THE SMARTER STATE

BETWEEN THE 'MAGIC MONEY TREE' AND THE 'REFORM FAIRY'

Harry Quilter-Pinner
and **Halima Khan**

October 2023

ABOUT IPPR

IPPR, the Institute for Public Policy Research, is an independent charity working towards a fairer, greener, and more prosperous society. We are researchers, communicators, and policy experts creating tangible progressive change, and turning bold ideas into common sense realities. Working across the UK, IPPR, IPPR North, and IPPR Scotland are deeply connected to the people of our nations and regions, and the issues our communities face.

We have helped shape national conversations and progressive policy change for more than 30 years. From making the early case for the minimum wage and tackling regional inequality, to proposing a windfall tax on energy companies, IPPR's research and policy work has put forward practical solutions for the crises facing society.

IPPR

The progressive policy think tank

CONTENTS

SUMMARY

Public services are failing to deliver for citizens. Performance - in terms of access, quality and experience - across many public services is worse now than in 2010 and is lagging behind best practice abroad. This is resulting in low and falling public satisfaction. Moreover, citizens are convinced that things are and will continue to get worse. Addressing this challenge must, and will, be at the heart of the political competition at the next general election.

Policymakers will need to combine both funding and reform to create a smarter state to solve the crisis. Some argue that the only solution to poor public services is significant increases in funding – the 'magic money tree'. Others believe the only tool we have left is the 'reform fairy'. Neither of these approaches are right. We will need both funding and reform to create a smarter state.

The smarter state means delivering the three p's of public service reform: prevention, personalisation and productivity. Prevention means intervening earlier - before people hit crisis point - and can result in better outcomes and reduced costs. Personalisation seeks to put strong relationships between citizens and staff in public services at the heart of delivering better outcomes and empowers citizens to take control of their own lives. And productivity means using the resources of state to deliver the best outcomes possible.

Building services that deliver on these goals is far from impossible - but there is a need to spread services which deliver the three p's. There are already a host of inspirational and talented public service leaders who are demonstrating that delivering amazing public services is possible. As the saying goes: 'the future is here - it's just not evenly distributed'. As this quote implies, the challenge is how to spread innovation, so that all citizens have access to the best preventative, personalised and productive services.

The last serious attempt to achieve this - new public management (NPM) - is running out of road. NPM contended that public services failed to innovate because of the absence of market forces which led to weak or misaligned incentives. As a result, it pursued reforms that sought to correct this: importing private sector practices (eg targets) and the introduction of quasi-markets (eg choice). However, whilst there is some evidence these tools improved outcomes, they also came with negative side effects.

NPM overemphasised extrinsic motivators and undervalued the need to unlock intrinsic motivation in staff and citizens. The fundamental flaw at the heart of the NPM revolution is that it failed to understand what motivates people and drives change. NPM is based on the idea that staff and service users in public services require extrinsic motivations - reward and punishment - to drive behaviour change. However, scientists, psychologists and behavioural economists increasingly find that unlocking intrinsic motivation is a stronger driver of behaviour change in many circumstances.

We need to shift from a low trust, low skill, low autonomy public service model to a high trust, high skill, high autonomy one. In contrast to the low trust, skill and autonomy NPM playbook of top-down targets, regulation, financial incentives, choice and competition, such a system would shift to a high trust, skill, autonomy alternative. It would draw on a different set of levers including shared missions,

devolution of power to the frontline, investment in skills/capabilities, peer-to-peer learning and empowerment of citizens.

This report starts to set out the reforms needed to deliver on this. IPPR's future work on public service reform will set out in more detail how this shift can be achieved. This report sets its sights lower by aiming to establish some important initial steps on the journey, with a particular focus on reforming the centre of government and the flow of funding to local places, to enable local services and frontline teams to innovate and drive preventative, personalised and productive services across the country.

RECOMMENDATIONS

Step 1: Create a 'mission-led government'

- Government should set a small number of public service missions. These should be put into law to ensure that they are long lasting, and that government is accountable to parliament for delivering on them.
- Government should create a new 'mission framework' made up of core (outcome) and comprehensive (output and input) metrics of success and embed them across government.
- The centre of government should be made stronger and redesigned around the missions with new National Security Council-style 'mission councils' set up for each mission.

Step 2: Make sure the money follows the missions

- The core 'mission metrics' should be embedded in the governance of HMT. All significant spending decisions should be made with modelling to show the impact of these measures on the missions.
- Number 10 and HMT should create a new 'mission test' to ensure that spending follows the missions ensuring all spending is: affordable, mission critical and long term (10-year test).
- HMT should create a new category of spending – 'prevention investment expenditure' (PIE) - to ensure prevention spend is prioritised and protected.

Step 3: Create an 'enabling centre' to spread new models of public service reform

- Government should put an end to controlling top-down regulation and invest instead in the capacity of the public sector to drive improvement through learning.
- When regulators identify the need for improvement in local places/providers, improvement organisations should step in to support local leaders to understand what is going wrong and how to fix it.
- The centre should take a 'whatever it takes' approach to supporting local areas that are struggling, offering additional resources and powers where needed to unlock improvement.

1.
BETWEEN THE 'MAGIC MONEY TREE' AND THE 'REFORM FAIRY'

Public services are failing to deliver for citizens. Performance across many public services is worse now than in 2010 and is lagging behind best practice abroad. Three examples demonstrate the scale and nature of the challenge.

- The UK lags other countries on stopping preventable death from conditions such as cancer and dementia (figure 1.1).
- The attainment gap between students on free school meals and those who aren't is widening again (figure 1.2).
- The number of crimes being detected and the perpetrator brought to justice (via charge or summons) is declining (figure 1.3).

These examples are just three of many others, which span the ability of citizens to access services, the experience people have while using them and the outcomes they ultimately deliver.

FIGURE 1.1

Avoidable deaths are higher – and the gap is widening – in the UK compared to similar European countries
Avoidable mortality rate per 100,000 population, 2010–2020

There would have been 240,000 fewer deaths in the UK between 2010 and 2020 if the UK matched the average avoidable mortality rate in comparable European nations

Legend: UK — If UK matched European nations
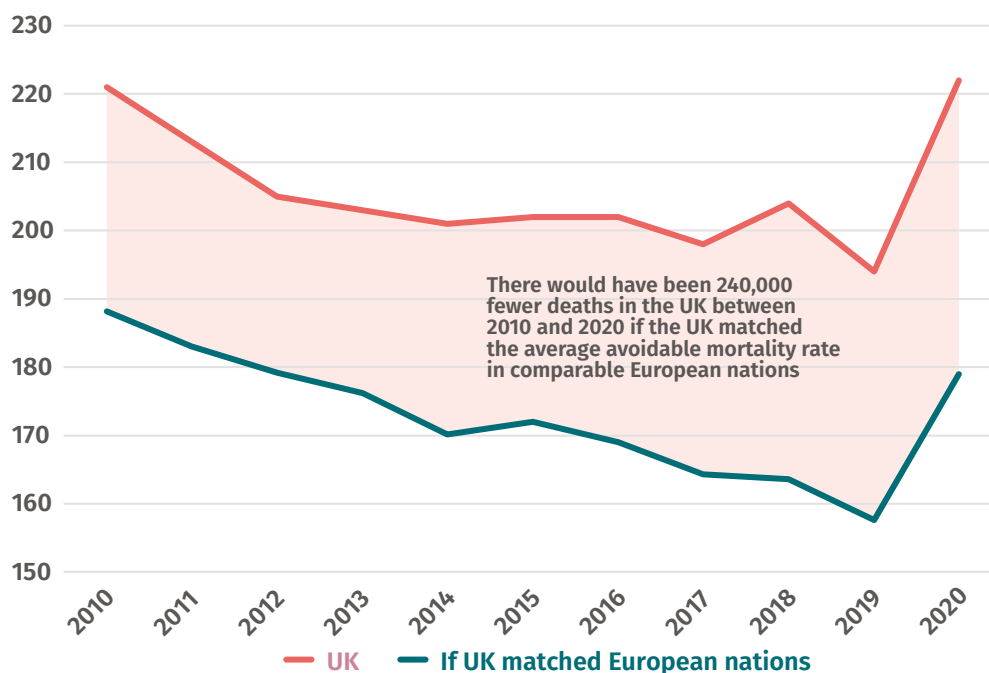
Source: CF analysis in Patel et al (2023)

FIGURE 1.2

The attainment gap is widening again
Trends in the GCSE English and maths persistent disadvantage gap at secondary school
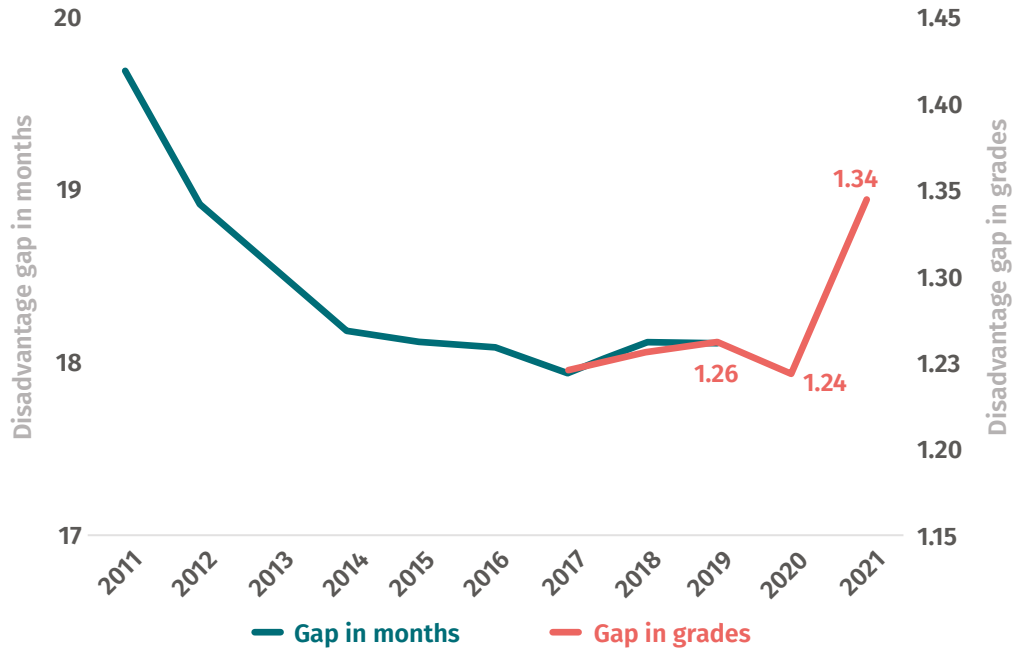
Source: Tuckett et al (2022)

FIGURE 1.3

The police are detecting less crime and bringing a lower percentage of offenders to justice
Crime outcomes in England and Wales 2004–2022
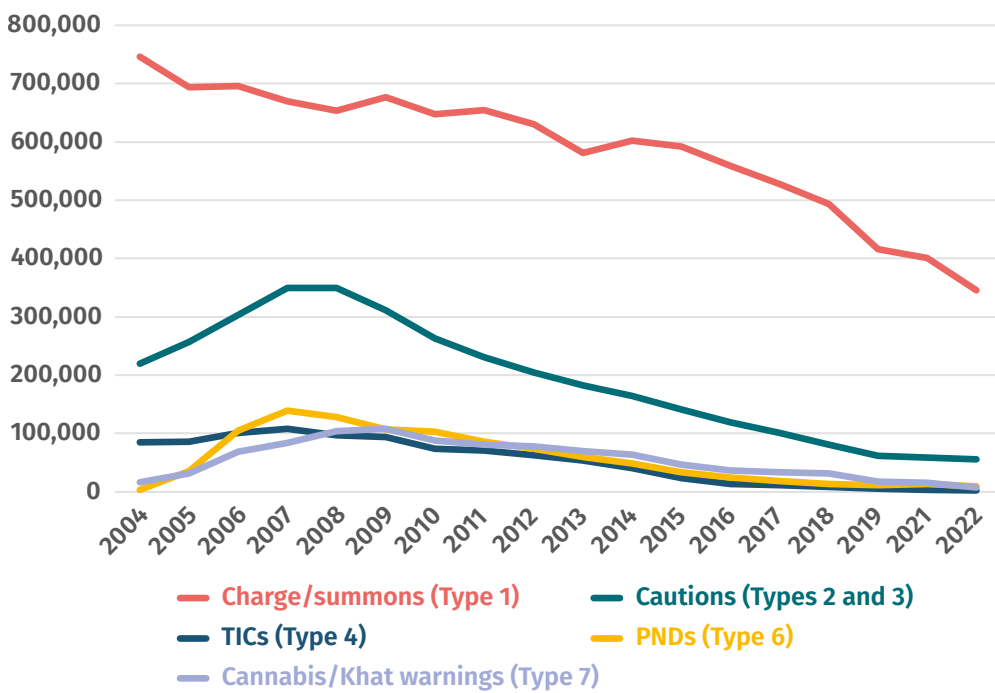
Source: Authors' analysis of Crime Survey in England and Wales (2023)

This poor performance is seen in public satisfaction on public services. Notably, while more people overall are still satisfied with public services than not (see figure 1.4), satisfaction has declined significantly in recent years (Morris et al 2023). Moreover, citizens are convinced that things are and will continue to get worse (see figure 1.5). When asked, the Conservative government (38 per cent), individual misuse of services (29 per cent) and the effect of Covid-19 (27 per cent) are the most commonly cited reasons for the challenges.

More people are satisfied with public services than not - but a large minority are dissatisfied
Responses to 'Are you satisfied or dissatisfied with each of the following services in your local area?'
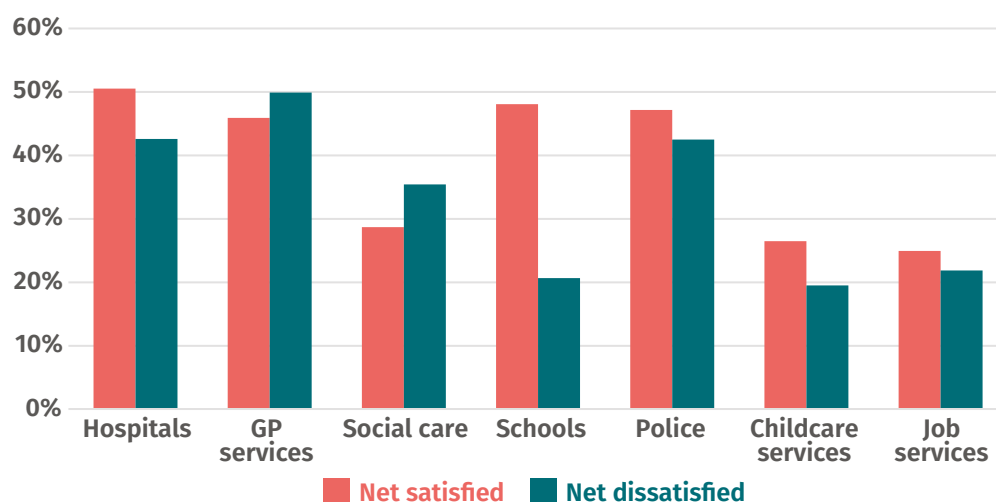
Source: Opinium polling for IPPR

People are convinced that public services are getting worse
Responses to 'Do you think each of the following services are getting better, worse, or staying the same in your local area?'

Source: Opinium polling for IPPR

There are two main stories being told by commentators and politicians about how to address the crisis facing public services.

- **The 'magic money tree'**: the only solution to poor public services is significant increases in the funding available to them after a decade of austerity. Reform cannot fix the problem.
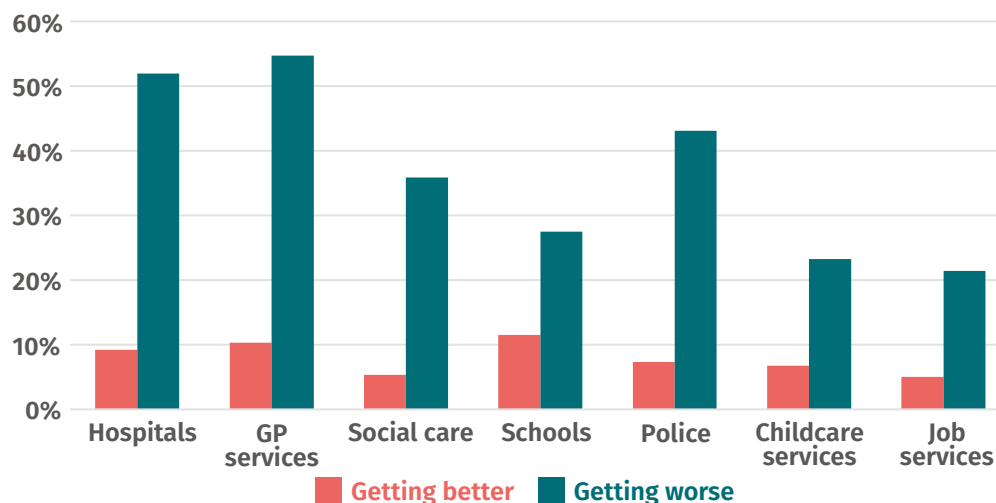- **The 'reform fairy'**: at the other end there are those that argue that we cannot afford to spend more on public services. The only tool we have left is reform (Economist 2023).

However, in truth neither of these arguments are credible. Just spending more money on the same model of public services will fail to deliver better outcomes. This is vividly demonstrated by a recent IPPR report on health, which shows that, absent of reform, spending on the NHS would increase rapidly from 9 per cent of GDP to 11.2 per cent of GDP without an improvement in outcomes (see figure 1.6) (Patel et al 2023). In effect, without reform, we will have to pay more for less.

Similarly, the idea that reform alone can deliver better outcomes without additional resources is not credible. In the case of health, the pressures of a growing and ageing population, with more complex needs, will drive increased spending over the coming years. As recent IPPR work has shown, even if we can achieve higher NHS productivity alongside reduced demand on the NHS (through improved population health), the NHS will still need more resources (though significant savings on the 'do nothing' scenario, with much better outcomes) (see figure 1.6) (ibid).

FIGURE 1.6

Prevention and productivity reforms can limit spending growth in healthcare
Government healthcare spending in England as a share of GDP under three different scenarios
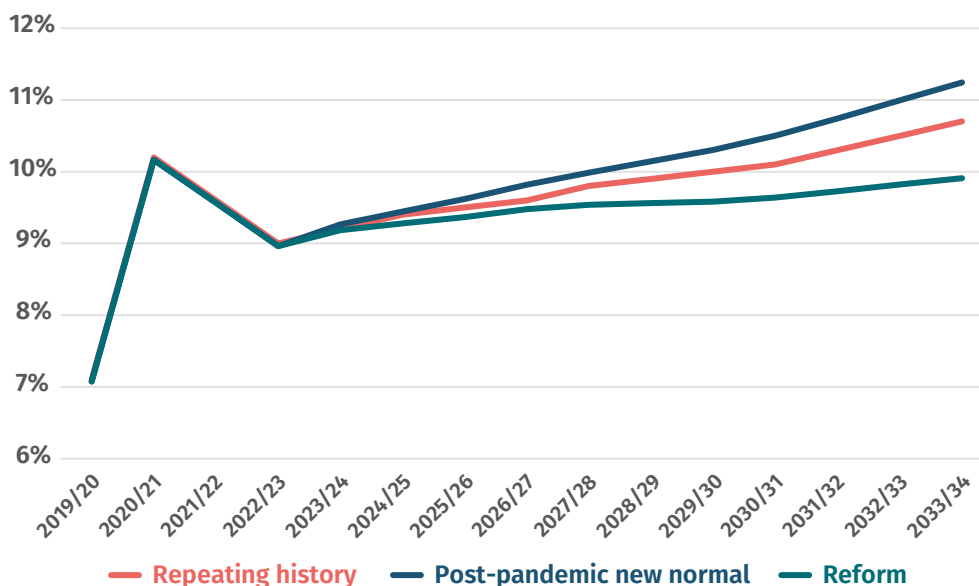
Source: LCP analysis in Patel et al (2023)

This evidence suggests that we must chart a course between the 'magic money tree' and the 'reform fairy' narratives of public service reform. This must recognise that we will need both funding and reform to drive better outcomes going forward. The age-old debate about whether a smaller or larger state is the right end goal is a distraction. Instead, we should be aiming for a **smarter state**.

The public agree with this. When asked most people said they thought that public services needed funding and reform (rather than just one or the other) (see figure 1.7). They consistently feel that services should have more money spent on them (see figure 1.8) - though they are less willing to pay more in tax to achieve this, except for the NHS where there is a continued willingness to pay more tax to support it (see figure 1.8).

More people think that public services need funding and reform (rather than one or the other alone)
Responses to 'Thinking about the challenges facing public services, which of the following comes closest to your view?
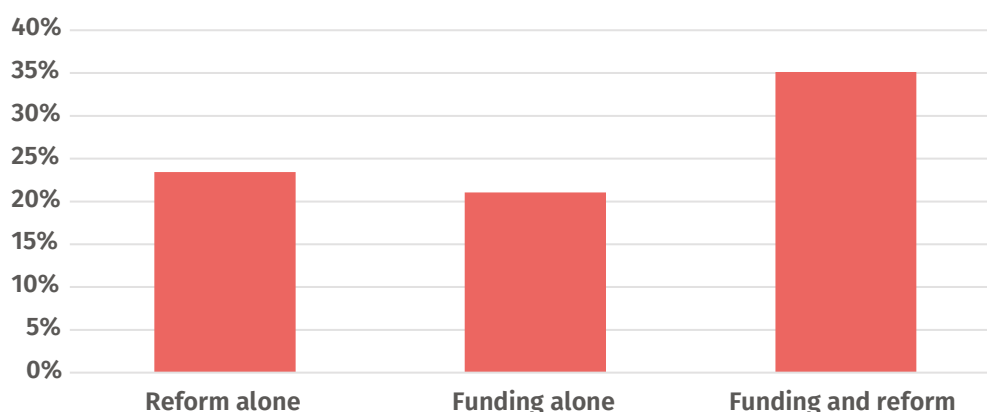
Source: Opinium polling for IPPR

The public want more investment in public services but are reluctant to pay more tax
Responses to 'Thinking about all the competing priorities that government has, do you think they spend too little, too much, or about the right amount on each of the following?' and 'And would you personally be willing to pay more in tax, if that money went towards the following services?'

■ Government spends too little on this   ■ Willing to pay more tax for this
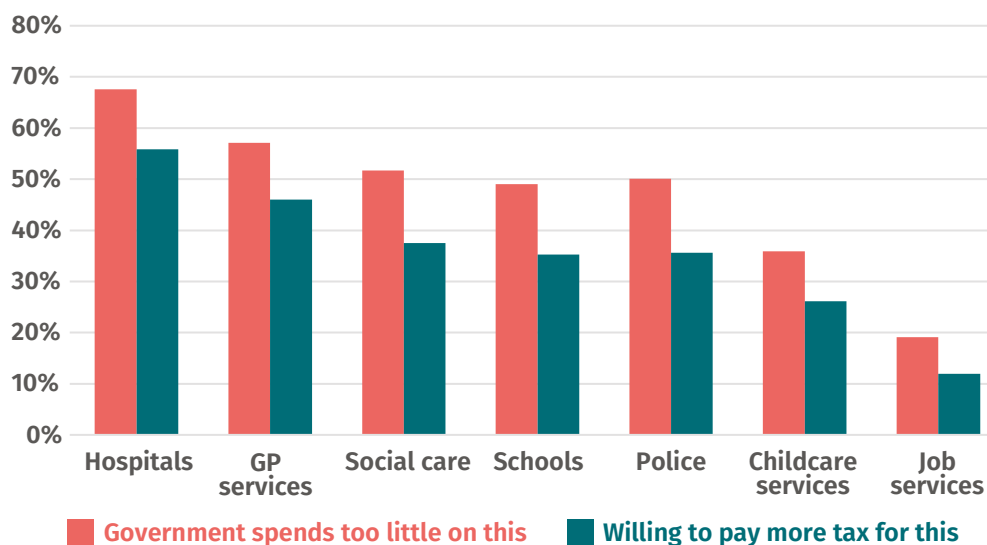
Source: Opinium polling for IPPR

2.
THE FUTURE IS HERE

What is the smarter state? Based on our research we argue that under the smarter state, policy makers and public servants should focus on ensuring that all services deliver **'three p's' of public service reform.**

FIGURE 2.1

Three p's of public service reform
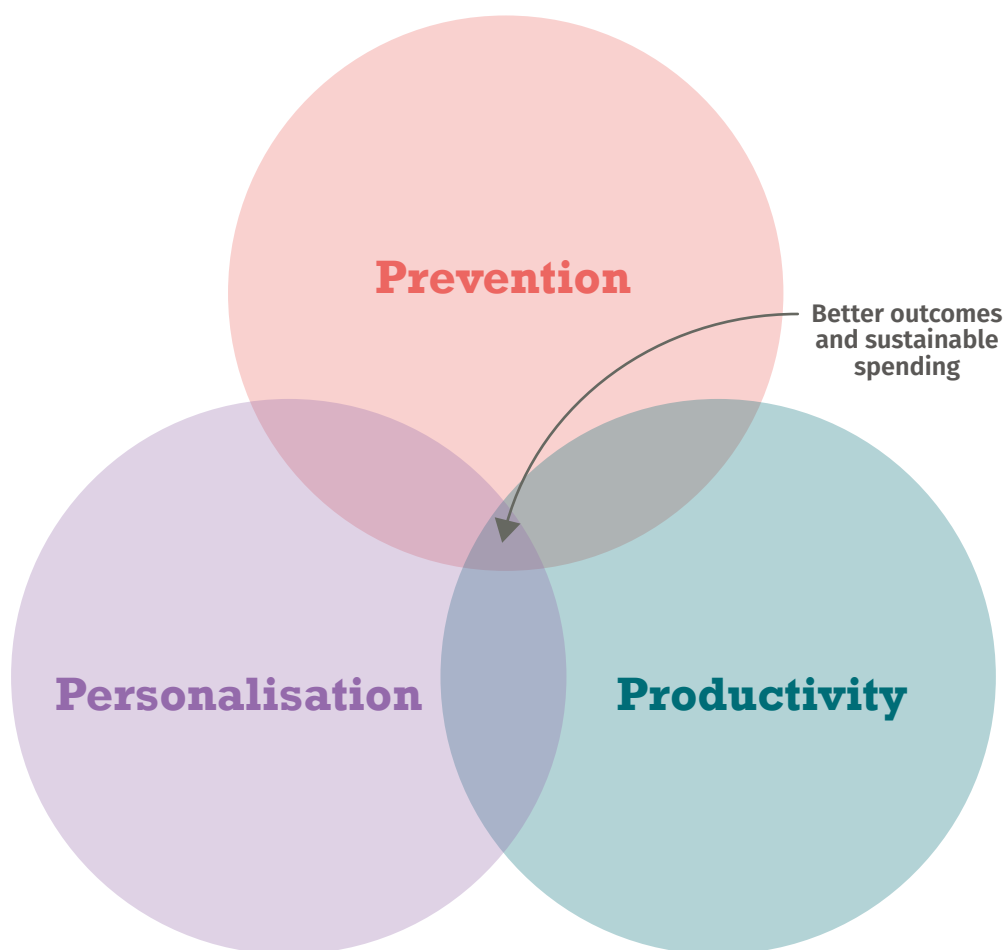
Source: Authors' analysis

- • **Prevention:** The case for a prevention-first approach to public services is compelling. Early intervention leads to better outcomes and can also reduce costs. However, the British state has struggled to deliver it despite successive political projects making it a priority. We still tend to wait for a need to occur – whether ill-health, criminal activity or educational failure – and then seek to respond. This is worse for citizens in terms of their lives and prospects, with

wider repercussions for those around them. It is also more expensive for the state as well as demoralising for staff. But 'radical prevention' can be achieved including through shifting resource from acute services downstream (eg in the NHS), investing in early intervention warning systems (eg in criminal justice), and drawing on the power of families, communities and businesses to drive better outcomes before state support is needed.

- **Personalisation**: Person-centred approaches to public services seek to put strong relationships between citizens and staff in public services - and citizens and their families and communities - at the heart of delivering better outcomes. This approach builds high-trust, supportive relationships to strengthen citizens' capabilities, confidence and control to live fulfilling lives. Personalisation seeks to overturn one-size-fits-all models of public services which are disempowering, ineffective and fail to respond to what citizens need. Creating personal services can drive improved service user experience and better outcomes. Such a system will shift power and accountability from the centre to citizens, who will be given voice and agency to shape the support they receive, with frontline staff freed up to support and respond in ways that get to the root of the issue.

- **Productive**: Public sector employment is around 18 per cent of total employment in the UK. This means public sector productivity is a significant contributor to total productivity in the UK. Public sector productivity increased by an average of 0.7 per cent per year from 2010 to 2019 (Van Ark 2022). This is higher than previous decades and higher than the private sector over this period. This would usually be considered a success. But few would argue that public services in the austerity decade were performing better and delivering more effectively for society than in the one before. This is because productivity growth in this period has largely been driven not by higher outputs (the numerator in the productivity calculation) but by constraining resources (the denominator). We argue that going forward we need to shift our approach to productivity from funding cuts to quality improvements. Indeed, we argue for our approach to go further by redefining what we mean by productivity to move beyond efficiency and focus on effectiveness (see box 2.1).

BOX 2.1: FROM EFFICIENCY TO EFFECTIVENESS

A recent report by Bart van Ark at the Productivity Institute sets out the public sector delivery chain (ibid).

Budgets → Inputs → Outputs → Outcomes

He argues that there are three areas of productivity to focus on.

- **Budget efficiency:** turning available budgets into the inputs required (staff cost, real estate, materials).
- **Organisational productivity:** this means 'doing things right' (for example, delivering more and better surgeries for a given set of inputs).
- **Effectiveness:** this means 'doing the right things' meaning delivering the right outputs to achieve the outcomes we are really seeking.

He correctly argues that the public sector focuses mainly on the first two approaches to productivity, and that we increasingly need to focus more on the third. In health this would mean, for example, shifting towards prevention, to deliver a healthier population.

Building services that deliver on these goals is far from impossible. Indeed, there are already a host of inspirational and talented public service leaders who are demonstrating that a better alternative is possible. Whether it is the use of AI to diagnose illness more effectively at Moorfields or the Royal Marsden, the co-design of services with citizens in Wigan or Lambeth, or taking on devolved powers and shifting to prevention in Greater Manchester or the West Midlands, these services are pointing the way to a better future.

As the saying goes: 'the future is here - it's just not evenly distributed'.

As this quote implies, the challenge is how to spread innovation, so that all citizens have access to the best preventative, personalised and productive services. The last serious attempt to achieve this was new public management (NPM) which was developed by a group of academics, think-tankers and journalists in the 1980s and 90s. The main argument put forward under NPM was that in the absence of market forces public services suffered from weak or misaligned incentives. As a result, NPM claimed, public servants would not drive innovation and improvement.

The answer to this, NPM contended, was reform attempts to bring stronger and better incentives into the public sector. This was to be achieved through two main mechanisms:
- *the importation of private sector practices* to the workings of public administrations including performance indicators (eg targets) and performance management (eg regulators and delivery units)
- *the introduction of quasi-markets* such as choice for 'consumers' (where providers compete for users on quality rather than price) and competition between providers, often including private and third sector organisations.

This policy agenda influenced policy in the UK from the 1970s onwards but was most comprehensively implemented in England under New Labour between 1997 and 2010. The policies undertaken at the time undoubtedly led to some significant improvements in public service outcomes - waiting times in the NHS fell, attainment in schools improved and crime was reduced. However, there is a still a debate about what drove these improvements, and in particular, the relative impact of increased funding and the reform agenda.

The evidence - as set out in a literature review by Dr Eleanor Woodhouse commissioned as part of this research - is that the impact of these reforms has been mixed at best. Simply doubling down on these approaches is unlikely (in many, though not all, circumstances) to deliver more gains (see table 2.1). Put simply: NPM has run out of road and we need a new public sector reform agenda for the 2020s.

TABLE 2.1

Summary of evidence on NPM levers

Lever	Effectiveness	Explanation
Targets	Can drive improvement in the measured metrics but often at the expense of wider outcomes. Can lead to gaming. When combined with top-down control can demotivate staff. Not conducive to complex problems which need local knowledge and flexibility.	Focussing resource and attention on specific measurables drives improvement on those measures, but at the expense of wider system performance.
Choice and competition	Limited evidence of improvement of outcomes (access, quality) but evidence of increased inequality as a result of choice, due to worse outcomes for those from lower socioeconomic backgrounds. Outsourcing can reduce costs but sometimes at the expense of quality. Evidence that ability of the state to write complete contracts and actively commission is a key determinant of success.	Limited-service user take up of choice and unwillingness of the state to allow providers to fail means incentives created by choice are weak. Providers compete by reducing their costs but cut quality enhancing inputs (eg staff).
Regulation	Some evidence that it can drive providers from poor to good - but limited evidence it can drive excellence. When combined with top-down control can demotivate staff or drive perverse incentives.	Can help identify service failures and target accountability and support on these providers. But often reinforces top-down control and disempowers providers and staff.

Source: Quilter-Pinner and Khan (2023)

Why is NPM not driving better outcomes? There are a range of reasons that explain its shortcomings including the design of these policies and at times the ability of the state to implement them effectively. However, there is a far deeper more fundamental failing at the heart of the NPM revolution in public services: it fails to understand what motivates people and drives change in many cases.

NPM is based on the idea that people, staff and service users in public services require extrinsic motivations – reward and punishment – to drive behaviour change. However, scientists, psychologists and behavioural economists increasingly find that unlocking intrinsic motivation is a stronger driver of behaviour change in many circumstances. Moreover, they find that attempts to use extrinsic motivators in these cases can "crowd out" intrinsic motivation leading to worse outcomes.

These insights are based on a school of thought called self determination theory (SDT) pioneered by academics Edward Deci and Richard Ryan (Deci et al 1999). This theory suggests that humans rather than being simple economic man (woman or person) are in fact what the economist Bruno Frey calls mature economic man (woman or person). That is, as well as having both basic biological drives and responding to incentives, they also have what is considered the 'third motivation', by which they mean intrinsic motivation.

These thinkers argue that this 'third motivation' is underpinned by three fundamental needs. These are the pursuit of: competence (mastery), autonomy (choice) and relationships (connection). The environment that people are in – including the workplace – can feed these needs, unlocking intrinsic motivation, to drive effort and performance, or can starve them and thus 'crowd it out'. Extrinsic motivators – such as 'contingent rewards' - often result in crowding out as they depend on control and therefore impinge on autonomy.

For example, Deci et al (1999) replicated 128 experiments that sought to test the impact of extrinsic motivators on intrinsic motivation and performance. Their conclusion is clear: "tangible rewards tend to have a substantially negative effect on intrinsic motivation...(they) undermine people taking responsibility for motivating or regulating themselves. When institutions...focus on the short term and opt for controlling people's behaviour, they may be having a substantially negative long-term effect".

This does not mean targets and incentives can never work. Where tasks are simple (eg solvable by following reliable procedures) and routine (ie do not inspire intrinsic motivation) they are demonstrably effective. However, policymakers implementing NPM approaches have drastically overestimated the number of activities that this applies to across the public sector. Many more activities are complex, creative and relational. And, in turn, they have underestimated the long-term cost - in the form of crushed intrinsic motivation - of over-relying on these mechanisms.

What would a new public service reform playbook underpinned by this insight look like? In contrast to the low trust, skill and autonomy NPM playbook of top-down targets, regulation, financial incentives, choice and competition, such a system would shift to a high trust, skill, autonomy alternative. It would draw on a different set of levers including shared missions, devolution of power to the frontline, investment in skills/capabilities, peer-to-peer learning and empowerment of citizens. This is set out in more detail in figure 2.2.

FIGURE 2.2

A 'smarter state' approach to public service reform

|	**Current**	**Future**
Approach	• Lower trust • Low(er) skilled workforce • Low autonomy	• High trust • High skilled workforce • High autonomy
Tools	• Top-down targets • Top-down regulation • Financial incentives • Competition • Choice	• Set missions • Smart investment • Decentralisation • Build talent • Learning and improvement
Impact	• Drives performance from poor to good • Improves access but limited effect on quality or experience • Results in high staff burnout and turnover	• Enables performance to go from good to great • Improves quality and experience • Lowers staff burnout and turnover

Source: Authors' analysis

These shifts are broadly supported by the general public. When asked which reforms would be the most effective in seeking to improve services, increasing the numbers of and training for staff, increasing prevention and devolving decision making from Whitehall are the most popular, but they are more sceptical about NPM approaches such as outsourcing services to the private sector (see figure 2.3).

The public support reforms that would move public service reform on from NPM
Responses to 'Which of these do you think would be the most effective ways of improving public services?'
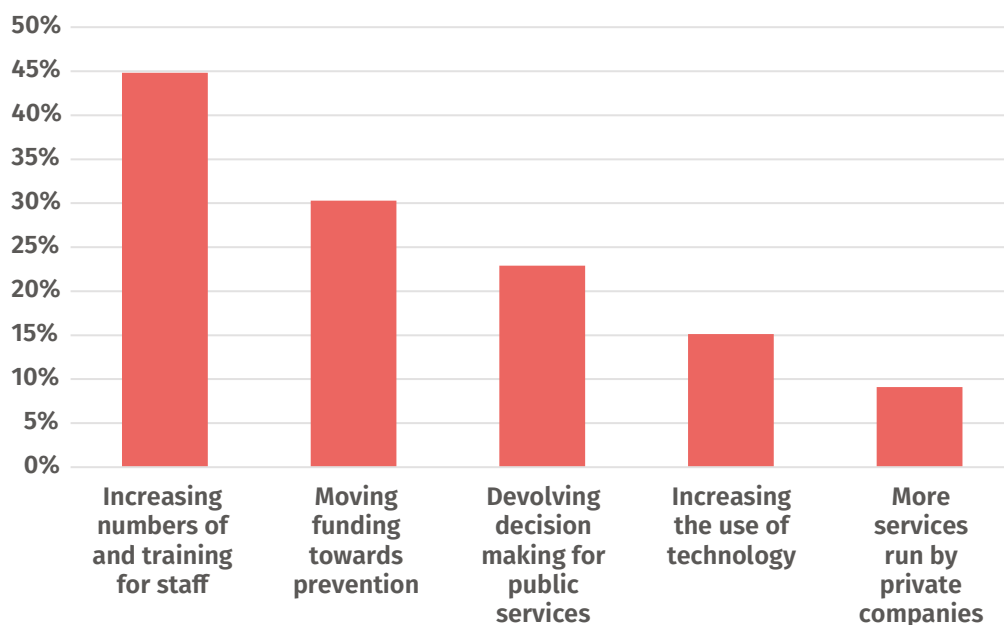
Source: Opinium polling for IPPR

IPPR's future work on public service reform will set out in more detail how this shift can be achieved. This briefing set its sights lower by aiming to establish some important initial steps on the journey, with a particular focus on reforming the centre of government and the flow of funding to local places. The aim is to enable local services and frontline teams to innovate and drive preventative, personalised and productive services across the country.

3.
A NEW PUBLIC SERVICE REFORM PLAYBOOK

STEP 1: CREATE A 'MISSION-LED GOVERNMENT'
The evidence is increasingly clear that we need to rethink the use of targets across government. Whilst targets can drive narrow improvements, by focusing activity and energy within the system, they come with significant risks of undesirable side effects, especially when they are focused on inputs or outputs rather than outcomes. These include gaming, reductions in intrinsic motivation amongst staff and falls in performance in non-measured outcomes.

However, there is still a need for 'guiding stars' across the state to ensure services are focusing on what matters to citizens. The solution is to shift to 'mission-led government'. Missions are long term and ambitious goals which act as a stimuli for driving coordinated action by the state (as well as non-state) (Mazzucato and Dibb, 2019). Missions are an increasingly popular approach to delivering social change, with the Labour leader Sir Keir Starmer recently setting five missions to guide Labour party policy.

Missions work by setting a shared direction from the centre (usually the state) but then leaving key actors space to develop their own solutions. They are fundamentally different to targets which by their nature are shorter term, input or output focused and usually combined with a 'control architecture' to the people and organisations subject to them. We suggest four high level missions for public services below each with a core measurement metric (table 3.1).

TABLE 3.1

Four missions to drive better public services and social outcomes

Health	Safety	Opportunity	Security
Make the UK the healthiest country in the world	Make the UK the safest country in the OECD	Every young person learns the basics and is in employment	End child poverty in the UK
Life expectancy and healthy life expectancy	Rates of crime	Ability to write, read and do mathematics Levels of NEET	Rates of absolute and relative poverty

Source: Authors' analysis

The introduction of mission-led government should be combined with a reworking of the way central government functions to enable them to be achieved.

- **Missions should be put into law to ensure that they are long lasting and that government is accountable to parliament for delivering on them.** Government should also establish independent bodies – modelled on organisations like the Office for Budget Responsibility or Climate Change Committee – to hold them to account (see box 3.1) This will help create a counterbalance to short term incentives of the political and media cycles.

BOX 3.1: LEARNING FROM PROGRESS ON CLIMATE CHANGE

Climate change offers an interesting model that could be replicated for each of the missions set by government (Averchenkova, Fankhauser and Finnegan 2018). This has included the following.

- The UK set a big mission in legislation, originally as part of the Climate Change Act 2008 and more recently in the form of net-zero by 2050.
- Progress against this is broken down into shorter term and sector-based plans (so-called carbon budgets).
- The creation of an independent Climate Change Committee (CCC) to hold politicians to account against this. Evaluation of these mechanisms have shown that they have had strong influence on UK climate policy since its inception.

This approach is in contrast to:

- Child Poverty Act: A 1999 commitment to halve child poverty by 2010 and eradicate it by 2020.
- English health inequalities strategy: A target to make progress on health inequalities, through cross-government efforts, reformed NHS funding flows and action on the social determinants of health.
- Healthy ageing grand challenge: A 2018 target to ensure people can 'enjoy at least five extra healthy, independent years of life by 2035'.

As we have noted previously, these missions above were not embedded in law – at least, not to the same extent and with the same clarity as net zero. Few were combined with a bespoke institutional infrastructure – with legislative function and clear independence – as per the CCC. Few were institutionalised as 'common sense' within the Treasury, in the way enabled by the Stern review preceding the 2008 act. And none had as clear a process for delivery (and maintaining progress on delivery) as enabled by carbon budgets.

- **Government should create a new 'mission framework' made up of core (outcome) and comprehensive (output and input) metrics of success and embed them across government.** The relevant missions and metrics should be embedded in the accountability mechanisms for all departments. All secretaries of state and ministers of state should be given a clear 'mandate letter' with these missions included. These missions should also be passed down to all delivery partners and arm's length bodies within public service silos.
- **The centre of government should be made stronger and redesigned around the missions.** Most existing cabinet committee structures should be scrapped, with a new 'mission council' established in the Cabinet Office for each mission, chaired by the PM and bringing together the relevant departments. These new councils should be decision making bodies that lead on strategy and delivery, building on what has worked before (see box 3.2).

BOX 3.2: LEARNING FROM THE NATIONAL SECURITY COUNCIL (NSC) AND BREXIT COMMITTEES

While many of the existing cabinet sub-committees are not particularly effective in delivering change through Whitehall, there are models in government that we can learn from or replicate in establishing mission councils. These include:

- The NSC, which was introduced in 2010 by Cameron, and briefly disbanded by Truss. Led by the national security advisor, it provides foreign policy and security advice to the PM, bringing together the various relevant departments and agencies.
- In the Brexit era, a dual committee model was introduced with EU Exit 'Strategy' (XS) and EU Exit 'Operations' (XO) committees. The former consisted of a core group of around six ministers close to the prime minister, who led on no deal planning and the more technocratic requirements around borders that needed to be tracked and delivered.

Those who have been involved in these bodies highlighted a number of lessons on what makes them effective in driving change through Whitehall.

- Prime ministerial commitment: These Cabinet committees tend only to be successful if there is sufficient PM attention and political capital invested. If attendees know that they need to show up prepared and with results, they can be effective.
- High-level senior attendance: Committees should bring together all of the relevant departments represented at secretary of state level, including HMT. This is largely a product of PM involvement. Without this they stop being meaningful decision-making bodies.
- Participation of officials in discussions: Some previous decision making 'bodies' have failed to include officials (eg 'the Quad' under Cameron or 'sofa government' under Blair). This may drive political consensus, but senior civil servants are needed to drive delivery and sense check decisions.
- Shared ownership of policy issues: These committees work best where there is genuine shared sovereignty over the policy issues between the centre and key Whitehall departments – where they have a shared problem definition and a 'team mentality' to solving them.
- High-powered, activist and well-resourced secretariats: These committees work best when extensive work is undertaken around them to ensure they have clear agendas, high-quality decision-making material and teams to take on actions that result from them.

STEP 2: MAKE SURE THE MONEY FOLLOWS THE MISSIONS

If government is to deliver on the missions set out in the previous section it will need to ensure that financial resources, both new and existing, are deployed to effectively drive reform rather than the maintenance of existing ways of doing things. Delivering a 'pivot to prevention' will be particularly challenging. Table 3.2 sets out what the 'pivot to prevention' might mean across our proposed missions.

TABLE 3.2

Four shifts in public spending required to deliver a 'pivot to prevention'

| Mission	Shift in spending
Health	Shift the balance of spending from hospitals to primary, community and social care, as well as public health.
Safety	Shift the balance of spending from prisons and to community policing, rehabilitation and youth services.
Opportunity	Shift the balance of spending from schools and universities to childcare, wrap around support and extended school provision.
Security	Shift the balance of spending from benefits (eg unemployment, housing benefit) to active labour market policies, social housing and skills.

Source: Authors' analysis

There is some evidence from our polling that the public are supportive of these shifts. For example, on health, we find that when given the arguments for increasing the share of funding go to hospitals (these are the places which look after people who are the most in danger and in need of urgent help and it will lower wait times in Accident and Emergency) and for increasing the share going to primary and community care (this means that things can be found earlier, which brings down costs in the long term, and increases the chances that people will survive from diseases such as cancer), more voters support the latter than the former (see figure 3.1). However, it is likely that others would prove less popular (eg safety shift).

FIGURE 3.1

There is tentative support for shifting the balance of resources in health towards primary and community healthcare
Responses to 'do you think a higher share should be spent on hospitals, or a higher share should be spent on GPs and care in the community, or is the current balance about right?'
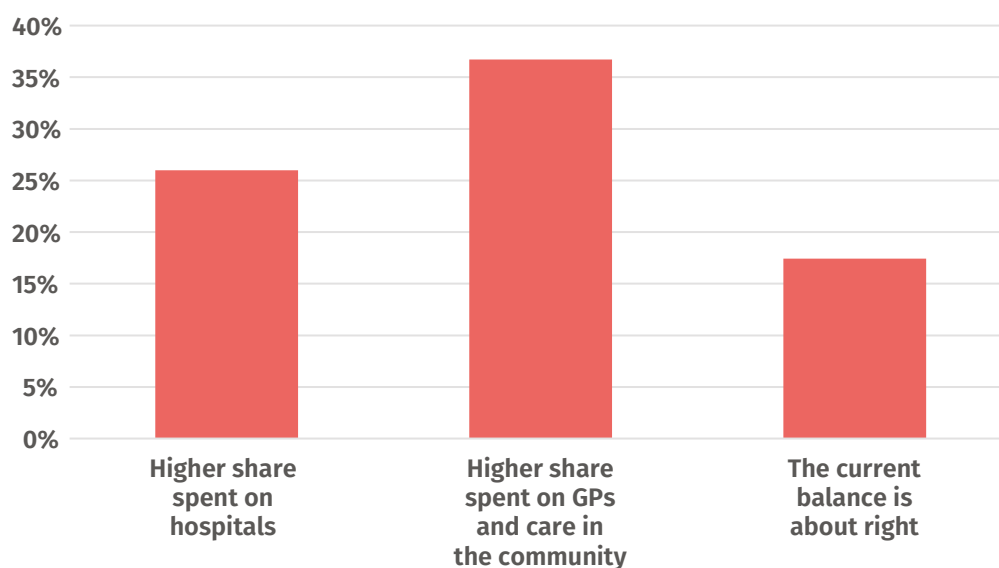
Source: Opinium polling for IPPR

Policymakers have talked about these shifts for decades but largely failed to achieve them. For example, successive government strategies over the last two decades have stated an aim to shift NHS care into the community and focus on prevention over treatment. However, there has been virtually no growth in primary or community healthcare spending per person in the first two decades of this century (Tallack 2020), but considerable growth in hospital activity.

Based on our research we identify two core biases that stand in the way of the government making more and better investments to drive better public services.

- **Bias 1: Short-termism.** We are failing to price in the long-term benefits of investment. HMT, and government as a whole, is too short-termist and risk averse in considering the long-term benefits of investment today. This is most clearly seen in the reluctance to 'invest to save' in prevention in health, care or crime.
- **Bias 2: Narrow focus**. We are failing to price in the wider benefits of investment. HMT, and government as a whole, make investment decisions on the basis of a narrow set of outcomes (eg affordability and cost-benefit as measured by economic growth) which don't take in the wider benefits of investment (eg impact on regional inequality, health, wellbeing).

These failings are the result of a number of factors that span the system including political incentives, processes within government, the ideas that shape decision making and the capabilities of staff across government (national and local). A full reform agenda to address these challenges is beyond the scope of this report. However, below we set out some initial reform priorities that we believe will help drive smarter spending to unlock better public services:

- **The core 'mission metrics' should be embedded in the governance of HMT**. HMT should make the key missions a core part of its aims and decision-making process. The chancellor must be clear that these public service reform missions, are a priority, alongside wider objectives such as shared economic growth and a reduction in carbon emissions. All significant spending decisions should be made with modelling to show the impact of these measures on the missions.
- **Number 10 and HMT should create a new 'mission test' to ensure that spending follows the missions (equivalent to Gordon Brown's golden rules but for spending).** This should include three criteria.
  - Affordability: Does this spending ensure the government can meet its fiscal rule and departmental spending limits?
  - Mission critical: Does this spending help deliver the government's missions (eg impact on core mission metrics)
  - '10 year test': What is the impact of this policy over the longer term?

- **HMT should create a new category of spending – prevention investment expenditure (PIE) – to ensure prevention spend is prioritised and protected (Curtis 2023)**. The government should commission experts to define and categorise prevention spending across government. Each department should get a prevention spending allocation. The government should aim to increase the share of spending going to prevention over time (within the definition set out by the review referenced above).

STEP 3: CREATE AN 'ENABLING CENTRE' TO SPREAD NEW MODELS OF PUBLIC SERVICE REFORM

The tendency of national governments is to seek to control local services and providers, particularly when they are performing poorly. This 'control architecture' is channelled through three main mechanisms:

- **Targets:** Targets have been used for decades in public services in England. However, there has been a significant growth in targets since 1997. This increase in the number of targets has also been combined with increased top-down performance management against these targets including through delivery units and also the hierarchy of public services (eg ministers or senior civil servants). This has led some to call it a 'targets-and-terror' regime.

- **Guidance and planning:** Alongside national targets, governments have often sought to drive performance through top-down guidance and planning requests. This often undermines the conditions for improvement by over specifying, micro-managing and swamping local public services with excess requirements. These also demand significant local resource to be dedicated, not to driving transformation locally, but 'managing upwards' to provide information and materials to the centre.

- **Regulation:** Policymakers have also introduced central regulators and inspectors for key public services. This includes the Care Quality Commission (CQC) in the NHS and social care system and Ofsted in the schools system. These bodies use data collection and inspection to provide ratings of performance and reports which are available publicly. These ratings are often used as the basis of regulatory actions – such as enforced change of leadership, fines or legal action - either by these organisations (where they have the powers) or by the appropriate body.

In some ways the tendency of politicians and policymakers in Whitehall to control is unsurprising. The UK is one of the most centralised countries in the advanced world, with citizens holding national politicians accountable for outcomes delivered locally. This creates a reluctance in Whitehall to let go of control and a desire to 'force' improvements in performance from the centre. However, as we have set out in this paper this has not proven an effective way of achieving the desired aims of policy.

We argue that that we should be seeking to create an 'enabling centre'. This does not mean being weak on standards, letting go or simply hoping for the best. Instead, it means rebalancing the levers used to drive improvement, with the centre taking on an enabling and supporting role to empower local providers, leaders and staff who are equipped and supported to drive forward improvements in local services.

As set out already, the centre should shift away from setting targets and instead set out a small number of cross-cutting missions. It should then let local partners focus on delivery, with much reduced central planning or compliance beyond effective data collection and reporting. This could lead to a reduction in staff in the centre, alongside a growth (and a freeing up) of staff in local government and on the frontline (the opposite of what we have seen in recent years).

These shifts should be combined with reform to regulation. Regulators and inspectorates should increasingly be improvement-focused and smart, meaning data-led, with inspections used to gather more nuanced qualitative information where that is needed. Regulators should use a balanced scorecard approach that takes into account the metrics set out under the mission dashboard and avoid giving single ratings or scores but focus on providing detailed understanding of performance across the country.
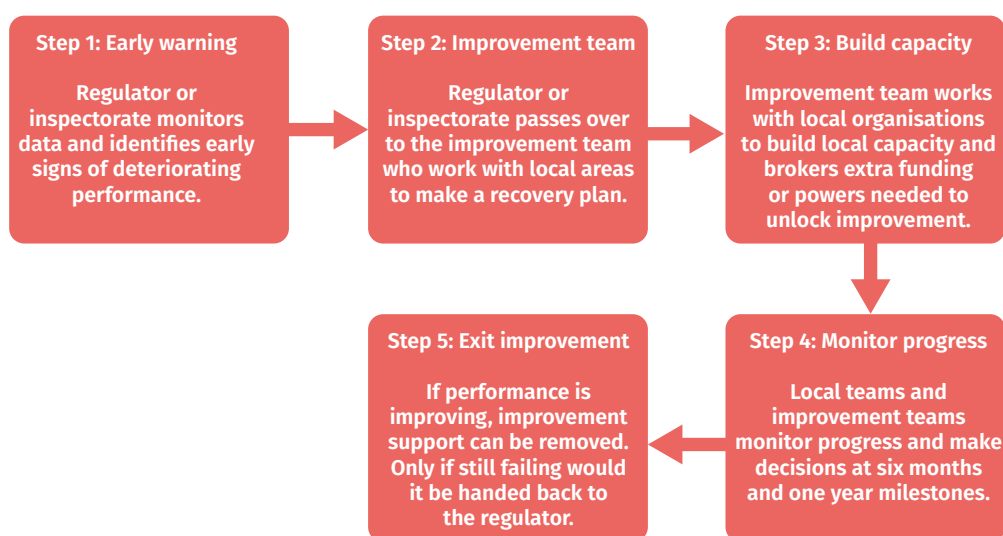
Instead of relying on top-down control we recommend the following.

- **Government should invest heavily in the capacity of the public sector to drive improvement.** Government should invest in new improvement organisations, or tool up existing improvement organisations where they are already in place (eg NHS IMPACT), to support local areas to understand what is not working and build capacity locally to address it. This should form part of a strategy to create a 'learning system' which focusses on building leadership, understanding what works and creating the change capacity to spread innovation.

- **When regulators identify the need for improvement in local places/providers, these improvement organisations should work with local leaders and offer support including:**
  - data and analytics capacity to understand what is driving performance problems
  - change management capacity to support local areas to understand how to make changes to turn performance around
  - support for leaders including professional coaching, mediation or peer support with areas who have gone through something similar.

- **The centre should take a 'whatever it takes' approach to supporting local areas that are struggling, offering an open conversation about**:
  - additional resources – access to additional funding where they can demonstrate that this will unlock improvements in performance
  - additional powers – ability for local areas to use powers to drive change in places (eg on targets, local pay allowances etc).

Only when this improvement approach is deemed to have failed should improvement organisations pass back to regulators to consider the harder levers of regulation. This process – of supporting areas struggling to meet the minimum standards expected by citizens – is set out in more detail in figure 3.2.

FIGURE 3.2

Process for supporting a struggling provider or area

Step 1: Early warning

Regulator or inspectorate monitors data and identifies early signs of deteriorating performance.

Step 2: Improvement team

Regulator or inspectorate passes over to the improvement team who work with local areas to make a recovery plan.

Step 3: Build capacity

Improvement team works with local organisations to build local capacity and brokers extra funding or powers needed to unlock improvement.

Step 4: Monitor progress

Local teams and improvement teams monitor progress and make decisions at six months and one year milestones.

Step 5: Exit improvement

If performance is improving, improvement support can be removed. Only if still failing would it be handed back to the regulator.

Source: Authors' analysis

REFERENCES

Averchenkova A, Fankhauser S and Finnegan JJ (2018) *The Role of Independent Bodies in Climate Governance: The UK's Committee on Climate Change*, Grantham Institute at LSE. https://www.lse.ac.uk/granthaminstitute/publication/role-independent-bodies-inclimate-governance-uk-committee-on-climate-change/

Curtis P (2023) 'British government needs to remember that prevention is better than cure', *Financial Times*. https://www.ft.com/content/80bc8379-67e8-43b4-856e-704826040a18

Deci E et al (1999) 'A meta-analytic review of experiments examining the effects of extrinsic rewards on intrinsic motivation', *Psychological Bulletin*. https://pubmed.ncbi.nlm.nih.gov/10589297/

Economist (2023) 'Britain's new political sorcerer', *The Economist*. https://www.economist.com/britain/2023/05/31/britains-new-political-sorcerer-the-reform-fairy

Mazzucato M and Dibb G (2019) *Missions: A beginner's guide*, UCL Institute for Innovation and Public Purpose. https://www.ucl.ac.uk/bartlett/public-purpose/publications/2019/dec/missions-beginners-guide

Morris J et al (2023) *Public satisfaction with the NHS and social care in 2022: Results from the British Social Attitudes survey*, Kings Fund. https://www.kingsfund.org.uk/publications/public-satisfaction-nhs-and-social-care-2022

Patel P et al (2023), *For public health and public finances: Reforming health and social care*, IPPR. https://www.ippr.org/research/publications/for-public-health-and-public-finances

Quilter-Pinner H and Khan H (2023) 'Great government: A new playbook for public service reform', blog post, IPPR, https://www.ippr.org/blog/great-government-a-new-playbook-for-public-service-reform

Tallack C et al (2020) *The bigger picture*, The Health Foundation. https://www.health.org.uk/publications/reports/the-bigger-picture

Tuckett S et al (2022) *Covid-19 and disadvantage gaps in England 2021*, Education Policy Institute. https://epi.org.uk/publications-and-research/covid-19-and-disadvantage-gaps-in-england-2021/

Van Ark B (2022) *Making Public Sector Productivity Practical*, The Productivity Institute and Capita. https://www.productivity.ac.uk/research/making-public-sector-productivity-practical/

The progressive policy think tank