

# Innovate from Within

*An Open Letter to the new Cabinet Secretary*

Charles Leadbeater

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# Executive summary

The government faces two imperatives in its approach to public services. The first is an urgent managerial imperative to improve basic services that are lagging well behind public expectations. The second is a political imperative to restore the role of public services and the civic values they embody, in a society that is increasingly vocal, diverse, open, fluid and part of a global market. Your task is to meet these two imperatives simultaneously. The only answer will be to promote radical innovation from within existing organisations. Your first step should be to make a major public statement setting out your view of the value of public services, the challenges they face, and how the traditional abilities of the civil service need to be augmented to help meet them. Your vision should emphasise:

- High standards of efficiency in basic services
- Mass customisation of many other services to allow more choice

- Growing scope for user involvement and co-production
- More networked forms of organisation and service delivery, using technology, to allow services to be delivered at home, in the community or at work
- Generation of new types of services, such as home-based health care or education services
- Growing stress on the state promoting mutual forms of ownership, policy development and accountability
- A new deal between central funding and targets and local initiative and discretion
- New ways to embody and express modern civic values through buildings and public spaces

Your approach to achieving this vision should include the following ingredients:

- Promoting creative disruption from new technologies, social entrepreneurs and corporate innovators
- A central state capable of intervention on demand to tackle failure or public alarm
- A far stronger system for learning lessons and spreading ideas at all levels within the public



sector, enrolling public service workers in the task of transformation

- Devolving more power and responsibility to managers, communities, cities and neighbourhoods committed to identifying and tackling problems
- Promoting the culture of mutuality in public services as well as creating more mutually owned community assets.
- A complete overhaul of audit, inspection and monitoring regimes, with an emphasis on peer-to-peer reviews and self-improvement programmes rather than punitive arm's length inspection
- Willingness to end underperforming programmes and reallocate resources
- New approaches to the pay and reward of public servants to diversify the mix of skills and enable proven innovators.

This programme of renewal will only be possible if you are willing to lead a complete overhaul of the culture, staffing and working methods of the central civil service. The British public have made public renewal central to the priorities of politics and government. The only way to deliver on those expectations is to innovate radically from within.

# 1. The Apple of public service

When Steve Jobs set out to create the personal computer he did not start with 100 targets to make IBM's lumbering mainframes work faster. Jobs wanted to create a different way to distribute computing power that would unlock the emergent demand of a new generation of users. The Apple Mac was a radical innovation because it was disruptive: it moved the industry on to a new level, by allowing people to create different ways to use computers at home and in the office, to learn, communicate, share and trade. IBM, meanwhile, trapped by its past success, disdained the many radical innovations emerging from its labs. Big Blue stuck to incremental innovation to the mainframe products it already knew well. Eventually it was outflanked by radical innovations and fell into a decade-long crisis from which it recovered only after deep surgery.

The stories of Apple and IBM sum up the dilemma you face. Apple's style of radical innovation offers a step change in services but is highly risky, especially for an established organisation. IBM's incremental innovation appears to be safer but eventually leads to crisis because it fails to keep pace with changing consumer aspirations.

You have inherited a daunting task. Expectations of government are rising, and British voters have made the renewal of public services and the public sphere a clear priority. But the pressures on central government and the public sector, while escalating, are also contradictory. Many of the problems faced are increasingly complex and interconnected. Hierarchical organisations cannot control all the forces and resources which influence your success in re-legitimising the role of government. Your political masters seem to want radical long-term change but simultaneously to minimise political risk, avoid short-term failures, and retain tight political control wherever possible. The administrative reforms of the 1980s and 1990s left a senior civil service virtually untouched in structure and ethos, but the vast majority of civil servants now work in executive agencies and other bodies which are not directly under your command. While public debate and

government infighting focuses on the supposed 'politicisation' of the civil service, the real task lies in motivating and orchestrating a sustained renewal of purpose and working methods, not just across central government, but across all public services. Many of the professions on which public service delivery depends are careworn, demoralised and increasingly rebellious. The traditional neutrality, efficiency and mystery that have characterised the ranks from which you have risen will not be enough to steer government and public administration through this new, unpredictable environment. Instead, central government must become a kind of 'prime contractor', marshalling and coordinating widely distributed resources and organisations to achieve complex, varied tasks.

### **The legacy system**

Public service renewal will depend on radical innovation coming from within existing, established and often quite conservative institutions. That is your central challenge: you need a step change in the performance of many public services but you cannot start from scratch; you have no option but to begin with the legacy you have inherited. Your most important task will be to generate the

resources, skills, will and momentum for radical change from within.

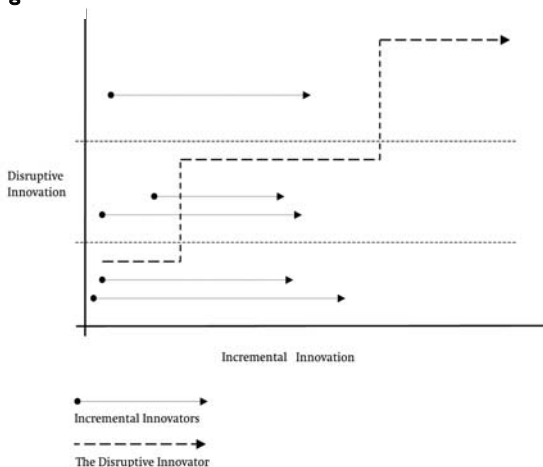
That is far easier said than done. Radical innovators such as Steve Jobs generally have advantages that government lacks. Jobs started from a blank sheet of paper: a garage start-up. Government starts with a heavy inheritance of ingrained practices, organisations and cultures that are difficult to budge. Steve Jobs did not have any existing users whose needs he had to attend to. That is why he could focus on the future. Any change in the public sector risks alarming existing users. Steve Jobs went into a computer market that was open to new entrants. The room for new entrants to challenge incumbents in public sector services is very limited. Many of the computer companies that were around when Jobs launched Apple subsequently went out of business. Public sector organisations rarely go under, despite sustained poor performance. Not only is entry into public services limited, but so too is exit due to failure.

Private sector entrepreneurs such as Jobs employ a range of techniques to raise capital to turn ideas into products, services, businesses and jobs. Jobs recruited a team of people who shared the risks, and rewards, inherent in pursuing his visionary idea. In dynamic parts of the private sector, capital and talent

are attracted to promising ideas. In the public sector, capital and talent are allocated according to plans. Jobs innovated because he realised he did not have all the answers: neither he, nor anyone else, fully knew what home-based computer users would want. That uncertainty created room for innovation. The government on the other hand abhors uncertainty. It operates with detailed plans and targets. Resources are often only allocated once 'policy-makers' at the centre have decided what the answers should be. In the public sector it is very hard to rapidly pull together teams of public servants, armed with capital, to develop a new product, service or organisation to exploit an untried opportunity. It is not clear what kinds of rewards (money, time, freedom, status) motivate public servants to take creative risks.

Too much of the time the government has seemed intent on improving the public service 'mainframe' rather than reconfigure how public services are organised, funded, governed and consumed. In terms of the diagram below, the government spends too much time in the bottom third, in the left-hand corner aiming to get into the right-hand corner. Many of the reforms it has launched will, if successful, propel organisations towards the bottom right-hand corner slightly faster. Disruptive innovation meanwhile

Figure 1



takes services to a higher plane: it allows them to be more efficient and more creative; to meet needs in new ways; and to service new demand. Incremental innovation offers a better version of existing services. Disruptive innovation offers the possibility of a new generation of services. Incremental innovation would create more efficient libraries, schools, hospitals and police services. Disruptive innovation would create new kinds of libraries, schools, hospitals and police

services, capable of creating the public goods of learning, education, health and security in new ways.

### **Twin imperatives**

The government faces two imperatives in its approach to public services. The first is an urgent managerial imperative to improve basic services that are lagging well behind public expectations. The second is a political imperative to restore the role of public services and the civic values they embody, in a society that is increasingly vocal, diverse, open, fluid and part of a global market. It will be your task to devise a way to meet these two imperatives at the same time. The only answer will be to promote radical innovation from within existing organisations.



## 2. The limits of managerialism

Labour has tackled immediate problems of public service delivery with managerial measures that drive higher performance through centrally set targets. Targets are not the only tools to have been used. The government has also encouraged more public/private partnerships; new technology in the shape of e-government; joined-up government to make departments collaborate more effectively; and new approaches to public service working practices, for example in the creation of teaching assistants. Yet target-driven improvement has been the signature of the government's managerial approach: it sums up how the government tends to think of the problems it faces and the kinds of solutions it is inclined to seek. The dominant, mainly managerial approach has been to define problems in terms of delivery, within existing services, organisations and frameworks. The first task is to restate the delivery

'shortfall' in terms of targets for improvement and then to allocate resources to fix particular problems. Your creation of a framework for radical innovation from within must start by analysing the strengths and the weaknesses of this improvement-by-targets regime.

For government insiders, the most successful initiative of Labour's first term was the literacy and numeracy hour, a centrally driven effort to get the entire primary and junior school system to address an urgent need: improving performance in reading and writing. A small, committed team at the DfEE drove the entire state education system to improve its performance in a short space of time. In many ways this revolution driven from above was a success. The lessons are being digested in other departments. Michael Barber, the programme's architect and now head of the Prime Minister's Delivery Unit, has already said that the literacy initiative will be difficult to replicate elsewhere. It was given very high priority: if all programmes for improvement become priorities the entire delivery system would seize up.

Nevertheless, reliance on a target-driven approach is now widespread. The outcome of this managerial crusade may well be more effective and consistent public services that are less likely to fail. But the costs

could be: a more centralised and controlled state machinery, with less room for creativity, innovation and initiative; more incremental innovation and better delivery of existing services; even less creative and disruptive innovation to create new services and organisations to deliver them.

The government adopted a managerial approach for good reason. The public wants high standards in basic services that other European societies take for granted: operations done more quickly; streets policed more visibly and effectively; teachers who are well trained, enthusiastic and committed. Citizens are more aware of how British public services compare with the best abroad, and of the marked differences in performance between public services within the UK. Users' complaints have quickly become the material for media campaigns. The initial task has been to get public services back up to scratch after long neglect and underinvestment.

Until recently much of the public sector operated without clear targets. Targets have helped to focus effort in unwieldy bureaucracies; set yardsticks for performance; and give more information to users, taxpayers and politicians to compare the performance of different services. Public service agreements between spending departments and the Treasury provide a

framework for assessing how well money is being spent. Three-year plans for public spending give departments more stability and avoid an annual scramble for resources. Target setting is an indispensable tool of good management. But it can also be taken too far when it becomes not just a tool but an organisational way of life.

Target setting has reached the point of diminishing returns. There are too many conflicting and detailed targets set by a central government machine that has become more powerful. Detailed targets often make staff on the ground feel as though they are not trusted. Public servants often feel they are simply at work on a production line delivering a series of centrally determined products. Excessively directive instructions that treat front-line staff as if they are unable to think for themselves, untrustworthy or incompetent undermine the motivation and adaptability on which good personal service depends.

### **Catching 'initiavitis'**

You will have to contend with ministers who need to ensure a steady stream of 'new initiatives' that attract attention. Each new initiative is accompanied by targets to ensure the money is being well spent.

Performance against each target has to be inspected and reported on. As the volume of eye-catching new initiatives grows, so does the number of targets and the need for inspection. You must campaign against media-hungry 'initiativitis' among ministers by showing how innovation requires long-term commitment rather than short-term wheezes.

Targets drive efficiency within existing departments and services. They do not make public servants more willing or adept at identifying and solving complex problems that span several different services. Targets set for transferring existing public services online by 2005 do nothing to encourage innovation to create new kinds of services, for example. One of your first tasks should be to reassess the role of targets: how they are set, for what purpose and by whom. The first step in your new deal to modernise public services should be a bonfire of centrally set micro performance targets.

The second step should be to examine the role of inspectors. To make sure targets are met, inspectors are appointed. The inspection industry creates its own bureaucracy and anxiety. The UK public sector has a far higher proportion of measurers, checkers and inspectors of performance than most other countries. For every person who delivers a service there

seems to be another person looking over their shoulder to check what they are doing. The public sector is the most inspected part of the British economy. Local authorities, for example, which deliver a large swathe of public services, are inspected by the Best Value Inspection Service, Her Majesty's Fire Services Inspectorate, Her Majesty's Inspectorate of Constabulary, the Office for Standards in Education, the Social Services Inspectorate and the Benefit Fraud Inspectorate. The health service has its own inspection and improvement process. These inspectors report to different departments, rarely collate their findings and have quite different remits and styles.

Very little work seems to have been done on the contribution this vast inspection industry makes to creating better public services. The case for external inspection to assess whether services are meeting statutory and other targets is very strong, given the lack of competition in public services. Inspection can help to deter fraud, improve performance, increase public accountability and spread good practice. However, the costs of inspection are also very high. The direct cost of inspections in local authorities is conservatively estimated to be £600 million a year. The indirect costs in terms of staff morale, time and resources diverted to collate material and deal with inspections will be

very large as well. Most worryingly, there has been no systematic attempt to link methods of inspection to improvements in performance through learning, spreading good practice and creating a capacity for change within organisations. Another of your early tasks should be to examine inspection regimes for public service to make sure they are designed to promote improvements in performance.

Targets for public services will not work in some key areas because government is often only one among many players jointly creating a public good like better public health, a cleaner environment or safer streets. Efforts to improve the quality of life depend on the behaviour of third parties – local authorities, police, judiciary, voluntary sector and private contractors, businesses large and small as well as citizens themselves – who may not respond in straightforward ways to legislative commands, financial incentives or instructions. You cannot renew a community, create culture or revitalise public space by issuing a set of instructions on how to do so.

None of this is helped by a myopic culture of accountability: everyone runs in fear of the Public Accounts Committee and its checks on how public money is being spent. The current approach to auditing public spending is too focused on processes

and rules rather than outcomes; micro issues rather than strategy; steady as you go administration rather than innovation to create new sources of public value. Unless you can shift this culture of administration and accountability you will not open up room for innovation, creativity and risk-taking.

### **Delivery and centralisation**

The target culture is becoming the enemy of change. The government says it is focused on 'delivery'. Yet at the heart of government some people seem to believe simplistically that delivery should automatically and mechanistically follow from central instruction. Too many targets, tied to too many initiatives, with too little consistency and too little clarity about priorities are the enemies of good service. The public sector needs targets to make sure resources are devoted to services that matter to consumers. Those targets need to be about outcomes and general priorities rather than micro details. They should be set within a framework of trust, long-term planning and flexibility to meet local circumstances, demands and opportunities.

One recommendation would be to take every permanent secretary and several cabinet ministers to Singapore to see its inspirational National Library Board, which is in the middle of an eight-year



Singapore \$600 million (approx £230 million) programme to build about 90 new libraries. The board, which was set up after three years of patient and consensual policy development, has been set a few, very general but very exacting targets, for example to improve library usage and membership by a factor of four or five over eight years. The central target is to take library usage from fewer than 10 million visits a year at the outset to more than 30 million visits. One yardstick is that more people should visit libraries than cinemas. Apart from one review after four years, the board has been left to get on with its job. It is achieving its very exacting improvements in performance by creating the most innovative library system in the world, with libraries in shopping centres, theatres and railway stations, complete with internet services, music listening booths, cafés, performance spaces and self-service scanning systems for checking books in and out. Had Singapore's National Library Board been set micro targets on which it was regularly inspected, the board would have been incapable of the innovations that have made going to the library in Singapore as attractive as shopping. The National Library Board is a disruptive innovator, which is both far more efficient than most traditional library services and more creative.

In the UK there is a risk that a vicious circle might set in as the government responds to the public sector's failure to meet targets, with stronger centralising measures to drive the machine harder. When Labour came to power the centre of government was weak in terms of long-term strategic thinking and driving policy delivery. The Prime Minister would ask for something to be done and find that he had little power to make sure it happened. The Prime Minister's Policy Unit was one of the few tools the PM had to chase delivery of policies with departments. As a result the Policy Unit had little time for long-term thinking.

The centre is also vital in responding to crises. People still turn to the state to take responsibility for solving a range of issues such as family breakdown, community decay and crises in food production. These issues can flare up suddenly, accompanied by a media-driven panic (foot and mouth, BSE and the MMR vaccination controversy are all recent examples). Foot and mouth is a prime example of a crisis that is sorted out only with extreme measures and central coordination. A strong centre is vital for effective government. So it was quite understandable that after the 2001 election the government greatly strengthened capacity at the centre, which now comprises several overlapping spheres of influence.

As a result the centre of British government is now an ‘arms race’ of strategic thinking between different parts of government. It is good that more strategic thinking is being done. But you need to regulate this escalating arms race.

Around 10 Downing Street, in addition to the Policy Unit and the Cabinet Office, there is the Strategic Communications Unit, the Centre for Management and Policy Studies, the Performance and Innovation Unit, the Prime Minister’s Forward Strategy Unit, the Delivery Unit and the Office of Public Service Reform. In addition the Social Exclusion Unit and the Office of the e-Envoy report directly to 10 Downing Street. As government departments compete for resources on the basis of their long-term plans, many departments have developed internal think tanks, policy units and strategy teams. The Treasury has increased its capacity for long-term policy thinking to match that developing in 10 Downing Street and among departments. The Chancellor has a team of special advisers and a council of economic advisers, akin to a policy unit, which can challenge departmental strategies.

Many aspects of this stronger centre have proved effective, chief among them the Performance and Innovation Unit. However, the centre of government

has taken on a large number of roles (crisis management, target setting, driving delivery, medium-term and long-term policy thinking and communications coordination). You sit in the middle of several competing centres of power. The rest of government doesn't know which way to jump until they get a decision from the centre, which can become a bottleneck. Policies patiently developed within departments, often using best practice of gathering evidence and involving stakeholders, can be tossed out with a wave of an imperious and ignorant hand in the Treasury. While the quality of strategic thinking may go up, the ability to deliver on the ground may be further jeopardised if a stronger centre strangles local initiative. One of your roles should be to challenge the centre to prevent it from becoming an innovation bottleneck.

This mechanistic, centralising view of the world is so powerful because it fills a void: the government's lack of a long-term coherent political strategy for public sector renewal. A mark of that lack of coherence is the way the Prime Minister emerged from the 2001 election claiming that privatisation and public/private partnerships were his 'big idea' for public service improvement. The involvement of the private sector in delivering public policy goals is neither new, revolutionary

nor big. Our children read school textbooks published by commercial publishers. General practitioners are independent contractors within the NHS. They prescribe drugs made by private drug companies. Regulated private sector companies provide essential public services, our utilities and telecommunications. The use of private finance to create public infrastructures is not new: the infrastructures of the industrial economy were largely created by private capital.

### **Creating a fresh approach**

Your task will be made easier only if you confront your political masters with the downsides of the current mechanistic, target-driven approach to reform and their own lack of a coherent wider vision, both organisational and political, of what modernised public services should look like. You need to persuade them to take a different approach: one which will set off a process of innovation from within public services. The government you serve has yet to develop a consistent philosophy of public service, how it should be organised and renewed. You need to help it acquire one. The heart of that should concern the way public services respond to new user demands, with new services and organisations that are structured, owned, managed and held to account in new ways.

Britain needs a new generation of public services fit for a more open, diverse society in which people want more choice and expect more opportunities to voice their views. That new generation of public services will serve a mobile society in which the nuclear family is in a minority, jobs are rarely for life, most people work flexible hours in the service sector, firms compete in global markets, life expectancy is increasing, education and learning last far longer, consumers are better informed, values are more diverse and people expect a say in what is going on. If you started from scratch to design services for such a public you would not come up with the public organisations that we have today: hierarchical; command and control in approach; and mass producers of standardised services.

You must lead a wave of civic innovation to create services that inspire pride and loyalty, that speak for and sum up the spirit of the times, and that enhance Britain's capacity to solve public problems in the future.

### **3. Nine principles for public service renewal**

You are the chief executive of UK Public Services, Inc. Chief executives provide leadership: they set their organisation testing but exciting challenges, with a confident vision of the future that generates a momentum for change and a willingness to challenge conventional wisdom. That is why it will be so vital for you to provide, in public, a sense of mission for the civil service and through that to speak for the role that public services should play in modern society. Early on in your tenure you should make a major public speech in which you set out your view of the value of public services and the challenges they face. This should not be a crass mission statement, nor an artificial annual report, but a substantive public statement which shows how public services can serve the changing needs of the society that finances them.

Your chief goal should be to show how the culture of impartiality, neutrality and analysis, which has

been so powerful in the civil service, can be augmented by a new drive for better leadership, innovation and service development in which public servants are able to identify opportunities for creating new services and to mobilise resources to do so. The civil service's job is not just to administer resources fairly and efficiently but to make sure they are applied to generate more public value for taxpayers. That is not just about devising clever policies, but about driving change in public organisations. Your task will be to create a new cadre of civil servants capable of moving between administration and innovation.

The government's ability to deliver public policy goals will increasingly depend on pulling together resources and people from many different organisations: public and private, mutual and voluntary, large and small, staff and consumers. The role of the civil service and politicians should be to orchestrate these alliances for change. Politicians should provide leadership: the goals to mobilise around. At the moment politicians often want to be, and are expected to be, in charge of every last detail. The civil service's job should be to act as the 'prime contractor' for public services, to draw different ingredients together and to drive projects forward. The public service does not need to provide or even manage these resources directly.



Public services embody civic values. They distribute goods and services not according to ability to pay but according to need and desert, based on political decisions made about how resources should be used. Every act of using a public service or entering a civic space should underline those civic values. Your business (UK Public Services, Inc) will thrive only if the services it helps to create and run are seen as efficient, attractive and value creating. The problem is that too many public service organisations seem so out of kilter with the times. They seem designed for another era (as indeed many of them were) and for a ‘public’ that was far more deferential, accepting and homogeneous in its tastes and needs. You need to stand up for a new vision of a new generation of public services and a new generation of public servants.

Nine themes should be at the heart of what you have to say.

### *1 High efficiency, few targets*

We should set high baselines for efficiency in basic public services. This should centre on a few very general targets for organisations and services. The problems faced by public services are to some extent a reflection of the problems of all services which are labour intensive and have relatively low productivity

in an economy in which productivity has risen a great deal in manufacturing, resource use and technological power. By contrast with advances in technology, in particular, labour-intensive services seem slow to change.

The widespread application of technology will be part of the answer to drive up basic performance in many services. The Singapore library system, for example, used to suffer from very long queues to check out books. When the National Library Board was set up in the mid 1990s its first priority was to eliminate queues. It did so not by employing more librarians, but by creating a system of radio tags for every item in its stock so that they could be checked out by borrowers scanning them over a computer screen. All fines are paid with credit card machines. This high technology platform for customer self-service has allowed librarians to move from processing books and fines to providing new services such as research, music recitals and learning programmes. (The next stage, which the NLB is about to prototype, is the creation of a 'do it yourself' library for adults in which borrowers will return books directly to the shelves, as you would in your own home, using technology that will tell people when they have put the book in the right space.)

We need to follow the Singapore lead: radical

innovation to make services more efficient, thus allowing people to be freed from basic processing to focus on the face-to-face services users value.

### *2 Different people, different choices*

Above a basic minimum, public services should provide far more choice about types of service, for a far more diverse population. The most fundamental challenge facing us is how to generate civic commitment in a society which is mobile and fluid, in which people want personal autonomy to define their version of the good life. Command and control systems of allocating goods and services, whether those be language lessons or heart operations, are at odds with this desire for autonomy and choice.

In the long run, we need an education system which is capable of delivering the basics to everyone, with a smaller core national curriculum, but one that is increasingly able also to deliver individualised educational programmes tailored to the specific needs and learning styles of different children. That would be an education system that promoted equality of opportunity and high standards in the basics, but also tapped into the individual aspirations and motivations of children. People display different kinds of intelligence and these are drawn out in different

settings. Learning needs to be organised around individual curiosity and aptitude, responding to the individualised nature of intelligence. The middle classes are already opting for choice in education. The aim should be for all families to have a choice of a variety of types of school, differing in ethos and aims, to send their children to.

### *3 Users as co-producers*

Consumers do not just want more choice, they want more say and involvement. In public services the user is invariably an essential part of the production process: a co-producer of the service. Education is useless without avid learners. People recover from operations only by taking exercise and eating properly. The tax system increasingly works thanks to a mass system of self-assessment. Neighbourhood safety depends on neighbours who look after one another. Most of the public goods that people most value require user involvement.

Better government and better public services depend on more user involvement. Deprived communities cannot revive themselves without public support; but they cannot be revived by the state either. Outside resources need to be matched by renewal from within. Successful public services of the future

must recruit users as part-time producers and even governors, rather than keeping them at arm's length as consumers.

Participatory approaches to budgeting and policy-making will thus be central to an open, innovative public service. In Porto Alegre in Brazil, in Denmark and Sweden, funds are set aside for neighbourhoods and community groups to bid for.

Modern public services need to be designed with user participation in mind because the most efficient and effective services will rely on a high level of self-service.

#### *4 The 'soft' power of values and expectations*

Public goods, like health and a clean environment, are increasingly created in society. They are not delivered to waiting citizens from a state-run production line. These public goods are created by complex, mutually adaptive systems, in which the state is just one – large and often clumsy – player among many. The public services of the future will need to work with the grain of this complexity.

Markets were opened up to allow more individual choice. We are now trying to tackle the collective consequences: traffic congestion; unacceptably high levels of material waste in the environment; the

insecurity of many public spaces; the implications for children of relationship breakdown. These collective issues cannot be resolved through old-style authoritarian public institutions that rationed choice and access to resources. Regulated markets can play a larger role in shaping public behaviour: for instance, emissions trading vouchers and road pricing can play a vital role in creating a better environment, especially in cities.

The challenge is to evolve new kinds of public institutions that can influence public behaviour amidst its complexity, diversity and flux. The ‘hard power’ of targets and instructions needs to be matched by the ‘soft’ power of influencing values, behaviour and expectations. Instructions from on high alone will not work.

### *5 Interactive government*

Government will have to become more porous, responsive and networked, and operate increasingly through partnerships with the voluntary, community and private sectors. A far-sighted report for the Dutch government, *Contract with the Future*, published in May 2000, put the challenge this way: ‘In a network society, government is more frequently one of the players and will have to cooperate with others.

Government action will increasingly have to be collaborative, interactive, fast and custom-made. Society is no longer the object of policy, but helps to shape government policy.'

Channels for government and citizens to engage in dispute, debate and policy-making will multiply with digital television and the internet. People will increasingly want to define themselves, and with that their relationships with government. Citizens will make greater demands on government. They will want more custom-made services, more options, more participation and more influence. The report concludes: 'Government and citizens are increasingly operating in a network society in which they are becoming more and more equal and in which the strength of government is determined by the delivery of quality and by the joint creation and sharing of policy. Indeed policy can be said to be a co-production.'

### *6 Networking opportunities*

Huge opportunities will emerge from this combination of higher basic efficiency, often thanks to new technology processes; increasing involvement of users as 'co-producers'; and growing mass customisation of individualised services; as well as the interchange of skills and services between public

institutions and civil society. We need public sector organisations, managers, methods of accountability and types of ownership which work with the grain of these developments.

Government organisation is still largely dominated by hierarchical structure, centralised command and control over resources, a workforce organised around rank and a chain of command in which scope for initiative is concentrated at the top. Networked organisations turn this model on its head. They operate with simple, centrally set rules that allow decentralised decision-making over how resources should be applied on the ground to meet users' needs. The distributed technology of the internet and related communications networks allow highly decentralised, independent activities to achieve a level of coordination traditionally associated with structured organisations. These networked organisations offer the promise of greater flexibility and adaptability combined with coordination and clarity of purpose.

A good example is the impact digital television could have on health services. Digital television should be near universal by the end of the decade. Information of the kind currently available on the internet will be available through the television set: a pilot digital health service run by Telewest, the



cable television operator, offered 18,000 pages of information, akin to that available on NHS Direct Online. A television set will be able to deliver interactive consultations in which a patient calling in to NHS Direct, for example, would be able to see a nurse onscreen who could advise them on their symptoms. In time the video link on this service would become two-way so that the nurse and patient would be able to see one another. People recovering from surgery at home will be able to watch related programming to help them through physiotherapy. In time telecoms links will allow doctors to remotely monitor a patient's vital signs.

However, developing these more advanced, interactive services with richer content will require the NHS to form partnerships with media, technology and broadcasting companies. The platforms for digital television delivery are mainly privately owned. The skills for creating attractive television content are outside the NHS.

The internet will also play its role. In the near future patients will be able to access information to compare the performance of different NHS Trusts, hospitals and even surgeons. Patients should be able to book appointments online, review their electronically held records and get electronic

prescriptions. However, the greatest potential for the internet may be in creating networks of self-help among carers and patients. These peer-to-peer applications would build on an already thriving self-help sector.

By 2010 it should be routine for a patient leaving hospital after an operation to be given: an NHS Direct telephone number to seek advice on recovery; a website address from which they could download relevant information through either the internet or digital television; a list of digital television programmes relevant to their recovery; an interactive television service to allow them to see a nurse to advise them while they talk over the telephone; a list of email addresses for patients in their locality who have recently been through the same operation and who are ready to exchange experiences; and the internet address of a national self-help group which will provide support and advice. Already about 80 per cent of 'health incidents' are dealt with at home. Surveys show that patients want more home-based health care. The advent of digital technology should make it possible to take some large strides away from the hospital-based health care system of the twentieth century to a more home-based health care system in the twenty-first century.

### *7 Bringing back mutuals*

Future public services should explore new forms of community and of mutual ownership and involvement to bring them closer to the people they serve, to gain access to additional finance and to generate new ideas for services. Innovation often means recuperating older ideas, in this case mutual versions of education, welfare and health.

Britain has a rich tradition of mutual self-help and voluntary organisations, and millions of people are active in organisations as diverse as the Salvation Army, the Women's Royal Voluntary Service, the Territorial Army and the Police Specials. About 80,000 people serve in residents' associations. There are 350,000 school governors. All these are part of the extended life of the civic sphere.

Mutuals play a critical role in providing many public goods: childcare and care for the elderly, adult education, the classes of the Workers' Educational Association and community safety, as well as pensions, life assurance and mortgages. The idea of mutuality combines the promise of social cohesion and collective action, with the principle of decentralised self-organisations within a market economy. Mutuals are often outside and at odds with the bureaucracy of the public sector, because they stress the value of

voluntary and collaborative action. Yet the mutual ethos is also at odds with the individualism of the market. Mutuals and clubs allow people to band together to help one another: that mutual spirit, not state provision, should be at the heart of the civic sphere.

Public services will be more likely to thrive where they help to promote an ethic of mutual self-help. Many of the most promising services run in libraries, for example, revolve around reading groups and homework clubs. Self-help networks are vital in health services. Voluntary organisations have been the pioneers of mutual approaches to crime and safety, from experiments with restorative justice to neighbourhood watch. Churches still do a huge amount of work with informal youth programmes outside the state sector.

The best way to promote sustaining civic values is for the state to act as the hub for a wide variety of clubs, mutuals and voluntary associations. That would mean more ownership of and even accountability for services passing from Whitehall to direct stakeholders among users and the wider community. At the very least, more government programmes need to be designed – as Sure Start and the New Deal in Communities were – to kick off a cycle of local

involvement and regeneration. At its most ambitious, this approach needs to rethink the future of public services as commonly owned mutuals. Not the National Health Service but the Mutual Health Service. Not the Department for Work and Pensions, but a new generation of Work and Pensions Mutuals.

### *8 Devolving power from the centre*

A more diverse, self-governing, networked and mutual state will only evolve if there is greater devolution of political power and managerial discretion. The new public sector needs to be built on a new deal between the centre and localities, in which each respects the other's role.

The central job of politicians is to articulate the outcomes people expect public services to help to achieve, and to ensure as far as possible that systems exist, both inside and outside the state, to deliver those outcomes. The more these outcomes can be decided on by an open political process, in which people feel engaged, the more likely they are to attain legitimacy. That is why further devolution of political power to regions and cities to start making their own decisions and taking responsibility for their actions will have to be part of the agenda of public service modernisation. The arcane dispute between the

Labour government and the government of London over the financing of the Underground stems from an incomplete process of devolution. London should have the power but also the responsibility of organising a decent transport system.

Devolution of managerial responsibility will also be vital. Politicians should set general outcomes and basic standards for education, health and policing, but beyond that the centre should not prescribe in detail how budgets should be spent and services should be organised. That should be left to local discretion. While the overall objectives might be the same, the way they are achieved in different places will be different. The electors in those cities should be allowed to vary the outcomes they seek away from national programmes. Cities should become known for the distinctive quality and imagination at work in their public services.

### *9 Public services and good design*

Public services and public servants must become much more adept at communicating the value they create. One reason why the private sector is widely seen as being ‘ahead’ of the public sector is the investment it has made in the last decade in branding to persuade people to see products and services as

part of a lifestyle they aspire to. When people buy private sector products and services these days they are partly buying into ideas of what these services represent. Although the public sector has some outstanding, if slightly worn brands (the NHS, the Inland Revenue, the BBC) very few could claim to be aspirational.

The best way to communicate public value is not through clever marketing programmes but through tangible changes to the environment in which people work and take leisure. The value of public services needs to be evident in the design of public spaces, whether they are buildings, online environments, parks or bus stations. Public sector modernisation needs to be built on a new approach to design which gives users a creative voice in how services are presented to them. As private spaces often become increasingly interchangeable and functional (airports, shopping malls, gyms, offices) so there will be opportunities for the public sector to set itself apart through the quality of the design of its environments. Redesigning public environments and spaces is one way to re-imagine what they are for and how services might be organised in a different way. Design and architecture are one way to unlock the public imagination of what public services might become.

Many public institutions could not be mistaken for anything else. Whether it is a school, a prison, a residential care home or a town hall, the DNA of state power and paternalism is imprinted in the architecture, the design and layout of the buildings reflects the top-down, command and control philosophy behind the services.

New buildings and public spaces should translate into improved services, a richer public space and a stronger sense of shared civic purpose. In the past high-quality design of public buildings and utilities was one hallmark of the standing of the public sector: the original red phone boxes and the Routemaster bus are outstanding examples. In the nineteenth century public buildings embodied the rise of new public authorities that oversaw our lives: local authorities. In the postwar era the public sector was at the forefront of modernism and design, in building projects such as the Royal Festival Hall. Equally, poor design, particularly of public housing in the 1960s and 1970s, cast a long shadow over the entire public sector. Those buildings symbolise all that was wrong with the cheap, mass public sector.

A new generation of public services needs new buildings and spaces to house them. New schools, hospitals,



bus stations, parks and benefit offices should embody the civic spirit of the times. The danger is that new building and design programmes will be driven by a search for efficiency and shallow comparisons with the private sector: hospitals that feel like hotels; benefit offices that feel like banks; canteens that mimic McDonalds. The award-winning new Peckham library, which embodies a confident sense of civic purpose, has seen book lending rise by 400 per cent since its opening. The best way to communicate distinctive civic values is to deploy design imagination in public buildings, spaces and products, as Tate Modern, the Millennium Bridge, the Walsall Art Gallery, the Eden Project and Huddersfield's football stadium all show. Well-designed public spaces excite people as users and as staff. You should preside over the biggest public building programme for decades. You need to make sure it delivers an inspiring ethos for public services.

In sum your vision of the future of public services should emphasise:

- delivering high standards of efficiency in basic services
- mass customisation of many other services to allow more choice

- growing scope for user involvement and co-production
- more networked forms of organisation and service delivery, using technology, to allow services to be delivered at home, in the community or at work
- generation of new types of services, such as a home-based health care or a home-based education service
- growing stress on the state promoting mutual forms of ownership, policy development and accountability
- a new deal between central funding and targets and local initiative and discretion
- new ways to embody and express modern civic values through buildings and civic spaces.

## 4. Innovating from within

Delivering will require drive and ambition from the centre but also commitment and ideas from regions, cities and individual schools, hospitals and community programmes. The challenge is to create a strategy which maximises operational diversity, allows local innovation and provides greater practitioner autonomy, but which maintains clear minimum standards, overall purpose and organisational drive.

The government has moved in this direction. Your job must be to push them further. The recent health white paper allowed groups of top-performing hospitals greater autonomy and discretion. They were licensed to operate with greater freedom. The Local Government white paper picked up this idea of 'earned autonomy'. Estelle Morris, the education secretary, is pursuing a strategy to allow more diversity around a smaller core national curriculum

for 14–19 year olds that should allow schools more discretion over how they organise themselves. Both the Chancellor and the Prime Minister have said they support the idea of devolving responsibility for decision-making. The Sure Start and New Deal for Communities programmes were designed to leverage community involvement. The government has just started to move away from a reliance on central target setting and the micro management of funds. However, it is doing so incrementally and without any clear vision of the future. You need to get your political bosses to recognise that.

Renewal will require many ingredients, among them:

- promotion of creative disruption from new technologies, social entrepreneurs and corporate innovators
- a central state capable of intervention on demand to tackle failure or public alarm
- a far stronger system for learning lessons and spreading ideas at all levels within the public sector, enrolling public service workers in the task of transformation
- devolving more power and responsibility to managers, communities, cities and neighbourhoods

- committed to identifying and tackling problems
- promoting the culture of mutuality in public services as well as creating more mutually owned community assets
- a complete overhaul of audit, inspection and monitoring regimes, with a growing emphasis on peer-to-peer reviews and self-improvement programmes rather than punitive arm's length inspection
- a willingness to end underperforming programmes and reallocate resources
- new approaches to the pay and reward of public servants, which would enable proven innovators.

Among these many ingredients you should highlight three aspects: a new approach to innovation within the public sector; a new management framework for public services based on trust rather than targets; and changes to the culture and make-up of the civil service.

### **Innovation**

Innovation is the public sector's Achilles heel. In some respects there is too much radical, policy-led innovation in British government. It swings between occasional bouts of extremely high-risk, system-wide innovation, in which all eggs are thrown in the

same very large but fragile basket, and long periods of stasis when nothing much seems to change. Radical attempts at public policy innovation have often gone badly wrong: the Child Support Agency, Individual Learning Accounts, the National Air Traffic System, the AS level exams, the Poll Tax and Railtrack are just some recent examples. These are not evidence of a system that doesn't innovate but one that innovates in the wrong way, led by ideology and policy rather than user need. The public sector invariably innovates under the wrong conditions: either in crisis, when the situation has got out of hand, or when a political party is in an unchallenged electoral and ideological position and so can force through its plans without check.

The Labour government has made various efforts to promote innovation through the creation of pilots and special zones. However, these are often too marginal to create new ideas. Often pilots are held at arm's length as if they were experiments in a lab, rather than developed to create new ideas. Bottom-up innovation can only get so far without changes to the framework of resource allocation and management. Models of innovation based on venture capital funding, which are based on a very high failure rate, are difficult to transplant to the public sector.

Complex systems that create public goods need a capacity for constant evolution, adaptation and innovation. The public sector needs a model of accelerated evolutionary innovation.

Evolutionary innovation involves at least six main ingredients. First, the creation of diversity. In biology this comes about through genetic mutation. In public institutions diversity can only come from imagination, creativity and maverick entrepreneurship, operating with enough room for manoeuvre to try out new ideas, locally and centrally. As well as a stream for the promotion of high-flying young civil servants, we need a 'mavericks' programme' to recruit and develop civic entrepreneurs. No one should be eligible for a job in the senior civil service unless they have been involved in a start-up of a public or private sector project.

Second, the selection of more promising developments. In biology, promising mutations are selected through the force of natural selection, finding which is fittest for the environment in question. In public policy, we need to set aside funds to invest systematically in developing promising pilots and models, across the public sector. The public sector invests far less in research, development, innovation and entrepreneurship than the private sector. One useful target would be to benchmark public sector in-

vestment against private investment in its innovation and R&D for public services.

Third, the best new ideas need to be able to spread and reproduce. In biology, sex and genetics provide the transmission mechanism for successful mutations. In public policy we need much more rigorous and effective mechanisms to spread routines and the thinking behind best practices, including franchising good ideas and allowing more successful public organisations to take over less successful ones. Fourth, the unsuccessful must be allowed to fade out. The public sector needs to be far more effective in unlearning routines, practices and working methods that no longer deliver. Fifth, keep it simple. The most successful adaptations in nature tend to be very simple. The more complex an innovation is, the less likely it is to succeed. Sixth, innovation is impossible without spare capacity, time and space. A perfectly honed machine, in which each part has a specific job, leaves no room for innovation.

One of your first tasks should be to gather case studies of the most innovative public service organisations in the world to expose to your senior civil servants and other public service managers. Singapore's National Library Board, for example, has innovation as the central means to meet its exacting improvement



targets. This comes from several ingredients. Drive from the top is vital to set goals and also culture. The NLB's chief executive, Chris Chia, who is not a librarian but an information technology specialist, sets the culture in which one motto is 'no sacred cows'. As an example, the NLB is piloting a library aimed at teenagers in which books are not on display. The 'bookless' library will focus instead on activities that teenagers enjoy and allow them to order books from an automatic system. Chia has created a system for prototyping new services, based on a central 'services development unit' which works on ideas from all over the organisation. The NLB describes itself as a 'project centric' organisation. Most staff are involved in at least one project a year to improve services in their library or across the system as a whole. Three other principles underpin the NLB's sustained innovation:

- One idea but many iterations: having developed the idea of locating libraries in shopping centres, the NLB is now on its sixth version of the idea. Each repeat develops new services.
- Multiple pathways to the future: libraries serve a diverse population, so they cannot deliver one size to fit all services.
- Run before they catch you: develop ideas that

are always ahead of where consumers expect you to be to create a sense of momentum.

You need to do for the civil service what Chris Chia has done for the NLB in Singapore.

### **From targets to trust**

You need to put in place a new framework for public service improvement that requires less detailed micro management from the centre. That means moving from accountability based on strict adherence to detailed targets, to one based on trust and licensed freedom to operate based on performance that consistently exceeds minimum targets.

Rigid rules of accountability corrode trust. The public sector needs a framework for funding which allows public bodies to earn the trust of central government, its customers and taxpayers. Public bodies should be rewarded by gaining greater freedom from detailed interference. Trust has to be earned; it cannot be taken for granted. The centrepiece for a framework of trust should be a series of long-term compacts between government and service providers. Government would be able to rest assured that money was being well spent without the need for wasteful bureaucracy. The institutions being funded

would feel they were trusted to get on with what they are good at without constantly looking over their shoulders. As a result they would be more likely voluntarily to exceed the terms of their compact.

The first step would be to show that the people running public institutions deserved to be trusted because of their mix of skills and competences. The second step would be to attend to the way that institutions are governed. Generally we trust people when they are open. We don't trust people who seem to have something to hide. If public institutions want to escape detailed and continual interference from the centre they have to be open to local scrutiny and accountability about the way they make decisions.

The third step would be to offer some cast-iron guarantees to taxpayers and customers about quality of service and how customers who have been poorly treated can seek redress.

Fourth, compacts would require honesty about failures. The Millennium Bridge, for example, continued to claim public sympathy even during its costly re-engineering because of the way its early problems were owned up to. Failures that are covered up ultimately lead to a loss of trust. Failures dealt with openly can deepen trust.

Fifth, trust has to be open to challenge and contest. If trust in someone goes untested, it can quickly turn to complacency. Targets were introduced to spur producers to improve performance and to challenge vested interests that were opposed to reform. Vested interests among public sector producers are still pervasive and powerful. Inspection systems that seem harsh and are not backed by resources to help organisations improve simply create demoralisation and anxiety. We need to create ladders of improvement for organisations to climb. The heart of a new inspection system should be peer-to-peer self-assessment and self-inspection, with beacon organisations funded to lead and help others. The Audit Commission's approach to improving performance through audited self-assessment should be adopted across the public sector.

Sixth, trust is rarely completely open-ended. Contracts can provide the baseline for a relationship of trust, a reference point to start from and go back to. Institutions such as NHS Trusts and LEAs should sign up for long-term compacts with departments and communities that set out their goals, responsibilities and funding. The better the past performance, the more likely the organisation would be to be awarded a long-term deal.

### **The civil service**

You must acknowledge at the outset that the culture, working methods and outlook of the senior civil service, the service through which you climbed and made your career, is one of the biggest obstacles to change. We need a civil service that is recruited, paid, managed and organised to deliver the innovative, diverse and devolved public services that would fit with modern society. You need to develop new cadres of public servants who are at ease as innovators as well as administrators, leaders as well as analysts, civic entrepreneurs as well as policy advisers.

The civil service needs to reduce its reliance on intelligent generalist policy analysts, and recruit a greater diversity of people, with different skills and particularly with a background in management, marketing, retailing and service delivery. Value in public services is created at the front line, by managers and staff working directly with clients. The role of the centre should not be to instruct or control these people, but to support, encourage and guide them.

The civil service is one of the most hierarchical organisations in the country. Access to meetings and information is determined by a series of ranks impenetrable to outsiders. That hierarchy needs to be

broken up with promotions and pay for younger people with bright ideas and energy. In general, money, responsibility and opportunity should be shifted away from rank and length of service, and towards improving rewards for contribution. Frustration with the pace of change in the civil service is one reason why Labour ministers have relied so heavily on outside advisers. Future governments are unlikely to be different. A body of external policy advisers, from management consultancies, think tanks, charities and non-governmental organisations, now challenges the civil service's role as prime policy adviser. If the civil service wants to regain the initiative it has to show far greater capacity for innovation and delivery.

Increasingly the government's ability to deliver public policy goals will depend on its ability to orchestrate resources and people from across many different organisations, public, private and mutual, large and small, staff and consumers. The job of the civil service will increasingly be to act as the 'prime contractor' for public services to draw all these different ingredients together and to drive projects forward. As a prime contractor the senior civil service can afford to be smaller than many of its suppliers, whether those suppliers provide policy advice,

IT or other services. The civil service needs to excel at accessing and orchestrating these resources, inside and outside the public sector, rather than providing them directly.

Low turnover of staff in the public sector suggests that pay is not a major issue or cause of dissatisfaction. The overall public service package, including holidays, flexible hours, job security and pensions, is quite attractive. The problem with the public sector pay bill is that too much is spent on the wrong kinds of activities, people and skills. Too much is spent on the top of the civil service, the higher grades, who got their positions through seniority. Too little is spent on younger talented people and rewards for managers who deliver.

### **The choice**

The 1997 election did mark a turning point. For 20 years prior to that the state and public services had been run down. The goal had been to strip them back or sell them off. Now there is a greater recognition of the value of public services, especially in an economy which is driven by innovation, but which as a result is more fluid, open and unequal. Thus far the government has managed, just, to shore up public services and produce some improvements in per-

formance. But getting more out of the existing systems will become harder and harder without radical innovations from within to create new working cultures, services, organisations, brands and spaces. You have a choice. If you choose to continue only with incremental innovation, you risk becoming IBM in the 1980s: a once mighty giant that falls into deep crisis. The only way to avoid that is to embark on a deliberate, disruptive and in some ways destructive process of radical innovation from within – which will mean backing mavericks, challenging convention, taking on vested interests and slaughtering sacred cows. If you want public service to survive and prosper you should take the latter course.