



**Good Governance for Development
(GfD)
in Arab Countries**

**Working Group IV: Focus Group on Regulatory Reform
and a**

**Special Session of the OECD Working Party on
Regulatory Management and Reform**

28 September 2005

Paris, France

PUBLIC SERVICE DELIVERY AND REGULATORY REFORM

**Presentation by
Roxanne Sutton, Cabinet Office, UK**

INTRODUCTION

I have worked the past three years in the Office of Public Services Reform in the UK Cabinet Office, where we have made a close study of regulation of public services. We have looked at what contribution regulation makes to the quality of services, and we have been thinking about what kind of regulation we need for the future, as our public services are changing. We are now in the middle of a programme to modernise our regulatory bodies.

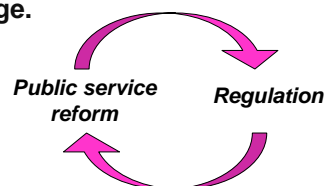
In this presentation, I am going to reflect on some of our findings and their implications. And as first presenter this morning I have the opportunity to be quite wide-ranging and broad in what I am going to say in order to set the scene for later, but I also have to be quite selective in the time available.

So, based on this, I have a simple proposition..... when you are seeking to change public services, the regulatory system can help do that.



Proposition

'Regulation' plays a significant part in the reform of public services – but *how* it does this depends on the way the whole system of public services is organised...and as this whole system changes, then so too must the regulatory system change.



But – equally – as you begin to see the benefits of these reforms, in the way that services are delivered and the standards that they offer, then the contribution and the methods of regulation need also to change – to focus on new priorities and new parts of the system.

So, I will offer some views – first - on how we, in the UK, have been using regulation to help drive forward our own public service reform programme. And – then – I will discuss briefly how regulation is, itself, changing as a result, using three specific examples.

But always the safety warning: I will come back to the point that the regulatory system that you devise has to be fit for purpose – that is to say fit for **your** purpose. So, I will finish the presentation with some thoughts on the issues that I think differentiate one regulatory system from another.

PUBLIC SERVICES AND REGULATORY REFORM

CabinetOffice

Better Regulation Executive



Public services

- funded out of taxation and provided free (at the point of delivery) to citizens (individually, or collectively)
- broadly covering: health, education, welfare, justice and community safety

Regulatory system

- driven by government policy, laws and targets, but delivered by arms' length organisations
- managed through complex 'vertical' (national, regional, and local) and 'horizontal' (cross-functional) inter-organisational relationships, combining performance management and *external* audit/review
- this presentation focuses on the role of *independent external review*

In the interests of being both broad in subject, but selective in argument, we ought to be clear about definitions. The **public services** that I am concerned with in the UK are broadly characterised as follows:

- they are services which are generally considered to be necessary for the good of society as a whole, that all citizens should benefit from, regardless of ability or income (health, education, welfare, justice, community safety etc)
- they are therefore funded by government out of taxation, and provided to the consumers *free at the point of delivery*.

This has determined that the **regulatory system** needs to do a number of things:

- in terms of **funding** – the government sets the level of funding, and the targets and standards that have to be delivered
- in terms of **delivery and management** – the government will determine how this is designed (we have separate corporate organisations that are largely at arm's length from government, eg the National Health Service)
- in terms of **accountability** – a system to ensure basic safety and quality (consumers are vulnerable); a system to ensure that the taxpayer is getting good value for money; and a system that learns and improves.

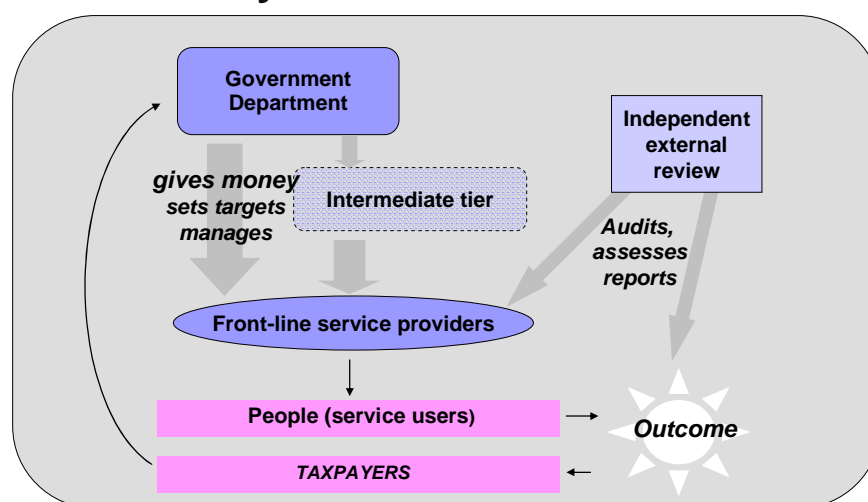
This presentation looks at the relationship between all three elements

THE WHOLE SYSTEM VIEW

Broadly speaking, therefore, our public service system as a whole, could be described by this very simple diagram.



The whole system view



On the left hand side we have the funding, delivery and performance management system, with government holding local service providers to account for the quality of the services that they provide, against standards set for them. Taxpayers are both the funders of this system, and the ultimate beneficiaries, either as individuals using the services or as citizens benefiting from the overall results.

On the right hand side, we have a formal system of external scrutiny which is independent of the service providers and – though funded by government – is largely independent in the way it operates. For example, it is a requirement of these bodies that they report in public (and directly to Parliament). They are required to report ‘as they

find', and they are required to tell service providers how well they are doing – preferably with a set of recommendations for how they might do things better.

Some of their reports are very controversial – for example we have an inspectorate of prisons that reports very publicly on the condition of people held in all types of closed institutions, with a particular view to assuring their general welfare and their human rights. Another example is an inspectorate that reports on the quality of education in our schools.

THE PURPOSE OF INDEPENDENT EXTERNAL REVIEW IN PUBLIC SERVICES

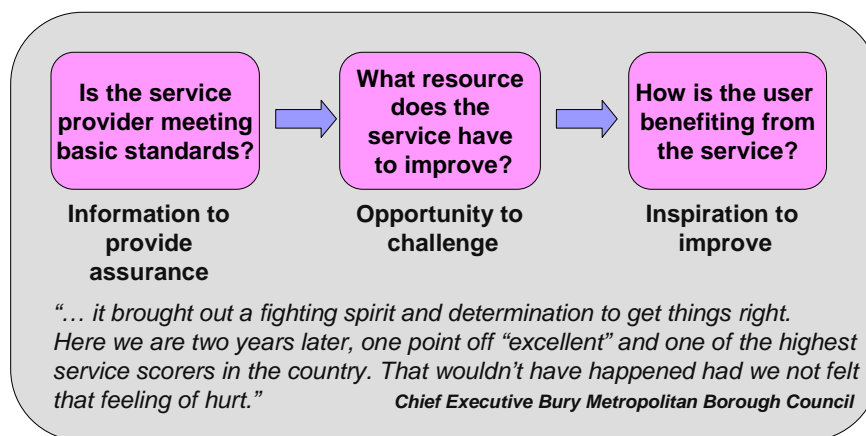
The reason we do this stems from long ago when social reformers raised basic concerns about the potential for corruption and complacency amongst service providers who were not directly accountable to the people who used these services, or where there was potential for abuse. (Think, for example of the descriptions of schools in the books of Victorian writer and reformer, Charles Dickens.) So, schools inspectors were first appointed in 1839 and the police inspectorate was set up in 1856. In those days they were appointed by the Crown, and to this day many of the people who do this work are called “Her Majesty’s Inspector”.

So inspection started as a checking process based on a belief that people aren’t always motivated to do their best, and inspection was designed to “catch them out”.

What our study has shown is that whilst basic checking may still be necessary in some situations, generally speaking we have seen a shift towards an approach where we assume peoples' basic competence and recognise a universal human desire to do well - and, indeed, to do better. We find that competence has, in any event, been embedded into organisations' basic management practices – for example, good financial management principles and public procurement systems are designed to prevent opportunities for corruption arising.



The purpose of independent external review in public services



So what we now seek from this part of the regulatory system is more than compliance checking – it is much more about challenging service providers to aim high – and for what is possible.

PUBLIC SERVICE REFORM

Happily, these changes in approach were opening up as the Government began setting out its public service reform agenda.

This reform programme could be expressed in terms of ‘a deal’: significant investment, accompanied by challenging targets and performance agreements. But it was always understood that investment alone would not be enough to ensure that better services are delivered. The real challenge is not about delivering more of the same, but about changing what is delivered.

We believe that the public should be able to rely on good quality public services whoever they are and wherever they live. This **customer-focus** is absolutely critical to both public service delivery, and to the regulatory regime that surrounds it.

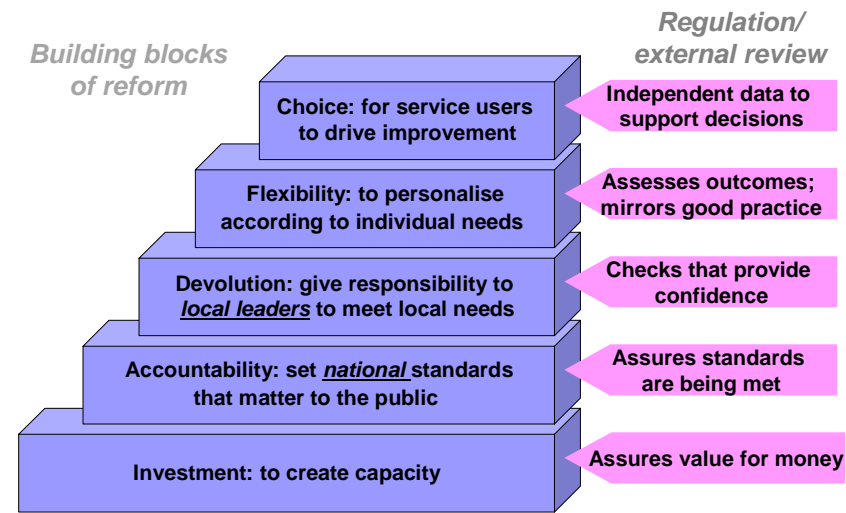
So, because people should be able to assess whether standards are being achieved, and to identify who is responsible if they are not, the **reform programme** is built not only on investment but on the establishment of national standards (for example, the NHS has National Service Frameworks - for Cardiac Care or for Care of the Elderly, to name but two - and the UK has a national curriculum – what must be taught in all our schools).

The **delivery plan** rests on delegation to the front-line, giving them scope for flexibility in order that they may ‘personalise services’ (design them around the needs of individuals, instead of a ‘one-size

fits all' approach); and bringing in more providers, so that customers can choose an alternative, generating competition that will drive up standards.



Public service reform



In each of these strategies, inspection and external review makes its own contribution, providing independent information about performance and vfm, and by focusing on the experience of service users, as the real test.

THE LANDSCAPE OF SERVICE DELIVERY

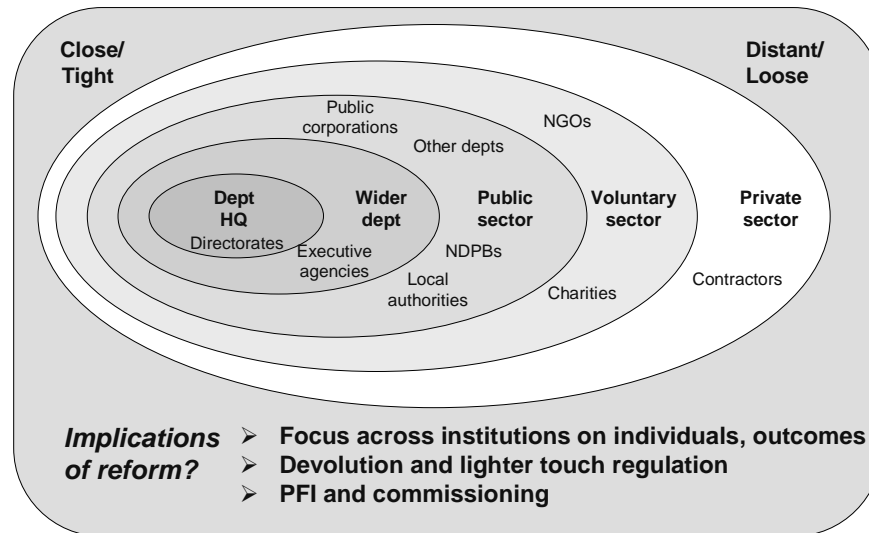
So this brings me to what changes we now need to see in our regulatory system, to respond to these changes in public services.

The most obvious driver for change is the fact that we are seeing the nature of the whole delivery system change.

This slide below is one which OPSR developed about three years ago to explain the complex delivery landscape of public services.



The landscape of service delivery



Each of the rings in this ‘onion’ contributes to the delivery of public services in one way or another. This diagram puts the national Government departments at the centre – where policies are formulated, standards set, and money allocated. From there, outwards, are different types of delivery organisation, all with different governance and accountability systems, from close, tightly-owned, civil-service executive agencies, to distant loosely-influenced private sector companies.

This delivery landscape is changing: we are seeing more delegation, not just to the front-line public service agencies, but, through contracting, to greater involvement of the private sector. We are also seeing that from a user’s point of view, their experiences of public services are not confined to single institutions – they tend to make

use of several. They are not interested in the joins between separate agencies, they want seamless services that result in the right outcome **for them**. Providers are responding with more partnership arrangements.

The next three slides look at the implications of these three changes on regulatory systems.

PUBLIC SERVICE REFORM – FOCUSING ON USERS AND RESPONDING FLEXIBLY

Let's start with the last of these – the impact of focusing on users and their experiences.



Public service reform

Flexibility: to personalise according to individual needs



Implications for regulation:

- focus *across* institutions on individuals
- move away from input measures and compliance checking...
- to assessing the outcomes that service users are experiencing
- assess how well partnerships are doing
- reflect room for improvement

A good example of this is what's known as the *patient pathway*. What this means is that someone who uses our health services will interact with a whole range of health professionals in the course of any

diagnostic or treatment episode. Classically, the patient has travelled to different places at different times, often with different records, to see different people for different tests and consultations. Services have been designed over decades around the convenience of the professionals.

Nowadays, this thinking is being turned on its head, with service delivery processes being redesigned from scratch with the patient at the centre - saving time, anxiety and opportunity for error.

Furthermore, this works across different regulatory regimes and different sectors, as well. Professionals in health care work closely with professionals in local government who provide housing (the quality of which, as we know, affects the state of peoples' health), and with others in the criminal justice system (where mental illness is prevalent among offenders). So professionals are working in partnership, sharing funding and facilities, all with the aim providing a more joined up service for those on the receiving end.

What this means for regulation is that we have to focus more on multi-disciplinary processes, and on *outcomes*, and test how well different organisations work in partnership to deliver these outcomes. We look more closely at collaboration and capacity for leadership across organisations and less closely on disaggregated bits of the process. In criminal justice, this approach has led to the intended merger of five inspectorates into one.

PUBLIC SERVICE REFORM - DEVOLUTION

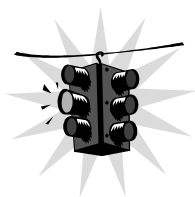
CabinetOffice

Better Regulation Executive



Public service reform

Devolution: give responsibility to local leaders to meet local needs



Implications for regulation:

- less detailed scrutiny, more assessment of corporate functions; use existing data
- reflect how well local services are joining up to provide seamless care for local citizens
- reflect how well local leaders are serving their local community, and how the community feels
- focus on capacity to improve and link ratings to incentives
- tell local citizens about this

The second implication to look at is the effect of devolution. This is particularly meaningful in local government where we have locally elected councils that manage or deliver social services, education, environment, housing, planning, local transport and local infrastructure.

Local government raises 25% of its budget through local taxation; the other 75% comes from central government grant. For the 25%, it is subject to the ultimate form of accountability - ie local elections. Central government is concerned to ensure that the other 75% is spent well, and that national priorities are observed in the push to deliver on local priorities.

A whole regime has been set up to regulate this effectively. Based around several key components of effective service delivery and corporate management, the Audit Commission rates local councils on a five-point scale from 'poor' to 'excellent'. This system, which is becoming more and more streamlined, and less concerned with

detailed data, is part of the overall performance management and accountability system that exists between national and local government, and various incentives from, or interventions by, central government will flow from these ratings.

But this regime is doing more than reporting to Whitehall – it is telling people locally how well they are being served, and - through its focus on corporate performance and on outcomes - how well local councils are providing leadership for local communities.

PUBLIC SERVICE REFORM – CHOICE

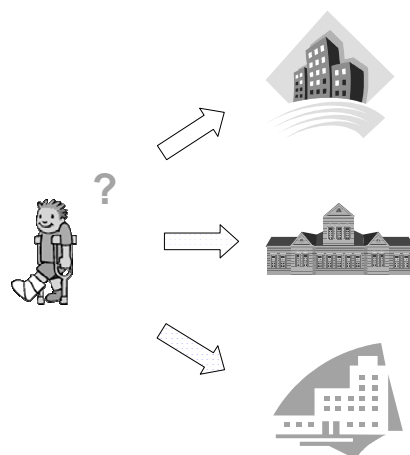
Finally, I wanted to have a look at the most controversial of all - how the delivery landscape of public services is changing as a result of bringing in more capacity, providing more choice for consumers.

What we are seeing here is the interest of the private sector in opening up new markets for business, and the interest of government in exploiting the capital and assets that would otherwise have to appear on its own balance sheet.



Public service reform

Choice: for service users to drive improvement



Implications for regulation:

- mixed economy – more private and independent companies providing services
- government needs to ensure that consumers are safe
- government needs to ensure there are enough suppliers
- market forces drive improvement
- government needs to ensure that commissioning and contracting is effective and provides value for money

This may fundamentally change our regulatory regimes in the future. If these are independent businesses run efficiently for the benefit of shareholders, there may be no locus for government regulation inside these organisations – other than to ensure that basic standards are being met, and the public is safeguarded. Where previously we would have looked to the regulatory system to drive service improvements, we could now consider that market forces and competition would have the same effect, with the commissioning or contracting process ensuring that services are delivering necessary standards, and providing vfm.

If there is spare capacity in the system then this may indeed be true. If on the other hand the resources to pay for these services remains heavily under pressure, then lowest cost bids may result in the loss of innovation, experimentation and flexibility. Similarly, poor financial returns will discourage market entry.

Either way, Government will need to ensure that it accredits the service providers (allowing them to enter the market); does this in such a way that a buoyant market prevails, and that the process of commissioning and contracting is up to scratch. This is very different from the present system.

VARIABLES TO CONSIDER FOR PUBLIC SERVICE REGULATORY REGIMES

So, finally, what does all this mean for public services reform and regulatory systems for the future?



Variables to consider for public service regulatory regimes

- **Current state of performance** – bringing all up to a minimum standard, or creating the cult of excellence?
- **Risk and public perceptions** – what can be passed on by central government, and what comes home to roost?
- **Trust in the system** – is there any, or is a safety net needed made from ‘red tape’?

The **first** point to emphasise is that effective regulatory systems can contribute to public service reforms by helping governments focus onto the areas that matter, and can point the way to where improvements in services can reap most. The **second** point to emphasise is that regulatory systems have to be relevant to the delivery systems they are regulating – if these change, then so too must the regulatory system. So you need flexibility.

I am going to finish, by suggesting three ways in which choices can be made in how you design and use regulation of public services.

What is the **current state** of your delivery system? Huge variations in performance suggests a prescriptive, compliance-checking system covering all providers; whereas if minimum standards are in place, then a risk-based, differentiated ‘dip-stick’ approach may be more appropriate.

What is the nature of public perception around *risk*, and how far can risk be transferred? There are some things for which public opinion will always hold Governments to account, no matter that services have been devolved. For these instances you will need a tight regime that looks for danger signs in the system.

How much *trust* is there in the system? Does past performance give you confidence in service providers, or does it make you reach for the red tape?

RYS

09/05