



Choice and competition in public services: learning from history

Tom Gash and Theo Roos

Contents

About the authors	4
Acknowledgements	4
Foreword	5
Executive summary	7
1. Aims and method	12
2. Employment services	14
3. Social care	19
4. Health	25
5. Local government	31

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Foreword

The creation of markets in public services has been one of the great defining shifts in the way government has been run over the past 30 years.

Starting with compulsory competitive tendering of councils' bin emptying and street cleaning in the early 1980s, virtually no part of the public sector is now untouched by market mechanisms. Care of the mentally ill, the provision of NHS operations, and social care are all now either outsourced or operate in some form of a market or quasi-market. Even what Adam Smith and others would once have seen as core functions of the state – prisons, defence training, tanker aircraft for refuelling RAF planes, and elements of policing – have been or are being outsourced.

Public sector organisations themselves increasingly operate within a competitive framework. NHS foundation trusts are competing businesses within the NHS. Schools must attract pupils or fail financially. And the state is asking users of public services to be more active customers – for example, by giving them virtual or cash budgets with which to buy their own care.

Indeed, the UK now has something recognisable as a “public services industry” – one that the DeAnne Julius review in 2008 judged to be the most developed in the world, second only in size to that in the US with its far larger economy.¹ Back then it was calculated to account for over six per cent of GDP, generating some £80bn of revenue, while directly employing well over 1.2m people. Those figures are likely to have grown since.

There is some evidence and a strong belief across politicians of all the main political parties – though not among all the politicians within them – that this has brought net benefits in terms of value for money and the quality of service. But the creation of public service markets by successive governments has not been an unqualified success. In almost every sector, critics can point to failure and sometimes spectacular failure – in provision of housing benefit, many IT-based projects, some NHS procedures and scandals in care homes to name but a few.

Across the public realm, the various markets have tended to be developed individually by the government departments responsible. This has sometimes been for the good reason that the nature of the services differs markedly. Too often, however, lessons acquired in one silo of government have not been learnt by another.

Furthermore, the creation of these markets is not a one-off exercise. Their nature continually evolves over time – the result of innovation, technological change, mistakes made, successes recorded. Yet there is relatively little good literature on the “do’s and don’ts” when running these markets, and much still to learn in making them fully effective. As one contributor to this piece put it, despite 30 years experience “commissioning is but an infant in primary school”. For example it is not yet entirely clear when a regulator for such markets is needed, or how best to contract, over what period, and in what way, to achieve the best results.

1 Julius, D., 2008. Public Services Industry Review: <http://www.bis.gov.uk/files/file46965.pdf>

This piece of work cannot attempt to answer all such questions. But having held public 'Learning from History' sessions in four key areas – welfare-to-work, social care, health care and local government – it does seek to draw out high-level lessons that those currently operating public service markets, or seeking to extend them, should internalise.

It is important to reflect and learn from past experience – indeed helping government to do that is a core part of the Institute for Government's role. This study therefore forms part of the Institute's broader work on, for example, political transitions, policy successes and recent work with the King's Fund on the lessons of the Coalition's legislative process to reform the NHS.

A handwritten signature in dark ink, reading 'Nicholas Timmins'. The signature is fluid and cursive, with the first name 'Nicholas' written in a larger, more prominent script than the surname 'Timmins'.

Nicholas Timmins
Senior Fellow

Executive summary

Choice and competition lie at the heart of the Coalition government's ambitious array of public service reforms. Increasing choice is the dominant reason given for major reforms in schools, health, and social care. Increased competition is the central theme in reforms of employment services, drug and alcohol treatment, and prison and probation services. As David Cameron puts it "From now on, diversity is the default in our public services... instead of having to justify why it makes sense to introduce competition... as we are now doing with schools and in the NHS... the state will have to justify why it makes sense to run a monopoly."²

The reform drive is clearly not without controversy. Even this year, we have seen furious debate over the 2012 Health and Social Care Act; a backlash against private provision of security services following G4S's failure to deliver on its Olympics security staff contract; and heated argument about whether the government's new contracting approach in employment services (the Work Programme) is having its desired effect.

Too often, however, these debates bring more heat than light and do little to encourage learning. Sometimes we get little more than a shouting match between those who would have no private sector involvement in public services and those who see the 'market mechanisms' of choice and competition as a panacea to all public service problems. This is unfortunate, as the reality – as ever – lies somewhere between these extremes. Those in favour of such changes need to take advantage of any possible opportunity to learn about where and how market mechanisms can be applied effectively.

In spring 2012, the Institute held four public events to overcome the shortage of practical debate and to help inform the choices of those implementing current coalition reforms. Events focused on the long history of attempts to introduce market mechanisms in public services, concentrating on some of the areas that have seen the most significant change over the past 30 years. The services covered were employment services, health, and social care, with an additional session looking at the large-scale outsourcing of a wide range of local government services since the 1980s. The events brought together leading protagonists in past reforms to examine the forces behind them, the barriers and obstacles confronted, and the lessons learned. Some of these lessons related specifically to the use of choice and competition while others were of relevance to public service reform more generally.

Unsurprisingly, the events did not provide any universal answer to the question of whether greater choice and competition improve public services. Rather, it seems that market mechanisms seem to have played some role in improvements in some services over the past thirty years, while proving less useful in others. The local government panel, for example, praised the gains achieved through competitive tendering in areas such as waste management, while citing failures to ensure effective coordination and competition in local bus markets. Often, success and failure were seen as resulting as much from detailed aspects of policy design and implementation as from any inherent reasons why choice and competition were or weren't appropriate.

2 Cameron, D., 11 July 2011: <http://www.number10.gov.uk/news/speech-on-open-public-services/>

One problem in assessing the impact of market mechanisms was the general lack of any systematic evaluation of whether competition in itself raises standards. Academics on our panels could point to indicative evidence from evaluations of different contracting models but were rarely able to highlight pilots which directly tested the benefits of contractual approaches versus in-house provision. This is partly due to the fact that reform (and refusal to reform) has often been driven by political concerns and ideology but it is also, no doubt, due to the technical difficulty, time and cost of such exercises.³

Events therefore focused primarily on how past reforms were implemented, and what were seen as successful ways of driving change. Clearly, there is no magic formula. The contrast between what was described as the largely 'accidental' shaping of the market in adult social care services and the carefully planned expansion of contractual models of provision in employment services in the 1990s and 2000s could scarcely be greater. But, despite different start and end-points in the reforms, there do appear to be some general lessons for those currently introducing choice and competition – ones that supplement the service-specific lessons that are included in the main body of this report.

We identified 11 general rules that current reformers should be aware of when introducing market mechanisms.

1. **It takes time:** Creating or developing a new 'market' takes time. New providers need to develop their offer and learn how to deliver the service effectively. This often requires time to attract financial investors, recruit staff and develop new organisational structures and processes. The changes in social care described below are fast by the standards of market development and the main changes here still took eight or nine years. In health, by contrast, after more than 20 years of considerable (if intermittent) reform, only 5 per cent of waiting list type treatments are provided by the private sector.⁴ Rapid reforms appear to increase the risk that existing and, in particular, new service providers will not perform well, at least initially. But equally there are clear pressures for a quick pace for reform. Former ministers at our events were acutely aware that the next minister in their post, even within their own party, might not continue the drive for choice or competition.
2. **Ministerial commitment is crucial:** It is striking how important individual ministers have been in driving these changes. This was seen particularly clearly in health and welfare, areas which experienced a stop-start change process as a result of ministerial churn and the varying convictions, energy and skill of the ministers in post. In areas where local government has more influence, such as social care, local politicians have also been influential. However, in the areas examined, at least, national politicians have consistently been able to influence local decision-making, often through financial inducements – or (as in the case of social care reforms) the promise of increased power and autonomy.

3 Blatchford, K., and Gash, T. (2012) *Testing new commissioning models: a guide to help policymakers learn about publicly funded markets*: <http://www.instituteforgovernment.org.uk/publications/testing-new-commissioning-models>

4 Timmins, N., (2012) *Never Again: the story of the health and social care act 2012*: http://www.instituteforgovernment.org.uk/sites/default/files/publications/Never%20again_0.pdf

3. **A narrative helps:** Good policy requires a clear explanation of the problem and an equally clear explanation of how the policy solution will solve it. That helps build alliances for change, making it easier to implement. A strong 'narrative' that resonates with as broad a range of interests as possible can make implementation both easier and less controversial, even if such changes will never be uncontroversial. Several contributors spoke of the importance of focusing on what the reforms would bring rather than their technicalities. Former Secretary of State for Health, Alan Milburn called this talking about "the hamburger" (in his case reduced hospital waiting times) and not "the abattoir" (market mechanisms).
4. **Alliances matter:** Events highlighted that reforming ministers couldn't (and didn't) operate alone. The ministers speaking at our events referred to the importance of securing the permission of both their prime minister and chancellors. Broader coalitions were also seen as vital, with an interesting theme being the importance of cross-party consensus in enabling change.⁵ Ministers and officials spoke of the need to "bring people with you", citing the importance of a broader coalition including the workforce, the public and other interests. Those supportive of changes were often given a greater role in implementing them. For example, individuals and areas that supported market-based health reforms in the 1990s and the introduction of personal social care budgets in the 2000s were encouraged to implement them first in order to build the case for change.
5. **Government can never extricate itself from ultimate accountability:** Contracting out services or allowing individuals to choose from a range of providers does not alter the fact that the public will (and should) continue to hold government to account for the overall performance of the service. This does not mean that ministers should take the blame for the failings of specific providers – though there may be pressure to do so. Rather, government needs to reassure the public that the system is working and that users have appropriate methods of gaining redress for unacceptable service. Importantly, ministers will often be held accountable for process (for example, how or where a service is delivered) and 'fairness' (for example, equal access for all social groups and 'acceptable' profit levels) as well as system outcomes.
6. **Markets don't remove the need for policymaking:** Competitive markets of public service provision can help bring in new providers of public services who might develop new ways of doing things. But government retains its ongoing role in setting the rules of the market and ensuring they are enforced. Ministers retain their role of deciding levels of funding, the groups that should be targeted for support (priorities) and typically the types of provider behaviour to be encouraged or prohibited. As with monopoly public provision, conscious efforts are required to ensure services are better coordinated for users. The social care panel spoke at length, for example, about the difficulties of integrating health and social care services.

⁵ Achieving cross-party consensus was seen as an important ingredient of policy success in Rutter, J., et al. *The 'S' Factors: Lessons from IfG's policy success reunions*: <http://www.instituteforgovernment.org.uk/publications/s-factors>

7. **Circumstances will force services to adapt:** All the services examined had needed to adapt to changes in demand, technology, and knowledge. The number, type and effectiveness of providers can change dramatically after a big internal change or external shock. The Work Programme was cited as an example of a rapid internally driven change that was having a dramatic impact (though the panel was reluctant at this early stage to draw conclusions on whether these would be positive). The programme is also being significantly affected by the external context of a persistent recession.
8. **Institutions matter and their roles must be clear:** Several new organisations had been set up to see through reforms (for example, new regulators in health and social care). Their role was seen as critical. But there was also a strong sense that these organisations were at their most effective when their precise role (particularly vis à vis the department) was clear and their funding matched their remit. Where roles and responsibilities were not clear, important jobs had fallen between the cracks – as happened with the failure to spot and plan for the collapse of Southern Cross Care Homes.
9. **Effective choice and competition requires new public sector skills and mindsets:** One of the most commonly recurring themes was that the effectiveness of reforms fundamentally depended on the effectiveness of staff in the government institutions which implemented them. Often reforms demanded new skills, including a step-change in commercial understanding and commissioning skills.⁶ Progress in this area was felt to have taken time and many events discussed weaknesses in commissioning and 'market oversight' as an ongoing problem, particularly at the central government level. In part, problems were seen as cultural, with a need for public servants to shift from seeing themselves as managing systems to viewing their role as being to influence their development using a diverse range of tools.
10. **It's easier to give, than to take away:** More tentatively, we wondered whether the services studied demonstrated that it might be easier to create markets when government is creating additional capacity, rather than shifting from in-house to contracted provision. Unlike many of today's reforms, historic reforms in employment, health and social care brought in private and voluntary sector companies to provide additional capacity, rather than replacing existing public provision. This reduced disputes with the existing workforce and made the public case for change more appealing. However, the contracting out of a number of local government services under compulsory competitive tendering arrangements in the 1980s and 1990s may belie this rule.
11. **There are limits:** As noted above, it is clear that choice and competition are not a panacea and certain services or parts of a service may be best retained in-house. In welfare to work, for example, both civil servants and former ministers argued that the decision to keep Jobcentre Plus in-house to deal with the short-term

6 For more information on commissioning skills and other issues, please see Blatchford, K., and Gash, T., 2012, *Commissioning for Success*.

unemployed allowed the government a far swifter and more effective response to the recession than would have been the case if the entire employment service had been outsourced. It was also noted that outsourcing too much capacity was risky – as insufficient skills, experience or knowledge of what constitute effective and efficient provision could limit government’s ability to be an intelligent customer.⁷

These general rules no doubt have exceptions but they are clearly relevant to those implementing current reforms – and are complemented by the sector-specific observations highlighted in the chapters below. The overarching conclusion should probably be that introducing ‘market mechanisms’ is not easy – either politically or practically. Reformers need to build their understanding of ‘what works’, often adjusting course in flight. And they also need to reform the organisations that are overseeing system reforms. The goal may be liberate local service providers to innovate and tailor services to the needs of communities and individuals, but success will still depend on developing public institutions with the required skills, processes and mind-sets to ensure that the system is functioning effectively.

Though these challenges are considerable, this report shows that there is some experience, at least, to learn from. We therefore hope that when observers look back on current public service reforms in 20 years time they will be able to say that reformers learned their lessons quickly and well – recognising the scale of the challenges and taking appropriate steps to overcome them.

⁷ A good example of excessive thinning out of capacity not covered in this session is found in central government IT in the 1980s and 1990s, as outlined in Stephen, J. et al, 2011, *System Error: Fixing the flaws in government IT*: <http://www.instituteforgovernment.org.uk/publications/system-error>

1. Aims and method

From February to April 2012, the Institute for Government hosted four public events to examine past attempts to increase choice and competition in public services, particularly focusing on areas where 'market mechanisms' have become an important aspect of service delivery. The events aimed to stimulate thought and discussion about where and how choice and competition could be used to improve service standards. There was a particular focus on providing insights that might be relevant to those currently involved in expanding choice and competition in public services.

The events reunited senior policymakers and advisers with different perspectives on reforms which had taken place since the early 1980s. Each event started with contributions from current and former ministers (including secretaries of state), senior officials, regulators, providers (or voices from their trade associations) and academics. The events then opened to the audience and greatly benefited from the probing questions and insightful comments, often from people who had also shaped the reforms from senior positions inside and outside government.

The four events examined:

1. **Employment services** – with a particular focus on services for the long-term unemployed and the series of contracting reforms initiated in the 1990s
2. **Social care** – particularly the commissioning of residential and domiciliary care for older people and the expansion of personal and individual budgets
3. **Health** – with a focus on increased competition in elective surgery
4. **Local government** – which saw multiple services exposed to increasing competition from the 1980s onwards.

The events' chair, Nicholas Timmins, shaped all four events around three key questions in order to facilitate comparisons across the different service areas. He asked:

- What were the forces for change?
- What were the obstacles to reform and (how) were they overcome?
- What lessons were learned and how might these be relevant for future reforms?

Each event was supported by a preparatory briefing which provided a short history of the sector and these summaries are included in this report. It should be noted that this report relies heavily on capturing the basic facts of reform and documenting the perspectives and experiences of those who contributed to our events – so its findings should be viewed in this light, and not as the firmer conclusions of an in-depth research project. The Institute did not, for example, review and summarise the literature discussing the impact that choice and competition reforms had on performance in the sectors under examination.

The following four chapters of this report address each of the service areas we examined in turn and it is these chapters that form the basis of the Institute's overall reflections which are provided in the summary above.

2. Employment services

Introduction

The first Institute for Government Learning from History event was held on 20 February 2012. It focused on the introduction, expansion and adaptation of market mechanisms in employment services.

The event speakers were:

- **Professor Dan Finn** – Professor of Social Inclusion, Portsmouth University
- **Rt Hon James Purnell** – former Secretary of State for Work and Pensions
- **Sir Leigh Lewis** – former Permanent Secretary Department of Work and Pensions (2006-11) and Chief Executive of Jobcentre Plus (2001-03)
- **Kirsty McHugh** – Chief Executive, Employment Related Services Association.

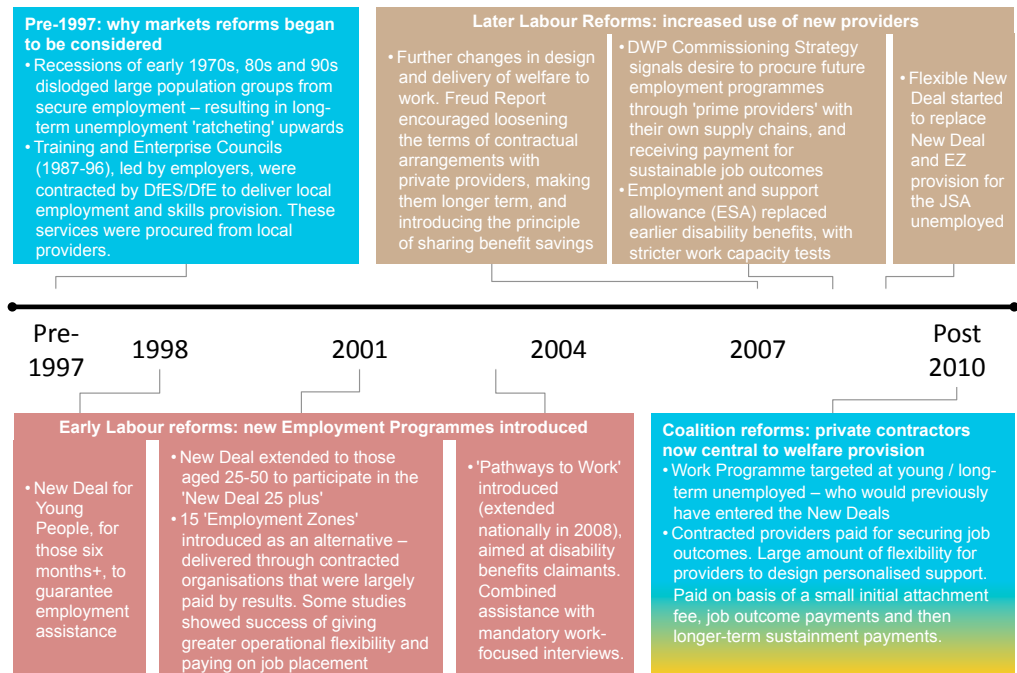
A recording of the event can be found by following this link:

<http://www.instituteforgovernment.org.uk/events/learning-history-markets-welfare>

History

Markets in welfare: summary timeline

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Until the mid-1980s, the UK government provided relatively few services to help the unemployed back into work. The first Labour (later Employment) Exchanges were opened in 1910, and some 80 years later the Exchanges still focused largely on the same task of providing basic information on supply and demand for jobs. This basic service, provided by in-house civil servants, was only occasionally supplemented by more active 'back to work' support from a sparse network of voluntary and private sector providers (including from trade unions, other trade bodies, charities and company-sponsored apprenticeship schemes).

In the late 1980s and early 1990s however, there was a growing belief that more could and should be done to raise employment levels by actively supporting the unemployed in the search for work through more intensive and tailored support. The contraction of British industry (most strikingly in mining and steel) had seen large groups lose work and many struggled to find alternative employment. Relatively small-scale national programmes were therefore set up from the early 1980s, and these were gradually modified, replaced and enlarged in the 1980s and early 1990s. Local government was also increasing its employment services offer at this time, commissioning voluntary and (to a lesser extent) private sector organisations to provide training for jobseekers. Much of this training focused on providing jobseekers with the skills they would need to fill specific roles where there were local skills shortages.

Labour came into office in 1997 promising a still more active approach to Labour market management, convinced of its merits by their analysis of US economic success. Labour also seemed prepared to build on Peter Lilley's earlier push for an increased role for the private and voluntary sector – encouraged by the fact that both the US and Australia had embraced market mechanisms without political disaster. New programmes – the various New Deals, Employment Zones and Pathways to Work – were therefore rolled out, all extending the role of the private and voluntary sectors. Contracting methods continued to evolve, with frequent changes in contract design, payment schedules and monitoring regimes. There was also a marked increase in the use of sub-contracting. Government increasingly sought to manage fewer, larger contracts with large national providers ('prime providers') who would then in turn contract with networks of smaller local providers, many of whom specialised in working with particular client groups.

After the Coalition government came into office in 2010, Labour's programmes were rapidly subsumed within a new national programme for the long-term unemployed. The Work Programme embedded the 'prime provider' model and increased the use of 'payment by results'. Within a year after the change of administration, the Department for Work and Pensions (DWP) had awarded contracts to two or three prime providers in each of its 18 administrative regions.⁸ These prime providers can now both deliver services themselves and commission other private and voluntary sector organisations to provide specialist services. Prime providers receive the vast majority of their remuneration based on whether the jobseekers allocated to them find work and then stay in work for specified durations.

8 Department for Work and Pensions, 2011, Prime provider contact details by contract package area: <http://www.dwp.gov.uk/docs/wp-prime-supplier-contact-details.pdf>

The Work Programme's design and implementation have been strongly influenced by David, now Lord, Freud. Freud had been an influential adviser to Labour, authoring the 2007 Freud Report, commissioned by John Hutton, Secretary of State for Work and Pensions from 2005-2007. But, partly because only some of his recommendations were adopted, Freud increasingly worked with the Conservative Party in opposition, and particularly Iain Duncan Smith. He was appointed as a Conservative minister in 2010 (following his appointment to the Lords) in order to support the implementation of the Work Programme and the Coalition's other flagship reform, Universal Credit.

Impact

The creation of a 'market' in employment services has not been without controversy. However, none of the panellists advocated a return to monopoly public provision – perhaps unsurprising for some, given their involvement. There was general consensus on the panel that competition had improved standards. Some panellists felt that the evidence suggested private providers were often inherently more effective (either due to the profit motive or because they face less regulation than public providers). But others (for example, Leigh Lewis and James Purnell) claimed that overall performance gains were due to the fact of competition itself, which they argued had pushed up standards across the sector. As Leigh Lewis put it, "I don't think we should underestimate at all the stimulus effect that this whole journey has had on bringing up the whole level of provision and bringing innovation and change into the system."

Reforms were seen as having created a more diverse market with a greater number of both private and voluntary sector providers. Some thought that the way the Work Programme is now operating could lead to a reduction in the number and scale of voluntary providers, as smaller providers might struggle to cope with upfront investment needed to cope with a remuneration system that depends very heavily on payment for results.

The panel's support for the expansion of market mechanisms had limits, however. As Leigh Lewis put it, "The jury is still out on whether it can absolutely be demonstrated that outcomes have been better through the use of the private sector as compared with a state-delivered model." The panel also believed success to depend heavily on detailed implementation choices, such as payment schedules, pricing, and contract monitoring arrangements. Crucially, the panel generally agreed that not all aspects of the employment service should be outsourced. James Purnell and Leigh Lewis argued that the retention of a public sector service for short-term unemployed (Jobcentre Plus) has provided a central 'strong spine' – one that allows government to effectively assign individuals with specific needs to specialist providers and enables a quicker response to fluctuations in demand. James Purnell argued that the existence of Jobcentre Plus made it far easier to inject cash into ensuring that those who lost their jobs in the 2008 recession were placed in alternative employment relatively quickly – noting that pre-existing contractual arrangements might have complicated matters.

Key themes

The session identified a number of central themes.

1. **Ministerial commitment is crucial:** It was clear that the drive of individual ministers had been a central factor in determining the pace and direction of change. Participants saw Peter Lilley as a key instigator of the first push towards 'marketisation' in the mid-1990s and noted further efforts in the same direction under Alistair Darling, John Hutton and James Purnell. Iain Duncan Smith then introduced the Work Programme in 2010, having been developing the idea (along with Universal Credits) since 2005. Less enthusiastic secretaries of state, for example Peter Hain, did little to promote the expansion of market mechanisms however, giving the reforms a slightly 'stop-start' feel.
2. **It takes time:** Despite a broad political consensus over the policy direction, it has still taken around two decades to reach this stage. What's more, panellists were clear that these timescales were only achievable due to the fact that policymakers were able to draw on experience from abroad. Progress would likely have been slower if the UK had been a 'first mover' in this area.

Pace has clearly been affected by the focus on experimentation and adaptation rather than 'big bang' change. Even the more radical Work Programme built on previous reforms and several panel members argued that the process of building on past experience had been an essential ingredient in successes.

Time and experience was seen as a particularly important prerequisite for effective commissioning by the department. As Leigh Lewis put it, "key departments involved, not just DWP, but others as well, have so to speak put their shoulder behind this wheel in a real and serious way, and have been willing to learn from experience". Time was also seen as essential for building providers' capacity to bid for and manage services effectively. In the early stages of the market, new providers were able to rely on a large pool of former government employees, rather than having to build a skilled workforce from scratch. But it has taken time for providers to develop skills and processes further. As Kirsty McHugh mentioned during the session, time has also allowed providers to develop a wide range of industry bodies (including a Trade Association and national institute). These bodies were seen as assisting the development and sharing of knowledge and skills across the provider community – as well as increasing the voice and unity of the 'provider interest'.

3. **Alliances matter:** Secretaries of state and ministers could not implement changes alone. The first pre-requisite for successful change was a degree of support from their prime ministers, who made space for reforms through a wider political 'narrative' and coordinated changes with other relevant departments. The stance of the Treasury also mattered greatly in this area. Gordon Brown was an early advocate of Labour reforms but initially opposed the idea that the DWP should be able to fund its back-to-work programmes based on assumed future savings (the so-called 'Del:AME switch'). Alistair Darling and George Osborne, however,

supported – or at least allowed – this change, in the former’s case with Gordon Brown’s eventual consent.

An interesting second ingredient for success was cross-party consensus. As Leigh Lewis pointed out during the event, much of what Purnell said in a speech while secretary of state (entitled *Welfare 2020*) could have been said by a “politician of a different colour”. Consensus was shown in the elements of continuity from the early 1990s to 2010 reforms but also in the relative lack of effective opposition to changes. In the 2000s, for example, the fact that the Conservative opposition was supportive (or advocated more radical changes in the same direction) left opponents of the changes outside the party-political debate that often dominates the mainstream media. Effective opposition was also impeded by the fact that groups that may have stood in the way were seen as having relatively little ‘voice’ or political ‘clout’. James Purnell described users (i.e. the unemployed) as “the dog that didn’t bark” and also argued that the fact that the Public and Commercial Services Union was not affiliated to Labour when many of the initial changes were introduced meant that they were less of an obstacle to their implementation – a contrast to the Communication Workers Union, which he argued had a much bigger influence on Labour’s plans for the Post Office privatisation.

4. **Effective choice and competition requires new public sector skills and mindsets:** Leigh Lewis argued that DWP had sought to centralise commissioning within the department in order to facilitate a more rapid process of change. This, he argued, had assisted in the process of developing commissioning skills, which he saw as having improved considerably over the 2000s.

However, the process of improving commissioning skills was seen as ongoing. Dan Finn highlighted recurring problems in designing and monitoring contracts in order to avoid paying providers for delivering outcomes that would have happened anyway or ‘parking’ of hard to help users. Kirsty McHugh and Leigh Lewis meanwhile highlighted difficulties in ensuring an appropriate role for smaller voluntary providers, who they felt had essential delivery skills but could find it difficult to operate in a more sophisticated contracting environment. As Leigh Lewis put it, “I don’t think we’ve really cracked how to get the third sector involved in the delivery of services in this mixed economy.”

3. Social care

Introduction

The second Institute for Government Learning from History event was held on 15 March 2012. It looked at the expansion of choice and competition in adult social care, examining both residential and domiciliary care and focusing particularly on care for older people.

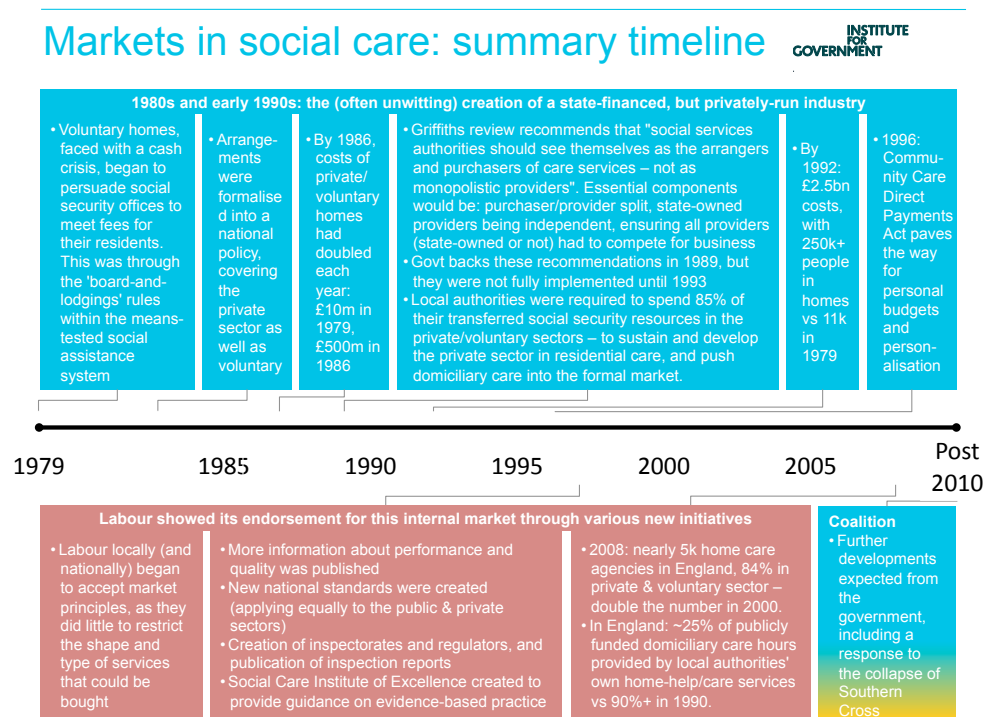
The event speakers were:

- **Phil Hope** – former Minister of State for Care Services, Director of Improving Care and Adjunct Professor, Imperial College
- **David Behan** – Director General (Social Care, Local Government & Health Partnerships), Department of Health
- **Dame Denise Platt** – former Chair of the Commission for Social Care Inspection
- **Richard Humphries** – Senior Fellow (Social Care), The King's Fund
- **Peter Hay** – President of the Association of Directors of Adult Social Services.

A recording of the event can be found by following this link:

<http://www.instituteforgovernment.org.uk/events/learning-history-markets-social-care>

History



The journey to the well-developed publicly funded market for adult social care services we have today was not carefully planned. Rather, as Richard Humphries explained, much of what we see today in the social care landscape was the result of “policy by accident” rather than “design” – or what David Behan termed an “exercise in experimentation and discovery”.

Before the 1980s, there was limited public assistance for those requiring residential social care. Local authorities ran care homes as did a number of voluntary organisations while the voluntary sector also provided hospices. Privately run care homes were small in number and catered chiefly for the better off. A big squeeze on government spending following the IMF crisis in 1976 left social services departments unable or unwilling to buy places in voluntary sector homes. From 1979, faced with a cash crisis, voluntary homes began to persuade social security offices to meet their residents’ fees. What started as local agreements rapidly escalated to become a national policy under which the Supplementary Benefits Commission agreed to meet ‘board and lodging’ payments for both voluntary and private sector homes.

Funding for this social care came from central government. Local authorities were responsible for allocating the places. But with no incentive on their part to limit the numbers, costs soared from £10m in 1979 to £500m in 1985 to £2.5bn by 1992. On the way, a new industry of privately run but state financed private residential homes was created.

It was no surprise that central government attempted to limit these costs and in 1990 the NHS and Community Care Act transferred social care funding to local authorities, along with responsibility for its effective expenditure. A bargain was struck. Local authorities would gain increased power (and status) but in return would have to control spiralling costs and promote private and voluntary sector provision. Strict limits were set on how much they could spend on homes they ran themselves.

The changes affected the landscape of provision. The number of private residential and nursing care homes soared from 64,000 places in 1980 to 338,000 in 1993, and the NHS took advantage of the new funding arrangements to move out of long-term care for the elderly – ending the so-called ‘back wards’ of hospitals. Grant-aided funding for charities providing social care was increasingly replaced with contract-based funding.

From the mid-1990s onwards, reform entered a new phase, in part because pressure groups for the elderly and disabled began to press for more control over their lives, particularly when they received care at home rather than in a home. Successive governments sought to encourage local authorities to give users a greater say by providing them with virtual or actual cash budgets with which they could buy their own care rather than merely receiving the services that councils provided. Some local authorities were more enthusiastic about these ‘personal budgets’ and ‘direct payments’ than others. Uptake was slow with wide variation across the country. The Coalition government is attempting to address that by setting a target of ensuring all those eligible for personal budgets are receiving them by 2015.

Throughout this period, government funding has struggled to keep pace with the increased demands of an aging population. Eighty per cent of councils now require individuals to have 'critical' or 'substantial' needs – the two highest categories – before they will fund care. As a result an increasing number of people are now required to pay for residential or domiciliary care, either in full or in part, themselves. As a result the proportion of places in residential care homes that are publicly funded has dropped from a peak of more than seventy per cent to around fifty per cent.

Impact

As Peter Hay highlighted during the event, the social care market is now mature and highly diverse with around 22,000 organisations involved in provision, including a significant number of not-for-profit enterprises and mutuals. There has been no shortage of investment in the sector, with residential and domiciliary social care benefiting from both public and private finance. As David Behan highlighted, between £30bn and £40bn of private funding had been invested in the sector in the past 20 years, an amount which dwarfs levels of public investment in the sector.

Panellists generally agreed that the creation of a market in social care had brought considerable benefits. David Behan cited evidence that satisfaction rates among users are higher than in most other public services and argued that recent moves to increase user choice through personal budgets had been particularly popular with users, if not demonstrably more cost-effective in terms of improving health and wellbeing. Richard Humphries pointed to considerable innovation in care practices across this period: for example, adoption of new technologies.

Nonetheless, there remained concerns about the performance of the market. In particular, participants were worried about the quality of care in the current financial environment. Quality was seen as difficult to measure and communicate, reducing commissioners' incentives to focus on improving standards. And funding pressures, argued David Behan, had further encouraged the emphasis on cost and volumes. As he put it, "We are dangerously near a race to the bottom in relation to quality."

Phil Hope meanwhile argued that users had not always been sufficiently informed. "You need to have a diversity of providers to have a choice. But you also need to know what's out there, what its cost is and how it compares to others. Without this, providers haven't got that pressure from the informed customer to change their practices."

Denise Platt argued that abandoning the Care Quality Commission's popular system of providing simple star ratings for providers had not helped here, though she was optimistic that 'TripAdvisor-style' models (where private or voluntary organisations informed choosers with feedback from other care users) might help in future.

Panellists also highlighted the continued lack of integration between health and care services. While users of adult social care often also have acute health needs (or can be prevented from developing them through effective social care services) the barriers between means-tested social care and free-at-the-point-of-use NHS care remain, limiting the ability to coordinate services and focus investment on prevention.

There were questions too about whether the market structure was optimal. As David Behan explained, 90 per cent of residential care providers have only one or two homes and the top 10 providers still have less than 10 per cent of the market: “So whilst we’ve had a growth in the independent sector in the market over time, the pattern of that provision substantially is pretty much unaltered.” There was a debate about whether this meant that the social care market was too fragmented, with some panel members arguing that there were too few providers of sufficient scale to invest heavily in developing new delivery models or to spread innovative new working models rapidly. Peter Hay asked whether council-led commissioning might have exacerbated fragmentation. He argued that there was little collaboration taking place between commissioners in neighbouring local authorities, even in areas like London, where joint commissioning would seem an obvious route to improved efficiency and effectiveness.

Barriers to entry to social care market are relatively low, but questions remain about how to ensure the orderly exit of underperforming and/or financially failing providers. In some cases, underperforming and ‘coasting’ providers had been allowed to retain contracts. Or, as Denise Platt put it, “providers in the market forgot they were in the market”. The collapse of Southern Cross Healthcare, which ran a large number of residential care homes, was discussed widely but there was not unanimous agreement on the lessons provided by the episode. David Behan argued that action taken to ensure the smooth takeover of Southern Cross homes had generally been effective but others on the panel highlighted that the failure was anticipated by many and better planning could have reduced the anxiety suffered by those in Southern Cross homes.

There was also considerable debate about whether there had been sufficient innovation in the sector. David Behan pointed out that service users (including self-funders) still tend to buy traditional services in the sector, particularly because they are strongly influenced by word of mouth recommendations. While Peter Hay highlighted examples of individual budgets being spent differently, for example on karate classes or football season tickets, Richard Humphries and David Behan both suggested that more might need to be done to incentivise innovation and spread it.

Key themes

The session identified a number of central themes.

1. **Circumstances will force services to adapt:** One of the most dominant themes of the discussion was the need for continuous adaptation. Government decisions made outside the sector clearly had a critical influence on it. For example, changes to benefit eligibility criteria in the 1980s led to rapid expenditure increases (see above). Many of the decisions made in relation to social care were also attempts to address problems in the healthcare system (such as ‘blocked’ beds) rather than direct attempts to improve the social care system itself. As Phil Hope put it, the NHS has long “grabbed most of the political attention”.

Demographic change – predictable but nonetheless dramatic – has also had a major impact on the sector, as have events such as the collapse of Southern Cross Care Homes or failures to identify cases of abuse by caregivers (such as those exposed in a 2011 Panorama documentary).

The large privately funded portion of the sector was seen as a major influence on publicly funded services. Some on the panel thought that the existence of the privately funded sector had encouraged investment and innovation that could be adopted in the publicly funded sector. Others, however, worried that the growth in self-funders would result in an increasingly 'two-tiered' market, with the most innovative and high quality providers competing for the growing numbers of self-funders, while low-cost providers followed public money.

2. **Government can never extricate itself from ultimate accountability:** Even though significant powers and funding have been devolved away from central government and (more recently) local government commissioners, national politicians were seen as retaining ultimate responsibility for ensuring that the sector functions. The media and Parliament still look to ministers (and to a lesser extent regulators) when assigning responsibility for problems in the market. Panel members argued that, at the very least, the public expect reassurance that government has put in place measures to minimise the risks of future difficulties.

It seems clear that even when care is funded and provided privately some accountability remains with government, which is seen as having a duty of care for ensuring both minimum standards and a market that is generally 'effective'. Attempts to limit government's accountability for failings in specific care homes (for example, through the creation a sector regulator) were not seen as having been wholly successful – partly due to difficulties in clarifying and communicating the respective roles of the national, local and regulatory tiers (see below).

3. **Institutions matter and their roles must be clear:** As shown above, the past 30 years have seen significant changes in the institutional landscape. The respective roles and responsibilities of central and local government have changed relatively frequently and the sector has seen the introduction and replacement of numerous regulators. Policymakers have clearly attached importance to different regulatory roles at different periods and so the remits of the regulator have also shifted considerably.

Changing institutional remits were seen by many on the panel as having created a somewhat unstable set of relationships and a damaging lack of clarity regarding roles and responsibilities. Denise Platt pointed out that there had been a tacit expectation that the Care Quality Commission (CQC) should have been checking the financial resilience of providers prior to the collapse of Southern Cross but it was not resourced to do so. Meanwhile, local authorities were seen as too small to exercise some market oversight functions effectively and the department too remote.

Peter Hay argued that the role of local commissioners was still changing as a result of the growing importance of self-funders and increased awareness of the need to monitor financial resilience of providers. However, he emphasised that such a role change would require investment and time to develop new skills. As he put it, "commissioning is but an infant in primary school. It has a long way to

go. We sometimes expect it to be masters educated in terms of competence and performance, when it is only a few years old.”

The importance of government institutions in ensuring an effective market did not mean, of course, that panel members always felt that a more prescriptive regulatory framework was required. Rather, it was felt that ministers should be clear on which organisations were performing which roles – and should ensure that these organisations had the right funding, skills and processes to perform these functions properly.

4. **Markets don’t remove the need for policy making.** As with monopoly public provision, conscious efforts are required to ensure services are better coordinated for users. The panel spoke at length, for example, about the difficulties of integrating health and social care services.

David Behan explained that national government’s role in relation to social care has evolved but it retains an important policy making and stewardship function in setting the framework within which the social care market operates. He described this role as like being in charge of a virtual “graphic equaliser” to ensure various aspects of the social care receive sufficient attention: “clinical governance, providers’ duty of care, professional responsibility” and adequate “regulation”. Funding, a key aspect of the policy making process is equally an ongoing area of decision-making, with the government still deciding its final response to the Dilnot report. As one panel member commented during the event, quality can only be achieved with the right funds – when some residential homes receive fees lower than the cost of a nearby budget hotel.

4. Health

Introduction

The third Institute for Government Learning from History event was held on 27 March 2012 and examined the expansion of choice and competition in health services since the 1980s.

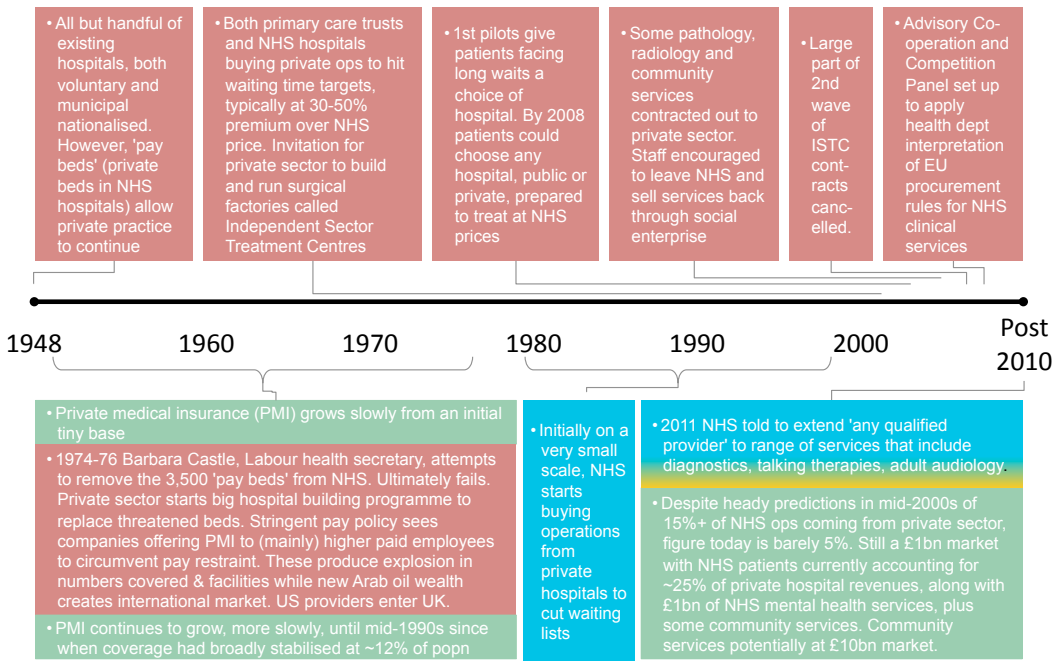
The event speakers were:

- **Rt Hon Alan Milburn** – former Secretary of State for Health
- **Mike Parish** – chief executive of Care UK
- **Professor Carol Propper** – professor of economics, Imperial College
- **Ken Anderson** – former NHS commercial director
- **David Worskett** – director, NHS Partner Network.

History

Markets in health: summary timeline

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In no area has the introduction of choice and competition been more controversial than health care. Between 1948 and the mid-1970s, the private health sector in the UK was tiny, with the bulk of private care in fact provided in NHS 'pay beds' – beds in NHS hospitals to which NHS consultants could admit private patients.

The ill-fated attempt by the 1974 to 1976 Labour government to remove these saw increased investment in private hospitals in the face of fears that the beds might one day be abolished, and from the mid-1980s a few health authorities did start to use the spare capacity available in private hospitals to cut NHS waiting lists.

The big shift really started, however, with the Conservative's initial introduction of an 'internal market' into the NHS. Under that a 'purchaser/provider split' was introduced under hospitals became nominally free-standing organisations whose services were bought on contract by health authorities and GP fundholders – an arrangement under which GPs were given budgets for the first time to buy an (initially limited) range of NHS care on behalf of their patients. An essential part of the idea, although in the 1990s it worked less well in practice than in theory, was that 'money would follow the patient'.

These changes – as Carol Propper on the panel pointed out – were “the most revolutionary” the NHS has seen given where it then was.

The 1990s saw some extension, on a small scale, of the NHS using private hospitals to cut NHS waiting times. Under Frank Dobson as secretary of state for health between 1997 and 1999, that was heavily discouraged.

But from 2000 on, under Alan Milburn and his immediate successors, a much more sophisticated version of the NHS market was re-introduced, including a deliberate wider use of the private sector, and the re-introduction of choice and competition.

NHS Trusts were turned into much more genuinely free-standing organisations (foundation trusts). Bids to build and run a series of surgical factories dedicated to treating NHS patients were invited – the independent sector treatment centres or ISTCs. These had a three-fold aim: to provide extra capacity to cut waiting times; to provide an element of competition to existing NHS hospitals; and to undercut the very high prices that the indigenous UK private hospitals were charging for NHS work. At the same time, from 2004 on, Labour gradually re-introduced the ability of patients to choose where they went for treatment – the loss of choice having been an unintended side effect of the 1991 reforms. By 2008, NHS patients could opt to have their routine, waiting-list type, treatment in any hospital, public or private, willing to treat them at NHS prices.

It was also becoming clear, however, that the combined effect of the creation of foundation trusts, the introduction of a tariff or price list for NHS care, the creation of the ISTCs, the re-introduction of choice, the placing of tenders for some community services, and the encouragement of competition both between NHS hospitals and between NHS hospitals and the private sector, was starting to subject the NHS to European competition and procurement law – in other words a genuine market in the provision of NHS care was starting to open up.

In recognition of that, the so-called NHS Co-operation and Competition Panel was created as a non-statutory advisory body – a form of non-statutory regulator – to advise on the merger of NHS bodies while handling complaints about anti-competitive practices by hospitals and primary care trusts. At the very end of the Labour government, however, when Andy Burnham was health secretary, this approach was partially reversed when he declared that he wanted the NHS to be its own “preferred provider” of NHS care, with failing NHS organisations given a first and second chance to improve before their services were put out to tender.

Under the Coalition government, the development of a market in NHS care has been given a significant extra push through the creation of a statutory competition regulator – Monitor – which holds concurrent powers with the Office of Fair Trading. Indeed that proved one of the most controversial parts of the recent NHS reforms.

Impact

There is no doubt that the introduction of extra capacity from the private sector helped produce the dramatic reduction in NHS waiting times under Labour. There is some academic evidence – cited at the seminar by Carol Propper, who herself undertook some of this work – that competition itself has reduced waiting times and improved management in NHS hospitals.

At the session, and perhaps unsurprisingly, the panel all agreed that competition within a fixed tariff price has had a favourable impact on price and quality, Mike Parish arguing that the private sector has been “the grit in the oyster” for the NHS.

The impact to date, however, has been limited. In the mid-2000s there were heady predictions by Labour health ministers that “up to 15 per cent” and perhaps more of NHS waiting list procedures could one day be provided by the private sector. In practice, the proportion has yet to reach five per cent.

The private sector has, however, also made inroads, on a relatively limited scale so far, into the provision of radiology, diagnostics, and some community services while a relatively small number of GP practices are now run corporately. One NHS hospital, Hinchingbrooke in Huntingdonshire, is now run by private operator Circle – with the possibility that a small number of other NHS Trusts that are unlikely to make foundation trust status may follow.

There is clearly potentially a significantly larger market available for the private provision of NHS care. But much will depend first on how the newly created clinical commissioning groups choose to behave and second on how Monitor, as the economic regulator, interprets what is now a highly complex remit – one that involves both preventing anti-competitive behaviour but also promoting the integration of services where that is in the interests of both patients and value for money.

And at no point have these changes been anything other than controversial, not least with many NHS staff.

The attention drawn to them during the passage of the Health and Social Care Act 2012 has amplified the concerns of opponents who believe that profits should not be made from health care, and that the private sector will 'cream' the easiest work, in the process undermining the clinical and financial viability of NHS-run organisations that will be left to deal with the most difficult cases.

Key themes

1. **Ministerial commitment is vital:** The introduction of markets into NHS care has been a repeated case of two steps forward, one back, and sometimes a step right off the road before the journey is resumed.⁹ That applied under the Conservatives in the 1990s when ministers tended to intervene when the application of market mechanisms threatened to produce disruptive change. Under Frank Dobson, Labour's first health secretary, GP fundholding was abolished and use of the private sector was discouraged before a more sophisticated version of the internal market was re-introduced by Milburn and his successors. Then again, under Andy Burnham, a policy of the NHS being its own "preferred provider" was introduced before Andrew Lansley legislated to set much of this in stone. Indeed, in Lansley's eyes, a crucial justification for the whole of the Health and Social Care Act 2012 was that it made these changes "permanent" – removing ministerial discretion to alter the policy merely by fiat, rather than by another round of legislation.
2. **A narrative helps:** One of the biggest criticisms of Lansley's recent legislation was the absence of a narrative to explain what problem it was that these changes, done in this way and at this time, would solve. Milburn powerfully made the point at the session that for the recent reforms, Lansley repeatedly talked about the wiring, not its purpose. Or as Milburn put it, picking up a line from Rachel Sylvester in *The Times*, "All that the Tories and Lansley talked about was the abattoir, not the hamburger – about how the hamburger would get made, not about what it would do for patients." Under Blair, Milburn underlined, the Labour government had been clear that the introduction of choice and competition was not an end in itself but a means of achieving shorter waiting times for patients.

He also argued that governments need "permission to act". That was provided for Labour first by its large majority and second by the fact that there was a clear mandate to tackle the NHS's perceived problems – which included at the time waits of two years and more for operations.

3. **It takes time:** The history of the use of markets in the NHS goes back 20 years. In health it has partly taken so long because the issue remains deeply controversial. Polling shows that most patients – 70 per cent plus – do not mind whether their care is provided by the NHS directly or by a private provider so long as it remains free at the point of use. At the same time, however, as Carol Propper noted, the public remains deeply suspicious of the profit motive in health care, believing

⁹ See Timmins, N., (2012) *Never Again: the story of the health and social care act 2012*: http://www.instituteforgovernment.org.uk/sites/default/files/publications/Never%20again_0.pdf

it undermines the founding principles of the NHS. Equally, the current private sector market for the provision of NHS care would have been less vibrant without Labour's decision deliberately to introduce new and in several cases foreign owned competitors to the indigenous UK private hospitals through the ISTCs. Government here helped make the market. Even so, the current proportion of NHS care delivered privately is relatively small. The current reforms may extend that considerably, but such an outcome is not yet certain. It is competition that the act entrenches, not necessarily more private and voluntary sector provision, even if that is likely.

4. **Alliances matter:** Choice and competition were introduced into the NHS in the face of sustained opposition from many staff, and not least, over 20 years, from the British Medical Association – the doctors' trade union to which some 70 per cent of NHS doctors belong. Nonetheless, by the time of the 2010 election, and on any reasonable reading of their manifestos, there was a consensus between Labour, the Conservative and the Liberal Democrats that choice and competition had a role to play in the provision of NHS care. Perhaps ironically, it was Andrew Lansley's determination to set all this down in stone in legislation that re-ignited the old battles over the issue. That raised the political temperature to the point where Milburn argued at the session that the legislation "has set back for a generation the cause of market-based reform in the NHS". Whether that is the case remains to be seen. But something that is notable about the introduction of markets in health is that once the original purchaser/provider split had been introduced, the extension of private involvement in the provision of NHS care was achieved without any new legislation.
5. **Institutions matter and their roles must be clear:** Monitor was originally set up purely as a regulator for foundation trusts – there to set a hurdle they had to clear in terms of financial (and now clinical) viability to acquire that status, with Monitor enjoying extensive powers to intervene if finances went awry. As the NHS market developed, Labour introduced the inelegantly named NHS Co-operation and Competition Panel to oversee the application of a version of EU competition law to the NHS. It was a purely advisory body and it was almost a 'reform by stealth', its name deliberately designed to hide its true purpose. Under the 2012 Health and Social Care Act, Monitor has now become a full economic regulator (with the panel surviving as an advisory body within it). But it is arguable that its current three-fold – overseeing the viability of NHS foundation trusts, ruling on competition issues and mergers, and also having a hand in setting prices for NHS treatment – involves conflicts of interest that will not easily be reconciled. And that is aside from the problems that may be caused by its broader remit both to prevent anti-competitive practises and to promote integration where that is in the interests of patients and practices.
6. **Effective choice and competition requires new public sector skills and mindsets:** In the early 2000s the Department of Health lacked commercial skills, which is partly why Ken Anderson was brought in from the private sector as NHS commercial director to provide them. Since the end of the ISTC programme

– partly as a matter of policy, partly due to the pressures of competition law, the commissioning of private sector care has moved away from being a centrally procured programme to more local commissioning. That has been the responsibility first of primary care trusts and now of the clinical commissioning groups that will replace them. Many on the panel noted the relative lack of commissioning and commercial skills in PCTs and CCGs, with some staff still holding an ideological opposition to an extension of private sector involvement. David Worskett argued that some of the failures by commissioners have in fact been due to constant changes of emphasis at the political level. And in terms of setting the tariff – which affects the behaviour of all suppliers of NHS care whether public or private – Carol Propper argued that public servants have in fact become more skilled at using price to change both the quantity and quality of care provided. The new arrangements for the NHS may set a yet higher premium on such skills.

7. **Circumstances will force services to adapt.** The recent legislation makes it far clearer that EU competition and procurement law apply to NHS clinical services. That in itself is a changed circumstance, although its precise impact remains hard to predict. It is also clear that while competition and choice were relatively easy to extend at a time of significant growth in the NHS budget, that may be harder to sustain as, in NHS terms, a fierce spending squeeze takes effect. Milburn, despite his belief that the cause of market-based reforms has been set back, also argued that “drivers for efficiency will always trump what comes from the top” in the decision to use competition in an attempt to get the best value for money services.

5. Local government

Introduction

The fourth Institute for Government Learning from History event was held on 17 April 2012 on the topic of increased private and voluntary sector provision of local government services.

The event speakers were as follows

- **Helen Bailey** – Former Director of Public Services HMT and former chief executive of Islington Borough Council
- **Tony Travers** – Director of LSE London
- **Carolyn Downs** – Chief Executive, Local Government Association
- **Sir Rod Aldridge** – Founder of Capita.

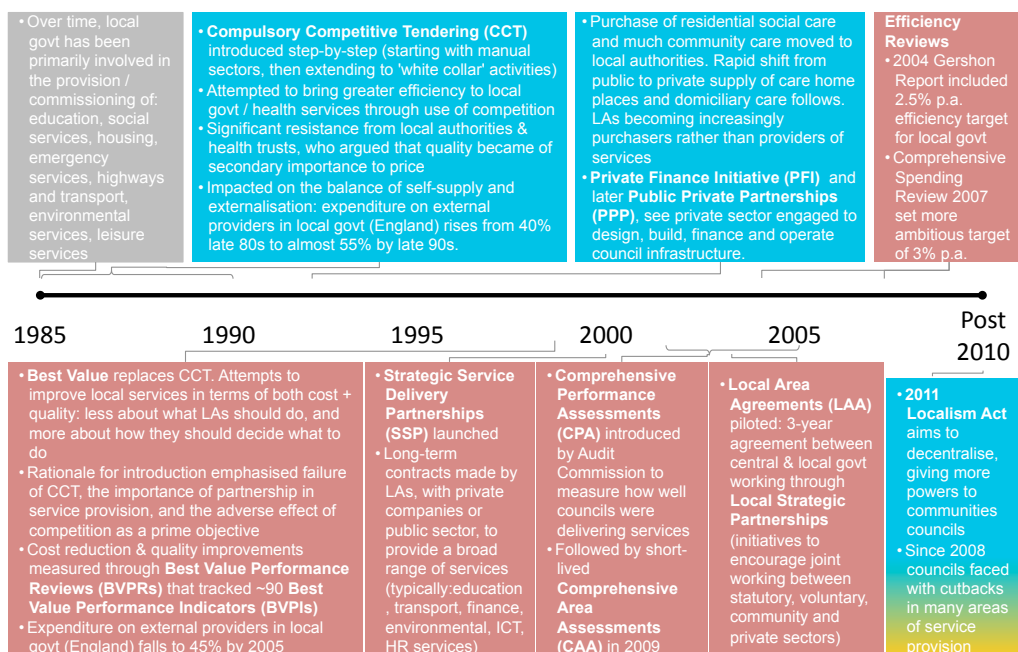
A recording of the event can be found by following this link:

<http://www.instituteforgovernment.org.uk/events/upcoming/learning-history-markets-local-government>

History

Markets in local govt: summary timeline

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Local government plays a major role in a wide array of services, including social care, transport, environmental services, education and housing. Private and voluntary sector organisations have an important role in service delivery in all of these sectors.

The increase in private and voluntary sector provision of local public services accelerated from the late 1970s on, as the Thatcher governments sought to reduce the power of the public service unions and promote service improvements. The introduction of Compulsory Competitive Tendering (CCT) in 1980 was a central element in the Conservative Party's reform programme. According to Tony Travers, CCT was the "single beginning point of the modern markets world".¹⁰ CCT required public agencies to put specific services out to competitive tender. These services could then only be carried out by local authority employees if the in-house bid won against private sector competition.¹¹ Initially, CCT was limited to just three services but it was hoped that it would also encourage the use of private sector providers elsewhere. However by early 1985, only 41 out of 456 councils were using private contractors for any of their main services and interest in CCT was declining, partly due to threats of industrial action by unions and opposition from the Labour party.¹²

The Local Government Act of 1988 was therefore introduced to extend the use of CCT into an additional seven areas.¹³ By 1992, this had increased to fourteen services (covering both 'white' and 'blue collar' functions).¹⁴ This extension was seen by the Major Government as a necessary coercion, as councils continued to be reluctant to contract out some services, despite the government's belief that there was "overwhelming evidence" of efficiency gains through the use of competition. The 1988 and 1992 reforms had their effect and competitive tendering swiftly became a local government norm. Private sector provision of locally managed services overtook public sector provision, increasing from 40 per cent in the late 1980s, to 55 per cent in the late 1990s.

Although it firmly opposed this drive towards competitive provision when in opposition, the Labour party quickly changed its position once in power. Successive Labour governments embedded the reforms kick-started by CCT, most notably with Best Value and the extension of PFIs and PPPs.¹⁵ Best Value tweaked the aims of CCT by aiming to increase local government's focus on quality as well as economy gains. In 2006, TUPE¹⁶ regulations guaranteed employees' rights when a public sector service was moved to the private sector – a move seen as enabling increased use of private provision by reducing workforce resistance but also discouraging outsourcing by reducing the potential for savings through rapid wage and staff reductions.

10 These services were new construction, building maintenance and some highways work

11 Therefore, it was feasible for the public sector to win the contract, but there must be a process whereby the service goes to contract

12 Only one Labour controlled authority was part of the 41 councils mentioned above

13 Refuse collection; building cleaning; street cleaning; schools and welfare catering; other catering; grounds maintenance; repair and maintenance of vehicles; and management of sports and leisure facilities

14 Fleet management; security; architectural; engineering; property management; finance; personnel; legal; computing; corporate and administrative; housing management; home-to-school transport; libraries and theatres

15 Private finance initiatives and public private partnerships, which allowed the private sector to design, build, finance and operate council infrastructure

16 Transfer of Undertakings (Protection of Employment)

Impact

There was general agreement among the panellists that the introduction of market mechanisms into local government service delivery had brought improvements in efficiency and value for money. According to Rod Aldridge, local government has been “the most innovative sector” to work in as a private provider, and most on the panel argued that regular expenditure reductions had achieved minimal impact on service quality.

This positive evaluation was supported by many contemporary academic studies, some of which were referred to in general terms during the session.¹⁷ Rod Aldridge argued that the company he founded, Capita, had made consistent efficiency savings for local government, for example through design and delivery of shared service arrangements. His view was that shared services, for example, had reduced government costs by up to 40 per cent, with his company making a profit margin of 12 per cent on top of this.

The panel also reported on more recent innovations. For example, Carolyn Downs highlighted attempts to ensure that local contracts are awarded to local businesses rather than national or multinational service providers based outside the area. In Shropshire, a contract for school meals specified that the produce must be locally grown and cooked. She argued that this not only increased the quality of school meals and kept costs under control (due to lower transport costs), but crucially enabled the local authority to deliver on a wider social objective of outsourcing more services to local SMEs.¹⁸ Today, around 60 per cent of council services across the UK are delivered by SMEs, which Ms Downs felt was a cause for celebration.

It should be noted that there was no universal agreement about the effectiveness of market mechanisms across all service areas. Indeed, some service areas may be ill-suited to private provision for either political or practical reasons. In terms of political concerns, Carolyn Downs expressed some discomfort with competitive provision in adult social care, saying, “making profit out of vulnerable people actually feels quite difficult”. In terms of practical difficulties, participants cited the example of local bus services, where it proved difficult to develop a thriving competitive market and the Office for Fair Trading found evidence of anti-competitive (cartel) practices among providers.

Panellists saw central government as providing the initial drive for reform but saw much subsequent reform as the result of a culture change at the local level. Carolyn Downs argued that changes had “definitely produced a shift in the mind-set of local government managers and politicians about how to deliver public services differently”. And the panel agreed that the experience of reform in recent decades has demonstrated that local authorities can tackle their problems “head on”, as Rod Aldridge put it. He was optimistic that “there is a lot more that this sector can bring in the future”.

17 In 1987, the Audit Commission found that the cost of renovating council properties could be reduced by between half and a third if private contractors were used. Likewise, the use of contract cleaners resulted in a 20 per cent cost saving on average across local authorities. These financial savings were associated with the degree of competition for contracts. Similar studies were conducted abroad – for example, in 1982, a study of Guard Services in the US showed costs were a third higher when public sector personnel were employed to undertake the same work.

18 Small and medium-sized enterprises

There has clearly been a change in the 'zeitgeist' across local government. Decision-makers now automatically contemplate outsourcing tasks instead of finding ways to deliver them in-house, for example by hiring or transferring employees. This has no doubt been facilitated by a relaxation of public attitudes towards the use of private providers in the delivery of public services, even if the notion of 'profit' continues to remain controversial.

Key themes

1. **It takes time:** One striking feature of these changes was that initial attempts to encourage use of private contractors through legislative measures (in this case CCT) had relatively little immediate effect. Where councils remained sceptical of the benefits of private provision – or reacted against central government's attempts to impose its views on localities – limited changes took place, particularly in the 1980s. Two things shifted these slow movers. First, growing evidence that there was scope for increased efficiency from using private and voluntary sector companies to support service delivery. And, second, growing pressure from taxpayers to maintain service standards despite increased demand and flat budgets. As Tony Travers put it, citizens demanded "Scandinavian style public services with American taxes" and contracting out of certain services became seen as a route to delivering this.
2. **Ministerial commitment is crucial:** Political and executive leadership was seen as essential to nurturing private sector interest in providing services. Rod Aldridge argued that companies needed reassurance that their investments and performance improvements would be rewarded through future contracts and market expansion. As he put it, the "private sector is given the confidence to do that by the political leadership". In the absence of such reassurance, very few, including the company he set up (Capita), would want to bid for public service contracts.
3. **A narrative helps:** During the 1980s and 1990s, the narrative supporting the introduction of market-mechanisms in local government services focused on attacking local government inefficiency while promoting the potential efficiency gains from private provision. The panel questioned, however, whether the political narrative for local government reform had ultimately been effective as it framed reforms in adversarial terms. In Tony Travers' words, the Conservative government effectively launched a 'culture war' that in his view proved counter-productive and contributed to a simplistic debate, which tends to simplify into 'pro' or 'anti' markets camps rather than assessing the merits of private provision on a case-by-case basis.
4. **Alliances matter:** Some councils were keen to embrace CCT, regarding it as a way to use resources more efficiently. Empowering these enthusiasts to lead reform was seen as a successful way of promoting change, making it easier for other local authorities to quickly learn what worked best, and in which service areas. The panel agreed that this experimentation and 'policy drip-down' was helpful – and see it as having set a trend that continues today.

5. **Effective choice and competition requires new public sector skills and mindsets:** Panel members generally agreed that local government commissioning skills had improved over the course of these reforms. However, most panel members felt that local government commissioning practice had limitations, and commissioners still tended to focus on securing services at the lowest price rather than encouraging the development of a supplier market that efficiently and effectively addresses user needs. Rod Aldridge argued that many local government procurement processes had become needlessly complex to the extent that they actively discouraged companies from bidding. Carolyn Downs noted that smaller providers, who lack capacity to manage convoluted bid processes, were particularly discouraged. Aldridge suspected that incumbent providers therefore too rarely faced a sufficient threat of losing business – leading them, in his words to add “profit rather than value”. The practice of keeping as many potential providers in the ring for as long as possible was, in Aldridge’s view, also highly counter-productive as it again increased companies’ bidding costs and discouraged collaborative dialogue. Aldridge argued that to encourage innovative outcomes-based models, providers need to feel valued and engaged: “I need to be sat with you, not beneath you”.
6. **There are limits:** One clear conclusion from this event was that market mechanisms had been applied more effectively in some service areas than others. This was felt partly to be due to nature of the service in question, which might make the market mechanisms either practically or politically difficult.

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