STRATEGIC BUSINESS MANAGEMENT

Final Test of Professional Competence

11 December 2007

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

Instructions to candidates

*There are **five** questions on this question paper*

*Answer **four** questions in total*

Both compulsory** questions from Section **A
Two** of the three questions from Section **B

*The questions in Section A carry, in total, **60** marks*
*The questions in Section B each carry a total of **20** marks*

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.

This paper is based upon the pre-seen material:

Seasonal Cycles in Public Management: Disaggregation and Re-aggregation, Colin Talbot and Carole Johnson, Public Money and Management V27n1:53, Blackwell Publishing, February 2007.

What's made Banbury cross?, Lyn Whitfield, Public Finance, October 20-26 2006:18

PRE-SEEN MATERIAL

Article 1 – Public Money & Management February 2007

Seasonal Cycles in Public Management: Disaggregation and Re-aggregation

Colin Talbot and Carole Johnson
A central feature of New Public Management (NPM) was the disaggregation of organizations into smaller units. This article examines the ebbs and flows of organizational size in the UK public sector—from the rise of the 'small is beautiful' idea in the 1980s and 1990s to the current 'new big government'. This is not a simple cycle as the new big government differs in significant ways from the old—but there is clearly a cyclical element at play. Some proximate causes for the new wave of mergers given by policy-makers are explored.

Colin Talbot is Professor of Public Policy and Management and Co-Director of the Centre for Public Policy and Management, Manchester Business School, the University of Manchester

Carole Johnson is Research Fellow in Public Policy and Management, Manchester Business School, the University of Manchester.

Hood's 1991 article on 'A public management for all seasons?' is probably the most oft-cited analysis of the emergence of the so-called New Public Management (NPM). As the title suggests, Hood was asking whether the advent of NPM signalled a new form of public management which would be pervasive, globally applicable and permanent—'for all seasons'. NPM could, it seemed, be implemented by progressive and conservative governments, by social democratic and liberal democratic states, indeed even by undemocratic states. In the UK everyone from left-wing local authorities to the right-wing national government seemed to espouse some version of NPM (Ferlie *et al.*, 1996).

This article focuses on just one element of the NPM agenda—the disaggregation of public organizations into smaller units, or what has also been called more colloquially 'unbundling government' (Pollitt and Talbot, 2004). It focuses only on the UK and the purpose is to demonstrate that the doctrine of disaggregation embedded in NPM did indeed take place, but it has since been substantially reversed, casting some doubt over the 'for all seasons' nature of NPM.

The analysis focuses exclusively on organizational size—the degree of aggregation of public service units. Disaggregation was a key component in most versions of NPM and although often linked to other notions, such as decentralization, it was (and still is in some countries) a key reform element (OECD, 2002).

One important point should be noted before we begin—identifying what constitutes a 'separate' organization is not always straightforward. In the public sector, with often strong financial, authority and policy dependencies, deciding what is a 'separate' organization and what is not is sometimes problematic. This boundary issue is, however, not just a public sector problem—in the private sector a 'firm' is not always quite as separate as it might at first appear, for example, the Japanese *keiretsu* networks (Whitley, 1998). In the UK public sector this is further complicated by the rather unique constitutional and legal arrangements which mean that many public bodies are legally simply parts of the Crown, for example civil service ministries and agencies and NHS trusts prior to 1997 (Harden, 1992). We have opted for the position of accepting popular, policy and self-identification—so if an organization, policy-makers and the public see a public body as separate then we have regarded it as such for the purposes of this analysis.

From Aggregation to Disaggregation and Back Again?
What is the evidence for the renewed aggregation of government and how disaggregated were the UK public services in the first place? Three sectors are considered in this article, which together include most of the public services, measured by spending or workforce, in the UK:

• Central government and the civil service.
• Local government and the police.
• The National Health Service (NHS).

The period covered is roughly from the mid 1980s to the present, and includes plans and policies already 'in play' but not necessarily yet implemented. In each sub-sector, the extent of unbundling which took place between the mid 1980s to mid 1990s is considered. This is followed by a look at elements of rebundling which have occurred from the late 1990s onwards—mostly since New Labour came to power in 1997.

Central Government and the Civil Service
In 1988, the UK central government embarked on what has become one of the most quoted emblematic cases of disaggregation—the break-up of the previously monolithic civil service into 'executive agencies' as a result of the *Next Steps* report (Jenkins *et al.*, 1988). UK central government moved from having around 17 ministries to, by the mid 1990s, having roughly the same number of ministries plus at one point nearly 130 executive agencies or organizations 'working on next steps lines'. The latter included Inland Revenue and HM Customs & Excise which were both partially internally disaggregated into 'executive offices' or 'units' (about 30 in each) which were likened to mini-agencies employing over three-quarters of all civil servants. This seemingly impressive change was widely cited and emulated in something of an 'agency fever' (Pollitt *et al.*, 2001). This was clearly a case of substantial disaggregation, although it should be noted that, of the 130 or so agencies, the 'big five' (Benefits, Employment, Prisons, Revenue and Customs) employed roughly two-thirds of all staff working in agencies.

From the beginning of this programme of reform some elements of re-aggregation began to appear. The most notable was the merger of four Ministry of Defence agencies to form the Defence Evaluation and Research Agency (DERA) which has since been privatized. The Civil Service College was also merged back into its parent department, the Cabinet Office.

These were, however, fairly small scale compared with further developments—the merger of first Benefits and Employment into Jobcentres Plus; of Inland Revenue and Customs & Excise into HM Revenue and Customs; and the Prison Service with the newly 'nationalized' probation service. The 'big five' had become the 'even bigger three'. We now look at these mergers in more detail.

Department for Work and Pensions (DWP)
The creation of the DWP involved both a reorganization of ministries and the merger of two large agencies (benefits and employment). These two agencies were originally formed within two separate ministries, the Department of Employment created the Employment Service agency (which dealt with some benefits and employment advice); and the Department of Social Security created the Benefits Agency (which dealt solely with benefits). In 1996, the employment department was merged with the education ministry to form the new Department for Education and Employment (DfEE) together with the Employment Service. This merger was justified on policy grounds as it fostered better co-ordination of employment services and vocational education. It lasted for five years.

The DWP was created in 2001 from the employment part of the old DfEE (department and Employment Service agency) and most of the Department of Social Security (including the Benefits Agency, Child Support Agency, and the Pensions, Disability and Carers Services). The creation of DWP laid the basis for the possible merger of 'job seeker' services and, after some trials (the ONE pilots), Jobcentre Plus was created by merging most of the Employment Service and Benefits Agency.

The formation of DWP was more than the merger of various service functions under one roof which challenges the notion that Jobcentres Plus is truly still a semi-autonomous agency. Under next steps, each agency had a separate framework document but in the new DWP individual framework documents were replaced by a single departmental document for all the various business units. Essentially this appears to be a full merger into a single bureau organization, albeit with an internal divisional structure through which new policies can be implemented. Thus the DWP is characterized by 'joined-up decision-making and supported by integration and effective corporate services based on shared goals and information' (DWP, 2005).

HM Revenue & Customs
HM Customs & Excise and the Inland Revenue were two of the oldest departments of state in the UK. Unlike most other departments they were headed by a chairman and board, who were permanent officials, rather than an elected secretary of state or a minister. Both were 'non-ministerial departments' founded on statute rather than through Crown prerogative powers, as most other ministries were and are. Both had strong protections against ministerial interference in operational issues (to prevent political bias in tax decisions) and extensive powers to develop policy themselves by interpreting tax and customs legislation independently.

All of the above undoubtedly affected the decision to apply next steps principles in HM Customs & Excise and the Inland Revenue by creating around 30 'executive' units in each. These were mostly geographically-based service delivery units, with a few specialist national units—some service delivery and others providing corporate services. As a consequence from the early 1990s both were said to be 'operating on next steps lines'.

After New Labour came to power in 1997 both departments, but especially Inland Revenue, began to acquire new functions as the merger of the tax and benefits systems began. In addition, Inland Revenue absorbed the National Insurance Contributions Agency from the Department of Social Security. Both decided around the year 2000 to abandon 'working on next steps lines' and the executive units were abolished.

Next, HM Customs & Excise and the Inland Revenue were formally merged, following legislation, in 2005 creating the largest Whitehall entity with around 100,000 employees representing one fifth of all civil servants.

Prison and Probation Services
HM Prison Service* was one of the agencies created during the early 1990s. Traditionally, the prison service had always been relatively independent and only became part of the Home Office, its parent ministry, in the 1960s. Some, including the first director general of the new agency, thought that agency status was a relatively small change because of the Prison Service's traditional independence (Lewis, 1997). The Prison Service itself has not changed much since agency status, other than that it has grown substantially along with the UK's prison population.

The Probation Service deals with offenders in the community, both after and as an alternative to prison, and was a starkly different organization. First given a statutory basis in 1907, it was a highly localized service run by probation committees and, in 1999, consisted of 54 services. In 2000, the Criminal Justice and Court Services Act effectively 'nationalized' the service and it became 'The National Probation Service for England and Wales'. Probation committees were replaced by boards and their number was reduced to 42 (which were also made coterminous with police, prosecution and courts services). But this was clearly a national service with a director general in the Home Office, funding transferred entirely to central government, and all the members of probation boards

appointed by the home secretary.

Although the structures and status of prisons and probation had clearly moved much closer they were still separate entities of different sizes. The Probation Service is less than one tenth the size of the prison service. Crucially they had, allegedly, very poor co-ordination between services, despite the fact they dealt with very similar 'clients', i.e. offenders. (In several other countries the services are merged—see Pollitt *et al.* [2004] for comparisons with Finland, the Netherlands and Sweden.)

So, in the name of better co-ordinated 'offender management', the National Offender Management Service (NOMS) was created in 2004 following a review of correctional services (the Carter review). Their website states that 'NOMS brings together the work of the prison and probation services as a new single service to oversee the end-to-end management of offenders'.

While the creation of a National Probation Service and then its absorption into NOMS is a clear case of aggregation, the situation is not quite so simple. NOMS has also introduced a partial 'purchaser–provider' split in which individual prisons and probation service areas may be put up for competitive tender. This is essentially a continuation of the policy operated within the Prison Service since the mid 1990s where parts of the service were subjected to competitive tender, with policy limiting the number of private contracts granted to about 10% of the total. But it clearly introduces an element of potential disaggregation.

Central Government—The Overall Picture

The net effect of all these changes in central government is quite startling. From the large-scale disaggregation of the early 1990s policy seems to have almost completely reversed itself, in practice if not in rhetoric.

HM Revenue & Customs clearly no longer works on 'agency' lines and is a massive new structure by any standards. It is larger than any of the pre-next steps ministries. Jobcentre Plus is likewise a large multi-functional structure and is arguably no longer separate from the rest of DWP. The newly-created NOMS is also a massive organization, if not exactly a classic single bureaucracy.

The number of civil servants working in agencies has dropped dramatically from its high of 75%. If HM Revenue & Customs is excluded, the number has fallen to just over 53%. And if Jobcentres Plus is also excluded the figure drops to only 38%, based on the 2004 figures (Civil Service Statistics, 2004).

Overall this is a clear re-aggregation, indeed even greater aggregation in some ways than before next steps. There remain a substantial number of small agencies, 98 in 2004, but these employ only a minority of civil servants, so this does not represent a return to the status quo, but it is clearly a substantial policy reversal.

Local Services: Local Government and Police Forces

In local service delivery, outside of the NHS, the picture is less certain, but features of aggregation remain. The following paragraphs outline the tides of change in local government. At the time of writing this article, local government reform looms once again. As yet there is no firm resolution, in either local government or the police forces, and it appears now to be unlikely that central government will demand restructuring but may well be creating the conditions for increased aggregation of certain functions 'by stealth'.

Local Government

Local government has been through various phases of aggregation and disaggregation, often simultaneously, and rarely coinciding fully with the rest of the public sector, but overall the direction has been towards aggregation.

In 1974, major boundary changes created fewer local authorities in England, with the number of higher tier county councils being reduced from 58 to 53 and lower tier councils from 1,250 to 369 (Chandler, 2001).

Later, in 1986, a small measure of disaggregation was reintroduced. The Greater London Council was broken up into 32 London boroughs and the other metropolitan county councils were dissolved into the existing 36 metropolitan district councils. This devolved some services to the metropolitan districts which grew slightly as a consequence.

Two further forms of disaggregation occurred during this period. The first was a move towards localization of service delivery—disaggregating councils themselves into 'neighbourhood' units (Hoggett and Hambleton, 1987; Hambleton and Hoggett, 1989; Burns *et al.,* 1994). The second, and one which effectively halted and reversed the previous trend, was the introduction of compulsory competitive tendering (CCT) in 1980 which forced councils to disaggregate along functional rather than geographical lines by putting services up for tendering—many of which moved out of councils altogether as a consequence (Ascher, 1987).

Between 1995 and 1998, aggregation emerged once more as the dominant trend but in the process also led to the simultaneous disaggregation of certain service functions. In 1995, reorganization led to the removal of two-tier authorities in Scotland and Wales: the 65 Scottish authorities were reduced to 32 and in 1996, the number of Welsh authorities was reduced from 45 to 22. In both cases the new authorities were 'unitary' in nature. This meant some substantial service functions, such as education and social services, were devolved to the new 'unitaries'. While these changes led to fewer local authorities, it also meant that many functions previously carried out by a few higher tier authorities were now carried out by increased numbers of smaller unitary authorities.

Over the same period, a number of councils became unitary authorities in England. From 1995 to 1998, a total of 46 were created (Chandler, 2001). This reduced the total number of local authorities by 17 (Stewart *et al.*, 1997). Despite fierce resistance by many English local authorities and their electorates over the unitary agenda, a new wave of reorganization seems to have now begun across the UK.

In Northern Ireland, a reorganization is underway with the current 26 districts being reduced to seven 'supercouncils' (Scott, 2005) and, in Scotland, a debate about further aggregation is taking place with many seeing it as 'inevitable'. Nothing has been finalized but further aggregation of the existing 32 councils into a smaller number of perhaps 15 unitary authorities is widely expected (Jones and Stewart, 2005; Scott, 2005).

In England and Wales, further aggregation may or may not occur. Currently, the emphasis in Wales is on increased joint working to achieve efficiencies. In England, developments have sparked renewed concerns that central government's preference remains in favour of unitary authorities covering larger areas. The new Department for Communities and Local Government (DCLG) is expected to publish its delayed White Paper on local government reform towards the end of 2006. Its predecessor, the Office for the Deputy Prime Minister (ODPM), argued that they had no firm plans for further unitary authorities (*Public Finance*, 2006). However, local government officers and councillors are concerned (*Public Finance*, 2005) and others predict further mergers (Jones and Stewart, 2005). The new minister for DCLG has recently argued unitaries will be established, but only where there is local demand. Unitaries could be better placed to make the efficiency savings needed in local authorities which are already being pressured to aggregate the production of certain services and back office functions.

Police Forces

Moves to reduce the number of police forces are also underway. A consultation process and the submission of outline plans for mergers took place in 2005 between the Home Office and the Police Forces of England and Wales. The Home Office, following advice from Her Majesty's Inspectorate of Constabulary (HMIC) in *Closing the Gap* (2005), wish to see the number of forces reduced from 43 to approximately 17. By early 2006, plans for the voluntary merger of Cumbria and Lancashire had been announced and negotiations were in place for the first wave of 'encouraged' mergers, merging 15 forces into three 'superforces'—one for the whole of Wales, and regional forces for the west midlands and north east (*Guardian*, 7 February 2006). Others followed suit as the year progressed.

The pace of change has slowed due to the need to solve the problems of establishing efficiency, setting the council tax precept, and guaranteeing local accountability, but the Home Secretary John Reid remains 'committed to the creation of larger strategic police forces' (2006). If a proposed revision to the Police and Justice Bill requiring mergers to be locally supported is accepted, it seems the Home Office will have to be more persuasive of the merits of merging.

The National Health Service (NHS)

Alongside the civil service, the NHS probably represented the largest example of unbundling in the early 1990s. Although the NHS was not formally part of its parent ministry, the Department of Health, it was run from its inception in 1948 primarily along classic hierarchical lines. At the time that disaggregation commenced under the Conservative's 'purchaser–provider' split, the NHS had a management executive in the Department of Health controlling 14 regional health authorities (RHAs), 140 district health authorities (DHAs) and a large number of 'directly managed units' (i.e. mainly hospitals). RHAs also controlled 90 family health services authorities (FHSAs), which in turn were responsible for GPs, dentists and other 'independent contractors' who worked for (but were not employed by) the NHS.

Between 1991 and 1995 the directly managed units were reorganized into NHS trusts—mainly hospital-based 'provider' units. A total of over 450 trusts were created in five waves, although mergers started to appear before the process was even finished. The pace of change in trusts has been so continuous—especially since 1997—that assessing the numbers is difficult, but they seem to have now reduced to around 300 of which there are 230 in England, with mergers continuing.

The NHS structures above trust level have been equally unstable but heading towards aggregation. The original 140 DHAs were merged into the new health authorities in 1996 and then into only 28 strategic health authorities (SHAs) in 2002. Recent announcements of further changes suggest that SHAs will reduce to around nine in England, based on the government's regional office boundaries (Department of Health, 2005a).

Also under the Conservative's 'internal market', around 3,500 GP fundholders (from over 30,000 GPs) were created in the period 1992–96. New Labour abolished GP fundholding creating instead primary care trusts (PCTs). These started as primary care groups, bringing together GPs and other community-based services. Just under 500 were created. As they transformed into PCTs, the number reduced to about 300. A new wave of mergers has since begun with numbers forecast to reach about 150 (or maybe even less).

A final set of mergers should be mentioned—ambulance services were originally organized on a DHA basis (i.e. about 140 units) but were converted into, eventually, around only 30 ambulance trusts. Department of Health proposals could further reduce the number down to 11 'super-services' (Department of Health, 2005b).

The net result of these changes is that after 15 years the strategic health authorities (SHAs) are as big, or even bigger, than the old regions (the RHAs, which were abolished in 1996). Currently NHS trusts are about half the size of the old DHAs, with 230 compared to 140 DHAs and PCTs are going to be almost the same size as the FHSAs: 150 compared to 140. While the overall hierarchy has disappeared, the replacement structures are remarkably similar in size to their early 1990s predecessor sub-units.

The Overall Pattern in the UK

History may repeat itself, but in the case of public organizations it seems to be rather like a weather pattern: no two summers are ever identical. The re-aggregated UK public services of the early 2000s do not take the same form as the old aggregated services of the late 1980s. Some obvious differences are emerging: in health, police, ambulances, prisons, probation and other services regional structures (in England) are becoming increasingly the norm, mostly re-absorbing upwards from below, rather than the national structures (or local) structures of the 1980s.

The second major difference relates to the internal structuring of organizations. In various policy pronouncements, covering for example police, health and local government, the New Labour government has asserted that it is possible to have both big (often regionalized) organizations and responsive local structures within them. This attempt to reconcile the 'new localism' and the new 'big government' is an interesting one, in some ways reminiscent of the experiments in 'neighbourhood' combined service delivery in parts of local government in the early 1980s. Whether this works in practice remains to be seen.

So the new big government is not the same as the old big government. Organizations have been rebundled in different ways: but they have clearly been rebundled on a massive scale.

The Justification of Change: Faith or Evidence?
We have identified a clear trend back towards larger forms of organization—how is this to be explained? We discuss two sets of 'causes', the first are the espoused reasons for change, currently given as the need to co-ordinate and create economies of scale. We then go on to discuss ways in which these cycles of change, moving us from large to small organizations and back again, may have deeper causes than these justifications.

Past Explanations—A Changing Environment
The NPM 'movement', in which disaggregation was core, has been attributed to a number of factors:

- Fiscal stresses triggered by the oil crisis of the 1970s but reflecting problems with longer term trends in state growth (O'Connor, 1973; Saunders and Kalu, 1985).
- Changes in the socio-technical system which led to Western societies being identified as post-industrial or post-Fordist in both public and private sectors (Burns *et al.*, 1994; Heckscher and Donnellon, 1994; Hoggett, 1987).
- The rise of the 'network' society (Castells, 1996; Kickert *et al.*, 1997; Thompson, 2003).
- The rise of 'new right' public choice ideas (Self, 1993).

There is little evidence that any of these factors has disappeared, with two partial exceptions. First, the 'new right' ideology as applied to public services has been somewhat 'rolled back', to use Self's phrase (Self, 2000), or at any rate stabilized. Second, the 'fiscal crisis of the state' seems to have abated or again reached a stable state: in the UK's case public spending has consolidated at around 42–43% of GDP with no obvious large-scale fiscal problems (or political controversy) about this settlement.

Two Current Explanations: Joined-up Government and Efficiency
Two arguments have been predominant in the discourse of structural reform leading to re-aggregation since 1997: better co-ordination or joined up government and efficiency.

Co-ordination: New Labour, since coming to office in 1997, has attempted to co-ordinate the often separate and fragmented parts of the public sector in order to address some of the so-called 'wicked issues' which fall between traditional structures or by taking a customer-driven approach in developing 'one stop shop' solutions. Both were encapsulated in the phrase 'joined-up government' which became synonymous with the New Labour programme (Cabinet Office, 1999; Chancellor of the Exchequer, 1998; National Audit Office, 2001).

At the centre this was embodied in 'cross-cutting reviews' in the 1998, 2000 and 2002 spending reviews (Chancellor of the Exchequer, 1998, 2000) and joint public service agreement (PSA) targets (Chief Secretary to the Treasury, 1998). It has also clearly led to mergers of once separate and distinct organizations or parts thereof—Jobcentres Plus, HM Revenue & Customs and NOMS are prime examples.

In localities this was embedded in the notion of partnerships, for example, the 'zone' initiatives (in health, education and employment), local strategic partnerships, local area agreements and children's trusts. These have contained varying degrees of institutional incentives to support joint work but usually stop short of forcing organizations to work together in highly prescribed ways.

The creation of single organizations, through which more highly prescribed policies can be implemented, may avoid some of the problems which partnerships face in the co-ordination of their work such as sharing confidential information and working towards 'corporately' defined goals. This solution has been used where the government-citizen transaction is highly salient to government, for example Jobcentres Plus and HM Revenue & Customs. Effectiveness arguments are also being used to justify other mergers, for example, the police mergers policy is partly justified by the rise of Islamic fundamentalist terrorism and organized crime, where larger scale operations allow the creation of specialist units to deal with these problems.

Efficiency

More recently efficiency arguments have become central to New Labour policy. After an initial austerity in public spending, funding increased in many areas of the welfare services: particularly health and education. Between 1998 and 2006, public spending as a proportion of GDP jumped from an historic low of 38% of GDP back up to the more or less 40-year average of 43% of GDP. Growth beyond this point is unlikely, and while some services may continue to get greater relative increases (health, education and international development) most are likely to face 'stand still' budgets (in GDP terms) in the 2008–11 Spending Review (Institute for Fiscal Studies, 2006). Moreover, there is little political debate about this situation—both main opposition parties espoused policies in the last general election which would have only a marginal effect on spending in GDP terms.

In these circumstances the political debate about public services has shifted away from classic 'getting and spending' issues (Pliatzky, 1982) towards how well services are being run. This produced, in the run-up to the last general election, the 'battle of the efficiency reviews'. Rival plans for efficiency savings were touted by the government and Conservatives—based on reviews conducted by Sir Peter Gershon and David James respectively.

The Gershon review (2004), which of course became government policy, was tasked with scrutinizing how resources in the public sector could be better used, in particular how resources could be released to the front line. His recommendations, among others, included the merging of back office functions to gain economies of scale in such areas as finance, IT support and procurement.

The same arguments for 'economies of scale' have been used both before and after Gershon to justify organizational mergers. This is evident in the reviews which created Jobcentres Plus and HM Revenue & Customs; in the mergers of NHS organizations; in the proposed changes to local authority structures and in the creation of 'super' police forces.

In justifications for both reform phases—disaggregation and re-aggregation—there is a great deal of 'soft data and logic' and the use of fairly ageless 'administrative doctrines' (Hood and Jackson, 1991) or 'justification by faith' (Pollitt, 1995). While co-ordination and efficiency are clearly the main 'espoused' reasons driving re-aggregation, and those supporting them clearly 'believe' in them, it is likely these are no more than proximate causes there are probably other deeper-seated reasons for change, which are beyond the scope of this article. Efficiency, for example, was cited as a key driver for breaking up the civil service into agencies from 1988 onwards *and* a key justification for the amalgamations of the early 2000s.

Conclusions

This article has dealt exclusively with the issue of organizational size in the UK public sector. The conclusions are straightforward—after a period of reduction, organizational size has been substantially increasing again across the public sector and this process is far from over. It says nothing concerning other elements of NPM which remain embedded in the UK and in the current reform processes. Reversal on size alone clearly does not constitute a reversal of NPM as a whole. But it raises important questions about the extent to which the various elements of NPM are really associated and the nature of their inter-relationships. What the evidence presented here does suggest is that it is dangerous to assume change is all inevitably, inextricably and irreversibly linked in a single paradigmatic shift. It clearly is not.

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Article 2 – Public Finance October 2006

What's made Banbury cross? By Lyn Whitfield

The DoH claims that 'reconfiguration' of NHS services is all about improving clinical care. Critics says it's just to balance the books. Either way there are widespread protests against hospital mergers and closures – and HM Opposition is cashing in. Lyn Whitfield reports

One Saturday last month, a headmaster dressed as a fine lady on a pantomime horse led 3,000 people around the streets of Banbury to protest about proposed changes to services at the local Horton Hospital. The 'lady' and the 'horse' provided some distinctive local colour. But the sight of people demonstrating against hospital cuts, closures and changes has become a familiar one in towns and cities across England.

In September alone, tens of thousands of people took to the streets. From Plymouth to Grantham, from Eastbourne to Nottingham, they turned out to protest against changes in their local NHS services. In August, no fewer than 27,000 people marched through Hayle in Cornwall against possible hospital and ward closures.

Despite this, the new chief executive of the NHS, David Nicholson, has made it clear that the pace of reform, and therefore of 'reconfiguration', is likely to increase. He is reported to be expecting about 60 such reconfigurations in the near future, including changes to some of the most cherished of NHS services: accident and emergency, paediatrics and maternity. 'We are going to have to tackle some of these big patient issues,' he said in a recent interview. 'Undoubtedly, there will be tough decisions to be made.'

Reconfiguration has been a hot topic of conversation at the top of the Department of Health since the spring. First, there was the row over leaked e-mails about government 'heat maps', showing where planned reconfigurations are causing unrest – and resurrecting fears of Kidderminster-style election defeats. The Conservatives claimed these were being used to avoid cuts in marginal seats.

And there has been plenty of public activity as well. In July, Andrew Cash was appointed director general of provider development at the Department of Health, with a brief to drive trusts towards foundation status and 'bring about a coherent reconfiguration programme'. Over the summer, Nicholson's immediate predecessor, Sir Ian Carruthers, made a point of telling managers that nervous ministers would no longer block difficult decisions.

Even so, there is no grand 'plan' for hospital closures (though a number of people interviewed for this article said it would be nice if there were). Instead, change is coming for three reasons that can be hard to untangle on the ground: financial crises, long-standing pressures on smaller hospitals and (possibly) an emerging idea of what NHS services should look like in the future.

Or, as Nigel Edwards, policy director of the NHS Confederation, puts it, reconfiguration is in the news 'because pressures we all know about can't be ignored any longer. That, and the money.'

The latest figures from the DoH show that the NHS in England is projecting a surplus of £18m for the end of the current financial year, with the gross deficit down from about £1.2bn to £883m. But this fragile improvement in financial balance has been won at a high price.

Indeed, some of the local protests have been a straightforward reaction to the steps taken by trusts to get back into the black. Last month's rally in Plymouth, for example, was organised by unions concerned about plans to close up to 60 beds and shed up to 400 posts to tackle a £25m projected deficit.

A spokesman for Plymouth Hospitals Trust stresses that it is modernising services at the same time. It is, for example, creating a day surgery admissions lounge that will reduce its beds requirement. But its focus is financial balance.

Some of the other protests have been triggered by plans to address deep-seated pressures on smaller hospitals that would exist whatever the financial situation. These include the drive to improve the quality and safety of NHS services, which has fed into increasing clinical specialisation, and the impact of the European Working Time Directive. In 2004, when the directive was applied to junior doctors for the first time, a 'crisis' in hospital services was widely predicted. This was averted by new ways of running hospitals at night, devising new shift patterns and creating some new roles for clinical staff.

But the directive will pinch further in 2009, when doctors' working hours, including the time they spend 'on call', must be reduced to 48. Among other things, this will make it more difficult, and expensive, to run services that require 24-hour cover, including A&E and maternity units.

The interplay of these pressures can be seen in Banbury. Horton Hospital is run by the Oxford Radcliffe Hospitals Trust, which also runs Oxford's teaching hospitals. It has been consulting on how to make its services both safe and sustainable since 2004, and the future of Horton Hospital is just part of this process, says its director of communications, Helen Peggs, who has been heavily involved in the process.

The trust's consultation document makes it clear that the primary drivers for change are the impact of the directive on staffing and on the way doctors are trained and supported. For instance, it says that Horton Hospital's maternity unit, which deals with 1,600 births per year, is 900 births short of what the Royal College of Obstetricians and Gynaecology would require to renew its training accreditation.

And its out-of-hours anaesthetic cover is provided by one trainee anaesthetist, who also covers other specialisms, which 'does not meet the requirements of the clinical negligence scheme for trusts'.

Peggs says: 'To retain obstetrics, we would need a new layer of anaesthetists, and that is just not affordable, even if we could fill unpopular posts.'

In response to these concerns, the trust is proposing to build up Horton's diagnostic, day surgery and emergency services, but to move out-of-hours and specialist services, including consultant-led maternity care, to Oxford. Peggs says this will not necessarily save money, since it will have to invest in a new midwife-led service and other facilities.

However, the health service across Oxfordshire is facing a £33m gap between its funding and its costs and activity this year. As a result, the consultation on Horton Hospital was brought forward to coincide with a bigger consultation on efficiency across the trust. Underlying pressures and financial pressures have become entangled.

The pressures facing small hospitals such as Horton, and the bigger district general hospitals that serve small to medium-sized towns, have been under the microscope for some time. In the late 1990s, a flurry of reports came out of medical bodies arguing that many services would have to migrate to 'superhospitals'.

In 1999, for example, a particularly influential report from the Joint Consultants Committee suggested that superhospitals serving 400,000–500,000 people would be needed to maintain a full range of specialisms and A&E support services, plus the training to go with them. It suggested that where district hospitals serving populations of 200,000–300,000 people remained, they should form 'acute groups' offering more services than a single hospital could manage on its own.

Nobody has ever built a superhospital, although the report's figures turn up regularly in documents supporting reconfiguration around the country. And since then, both managerial and medical organisations have put considerable effort into finding alternatives, or partial alternatives – not least because of the long journey times that regional centres would imply for some patients.

In 2003, the DoH issued a guidance document, Keeping the NHS local, which challenged the 'mind-set' that 'biggest is best' and set out 'new evidence' that 'small can work'. It instructed managers to look at 'whole systems' working when proposing changes and to 'redesign rather than relocate' services. This newer thinking has been seen as good news for local services in general and for community hospitals and midwife-led units in particular. But the recent pronouncements from the DoH/NHS chief executive seem to suggest a reversal in approach.

Jon Skewes, director of employment relations and development at the Royal College of Midwives, says the RCM was very concerned by Nicholson's comments because they implied that women should give birth in consultant-led units in larger centres.

While this debate has been going on, another strand of policy thinking has come into play – how to shift services for long-term and preventable conditions out of hospitals and into communities and homes.

Again, the ideas are not new. But the government has become increasingly interested in them, not least because of the influence of US models of care, such as that developed by Kaiser Permanente in California. The white paper Our health, our care, our say, published in January this year, distils some of this thinking. For local hospitals, this is likely to be a double-edged sword. Campaigners tend to think that the white paper supports popular local services. But the trend is to push more of what they do out into other settings. Health Secretary Patricia Hewitt made it clear, in a recent speech to the Institute for Public Policy Research think-tank, that these services might be run by independent sector providers.

The co-operation that would be required to resolve all these tensions sits oddly with the government's mantra of competition and the financial regime of payment by results, which tends to push work back into hospitals.

But in so far as there is a model emerging, it revolves around what are sometimes called 'gradated services'. Broadly, the idea is that patients should be able to access escalating levels of support, from telemedicine to super-centres dealing with trauma and emergency surgery, via 'polyclinics' and 'locality' hospitals doing routine and minor injuries work.

Interestingly, something very like this triggered last month's protests in Hastings and Eastbourne. Surrey and Sussex Strategic Health Authority probably had the highest debt in the country, £100m, in 2004/05. It has since merged with another SHA to form NHS South East Coast. Just before the merger took place, the authority issued a Fit for the future consultation, which discussed the pressures on services, including the need to focus on prevention and chronic disease management and to shift these services closer to people's homes. Local press coverage has focused on the 'threat' to local hospitals posed by its proposals to create new emergency, surgery and maternity centres at just a few locations (which means 'downgrading' others to locality status).

It has paid much less attention to the other innovations. But Dr Amit Bhargava, a GP in Crawley, says the area is trying to create a new model of care, influenced by Kaiser Permanente, in which acute is split from community care but staff work flexibly between the two.

Major change, he says, will save money. And he believes that ministers have grasped that. 'I think this is happening now because yes, it is hard to handle now, but every year it is put off, it will get harder,' he says.

He adds, though, that a 'consistent narrative' about change needs to be developed – and that politicians will have to resist the temptation to interfere with local decision-making when the going gets tough.

Individual reconfigurations, then, are a response to a range of pressures – but it does not follow that they are a response to the right ones. Skewes has no doubt that many changes to maternity services are being driven by simple 'retrenchment'. But he argues that centralisation might not be safer, if women have to travel further, and might not be cheaper, if it pushes intervention rates up even further.

Ian Gilmore, president of the Royal College of Physicians, says: 'We have been saying for years that there needs to be a reorganisation of services. We have also been saying that clinicians need to be engaged early, to make sure that changes are driven by what is best for patients, and not just by finances. Change might not be cheaper.'

He is also concerned that while some of the ideas behind a shift to community and primary care services are sound, 'the investment and the infrastructure needed has not yet happened'. Indeed, a sceptic might ask if they will ever be developed – and, if so, whether they won't disappear at the first sign of financial stress, as is happening with some mental health services.

The idea that politics can be kept out of change, meanwhile, is wishful thinking. The Conservative Party has launched a campaign called 'Stop Brown's cuts'. Tory leader David Cameron, who told his party conference that his priorities could be 'summed up in three letters – NHS', has already been supporting Banbury's Horton Hospital as a local MP. And shadow health minister Andrew Lansley has pledged greater independence for the NHS.

It would be harder to play political games if the public bought into local changes, which is why Nicholson has also been sending out the message that proper consultation will pay dividends. Since Keeping the NHS local, there have been considerable changes in the way the NHS consults. Health communities, rather than individual bodies, have tended to issue consultation documents, and these usually start with general issues, rather than specific proposals for change.

Oxford Radcliffe Hospitals Trust is somewhere towards the end of this process, while NHS South East Coast is right at the start of it.

But the massive wave of NHS protest marches suggests it is not working. George Parish, the Banbury town councillor leading the Horton Action Group to save the hospital, has sat through countless review meetings. He still believes the changes are financially driven and represent a simple loss of services for local people.

'We want the trust to rotate staff through the different hospitals to address the concerns about safety and working hours,' he says. 'But the trust has this £33m overspend and it does not want to know.'

Similarly, Michael Foster, Labour MP for Hastings, said recently that Fit for the future had simply 'generated negative publicity' and 'raised local concerns'. He also uttered what might be an inconvenient truth. 'It is not possible to close local hospitals. People would rather have a slightly inferior service than have to travel.'

Expect more demonstrations soon.

Public Finance *is hosting a round table on health finance and reform in London on October 25 in association with Deloitte*

Article Date: 20-Oct-2006

SECTION A (Compulsory – answer both questions)

1

- **Requirement for question 1**

Talbot and Johnson conclude that 'after a period of reduction, organisational size has been substantially increasing again across the public sector' and comment that 'co-ordination and efficiency are clearly the main espoused reasons driving re-aggregation'.   Explore the assertion that re-aggregation leads to improved co-ordination and efficiency, drawing on examples from across the public services to support your submission.

(30)

2

- **Requirement for question 2**

Talbot and Johnson outline an array of re-aggregation across public services, and Whitfield reports stakeholder reaction to re-aggregation in the context of one type of public service authority. Stakeholder reaction can be one of a number of barriers and challenges in the implementation of a re-aggregation strategy.   With direct reference to examples from across the public services, explore barriers that can exist to re-aggregation, and outline potential tactics to drive through change.

(30)

SECTION B (Answer two from three questions)

3

'Society is becoming more critical of the public sector, while more external influences are making themselves felt. This makes it necessary for organisations in the public services to think more explicitly about what is happening on a more global scale and develop plans for the future. Earlier, organisations got away with defensive actions, but this will no longer prove to be a lasting solution. A successful new strategy will be based on intimate knowledge of what goes on outside one's own organisation, own sector, and own country.'

Johnson and Scholes (2001) Exploring Corporate Strategy (OLM Study Session 3)

A Political, Economic, Social and Technological (PEST) analysis is often used to identify a broad outline of global influences that may affect an organisation. However, this analysis alone is of limited use in strategic development. A tool often used to investigate the impact of the identified influences is scenario planning.

- **Requirement for question 3**

(a) Using the PEST analysis model, identify the global influences that may affect a public service organisation (or government department or agency) with which you are familiar. A **brief explanation** of how each identified influence could affect the chosen organisation should be given. *10*

(b) Outline the purpose, benefits and limitations of scenario planning, and give an example of how the outcome of scenario planning (using the global influences identified in Part A) could influence strategic development in the public services. *10*

(20)

4

Marketing services is becoming increasingly important for public service organisations. This is largely a result of government action (policy) and changes in public expectations. *'The public services have moved from a situation characterised by stable markets, where administration efficiency is the key requirement, to one characterised by changing markets and changing resources where marketing management is a key requirement'.* (Rose and Lawton (1999) OLM Study Session 4).

However, marketing as a concept is often misinterpreted as selling and misunderstood by user groups.

- **Requirement for question 4**

(a) Outline the nature and importance of marketing for the public services, and briefly explain how marketing can assist in the strategic management process. *8*

(b) Marketing strategies are often determined by the marketing mix, which traditionally consists of four variables: Product, Price, Promotion and Place.

   Briefly explain, with supporting examples from a public service organisation (or government department or agency) with which you are familiar, how each of the above four variables can be applied in the context of the public services. *12*

   (20)

5

Housing associations urged to 'prove benefits of mergers'

Housing associations must make a stronger business case for merger by demonstrating the benefits to tenants as well as potential efficiency gains, landlords have been told.

Public Finance 10-03-2006

Police forces that merge early will get financial aid

Police forces submitted their business cases for merging to the Home Office in late December and the department is now working with CIPFA to determine cost implications.

Public Finance 20-01-2006

RSLs' cheap loans help to cut rent arrears

…. there is a strong business case for improving personal finance if it reduces the threat of eviction. 'It can mean that landlords spend less on dealing with arrears, fewer people have to move and less costs are incurred in letting homes,' says the report.

Public Finance 19-01-2007

Public service organisations wishing to implement new strategies or change/amend existing strategies and/or receive funding usually have to make a busines case (sometimes referred to as a business plan). The above examples are typical, but other examples may be introducing a new education programme at a university, introducing a new patient treatment service at a hospital or changing the staff training/development scheme within a government department.

However, creating a business case (plan) can be complex and involve a number of internal and external stakeholders. Additionally, the business case (plan) must include clear objectives, actions and controls, which may conflict with existing objectives and procedures.

- **Requirement for question 5**

(a) Discuss why there has been an increasing requirement for public service organisations to produce a detailed business case (plan) when wishing to change or implement strategy or introduce a new service. Consideration should be given to both internal and external demands for the business case (plan).	*10*

(b) A business case (plan) can be created by either applying an autocratic (top-down) or participatory (bottom-up) approach. Discuss the benefits and limitations of using either of these approaches, and provide an example from a public service organisation (or government department or agency) when each approach would be appropriate.	*10*

(20)