Strategic Management in Government

Title:
The development of the strategic state and the performance management of local authorities in England.

Author
Peter Murphy,
Principal Lecturer, Nottingham Business School, Nottingham Trent University.

Abstract
This chapter examines the strategic development of the performance management, external inspection and intervention regimes developed by central government for delivered public services in England between 1999 and 2010. It then looks at their subsequent experience under the coalition government since the general election in 2010.

During the previous government’s tenure between 1997 and 2010, there was considerable evidence of increasingly ‘strategic’ central state action in relation to locally delivered public services. However under the present government this development has given way to a less coherent approach as the coalition has prioritized short and medium term reductions in public expenditure over public service improvements and promoted market based responses to public service reform.

This chapter initially describes the Labour years but also attempts to explain some of the conceptual confusions and apparent inconsistencies in more recent policy proposals for locally delivered public services from the coalition government. It draws out lessons that should inform future government interventions, in developing a longer term and more strategic response to the financial crises and the management and sustainability of locally delivered public services.

Key

Introduction and background
The inspection of public services in the UK by agencies of central government dates back at least as far as the early nineteenth century.

“The first inspectors of schools were established under the Factories Act of 1833 with the power to establish schools for children working in the factories. The role developed into an
inspection function to gather information and report back to the government on the implementation of education clauses of legislation.” (Martin 2008 p. 52.)

Following the factories inspectorates, Her Majesty’s Inspector of Constabulary was established in 1856, and there were a further plethora of inspectorates, including the Social Services Inspectorate, established after the Second World War. However the key foundations of the development of strategic intervention by the modern UK state came with the establishment of the Audit Commission in 1983 (Campbell-Smith 2008). This gradually provided regular national performance statistics, external audits, independent inspections and national operational research reports that became the core of the evidential base upon which the performance management regimes and the strategic interventions of the Labour administrations from 1997-2010 were built.

**The strategic state.**

A key milestone in the development of Labor’s early approach to the reform of both central and local government was the publication of the Modernising Government white paper in 1999 (Cabinet Office 1999). This set out a long term programme for public service improvement and attempted to adopt a strategically planned approach. To ensure its vision was both inclusive and integrated it specifically adopted three aims:-

- Ensuring that policy making was more joined up and strategic
- Ensuring that public service users, not providers, were the focus of services; and
- Delivering public services that were high quality and efficient.

Following the 2001 election, and in order to drive the delivery of this long term vision, the government established three powerful new policy units and co-located them at the centre of Government in the Cabinet Office and in No 10 Downing Street.

The Office of Public Service Reform was headed by the former head of the Audit Commission’s Best Value Inspectorate, Wendy Thompson; the Prime Ministers Delivery Unit was led by Michael Barber, the former Director of Standards and Effectiveness at the Education Department and the Forward Strategy Unit was headed by Geoff Mulgan, previously the Director of the Performance and Innovatory Unit at the Treasury. This powerful triumpherite was co-ordinated from 2001 by the Director of Communication and Strategy, Alastair Campbell. These units had, as one of their collective functions, the stewardship of the modernisation agenda in central and local government and, their primary role was to ensure policy and programmes at both national and local levels were working symbiotically to deliver the government’s vision. Their collective objective was therefore to co-ordinate and facilitate the delivery of the government’s vision for improving public services at national and local levels,
which has strong resonances with the recent OECD definition of the strategic state shown in Box 1 below. One systemic way they achieved this objective was through the establishment of national Public Service Agreements (between government spending departments and the centre of government), the targets and objectives of which, were then translated into successive generations of the top down performance management regimes that evaluated the efficiency and effectiveness of public service delivery to local communities (Mulgan 2009, Barber 2012, Joyce 2012).

Box 1 the OECD Definition of the Strategic State.

"To put in place and effective strategic management system, central agencies must act as a central leadership hub in order to facilitate co-ordination, collaboration and co-operation across the public administration, with the objective of securing a strong, coherent and collective strategic vision of where the country needs to go and how it will get there. Centres of Government are the focal point for the strategic state and are essential for leadership, steering, stewardship, oversight and accountability."


The development of performance assessment regimes 1999-2010

The Local Government Act 1999 required 'best value authorities' (including local councils, the police, and fire and rescue authorities) to facilitate continuous improvement in the way all of their functions, services or activities were exercised, as measured by their economy, efficiency and effectiveness. In order to ensure this was achieved the government established the Best Value Inspectorate within the Audit Commission in April 2000, and this gradually led to the development of a system of increasingly sophisticated and co-ordinated performance management regimes to assess the performance and delivery of local public services (Downe 2008).

These performance management regimes were mandatory and increasingly comprehensive and were, to a large extent, based upon independently audited performance indicators and targets, established by government in consultation with local delivery partners with generic definitions and standards allowing benchmarking and comparative analysis of performance both geographically and, to an extent, historically.

Under the 1999 Act councils were required to carry out best value reviews of all their services over a five year period from 2000 to 2005. The reviews were expected to help councils identify how they could improve their services and the Audit Commission was given responsibility for carrying out inspections of best value reviews. Between April 2000 to November 2003 the Audit
Commission carried out 1,664 inspections and after each inspection, it published a report scoring the quality of the service and the prospects for improvement.

Throughout this time the commissions’ audits and inspections were complemented by independent inspections of individual services or groups of services such as social services, education, housing services, benefit services etc. carried out by other specialist pre-existing inspectorates (Davis and Martin 2008). Prior to 2002, the Best Value and other inspection regimes were primarily service inspection regimes and were the responsibility of designated individual Inspectorates. The inspectorates reported almost exclusively to their respective sponsoring central government department or agency e.g. Ofsted reported to the Department of Children Schools and Families; Social Service Inspection to the Department of Health; HMI Constabulary, HMI Probation and HMI Prisons to the Home Office; Benefit Fraud Inspectorate to the Department of Works and Pensions and HM Fire Inspectorate and the Housing Inspectorate to the Department of Transport, Local Government and Regions.

From 2000 onwards the performance management regimes were also complemented by Local Public Service Agreements (LPSA) which were directly negotiated contract based agreements between central and local government, in which local authorities were encouraged to meet agreed “stretching” improvement targets for individual services in exchange for both financial rewards and/or freedoms from bureaucratic or legislative burdens. Initially these LPSAs were agreements between central government and individual local authorities in which the latter could call on the help of local delivery partners such as the police or the health service for delivery of objectives, but only the local authority could enjoy the benefits (Sullivan and Gillanders 2006).

In 2001 the government also asked the Audit Commission to initiate a programme of 14 pilot Corporate Governance Inspections in local authorities that assessed their corporate performance and quality of governance. The 14 pilots were not chosen at random and included a number of authorities recognised as, or suspected of having, significantly poor performance and/or governance issues. This programme was intended to develop a corporate inspection process or model to complement the service inspection processes referred to above, and to become part of the next generation of performance management regimes for local government, known as Comprehensive Performance Assessments (CPA).

The 2002 CPA regime in local government, which was followed in health by the Standards for Better Health (S4BH) in 2004, developed both corporate and service assessments for Local Authorities and NHS Health Trusts and co-ordinated them into performance frameworks or regimes designed to assess them as both corporate organisations and as collections of services delivered to the public. Later there were also equivalent regimes developed later in criminal
justice, national parks etc. but the most influential regimes were undoubtedly those in local government.

A second generation of LPSAs implemented in 2004, while still negotiated between central and local government were based exclusively on local rather than central priorities. They had a stronger emphasis on impacts and long term outcomes for local communities and most importantly involved local delivery partners such as criminal justice, health, and the third sector organisations to both collaboratively develop the programme, but also to benefit from the rewards (Sullivan and Gillanders 2006).

Learning the lessons from LPSAs and the first rounds of CPA, a second more comprehensive CPA regime was developed after 2005 which concentrated not only on the economy, efficiency and effectiveness of the authorities, but also looked at their impact on communities and hence how effectively councils were performing in certain statutory partnerships, such as the crime and disorder reduction partnerships and in local discretionary partnerships such as those designed to promote regeneration or development of the local economy. They also took a more direct interest in the political governance and leadership of the organisation and of the wider local public service community than the first generations of CPA.

At around the same time the second generation LPSAs and the development of Local Area Agreements (LAAs) had also encouraged multi-agency working within coterminous local authority areas. Subsequently the 2007 Local Government and Public Involvement in Health Act enshrined this collaborative working within a new performance management regime entitled Comprehensive Area Assessments (with LAAs at their centre) implemented from 2009, under an initiative known as One Place (Audit Commission 2010). A common and more strategic approach was also taken to the multi-agency or inter-agency use of public resources with the transfer of costs to other public authorities no longer counted as efficiency gains, and the new Use of Resources Assessments (Audit Commission 2008) using the same assessment methodology for local authorities Primary Care Trusts Police and Fire and Rescue Authorities. At the same time Multi-Area Agreements encouraged wider cross boundary geographical collaborations on long term issues such as transportation and economic regeneration.

**State Intervention in underperforming local services 1999-2010.**

Section 15 of the 1999 Act gave the Secretary of State powers to direct the authority to take ‘any action which he considers necessary or expedient’ to ensure its compliance with the requirements of the Act to secure continuous improvement. This gave the Secretary of State far greater and more widespread powers to intervene in poorly performing authorities or services than historically had been afforded to Secretaries of State or auditors in previous services such as education, social services or benefits fraud.
Although the government, local authorities, the NHS and other local service delivery organisations, developed improvement agencies and other initiatives to help build capacity and capabilities within the public services, the key strategic initiative was the development of the intervention arrangements in the most significantly and demonstrably underperforming or ‘failing’ local delivery organisations. Once again the approach was initially developed in relation to local authorities, with later variants developed in Health, Criminal Justice, Fire and Rescue and other services. In all of these sectors ‘support and intervention’ or ‘failure and recovery’ arrangements were established as part of the wider performance management regimes, by which the state directly intervened to help facilitate the turnaround or recovery of the most significantly underperforming or poorly performing services and authorities.

As with assessment and inspection, prior to the Best Value regime, government action or intervention was based upon failure of individual services such as education, social services or benefit fraud or as the result of a scandal in a particular authority. Although the external auditors could issue Public Interest Reports under the Audit Acts, the history, cost and duration of these investigations, and the cost and duration of previous service interventions, meant the government had to look at an alternative regime. At around the same time the Audit Commission was engaged on 14 Corporate Governance Inspections and quickly came to the view that some of the authorities they were reviewing were performing so poorly that they were reluctant to wait until they finished their inspections before acting. Consequently they referred some of the authorities to the Secretary of State under the provisions of the 1999 Act. As a result 3 pilot ‘engagements’ were instituted with Walsall, Kingston-upon-Hull and Rossendale in July 2002, prior to the CPA regime itself being implemented.

The new approach was to ask 3 individual members of the DTLRs Local Government Performance Unit to become ‘Lead Officials’ and act as Chairman of Government Monitoring Boards on behalf of all the government departments with an interest in local government service delivery. These lead officials reported directly to a nominated minister who was responsible for keeping all Whitehall departments informed. The three lead officials chosen were all previously experienced senior local authority officials who had recently been brought into central government as part of the Local Government Modernisation Team.

The model that was developed included the development of recovery or improvement plans, complemented by capacity building with the support of officer and elected member peers from other authorities and the ability to call on external support and request regular external inspection or assessment from the Audit Commission or other inspectorates (ODPM 2003a and 2003b). This effectively became the model for local government intervention after the first CPA results were announced in December 2002.
Although this arrangement was initially strongly resisted by both the individual local authorities and the Local Government Association, the appointment of the 13 Lead Officials, all of whom came from experienced and distinguished local authority backgrounds, and the rapid success of the recoveries in some of the most stubbornly underperforming authorities, meant that the programme rapidly gained support and effectively informed all other intervention arrangements in Health, Criminal Justice and Fire and Rescue Services up until 2010 (Jones 2013).

Box 2.

**The development of the strategic state’s performance management arrangements 1997-2010**

1. Within Central Government i.e. between the ‘centre of government’ and the ‘spending departments’ of central government.

   Comprehensive Spending Reviews (budget allocations) and Public Service Agreements (performance objectives and targets).

2. Between Central and Local Government.

   a) Top down performance management regimes (Best Value, Comprehensive Performance Assessments, Comprehensive Area Assessments)

   b) Central/Local Agreements, negotiated around strategic priorities (Local Public Service Agreements, Local Area Agreements and Multi-Area Agreements).

   b) Central Government Intervention in ‘failing’ or significantly underperforming services (Service inspections and interventions; organisation inspections and interventions and multiple organisational inspections and interventions).

   Source: Author

**Assessment regimes since 2010**

From the beginning of their tenure, the new coalition governments’ primary concern has been to reduce public expenditure and the coalition agreement in May 2010 included a commitment to end the inspection of local authorities by the Audit Commission. In August the government announced the abolition of the Commission and this was quickly followed by what became known as the bonfire of the ‘quangos’ or quasi autonomous non-governmental organisations but was actually a cull of non-departmental government bodies. This process either abolished,
or reduced in size and influence, a lot of the organisations set up as part of the improvement infrastructure by the previous governments. In central government they announced the 2010 Comprehensive Spending Review (CSR) for an extended period of four years but discontinued the system of Public Service Agreements between the Treasury and the delivery or ‘spending’ departments. These were the agreements through which the CSR targets were established, implemented and monitored. They announced that CAA would cease and the three year Local Area Agreements would be the last of such agreements. They introduced a new regime known as localism and their preference was for sector led self-assessments and improvements as the basis or a new performance management regime all of which were welcomed by the conservative led LGA.

In Fire and Rescue they announced a strategic review of the National Fire and Rescue Framework and questioned the need for a national framework at all, although paradoxically they maintained the new Integrated Risk Management Planning process (IRMP), which was the key strategic innovation of the 2004 Fire and Rescue Services Act. The IRMP changed the nature of risk assessment in fire services from an assessment based upon buildings and premises to a more holistic risk assessment based on the risk to people and communities (Murphy et al 2013). Following a statutory public consultation exercise, however, by July 2012 they had been persuaded to change their view and were ready to publish a new national framework for fire and rescue in England (DCLG 2012b). This actually required more regular reporting of performance at both national and local levels than had been the case under the CPA regime and was soon supplemented by a national review of potential short-term efficiencies (Knight 2013).

It was a similar storey in the NHS where proposals for a top down restructuring of the NHS were radically altered, although not completely abandoned, in the course of the longest public consultation exercise ever undertaken by a UK government. This resulted in the Health and Social Care Act of 2012, some parts of which were a clear continuation and development of the strategic approach of the previous government (Murphy 2013), while other parts had little strategic coherence (Calkin 2013). However the government increased the state’s intervention powers over health by the creation of the NHS Commissioning Board and, partially in response to the Mid Staffordshire Hospitals scandals, strengthened the scope and powers of both the Care Quality Commission (CQC), despite widespread criticism of its performance, and, more predictably, MONITOR, the financial scrutiny body for Foundation Hospital Trusts.

A more radical approach has, however, been taken to the police. A forewarning of this appeared in the coalition agreement which stated “we will introduce measures to make the police more accountable through oversight by a directly elected individual, who will be subject to strict checks and balances by locally elected representatives” and on 15th November 2013
the first Police and Crime Commissioners were duly elected albeit with an historically low public mandate. Charged with securing efficient and effective policing, they are assisted by Police and Crime Panels s consisting of at least one representative from each local authority in that area, and at least two independent members co-opted onto the panel. Panels are responsible for scrutinizing commissioners' decisions and ensuring relevant performance information is available to the public. Commissioners and panels effectively replaced the now abolished police authorities.

**The development of Intervention since 2010**

Since 2010 the coalition government’s inspection and intervention arrangements in significantly underperforming services and organisations has again been fractured and inconsistent. In general terms it has not attempted to assess the evidence of ‘what works’ as its predecessor did, nor has it looked at alternative options, in fact there has been a notable dearth of the traditional green papers or consultations from the new government. Wherever possible the coalition government has preferred to adopt a policy-based evidence approach rather than an evidence-based policy approach, although whenever challenged by public or official scrutiny processes this has invariably had to be amended towards a more evidential approach, as was the case with the proposals for public health under the 2012 Health and Social Care Act referred to above (Murphy 2013).

At the DCLG Select Committee hearings, which considered the coalition government’s abolition of the Audit Commission, both the DCLG and the LGA strongly advocated the sector self-regulation and peer review approach to performance assessment and the associated, sector led intervention. This has been the approach adopted since the last local authority intervention by the previous government (Northampton BC) had been confirmed as no longer requiring central government strategic support in April 2009. The government has since maintained this sector led approach despite the clear scepticism of the DCLG Select Committee (HOC 2011) and of academics (Murphy et al 2011).

“We welcome the LGA’s proposals for sector-led performance management. However, they suffer from the limitation that they are optional and there is no formal mechanism to identify poorly performing local authorities, who may choose not to participate. It remains to be seen how vigorously and effectively they are implemented.”

(House of Commons DCLG Select Committee 4th Report 2011 para 515).

It is however difficult to unequivocally assess the success of this approach since no individual cases have been subjected to independent external scrutiny although the intervention in Doncaster MBC, which began in 2010 and is ongoing, has established a public website upon which it posts its reports (Doncaster Recovery Board 2013). The intervention ‘model’ this
commission is using is however remarkably similar to the previous central government model with the lead official replaced by a lead commissioner who was appointed by the Secretary of State.

The coalition government’s attitude to intervention in the Health and Social Care sector has, however, been somewhat different, partly because of the emergence of the NHS Commissioning Board, with its new role to oversee the NHS as a whole; partly because of the Mid Staffordshire Hospital scandal (Francis 2013), and partly because of the continuing financial difficulties some foundation hospitals have found themselves in as a result of being burdened with large and onerous Public Finance Initiative contracts. Both the powers to intervene, and the encouragement from the government to intervene, have increased in this sector and both the CQC and MONITOR have had their remits expanded and responsibilities increased despite the former, in particular, attracting considerable criticism from both the government and the press (People Opportunities Ltd 2013).

In Fire and Rescue Services the position is also somewhat contradictory. Although the government initially proposed to discontinue a national framework, it eventually relented and published a new framework in July 2012 (DCLG 2012a). In relation to intervention it then proposed continuation of the status quo, through continuation of the previous ‘Section 23 intervention protocol’ in October 2012 (DCLG 2012b), even though this was generally considered by participants and informed commentators to be one of the less sophisticated regimes and predated many of the improvements and new techniques that had been made to other intervention regimes (Murphy and Greenhalgh 2013). Finally in the police service, it has maintained the responsibilities of HMIC to investigate and assess the performance of the 46 constabularies and other specialist police forces, but in 13 parts of the country has replaced the Police Boards with directly elected Police and Crime Commissioners with added scrutiny from new Police Panels (Home Office 2011).

Post 2010 fragmentation

In retrospect it appears from the published evidence of the Audit Commission and other inspectorates, and to a lesser extent from academic research, that throughout the 1997-2010 period, the central state, in cooperation with local public service delivery organisations, were gradually acquiring the capacities and organization to be more effective at local interventions, and was becoming increasingly ‘strategic’ in these interventions as they became based upon an increasingly robust and comprehensive evidential base, and demonstrably effective practice and experience. They also gradually built the necessary infrastructure, organizations and networks to promote continual improvement and generate organizational and sectoral innovations in public service delivery. The clearest demonstration of this success was contained in the detail of each successive Comprehensive Spending Review where central government
was able to assume greater economy and efficiency savings would be made by local authorities, both individually and collectively, and the Treasury adjusted the annual Local Government Financial Settlement accordingly (HMT 2010). In addition the government also set annual efficiency targets for individual authorities (not to be confused with the previous assumptions) that, although widely resented, were generally and consistently achieved. These were all in addition to the Local Area Agreement ‘stretch’ targets for tackling key local priorities. The sheer number and complexity of the target arrangements, and audit and compliance culture that developed after 2005 had within it the seeds of its own demise.

It is ironic that in England at the same time as strategic intervention by the central state was proving effective, the organisational infrastructure and the evidential base upon which it was based was being dismantled. A key part of this loss was the abolition of the Audit Commission, which in addition to its national operational research function, had the core responsibility to coordinate central state assessments and interventions in individual authorities or areas. The Improvement and Development Agency for Local Government was radically reduced and consumed within the LGA, and the original proposals for the so called ‘bonfire of the quangos’ also proposed that the National Policing Improvement Agency should be closed, (despite being the host to the national crime database), and various knowledge bases such as the Public Health Observatories scrapped. The governments’ own Regional Office network was closed, departmental research capacity was significantly reduced and the budget of the Office for National Statistics severely curtailed.

The coalition government appears to be going back to the pre-1997 situation with a preference for the central state determining or setting policy objectives, but not wishing to concern itself, debate or consider alternatives about how these policy objectives could or should be achieved. In so doing the coalition government have consistently preferred to put their faith in the market economy being able to develop or innovate to achieve, what are assumed in advance, to be the most appropriate solutions, although at times they accept that the third sector may also have a role to play. However the capacity to systematically produce and quality assure the evidence upon which public policy decisions would henceforth be based, has generally been sacrificed to meet the short-term financial imperative of reducing public expenditure. Not surprisingly the central states ability to intervene strategically and effectively has been, as a result, consistently compromised.

It is however interesting to note that whenever this policy approach has been challenged, most notably by key service delivery organisations armed with a more robust evidential base, the government has had to consistently backed down. The NHS Listening exercise was the longest public consultation ever undertaken by a modern British government, yet the government announced its agreement to every single recommendation of the NHS Future Forum on the
same day as it received the forums second set of reports. Similarly the Police and the Fire and Rescue Services have consistently called for the retention of national databases and their sectors improvement infrastructure.

It is very tempting to assume that the common purpose and sophisticated improvement infrastructure that was generated and maintained through the labour years, may have been dependent on a particular set of circumstances or actors unique to England at an historical juncture. However evidence from as close as Scotland (Scottish Government 2011, 2012) suggests that while the detailed nuances of the agenda may have been shaped by English situational factors, the key objectives, concepts and characteristics of the strategic state are more robust and replicable.

It would appear that the demands for more strategic state intervention in local public services in the UK have not abated, it is the conceptualisation and delivery of that intervention that has proved problematic for a coalition government that wishes to prioritise short term reductions in public expenditure and neo-liberal market solutions to public service reform. In Scotland the National Performance Framework and the new Single Outcome Agreements from the devolved administration are attempting to build on the earlier English experience and achieve buy-in not only from within the government and public services but also from key organisations outside of the public sector, including the Universities! (Mackie, B., 2013)

References

Audit Commission 2010 One Place Website now in the National Archives and available at http://archive.audit-commission.gov.uk/oneplace/Pages/default.aspx.html

Barber, M., 2012 Instruction to Deliver: Fighting to transform Britain’s Public Services York: Methuin.


Department of Communities and Local Government. 2012b Protocol on government intervention action on fire and rescue authorities in England: Consultation London: HMSO.

Department of Communities and Local Government. 2013a Revised Protocol on government intervention action on fire and rescue authorities in England (Under Section 23 of the Fire and Rescue Services Act 2004) London: HMSO.


Home Office 2011 Police Reform and Social Responsibility Act 2011 Section 1 London: HMSO.


Jones, M., 2013, Corporate Recovery and Strategic Turnaround in English Local Government. DBA. Nottingham Trent University.


Knight, Sir K., 2013 Facing the Future Findings from the review of efficiencies and operations in Fire and rescue Authorities in England London: HMSO.


Contact Details

Peter Murphy, Principal Lecturer, Nottingham Business School, Nottingham Trent University.
9th Floor Newton Building, Burton Street, Nottingham. NG1. 4BU.
Telephone (+44)115 848 8092 Mobile (+44)115 848 8092
E mail peter.murphy@ntu.ac.uk

BOX 1

"To put in place and effective strategic management system, central agencies must act as a central leadership hub in order to facilitate co-ordination, collaboration and co-operation across the public administration, with the objective of securing a strong, coherent and collective strategic vision of where the country needs to go and how it will get there. Centres of Government are the focal point for the strategic state and are essential for leadership, steering, stewardship, oversight and accountability."


Box 2

**The development of the strategic state’s performance management arrangements 1997-2010**

1. Within Central Government i.e. between the ‘centre of government’ and the ‘spending departments’ of central government

Comprehensive Spending Reviews (budget allocations) and Public Service Agreements (performance objectives and targets).

2. Between Central and Local Government

a) Top down performance management regimes (Best Value, Comprehensive Performance ...