budget settlement means that the NHS will grow by one half in cash terms and by one third in real terms in just five years. This will fund extra investment in NHS facilities..."
- > 7,000 extra beds in hospitals and intermediate care
 - > over 100 new hospitals by 2010 and 500 new one-stop primary care centres
 - > over 3,000 GP premises modernised and 250 new scanners
 - > clean wards – overseen by 'modern matrons' – and better hospital food
 - > modern IT systems in every hospital and GP surgery
 - ...and investment in staff:
 - > 7,500 more consultants and 2,000 more GPs
 - > 20,000 extra nurses and 6,500 extra therapists
 - > 1,000 more medical school places
 - > childcare support for NHS staff with 100 on-site nurseries."
- 147 HM Treasury (2007), *Meeting the aspirations of the British people – 2007 Pre-Budget Report and Comprehensive Spending Review*. "The 2007 Comprehensive Spending Review (2007 CSR) announces:
- > an additional £250 million in total over the CSR07 period to help ensure that all children at school are ready to learn and able to benefit from truly personalised services and support; and
 - > an additional £200 million of capital investment to accelerate the primary capital programme and newly build or entirely refurbish an additional 75 schools by 2010-11. Together with further funding of £550 million available within the existing DCSF CSR07 settlement, this will allow at least one school to be newly built in every authority by 2010-11...
- This additional investment will be accompanied by value for money reforms, realising annual net cash-releasing savings of £4.5 billion by 2010-11. Together these will provide for:
- > 3,500 Sure Start Children's Centres, one in every community, by 2010;
 - > extending the weekly entitlement for three and four year-olds to free early years education from 12.5 to 15 hours by 2010; and
 - > additional support for the Government's vision for personalised education, including one-to-one teacher led tuition for over 300,000 under-attaining pupils a year in English by 2010-11, and over 300,000 pupils a year in Maths."
- 148 Cabinet Office (1999), *Modernising Government*. Cm 4310. "We are centring our programme on five key commitments: ... Responsive public services: we will deliver public services to meet the needs of citizens, not the convenience of service providers." Gordon Brown's, foreword: "Above all, we will fight hard to deliver world-class public services that give those who contribute to our society a chance to get on. We stand for fair rules and believe that a strong economy and a strong society go hand-in-hand. This will involve a radical dispersal of power: in the future, patients and parents must drive the system, with real rights of redress where their entitlements are not delivered."

149 Bosanquet, N. et al (2008), *A lost decade – counting the opportunity cost of public spending 1999-2008, Reform*. "The scale of spending increases – and the absence of reform – means that they have acted as a "flash flood" rather than a planned irrigation. Much of the spending has resulted in doing the same thing at a higher cost. Unreformed and over-centralised management has not ensured that resources are used productively. Capital has been purchased and then rendered obsolete or underutilised. Staff costs have risen. Entrenched producer interests have not been effectively challenged and consumer preferences are not driving delivery in the way they should."

150 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."

151 For fire services see, Audit Commission (2008), *Rising to the challenge*. "Collaboration is often made more difficult by complex governance and service delivery arrangements. Figure 31 shows an example of the large number of different stakeholders, structures and processes involved in fire service governance in the North West region. This complexity makes it difficult to determine where responsibility and accountability lie, and where collaboration can best take place."

152 *BBC News Online* (2009), "Sir Hugh Orde hits out at Tory police plans", 20 November.

The non-competitive structure of public services is a key reason why the public sector operates national pay bargaining models, which are themselves a cause of inflexibility. They also lead to the complex systems of central manpower planning which have been regularly criticised by observers.¹⁵³

In all cases, interventions by Ministers into public sector markets gravely undermine managerial accountability. The NHS has been particularly vulnerable to such interventions in recent months, with the worst examples being the announcement by the Secretary of State for Health that the NHS should be the “preferred provider of care” and the various announcements by Shadow Ministers against change in NHS services.¹⁵⁴

The absence of accountability means that it is not enough to reduce the number of central targets, as Ministers have pledged. Services will then answer to themselves rather than to consumers.

Protection from competition

Aspects of the current policy framework protect public services from competition. The National Audit Office has explained that the Government has steadily toughened the regulations on outsourcing to the effect that workers on outsourced programmes must enjoy equivalent terms and conditions to their public sector counterparts.¹⁵⁵ Under the EC Acquired Rights Directive, the Transfer of Undertakings (Protection of Employment) Regulations (TUPE) applies to the private sector automatically. For the public sector, the Cabinet Office Statement of Practice, “Staff Transfer in the Public Sector”, strongly encourages TUPE to apply.¹⁵⁶ Given the more generous working practices enjoyed by most public sector workers, TUPE can prevent private sector companies creating efficiencies.¹⁵⁷ TUPE has been an issue for those city academies which have been created on the foundation of a previous school.¹⁵⁸

Unfunded occupational pensions reduce flexibility in labour markets by creating barriers for workers to move from public into private sectors, which reduces the diversity of supply of public services and weakens incentives for improved service provision (due to the fall in competitive pressures from greater barriers to entry). For example, a company that takes a going concern over from the NHS needs to set up an approved pension scheme.¹⁵⁹ As this scheme would be outside the public sector it would have to be funded by separate assets and subject to transparent and prudent private sector regulations. Companies have been required to contribute roughly double what the public sector is charged to fund equivalent pension provision. Companies are also exposed to subsequent increases in contributions and an uncapped liability if, for example, investments do not perform well or life expectancy rates improve.¹⁶⁰

Continuing to provide generous pensions in the public sector while similar schemes are closed in the private sector is unfair (breaching horizontal equality) and harms productivity and economic growth – as workers in the private sector will feel the burden of economic adjustment while those in the public would not. Around 90 per cent of public sector employees are members of final salary schemes, compared with just 12 per cent in the private sector.¹⁶¹

153 See for example, House of Commons Health Select Committee (2007), *Workforce Planning*, Volume 1, p. 3.

154 Haldenby, A. (2009), “Tories need clear vision and a stronger message on health”, *Health Service Journal*, 22 October. Burnham, A. (2009), Speech to the Kings Fund, 17 September: “Let me begin with where I stand in this debate, and that is that the NHS is our preferred provider”. Cameron, D. (2009), “Our health priorities”, speech 2 November: “the Conservatives will increase spending on the NHS every year so we can protect front line services.” Lansley, A. (2009), Our chance to make the NHS the finest in the world, speech 5 October: The Conservatives will do “more to ensure that the axe falls not on front line services but on waste and on bureaucracy.”

155 National Audit Office (2008), *Protecting staff in PFI / PPP deals*. “Since the deals in the survey were signed the Government has extended the protection offered to staff delivering public services in a range of ways. In 2001 the Department of Health introduced a policy to protect soft facilities management staff in PFI deals, such as cleaners. This ensures that the majority will remain employed by the NHS trust and be seconded to the private sector for the duration of the contract. The Office of the Deputy Prime Minister introduced a code of practice in March 2003 to ensure all staff hired to work on outsourced Local Authority contracts receive terms and condition on the whole ‘no less favourable’ than their public sector counterparts. The principles of this code were extended to the wider public sector by the Cabinet Office in March 2005.”

156 Department for Business, Innovation and Skills (2009), *Employment rights on the transfer of an undertaking*.

157 Tice, R. (2008), *Academies: a model education?, Reform*, p. 8. There are instances in the creation of an academy, and in general, where TUPE would not apply and this is usually down to what is termed an ETO, or an economic, technical or organisational reason.

158 Care UK provides a further example of the problems with TUPE. This organisation discovered one of their employees who had come over on a transfer under TUPE was working 104 shifts, two nights a week per year, for a salary of £25,000 complete with a very attractive set of terms and conditions.

159 TUPE regulations preserve employees’ terms and conditions when a business or undertaking, or part of one, is transferred to a new employer. Employees employed by the previous employer when the undertaking changes hands automatically become employees of the new employer on the same terms and conditions.

160 CBI (2008), *Clearing the pensions fog: Achieving transparency on public sector pensions costs*, p. 5.

161 Taylor, C. (2009), “The pensions apartheid: the problem, the cost and the tough choices that need to be made”, IoD Policy Paper, p. 10.

The gains from competition

Introducing competition a good way to incentivise better control over budgets and greater efficiency. For example, in the prison services, the introduction of competitive tendering has been successful in shaking up the public sector services. However, there are problems. With contracting out, for example, it might actually cost more for public sector administrators to sort out all the contractors than to do the work in-house. The solution to this problem is to place the provision of government-provided services in the private sector – wholesale – and let the market determine the most efficient way to organise things.

Politicians say that competition has been introduced, for example, in healthcare,¹⁶² but the reality is that the great majority of PCTs have not embraced competition or sought to achieve a reorientation of services towards prevention and primary care. As *Reform* has reported, “While an internal market has been introduced, it has become lopsided. The demand side programmes have failed to drive significant changes in services in the interests of patients. Patient choice and independent sector treatment of NHS patients are in actual retreat.”¹⁶³

Current policy ignores very clear international evidence about the gains to choice and competition. Strong use of incentives and pluralism have, for example, practically eliminated waiting times in a range of developed countries including Denmark, Belgium, Spain and Australia.¹⁶⁴ England has seen significant reductions in waiting but these have been bought at a huge cost. They could have been achieved much more quickly by use of competition and pluralism with a more limited and targeted increase in funding.

Consequences of poor management

The consequences of this culture of poor management include:

- > **Poor labour relations.** Employees in poorly managed organisations are more susceptible to proposals of more radical action.
- > **“Talent pools.”** In many large and bureaucratic organisations it can be difficult to remove underperforming staff. Often this reflects a lack of quality monitoring and of incentives to tackle poor performance. The result is an incentive not to manage underperformance or dismiss workers but to encourage underperformers to move to other employers. The poor staff merry-go-round is widely reported in the civil service and across other public services, particularly teaching.¹⁶⁵ Zenna Atkins reported that her personal survey for the civil service estimated that 25,000 people sat in such pools.¹⁶⁶

Flexibility despite everything

Despite all of the above, a minority of successful public sector managers manage to achieve change. This suggests two basic conclusions: that the problems of public sector management lie in incentives and structure rather than a separate legal framework; and that those incentives need to be reformed.

The successes of public sector managers give a sense of what can be achieved.

Southend University Hospital Foundation Trust – rejecting national pay bargaining

Southend University Hospital Foundation Trust decided to reject the National Health Services’ pay agreement *Agenda for Change* and did so without legal repercussions. In 2006, the Trust balloted its members on a new locally administered contract to improve the competitiveness of the Trust in the regional labour market with 95 per cent of staff voting in favour. The contract implemented had some important differences from the national agreement with more performance related incentives alongside better basic pay. Management were also given full control over any future changes.¹⁶⁷ The move was met by opposition from national trade unions who feared the impact such local disparities in contracts would have on national pay bargaining and union strength. However, Southend successfully implemented the changes and is one of the best performing trusts in the country, receiving a double excellent standard in its annual health check last year.¹⁶⁸

162 See, for example, Bradshaw, B. (2008), Speech to Laing and Buisson Independent Healthcare Convention, 16 December. “As well as welcoming competition in the health service in England, we are engaged in a fascinating competition in health policy among the three main parts of the United Kingdom.”

163 Bosanquet, N. (2008), *NHS reform: national mantra, not local reality, Reform*.

164 Ibid.

165 Other countries have adopted systems that make it easier to dismiss underperforming staff. In Australia, for example, all executive level civil service contracts include a clause that they apply “while the work is available” and so staff could be made redundant in the event of restructuring/downsizing. Redundancy includes up to one year’s salary. There is also a clause in all contracts relating to “no longer having the skills required” which can be used to deal with poor performers. This means that the performance management process can take as little as eight weeks.

166 See Appendix.

167 Moore, A. (2009), “How long can Southend Hospital remain off the NHS Agenda for Change?”, *Health Service Journal*, 21 May.

168 Berry, M. (2009), “Southend hospital trust staff vote to ditch Agenda for Change pay system”, *Personnel Today*, 4 July.

Outsourcing police services

The ippr's recent report on the police workforce found that there is "dramatic variation" in the use of civilian staff across forces in England and Wales, particularly for call handling, custody suites and forensic support. It reported: "An HMIC [HM Inspectorate of Constabulary] report showed that nationally 72 per cent of personnel in crime and incident management units were police officers, but that this varied at between 24 per cent and 99 per cent at a local level (HMIC 2004)."¹⁶⁹

Outsourcing welfare services

Welfare in the UK has been a mixed economy system for decades. Private and third sector organisations were first involved in providing employment services during the 1980s and 1990s. These were often small contracts for specific interventions. Since 1997, there has been a change in emphasis, with companies and social enterprises responsible for the delivery of much larger programmes. The original New Deal, Employment Zones and Pathways to Work brought in private providers to deliver a number of services.¹⁷⁰ In 2008, the Department of Work and Pensions contracted out the majority of its services to 30 organisations and overall had 1,419 welfare to work contracts with over 580 contractors.¹⁷¹

Following the Freud Report and the introduction of the Flexible New Deal the role of private and third sector organisations was further expanded.¹⁷² As well as expanding the scope of their involvement to 80 per cent of the £1 billion a year welfare market, the Flexible New Deal also introduced a new commissioning agenda.¹⁷³ Through this scheme large private organisations will act as prime contractors in 14 contract areas, responsible for subcontracting functions from smaller providers. Additionally, outsourcing contracts will be longer and larger and will reward outcomes rather than specific services delivered.

General practice – modernising the workforce

Professor Nick Bosanquet has praised general practice for developing a better workforce mix than hospitals.¹⁷⁴ Under the centrally planned approach human resources are often planned on a silo basis without regard to team building, although it is impossible to make sensible decisions about medical manpower without regard to other team members and supporting staff that play vital roles in patient care. In contrast, in primary care, where there is more scope for local initiative in staffing, the chosen mix is now very different from the hospital services with fewer doctors and more practice and support staff.

Fire services – changing workforce to reduce costs

The Audit Commission has reported that by downgrading the status of some fire stations in the light of reduced risks, Merseyside Fire and Rescue Service has saved a third of costs without any danger to safety.¹⁷⁵ Its report on the fire service concluded: "If they are to live within those financial limits, fire services that have made least progress will need to follow the example of those that have made significant changes to the level and deployment of their assets, and saved money without comprising capability. Those fire services have faced opposition from staff representatives and sometimes the public, but have shown real leadership in overcoming them."

169 Gash, T. (2008), *The New Bill: Modernising the police workforce*, ippr.

170 Mansour, J. and R. Johnson (2006), *Buying quality performance: procuring effective employment services*, WorkDirections.

171 House of Commons Work and Pensions Select Committee (2009), *DWP's Commissioning Strategy and the Flexible New Deal*.

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

173 Department of Work and Pensions (2008), *DWP Commissioning Strategy*.

174 NHS Employers (2009), *Leading the NHS workforce through to recovery*, Briefing 66, p. 10.

175 Audit Commission (2008), *Rising to the challenge*. "The LLAR [Low level activity and risk] crewing system operates using a pool of wholtime firefighters on flexible contracts who self roster to provide sufficient cover across the five LLAR stations, on a wholtime basis during the day and a retained basis at night. They are paid retainers of 15 per cent, instead of the usual 10 per cent, to compensate them for the additional inconvenience of having to stay on or near the station premises overnight. They can sleep, read, eat or study, but do not have to perform any non-operational duties. This compares to the usual retained contract, where firefighters are based at home overnight. LLAR stations are a third cheaper to run than standard wholtime stations (£640,000 compared to £1 million per year). FRA members supported the introduction of LLAR. MFRS ensured that the public was informed that the level of emergency response had not changed; rather, it was how the stations were crewed to provide that response."

5

The right plan

The scale of the challenge facing the next government is daunting. It is not enough just to rescue the public finances by reducing public spending, although that is essential. It is to do it in the right way, by reforming the public sector rather than just imposing temporary cuts to the same dysfunctional structure. It is a challenge that no government has ever succeeded in before.

Equally, it won't be enough to reduce the deficit gradually, as the Government has set out in the 2009 Budget and seeks to enshrine in the Fiscal Responsibility Bill. On the one hand, as the IMF and others have said, the lack of confidence caused by the deficit means that it should be reduced more quickly.^{176, 177} On the other, the UK should aim for greater reductions in public spending in order to deliver a lower tax economy in the UK. Tax rises such as the new 50p tax rate on higher income will be profoundly damaging to the business environment as well as potentially generating less overall revenue.

The Prime Minister and the Leader of the Opposition have said that they will cut public spending but protect front line services.¹⁷⁸ They are wrong for two reasons. First, the bulk of public spending lies in public services, and most of that is in the front line workforce. The deficit cannot be reduced sufficiently without tackling the front line. Second, and more importantly, the front line of services is the cause of their unsatisfactory performance. Radical change will not happen if politicians see their role as the defenders of the status quo.

Both Government and Opposition have rightly called for radical reform of public services that makes them accountable to their users. But with the exception of policing, both have fought shy of the actual policies that would deliver it. Both have pledged to hedge around reform of education and in particular health with limits and constraints. Opposition to change in the health service is especially misguided since that is the biggest budget of all and the service most in need of change.

Equally both Parties have talked of improving the efficiency of public services without explaining what that means – a fall in headcount. Good public sector managers are ready to achieve more for less. They take for granted that costs can be reduced by 20 per cent without reducing quality of service, by redesigning the front line. The objective is a public sector that operates like the private sector at its best. But since the majority of public service costs are workforce, and the use of workforce is so inefficient, headcount will inevitably fall. Politicians have to ditch the idea that higher employment, of nurses, doctors, teachers, police officers or whomever, is a measure of success.

The main parties have moved much farther on civil service reform. There is the real hope of a cross-party consensus to make Whitehall accountable for performance. That would achieve cost savings, but more importantly would give Ministers much stronger support in reforming the wider public sector.

176 IMF (2009), Transcript of a Conference Call on the Article IV Consultation with the United Kingdom With Mission Chief and Deputy Director of the IMF's European Department Ajai Chopra, and Deputy Division Chief Dora Iakova, Washington, DC, 16 July. "This takes us to the final and arguably central policy issue, which is fiscal policy. Indeed, in the current context of the UK, all roads lead to fiscal policy At the same time, the Bank of England's unconventional policy can only be successful if the public and markets retain their confidence in the sustainability of public finances. Debt is rising fast, but recent market conditions in both the government bond market and also the foreign exchange market show that markets continue to give the UK the benefit of the doubt. This benefit of the doubt will not last forever, and the authorities clearly should not test the market's limits. In order to preserve market confidence, it is crucial to demonstrate the strong commitment to reversing the sharp deterioration of the fiscal position within a reasonable time frame. Concretely, once the economic recovery is established, implementing an ambitious consolidation plan will be essential. The focus should be on putting debt on a firmly downward path faster than envisaged in the 2009 Budget. In order to make such plans more credible, the authorities should also clarify early the specific measures that are needed to achieve the adjustment."

177 King, M. (2009), oral evidence to the House of Commons Treasury Select Committee, 24 June. "I think that we are confronted with a situation in which the state of the deficit is truly extraordinary, 12.5 per cent of GDP is not something that anybody would have anticipated even a year or two ago, and this reflects the scale of the global downturn. It also reflects the fact that we came into this crisis with fiscal policy along a path that was not itself sustainable and a correction was needed. There will certainly need to be a plan for the lifetime of the next Parliament, contingent upon the state of the economy, to show how those deficits will be brought down if the economy recovers to reach levels of deficits below those that were shown in the Budget figures. I think the Budget was commendably honest in setting out the fiscal picture and there is just as good a chance that the picture will turn out to be better than was painted in those single numbers than it being worse. It is encouraging that that degree of honesty is there. We have to confront the fact that these numbers are very large and they pose a challenge to the UK that we will need collectively to deal with."

178 See "Ministerial Commitment" section below.

The challenge facing the next government is so great that it will need to focus on delivering the following key priorities in its first year:

- 1) Achieving complete buy-in from the Cabinet to deficit reduction.
- 2) Reforming the public sector workforce not only to improve services but also reduce costs.
- 3) Reforming the health service – the biggest public service budget – so that it answers to patients and sees a large scale shift in resources out of hospitals and into primary care.

1) Ministerial commitment

Ministers across the spectrum have been taking a lead on reforming the civil service.¹⁷⁹ They must deploy the same vigour in moving the debate to the front line. Speaking at the *Reform* conference preceding this report, Ruth Richardson explained why Ministerial commitment to reform is essential. On the one hand, the scale of the problem requires commitment across government. On the other, it needs a team of supporters rather than putting the project in the hands of individuals.¹⁸⁰

This will take political will. The 2010 Government must have a strong Cabinet, able to give a clear message to departments and public servants about what is expected. A public commitment from politicians that costs must be reduced is still missing from the policy debate. Indeed, there continue to be unfunded spending pledges and opposition to reform. A number of recent ones include:

- > Gordon Brown and David Cameron – opposition to cuts in “front line services”.¹⁸¹
- > Ed Balls – extra schools spending (£2.6 billion).¹⁸²
- > Ed Miliband – support for a Low Carbon Strategy (£405 million).¹⁸³
- > David Cameron – tax breaks for married couples (£5 billion).¹⁸⁴
- > Andrew Lansley – protection of the NHS front line.¹⁸⁵
- > Jim Knight – pressure on local authorities not to close schools.¹⁸⁶
- > David Willetts – 10,000 new university places (£100 million).¹⁸⁷
- > George Osborne – preservation of child benefit for middle class families and winter fuel payments and free TV licenses for pensioners (£10.2 billion per *Reform* estimate).¹⁸⁸
- > David Laws – extra schools spending to cut class sizes.¹⁸⁹

Speeches about the urgent need to tackle the budget deficit one day and announcements of new spending commitments the next create an opaque political environment for the electorate, as well as sending mixed signals to the public servants who will be responsible for driving through reforms. It insulates managers from the need to address costs and makes change more difficult. A clear Ministerial commitment to change will itself support the efforts of good public sector managers (but it is not sufficient in itself, without structural reform of public services).

179 See earlier references to proposals from Liam Byrne and Francis Maude on reforming the civil service.

180 See Appendix One. “You cannot get an overarching strategic intent unless the cabinet, all of the cabinet (not just the prime minister whipping off to a meeting at the weekend and having an explosion about a Tobin tax and the chancellor doesn’t know), the whole of the cabinet has to sign up to the strategy. You will not make a difference to the fiscal problem unless it is a whole of cabinet view and so cabinet must be rehabilitated... You do need a team of believers who are seized fundamentally with the requirement for reform.”

181 Mulholland, H. (2009), “We will make cuts but will protect vital public services, says Gordon Brown”, *The Guardian*, 15 September: “Labour will cut costs, cut inefficiencies, cut unnecessary programmes and cut lower priority budgets. But when our plans are published in the coming months people will see that Labour will not support cuts in the vital front line services on which people depend.” Pascoe-Watson, G. (2009), “Cameron: I’m ready to govern”, *The Sun*, 23 July: “He [David Cameron] made it clear to *Sun* readers he will cut public spending – but will not hit front line services in schools and the NHS. He went on: ‘I am looking *Sun* readers in the eye – and we have to cut public spending. I will do it in a fair way. I will protect front line services. I will do the right thing.’”

182 Curtis, P. (2009), “Ed Balls ‘seeks £2.6bn boost for education spending’”, *The Guardian*, 17 November.

183 HM Government (2009), *Building Britain’s Future*.

184 Kite, M. (2009), “Tories’ £5 billion tax breaks for married couples benefit rich most”, *The Daily Telegraph*, 1 November.

185 Lansley, A. (2009), “Our chance to make the NHS the finest in the world”, Speech on 5 October: The Conservatives will do “more to ensure that the axe falls not on front line services but on waste and on bureaucracy.”

186 Dunton, J. (2008), “Minister tells councils not to close schools”, *Local government chronicle*, 30 January.

187 Willetts, D. (2009), “Press Release: Conservatives will provide an extra 10,000 university places next year”, 5 October. Plans propose that this will be funded from a scheme to encourage current students to pay their loans back early.

188 Cawston, T. et al (2009), *The end of entitlement, Reform*

189 Liberal Democrats (2009), “Primary school standards slipping backwards – Laws”, 1 December.

Much of the discussion around policy in the UK goes on behind closed doors. The US is a good example of a far greater level of openness and public debate over policy proposals. Politicians in the UK should aim to restore the link with the public by having these debates more openly.

2) Visible, accountable and transparent public servants

Thus far politicians have focussed on reform of the back office (in particular on senior civil servants). However, the front line is where most of the cost lies and where the reform is required. In the 1980s, British industry underwent a revival, delaying and achieving efficiency improvements driven by increased competition. In a similar way transparency and accountability can be used to drive efficiency improvements in the public sector. These principles are already improving the culture of Parliament.

Ministers in the 2010 government need to lead change through the following measures:

- > **In the civil service, a clear chain of command stemming from democratic accountability.** *Reform* proposed in the report *Fit for purpose* that democratically elected Ministers should be able to appoint and to fire senior civil servants in their departments. The ability to hire and fire should extend to the entire chain of command so that proper accountability is assured.
- > **Ending the job for life culture in public services.** Departments should stop central recruitment, by cancelling programmes like Faststream and instead only recruit on a case by case basis when a job is clearly required. Private companies have long since abandoned generalist career programmes.¹⁹⁰ Such a change would lead to managers being recruited for specific expertise of the area of work (such as medical or architectural) or for a transferable skill (such as finance or law). The UK's public sector should move to fixed term contracts, as many other developed countries have.¹⁹¹
- > **Abolishing all national terms and conditions.** National terms and conditions should be abolished. Instead these should be set locally with local scrutiny. The relevant Minister could make this change immediately. To deal with short-term pressures there could be a cap on redundancy payments of one year's salary, as in Australia, and on salaries.
- > **Requiring greater transparency in public service salaries and terms and conditions.** In the private sector, cost reductions and efficiency improvements are driven by profit and competition. In the public sector, as the MPs' expenses reforms are showing, transparency can be a significant driver of change. There have already been proposals to publish the salaries of senior civil servants. This should be extended more widely across the public sector.
- > **Demanding visibility and accountability for public servants.** Politicians are right to propose that Select Committees should scrutinise departments in even greater detail, asking them to examine thoroughly business plans, accounts and reported costs/benefits of policies. Permanent secretaries should be encouraged to appear in the media and publicly announce their activities so that it is clear who does what. Local leaders should also appear publicly in front of scrutiny panels and make themselves available to the public and the media.
- > **Removing barriers to competition.** The presumption should be that all barriers to competition and private sector delivery are removed. This includes tackling unfunded public sector pensions and any barriers to outsourcing above the basic TUPE framework.
- > **Focusing contracts on outcomes not process.** Contracts for the provision of services should be based on actual changes in the lives of users of services (outcomes), rather than the achievement of inputs and process.

¹⁹⁰ Underpinning this approach is the rejection of the British obsession with constructing the operation of the civil service around the notion that it should suit the career generalist. The top of the UK civil service has been unwilling to accept the premise that any civil servant might "no longer having the skills required" for a job, because it insists that, with the right training, a given "Grade 7" is equally suited to any role, or at least should be. This discourages employees from playing to their strengths and specialising in areas where they have greatest aptitude.

¹⁹¹ In Australia, senior civil servants' contracts include a clause that they apply "while the work is available" and as long as the employees have "the skills required". This makes it easier to deal with poor performers and to make staff redundant in the event of a restructuring or downsizing.

- > **Repeating the success of the Bernard Gray review of the Ministry of Defence across Government.** The Bernard Gray review shows the value of independent advice to Ministers on the costs of departments and how to reduce them. Ministers need to repeat them across Whitehall. That means:
 - > independent teams working directly to Ministers, staffed with officials and the private sector.
 - > explicit numbers on possible savings and, crucially, a public commitment to the independent audit of the savings achieved.
 - > bottom-up assessments of the usefulness of jobs, and the extent to which jobs duplicate or add value.
 - > publicly available information on departmental budgets, staff numbers, pay, terms and conditions.

3) Reforming the NHS

The worst example of poor management and lack of transparency is the NHS. The 2010 Government will not have enough political capital to tackle all public services. It must prioritise and as the area that has enjoyed the biggest spending increases in the last decade, health should be the number one public service reform priority. The alternative is that costs will escalate to the point that all other budget savings will become irrelevant.

The challenge is to take the political constraints from the NHS and to allow a shift in resources from secondary care to primary care. Good NHS managers are ready to make that change but have faced national political opposition. Choice of NHS hospital is not enough – what is needed is choice of Primary Care Trust, so that people can take real control of the money that the NHS spends on their behalf.

The result – a high wage, high productivity public service

Given uncertainty in economic variables, such as rates of growth and government spending, estimating a single number for a required reduction in workforce costs is difficult. However, as shown in Appendix One, the level of reduction in workforce costs required to offset an eight per cent structural deficit is around 15 per cent (over £27 billion in today's money). To put this figure into context, the overall increase in the number of public sector workers since 1999 is around 16 per cent.

It is not necessary to reduce the number of public sector workers by 15 per cent to achieve this reduction in workforce costs. This could also be achieved by managing wage and other associated workforce costs. Yet an approach that allows wages to rise with productivity, rather than forcing wages down to protect underperforming workers, would be in the longer term interests of workers in and customers of public services. Natural wastage numbers in the big public services are high enough to absorb some of the necessary reductions.¹⁹² For example, the turnover rate is 15 per cent in education and 11 per cent in healthcare.

Protecting jobs while forcing wages down traps public sector workers on a “sticky floor of the labour market”, where they become segmented into low paid and low productivity employment.¹⁹³ The challenge is to transform these jobs into high wage, high productivity ones.

Making this transformation will require the front line to change. This requires people working in different ways, on different things, and/or for different employers. While making this transition will be challenging, this does not have to take place overnight. Discussions between employers, workers and their representatives on how to manage this change do, however, need to start now and recognise that delay increases the costs of inevitable change.

Other sectors in the UK economy have made this transformation. In many privatised industries, such as telecommunications, there has been a marked improvement in labour productivity. A major driver of this increased productivity has been an increase in competition facing companies in privatised sectors.¹⁹⁴ Barriers to competition in public services should be reduced where possible and transparency improved to provide a similar powerful driver of improved public sector productivity.

¹⁹² CIPD (2004-09), *Recruitment, Retention & Turnover Annual Survey Report*; CIPD (2003), *Labour Turnover Survey Report*.

¹⁹³ International evidence on job creation schemes highlights that protecting public sector jobs is unlikely to lead to significant protection in economy-wide employment numbers (Andrews, G. and J. de Raad (2009), *The unemployment challenge*, NZIER Working Paper 2009/02). Protecting these jobs creates a substitution effect, where services put off hiring new workers to protect existing workers (meaning no net increase in employment), and may prop up the “wrong” jobs”, which undermines necessary structural change and long-term job and income growth.

¹⁹⁴ See, for example, Parker, D. and S. Martin (1993), “The impact of UK privatisation on labour and total factor productivity”, *Scottish Journal of Political Economy*, Vol. 42, Issue 2, pp. 201-220; Haskel, J. and S. Szymanski (1993), *The Effects of Privatisation, Restructuring and Competition on Productivity Growth in UK Public Corporations*, Department of Economics, Queen Mary and Westfield College, London; Bishop, M. and D. Thompson (1992), “Regulatory reform and productivity growth in the UK’s public utilities”, *Applied Economics*, Vol. 24, pp.1181-90.

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Appendix 1: How much needs to be cut from the cost of the workforce?

The size of the hole

The Government's predictions for the economy, and consequently government debt,¹⁹⁵ have been wildly optimistic. Further, when economic growth returns the Government will still continue to spend much more than it can afford. This shortfall (structural deficit) may be anywhere from 6 to 10 per cent of GDP, but has reasonably been assumed to be 8 per cent.¹⁹⁶ As the Institute for Fiscal Studies has noted, left "unaddressed for too long, an increase in the structural deficit of this size would see the burden of government debt and interest payments increase rapidly to unsustainable levels."¹⁹⁷ This would place the UK's AAA credit rating at risk and raise the cost of borrowing to repay debt – raising interest rates (not just for government but for businesses and households), holding back recovery and crowding out other areas of government spending.¹⁹⁸

Accounting for spending (TME, AME and DEL)

Budget 2009 estimated total managed expenditure (TME) of £671.4 billion (47.6 per cent of GDP) in 2009-10 and £701.7 billion (48.1 per cent of GDP) in 2010-11. This represents an increase of close to 12 percentage points (as a percentage of GDP) from 1999-00 to 2010-11.¹⁹⁹

Government accounts break this expenditure down into annually managed expenditure (AME) (such as spending on welfare) which is "demand driven" and departmental expenditure limits (DELs) (such as most spending on the NHS) which is spending that can be "controlled by government." In 2008-09, AME accounted for 42 per cent of total expenditure and DELs 52 per cent.²⁰⁰ DELs themselves can be broken down into:

- > Capital spending (spending that adds to the public sector's fixed assets). The IFS has estimated that in 2008-09, 11.3 per cent of departments' total DELs was allocated to capital spending.²⁰¹
- > Spending on other items (resources budgets), which accounts for 88.7 per cent of total DELs. Of this, workforce costs account for an average of around 50 per cent of the cost of these resource budgets. Based on this, the costs of the public sector workforce account for around 29 per cent of all government spending.

195 Budget 2007 estimated the government's net debt in 2009-10 would be 38.8 per cent of GDP, which would fall to 38.6 per cent in 2011-12. By Budget 2009 these figures had increased to 55.4 per cent and 70.9 per cent respectively. Independent forecasts are less optimistic than the Government's, as the Institute for Fiscal Studies has, for example, forecast that public sector net debt will increase to 79 per cent in 2013-14 (c.f. the Government forecast of 76.2 per cent) and will remain high until 2032.

196 Cable, V. (2009), *Tackling the fiscal crisis: A recovery plan for the UK, Reform*.

197 Chote, R., R. Crawford, C. Emmerson and G. Tetlow (2009), *Britain's Fiscal Squeeze: the Choices Ahead*, IFS Briefing Note BN87, p. 2.

198 The IFS has estimated that "a one percentage point increase in the average interest rate on government debt would add around an extra 15% of national income to the debt burden by 2025 and 35% by 2040" (Chote, R., R. Crawford, C. Emmerson and G. Tetlow (2009), *Britain's Fiscal Squeeze: the Choices Ahead*, IFS Briefing Note BN87, p. 5).

199 The spending increase since 1999-00 has been the largest and longest since 1975.

200 Crawford, R., C. Emmerson, and G. Tetlow (2009), *A survey of Public Spending in the UK*, IFS Briefing Note BN43, p. 8.

201 Ibid. The proportions vary among votes, however, with health having a relatively low proportion going on capital spending (around 5 per cent), and children, schools and families, local government and justice and the home office all having around 10 per cent of DEL going on capital spending.

Expenditure cuts not taxes

There are only three options for reducing a structural deficit.²⁰² The government must reduce spending (as a share of national resources) on public services (DELs), reduce welfare payments (AME), or introduce further tax increases.²⁰³ Internationally the most successful deficit reduction programmes focus on the first two options. In Canada in the 1990s, for example, the ratio was C\$7 in reduced spending for every C\$1 extra in tax collected. Politically this made it easier to win the case for restoring the public finances – as the public could see that politicians were focussing on getting their own house in order rather than increasing the tax burden on the productive sector of the economy.²⁰⁴

Required level of reduction in the cost of the workforce

Given uncertainty in economic variables, such as rates of growth and government spending, estimating a single number on the required reduction in workforce costs is difficult.²⁰⁵ Any estimate will, for example, depend on policy decisions, such as the timeframe for reducing the structural deficit, the emphasis on spending reductions versus tax increases, and the allocation of spending reductions between AME and DELs, between capital and resource budgets within DELs, and between workforce and other costs within resource budgets.

As an indicator of the level of reduction required in workforce costs, if an eight per cent (as a proportion of national income) structural deficit was reduced through cutting AME and DELs evenly, if capital programmes bore the cost of these reductions through 10 per cent reductions,²⁰⁶ and if workforce costs were reduced in line with the proportion of total DELs for which they account, then the total cost of the workforce would be required to reduce by around 15 per cent (over £27 billion in today's money).

202 Institute for Fiscal Studies (2009), "Loosening public services squeeze requires tax rises or welfare cuts", Press Release, September.

203 *Reform's* report *The end of entitlement* identified options for reducing the cost of welfare by £14 billion through immediate cuts and for making further savings through introducing longer-term reforms.

204 Martin, P. (1996), "The Canadian Experience in Reducing Budget Deficits and Debt", *Economic Review*, Federal Reserve Bank of Kansas City, pp. 16 and 23.

205 The estimates below are based on GDP (at market prices) for the last full year (2008-09) (Office for National Statistics (2009), *UK output, income and expenditure – 3rd quarter 2009*, 25 November).

206 Under current plans, capital spending is due to halve from 2010-11 to 2013-14. This is, however, the wrong approach as the payoff for growth from public spending is highest for spending on infrastructure (Bosanquet, N., et al (2009), *Road to recovery, Reform*, p. 6).

Appendix 2: Transcript from “Implementing change”

The following is a transcript of a panel discussion at *Reform’s* policy conference, *A new government agenda*, held at the London Stock Exchange on 10 November 2009. The session discussed how policymakers can change the structures and cultures and customs of government to achieve better delivery and accountability.

Implementing change

A panel debate chaired by Greg Rosen, Consultant Director of *Reform*.

- > Hon Ruth Richardson, New Zealand Minister of Finance 1990-93
- > Zenna Atkins, Chair, OFSTED
- > Howard Flight, Shadow Chief Secretary to the Treasury 2000-04 and author of the James Review of Taxpayer Value
- > Gillian Fawcett, Head of Public Sector, ACCA

Introduction

Mr Rosen: Thank you, Andrew. Thank you everyone for coming this morning and taking the time to consider what we think are some extremely important issues and we hope that this panel session this morning will shed some light as well as possibly some heat on some of the issues on this cold winter morning. I have beside me on this panel an array of insight and expertise from across the globe.

On my right Howard Flight who has come hotfoot from Ireland today where he has been on a fact-finding mission and to see his daughter’s graduation. Howard Flight, before spending time in Ireland, was a very senior Conservative politician, Shadow Chief Secretary to the Treasury amongst other things and has a background, as well as in politics, in the financial services industry.

On my immediate right, hotfoot from New Zealand via Cambridge, is Ruth Richardson, who, as well as being the former New Zealand Minister for Finance, the equivalent of the New Zealand Chancellor of the Exchequer, is a veteran of politics, and an international expert on the shape and conduct of economic reform.

On my immediate left, Gillian Fawcett from the ACCA has worked around government for some years, advising with the Audit Commission UK and being seconded into the UK Parliament as Deputy Head of the Scrutiny Unit; a tough job but someone has to do it!

On my extreme left, Zenna Atkins is a social entrepreneur, but also has a phenomenal insight into a range of government bodies, the quangocracy, some more effective than others. Some which operate in a regulatory way – Ofsted which you are Chair of and others which, well, do stuff. The Olympic Legacy Trust will be looking to make a success of the Olympics in 2012 which will be a phenomenally exciting opportunity. The opportunity there to make a great success or some of the sceptics will say maybe it won’t. And you’ll have the opportunity to try and make that work.

Ms Atkins: I’ve resigned, so I won’t! Very recently.

Mr Rosen: Sorry, I’m behind the curve!

If we could start off with Howard Flight on my right to give us a few thoughts from his own insight and experience.

Panel discussion

Mr Flight: Good morning everybody. I can't resist commenting first in reaction to Andrew's comments that, I think as is known, I was someone that argued that the public finances were in a mess as long ago as 2005. And secondly indeed warned in the 2005 Budget debate of the coming credit crisis. And so I think at least some didn't bury their heads in the sand.

I spent about a year of my life pulling together the James Review prior to that which was extremely instructive, but I would just comment that I think what it showed up were appalling problems of accountability. And secondly, well I suppose inevitably, but enormous political blocks to actually doing what any rational person might propose doing because there were all the vested interests behind them.

I'm not going to talk about that or about economics because sort of sitting back after having had nearly ten years in parliament and often thinking about it, it seems to me that we have at the root a problem of a parliamentary system that no longer works. The system ought to deliver good government, it ought to deliver good laws, the minimum of good laws. And particularly over the last decade it has manifestly failed on both.

I think it was very amusing that back in '04 it was an ECB report that found the UK's public sector was the most inefficient in the whole of Europe; that's quite some achievement, and with about 20 per cent wasted, but who took any notice of that. We've had the sorry sight of completely inadequate Ministers supposedly accountable, really scarcely even being on top of their briefs, let alone having any insight.

We have unfortunately those heading the ministries, the chief executives, completely unaccountable publicly. We've had a government-corrupting power of appointing people to quangos growing and growing and growing.

The Public Accounts Committee at Westminster with the National Audit Office does an extremely good job of reviewing area by area of public spending and comes up with pretty good recommendations. But no one takes notice, governments don't take any notice of them unless it suits them.

And I think that everyone knows if you really want to say something and know that nobody will ever hear about what you're saying, say it on the floor of the House of Commons. It has become a completely empty shell other than the theatre of Prime Minister's Question Time. Legislation is not properly considered, the House of Lords does its best, that's where most of the talent lies, but whoever has a majority just can get through increasingly whatever they want without proper consideration. I think the one good area of Westminster is Select Committees which do do quite a good job in calling others to account.

Now just as an historian, the UK system evolved out of something quite different. We had the Act of Rights which was the same as the American system. And Walpole discovered in the Eighteenth Century that if you could get control of both houses of parliament, and dealing with new imported German monarchs that didn't speak much English, he could grab power. And so we had not what was intended as the settlement to the Civil War, but the system that evolved. And it worked very well for 200 years while the party system wasn't too strong. While governments didn't do that much domestically. While there were lots of independent members of parliament of stature, who voted according to principle. But that has all gone, it's just a system in essence of placement now, and of political professionals.

And so I was thinking when was the last time it worked? I think actually it was the backlash to the failed Heath government, when what were called the Tory backwoodsmen voted-in Thatcher. That was the last time any of the parties had a significant number of independent-minded MPs. So we've become an elected tyranny. And what you can see is a pattern; it tends to be ten or twelve years of one lot and they completely mess it up and then ten or twelve years of the other lot.

And now we even have the parties effectively choosing the candidates to be members of parliament. You have this ridiculous control by parties of the whole thing. The sort of alleged justification no doubt is that once in power we can really implement. But I don't think the record has really shown successful implementation. And although I'm sure the next Tory Government will do a great deal better than this Labour Government, it too will have problems with the system. Now some argue that the way the House of Commons works, can be reformed from within and I know Douglas Carswell is going to talk about that later and I think what he has to say is very persuasive. But I am doubtful that it actually is sufficient to go to the root of the problem.

There aren't proper checks and balances in a situation where the government is virtually half the economy. And so I end up saying we should consider at least moving back to where we're supposed to be, which is in essence the US system, a separation of executive and legislature. The executive would be in essence a prime minister elected. They would appoint their cabinet. Some would be brought in from outside, some would be existing senior civil servants. (I note, by the way, that Brown is starting to do that by using the House of Lords anyway, because there's such a shortage of competent people on the Labour side in the Commons). You'd have the executive, the people appointed would have to be quizzed and vetted by parliament so you knew what they were. They'd be accountable to parliament in the same way Congress operates and the Houses of Parliament would get back a real democratic role of checks and balances and scrutinising legislation. And I note that in the US, despite having a two-party system, the role of Congress and the roles of the House of Representatives and Senate to my mind work extremely well.

I thought about it September a year ago, I remember coming back from Birmingham because the congress had turned down the immediate bank bailout measures and we were on the verge of the banking system collapsing. And I came back essentially to protect my own affairs. But I thought about it afterwards. They were right. They were not going to give government a blank cheque. They indicated they were going to pay the money, but they were going to do it on terms that were democratically accountable and even in that crisis it struck me that they were actually correct.

So I'm not saying the US is perfect, no doubt Douglas could do an analysis of how it could be improved. But to my mind it would be very difficult to get reform implemented to make it accountable and to have a system that works unless we actually do move in the direction of separating legislature and executive. And I think otherwise there is that awful tendency that once in power governments only do things when they are forced to by the market, they are not accountable in what they do, they often make terrible mistakes in their early days and they end up after ten or twelve years exhausted. And so I repeat, I think that the very system that we have has actually had its day and run out of steam.

Thank you.

Ms Richardson: Well thank you. I follow a man who speaks with great moral authority on the topic and I'm pleased to be in your company Howard and that of *Reform*.

First a scene-setter on the problem; you've got to get a good diagnosis first. And then I'd like to offer some ideas and experience on what the fix might look like.

I think we have to look at the anatomy of a meltdown, not just in the private sector. The chairman of the Stock Exchange captured it well – lots of numbers, no judgement – but we have to equally train our guns on the public sector.

I think Chuck Prince, you may know him, he of former Citibank fame, he made a notorious remark, and he said: "As long as the music is playing you've got to get up and dance". And the private sector was in wilful denial. We had the origins of the crisis, the veritable boom and bust (which was not legislated out of existence by Gordon Brown) and then the systemic meltdown. And the systemic meltdown in the private sector has been followed by what is sort of termed the 'new normal', it's known as the credit crunch, recessionary times, pressing the reset button as it were.

Now we all know that that has happened in the private sector, and when last night I read the blogs on my written contribution to the conference, it reminded me a little of asymmetrical warfare, all the guns trained on the private sector, all the sins of the private sector laid bare and this little zone of holy thought and excellent execution in the public sector that apparently was to be preserved from such criticism. Well we have to be even-handed because the crisis has occurred in the public sector as well. The public sector has suffered from its own hubris. We've had the spending escalator – apparently there's only one way and that's up. And I think that politicians and the public at large have been wilfully blind to the fact that the benefits have been in no way commensurate with the climb in public expenditure. And I've got to say the opposition party here in Britain has been complicit, they wilfully promoted the delusion that the proceeds of growth could be shared.

Well all that cover is now bust. We have a systemic crisis. Growth has been killed. Debt and deficit we know, unless tackled, are going to be a permanent drag on the ability of Britain and most other countries to climb our way out of this crisis. And so the new normal is now fiscal responsibility.

So my starting proposition is that if you look at the agenda for this conference – New Government – new government is not possible without new politics and new rules of the public sector game and that's what I want to concentrate on. Because these days whether you are in government or opposition, whether you are in campaigning mode or governing mode, there is no escaping the harsh and dominating reality of deficits and debt. There's nothing like the prospect of a good hanging to concentrate the mind. And I can tell you the mind is very concentrated and the hands of all politicians have been forced.

So if that's the diagnosis then what's the fix? Well I can tell you what the fix is not. The fix is not a public sector freeze. The fix is not salami slicing away and leaving an inefficient bloated bureaucracy, unaccountable, lacking transparency, old politics, old rules of the game. That is most certainly not the fix and I think it's important that as politicians come to the task of governing they should rid themselves of the notion that getting into office means safe harbour. The current arrangements are not in any sense of the word safe harbour.

I think that in my analysis there is fundamental reform required at four levels. There are four factors in which if I look at Britain in particular, I find deficits. First of all the size and the role of the state. We must ask the fundamental question: is the state fit for purpose? Secondly, the rules of the game: are the institutions, the fiscal institutions, the public sector institutions, fit for purpose? Then we need to look at the machinery of government: the cabinet, the Select Committees, the parliament, officialdom, are they fit for purpose? And the fourth factor you cannot legislate for, but which is critical to the execution of change and that is political courage. So let me deal with them and submit some ideas, on all four fronts to overcome these deficits.

First of all the domain of the state. The domain of the state is very extensive. It has grown without question. It has been regarded as the third rail. If you look at what drives most public expenditure – health, education, welfare – you must ask the fundamental questions. What is the role of the state? Is the role of the state to own those institutions? To fund access to those institutions? To regulate those institutions? Those fundamental questions must be asked. And my submission is the state is not fit for purpose, it's too big, the consequences are large and destructive and we must have a state that attends to the sovereign functions and doesn't extend itself beyond its proper remit.

And the proper remit of the state should be about the outcomes. Does the state behave in a way that promotes growth? Does it promote the creativity that we saw in all of those blogs? Does it promote personal responsibility? These are tough, tough political questions around welfare entitlements, around the reform of health, and around empowering parents and patients in education and in the health regime.

So you can't have a debate about fiscal responsibility without being willing squarely to address fundamentally the role of the state.

Secondly, the discipline of public expenditure. What are the rules of the game? When I came to office in the early '90s, we too in New Zealand faced a fiscal crisis. It was my view that we needed to develop rules of the game, and I pioneered the first code of fiscal responsibility.

Let me just say a word of warning about that however. I hear a lot of parallels being drawn between independent but accountable Central Banks and independent but accountable conduct of fiscal policy. My view is you cannot outsource fiscal policy. You can attempt to take fiscal policy out of the political domain but you will never take politics out of spending preferences. So the politicians can't just send it down the line to somebody else. They must take charge of the policy driving public spending.

My third proposition is to turn my guns on the machinery of government. What are the roles of the actors and what are the tools they have at their disposal?

First of all the cabinet. I see that the master of my son’s college at Cambridge, Lord Wilson, he and other former secretaries of the cabinet have recently volunteered some views about the rehabilitation of the cabinet. You cannot get an overarching strategic intent unless the cabinet, all of the cabinet (not just the prime minister whipping off to a meeting at the weekend and having an explosion about a Tobin tax and the chancellor doesn’t know), the whole of the cabinet has to sign up to the strategy. You will not make a difference to the fiscal problem unless it is a whole of cabinet view and so cabinet must be rehabilitated.

Ministers must be able to commission what it is they seek in their domain and how it is that the things they are buying from their departments advance outcomes around health, education, opportunity; welfare in the best sense of the word

Select Committees must be more empowered, and I’m glad to hear Howard that you believe that is happening here in the United Kingdom. Select Committees are a very important part of modern public policy making.

Parliament itself must be given new tools. It’s useless budgeting in terms of inputs. I was the first minister, in the western world anyway, to produce the sovereign accounts in generally accepted accounting practice. And you budget in terms of outputs so you know the link between resources and results.

For officials, we must get rid of this notion of a job for life. We must have people who are fit for purpose. You have to be able to contract your human resources. Human resources are more critical than financial resources. And so you have to turn on its head the old regime of a job for life and no accountability.

And finally the public, of course, have a huge part in all of this. The blogs are fantastic. They blow the whistle, they call to account. More and more power in this age is being grabbed by citizens in the public domain. That’s a very healthy thing. So what I’m saying is old models and old tools won’t serve the new imperatives.

And finally the question of courage for which you cannot legislate. When the OECD looked at Britain a year or two ago they said that what Britain required was “ambition, focus, urgency and clarity in order to create irreversible change”. Cometh the hour cometh the man.

Ms Atkins: Thank you. The focus of what I’m going to say is about the internal workings of the system: the civil service, the quangos and to a lesser extent local government (because I think that is a slightly different administrative issue). So I will focus on the tools the politicians will be left to play with in this new government.

And can I please say that these are my personal views and do not represent the views of any organisation that’s ever had anything to do with me ever. I must be absolutely clear about that.

What are some of the challenges of trying to change the civil service? You come in, you’ve actually got some policies, you’ve got some ideas, you’ve got some moral courage. Well you walk into an institution which actually, as we’ve already heard, has created jobs for life, has created an expectation of self-serving. And I don’t mean that necessarily critically, but in the civil service the whole way you are structured is that you play the self-service game. And if you play it well you’ll get to be permanent secretary and if you don’t you won’t.

And that is the reality, so you come into that, you come into an incredibly risk averse culture and I’ve been genuinely surprised at the realities of the risk-aversion in the civil service since I came in. And there are two risks that the civil service absolutely doesn’t understand. One is the risk of doing what they’ve always done and the other is the risk of doing nothing. Every other single risk is scoped to death – I have never seen such scoping, which inevitably creates complete inertia and stagnation.

I think you’ve got genuine issues around some of the cultures and the systems. You’ve got real challenges just around the churn. In order to get promotion as a civil servant you have to be a generalist and you have to be prepared to move fairly quickly having done jobs for usually in the region of a couple of years. So you get a lack of gravitas, you get a lack of corporate history, you get a lack of anybody actually seeing something through and being personally accountable for it. There is no accountability structure in the civil service in the same way as you or I would know in industry, where there are quite clear schemes of delegation from the board throughout the organisation. That simply doesn’t exist, so you create a system of continuous double-checking and double-accounting because everybody is worried they’ve done something they shouldn’t and so everybody does nothing.

There is an absolute accepted behaviour code that is completely unwritten in the civil service and permeates into many non-departmental government bodies. And that behaviour is about the behaviour of niceness. It is more important that you have signed your letter correctly than the content of your letter, and that is utterly crippling.

The terms and conditions of the civil service are absolutely crippling. When I came in as chairman of Ofsted we were desperately oversized as an organisation and our initial target was to save £30 million. We'll save at least £80 million. But it has taken 18 months of unbelievably hard work just to get rid of people. And I stumbled across something called the “Talent Pool” in a department and I said “Oh, who are these people?”. They were all the people that you couldn't actually make redundant. You put them in something called a “Talent Pool”. Well clearly it is the Talentless Pool, and collectively when I added up as many of these as I could find around Whitehall I found 25,000 people, so there are real things that are extraordinary and that you consider in any way that would be acceptable anywhere else.

There is absolutely no sense of who the customer is in the civil service. That gets less – so when you get devolved down to local government and it gets less – so in the devolved parts of some of Whitehall. As an example, some parts of the National Health Service, devolved to local levels, are exceptionally good (a lot are not), and they really understand who the customer is. But a lot of Whitehall simply doesn't understand it at all.

There is a culture of briefings and protecting the minister, so everything is information overload. You ask a simple question as a chairman of a government department (Ofsted is a non-ministerial government department) and I will get briefings that are 40 or 50 pages long, think of the work that goes into that. I made a mistake quite early on (because obviously my children don't do any homework) of saying “What is Ofsted's general view on homework? What do we find when we go in and inspect schools?” It took seven people four weeks to get me an answer that was impenetrable, because we'd never actually commissioned a subject survey, so people just gathered every piece of information there ever was.

Which leads me onto another real challenge that you've got when you come in, which is that the understanding of the use of modern technology is simply not there in the civil service. Just end of. There is nothing more to say on that, it simply isn't. There have been pockets of excellence: the data observatory in the Department for Children, Schools and Families, the early work in the Transformation Team in the Cabinet which have been utterly squashed. When the innovators who started them leave, they are killed, stone dead. So the only way that the civil service knows how to contract innovation and technology is to go through the OJEC procurement process. Well there you have an absolute answer for total disaster!

So some of the tools and things you are given (as an example, how you contract, how you engage with industry) are crippling. Part of that is Europe, part of that is self-made and part of that is an absolute lack of courage to say, “Bollocks to it, I need to get this done!”. And there is really not very much of that. So that is some of what you've got.

Having said that, there are lots and lots of examples of good practice that I can talk about. But here are some of the things that I think that I would do.

The first and biggest thing that I would do is I would stop doing stuff. I would not reorganise: we do not need any more reorganisation. We need to stop. Just stop it. Because we reorganise and we move the deckchairs and we create new departments, and actually we just create more sodding people and jobs. Because we suddenly find that you just have to stop and very quickly you will know what it is essential that you have stopped, and you can recreate what you actually need, but if you don't stop it you will never find it.

I would introduce immediately and without hesitation a really good system of performance management: at the moment it's garbage. How we manage our people in the civil service is truly, truly poor. It is not based on the best practice anywhere. It is based on what is least likely to see me in court, if I ever end up in a tribunal, so how can I cover my arse through this process? It is absolutely not based on how can I get change in this business, how can I get innovation in this business, how can I get success in this business, how can I promote my best people and how can I deal with the people who are underperforming?

The next thing I would do immediately is I would deal with poor performance, whether that is poor departmental performance, whether it's poor organisational performance, or whether it's poor individual performance. The one thing that the public service really does not have, is it has no ability to deal with failure. It colludes with it and it covers it up. We absolutely need to expose failure and deal with it decisively.

The other side of that is you need to incentivise and reward good behaviour. And there is absolutely no incentivisation for these poor sods, either personally or departmentally. So if you work in the National Health Service as I did (I came in chairing a Primary Care Trust in 2001), we created an organisation that began to generate a profit from day one. People's lives were extended by two years in Portsmouth because of the ill-health prevention work that we did. We transformed pathways of care and all the profit we made went directly to the failing organisations all around us. Hmm, I feel like carrying on with that plan! Absolutely no reward. We need to incentivise and reward good behaviour.

And I think what we do know about government is it needs to be considerably smaller so you need to incentivise the people at the top of it to make it smaller. And yes, I would do that personally. If 20 per cent of all your savings you could keep to reinvest in your own department/business/area of practice and of that 20 per cent, five per cent went directly in your pocket, we'd have half the size of government within half an hour! It really wouldn't take them long.

You have to stop the churn at the top – absolutely essential. You can't have people coming in, as an example trying to run the Ministry of Defence (which actually I have spent quite a lot of time in and there are no easy simple solutions): 100,000 civil servants, 200,000 people, if you just cut the civil service in half the whole thing falls over. You've got to use real, real skill to sort it out. For me it's the hardest department to crack. I find the NHS easy, I find education easy. That's a real biggie. But you can't have leaders who are there for two years trying to do it, it's absolute nonsense. They need to be given a fair crack at the whip and a certain amount of time to do it and I say five years is what you want to give them to do that.

So those are some of the things. You've absolutely got to focus on outcomes. We are utterly obsessed with inputs and structures, organisations and systems in the public service, not on outcomes and not on customers. So we reorganise. We reintroduce systems and we forget whether it actually makes a difference to the outcome that we want to achieve? In order to do that, of course, you've got to know what you want to achieve. And that is a really big problem and I think we need to invest a lot more time in that. We need to invest in the creative innovative use of technology, particularly to communicate with and through our customers and our staff. We actually can't in any department of government that I have come across just text all our employees and say “what did you think of work today and what would improve it tomorrow?” This technology exists, it's incredibly cheap. We use it in industry all the time. One College I know has 10,000 students and God knows how many staff, they text them every day: “what would you improve today?” It's all on a database system and I think it cost them less than £50,000 to implement. There are really simple things that you can do that we need to do in terms of technology.

I think we have to really focus on money, there is no understanding of money. Unless you understand what things cost in government you can't possibly begin to think about value or saving money or changing anything.

And just in closing, I think there are some things that probably people don't talk about very much with the civil service. I would heavily invest not only in diversity but in supporting diversity. I am not the only woman that I ever meet breezing around the corridors of Whitehall, but I'm the only person I meet who did not get five GCSEs or five O levels with English and Maths. I did not get A levels. I got one O level, a B in Biology and I'm very, very proud of it. It is to date my only qualification – I didn't go to university and get a degree.

Now you don't want the civil service populated by people like me, it would be truly terrifying and a complete chaotic mess. However of the parents whose children are in state education today, nearly 70 per cent also didn't get five GCSEs with English and Maths. And so when we make policies that say “if you don't get that you will fail”, we become utterly incredible. To be credible to our customer, to be credible to businesses, we need to have diversity in the civil service. We need to have people who have worked in industry, we need to have people who have not followed the Oxbridge mould as well as those that have. So diversity isn't just about getting somebody from a black or minority ethnic community into your board or at the top of civil service. It's about the range of people that you serve as your customers and the range of people that you work with as your partners, because otherwise you lack credibility and otherwise the policies that you implement are utterly undeliverable because they're being delivered by people who simply don't understand the motivation, their behaviour, their culture etc.

You need to reenergise governance in the civil service. Civil service boards are a joke, frankly, their audit committees are a joke. And I'm not talking about political governance, I'm actually talking about the machinery internally. There are no balls there. Nobody says “this is wrong!”. And we've seen what happens in the banks when you don't do that, and it's riddled with that across the civil service. So people who are continually calling it don't exist. I've now met 100 non-executives who've had different roles in government, a lot of them in the Ministry of Defence, and I'm the only one who will stand up and say “I absolutely inherently think you're wrong and this is why.” Now sometimes I'm wrong, but unless you say it, and if you kowtow and you have no real governance you won't get change.

And two final things I will end with. First is you absolutely have to back leaders. Leaders create culture, leaders create behaviour, leaders create change, leaders create innovation, and you cannot continue to have a system where you say anybody who leads in the civil service is too much of a threat to a minister so they must go. Because otherwise you will never, ever, ever get change.

And the other big thing I would change is the one thing I've discovered. All of the whole of the civil service is utterly terrified of two things: one is the media and the other is the public, and you absolutely have to help them get over their fear.

Ms Fawcett: Every year parliament authorises around £600bn of public expenditure and the taxes to actually fund that expenditure, and some would actually say at the blink of an eyelid actually, with very little scrutiny undertaken at all.

There has been a general perception within and outside parliament that financial scrutiny is seen as less of a priority. For example parliamentarians prefer to get engrossed in policy and performance issues rather than financial scrutiny. And dare I say it, financial scrutiny, is not seen as the sexy part of parliamentary scrutiny, until now. The financial crisis and the emphasis on efficiencies in the public sector have actually brought financial scrutiny to the fore and indeed raised public expectations about financial accountability. Parliament, and in particular Select Committees (and we've heard how well the Select Committee system is working), has a real key role in improving financial scrutiny. Financial scrutiny is interlinked with policy and performance issues and shouldn't be divorced. Although a number of positive reforms have been made over the years, such as providing Select Committees with increased technical support, professional support, and indeed thinking about the current Alignment Project which is looking at streamlining financial information to parliament, I strongly believe that these haven't gone nearly far enough.

Also parliament is actually focusing on the wrong thing with regards to financial scrutiny, in that the focus to date has been on the estimates rather than the Comprehensive Spending Review. The decisions are made during the CSR, that's when budgets are set and that's where Select Committees should actually focus.

But it's not entirely the fault of parliamentarians in relation to financial scrutiny. The way the system is designed is overly complex, it doesn't make things simple. The financial information presented to parliamentarians is complex, and so complex that financial professionals can't agree on, for example, the accounting treatment of the performance of Public Private Finance Initiatives.

There needs to be a root and branch review of the way financial scrutiny is conducted in parliament. It certainly needs to be stepped up. It needs to, and Select Committees in particular, increase its impact on the budget process and the way it scrutinises taxation. For example there's very little expertise within Parliament, in terms of taxation expertise, when it comes to reviewing the budget.

The scrutiny unit which was set up in 2002 was indeed a welcome addition. It was set up for two reasons really. One was to conduct pre-legislative scrutiny and the other was to help Select Committees up their game in relation to financial scrutiny, and it is staffed by a number of financial experts. But again it needs to be strengthened and it needs to develop. I think it's done little to develop since the Hansard Society reported on some of its weaknesses in 2005. It needs to have open access to parliamentarians: at the moment the way the scrutiny unit operates is through committee clerks to the Select Committees, so MPs haven't got direct access to that technical support.

There needs to be a systematic follow up of recommendations in terms of the reports that are issued by Select Committees. We’ve heard about the PAC who do a wonderful job in terms of reviewing 70 value-for-money reports within a parliamentary session, but because of that there’s so little time to actually follow up those reports. Have those recommendations actually been actioned? That’s the proof in the pudding, and that’s what Select Committees and the PAC need to actually focus on. They must set aside some time to actually revisit reports, otherwise why are they being produced?

I talked a little bit about financial information and the Alignment Project which has been undertaken to streamline that information. It’s my strong belief that that could actually go further. The plethora of financial reports that go to parliamentarians are just ridiculous and overly complicated – much more work needs to be done in that area.

Questions from the audience

Mr Rosen: Thank you everyone. We have ten minutes for questions and discussion.

Mr Haldenby, Director of Reform: Ruth and Zenna, and Howard as well although you didn’t speak so much from experience, but from your time in shadow treasury: you’re people who have done it, you have got a grip of a department, you’ve got a grip of public spending, you’ve got a grip of this non-departmental agency, you’ve changed it. To what extent is what’s needed a team of people like you, more people like you, or is it a combination of that and structural change to change the way these departments run?

Mr Wolfson: Where do you run it from? If you were the incoming government, wanting to make change, where do you drive it out from?

Mr Maxwell, ICAW: Just to absolutely agree with the theme of Gillian and Zenna’s contributions on the lack of effective financial management structures, if not in practice in the public sector. And particularly on Zenna’s point on the link between outcomes and the debate about outcomes and cost, which is absent from our conversation with our members in the public sector. I’d like to hear the whole panel’s views on how technology could be used to address some of the performance management issues; user-generated content on the web, how far that can go and how far is it practical?

Ms Richardson: To Andrew’s point; you do need a team of believers who are seized fundamentally with the requirement for reform. Because it cannot just be the province of an individual. Not individuals, because individuals come and go. You want to change institutions, the rules of the game. So in New Zealand first of all we changed the rules of the game for central banking, making it independent but accountable, and Britain followed some time later, but didn’t take our model of keeping prudential supervision also with the monetary policy (another issue). Secondly, we introduced a Public Finance Act that moved from input-budgeting, applied generally accepted accounting practice and linked the budget process to performance management. As a minister I had a contract with my chief executive because, in parallel with the financial management reform, we introduced human resources reform; that chief executive could in turn employ his or her people and could live or die by his or her contract. So, I had some tools to ensure that the strategy decided at the cabinet level, driven by the team of believers, could be executed down the line as it were, without the individual silos going on. So, I think where is it driven from, yes it’s driven from people who do want to reform and who understand reform is not a one-night stand, but it has to be institutionalised in the rules of the game that then give parliamentarians the ability to more properly connect with resources and results and then allows the public, through things like the Pre-Budget Reports, the pre-election reports which I mandated in my fiscal responsibility act, that then gives the public the ability to get the narrative, the back-story, and hold government to account.

Mr Flight: Can I say, I couldn’t agree more from my own experience. What needs to be done seems to me pretty obvious; and I think perhaps two of you made the crucial point that leadership is fundamental and if there isn’t the tough leadership, with the belief and with the team that supports it, then nothing will happen. And I have to say I have this extraordinary experience of being set up to do the review and then the leadership deciding that they weren’t interested because they’d gone straight on to something else. Well goodness me! That is what’s needed, but I still think that is right now how you make it happen. But the whole business of how the system works, so in the future it’s efficient, effective and doesn’t go off the rails, is actually crucially important, God willing we may have a government that does, and gets it right, but it will surely fall into decay within ten years if we don’t actually look at the more fundamental parliamentary system.

Ms Atkins: Is it structures and systems, or is it people? For me it's always people. I think that's fairly obvious I'd say that. Having said that, the Education Inspection Act 2006 gave Ofsted, gave me as Chairman, some levers I otherwise wouldn't have had. It said we exist purely to put the user at the heart of what we do to drive improvement and to drive efficiency and to drive value for money and so I had some levers. It's been absolutely god awful and thoroughly miserable and I've loathed every single minute of it and I completely wouldn't recommend anyone does it! And that's part of the problem I think. But you can implement change and I think that we bit off too much too soon in Ofsted, trying to create a new efficient functioning organisation that actually was fit for purpose managing the estate, because there's just masses of completely useless estate dotted all over the government that no one else is willing to do anything about. I've never heard such codswallop as to why you can't do anything about it. Trying to change people and then trying to do some of the really important bits that you need to do when you're trying to change things. One is to set the code of the way we do things around here and the way we do things around here is different to the way we *did* things around here and *this* is now the way we do things around here and to introduce some of those basic set plays. For me it is a lot about decent performance appraisal and decent communications. To go to the point about technology, for me the real power in sustaining change, for it won't be sustained when those leaders go, no matter what the systems, no matter what the structure, because often things aren't. I've set up a lot of businesses and I can tell you when I leave, they've survived but they have become very, very different because the culture is the people. The place that really holds the culture's feet to the fire (that's just such a naff sentence, but you roughly know what I mean!), is actually the public, and the use of technology by the public, holding institutions and bodies to account has really not been explored properly yet, but when we get much more interaction that says actually this is how you were yesterday, and how I want you to be again today, well this is how I expect you to be tomorrow; then you will see that and it is so easy and so cheap with technology.

Ms Fawcett: In terms of the leadership issue, I think you've probably all heard that the tone has to be set at the top in terms of changing organisations and it is actually (and I totally agree with Zenna), it is about the people and it is about cultural teams and I can draw on some past experience as a consultant within facilitating sessions with top management teams and nearly lost the will to live. And it is actually about having a clear purpose: what are we here for, what is the purpose of this organisation, what are the objectives? To show clear leadership, if you look for example at local government, where there's a good working relationship between the leader of a council and a chief executive you will probably find that they have been scored excellent in terms of comprehensive performance assessment. So it's about building, having effective working relationships and all of that. It's not easy and it certainly doesn't happen overnight. In terms of the technology issue, yes of course there is a role for technology to play in terms of improving the way financial statements and reports are presented, and I think there's a lot more to be done in that area.

Mr Rosen: One last question?

Prof Nick Bosanquet, *Imperial College and Reform*: What is the one action that would really get this process moving and get some momentum behind it?

Ms Fawcett: Political will.

Ms Richardson: You have to have the political idea, you have to have the organising idea about the role of the state, because unless you have that organising idea, you can have political will to do naff things. And that's what you don't want.

Mr Flight: Political will is clearly fundamental but, slightly tongue in cheek, I always thought that if civil servants were put on money purchase pensions and various other forms of performance remuneration there would be quite a change!

Ms Atkins: Backing good people.

Mr Rosen: Thank you, everyone. Thank you to the panel. Howard mentioned the Heath Government in his opening remarks and some of you will remember the talk in those days of the quiet revolution; my sense is that this will be quite a noisy revolution, but one that will be worthwhile. Thank you.

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