



Towards a Smarter State

a joint programme from ippr and PricewaterhouseCoopers

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Introduction

What role should the state play? How should the state be best organized? What is the appropriate relationship between the state, markets, citizens and society? How should public services be managed, held to account and delivered? How can the state decentralize and redistribute power to individuals, communities and local government?

A major debate about the role of the state has opened up in British politics that looks set to define and frame the policy agendas of the major political parties in the run up to the next general election and beyond. Although this debate pre-dates the financial crisis and the deepening recession that has engulfed the economy, such developments will have a profound impact on public services and have already begun to catalyze a fundamental reappraisal of the state, which all parties must respond to.

Traditional and binary accounts of 'big state versus little state' are giving way to a more sophisticated set of perspectives on how the state might be transformed: the Labour government have recently set out their vision for how the state could be made more flexible, strategic and empowering, while the Conservative Party are developing ideas for how the state needs to be reformed to function in a 'post-bureaucratic age'.

These competing accounts of the role of the state must also be reconciled with a number of social and cultural trends that are changing the environment in which government and public services operate.

To help inform and facilitate this debate ippr and PricewaterhouseCoopers LLP (PwC) are launching a major new programme of work that aims to set out the practical steps that are needed to deliver a smarter, more effective state.

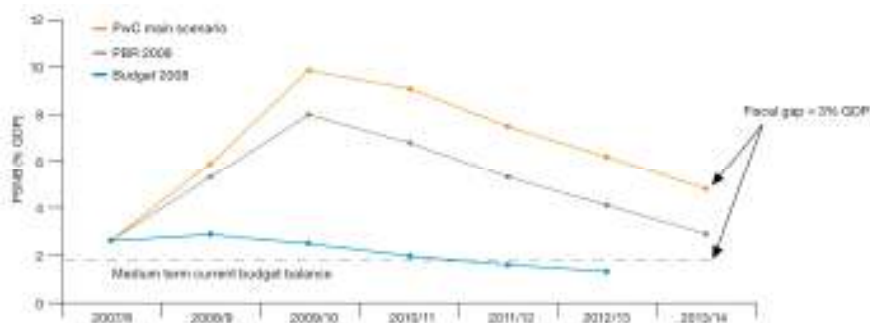
The programme will draw on ippr and PwC's unique strengths and experiences, combining policy and technical expertise, with the insights gained from practitioners who work across the public, private and voluntary sectors. Throughout the programme we will engage with public service professionals and users to ensure that our research is informed by the experience of those who provide and depend on public services.

Context

Coping with austerity: the state and public services in a recession

The global economic downturn and the onset of recession will have major implications for public services and the demands placed on the state. Public spending will decline in future years, heralding an era of budget constraints and tough policy choices, while unemployment is rising, creating insecurities in society, and new pressures for government to address.

Having become accustomed to sustained economic growth and real terms increases in spending on public services over the last decade, government now finds itself in a much more precarious fiscal position. Worsening economic conditions will put the UK's public finances under severe strain. As illustrated in the figure below, PwC estimates that the government will have to close a fiscal gap of over £40 billion (around 3% of GDP) – much bigger than many anticipated - if the public finances are to be put on a firmer footing by 2013/14.¹



Source: *Dealing with debt – reforming public services and narrowing the fiscal gap*, PwC, March 2009.

To put this in perspective, if the government is to close this gap without tax rises, it would have to cut public spending by 1.4% a year over three years starting in 2010. This would represent the largest cut in public spending in over forty years. A more likely option is a real freeze in public spending in the three years to 2013/14, combined with tax increases, and a number of efficiency savings. Painful and difficult political choices lie ahead.

The pressure to close the fiscal gap comes at a time of rising public expectations and the growing cost of some forms of provision. It should, be said, however, that such adverse conditions might spur innovation and provoke imaginative policy responses. The impact of the state of the public finances may well drive reform forward, for example, through a renewed focus on third and private sector collaboration and greater citizen empowerment.

The governing context – the state needs to continually adapt

¹ PwC's research argues that the government should aim to bring the budget back into balance by 2013/14 in order to reassure investors in government bonds, rather than wait until 2015/16 as currently proposed by the government.

Before the recession hit the economy it was clear that the role of the state needed to adapt and respond to a number of long-term challenges arising from social, economic, demographic, environmental, and technological developments, including:

- Globalization and the realization that many problems can only be solved at the global level
- An ageing and more diverse population
- A less deferential and more informed citizenry
- Rapid technological change and the information revolution
- Rising public expectations and the growing cost pressures placed on public services, particularly those generated by demographic change and the funding of new treatments
- Falling levels of trust with state institutions with the implication that government has to work harder than it once did to earn and sustain legitimacy for its decisions
- High levels of inequality and weakening community cohesion

The state now functions in an era of 'indirect government', and has to work through and in partnership with a constellation of public, private, and voluntary actors, managing diverse delivery chains. The ship of state, it has been argued, has become a flotilla.² Increasingly the state is confronted by 'wicked issues' – like climate change, anti-social behaviour, family breakdown, and obesity - which require collaborative approaches and which need to be address through 'co-production' and behaviour change. A focus on outcomes – rather than inputs and outputs –and the belief in designing policy around people's experiences is also forcing the state to adapt the approaches and interventions it makes.

Public services since 1997

Since coming to power in 1997 Labour have, in return for substantial investment, enacted a number of radical reforms to public services.³ The scale of these reforms merits further discussion.

It is possible to distinguish between three reform phases:

- Phase 1 focused on top-down initiatives from the centre, with the explicit introduction of clear national standards and targets to drive up performance.
- Phase 2 attempted to drive reform through the use of choice and competition mechanisms, and the diversification of service providers (implying a greater role for private and voluntary sectors).

² B. Guy Peters *Future of Governing: Four emerging models* (2001)

³ Total public expenditure increased from just over 37% of GDP in 1999/00 to over 43% in 2006/07. Health received the largest increase in this period, rising from 5.4% to 7.3% of GDP.

- Phase 3 has seen an emphasis placed on personalization and citizen empowerment (e.g. through individual budgets and through embracing digital technology), a new relationship with the public service workforce, and more strategic, and less prescriptive, control from the centre.

These reforms have led to some significant improvements, notably the dramatic reduction of hospital waiting lists and the significant improvement in literacy and numeracy standards in primary schools. According to the 2009 British Social Attitudes (BSA) survey report the public is now more satisfied with the National Health Service than at any time since 1984. Labour has also expanded the scope of the state into important new areas, for instance by creating new children's services. Perhaps the government's most impressive achievement is that it has established a cross-party coalition supporting continued improvements in the quality of public services.

In other areas, however, the results have been less promising: in health there has been relatively little progress in reducing inequalities between socio-economic groups; and in education there remains a stubborn attainment gap between pupils from different social class backgrounds.

A number of more general observations have been made about the government's overall approach to public service reform that need to be considered.⁴ These include:

- Recognition that record-levels of investment in public services has not yielded equivalent improvements in outcomes, particularly in terms of tackling the underlying causes of social problems. Too often the state gets involved after problems arise, instead of focusing on early intervention and prevention. Policies designed to change behaviour remain in their infancy.
- The state was only partially modernized. Labour attempted to reform public services by using a combination of a traditional 'command-and-control' model, with some additional market reforms, e.g. greater contestability.
- Power was concentrated at the centre and not sufficiently shared between different tiers of government, notably local government, and the public services, and their users. Despite some localist initiatives in recent years (e.g. a reduction in the number of targets) Labour intensified the post-war trend of centralization, and largely failed to encourage pluralist and decentralized solutions.
- Reform tended to concentrate 'down-stream' on schools and hospitals and not 'up-stream' on Whitehall and central government. Consequently, the centre was only partially reformed.
- Parts of the public service workforce and professions, especially in health, became disenchanted and disillusioned with top-down

⁴ The government has acknowledged some of these in its recently published report *Working Together: Public Services on your side*.

reform. Government did not do enough to listen and learn from the front-line.

- Not enough has been done to personalize public services around the user (e.g. in terms of harnessing the opportunities provided by new technology) or to empower citizens more meaningfully
- Significant emphasis was placed on the choice and competition agenda without a clear account of the circumstances in which quasi-markets are most likely to generate improvements. BSA data suggests that the public supports greater choice, especially in health and education, but appears to have little enthusiasm for these services being run by private or voluntary sector organizations.
- Public service reform tended to concentrate on structures, not relationships. Reform was often too mechanical, too top-down, and therefore failed to focus on understanding and improving the relationships between government (national and local), services (public, private, the third sector, and the workforce) and citizens, communities and users. Getting these relationships right are crucial to improving outcomes.

Recently the Conservative Party has started to set out their thinking on public service reform, which is shaped by the idea that society is entering a 'post-bureaucratic age'. At the heart of this agenda is a desire to radically redistribute power from the state and government to individuals and communities. It rejects top down central control, arguing that the state 'crowds out' innovation, and advocates much greater involvement of social enterprises, voluntary groups, and the private sector in public service delivery.

Some concrete policy ideas have been touted: in education they want to open up the supply-side by allowing parents and communities to open and run schools themselves; in health they have argued for re-empowering the professionals; and in policing they would like to make local forces directly accountable to citizens. But in other crucial respects important questions remain unanswered, for instance:

- How is it possible to decentralize power to individuals and communities *and* guarantee equity?
- Is it possible to ensure that parental choice operates in a way that is fair to all parents – won't such an approach create high levels of segregation along lines of social class?
- Is there sufficient capacity in third sector organizations to cope with the pressures of extensive public service delivery? Will greater involvement lead to more bureaucracy?
- Do parents have the time and inclination to set up schools? Is there a public appetite for such empowerment?

Towards a smarter state

The state has to be re-made and re-interpreted every generation.⁵ ippr and PwC's programme will ask: what should the smarter, more effective state look like? And how can the change needed to deliver this be successfully implemented? The programme will explore the following themes:

A smaller, more strategic centre

The role of central government has to change. Whitehall should cease to micro-manage public services so that they become more innovative and better able to respond to local priorities and circumstances. Its role should be to set clear national minimum standards and entitlements, and act as the guarantor of them, intervening only in exceptional circumstances. The centre has a role to play in creating the framework for successful delivery, building skills and capabilities across the public service and equipping citizens with the right information. It must play to its strengths, not its weaknesses. These include acting as a locus for sharing knowledge and learning, fostering and incentivising innovation, empowering professionals and users, and providing leadership.

- What is the comparative advantage of central government?
- How can the centre best guarantee minimum standards and national entitlements? When should it intervene – and when should it stand back?
- How should the centre be re-organised? How can it become better at collaboration?
- What skills and capabilities will civil servants need to act strategically?
- How can Whitehall be made more permeable, less hierarchical, and open to ideas from the front-line?

The decentralized state

There is widespread agreement that the limits of the command-and-control state have been reached and that power needs to be redistributed below. Since preferences and needs, as well as costs of delivering services, vary between areas, localism can ensure that services are tailored to local needs and that scarce resources are efficiently allocated. However, there remain a number of barriers to greater decentralization. There are concerns about the public's hostility to 'post-code' lotteries and a belief that localism will lead to unacceptable variation in outcomes, creating new inequalities. There is also the problem with our political culture, which tends to hold central government ministers responsible for all aspects of delivery, raising the concern that even if ministers let go they will still be blamed for things when they go wrong.

- How should central-local relations be reconfigured? Which functions should be devolved and to what level?

⁵ Andrew Gamble 'Why social democrats needs to re-think the state' 2003

- What approach should be adopted – further incrementalism or big bang?
- How can we decentralize and redistribute power within the state and ensure fairness and equity?
- What are the barriers to greater localism and how can they be overcome?

Smarter delivery

The state needs to act in partnership with a number of other actors to ensure effective delivery and to improve outcomes. Diversifying provision has raised important questions in relation to how the state ensures accountability and equity. These issues are likely to become more salient with a push towards commissioning non-state actors to deliver outcomes, and a greater emphasis on involving the private and voluntary sectors. Greater diversity and partnership working also places an onus on government to provide effective co-ordination: the state can no longer act like a drill sergeant, it needs to become a symphony conductor.

- Which services should be provided directly by the state – and which should be the job of others?
- How can the state effectively commission for outcomes – will markets respond?
- When – and at what level - is an outcomes-based process appropriate? What are the benefits and the risks?
- What is the right role for the third sector – where can it add most value?
- How can the state mobilize and support third sector involvement most effectively?

The new professionals

Public service reform has traditionally focused on organizational change, and paid less attention to the people who work in them. Public service leaders and the workforce will therefore need to adapt to meet the challenge of 'indirect government' and a more devolved, citizen-focused, and contracted-out state. There will be a greater need for collaboration and working across different boundaries and sectors implying more flexible and porous working practices. Realising the ambitions of personalized public services will also require new skills and capabilities. The workforce need to be active participants in any reform process – and not simply the target of it.

- What should tomorrow's public service leaders look like?
- What skills, capabilities, and experiences will the workforce require?
- What is the right relationship between the state and the professions, and between the professions and users?
- How can professionals be both empowered and held to account?

Empowered citizens

Many of the challenges that government now faces can only be effectively tackled by enabling people to help themselves. The state is but one actor. President Obama has argued that government is moving towards an era of personal responsibility, emphasizing the need for co-production and

partnership, as well as policies that change people's behaviour and values. Personalization and choice demand greater citizen empowerment. But the state cannot simply devolve responsibility and then walk away. It has a role to play in equipping individuals so they can effectively exercise power once it has been transferred

- How can citizens be empowered in their relationship with the state?
- How should the state and public services adapt to accommodate a more active citizenry?
- How can public services be co-produced? How can citizen empowerment best achieve behaviour change?
- Will opening up new forms of participation simply empower those with the loudest voices?
- What real appetite is there for greater empowerment?

A democratic, pluralistic and participatory state

The state is not just about public service delivery but forms an integral part of our democracy. It needs to be efficient and competent but also accountable and transparent. An active state should be in the business of sharing, not hoarding power, and power shared is not necessarily power constrained. It is sometimes suggested that there is a tension between a making the state more democratic and accountable, for example through decentralization and public participation, and making it more efficient and more capable of delivering public services, but often they compliment each other. Constitutional reform and public service transformation should be seen as two sides of the same coin.

About the programme

The smarter state programme will run from 2009-2011. It aims to:

- Develop original, expert, and thought provoking analysis and research
- Influence and shape the policy agenda with a number of timely and innovative policy solutions
- Provide robust testing of policy ideas based on expertise and insight from practical experience.
- Provide a hub for new thinking on the role of the state, bringing together ippr and PwC specialists, policy-makers, practitioners, and users from across the public, private and voluntary sector to share knowledge and disseminate new insights and thinking

The programme will generate a number of outputs, including:

- Publication of 'smarter state' research and policy-briefings
- A high-profile seminar series
- Round-table discussions with key stakeholders

About PricewaterhouseCoopers

PricewaterhouseCoopers' Government & Public Sector practice has been helping government and public sector organisations locally, regionally, nationally and internationally for many years. We work with organisations across sectors as diverse as health, education, transport, home affairs, criminal justice, local government, housing, social welfare, defence and international development.

Our people combine deep specialist expertise with a genuine understanding of the public sector. Our Government and Public sector practice now comprises of approximately 1,300 people, over half of whom people work in our consulting business, with the remainder in assurance and tax.

For more information, please visit us on: www.pwc.co.uk/publicsector

About ippr

The Institute for Public Policy Research is the UK's leading progressive think tank, producing cutting-edge research and innovative policy ideas for a just, democratic and sustainable world.

Since 1988, we have been at the forefront of progressive debate and policymaking in the UK. Through our independent research and analysis we define new agendas for change and provide practical solutions to challenges across the full range of public policy issues.

With offices in both London and Newcastle, we ensure our outlook is as broad-based as possible, while our international and migration teams and climate change programme extend our partnerships and influence beyond the UK, giving us a truly world-class reputation for high quality research.

Contacts

Guy Lodge

Associate Director, ippr
+44 20 7470 6163
g.lodge@ippr.org

Dame Julie Mellor, D.B.E.

Partner, PricewaterhouseCoopers
+44 20 7804 9019
julie.t.mellor@uk.pwc.com

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