STRATEGIC BUSINESS MANAGEMENT

Final Test of Professional Competence
13 December 2005

From 2.00pm to 5.00pm
plus ten minutes reading time from 1.50pm to 2.00pm

Instructions to candidates

*Answer **four** questions in total. **Two** questions from **Section A**, and **two** questions from **Section B**. The marks available for each question are shown in italics in the right-hand margin.*

Where a question asks for a specific format or style, such as a letter, report or layout of accounts, marks will be awarded for presentation and written communication.

At the end of the examination, students should append their sheet of A4 notes to their exam script. Students failing to do this will automatically be deemed to have failed this assessment.

CIPFA

PRE-SEEN MATERIAL

Innovation in Governance and Public Services: Past and Present
Jean Hartley

Three approaches to innovation in the public sector in the post war period are identified and analysed for their implications for policy-makers, managers and citizens. Various relationships are identified between innovation and improvement in public services. The traditional bias of the literature that innovation is necessarily functional is undermined. Important lessons for policy, practice and research include the need to develop an understanding of innovation which is not over-reliant on the private sector manufacturing literature but reflects the distinctive contexts and purposes of the public sector.

Definitions of innovation such as 'novelty in action' (Altschuler and Zegans, 1997) and 'new ideas that work' (Mulgan and Albury, 2003) emphasise that innovation is not just a new idea but a new practice. This is the difference between invention and innovation (Bessant, 2003). Some writers reserve the notion of innovation for 'radical' or 'breakthrough' novelty, while others emphasise a spectrum of innovation from large-scale dramatic, 'headline-making' innovations to small-scale, incremental changes. However, the definition needs to recognize practical impact:

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Those changes worth recognizing as innovation should be…new to the organization, be large enough, general enough and durable enough to appreciably affect the operations or character of the organization (Moore *et al.*, 1997, p. 276).

How extensive, therefore, does the change have to be in order to be classed as innovation (rather than continuous improvement)? Much of the innovation theory and literature has derived from new product development, where an innovation in technology can be observed and broadly agreed, even if its full implications or its impact are not initially known. By contrast, innovations in governance and services are more ambiguous. Here innovation is usually not a physical artefact at all, but a change in the relationships between service providers and their users. In such changes judgements have to be made about processes, impacts and outcomes, as well as product. Greenhalgh *et al.* (2004) suggest that, for the National Health Service (NHS), innovations have to be 'perceived as new by a proportion of key stakeholders' (p. 40). Such a socially-constructed perspective is a useful approach to public sector innovation across a range of services.

Innovation may include reinvention or adaptation to another context, location or time period. The diffusion of innovations (sometimes called dissemination, or spread of good or promising practices) to other organizations, localities and jurisdictions is particularly important for the public sector (Rashman and Hartley, 2002). This highlights some important differences between public and private sector innovation. Innovation in the latter is driven primarily by competitive advantage—this tends to restrict the sharing of good practice to strategic partners. By contrast, the drivers in the public sector are to achieve widespread improvements in governance and service performance, including efficiencies, in order to increase public value (Moore, 1995).

Such public goals can be enhanced through collaborative arrangements to create, share, transfer, adapt and embed good practice (for example, through cancer

collaboratives, Beacons, peer review, pilots and demonstration projects). This is not to deny that a centralized government system, such as the UK, may create competitive pressures between public service organizations, or that decentralized systems, such as in the USA, militate against sharing good practice and actually encourage reinvention of the wheel. However, it suggests that the spreading of good practice, and the adoption and adaptation of existing innovations in a different time and context is a significant element of public sector innovation.

Public services also need to consider *governance* innovations. In recent years, such innovations have included new political arrangements in local government and devolved government for Wales and Scotland, as well as changes in the organizational form and arrangements for the planning and delivery of services (for example, privatization and new collaboratives between the public and private sectors to provide services). There have also been innovations in public and user participation in service design and delivery and in the use of boards to govern particular choices and services (for example, school governing bodies).

Some writers have attempted typologies of innovation, for example, that distinguish between technical and administrative ('organizational') innovations (Damanpour, 1993). Distinctions between product, service and process innovations have also been proposed (Wolfe, 1994). Bessant's (2003) categories include market innovation and Moore *et al.* (1997) highlight the importance of strategic innovation. Drawing on these and other writers who examine innovation in either the public or private sectors, we may distinguish the following:
- Product innovation—new products (for example, new instrumentation in hospitals).
- Service innovation—new ways in which services are provided to users (for example, on-line tax forms).
- Process innovation—new ways in which organizational processes are designed (for example, administrative reorganization into front- and back-office processes; process mapping leading to new approaches).
- Position innovation—new contexts or users (for example, the Connexions service for young people).
- Strategic innovation—new goals or purposes of the organization (for example, community policing; foundation hospitals).
- Governance innovation—new forms of citizen engagement, and democratic institutions (for example, area forums; devolved government).
- Rhetorical innovation—new language and new concepts (for example, the concept of congestion charging for London, or a carbon tax).

In practice, any particular change may have elements of more than one type of innovation. For example, congestion charging in London may be characterized as an innovation which includes a new strategy, service, organizational arrangements, rhetoric, and user relationship.

Therefore, we should consider innovations, particularly radical or complex ones, to be multidimensional, specifying the dimensions (and the size of the innovation in those dimensions) in the interests of systematic comparison.

Innovation in Public Services: An Historical Perspective
There is sometimes a sceptical view of innovation in the public sector. Yet, in the post-war period there has been substantial innovation, which becomes more evident in reflecting on how innovations arise. In the private sector, the focus is on managers and staff as sources of innovation, both working inside the organization, and

networking outside it. However, for the public sector, we also have to consider the role of policy-makers and policy advisors in the innovation process.

Figure 1. Competing paradigms: Changing ideological conceptions of governance and public management.
(*Source*: Benington and Hartley, 2001.)

	"Traditional" public administration	*New Public Management*	*Networked Governance*
Context	Stable	Competitive	Continuously changing
Population	Homogenous	Atomized	Diverse
Needs/problems	Straightforward, defined by professionals	Wants, expressed through the market	Complex, volatile and prone to risk
Strategy	State and producer centred	Market and customer centred	Shaped by civil society
Governance through actors	Hierarchies, Public servants	Markets, Purchasers and providers, Clients and contractors	Networks and partnerships, Civic leadership
Key concepts	Public goods	Public choice	Public value

Benington and Hartley (2001) have characterized three competing paradigms of governance and public management which may be conducive to particular ways in which innovation is both generated and adopted. Each is a world view or a consistent pattern in that each contains particular conceptions and assumptions about the nature of the world, and the roles of politicians, managers and the population. The three paradigms are shown in figure 1. The first two may be familiar as 'traditional' public administration and 'New Public Management' (NPM), while a third paradigm is based on evidence of emerging patterns of governance and service delivery, which we call 'citizen-centred governance', or 'networked governance'.

Each paradigm may be linked to a particular ideology and historical period. However, they can also be seen as competing, in that they coexist as layered realities for politicians and managers, with particular circumstances or contexts calling forth behaviours and decisions related to one or the other conception of governance and service delivery. This is not a normative framework, because each conception has both strengths and weaknesses for society.

The different conceptions of governance and public management outlined above have implications for the role of policy-makers, managers and the population in innovation. These are explored in figure 2.

The public administration approach, evident particularly in the post-war period and up to the early 1980s, is largely based on a legislative, bureaucratic and rule-based approach to public service provision. The population is assumed to be fairly homogeneous, and the definition of needs and problems is undertaken by professionals, who provide standardized services for the population. Power and authority lies with government, and the provision of welfare and regulatory services is assumed to emanate from the state, through elected representatives. Both national and local politicians have a central role in innovation—developing radical new policy frameworks, and building the support among citizens and their parties for the enactment of those innovations in legislation. Examples of major, radical innovations include the establishment of the NHS, the 1944 Education Act, the nationalization of major industries, and the establishment of new towns. At the local level, radical innovations initiated by politicians affect the whole locality, for example the redesign and redevelopment of Coventry city centre after the bombing, the establishment of

comprehensive schools, and community development. This is the period characterized by large-scale innovation, often national and universal in scale.

The large scale of the changes, and the legislative, financial and staffing resources deployed, mean that change is evident early. In most cases, improvement is widespread and objectively evident to a range of stakeholders. However, the top-down implementation means that the capacity for continuous improvement and adaptation is limited.

Figure 2. Innovation and improvement in different conceptions of governance and public management.

	"Traditional public administration	*"New" Public Management*	*Networked governance*
Innovation	Some large-scale national and universal innovations	Innovation is organizational form more than content	Innovation at both central and local levels
Improvement	Large step change improvements initially, but less capability for continuous improvement	Improvements in managerial process and systems. Customer focus produces quality improvements in some services	Aiming for both transformational and continuous improvement in front-line services
Role of policy-makers	Commanders	Announcers/commissioners	Leaders and interpreters
Role of public managers	'Clerks and martyrs'	Efficiency and market maximisers	'Explorers'
Role of the population	Clients	Customers	Co-producers

The role of policy-makers in this approach to innovation is to act as commanders—creating legislation and then support for whole-scale changes, while assuming that the detailed work of implementation will be carried out by officials. These public managers, working within the organizational form of a bureaucracy, act either as 'clerks' (impassive officials implementing political will) or 'martyrs' (holding private views about the wisdom or necessity of action but continuing to implement political decisions without comment) (Moore, 1995). As for the population, the political and professional domination of innovation leaves users of services as clients, with little say about services.

A different approach to innovation is seen in the approach now known as NPM and developed from the 1980s onwards in the UK, New Zealand and elsewhere. Underpinned by a different set of assumptions in neo-liberal economics and a particular form of management theory, the innovations arising through this approach focus particularly on organizational forms and processes such as executive agencies in central government, the purchaser–provider splits seen in health, education and local government, and a 'customer' focus. The innovations were politically radical at the time, and created considerable organizational restructuring, but it can be argued that the innovative elements are primarily about organizational form and business processes. The extent to which they led to improvements is contested. The customer focus, for example, has led to improvements in some services where casting users as customers has been helpful, but in others has obscured the nature of more collective relationships.

What of the policy-makers, managers and citizens in this form of innovation? Of the policy-makers, the national cabinet remains as 'commander', but the managerial focus

of NPM reduces the role of other politicians to 'commissioners' of services or 'announcers' of change (Pollitt and Bouckaert, 2004). Mandarin officials have been transmuted into public managers as efficiency maximizers, seeking innovations to improve the quasi-market and the quality of service 'delivery'. The public increasingly take on customer roles which give them a voice, as users, in service scope and content.

As the UK moves to networked governance, the role of the state is to steer action within complex social systems rather than control solely through hierarchy or market mechanisms. Newman's (2001) analysis of government since 1997 shows that there has been a shift to more networked forms of governance, as an alternative to the state and the market, and some evidence of more steering and community governance, though not without tensions between centralization and decentralization, and networks and hierarchies.

Innovation under networked governance revitalizes the leadership role of policy-makers in translating new ideas into new forms of action. While the Cabinet continues to innovate through large-scale legislation (for example, devolution of powers to the constituent countries and regions of the UK), others are concerned with supporting innovation through enabling legislation or providing resources for experiments and collaboration (for example, action zones, pilots, and Beacons), and orchestrating the interests of different stakeholders. For their part, the role of public managers is to nurture innovation as they become:

…explorers commissioned by society to search for public value. In undertaking the search, managers are expected to use their initiative and imagination. But they are also expected to be responsive to more or less constant political guidance and feedback (Moore, 1995, p. 299).

At the same time the public is seen to have a larger role as co-producers of service and innovation.

This brief historical review indicates that innovation is not serially associated with each period. Rather, each paradigm, with its particular set of assumptions about governance and management, engenders and supports particular emphases in innovation.

Innovation With or Without Improvement?
As other articles in this issue of *Public Money & Management* show, there is an important difference in innovation between private and public sectors. In the private sector, successful innovation is often seen to be a virtue in itself, as a means to ensure competitiveness in new markets or to revive flagging markets. In public services, however, innovation is justifiable only where it increases public value in the quality, efficiency or fitness for purpose of governance or services. Moreover, in the public sector at least, innovation and improvement need to be seen as conceptually distinct and not blurred into one policy phrase. Unfortunately, this is not always the case in UK practice where public organizations feel almost obliged to provide evidence and arguments that they are 'modernizing' and 'improving'. The Innovation Forum, for example, is a group of 'excellent' (high-performing) local authorities working with central government departments on new ways of working to deliver better services to local communities. The ODPM website notes that 'Membership of the Forum is open for at least a year to councils whose category slips to "good"'. This implies that high performance and the ability of the organization to innovate belong together. However, this runs counter to the private sector literature, which suggests that innovations (especially radical ones) are often identified and implemented by

those firms which are *not* market leaders (for example Utterback, 1996). In addition, the world is littered with examples of innovations that led either to few, if any, improvements, or which had unintended consequences (for example, high-rise housing and out-of-town supermarkets).
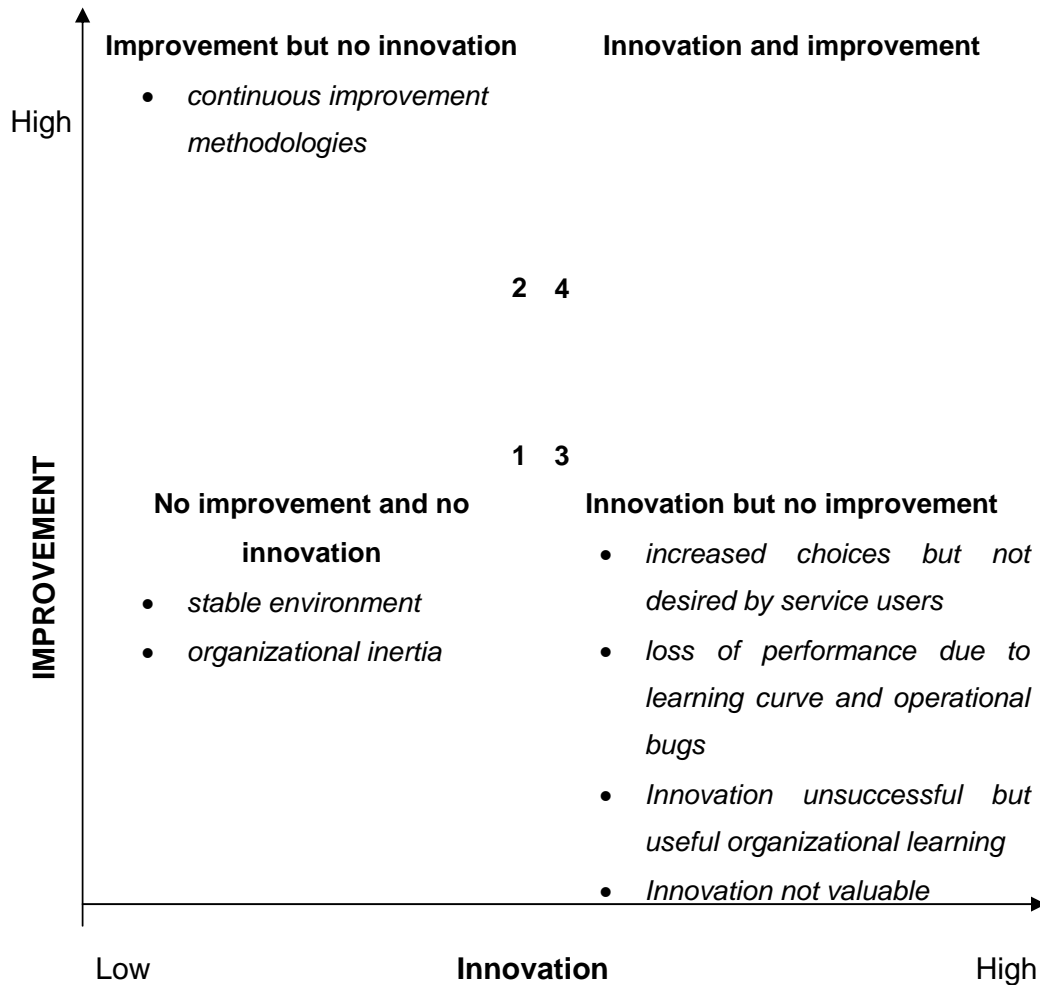
It is therefore useful to consider a number of possible relationships between innovation and improvement. These are shown in figure 3. The analysis is based on organizations, but it is equally possible to apply this to service areas, business units, or partnerships.

In box 1, an organization has neither improvement nor innovation. This may occur in a highly stable environment, where innovation is not needed, because there is a close fit between that environment and the organizational processes, systems and stakeholder needs. Alternatively, the organization may be in inertia, either not recognizing the need to innovate or improve to meet new needs/changing circumstances, or else paralysed from taking action to meet the new circumstances.

In box 2, improvement occurs, but without innovation. This is an organization which focuses on small, incremental changes in order to achieve improvement (for example, continuous improvement methodology, total quality management), but where the changes do not individually constitute innovation in that they are not sufficiently large, general or durable as new improvements. Of course, cumulatively, continuous improvement can lead to substantial changes over the long term.

In box 3 the organization engages in innovation, but there is no resulting improvement. Indeed, there may even be a deterioration of performance. Several situations fit this pattern. First, innovations do not always lead to success. Some of the public sector rhetoric about innovation appears to be predicated on the assumption that improvement follows. Yet, 'Studies of product innovation consistently point to a high level of failure to progress from original idea to successful product in the market-place…Actual figures range from 30% to as high as 95%; an accepted average is 38%' (Tidd *et al.*, 2001, p. 16). There may be reasons for being even more pessimistic about public sector failure: the caution of politicians in supporting innovation (since they carry responsibility for failure), media interest which can exaggerate failure in public services, traditional public administration theory which separates policy-making from implementation, and the difficulties of achieving unambiguous success.

Figure 3. Innovation and improvement

Improvement but no innovation

- *continuous improvement methodologies*

Innovation and improvement

High

2   4

1   3

IMPROVEMENT

No improvement and no innovation

- *stable environment*
- *organizational inertia*

Innovation but no improvement

- *increased choices but not desired by service users*
- *loss of performance due to learning curve and operational bugs*
- *Innovation unsuccessful but useful organizational learning*
- *Innovation not valuable*

Low   **Innovation**   High

There is the situation where innovation occurs and is based on a proliferation of choices, but with no improvement in service content as needed by service users or other stakeholders. In the private sector, innovations based on increasing choice is valuable in its own right as this may give market advantage (for example, producing 50 variants of trainer footwear to meet fashion demands). Yet, in public services if the extra choices are not wanted or needed, or only give wider but not better services, then innovation has not led to improvement.

There are situations, however, where there may initially be no improvement and yet the innovation is worth pursuing. This can happen where the innovation leads to a temporary performance decrease, for example, as operational processes or bugs are ironed out as staff get used to new ways of working. This feature, well recognized in the operations management literature, reflects innovation as a journey which is not linear and rational but which leads to dead-ends, mistakes, adaptations and obstacles to be overcome. Innovation without improvement may also occur where organizational learning takes place which does not benefit the immediate innovation, but contributes to the innovative capacity of the organization, aiding later attempts to innovate.

Deciding when to abandon an innovation as no longer showing promise is an important judgement. Kimberley (1976) argued for paying attention to 'exnovation', i.e. making the decision to cut losses on an innovation and kill it. This is a significant issue for public services, where innovations are not so much formally ended as overlaid with new initiatives.

Finally, box 4 indicates that desirable category, an organization engaging in both innovation and improvement with noticeable improvements in outputs and outcomes. There are challenges here to move beyond improvement as meeting a set of performance indicators, to ensuring that the improvements are sustained.

What We Still Need to Know
The analysis so far suggests that public sector innovation needs to be linked to considerations of improvement, but should not be shackled to it. It may be instructive to learn about and understand innovations which fail, as well as those which succeed. The failures may help us to understand the innovation process, and the barriers and facilitators of innovation, rather than assuming that innovation leads inexorably to improvement. Moreover, while there is a lot to learn from product and service development in the private sector, policy-makers, managers and researchers in the public sector need to recognize their own contexts more explicitly.

Innovation Processes
The classic public service model of innovation as designed by policy-makers and implemented by public managers is a case in point. It is no longer the sole or even necessarily the optimal strategy. If we start from the assumption that most if not all organizations need to innovate because the wider world is dynamic, then we need to understand more about how innovation is fostered, supported, sustained and implemented. Increasingly, innovation is as much a 'bottom-up' and 'sideways-in' process as a 'top-down' process. Recent research from Borins (2002) suggests that, in the USA, half of all innovations (51%) come from either middle managers or front-line staff. The figures are higher for developed Commonwealth countries (for example, the UK and Australia) where 82% come from organizational staff (75% from middle managers). Borins notes that: *bottom-up innovations occur more frequently in the public sector than received wisdom would have us believe. The individuals who initiate and drive these innovations are acting as informal leaders…Politicians and senior public servants create organizational climates that will either support or stifle innovations from below* (p. 475).

In addition, innovation through networks of professionals and managers is also a potent form of innovation, especially the diffusion of innovation, which often requires local adaptation, not simply adoption. What are the relative advantages and disadvantages of top down, bottom up and lateral innovation for particular types of innovation, and about the 'innovation journey' through setbacks and barriers.

Given that a high proportion of innovations in the private sector fail, we need to understand more about the failure or the extinguishing process or 'exnovation' (Kimberley, 1976). What are the similarities to and differences from the private sector? What is, or could be, the role of both politicians and managers in preventing unsuccessful innovations from proceeding beyond a certain point of development?

Innovations in Governance
What little research there has been on innovation in the public sector has tended to focus on service delivery. There is relatively little about innovations in governance. There is a lot written about new forms of governance, but these issues are not generally discussed from an innovations perspective (i.e. in what ways is the shift an innovation, how does the innovation emerge and how is it sustained?).

This is an area which is ripe for investigation and would be informative about democracy and society, and public sector innovations.

Diffusion of Innovation
As we have seen, diffusion of innovation is particularly important for public services. Some organizations prefer the language of dissemination as implying more active processes than diffusion (which relies on a chemistry metaphor). Whatever the language, there is still a lot to be learned about how diffusion takes place, and how and why innovations are adapted to different contexts and cultures. For example, how can organizations or groups which have successfully created an innovation recognize and describe to others its distinctive features? Successful innovators are not always aware of how distinctive their own practices are and are not automatically good communicators about how to develop the innovation in another context. In addition, what communication channels and learning exchanges facilitate what sorts of innovation? And what features of the 'receiving' organization enable it to recognize and use innovations from elsewhere and to embed them locally?

Innovative Capacity in Organizations
Taking a step beyond individual innovations, why do some organizations appear to be more receptive to innovation than others? Some evidence suggests that organizations which implement major innovations successfully are more open to, and have the structures and cultures to support, further innovation (for example, Newman *et al.*, 2000; Downe *et al.*, 2004). Is it that an innovative organization is better at surfacing and sustaining innovative ideas and practices—or is it better at killing off ideas and practices which do not fulfil early promise?

Innovation and Improvement
There is a wealth of performance data (of variable quality) about public service organizations and a real opportunity to explore the diverse relationships between innovation and improvement. There are considerable opportunities to examine changes over time, taking into account the impact of early performance losses, learning curves, improvements or further decline. Better understanding could help in providing realistic promises to citizens and users of services, and contribute to building trust in public service organizations. We also need to know if improvements are a 'flash in the pan', or whether they are sustained over time.

Leadership and Innovation
The idea of the creative individual engaging in innovation single-handedly is very limited. There is certainly a role for individuals but also important are groups, teams and a critical mass of support. We need to be able to step beyond the traditional hierarchical models of innovation leadership to understand how innovation climates are nurtured, how policy-makers and managers can work together in related but distinctive roles in innovation, and how far innovation leadership is distributed within and across organizations.

Conclusions

Innovation is an issue of considerable significance for both public and private sector organizations. Although the sceptical view of the public sector is that it is resistant to significant innovation, there have been numerous and significant examples. This article has used three different conceptions, or paradigms, of governance and public management in order to examine the ways in which innovation is pursued by policy-makers, managers and citizens. This suggests that there are several mechanisms for the development of innovation.

The literature about innovation in the public sector is still sparse, and so there has been, until recently, an over-reliance on literature derived from the private sector. There are some similarities in innovation processes and outcomes (from which it is important to learn), but also distinctive and important differences between innovation in *private firms* and in *public service organizations.* The private sector literature still focuses mainly on technological innovation, especially new product development, but there are limitations in applying concepts about *product* innovation to *service* and *organizational* innovation. Overall, these features suggest that the transfer of theory and empirical findings from private firms to public services is far from straightforward. Accordingly, there is a need for robust theory and evidence derived directly from the public sector.

Increasingly, there is recognition that context has an impact, both directly on innovation determinants, processes and outcomes and indirectly through organizational features such as the amount of organizational resources and organizational strategy. Tidd (2001) argues that the complexity of the innovation and uncertainty of the environment substantially shape innovation. These are key dimensions for public service organizations.

We also need to understand much more about the organizational processes of innovation development through 'top-down' policy development, through 'bottom-up' innovation emerging from the activities of managers and staff in organizations, and through 'lateral' innovation from good practice adoption and adaptation.

One element of the context of complexity for public service organizations is that they are embedded in society, producing not only benefits (and obligations) for individuals but also providing public goods and services, establishing collective efficiency, and creating collective rules and purposes. So analysis of innovation needs to consider not just the immediate improvements in service quality and fitness for purpose, but wider issues of public value. The varied relationships between innovation and improvement need to be mapped, so that there is a better understanding of the barriers and facilitators. Research is needed to illuminate and explain the processes which support or which undermine innovation in public service organizations, viewing innovation as a journey rather than a linear process.

Acknowledgement

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Article 2

Taking the longer view, by Paul Gosling

If the forthcoming social care green paper avoids spelling out the cost of long-term care for older people, Sir Derek Wanless's review is likely to be less coy, argues Paul Gosling
For Sir Derek Wanless, social care represents unfinished business. When he conducted his review of the NHS for the Treasury, he gave every appearance of regretting not being able to analyse the demand for, and cost of, care in the future.

'While the review considered it vital to extend its terms of reference to begin to consider social care, it has had neither the information nor the resources to be able to develop a "whole systems" model, nor indeed to build up projections for social care in the same level of detail as for health care,' Wanless wrote in his Treasury report.

But not only did Wanless recommend that such a detailed report should be produced, he gave a stark warning not to underestimate the costs likely to hit the state and service users in coming years. 'The projections show that population changes and the ageing of the population are a much greater cost pressure for social than for health care,' Wanless pointed out in his report.

Excluding children's and family services, and ignoring expectations of higher quality and more professionalised social care, Wanless still found that baseline personal social services expenditure will rise from £6.4bn in 2002/03 to £10bn-£11bn in 2022/23 'as a result of the impact of demography and health status changes', representing a real-terms increase of 2.3% to 2.8% per year. If Wanless gave off a sense of frustration that he had neither the powers nor the facilities to properly consider social care alongside health care in that earlier, government-commissioned, report, his pleas have now been answered.

Health think-tank the King's Fund, in line with calls from many other interested parties, including the Local Government Association, the NHS Confederation and the Association of Directors of Social Services, has commissioned Wanless to lead a review. This is due to report in spring next year on the 'long-term demand for and supply of social care for older people in England'.

The project will be led on the ground by Julien Forder, senior research fellow and deputy director of the London School of Economics' Personal Social Services Research Unit, which provided the data on social services for the Wanless Treasury review.

Although there has been speculation that social care minister Stephen Ladyman is irritated by the setting up of a review which might be expected to try to bounce the government into much higher expenditure on social care, the signs are that Ladyman is relaxed about the project. He says he 'welcomes' the review, and Forder told Public Finance that this sentiment was genuine. 'We have had nothing but positive comments from him about doing this,' says Forder.

In any case, Ladyman is preoccupied with one of the most difficult tasks in government – overseeing publication of the green paper on social care, now expected to be published in the second week of March, and likely to be central to Labour's election manifesto. It will probably be published at the same time as a green paper on

youth policy and, in electoral terms, may become integrated into a wider debate on the treatment of elderly people, including pensions reform.

But the green paper was to have been published late last year. Ladyman has implied the delay is enabling the prime minister to be involved personally and to associate himself with its launch. But one person close to the process says the original version produced by Ladyman's small team of social care civil servants and advisers disappointed the minister by not being radical enough.

Policy disagreements have been another factor delaying publication. Some proposals expected in the green paper are not especially contentious. We are likely to see a move towards what is being termed the 'virtual care trust', involving even greater partnership and joint procurement between social services and primary care trusts.

PCTs will be pushed into further consolidation, becoming co-terminus with local authorities. Social service users will increasingly 'self-assess' their needs, with the expectation that this will lead to more tailored service provision and lower administrative costs.

And councils' directors of adult social care may take over statutory responsibility for local government's public health role, including environmental health – even though this responsibility currently sits with district councils in two-tier areas.

In itself, this measure is likely to be seen as driving forward some of the original Wanless proposals on strengthened public health. Responsibilities that might be taken on by adult social care directors include anti-smoking initiatives, sexual health, teenage pregnancies, diet and obesity, air quality and possibly even community safety and crime prevention.

But the green paper's sticking point has been on an issue which the minister himself suggested to PF last year had been resolved – the conflict between social care personalisation through direct payments and the agenda set by Sir Peter Gershon's efficiency review, which proposed large savings through centralised social care procurement.

That disagreement has been eased by the Department of Health's growing awareness that its enthusiasm for direct payments – where individuals buy their own social care, using state money – was not always matched by the users. Large numbers of elderly people do not wish to take responsibility for buying their care, especially when they are threatened with unwanted legal implications such as tax liabilities and employer's responsibilities. In pilot schemes the take-up rates have disappointed the DoH.

In a recent speech, Ladyman said that his commitment to the principle of direct payments remained, but he conceded the resistance from many service users. One option, he suggested, was for social workers to move towards becoming 'navigators' and 'brokers' for the buying of care on behalf of their clients. An alternative was to use voluntary organisations with experience of supporting independent living.

There is now speculation that by moving away from the generalised use of direct payments towards the purchase of care by intermediaries on behalf of service users, the Gershon and Ladyman agendas might be reconciled. An agreed framework of services and prices might be negotiated with service providers and perhaps published electronically for intermediaries to buy from.

The downside of this is that it potentially squashes the expected expansion of a sector of 'micro-providers' of social care – small organisations, or Mrs Jones down the road.

But the elimination, or at least professionalisation, of this new sector may be essential if other concerns are to be addressed: how to make sure that direct payments do not eliminate the informal care market, or make the state pay for support that has been provided free of charge (and estimated, by Carers UK, as worth £57bn a year). It also complies with proposals from Sir Michael Bichard – in his inquiry following the Soham murders – on the need to register carers who work with vulnerable adults.

It is the resourcing of this move towards improved care that presents a challenge which is more difficult to finesse. While the implications of the green paper are likely to be more expenditure on social care, this is something the government is unlikely to spell out in the run-up to the election. We can therefore expect the green paper to avoid costed specifics. The latest Wanless review could help to provide this. Much of its remit is to consider the cost of social care, a factor which at present is extremely difficult to quantify.

'Hopefully what Wanless will bring is a clearer understanding about the costs of social care now and in the future,' says Tim Hind, adviser to the Local Government Association. 'That will help us to answer how we can benchmark costs.'

William Laing, director of healthcare analysts Laing & Buisson, says that Wanless will also have to consider the specific pressures driving up costs in the sector. 'He has to take a view on the demographics, the extent to which there is generational change taking place, but also take a view on the inflationary pressures in terms of a more professionalised workforce in the future, what that means in money terms and take a view on informal care, which is a big wild card,' he says.

In Laing's view, Wanless will be forced to endorse elderly people meeting much of the costs of social care from their asset base of home ownership. 'The only real alternative to that would be the Scottish model [of free care for the elderly] and I can't see an appetite for that,' argues Laing.

Across the social services field, expectations are high about what will emerge from this latest Wanless review. Tony Hunter, president of the ADSS and director of supported living and community safety at Liverpool City Council, wants Wanless to produce a vision of social care in the future which goes beyond traditional models.

This would look at a broader consideration of improving the quality of life for older people and reducing the incidence of loneliness, especially important if trends continue and more elderly people live on their own.

'We would like to see support for the wider well-being approach that ADSS has been pushing for for some time,' says Hunter. 'As people get older they don't only expect to have their care needs met, but to go out to the cinema and go out for some chips.'

Julien Forden implicitly recognises the levels of expectations when he openly accepts the scale of the task now facing the team which he and Wanless are leading.

'What we would really like to do is with a reasonable degree of confidence say what an ideal social care system would look like in five, ten and 20 years' time,' explains Forden. 'That needs us to get a fairly good handle on what individual users expect and what society as a whole expects.

'That is quite a challenge. Partly that is because we are looking such a long way ahead and partly that is challenging because there is no obvious current message in the field providing a sense of direction. There is very little concrete research on this.'

But Forden says his team will avoid taking the easy options. While they could just take forward current costs without building in allowance for specific inflationary pressures, they are not going to do this. Nor will they shy away from specifying what mix of state, client and co-payment should be committed on care spending.

'It would duck our terms of reference just to say these will be the costs and not answer how it should be funded,' says Forden. 'We will take a view on the balance of contributions between the state and the individual.' He says that while these are 'political value judgements', the report will face up to them.

Given the forthright views that Derek Wanless himself is reportedly already making in private about the need to accept that more should be spent on social care, we can expect some blunt conclusions.

25-02-2005

SECTION A (Compulsory)

1 • **Requirement for question 1**

Discuss the importance of innovation to the public services given global, national and local environmental influences, and explore with examples types of innovation that are observable within the public services. *(30)*

2 • **Requirement for question 2**

Examine how current approaches to public management, for example, Best Value, Public Private Partnerships, and Outsourcing, facilitate or restrict innovation and improvement. Use the examples given (within this question) and other current approaches from across the public services to support your submission. *(30)*

SECTION B (Answer two questions from this section)

3 **Targets 'undermine public health drive' (Karen Day, Public Finance, February 11 – 17, 2005)**

The government's push on preventative health will continue to take a back seat in the NHS as targets and incentives focus on more 'vote-winning' acute care, a think-tank warned this week.

Research from the King's Fund – Managing for health – found that targets for health promotion were considered to be far less important than those for acute priorities, such as waiting lists. NHS managers interviewed said it was clear that 'heads would roll' if they failed their accident and emergency targets, but there was not the same pressure for health promotion.

The report, by Professor David Hunter, claims that the swathe of new policies hitting the NHS – the general medical services contract, payment by results, practice-based commissioning and Patient Choice – are focused on 'refashioning' acute care and could undermine the government's **public health drive***.*

The GMS contract, which rewards GPs for providing certain services, was seen as skewed towards chronic disease management, for example.

'NHS managers are struggling to take this agenda forward,' Hunter said. 'They feel they are piecing together a jigsaw policy with public health taking a back seat.'

The King's Fund is arguing for more profound cultural change in the NHS, not simply toughening targets.

- **Requirement for question 3**

(a)   Explore the impact on the strategic management process of using targets as the primary performance management tool, using examples from across the public services to support your submission.   *14*

(b)   Discuss alternative control mechanisms (other than targets) which central government could employ, outlining their respective advantages and disadvantages.   *6*

(20)

4

News analysis – Gershon warns of need to limit choice (Mark Conrad, Public Finance, February 11-17 2005).

The government's £40bn public service efficiency programme is risky. It conflicts with another of Labour's key election policies – extending choice – and involves compulsory redundancies. It could even affect Britain's ability to deliver public services.

We've all seen the stories (some of us have even written them). But what is different about these conclusions is that they come from the very man charged by the Treasury with identifying efficiencies and savings across Whitehall, Sir Peter Gershon.

Appearing before the House of Commons' bellicose public administration select committee on February 3, Gershon, who published Releasing resources to the front line last July, was candid in his assessment of the impact of his study. He was also scathing of the Conservative Party's attempt to trump his '£40bn by 2008' savings target.

The former chief executive of the Office of Government Commerce cast doubt on City troubleshooter David James's claim that the Tories could save an extra £14bn annually.

Gershon said James's rival study was 'totally silent' on how the cuts and savings identified could be delivered, and it was therefore 'impossible to comment' on the Tory proposals. Partisan interpretations of the plausibility of each party's savings plan will be a feature of the run-up to the expected general election in May.

But while Gershon wrestles with external rivals to his efficiency agenda, the government must overcome a policy paradox: the potential for efficiency to disrupt the extension of choice.

The government wants, for example, to allow patients to choose where to receive hospital treatment and to offer taxpayers options for filing Inland Revenue self-assessment forms. To do that, capacity must be built so that people can choose one option instead of another.

But as PASC chair Dr Tony Wright pointed out, a simultaneous drive to find efficiencies in public bodies is targeting 'slack' – or unnecessary capacity – in the system and aiming to eradicate it.

In the case of tax forms, Gershon said that large savings could be made by allowing people to pay their bills on-line or by telephone, decreasing Whitehall administration. But Wright countered that choice could be upheld only by retaining the labour-intensive postal submissions.

'This is the big ideological difference at the heart of the government. My choice is to send my cheque to the Inland Revenue. You want to deprive me of that choice because you say it is inefficient from the provider's point of view,' Wright claimed.

Gershon said he 'would restrict choice' in service provision. 'If you look at the investment that is going on in e-government, there is no point in doing it if all you do is create a new channel and you still have to leave all the costs of the old channels in place.'

Wright later told Public Finance: 'The [government's] rhetoric is that it wants to increase choice and save money through efficiency. It's not impossible, but you have to be transparent about this. If you want capacity, it comes at a cost. You can't… comfortably have both.'

An inherent part of the argument over capacity is the number of staff needed across Whitehall once the government has completed Gershon's 'downsizing' programme.

Last July, Gershon identified 84,000 civil service posts that could be scrapped. Whitehall unions said compulsory redundancies would follow, but ministers continued to claim that as few people as possible would be forced out of their jobs. Gershon was clear that there would be no gain without at least some pain.

This week, asked whether he was 'advocating' redundancies, Gershon said: 'Certainly, some [departments] have recognised that it may unfortunately be necessary… to have compulsory redundancy programmes.'

Seizing the opportunity to ask the 'golden question', committee members asked whether the job cuts could affect the ability to deliver key public services.

Gershon replied: 'It cannot be denied that there is always that risk and it depends on how well that situation is managed, but it also depends to some extent on the speed with which job reduction actions are implemented.'

Not exactly the line his ministerial peers have put forward.

Crucial to the successful management of the project, Gershon said, was the Treasury's plan to place Whitehall finance directors on the board of each department. This 'cadre' of financial experts 'could inherently turn attention as much to efficiency as effectiveness'.

But as Wright told PF, such experts have their work cut out ensuring that Gershon's plan 'does not go the way of other past Whitehall efficiency drives'.

- **Requirement for question 4**

The government's efficiency programme is largely based on removing unnecessary capacity, whilst at the same time it has stated its aim to extend customer choice (which often requires a build in capacity). This clearly creates a dilemma for public service strategic managers.

(a) Examine the strategic paradox faced by public service strategic managers of meeting efficiency objectives whilst at the same time meeting objectives to extend customer choice. *12*

(b) Outline, by use of examples from an organisation with which you are familiar, how this strategic paradox may be overcome. *8*

(20)

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5 'Paymaster General Dawn Primarolo has acted to prevent corporations from avoiding tax, as part of the Treasury's clampdown on actions that prevent the UK from investing further in its public services. Primarolo has targeted three forms of tax

avoidance: companies' use of capital redemption bonds to generate artificial losses; claims to excessive double taxation relief; and exploitation of loss-buying rules.'
(Round-up, Public Finance February 18-24 2005, Page 15.)

- **Requirement for question 5**

(a)   Explain the ethical stance taken by the corporations referred to in the statement above and outline three other alternatives, examining which would be an appropriate ethical stance for most public service organisations. Justify your submission with examples where appropriate.   *12*

(b)   The two following headings *'NHS top executive's pay passes £200,000'* (PF Feb 24 pg 9), and *'Housing chiefs' pay soars..'* (PF Feb 17 Pg 12), are examples of reward packages for public service executives.

Explore the strategic arguments for setting reward packages for top executives in the public services at levels far in excess of operational or front-line staff.   *8*

(20)