

# Quality, Innovation, Choice

*The Report of the Public Services Policy  
Commission*

Policy Paper 53





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# ***Introduction***

*Christopher Huhne MEP*

Chair of the Public Services Policy Commission

Public services are rightly top of the political agenda. Public services in this country do not deliver the high standard of service that people expect and deserve. They also fail by comparison with services in many of our European partners.

There are four main reasons for this:

- a) Central government has failed to provide long-term guaranteed funding for public services, particularly hospitals and schools that we use as key examples in these proposals
- b) Personal choice over – and access to - public services is often inadequate.
- c) Whitehall tries to make decisions for every town and village in the country, rather than letting local people decide on the best services for them.
- d) Politicians too often interfere with decisions best taken by people like doctors, nurses, teachers and transport engineers who understand how to deliver a service.

In health care, some of these reasons have very deep roots, going back to the foundation of the NHS itself in 1948. We are fully committed to the National Health Service. Health care for all free at the point of delivery was a Liberal idea which a Labour government implemented. The system set up in the 1940s worked well for decades but is not able to deal with today's complexities without major reform. In the twenty-first century, people want more choice in public services. We want quality, and we want to see that something is done about our complaint if we do not get quality. Meanwhile, medicine has advanced so far, and the range of treatments is so broad, that a centrally managed system is simply unable to control every decision in every hospital. National standards are often a mirage.

There was an opportunity for reform in the 1980s, but the Conservatives made things worse. They grossly underfunded the NHS. Not only was it unable to keep pace with the new demands placed on it, but local hospitals were forced to close. Meanwhile, they brought in a range of internal reforms that did little to improve accountability or choice, and created a vast management bureaucracy.

In 1997, Labour came into power against a backdrop of high expectations. But it simply imposed new central controls on doctors, nurses and teachers, and stuck to Conservative spending plans for its first two years in power. Since then, it has started to invest significant amounts in public services. Yet there is no guarantee that the money pledged will be delivered to those services in the future if Labour's priorities change, or that they will reach the frontline. Bust has been followed by such a boom in funding that allocations have been underspent. And there is no sign of any change in Labour's centralising tendency. If public services are to improve, central government must learn to let go.

The same problems apply to education. In theory, local people do have more of a say over their schools and their hospitals, through local education authorities. However, the reality is that schools are heavily controlled by the dictates of central government, which has set target after target for teachers. This has meant that teachers have to spend more time worrying about meeting targets than about delivering a rounded education for children. Meanwhile, although there has been significant investment in schools, there is still under-investment in recruiting and retaining the best teachers. In further and higher education under-investment continues – and the imposition of tuition fees has been a great burden on students and their parents.

In these proposals, we have concentrated on education and health as the two key exemplars of public services. However, our proposals are designed to cope with problems that face all the public services, including the chronic under-investment that is now a hallmark of the British public sector unique in the European Union. We believe that the general principles we put forward, based on extensive research into continental means of delivery of high quality services, are relevant to the modernisation and efficiency of Britain's public services as a whole.

The first challenge now in public services is to **guarantee funding for schools and hospitals** for the long term, and to make it work. The quality of all public services depends significantly upon adequate levels of funding. Long-term funding for public services should be guaranteed – not subject to passing political whims or treasury manipulation.

The second challenge is to **improve choice, quality and access** to public services. Greater accountability and transparency, and a diversity of options for provision, will put maximum pressure on politicians and public service managers to deliver efficiency. So will measures such as integrating health and social care at a local level.

The third challenge is that **local people should make decisions** for every town and village in the country. That means personal choice where possible, and where collective decisions are needed, making sure they are taken at the most local effective level, closest to the people who use public services. That must be done in a way that is democratically accountable, and should involve speedy, independent and impartial complaints procedures at a local level, with rights of appeal. This will strengthen accountability and allow public services to be delivered on a more sensitive, human scale. Along with our proposals to promote diversity of provision - traditional public sector, private, voluntary, and mutual – it will also allow for experimentation and give scope for the spread of new ideas.

The fourth challenge is that **Whitehall should stop interfering** with decisions best taken by the people who use public services, and by doctors, nurses and teachers. People should be able to choose who will deliver their services wherever practicable within the public sector, and have more choice over where and when they receive services. At the same time, we should value public service. There is a strong element of altruism in many of Britain's public servants. We value that commitment. Our public servants should not be exploited. They should be paid properly and have relevant training for their job. Public

service professionals should be as free as possible to carry out their jobs within the context of public democratic accountability. We must invest more in training, recruiting and retaining the best possible staff – both at the frontline and among managers.

In this paper, we set out proposals that will:

- End bust-and-boom funding by earmarking a National Health Service Contribution.
- Empower patients, parents and other users by increasing choice over public services.
- Ensure government provides meaningful information about standards.
- Cut red tape for public service professionals.
- Ensure political accountability at local level where it can be effective.
- Encourage diversity in provision, particularly by encouraging new Public Benefit Organisations, and allowing freedom to experiment.

Our proposals will guarantee and improve funding, give people more power and choice, value professionals, and improve quality and access. It is the programme for guaranteed excellence that the country deserves.



# Key Proposals

## Guaranteed funding for hospitals and schools

- **Guarantee and improve NHS funding** by earmarking national insurance to the NHS as people's NHS Contribution.
- **Fund local services such as schools** through a fair system of local income tax which would replace the unfair council tax.
- Give local, regional and national authorities **real power to invest in public services**, allowing regional variations in national taxes to fund public services; and allow local authorities to borrow for capital investment under similar rules to the central government.
- Allocate **fair funding to public services in the nations and regions** of the UK through a Finance Commission for the Nations and Regions which will distribute funds from central government to the nations and regions on the basis of need.

## Improving choice and quality in public services

### Health

- Focus on **public health and prevention** measures, including better high risk identification and early intervention.
- **Provide more and real patient choice** by allowing patients access to any treatment that will help them and is cost-effective anywhere in the UK.
- **Empower patients** by providing sensible and accurate information about rational and meaningful options and outcomes, by for example a national database of waiting times and treatment options on the Internet.
- Develop electronic **Personal Health Plans** which would include individuals' medical records and set out each person's entitlement to, for example, screening checks, and ensure effective **Personal Care Plans** for all individuals and families who are engaged with social services to guarantee the support they need and, where possible, the route to independence.
- **Preserve fair access to services** by not extending charges as a way of raising additional funds for public services, and ending charges for services such as eye and dental tests, as well as personal care.

### Education

- Give parents detailed information on the performance of both their child and the school through **Annual Progress Reports (APRs)**. The Report would set individual targets for each child for the coming year and form the basis of an **Entitlement Guarantee**. Improved comparative data on the school would be included in APRs but the present crude government-sanctioned national league tables would be scrapped.

- Give young people more choice and responsibility through individual **Education Passports** to use in schools or colleges or on other training from 14.
- **Tackle the effects of socio-economic inequality** on education by funding pupils according to their individual needs using a system similar to that used in the Netherlands. This would raise an individual's access to funding based on need. For example, a pupil who is not a native English-speaker would attract extra funding until a level of competency had been achieved.
- **Tackle the skills gap** through regional Learning and Skills Councils in England, which will develop and improve vocational education and will eventually be accountable to a democratically elected regional body. We will also end the traditional divide between Further and Higher Education by linking the regional Learning and Skills Councils with higher education institutions in their region.
- **Spread success**, for example with senior teachers forming leadership teams across a number of schools.

## Ensuring local accountability

- **Let local people not Whitehall make decisions on the NHS.** In England, Primary Care Trusts (responsible for the key health commissioning role) will be made accountable to elected councillors. English regions could take responsibility for strategic health planning from the civil servants in the Department of Health, and those powers of unelected strategic health authorities that cannot be devolved locally. They will also have the right to change the NHS Contribution.
- **Guarantee basic standards across the country**, but have these agreed at the appropriate national, regional and local level, rather than dictated by central government.
- Allow public sector employers **greater freedom to pay more to recruit and retain staff** where this is needed locally, by allowing the relevant elected authorities the revenue raising powers to fund such top-ups from local resources.
- **Allow local people and professionals greater freedom to run public services** by encouraging the growth of mutual/voluntary providers as an attractive further option for public service provision as Public Benefit Organisations.

## Stop Whitehall interfering with day-to-day decisions

- **Limit central government's role** to information gathering, dissemination and persuasion. We will implement a full review of agencies and inspectorates to ensure a simplified, comprehensive and authoritative system that puts the focus on meaningful information for users, voters and local policy-makers.
- **Cut Whitehall departments** by for example merging the territorial departments into a single Department of the Nations and Regions.
- **Cut central spending** and administrative costs as power and finances are devolved to the Nations, Regions, and Local authorities by using 'blind budgeting' and 'zero-based budgeting' techniques.

## Health

- **Improve access to health and social care** by increasing capacity, through measures such as improving staff retention and morale, early intervention and ending delayed discharges.
- **End the division between health and social care** in England by running their local services through the same local authority with one budget.
- **Stop central government interfering** by limiting central government NHS responsibilities to functions including public health, regulation, medical research, and medical, nursing and other professional training, and allow frontline doctors and nurses to take frontline responsibility.

## Education

- **Teachers should be free to teach** subject only to national requirements for what children and young people should know at the end of years or courses, so responsibility for how this is achieved will be devolved to individual schools and teachers, overseen by local accountable elected authorities.
- A more **flexible and relevant curriculum** with nurseries and pre-school for ages 0-7, a development stage for ages 7-14 which would include mandatory provision of a modern foreign language, and greater choice, including a measure of specialism (including vocational education and employer-led training) at 14-19.

# *Public Service Definitions & Principles*

## **1.1 What is a Public Service?**

1.1.1 Public services are any service provided by, or paid for by, the public sector and offered directly to members of the public.

1.1.2 The term ‘public service’ has particularly been applied to education, health, social services, the police and public transport. ‘Public service’ is not applied to transfer payments such as the payment of pensions or benefits which simply involve the payment of money, or to services such as DTI export promotion programmes which do not directly benefit the ordinary citizen. In this paper, we particularly take examples from health and education, although we think the lessons are widely applicable.

1.1.3 The areas which are described as public services share one overall characteristic: society has decided that, left to its own devices, the market will fail to provide such services adequately, and that government intervention will result in a better outcome. They are also areas where simply giving the poor more money is not a realistic way of addressing the market failure. We do not have a public food service because the levels of benefits are supposedly set at a level that should allow everyone to eat properly. We cannot rely on housing benefit to solve all housing need, however, because of the structure of the housing market. For each public service, normal market mechanisms are not

appropriate for all or some of the following reasons:

**Access:** the service is considered one that all people should have access to if they need it, and the market cannot deliver that service without charging at a rate that would make it inaccessible to many, for example, health care.

**Public good:** the service benefits society as a whole, and consumption by one user does not reduce the amount of the service available to others, for example street lighting or national defence. Society as a whole should therefore bear the cost.

**Merit good:** a service which people would not be likely to pay for individually, but which people are willing to make a small contribution to pay for collectively because they think it is in some sense ‘a good thing’, for example, the arts, or preserving ancient monuments.

**Market inapplicability:** Markets require competition and risk to operate effectively. Competition means that there must be two or more entities seeking to provide a similar service, and that people must be able to choose and change between them. Risk means that there must be a chance of a provider becoming bankrupt if they do not provide a service that attracts enough customers. Without those conditions existing, markets cannot operate effectively. Public services are different because it is often the case that those conditions do not exist, for three main reasons. First, where a service benefits society as a whole, it is often not

efficient for a market mechanism to charge individual users. Second, bankruptcy is not a tolerable option for many public services. Third, some services are natural monopolies and competition is not possible. The police service is an example where all three apply.

1.1.4 Failure of the private sector to deliver a service in normal market conditions does not mean that it cannot deliver that service at all. Either regulation or subsidy may help the private sector provide a public service. Regulation may be particularly appropriate if the existence of a monopoly is perceived to be a problem. Also, the circumstances of market failure may change over time. For example, it is now easier to charge road users per mile travelled using modern technology than it was in the days of toll booths. On the other hand, the advance of genetic technology may make it increasingly difficult to pool medical risk through private insurance.

1.1.5 Public services' specific functions can all be divided, in one form or other, into the following categories:

**Funding:** many are directly funded by government using the revenue from taxation. If they are directly funded through bond issues or other financing instruments, then taxes, charges or a mixture of the two (for example, rail fares) will ultimately cover the costs.

**Procurement:** the purchase/leasing of, for example, buildings and equipment. Particularly where capital assets or high-value consumables are purchased, this involves assessing the cost-effectiveness of procurement.

**Internal systems:** the management and administration of the service, including

the management of any contracted-out functions.

**Delivery:** the service that the public actually receives, for example, medical treatment.

## 1.2 Liberal Democrat Principles on Public Services

1.2.1 **Quality:** Liberal Democrats are the natural champions of high quality public services, standing in the tradition of Lloyd George and Beveridge. The quality of all public services requires adequate levels of funding, which must be decided by political representatives. Liberal Democrats have consistently and honestly argued that if we want better public services, we have to be prepared to commit the necessary funding and show how the money would be raised. Proper funding should go hand in hand with regular and impartial inspection and monitoring (whether led nationally or by local authorities) by those who are competent to perform it. Choice between providers can also help to ensure quality.

1.2.2 **Choice:** People should be able to choose who will deliver their services wherever practicable, and be able to make meaningful choices over where and when they receive a service. That might mean, for example, individuals choosing to be treated more quickly at a hospital further away than the nearest hospital with a longer waiting list. It might involve a choice of providers within the public sector, or of co-operative ventures, volunteering and mutualism, as well as the classical choice of public versus private. Some choices which contradict general principles of non-discrimination are not desirable however (such as freedom to choose not to be treated by medical staff

of a particular race). We are clear that meaningful choice implies that there are enough resources to ensure some spare capacity.

**1.2.3 Decentralisation:** Where government runs public services, decisions should be made at the most local effective level to ensure that local people have maximum opportunities to influence local public services. Freedom to try different solutions in different areas will allow innovation to flourish and the best policies to emerge. We therefore need to allow regional and local governments to tailor their own solutions to their particular problems and preferences.

**1.2.4 Fairness:** The burden of paying for a public service should be as equitably distributed as possible, and there should be access to high quality services regardless of individual financial circumstances. It follows that the tax system should be progressive, and that where user charges are imposed (for example, for home care) these too should be geared to ability to pay.

**1.2.5 Accountability:** Public services should be democratically accountable, subject only to the independence of professional judgement in matters of professional expertise, and should have speedy, independent and impartial complaints procedures at a local level, with rights of appeal. Lines of responsibility must be clear and uncontestable so that blame cannot be deflected (as they are, for example, in the context of Britain's railways).

**1.2.6 Transparency:** The public should be able to know who is making decisions, and how well their services are performing, the rate of improvement and the realism of any targets. This will

involve professionally competent and authoritative bodies developing information systems to allow sensible comparisons to be made, and to ensure targets do not distort provision.

**1.2.7 Efficiency/value for money:** Given the large sums of public money involved and the pressures on budgets, value for money is essential. Indeed, the public case for high public service levels will only be successful if there is confidence that money will be used wisely and that there is a constant striving for improvement.

**1.2.8 Valuing public service:** There is a strong element of altruism in many of Britain's public servants. This means that people are willing to work in difficult conditions for relatively modest financial rewards. We value that commitment. Our public servants should not be exploited. They should be paid properly and have relevant training for their job. We also note that those working in the private sector may also offer a service ethos.

**1.2.9 Professional responsibility:** Public service professionals should be as free as possible to carry out their jobs within the context of public and/or democratic accountability. That is the best way to promote innovation, responsibility and pride in achievement.

**1.2.10 Information:** People should have more information about public services. This would include information about their own concerns (for example their health) and about what they can expect from the service. When problems occur, they should receive full information about the situation and their rights. Choice can only be exercised sensibly when it is informed choice, so

people should be aware of the choices they can make.

### **1.3 Current Problems in Public Services**

**1.3.1 Central government has failed to provide long-term guaranteed funding for hospitals and schools.** Our public services have been historically underfunded in comparison to other countries. The long years of Conservative rule saw funding of public services fall behind most of Europe. Labour stuck to Conservative spending plans for two years, and though it has now put in significantly more money, the extra funding is not guaranteed in the long term. It is also the case that some of the extra funding has had to be used to carry out maintenance which was previously deferred due to lack of funds.

**1.3.2 Politicians too often interfere with decisions best taken by people like doctors, nurses and teachers who understand how to deliver a service.** There is not enough choice within the public sector over the nature of public service provision, and people do not have affordable alternatives if they are dissatisfied with public services. A lack of professional freedom has meant that public servants are overly constrained by central controls and cannot innovate. Meanwhile, recruitment and retention problems show that many public servants are underpaid and many more are demoralised by their workload and bureaucratic interference.

**1.3.3 Whitehall tries to make decisions for every town and village in**

**the country, rather than letting local people decide on the best services for them.** Too many decisions are taken in Westminster or Whitehall by people who are out of touch with local needs, and who set targets which force public servants to work to deliver on targets, rather than provide a better service. Performance targets are often political instruments designed to confuse as much as to enlighten. Decision making, for example by NHS Trust Boards, is not conducted in an open manner. Meanwhile, many people do not feel that they have an effective voice when public services fail to deliver or when they want to suggest how services can be improved. The sheer scale on which many services are delivered means that lines of complaint and control are too long.

**1.3.4 Access to public services is often inadequate.** Too often, the best or quickest facilities are only open to those who can afford to pay for them or are adept at working the system. People are often intensely frustrated at a lack of information about what will happen to them, in hospital or at school, or when dealing with the police. This problem is particularly acute when things go wrong. Some access problems can be explained by waste. Poor management can lead to significant waste (for example, on IT systems that don't work). There are also wide variations in the costs of running services between different providers – the variation in the costs of nursing services between different Critical Care Units can be as much as 60%, and the consultancy costs in such units can vary by a factor of three.

# Guaranteeing and Improving Funding

Liberal Democrats will guarantee and improve funding of public services. We will fund public services fairly from general taxation, reduce unfair charging, clearly and honestly link what the public pays with the services they receive, and promote investment financed from the capital markets. We will also reform outdated government accounting practices. Our key proposals include:

- **Guarantee and improve NHS funding** by earmarking National Insurance to the NHS as people's NHS Contribution.
- **Preserve fair access to services** by not extending charges as a way of raising additional funds for public services, and ending charges for services such as eye and dental tests, as well as personal care.
- Recognise that **choice is dependent on decent levels of funding**. Without high capacity in public services, scope for meaningful choice is greatly reduced.
- **Reform government accounting** so that privately financed public investment is counted when measuring the 'sustainability' of public finances to prevent bias in favour of PFI schemes.

## 2.1 The Scale of Funding

2.1.1 The UK's public services are generally less well funded than in most comparable countries. The shortfall in health spending is about 1.3 per cent of GDP compared with the EU average (according to OECD figures, the UK spent 6.7 % of GDP in 1998 compared to 8.0% for the EU average). In education, the UK spent a lower share of Gross Domestic Product (at 5.3%) than eleven European countries, including Austria (5.4%), Belgium (5.6%) Portugal (5.8%) and the Republic of Ireland (6%), as well as obvious high-spenders such as Sweden (7.8%).

2.1.2 Public sector investment, a key factor in the provision of services, has been particularly low in the UK for

many years as it was perceived as an easy political cut. Public sector net investment fell from 5% of GDP in the mid 1970s, to slightly more than 2% in the late 1970s, to a 1-2% range from the early 1980s to 1995. Since then it has consistently been below 1% of GDP – although it is forecast to rise to 1.8% of GDP in 2003/4. This is only partially accounted for by privatisation. Public investment as a share of national income has been the lowest in the European Union under both the Labour and the previous Conservative governments.

2.1.3 Lower funding is reflected in lower levels of service. For example, Britain has approximately 1.7 physicians per thousand population, compared with 2.9 in France and 3.4 in Germany (within Britain Scotland (2.25) does much better than England & Wales



(1.6)). Britain also does badly in a comparison of pupil/teacher ratios – for primary schools, Britain’s ratio is worse than in Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, the Netherlands, Norway, Spain, Sweden and Switzerland.

2.1.4 Would more funding help? It is possible to pay more for less. The USA for example has 2.6 physicians per thousand population, but worse infant mortality and life expectancy than Britain. But it is usually possible to deliver a better service with higher funding levels, and those countries with more public service professionals usually perform better on relevant outcome indicators.

2.1.5 Liberal Democrats have consistently called for targeted additional investment in the public services to address this funding issue. Some shortfalls in capital spending may appropriately be met by additional government borrowing (within the government’s fiscal rules), but current spending can only be financed responsibly through taxation. The Government’s latest budget proposes substantial increases over the next five years on health, which should bring UK health spending up to around the European average. However, this is to be funded mostly out of growth which may not materialise, and there is no mechanism to ensure that funding will be consistently directed towards the stated services. Under Labour, funding has followed a bust-and-boom cycle, rather than the sustained long-term investment which is vital for planning services and rebuilding public faith in the public services.

2.1.6 Funding is intimately related to choice, a key Liberal Democrat theme. If there are no spare beds or pupil places in the hospital or school that you want, you have no effective choice. So proper funding is essential to achieve a key Liberal Democrat objective. Funding may also follow the choices that patients and parents make (for example using Education Passports or through Personal Care Plans), introducing an element of internal market discipline into the public services.

## **2.2 General Taxation and Earmarking**

2.2.1 In the last Manifesto we proposed additional investment funded from general taxation, in the form of a 1p increase in basic income tax, a new higher rate of income tax at 50% for incomes over £100,000 pa, and changes to Capital Gains Tax.

2.2.2 There was an element of earmarking – the linking of revenue to a service - in the proposals: all the revenue from the 1p increase was allocated to education. This meant that people could be sure that we would fund our pledges for extra spending on education and voters knew what they would be getting in return for their extra taxes. Reflecting this longstanding Liberal Democrat approach, the government recently announced a 1% increase in National Insurance Contributions to part-fund their health spending increases.

2.2.3 However, other forms of earmarking are possible. The whole of a particular service could be funded by an earmarked tax. Further use of earmarking would have advantages:

- Through **simplicity** improve transparency and trust by making it clear to the public exactly where money is coming from.
- Improve **accountability** of spending by making in clear on a long-term basis how much money is going into public services.
- Allow the option of necessary increases in **investment** by making it clear to the public that any increases in a specific tax will be guaranteed to fund specific expenditure.

2.2.4 Some critics of earmarking have argued that this kind of earmarking runs up against the problem of volatility. Any particular tax stream will vary in the amount of revenue it generates year to year. If a single tax was used to fund a single service, such fluctuations would make planning a service and maintaining service levels difficult on a year by year basis. However, by cyclically adjusting the revenue stream, as the government already does for its overall tax and spending plans, it is possible to set the tax at a level which would deliver desired total funding over the cycle. This would be further guaranteed by an independent body making the projections.

2.2.5 We believe that the time has come to undertake such a radical reform to the way taxes are raised and spent. We therefore propose in more detail in the Health Chapter an **earmarked revenue stream for the NHS through a specific NHS Contribution**. The reason why earmarking is particularly appropriate for health is the uniquely sharp rise in the demand for health care, which runs ahead of the growth of national income in every developed

country, regardless of its funding system. A tax-funded system tends to be slower to respond to these pressures than social or private insurance, and an earmarked health contribution should be more responsive to voters' desires. This preserves the advantages of a tax-funded system while remedying a key disadvantage.

## 2.3 Charging and Social Insurance

2.3.1 In addition to funding services through general taxation, it is possible to fund them through a variety of other mechanisms.

2.3.2 Those who advocate charging do so for particular services (usually with exemptions for categories including children, the unemployed, pensioners and others). Charging users directly currently exists on quite a large scale in the public services, for example, through prescription charges and bus fares.

2.3.3 Existing Liberal Democrat policy is generally in the direction of removing charges. Indeed, if we see public services as by definition those services which for a variety of reasons it is not desirable to leave to individuals to purchase for themselves even with an element of public subsidy (see definitions section), then charging would seem logically inconsistent. We are **committed to ending charges for personal care**, as recommended by the Royal Commission on Long-Term Care, to abolishing university tuition fees, and charges for eye and dental checks, and initially to freezing and in the longer term phasing out prescription charges, (Liberal Democrats in government in Scotland and Wales have been able to put some of these commitments into

action). The last Health Policy Working Group (which produced the policy paper *A Clean Bill of Health* in 2000) ruled out charging for ‘hotel costs’ in NHS hospitals; given the large number of exemptions that would be essential, the money to be raised would not justify the administrative and other problems involved.

2.3.4 Charging carries administrative costs. It usually inadequately reflects ability to pay, and it may deter people from seeking necessary help. We therefore **reject extending user charges** as a way of raising additional funds for key public services such as health and education.

2.3.5 The ‘social insurance model’ applied in many European health systems is another option. Individuals are usually required by law to pay contributions into a fund, which then purchases services (usually healthcare) on their behalf. Contributions are generally linked to income. Funds are sometimes geographically based, but the individual usually has some choice between funds and can change fund if not satisfied. Everyone in a fund gets the same level of service.

2.3.6 Potential advantages of social insurance are that the individual has a greater sense of ownership of their own contributions, and has the power to change funds if they are not satisfied. However, the recent Centre for Reform paper *Universal Access, Individual Choice* in comparing health systems reached sceptical conclusions as to whether there were any more than cosmetic differences between the more comprehensive and compulsory social insurance schemes that are actually in operation and straightforward funding from general taxation. What is the

difference between a compulsory insurance contribution and a tax? It also found no evidence that at the same absolute level of funding social insurance schemes deliver any better outcomes overall, particularly since administrative costs are higher. We also note that the most popular health service in Europe is the Danish system, which is tax-funded like our own.

2.3.7 We do not, therefore, advocate funding public services through setting up a new system of social insurance, although we support some of the objectives of the model in allowing users greater say over the services they receive. We believe, however, that this desirable objective can be achieved in other ways within a general tax-funded system.

## 2.4 Measuring Value for Money

2.4.1 Irrespective of the actual amounts of funding available, a prerequisite of an efficient and effective public service procurement process is a sensible financial and evaluation framework.

2.4.2 The planning and accounting framework must be stable to aid planning but flexible enough to allow change through circumstance or political choice, transparent to ensure accountability, and must not be biased or designed deliberately to favour one type of provider or financial approach. Moreover, policy and budgeting must not simply be focused on cash inputs, but must take full account of the final objectives of procurement – the outcomes that the public wants.

2.4.3 Public sector accounting and financial rules have in the past been a major obstacle to sensible public service procurement. The problems with the system have included perverse fiscal rules, a public expenditure planning process focused on only one year ahead, a lack of a modern system of accounting for capital assets and future liabilities, and financial restrictions on some procuring authorities that bias decisions in one way or another, to name just a few. Moreover, until relatively recent times, there has also been little systematic measurement of the effectiveness of public spending.

2.4.4 However, there have been a recent series of welcome, radical reforms in the public sector's financial and evaluation framework. Taken together, and with some additional reforms set out below, these have the potential to significantly improve overall public service procurement.

2.4.5 The regular Comprehensive Spending Review, and new freedoms for departments to carry forward unspent balances, should gradually help reduce short-termism in Whitehall spending. However, Labour's failure to carry this long-termism into its cash allocation for health, education and local government, with excessive ring-fencing and in-year, last minute allocations, has so far undermined the benefits of these important reforms. As a first step towards greater decentralisation, we would extend both the new bi-annual CSR public spending process and the freedom to carry forward unspent balances to all public procuring authorities, to ensure central cash allocations get to front-line services such as schools.

2.4.6 Labour's new fiscal rules for a stable macroeconomic framework make more sense than previous rules, such as the Conservatives' over-emphasis on the public sector borrowing requirement. Both the so-called 'golden rule' and the 'sustainable investment rule' bring important fiscal disciplines.<sup>1</sup> However, such disciplines are in danger of being undermined by the failure to include the impact of Private Finance Initiative/Public Private Partnerships (PFI/PPPs) within the rules. This is because PFI/PPPs, while they reduce the short term funding required for investment, also simultaneously produce a new long-term set of liabilities for the public sector in terms of future charges. However, Labour's fiscal rules deliberately omit this revenue impact of the PFI/PPPs, and therefore not only present misleading information, but also bias Government in favour of PFI schemes. We would **revise fiscal rules so that privately financed public investment is counted when measuring the 'sustainability' of public finances.** We would ensure that capital spending budgets of central Government departments were set to include all forms of funding capital expenditure, to remove the bias towards a PFI/PPP approach caused by measurement rules.

2.4.7 The most radical set of reforms to the public sector's financial framework however was first proposed by the Liberal Democrats, introduced by

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<sup>1</sup> **The Golden Rule, drawn from the German Federal constitution**, says "over the economic cycle, the Government will borrow only to invest and not to fund current spending". **The Sustainable Investment Rule** says "public sector net debt as a proportion of GDP will be held over the economic cycle at a stable and prudent level. Other things being equal, net debt will be maintained below 40% of GDP over the economic cycle".

the Conservatives and implemented by Labour. This is the move to a proper and quasi-commercial system of accounting known as 'Resource Accounting and Budgeting'. This system of financial accounting will for the first time in the public sector remove the bias that previously existed against capital investment, by introducing accruals accounting and capital depreciation. Last year (2001/2) was its first year of implementation, after almost a decade in planning. There are still some weaknesses in the new system, for example, how it deals with certain liabilities, especially contingent liabilities. Moreover, it does not yet apply to local government. Liberal Democrats would want a period of stability to give it a chance to bed down before reviewing this new and welcome accounting system.

2.4.8 Over recent years, the public sector has begun several radical experiments with measuring performance of public services. While Liberal Democrats broadly support the development of performance measures to identify the key outputs and outcomes we seek from public services, there have been some serious weaknesses in the approach adopted. These weaknesses include: the failure to consult widely on what to measure, especially with Parliament; the production of too many targets, as opposed to the most relevant targets, which has undermined the element of trust necessary for committed performance by professionals; the failure to link target setting and budget setting in any meaningful way; the over-reliance on crude, one-dimensional measures (for example, hospital waiting lists, 5 grade A-C GCSEs) and the central setting of unrealistic productivity growth targets.

# Local People Making Decisions

Liberal Democrats will ensure local people, not Whitehall, make decisions. Our proposals will give local people a greater say over running of local services, making services more human in scale, and stimulating competition between areas and regions. Our key proposals are:

- **Bring the NHS closer to the people** and reduce central interference by allowing English regions to take responsibility for strategic health planning from the Department of Health. Democratic accountability will be improved by allowing regions to take over the powers of unelected strategic health authorities and to set the NHS Contribution for their region.
- In education, **tackle the skills gap** in a way that takes account of regional needs by scrapping the national Learning and Skills Council and replacing it with regional Learning and Skills Councils in England. These will also replace the current 47 local Learning and Skills Councils which are too small to draw together sufficient expertise.
- **Guarantee basic standards across the country**, but have these agreed at the appropriate national, regional and local level, rather than dictated by central government. Central government's role should be information-gathering, dissemination and persuasion.
- Give local, regional and national authorities **real power to invest in public services** by: allowing them to borrow to finance investment; scrapping council tax and replacing it with a local income tax to fund improvements in areas such as local schools; and allowing regional variations in national taxes to fund public services. Extra investment in areas such as higher education, would remain nationally funded across the UK
- Allocate **fair funding to public services in the nations and regions** of the UK through a Finance Commission for the Nations and Regions which will allocate funds from central government to the nations and regions on the basis of need. Any changes from the current allocations will be funded from growth, so no area will get less than it currently receives.
- **Reduce Whitehall interference** in devolved parts of the UK by replacing the existing territorial departments (for Scotland, Wales and Northern Ireland) with a single Department for the Nations and Regions, and replacing separate Cabinet ministers with a single Secretary of State for Nations and Regions. We will also reduce Whitehall control of key public services by devolving down more power, and using the techniques of 'blind budgeting' and 'zero-based budgeting'.
- Limit central government's role to information-gathering, dissemination and persuasion. We will implement a **full review of agencies and inspectorates** to ensure a simplified, comprehensive and authoritative system that puts the focus on meaningful information for users, voters and local policy-makers.

## 3.1 The Case for Greater Local Control

3.1.1 The public services in the United Kingdom, and particularly in England, are characterised by a high degree of centralised control, particularly over financial matters. Local people have very little say over major aspects of public services even though some regions are vast. England's most populous region – the eight million strong South East – is now larger than five EU member states (Austria, Ireland, Denmark, Finland and Luxembourg). Yet in the NHS, there is no democratic accountability below the Secretary of State.

3.1.2 Whereas in the UK 78 per cent of all government revenue is raised by central government, in Scandinavia the percentage is generally in the twenties, in Germany it is 29 per cent and even in supposedly centralist France it is still only 44 per cent. Revenue-raising is a major determinant of responsibility and control. Where more revenue is raised by lower tiers of government, they have proportionately more power.

3.1.3 Political control over public services is much more decentralised in the rest of Europe. Although Denmark has a population of just 5.3 million, its popular and tax-funded health service is run by its 14 Counties and two cities. Denmark spends modestly more than we do as a proportion of national income – about 1.2 per cent – but has the highest satisfaction ratings in Europe. In Germany, the Länder (regions) have complete control over their own school systems. We have been unable to identify any other large developed

country with such a centralised system of public services as England.

3.1.4 Within the UK, the Scottish Parliament and Northern Ireland Assembly now have complete control over management (although not funding) of public services, with the National Assembly for Wales having less, but nevertheless significant, control.

3.1.5 Liberal Democrats have always been committed to the principle of taking decisions at the lowest effective level. Devolution brings a number of clear advantages:

**Democracy:** Each elector's vote and voice has a greater weight in smaller political units.

**Accountability:** Access to political representatives is easier at lower levels, and new centres of political decision-making tend to promote a 'civil society' around them, for example, through local/regional pressure groups. Comparison between performance in different regions or localities can promote political debate and give a spur to improvements. At the local level, members of the community can be directly involved in monitoring and evaluating the performance of services for example through mechanisms such as citizens' panels.

**Responsiveness:** The lower the level of government, the greater the sensitivity to particular local needs, conditions and preferences (as opposed to a Whitehall 'one size fits all' approach).

**Manageability:** Public services run on smaller scales are generally easier to manage than large national scale operations. The NHS in September 2000 employed a total of 990,940 staff, far

more than any private-sector employer in Europe.

**Experimentation:** Innovations can be tried out at local level. If they work, they can spread rapidly, particularly if the centre gathers, analyses and publicises information on performance.

3.1.6 With a strong measure of devolution, including more devolution in Scotland, Northern Ireland and Wales, we will merge Whitehall departments and cut the number of ministers. For example, the existing territorial departments should be replaced by a single Department for the Nations and Regions, and separate Cabinet ministers could be replaced with a single Secretary of State for Nations and Regions.

3.1.7 In the proposals that follow, we set out suggestions for devolution from Westminster to regional government in England, and also some ideas for how regional governments might then improve public services. As regional governments develop, they will tailor their own solutions to their particular problems, and these ideas are not intended to predetermine those choices. Moreover, our policy is to encourage local conventions to determine the structure of decision-making appropriate to particular regions before a referendum on devolution. Such diversity works well in Germany, where different Länder have different local government structures (unitary and two-tier, often depending on how rural the area is) beneath the regional level.

3.1.8 The role of central government should be limited to supporting an effective system of monitoring of public service performance across the country, notably by comparing outcomes with national standards, and by reporting on innovatory successes and failures. We

would launch a review of the current proliferation of public agencies and inspectorates (Audit Commission, National Audit Office, Ofsted, etc) to simplify the system, and ensure that it provides voters, local policy-makers and users with authoritative, independent, comprehensive and understandable information.

## 3.2 Financial Devolution

3.2.1 Liberal Democrats have a long standing commitment to giving local and devolved tiers of government greater freedom to control their own destiny in financial matters. Since finance often determines choices, this is essential for meaningful decentralisation.

3.2.2 A substantial exercise in pruning Whitehall functions and spending would also be important if decentralisation is to work. It must not be seen as a recipe for more government overall, but merely for more responsive and local government. This exercise should involve **‘blind budgeting’ and ‘zero-based budgeting’** – reconsidering from scratch the essential functions that need to be retained at the Westminster level. Under ‘blind budgeting’, in an incoming administration, ministers might be invited to decide collectively on public spending priorities before knowing which ministries were theirs. This system for ensuring an unbiased collective judgement and a radical change in priorities was used effectively by the new Finnish 5-party coalition government in 1995 to introduce major budget cuts.

3.2.3 Other necessary financial reforms fall into three broad categories: revenue-raising freedom; a redistribution mechanism – generally called an



equalisation mechanism on the continent - to direct funds towards poorer areas; and borrowing powers.

### **Local and Regional Revenue Raising**

3.2.4 Although central taxes and grants will continue to be needed to take account of differing tax bases and needs, we should in the longer term give all devolved tiers and local government greater freedom to raise their own revenues directly. Without this power, representative bodies cannot truly reflect the preferences and priorities of their populations in the level of services which they deliver. Nor can they be properly held accountable.

3.2.5 As regional government develops in England, we would expect to **devolve a share of relevant national taxes to a regional level**. As the proportion of regional and local spending met from local or regional taxes rose, the amount of central taxation would fall.

3.2.6 We propose to give regions the freedom to raise revenue, for example, through **regional variations to the NHS Contribution** (see section 6.1), or by making **changes to a regional income tax** (in conjunction with an appropriate redistribution formula, as discussed below, to ensure that poor areas do not lose out). It is important to note that if a regional income tax was introduced, it would be accompanied by reductions in national income tax.

3.2.7 At the local level in England, we support:

- **Replacing council tax with local income tax (LIT)**, which is much more closely related to ability to pay (in conjunction with an appropriate

redistribution formula, as discussed below, to ensure that poor areas do not lose out).

- **Giving local authorities control over setting Business Rates** (which are currently centrally controlled), subject to obligations of consultation with local business.
- Giving local authorities the **power to replace the business rate with Site Value Rating (SVR)** if they wish.

3.2.8 We believe that a particularly important aspect of local income tax is that it would help to connect people with local public services. If the people running services are also those responsible for setting local taxation to provide revenue for those services, accountability and transparency will be much increased. It will also enable people to direct extra funding to local public services in a more effective way than national government is able to do.

3.2.9 An example of how this would work can be seen in education. **Local income tax would mean that improvements to local schools were funded by local income tax**, with any changes to school expenditure set out at a local level by the authority. People would influence choices over funding levels through local elections. However, any resources required for areas such as further or higher education, would remain nationally funded, at least until regional government is established.

### **Needs-Based Redistribution of Funds**

3.2.10 Simply giving funding responsibility for major public services to regional and local governments entirely from their own resources would create problems of unfairness, as the

regions and even more so local areas have widely varying tax bases. It is therefore necessary to have a redistribution formula to **ensure that central government money is distributed according to need, and to ensure that any local changes in taxation do not unfairly disadvantage poor areas.**

3.2.11 Table 1 shows estimates of GDP per head of population, indexed to the UK average (UK=100) for 1999. In 1999 London had the highest level of GDP per head, over £16,900, followed by the South East and East, both at £15,100.

No other regions were above the UK average of £13,000. This may overstate the differences in real terms, as the Office of National Statistics does not yet collect regional inflation and cost data. However, it is important to note that differences between individual local authorities are even more marked. At this level, it is certainly not the case that higher costs are accompanied by a bigger tax base. For example, there are poor inner London boroughs where the costs of both land and hiring staff are high by national standards, even though taxable income is low.

**Table 1 Regional GDP<sup>1</sup>  
Per Head**

Region	Total £bn	Share of UK (%)	Per Head £	Index UK=100
United Kingdom <sup>2</sup>	771.9	100.0	13,000	100.0
North East	25.9	3.4	10,000	77.3
North West & Merseyside	77.6	10.0	11,300	86.9
Yorkshire & the Humber	57.6	7.5	11,400	87.9
East Midlands	50.9	6.6	12,100	93.6
West Midlands	63.5	8.2	11,900	91.7
East	81.8	10.6	15,100	116.4
London	122.8	15.9	16,900	130.0
South East	122.0	5.8	15,100	116.4
South West	58.1	7.5	11,800	90.8
England	660.1	85.5	13,300	102.4
Wales	30.7	4.0	10,400	80.5
Scotland	64.0	8.3	12,500	96.5
Northern Ireland	17.0	2.2	10,100	77.5

1. Provisional GDP at basic prices

2. Excluding Extra-Regio and statistical discrepancy. The GDP for Extra-Regio comprises compensation of employees and gross operating surplus which cannot be assigned to regions

Source: Economic Trends March 2001

3.2.12 A robust system for distributing central funding is therefore needed to ensure that poorer regions are not condemned to second rate services. The existing Barnett arrangements which are based on applying a simple per capita formula to annual changes, while preserving historic anomalies, are plainly inadequate. Liberal Democrats propose to replace it with a needs-based formula, to be devised by a new **Finance Commission for the Nations and**

**Regions (FCNR).** The FCNR will be comprised of representatives of all the regions and nations, and appointed by the elected Regional Governments (or from indirectly elected Regional Chambers where elected Regional Government does not exist). The formula should take into account factors such as demography, sparsity of population, tax base, regional cost levels and existing central government inputs to regional economies (for example,

military bases). Such a formula should be set for five years to allow a reasonable basis for planning programmes and avoid arbitrary changes from the centre designed to influence local decisions.

3.2.13 The redistribution system should ensure that central grant together with a reasonable level of local revenue raising will provide a decent basis for funding public services in every region.

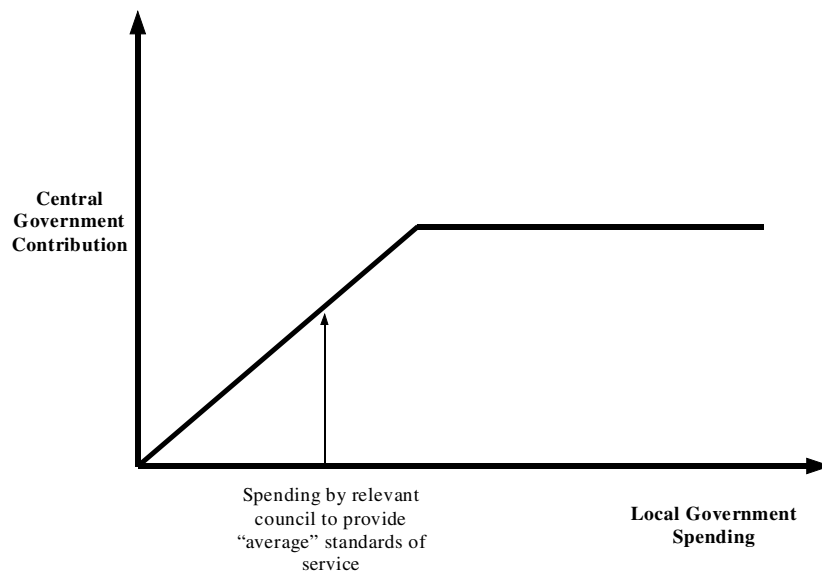
**Distribution of grant from regions down to local authorities will be a matter for internal regional arrangements where regions have opted for an assembly.**

3.2.14 Regional additions to national taxes will obviously raise different amounts of money for every penny in the pound in different areas. Scotland already has the freedom to vary its income tax and we propose the same for Wales and Northern Ireland. We therefore do not propose to impose a redistribution system on these three states for variations in tax (although they would be able to opt in to such a system if they wished). However, we do believe that such a system is necessary for changes to taxes in England, and so within England these variations would be subject to a redistribution process.

3.2.15 The same principles should apply to changes in local taxation. Any redistribution mechanism should not

only protect low tax-based councils spending at a level to provide “average” standards of service. It should also continue to provide some support when such councils choose, within reason, to spend higher to provide above average standards of service. Thus, for example, a council with a low tax-base would have additional support both when providing services to an average standard and, up to the predetermined maximum, when it chooses to provide better-than-average standards of service.

3.2.16 It is important that a redistribution system dealing with local or regional increases in income tax should be funded centrally, so that differences between regions can be taken into account. But it is equally important that it should be **agreed regionally so that the redistribution formula does not become a means of central government control**. It would therefore be the task of the Finance Commission for the Nations and Regions to determine a precise formula. Such a mechanism could be developed based upon the mechanism for local government financial support which was in use from the mid-1970s to the mid-1980s, and which enabled the overall central government contribution to be determined with appropriate precision. This operated as set out in the graph on the following page.



3.2.17 On the graph above, the slope would vary depending on the tax base (or need) of each individual council. As the graph shows, if a council chooses to spend at a level to provide above average standards of service, the central government contribution would continue to be provided (up to a predetermined maximum) at the same ratio. Thus, for example, a council with a low tax-base would have additional redistribution support both when providing services to an average standard and, up to the predetermined maximum, when it chooses to provide better-than-average standards of service. Of course, different councils will choose to have different standards of service. Some will seek high standards with corresponding higher levels of local taxation. Some, wishing to have low levels of local taxation, may choose to have corresponding lower service standards. Thus, the overall central government contribution would be able to be determined with reasonable precision, as

it was when a similar system was previously in place.

### **Borrowing**

3.2.18 Central government controls over borrowing for investment by lower tiers should be relaxed as soon as electoral reform provides a real prospect of voter choice. Lower tiers should be much freer to raise money, as they were in Victorian times when many key public services were first developed at the municipal level. This would have a major impact on the ability of local government and devolved tiers to invest in projects that they are currently unable to support. Prudential controls will remain in place, reflecting those in place for national government borrowing, with the District Auditor or equivalent having to authorise that any borrowing is being used for investment not revenue spending, and is affordable. Large projects whose debt service cost would take up a major share of the authority's revenues could also be subject to

approval by a simple majority in a local referendum.

3.2.19 The aggregate of local and regional borrowing decisions at any one time might not be compatible with optimal macro-economic management or our EU commitments to a 3 per cent of GDP limit on overall borrowing in one year. A co-ordinating body on which the finance ministers of each nation and region would sit would therefore need to be established to agree common rules to ensure that they collectively meet the UK's commitments. The German Financial Planning Council brings together the Länder and the Federal Ministry of Finance to co-ordinate general government borrowing in this way, through a National Stability Pact.

3.2.20 **Local authorities and regions should be free to borrow from banks or the capital markets** (for example, through bond issues) to finance investment but not current spending on the basis of equivalent rules to those used by the government nationally. They would do so on market terms, paying a risk premium according to their perceived responsibility and safety. Local authorities should be able to borrow for investment in their own name ('senior, unsecured'), or by issuing bonds secured against assets and revenue flows.

3.2.21 There is an additional model. Local and regional authorities could borrow for investment from the Treasury, with a 'shadow' credit rating to fix their interest rate premium over the rate that the Treasury pays the market for the money. This second scheme would allow the public sector to continue to borrow overall on the most advantageous terms (with local authorities paying an average risk

premium for their rating level to the Treasury), but would leave the Treasury with the temptation to intervene and regulate the flow.

3.2.22 We favour the first approach. This will maximise the freedom of manoeuvre of local and regional bodies; it will also minimise the danger of under-stating real risk simply because the consolidated fund is able to borrow on particularly advantageous terms. It is, however, unlikely that any responsible local or regional government would have to pay a significant extra risk premium over the UK Treasury when raising money.

### 3.3 Devolution of Functions

3.3.1 Within the UK, Scotland has achieved substantial control over public services through the Scottish Parliament. Other than in financial matters there is little change to this settlement that we would wish to see. In Northern Ireland, subject to cross-community support, we would also wish to see greater devolution in fiscal matters and issues such as policing. In Wales, there is a considerable degree of devolution in matters that require only ministerial decision or secondary legislation, but no control over issues where change requires primary legislation. There is also no tax-varying power. Liberal Democrats support giving primary legislative powers and tax-varying powers to the National Assembly for Wales, which would become a fully-fledged Welsh Senedd. Issues of further decentralisation below the Parliament/Assembly level are for the Scottish, Welsh and Northern Ireland parties to decide. Financial issues are considered below.

3.3.2 In England, regional devolution is much less advanced at the political level, although there is a range of regional quangos. Liberal Democrats have consistently supported elected regional assemblies in England to take over the existing regional quangos (subject to decisions on powers and boundaries as outlined below), and in the longer term to have the options both to adopt further powers drawn down from the centre, including primary legislative powers and tax-raising powers.

3.3.3 There are many benefits to be gained from bringing a variety of powers together at the regional level as this will lead to greater co-ordination and effectiveness in the implementation of the policies. At a minimum, Liberal Democrats envisage that **regional government would take over responsibility for all the powers currently held by the regionally based quangos** in that region, for example, the 47 sub-regional Learning and Skills Councils. Existing Liberal Democrat policy has already argued for a menu of powers to be offered for devolution to the regional level in order to improve services. However, we would expect **the establishment of elected Regional Governments to be preceded by a Constitutional Convention** which would debate what powers each region should take from the menu, and would discuss the appropriate regional boundaries, so that **Assemblies would not necessarily have to reflect current boundaries**. The regional referendum would then offer the electorate the chance of Regional Government on that basis. Decisions to take greater powers might later be made through further referendums. In what follows, we set out ideas for regional and local council responsibilities that might commend

themselves to policy-makers, but we do not seek to pre-empt the tailoring of individual regional proposals to local circumstances. Separate Chapters on Health and Education give greater detail on how functions could typically be devolved in these areas. Policy Areas where a regional dimension would make sense include:

#### Economic development

Effective regional-specific policy, for example in attracting inward investment, is needed to tackle the significant and persistent economic differentials that exist between and within the English regions. This will be one of the primary functions of a regional authority, which will have the right to take over the Regional Development Agency. However, this function is not a main concern of this paper on Public Services.

#### Skills and Training

The skill composition of the labour force varies significantly between the English regions, and is one of the main explanatory factors in the regional variation of productivity. For example, in the West Midlands, North East, Yorkshire and the Humber, and the East Midlands, the proportion of working-age people with no qualifications is more than one and a half times that of the South East. The so-called 'skills-gap' as well as a perceived lack of demand for highly specialised skills in some regions, has been one of the main causes of the persistence in regional divergence (although migration of the more highly skilled to London and the South East is also clearly a factor). Moreover, as the global economy develops, a first-rate system of education and training is vital if regional economies are to

exhibit satisfactory rates of economic growth. In particular the ‘new economy’ requires that labour, capital and product markets are sufficiently flexible as to productively adapt to changing demands and external shocks.

Specifically, the regions will be given the opportunity to take over responsibility for Learning and Skills. The current structure of 47 local Learning and Skills councils overseen by one national Learning and Skills Council, will be replaced with a series of **regional Learning and Skills councils** that will be designed to map onto the new regional structures. By working with the relevant Local Education Authorities, Higher Education and Further Education Institutions and employers within each region, these councils will also be able to more effectively encourage the development of a high-skilled regional economy, although the funding of, for example, FE colleges would not be run by these regional Learning and Skills councils. However, a degree of regional facilitation is required because local authority areas are usually too small to contain a wide range of further, and higher educational facilities and employer-based training opportunities. There may also be a need for a regional role in Special Educational Needs.

We believe it is crucial that universities are seen as having a vital role to play in the development of skills in our regions. Individuals and employers must have access to continuous professional development at the most appropriate level and in the most convenient setting. It is

important that traditional hierarchical boundaries between sectors are removed through closer co-operation between the HE and FE sectors.

#### Health and Social Care

Regional government offers an unrivalled opportunity to bring much greater co-ordination and efficiency to the delivery of health and social care in the regions and at local level. **Regional authorities will have responsibility for strategic health planning**, taking responsibility from the Department of Health, the four regional directorates and the unelected strategic health authorities. Regions will have a lead responsibility in ensuring that a whole systems approach is taken to the planning, and delivery of health and social care across the region. This would help to ensure that specialist services are not overlooked. Decisions concerning the configuration of NHS services would be devolved to the regional level, unless they were of more than regional importance.

#### Transport

**The region should have the right to become a Regional Transit Authority (RTA)**, to take over the current powers exercised directly by ministers in the Department of Transport over all regional transport issues. Local Transport Plans would continue to be developed by the local government, but the region would ensure these plans were integrated within an overall regional transport strategy. RTAs would also develop a role in the strategic co-ordination of congestion charging, work place car park charging and where legislation allows, the commissioning of public transport, although all of these issues

would be primarily matters for local government. The Regional Transit Authority could directly run key regional transport systems (for example the London Underground).

#### Emergency services

Three different central government departments currently provide the political direction of each of the emergency services. The Health Department currently has responsibility for the Ambulance Trusts, the Home Office covers the police authorities and the Office of the Deputy Prime Minister directs the fire authorities. There is a need to join up emergency services within regions to ensure their effective functioning and better integration with wider services. Emergency planning and responding to civil emergencies will be on the menu of powers for regional authorities.

**Regions will also be able to take over the current powers exercised by ministers in Whitehall over ambulance trusts and police and fire authorities.** This does not mean taking away powers from the existing Police authorities or fire service bodies which have a strong element of elected representation. Central government finance currently provided directly to the trusts and authorities would become part of the bloc grant paid to the region, for the region to allocate onwards. This will give regions even greater powers to set their own priorities.

#### Powers for effective inter-regional co-operation

To encourage new ways of working between neighbouring regions, regions will have powers to deal with strategic or cross-border issues.

Regions will be free to proceed with joint concordats, tasks and operations thus reducing the need for central government interference. Regional governments should also recognise that they can on occasion work better at sub-regional level and should develop mechanisms for this to happen.

3.3.4 Although we support giving the maximum possible discretion to locally elected public authorities to decide on priorities and the level of local taxation required to fund the desired level of services, we recognise there is a need for retaining some kind of central standard-setting role. Obviously, all public authorities will be required to observe basic principles of equality as set out in existing anti-discrimination legislation, and we hope in due course as set out in a combined Equality Act, prohibiting unfair discrimination on the grounds of sex, race, sexuality, religion, age, or disability. It would therefore not be permissible for a local authority to establish a new tram system which made no provision for disabled access, for example.

3.3.5 Even going beyond such basic respect for the principle of equal treatment, we believe that some basic features of the public services should be common across the regions. In an increasingly mobile society for both users and providers of public services, we do not wish to see unreasonable barriers to movement across local or regional boundaries set up. We also envisage that **a significant proportion of public services will continue to be paid for out of general national taxation for the foreseeable future, and the taxpayer should therefore have some basic minimum expectation.**



3.3.6 However, a national standard-setting role presents dangers for our vision of decentralisation. If such standards are set at a high level, all the resources of a devolved government may be taken in delivering them, leaving little freedom to innovate; and they may also allow the central government effectively to dictate priorities. Centralised Whitehall control has in any case shown it is incapable of delivering equal levels of service at present. To prevent these potential adverse consequences, we believe that **minimum standards should be agreed collectively by local authorities and the nations and regions, not dictated by central government**. This could be done using the same procedure that we have advocated for agreeing a needs-based formula to distribute central grants within the UK. This involves a Finance Commission for the Nations and Regions, comprising representatives from those nations and regions, reaching agreement.

3.3.7 Given this safety net, we are prepared to accept variations in standards of service not covered by agreed minima. This may necessitate services being linked to residence. This is the case in the United States, where income tax is 7 cents in the dollar more in Vermont than in neighbouring New Hampshire, but the population chooses it willingly for better services. Competition between areas - on the basis of better services and value for tax money - will be one factor helping to ensure improvement in quality.

3.3.8 It is also likely that English Regions would wish to move towards devolution at different paces. Even in the absence of full-blooded regional devolution, in some existing highly centralised services there could be more local autonomy or community input. An elected body could deal with only the health service in a particular area. We could also look at the elected school boards in the USA, and perhaps apply a similar model to NHS Trusts. Employee representatives on boards are also possible. In the longer term, however, devolution to a democratic body with responsibility for a wide range of services is preferable as it allows a broad view to be taken on shifting resources between services and building strategies to ensure services work coherently together.

3.3.9 If the full advantages of decentralisation are to be won - particularly the likely increase in innovation and social entrepreneurship - we have already mentioned that one central function may need to be reinforced, namely **information-gathering and analysis**. This is the way to spread best practice and enable an informed political debate in each region. The Audit Commission should therefore be given an expanded remit to report annually and comprehensively on the effectiveness of decentralised public service delivery. An easy summary of these reports should enable voters to assess the effectiveness of their region or local authority.

# ***Choice and Innovation through Diverse Providers***

Liberal Democrats will improve the quality of public services by allowing local service providers genuine freedom to choose methods of delivery and finance to achieve the best outcomes, learning from best practice and innovation across Britain and the World. Our key proposals include:

- Make the **best use of the different advantages of the public and private sectors**.
- **Encourage the growth of mutual/voluntary providers** as an attractive further option in the form of Public Benefit Organisations.
- Develop new, practical ways to **spread success** and enable high performing providers to take on greater responsibility, for example with senior teachers forming leadership teams across a number of schools, or having regional fire and ambulance services pool resources.
- **Ensure a level playing field for all providers** – traditional public sector, private sector and public benefit organisations – **by tackling unsatisfactory aspects of PFI/PPPs** after a review of the tendering and negotiations processes.

## **4.1 Funders and Providers**

4.1.1 Liberal Democrats are known for championing extra investment in public services, especially education and health. We are equally committed to improving how public money is spent. We will only secure a public consensus for a high provision of services if the public is confident that we are constantly striving to get better value for money.

4.1.2 Certain services and goods such as education and health have to be financed primarily by the state both on grounds of efficiency and fairness. We

reiterate the importance of **the right to health care and education, funded by the state, while being enthusiastic about change and reform in how public services are provided**. The key distinction is between the universal entitlement to the service and the diversity of the organisations and people that may provide it.

4.1.3 Apart from the Private Finance Initiative (PFI) and Public-Private Partnerships (PPPs), the main processes of public service procurement rarely attract interest. This is surprising since, even now, PFI spending has not reached even one fifth of traditional capital procurement expenditure. Liberal

Democrat public service reforms should therefore include a wide-ranging overview of all Government procurement.

4.1.4 In the procurement field, it is **important to harness the benefits of competition** (within the public sector, with the private and mutual sectors) where possible. Greater diversity in the suppliers of public services can act as a competitive force to ensure that extra Government money leads to higher standards. New public service providers may range from reformed public bodies to private sector companies and include social enterprise organisations such as voluntary organisations and other mutual bodies. The key characteristic of this last category is that although they may make an operating profit, this is reinvested into providing services rather than distributed to shareholders. Non Profit Distributing Organisation (NPDO) is thus a better term for such bodies than the more usual Not-for-Profit.

4.1.5 This growing **social enterprise sector is an increasingly attractive alternative to either state or private provision**. Public services depend so much for their quality on the commitment and dedication of their workforce, and are potentially a structure which empowers the workforce more than any other. If the workforce feels that they 'own' their institution, it seems likely that they will also be more committed to their task. Therefore NPDOs may have particular natural advantages in the provision of public services. We believe that NPDOs may also help to engender greater community support for local providers, as well as providing more freedom for the organisation's own development, both in terms of innovation and financial support.

4.1.6 The NPDO sector includes voluntary and charity providers ranging from emergency services such as the national lifeboat service provided by the RNLI, to organisations caring for people with mental health problems or running hospices that have often led the way in patient-focused care. Social enterprises based on principles from the mutuality and co-operative movements often achieve high standards and genuine innovation, for example in tenant-led housing co-operatives, pre-school childcare, care for the elderly and provision of sports and leisure facilities. The NPDO sector is extremely varied: as well as small-scale, community organisations charging small or no fees, there are other NPDOs which are huge and some, such as private schools and some private health schemes, where high fees are charged. Nevertheless, this sector could be a major source of new suppliers of public services. Liberal Democrats have an historic commitment to co-operative and mutual structures, and have recently advocated a Non Profit Distributing Organisation model for the management of the rail network and air traffic services - see policy paper 46 *Transport for People* (2001).

4.1.7 Liberal Democrats strongly believe that **the 'public sector' option must never be dismissed as some relic of the past**, as too many on the Right appear to do. Many public sector providers offer extremely high standards of service, at extremely good value for money, including many of our state schools and NHS hospitals. In the past, failing public sector providers have been reformed and turned round into successes. Therefore, the Liberal Democrat approach to public service procurement should continue to look to the public sector itself as a major provider of services.

4.1.8 Equally, those who seek to champion *purely* public sector provision appear to forget that **the private sector has long been involved with providing public services effectively**, whether as suppliers of intermediate goods to Whitehall Departments, or contractors in major construction projects, self-employed staff (such as General Practitioners) or as front-line providers such as pharmacists or nursing homes for the elderly. Already many schools and hospitals are reliant on private sector agency staff. Such private sector involvement may not always represent good value for money, especially as it has tended to come about in an unplanned way. Yet it is there, and new procurement policies must address that reality.

4.1.9 The different options for provision of publicly-funded services each have their own advantages. Public sector management can provide economies of scale, is politically accountable, can promote a strong public service ethos, and can secure the funding of investment cheaply. If the public sector works with profit making companies in PPPs, the pressure for profits, and competitive tendering can reduce waste. Meanwhile, public sector partnerships with NPDOs can bring in the motivation of volunteers and do not run the risk of being skewed by the profit motive. This means that each model can be applicable in different situations and it is important for public services to retain all options.

4.1.10 If we accept that diversity of provision is an advantage, then it is also crucial to get the relationship between funder and provider right. One key issue is the nature and length of the agreements. These can fundamentally alter the sense of any particular

procurement option, irrespective of the sector the provider represents. Particular care must also be taken that there should be no conflict of interest between high levels of profit and delivery of a high standard of service.

4.1.11 It is worth noting that not all contracts are rigid or inflexible. Some agreements are effectively commitments, where the funder would rarely, if ever, consider removing financial support, such as a local education authority developing a long-term relationship with a school. Such agreements operate best through trust and close working relationships, with control and monitoring as an incremental issue. These commitments – or less specified contracts - are underpinned with an expectation of commitment to service delivery whatever that takes, and are often regarded as supporting an ethos of public service more than a highly specified, rigidly contractual approach. They are more common with public sector providers than with NPDO or private sector providers, but that is not always the case or indeed inevitable.

4.1.12 The other class of agreements between a funder and a provider are more formal contracts. The less specified and more time open-ended the contract, the more it resembles the type of commitment previously described. However, in most cases, such formal contracts are highly specified and are more typically used with NPDO and private sector providers for services that can range from refuse collection to meals-on-wheels social services. For a procuring authority, a formal contractual relationship is very different from a commitment relationship. The explicit nature of the contracting process can have advantages that may range from cost control to careful clarification of

responsibilities and risks. A successful process can build the trust and partnership that is necessary for such contracts to work. However, at other times, this legalistic approach can simply reflect a lack of trust between the procuring authority and the provider, resulting in over complex, costly performance agreements. Public sector employees also need the right skills for negotiating and managing contracts with the private sector.

4.1.13 There is a particular problem with many PFI/PPP contracts: the extreme length of the contract involved, locking in future Governments and procuring authorities to policies and agreements they might have wished to change, having received a democratic mandate so to do. Such long-term contracts, or franchises, provide very generous investment incentives by sacrificing accountability. This means that PFI/PPP is often most appropriate for short-term contracts.

4.1.14 Long-term contracts may, though, be a necessary price for the involvement not only of private companies but also of NPDO organisations. In both cases, some legal certainty is required for them to invest in public provision. Moreover, employment custom and practice within the traditional public sector, and ownership of assets, also impose limits on the capacity to change.

4.1.15 The provision of public services will continue to come from the traditional public sector, the social enterprise/mutual sector and the private sector. This diversity is a positive feature, encouraging innovation and experimentation which are the sources of continuous improvement. For each type of provider, there are potential

performance issues to address to which we now turn.

## 4.2 Public Sector Providers

4.2.1 Public sector providers are likely to continue to dominate in most areas of delivering public service. The ability of the public sector to improve and modernise effectively is often not appreciated widely enough. However, there are a number of areas worth exploring where public sector providers could improve performance.

4.2.2 Public sector providers inevitably operate in a different financial culture from private sector bodies or even NPDOs. The challenge for public sector providers therefore is often to develop greater financial awareness, without sacrificing the public service culture. Options range from new professional qualifications or grades to encourage or recognise financial know-how within traditional public sector posts to new arrangements to second or sponsor external advice.

4.2.3 Public sector providers can often be limited by the size or structure of the institutions they are in: sometimes they are too small, other times too large, and it can be difficult to make changes. This is especially the case when successful providers want to expand or take on new challenges. **The public sector as provider needs to develop new, practical ways to spread success and enable high performing providers to take on greater responsibility.**

4.2.4 Some examples, mostly based on some existing practice, can provide insights into the possibilities. In education, senior teachers could form

leadership teams across a number of schools or consortia of schools could cooperate to develop jointly new services. In the emergency services, regional fire and ambulance services might pool resources, from communication systems and buildings, to training courses and career structures. Health and social service providers could be further enabled to form partnerships to improve services and win new contracts. Youth work and youth justice services could share resources, especially sports facilities, in neighbouring areas. However, we must be wary of allowing new local monopolies to develop.

4.2.5 The wider local community remains one of the most untapped areas of support for local public services. Such participation could be practical support for the provider, such as parents helping out in a classroom, the local neighbourhood watch or a hospital's League of Friends. At a different level, if there is very active local support, the public sector provider can effectively change its nature, for example with the formation of a new social enterprise, co-operative or mutuality.

4.2.6 It is also important to encourage public sector entrepreneurship and performance skills. There is evidence from past initiatives like competitive tendering and the current best value regime that performance skills can improve sharply in the public sector. A strategy to secure continuous improvement in productivity might include a major audit of the performance management skill base to identify unexploited skills, and to ensure existing skilled professionals are fully recognised. This would also establish on an on-going basis areas of greatest skill shortage. There might also be earmarked funding of training in performance

management disciplines to raise public sector performance capability and spread best practice. The Cabinet Office 'Quality Schemes' should include more continuous improvement topics. (See also section 5.7.7).

## 4.3 New Types of Providers

4.3.1 We believe there is huge potential for the NPDO sector to grow as a public service provider. Public services depend so much for their quality on the commitment and dedication of their workforce, and NPDOs are potentially a structure which empowers the workforce more than any other. **If the workforce feels that they 'own' their institution, it seems likely that they will also be more committed to their task.**

Therefore NPDOs may have particular natural advantages in the provision of public services. We believe that NPDOs will also help to encourage greater community support for local providers, as well as providing more freedom for the organisation's own development, both in terms of innovation and financial support. It is important that NPDOs delivering public services should represent in their internal decision-making structure the full range of stakeholders, including users and the local community more generally, as well as responding to the views of those who work in them.

4.3.2 NPDO models already exist extensively in housing, and housing associations provide one template for the extension of NPDOs to other traditional areas of provision in the public sector. By the very nature of the NPDO sector, however, it is difficult for the state artificially to drive its development. One

of its essential advantages is its ability to build commitment from the bottom up. However, we would like to see gateways so that traditional public sector provider units (for example, schools, hospitals or leisure facilities) can, if users, employees, managers and the relevant public authority so wish, elect to establish themselves as co-operatives or mutual societies. Nor should we exclude the setting up of new NPDOs. It should also be possible for public service users themselves to drive the creation of new types of provider, for example by groups of care users being able to pool their direct payments to fund a new mutual care provider organisation.

4.3.3 If the state is to be involved with this process in any way, and if NPDOs are to receive public money, there has to be clarity about their legal status. The Company Limited by Guarantee is currently the preferred vehicle for most large charities, but there are a range of other possibilities, and the New Economics Foundation has advocated the creation of a new Public Interest Corporation. It has to be remembered that the NPDO sector is not directly accountable to the public. And it is vital to have a robust mechanism for placing NPDOs in administration if they should fail financially, so that key public services continue to be delivered even in such an event. A new legal framework is therefore required. Such a framework would have to include strict limits on demutualisation (this must not be or even be perceived to be a backdoor route to privatisation) and clarity on the powers of such bodies to raise finance, how they are held to account and how social objectives such as equity and access are guaranteed. It will also have to allow for existing public sector and private sector bodies converting to NPDO status. If the NPDO sector is to

expand, we must also have clear state rules on funding that will not disadvantage NPDO organisations compared with traditional public sector providers or private companies.

4.3.4 A vehicle for this development in the role of NPDOs is a proposed **Public Benefit Organisation (PBO)**. The defining features of such a body should be that it:

- Has a separate legal personality.
- Can provide services and (where applicable) charge for them, and indeed make a profit.
- May not distribute dividends or capital assets to its members, so that its members do not have an economic interest in the outcome of its activities. There must be no power to its members to change this; this will ensure that the PBOs have a ‘stewardship’ ethos.
- Can be substantial in a financial sense, and accordingly can (a) be founded with core capital and (b) raise loan capital from the public.
- Has a sphere of activity, which while having social objectives, is not necessarily charitable (and indeed whose activities might not sit comfortably within the framework of charity law even if the scope of charitable activity was extended – for example, a railway company).
- Can remunerate not only its executive management but also (to a reasonable extent) its non-executive directors.
- Can be accountable to a number of ‘stakeholders’ and have non-executive directors who can be nominated by particular stakeholders while remaining

- accountable to the body for their conduct of its affairs.
- May only transfer assets (whether it is solvent or insolvent) to another PBO.
- Can be easily converted to by a non-PBO or can easily acquire the undertaking of a non-PBO.

4.3.5 The opportunity should be taken of the forthcoming Companies Bill to give effect to the proposals of the recent Company Law Review to create, within the broad structure of company legislation, a PBO structure as follows:

- A PBO should be a form of company limited by guarantee.
- A PBO should be subject to the present régime for charitable companies, namely have no power to distribute dividends or capital to its members, and be able to transfer its assets only to another PBO (except with special permission of the regulator).
- Unlike a normal company limited by guarantee, a PBO should have power to make an offer to the public of debt (but not equity) capital.
- A PBO may not grant fixed charges over specific assets.
- The only form of permitted insolvency for a PBO shall be administration; this is to facilitate the transfer of its assets to another PBO. Following such transfer, the normal liquidation provisions will apply.
- Any other form of Companies Act company may be converted into a PBO, but not vice versa.
- Any transfer of an undertaking to a PBO shall be exempt from stamp duty.

- A public body (for example, an NHS Trust) shall be able to transfer its undertaking to a PBO, subject to Parliamentary approval by positive instrument. In due course, a similar procedure will apply to tiers of Regional Government.

4.3.6 In administrative terms, PBOs would need regulatory supervision, which could best be provided by a dedicated unit within Companies House, with ultimate supervision by the High Court. PBOs would also need a discrete set of accounting standards.

## 4.4 Private Sector Providers

4.4.1 The private sector is already a major provider of public services in the UK. The contracts it has from public sector procurers vary dramatically in length and nature depending on the service. Thus, a company may contract with a council to supply a single consignment of goods, for street-cleaning for a four year period or, in the case of recent experiments under the PFI/PPP policies, the contract may be much longer and involve more complex financial arrangements. Liberal Democrats in government are committed to working with private sector companies providing public services, as one of the possible ways of driving up standards.

4.4.2 All policy experiments with private sector provision such as competitive tendering, franchising, the Private Finance Initiative and Public-Private Partnerships have had mixed results. While each initiative can show examples of huge cost savings and significant quality improvements,



equally there are counter examples of significant failures.

4.4.3 PFI/PPPs can provide excellent opportunities for innovative private sector involvement in the provision of public services, but just like previous experiments with private sector provision there have been examples of **serious and expensive mistakes in the use of PFI/PPPs**.

4.4.4 The main problem has been that, far too frequently, public sector procurers have been *forced* to opt for PFI/PPPs rather than the *best* solution. This has been done through restrictions on other forms of public service procurement resulting in there being no alternative way of undertaking an investment or developing a new service other than PFI/PPP. This method of procurement has been used in some extremely unsuitable situations, with the worst example being that of London Underground.

4.4.5 Criteria for PFI/PPP should include an analysis of which risks can be sensibly transferred to the private sector, and the development of the PFI/PPP programme should usefully have been accompanied by a more controlled set of pilot projects to test the boundaries of possibilities.

4.4.6 The lack of proper analysis behind the development of the PFI/PPP programme may partly stem from a major misunderstanding by successive politicians of what it actually represented. For some politicians, it seemed that PFI/PPP was a clever way of levering-in extra (private) money into public investment, and that therefore the prime motivation was financial.

4.4.7 However, PFI/PPP procurement does not result in new extra money: it just changes the time profile and nature of the public sector's payments. Particularly with contracts involving significant capital investment, the public purse 'saves' the initial, upfront costs, but the public service procurer then has to make payments to the private provider over the lifetime of the contract.

4.4.8 **The real benefit of the PFI/PPP approach to procurement has been to bring more private sector management know-how into public service provision.** Indeed, some have suggested the label 'Private Finance Initiative' was itself a misnomer, and that it should have been called a 'Private Management Initiative'.

4.4.9 Once the real advantage of PFI/PPP is understood, it is easier to have a more rational discussion on where and when it is appropriate. We have set out various accounting reforms which Liberal Democrats would introduce to remove the existing financial biases towards a PFI/PPP approach. Liberal Democrats believe that if a PFI/PPP procurement approach is to make sense for improving public service provision, it should do so in its own terms, not because the system has been rigged.

4.4.10 However, in addition to these accounting reforms, we believe a variety of changes and reforms to the PFI/PPP system of procurement are needed to make it more effective. These include:

- A review of the tendering and negotiations for PFI/PPPs, to prevent public sector procurers becoming 'prisoners' of the dynamics of any particular deal process and to ensure that

- genuine competition can be kept within the process to the latest possible moment. The exclusion of bidders at too early a stage negates the essential advantage of private providers – competition – and has become a concern to the EU Commission because of its potentially protectionist implications.
- A review of the high transaction costs associated with PFI/PPPs, in particular during the bidding stages, to establish how these can be reduced. Use of standard documentation may help in some cases. We would also establish more robust systems for monitoring such costs.
  - Greater transparency in the publication of contract details. In cases where commercial confidentiality has to be maintained to a greater degree than usual, we would augment the use of internal peer review processes within government and external independent audits. We would also seek to increase the involvement and consultation of stakeholders, including employees, users and local communities.
- Improving Public Sector Comparators (PSCs), to make them more transparent and ensuring that the public sector has the capacity to develop adequate PSCs.
  - More robust sensitivity analysis of PFI/PPPs, for example with respect to risk allocation, when they are assessed for value-for-money against PSCs.
  - Clearer mapping of risk within contracts and consideration of the issue of non transferable political risk.
  - A review of the problems caused by long contract periods for PFI/PPPs, particularly in terms of reduced political accountability and in terms of technological change. This would, for example, consider whether standard ‘break’ or ‘change’ clauses should be required for contracts over a certain period. It would also consider how the public sector procurer can ensure it benefits from any ‘refinancing’ of a PFI/PPP agreement.

# Valuing and Improving Public Service

Liberal Democrats will improve the quality of public services by allowing the public sector to improve pay in areas and professions where there are staff shortages and high vacancy rates. We will radically cut back the number of centrally imposed targets which hinder good management. We will improve skills within the public sector, and stop government trying to take decisions better left to professionals like doctors and teachers. Our key proposals include:

- Allow public sector employers **greater freedom to pay more to recruit and retain staff** where this is needed locally, by allowing the relevant elected authorities the revenue raising powers to fund such top-ups from local resources.
- Provide better information on costs of living in different parts of the country through **regional and local cost of living indices** to allow informed decisions on levels of pay.
- More **flexible pensions** for public service workers.
- Training and career structures which **promote excellence in public service procurement**.

## 5.1 Vacancies, Recruitment and Retention

5.1.1 There is a general problem of underfunding across the public sector which leaves the UK with lower staffing levels in most key public services relative to comparable OECD countries. Our proposals in Chapter Three on ways of raising additional funds for the public services address this general problem.

5.1.2 Yet even in the context of existing relatively low staff establishments, there is a clear and growing problem in recruiting and retaining public service workers:

- There are currently 22,000 nurse vacancies, a shortage of 10,000

doctors and significant shortages of physiotherapists, radiographers and occupational therapists.

- Teacher vacancies in England in nursery, primary, secondary and special schools were at 4,980 in January 2002.
- The overall vacancy rate in nursery, primary, secondary and special schools in England in January 2002 was 1.2 per cent. The vacancy rate was 1.0 per cent in nursery and primary schools, and 1.3 per cent in secondary schools. Special schools had a vacancy rate of 2.3 per cent.
- Of every 100 trainee teachers, 40 do not make it into the classroom and a further 18 leave within the first three years.

- Vacancy rates for full-time local authority social workers in England & Wales were 8.6 per cent in September 1999.

5.1.3 These growing vacancies are worrying on three counts:

- They show services are overstretched and citizens are not getting public services to the standards they expect.
- They place a question mark over the quality of some of the staff, as clearly the public service professions are not attractive to

work in for many who have alternative options.

- They mean that it will be very difficult to significantly improve services from the current base.

## 5.2 Regional Variations in Living Costs

5.2.1 Although there are key worker shortages across the country, there are strong regional variations. The latest DfES figures reveal that teacher vacancies in London run at four times the level of the North West.

**Table 2: Teacher Vacancy Rates (per one thousand teachers)**

	2000	2001	2002
North East	3	8	8
North West	3	5	6
Yorkshire & the Humber	3	5	9
East Midlands	5	7	8
West Midlands	6	9	11
East of England	9	17	17
London	19	35	26
South East	10	19	13
South West	6	6	5
England exc London	6	10	10

*Source: DfES (24 April 2002). Teachers in Service and Teacher Vacancies: January 2002. Note that similar patterns of vacancy rates are apparent for nursery and primary, and secondary teachers considered separately.*

5.2.2 These figures map very closely onto the regions in which the private sector has to pay relatively higher wages to attract staff, as revealed in a National Economic Research Associates Study of 1998:

**Table 3: How Much More Do Workers Earn in the South East ?**

	All local Authority Workers	Police	Teachers	Private Sector “Elliott numbers” % above average
Inner London	30.42%	26.95%	36.15%	46.62%
Outer London	21.30%	24.76%	15.59%	28.11%
Rest of SE	9.07%	8.86%	9.50%	13.15%
East Anglia	-3.28%	4.19%	-1.78%	2.70%

5.2.3 This means that the private sector generally pays about 47% more to attract staff in Central London than is paid by the private sector in an ‘average’ region. Public sector professionals are not paid the same level of regional premium, and this failure to meet higher living costs must be seen as one of the main reasons for special recruitment and retention difficulties. However, the gap between public sector and private sector levels in a particular region is not as high as would be implied by purely national public sector pay rates. In Inner London the gap is around 15%, and in the South-East outside London it is only 4%. This reflects some genuine pay flexibility (London weighting), but also undesirable expedients including unfilled low wage vacancies, and grade inflation as inexperienced staff are accelerated into higher paid jobs to retain them.

5.2.4 The use of agency nurses in the NHS is also much more extensive in London and the South East than other parts of the country. Half of national spending on agency staff is spent in London. There is a much higher vacancy rate (6.5% compared to 3.4%).

5.2.5 Within an area at the ‘devolved’ level, such as Wales, there can be striking variations in vacancy rates. Vacancies for all NHS Trust staff range from 4.0% at the worst (Bro

Morgannwg) to 0.9% at the best (Ceredigion & Mid-Wales).

5.2.6 **Excessive central government interference and bureaucratic burdens are often cited as a cause of low morale and retention problems in the public services.** While these are real problems, and may have a serious effect on the quality of service being delivered, the fact that vacancies are so strongly related regionally to high cost of living areas suggests that **a one-size-fits-all pay structure is equally problematic.** Of course, there are many local variations in living costs within regions as well as between them.

5.2.7 There are of course local reasons unrelated to cost of living why it might be difficult to attract staff to a particular location with low living costs. It has proved very difficult for the authorities to recruit sufficient GPs in some rural areas, for example. Research into the problem has indicated a major factor is the difficulty for the partners/spouses of GPs, who will usually have professional careers of their own, in finding suitable jobs in locations with a lack of major commercial or public sector employers.

## 5.3 More Locally Varied Pay in the Public Services

5.3.1 Whatever the adequacy of absolute public sector pay levels, it is clear that the current situation does not give public service employers enough **flexibility to pay more to attract staff in high cost areas or to unattractive jobs**.

5.3.2 Our preferred answer is to allow public sector employers greater freedom to pay what they need to recruit and retain staff, as and when the relevant authorities have the revenue raising powers to allow them to fund such top-ups from local resources. This approach would be in harmony with our general philosophy of local empowerment and decision-making. If our agenda of granting greater financial freedoms to local (and later regional) authorities were followed through, this would be administratively straightforward. The relevant tier of local government would be on average raising approximately 80% of its revenue from its own taxation, and local electors could simply choose to have well-paid, high quality public servants and the necessary tax level, or lower taxes and more poorly funded services. As long as higher local pay is funded from local tax payers and not out of central grants, the increased taxation will counter-act any overheating effect in local economies from the increased pay levels.

5.3.3 Teachers in LEA schools and local government workers are already administered at the local level and their pay is therefore channelled through local authorities already (although pay scales are set nationally). Other public services which do not already have such a degree

of local accountability, for example, the NHS and foundation schools, would have to be devolved to allow this approach to work.

5.3.4 Greater freedom to increase pay levels in high cost areas should be done within the context of a continuing national framework of minimum pay levels which should apply across every region, but with scope for top-ups where local or regional employers so chose. This would give some sense of security to low cost areas that they would not fall below current salary levels in real terms.

5.3.5 Pay top-ups could also be used in low cost areas where it was difficult to attract good staff for other reasons, for example, in high crime areas or extremely remote rural areas.

5.3.6 Funds for this proposal could also be provided through a training levy on private sector employers of state-trained NHS staff to reflect the costs of training borne by the NHS.

## 5.4 Housing and Transport Allowances

5.4.1 As the main (although not only) components of higher living costs in high cost areas are housing and transport, it would be possible directly to **assist public sector workers through housing or transport allowances**, as an alternative to giving higher pay. The Government have in fact recently proposed a 'Starter Home Initiative'. This particular scheme which is aimed at new entrants will obviously do nothing to help retain existing staff.

5.4.2 As with pay top-ups, any housing or transport subsidies which were funded

from central funds rather than local taxes would tend to exacerbate overheating in high cost areas. However, supply side measures which would increase the available stock of accommodation (for example, building or renovating accommodation blocks for student nurses) will take pressure off the general housing market. The lack of affordable housing in parts of Britain (not only London and the South East) is a major problem not only for public sector workers but for many on average earnings. Housing problems also contribute to many social problems which place a heavy burden on the public services, for example there is a clear link between poor housing and ill-health. However, it is beyond the scope of this paper to recite the elements of party policy that address this problem.

5.4.3 Housing and transport allowances could not of course deal with the problems of public sector employers who had difficulty attracting staff for reasons unrelated to these costs.

5.4.4 The simplest and most transparent solution to the problems of local and regional recruitment difficulties is to allow pay top-ups. However, in accordance with our commitment to devolution and promoting a diversity of solutions, we believe that public sector employers should be able to use whatever tools they consider most appropriate to attract the staff they need. As long as they were funded from local or regional resources, we would therefore allow employers to give transport or housing allowances, or indeed directly provide subsidised housing.

5.4.5 We should also advocate the publication of official regional and local

cost of living indices which would inform debate and pay-bargaining.

5.4.6 In permitting such variations in pay, we do recognise that in low wage areas, public sector national pay rates are a vital contribution to keeping up local pay, local GDP and preventing a low pay - low expenditure – lower pay spiral. That is partly why we are committed to top-ups on national minimums rather than total local discretion.

## **5.5 Pensions For A Flexible Working Life**

5.5.1 We are the party which most values the contributions that employees make to our public services. Pensions are an integral part of the compensation package and we need it to keep up with the changing needs of employees and employers.

5.5.2 Pensions should be negotiated between employer and employee, but there are currently statutory provisions which need amendment to enable negotiations to keep up with the times. There are various pressures building up in the system:

- Pensions for many public sector workers (for example, Civil Service, Teachers, Police, Fire Service and National Health Service) are paid from current spending plans, not from any existing pension fund. This applies to teachers and the police. For example, the Yorkshire Police Authority has to spend the first 30% of its annual grant on pensions.
- Those funds which do exist (for example, local authorities,

university teachers) are suffering from the recent decline in the stock market whilst the cost of providing pensions is increasing due to longer life expectancies. For example: although some of its problems are due to poor management, Surrey County Council's Pension Fund is nearly 30% underfunded.

- If we move to having greater regional variations in pay we could inhibit public sector workers ability to move regions.
- Many public service workers take early retirement on health grounds, partly because of the stresses that they are put under; at the same time, rigid pension scheme rules prevent others who want to from working past traditional fixed pension ages; for the public sector, this means a loss of the services of experienced and skilled professionals, many of whom are in short supply; it also means that many such workers pay contributions for shorter periods and draw pensions for longer periods putting great pressure on pension funds
- More than half of FTSE companies have either closed or never had final salary pension schemes for their employees.
- Changing patterns of working mean that final salary pensions may not always offer the best deal for all public service workers; those taking career breaks, those who change employers or sectors frequently and those who wish to reduce

their working hours before fully retiring may find existing pension structures too rigid

5.5.3 We therefore propose statutory changes to enable the following which will make pensions for public servants more flexible and better able to meet the needs of individuals:

- The current pension rights of existing public sector workers should be protected. The pending pensions crisis will not be helped by undermining existing pension provision for public sector workers.
- There should be more choice and flexibility in public sector pensions, for those workers who want it. Public sector workers (including those who might move into the public sector from private employers) should have the options of alternative pension arrangements (such as average-salary or money purchase) where these would fit their circumstances better. However, if these forms of pension would be more expensive to provide, the employee would be expected to make additional contributions.
- It is unacceptable that front-line services such as policing are being undermined by growing unfunded pension liabilities. We call on the Government to look at ways of reducing the impact of such pension liabilities on budgets for services, including the possibility of a greater role for more pre-funding of public sector pension rights.



- Regional salary variations (including, for example, London weighting) are not currently pensionable. This should change so that employees can choose whether to make pension contributions (into Additional Voluntary Contributions or other money purchase schemes) from these regional variations. This will mean that pension rights will be portable if employees move regions.
- Early retirement due to ill health is a major problem in our public services. The present situation is unsatisfactory for the public service workers involved and for the level of service that can be provided. It also puts increasing pressure on pension funds. We believe that the Government should act quickly to improve the working conditions and support arrangements for public sector workers, to reduce the need for early retirement on health grounds.
- We would abolish fixed retirement ages in the public services. The only thing that should matter is whether people are willing and able to do the job.

## 5.6 TUPE

5.6.1 While supporting the freedom of public authorities to procure services from a diversity of providers, we do not believe that this should be used for an attack on the basic working conditions of public sector staff.

## 5.7 Improving Public Service Skills

5.7.1 Public servants have a key role as procurers of services, and perhaps the most crucial reform needed to improve public service procurement is to enhance the status and skills of procurement officers. It is often forgotten that whichever sector ends up *providing* a public service – public, NPDO or private – the *procurement process* must inevitably be led by public servants. The quality of their input in turn informs the choices made by elected representatives. Yet during both the Conservative push for privatisation and Labour’s emphasis on PFI/PPPs these key public sector players have not received the support they need. Too often Government have brought in outside advisers for major procurement exercises, at huge public expense, and failed to design a long-term strategy to enhance the public sector’s own in-house competence.

5.7.2 Liberal Democrats will therefore implement an urgent strategy to **increase the skill base available to the public sector for procurement**. This strategy will include:

- An audit of the procurement skill base in the public sector to identify unexploited skills within the sector, to ensure existing skilled professionals are fully recognised and to establish the areas of greatest skill shortage.
- Significant salary increases for senior public service procurement officers, financed partly by reductions in the use of external consultants.
- Significant new expenditure on training for excellence in

procurement and contract management.

- New career structures tailored to promote excellence in public service procurement, including a re-grading exercise and new secondment opportunities between public, NPDO and private sectors, as well as the major accounting and auditing organisations.

5.7.3 However, it will be impossible for each and every public sector procuring authority to have all the skills and experience it might need at any one time. There is therefore a role for additional institutions to provide greater expertise from within the public sector. Both the Conservative and Labour Governments recognised this, to varying degrees, and there are currently four main institutions supporting public sector procurement. These are:

**The Public-Private Partnerships**

**Programme:** established in 1996, the 4Ps aims to support local government in developing PFIs/PPPs.

**The Improvement and Development**

**Agency:** established in 1999, the IDeA assists local government to improve service delivery generally, including advice on procurement.

**The Office of Government Commerce:**

established in April 2000, the OGC is focused on central government procurement, currently estimated at £13 billion per annum.

**Partnerships UK:** established in June 2000, PUK is itself a PPP, helping both central and local government to undertake PPPs.

5.7.4 The above institutional structure is a considerable improvement on what has gone before, but there remain significant omissions and a range of

necessary reforms for providing greater support for public service procurement.

5.7.5 The most obvious omission to the institutional framework of procurement support is the NHS. Procurement in the NHS is mainly supported through the Department of Health itself or the regional office. Recent Government reviews of NHS procurement have not led to any institutional change. There is a good case for extending the support given to procurement officers in the NHS, and the best route for this would be a remit extension of a body such as the Office of Government Commerce to incorporate the NHS.

5.7.6 Enhancing the procurement processes and performance of public servants is fundamental to public service reform, and we make the following specific proposals:

- Enabling legislation to provide new legal entities to facilitate procurement partnerships between different public sector funders, for example, health and social services, neighbouring LEAs.
- A web-based information bank to spread 'best practice' and to share information on providers between all public service procuring authorities.
- Joint development by the 4Ps, IDeA, OGC and PUK of a database of accredited NPDO and private sector organisations that offer procurement training and specialised legal and financial advice for commissioning.

- A new Queen's Award for Innovative Public Service Procurement.

5.7.7 In addition to raising procurement skills, as we expect that direct public sector provision will remain of major significance in the public services there is also a need to raise management skills more generally in the public sector. There are a wide range of specific management techniques for improving performance and productivity, to which government has frequently paid lip service, and a number of useful programmes such as Investors in People and ISO 9000. The key to effectiveness however is giving political priority to ensuring best

practice is effectively adopted. Liberal Democrats would:

- Widen the Cabinet Office 'Quality Schemes' to include more powerful disciplines (for example statistical process control and value management) and strengthening the related promotional effort.
- Make performance management, plus related leadership and training issues, topics to be addressed in audit and inspection of public service providers.
- Ensure that when policy is formulated any related skill and implementation issues are evaluated and 'owned' and not merely left to chance.

# Health and Social Care

Liberal Democrats will guarantee and improve NHS funding. We will stop politicians interfering with decisions best taken by patients and local people, and we will improve access to high quality health and social care. Our key proposals include:

- **Guarantee and improve NHS funding** by earmarking National Insurance to the NHS as people's NHS Contribution.
- **Improve access to health and social care** by increasing capacity, through measures such as improving staff retention and morale, early intervention and ending delayed discharges.
- **Improve fairness in the NHS by increasing access**, especially of socially excluded groups, to high quality preventative and treatment services.
- Make the NHS **more responsive to patient needs and choices** by ensuring that decisions are made locally in response to local needs and preferences.
- **Provide more and real patient choice** by allowing patients access to any treatment that will help them and is cost-effective anywhere in the UK.
- **Empower patients** by providing meaningful and accurate information about options and outcomes, by for example a national database of waiting times and treatment options on the Internet.
- **Let local people not Whitehall make decisions** on the NHS. In England, Primary Care Trusts (responsible for the key health commissioning role) will be made accountable to elected councillors. English regions could take responsibility for strategic health planning from the civil servants in the Department of Health, and those powers of unelected strategic health authorities that cannot be devolved locally. They will also have the right to change the NHS contribution.
- **End the division between health and social care** in England by running their local services through the same local authority with one budget.
- Develop **Personal Health Plans** which would include individuals medical records and set out each person's entitlement to, for example, screening checks, and ensure effective **Personal Care Plans** for all individuals and families who are engaged with social services to guarantee the support they need and where possible, the route to independence.
- **Stop central government interfering** by limiting central government NHS responsibilities to national policy including public health, regulation, medical research, and medical, nursing and other professional training, and allow doctors and nurses to take frontline responsibility.
- Focus on **public health and prevention** measures, including better high-risk identification and early intervention.

## 6.1 Funding the Health Service

6.1.1 One of the major problems with regard to funding of public services is that the public do not trust politicians to use tax increases to deliver real improvements in specific public services. That can mean that the public is unwilling to support tax increases unless they are earmarked for a specific purpose. At the same time, it is difficult for the public to hold politicians to account over long-term investment in public services if they cannot be sure that there is a guaranteed stream of funding.

6.1.2 There is a particular problem at present with the funding of the health service. Significant investment has been made by the current government, but there are major concerns about the way in which it has been done, and it remains difficult for people to link investment in the health service to specific taxes that they pay. A priority for government should be to establish a funding system for the NHS which will:

- Through **simplicity** improve transparency and trust by making it clear to the public exactly where money is coming from.
- Improve **accountability** of health spending by making in clear on a long-term basis how much money is going into the NHS.
- Allow the option of necessary increases in **investment** by making it clear to the public that any increases in a specific tax will be guaranteed to fund the NHS.

6.1.3 The best way of delivering transparency, trust, accountability and

investment regarding NHS spending is to link a specific tax to the NHS. We have considered several options for this, including using VAT receipts; a proportion of income tax; or National Insurance Contributions. VAT is clearly unsuitable as it very regressive (that is, it falls much more heavily as a proportion of income on low earners) and does not raise enough revenue to fund projected NHS spending without significant rate increases. Income tax is a more plausible candidate than VAT, but we believe that in the current context, **using National Insurance Contributions (NICs) as a renamed NHS Contribution**, is the best option for the following reasons:

- **Simplicity:** NICs already exist as a separate system and are indicated as a separate tax on payslips. No new bureaucracy or tax complication would have to be introduced as it would be easy to divert funds from NICs into the NHS while using general taxation to fund expenditure currently funded by NICs.
- **Adequacy:** To the end of government projections on increased NHS spending (in 2007/8) NICs raise almost exactly the same as the government's planned expenditure, meaning that no increase in NI rates would be necessary to meet the government's long-term plans.
- **Stability:** National Insurance is less vulnerable than income tax to 'cyclicality': the problem of receipts going up or down according to the economic cycle. Inevitably, some years will yield lower receipts than others, but it is possible to budget for this by adjusting NICs rates according to

long-term projections so that the receipts balance over the economic cycle.

- **Flexibility:** It is very useful for government to have a substantial tax like the current income tax that it can use to fund a wide range of functions such as policing, local government, defence, and social security. If income tax was split in two, with one part funding health, that flexibility would be reduced. However, funding health through NICs which are already, in theory, earmarked, does not reduce that flexibility.
- **Progressivity:** NICs are the most progressive tax for low-income people, and are the second most progressive overall. The overall progressivity of the tax system would not change as a result of earmarking.
- **Responsiveness:** NICs may easily be devolved to regional governments that choose to exercise their NHS contribution-changing powers, so that the proposal ties up with our emphasis on decentralisation.

6.1.4 In establishing such a system of funding the NHS, the impact of recent and future devolution must be borne in mind. Our proposed system takes three particular issues into account:

- The need for the nations and regions to be able to spend more on the NHS if they so wish. For example, London might need to spend more on wages to tackle recruitment problems.
- The need to establish the basic NHS Contribution on as wide a basis as possible to ensure that

the whole of the UK funds the NHS properly, and that there can be effective redistribution measures.

- Our proposal for an NHS Contribution involves giving the Scottish Parliament, National Assembly for Wales and Northern Ireland Assembly a needs-based share of what it raises through the block grant. It would not be appropriate for the Westminster Parliament to impose new restrictions on how devolved bodies spend their block grant.

6.1.5 We therefore propose that:

- To ensure that there is effective redistribution, we will maintain our 2001 manifesto policy of establishing a Finance Commission for the Nations and Regions to establish a needs-based formula for the distribution of central government revenues.
- The Scottish Parliament, National Assembly for Wales and Northern Ireland Assembly should not be dictated to regarding how to spend that part of the NHS Contribution which is devolved to them through the block grant – they should retain all current flexibility regarding use of the block grant.
- Nations and regions should be allowed to increase the rate of the NHS Contribution (on employees, but not on employers) if people elect a regional assembly which wants to make that change. English regional governments would be able to use all the money that increase raises in their region for

the NHS in their region. In accordance with our longstanding commitment to giving complete freedom to control their own spending to the Scottish Parliament, the National Assembly for Wales and the Northern Ireland Assembly, these bodies would be able to spend the increased revenue at their own discretion.

#### 6.1.6 Summary of key points of proposal:

- National Insurance renamed ‘NHS Contribution’ with all receipts earmarked for the NHS.
- The NHS Contribution will guaranteeing the increased funding stream for the NHS and social services which has been set out in the 5 year spending plan of the Government through our NHS Contribution.
- This change of funding source does not require any increase in NICs to meet current plans to fund the NHS (though of course as with all tax policies we can only make final decisions at the manifesto stage).
- Items currently financed from the NI fund (such as retirement pensions) would be funded out of general taxation. Record keeping would be greatly simplified.

#### 6.1.7 Summary of key technical issues:

- NICs revenues for the NHS would be cyclically adjusted so NHS spending did not vary over the economic cycle, and the NHS could plan spending over the long term.

- Rebates of NICs for those with private pensions would continue to be funded at current levels, but from general taxation not NICs. This means NICs revenue matches government spending plans.
- The contributory principle: in the short term a shadow system would credit people with contributions for having paid income tax, on earnings only, on the same weekly basis as the current system. This would simplify the present record system. In the longer term, we plan to make the Basic State Pension available to all regardless of contributions so we would be able to phase out the contribution system.
- As with present NHS funding, the new system would not cover most of the existing social care budget. However, we would integrate health and social care spending (i.e. commissioning of services) at a local level. The earmarked NHS Contribution and the money for social care could flow into the same total ‘pot’ locally, to end the present tensions over funding of care for some individuals between social services and the NHS.

## 6.2 Making the NHS Accountable to Local People

6.2.1 The NHS as it is currently run suffers from a severe democratic deficit, with democratic accountability only directly exercised at the national level. This is in contrast to the way we run the school system, and also to the way

health services are run in some of European countries with excellent health services, such as Denmark, where health services are mainly run by county councils. It also runs counter to an obvious **appetite for local communities to have a greater say over local health facilities**.

6.2.2 In the context of the development of democratic regional government as outlined in Chapter Three, Liberal Democrats would therefore:

- Limit central government NHS responsibilities to functions including public health, regulation, medical research, and medical, nursing and other professional training.
- Give the Finance Commission for the Nations and Regions power to allocate the appropriate share of the NHS Contribution to regions.
- Set national minimum health care standards by agreement among the regions.
- Where elected regional authorities exist in England, abolish the existing unelected Regional Health and Social Care Directorates and Strategic Health Authorities, and **give responsibility for strategic development of health and social care services to elected Regional Assemblies**, who would also be able to vary NHS Contribution rates on employees (but not on employers), distribute funds to local commissioning bodies, supplement the funding through regional top-up payments, and directly commission health and social care for certain conditions.

- Give the main health commissioning functions currently discharged by Primary Care Trusts in England to elected local government, at the same tier that has responsibility for social services to ensure coherence of health and social care planning. Regional governments could conduct any re-organisation of local government that this might require. Local authorities could also raise local taxes to top up health spending in their areas on top of national and regional funding streams.
- Both regional and local health decision makers would receive advice from a newly strengthened and unified public health function, patient groups and clinicians.

6.2.3 Such a structure will give the national tier a much clearer focus on public health issues, where it has a legitimate role, and reduce its interference in local priority setting. This reorganisation would allow for real devolution, as opposed to the existing regional and local structure which is line-managed from Whitehall. If the political accountability is devolved to a regional and local level, then the providers of healthcare will be focused on regional and local, rather than national priorities.

6.2.4 While supporting democratic accountability over overall funding and planning of health and care services, we will ensure that such decisions are taken on the basis of advice from public health professionals, patient groups and clinicians.



## 6.3 Empowering Patients for Real Choice

6.3.1 Liberal Democrats believe that we should seek to maximise choice wherever possible and appropriate for NHS users. The NHS today not only suffers from problems of inadequate capacity and variable quality but it is not sufficiently responsive to patients needs and preferences, and/or the demands of those commissioning care on their behalf. Unlike Labour until their recent apparent change of heart, Liberal Democrats have always championed empowering users in public services (see policy paper 36 *A Clean Bill of Health* (2000)). We therefore propose that having received advice of their GP or other health professional on hospitals and consultants, the **patient should be allowed to be referred to the consultant (or other health care professional) and hospital (or other provider site) of their choosing**, conditional on the treatment being considered sufficiently effective and cost-effective. Informed patient choice can be an important tool for driving up quality and promoting public support for a well-funded NHS.

6.3.2 Although under the decentralised model of the health service outlined above, the policy on health care delivery in each region and locality will be for local decision, as a starting point we will promote the principle of maximising informed patient choice at all stages in health care.

6.3.3 Under this proposal, it would be the responsibility of GPs and local authorities to ensure the commissioning of the healthcare chosen by the patient. Having been seen by the GP (or in some

cases another health professional such as a nurse or physiotherapist), and having received their advice on hospitals and consultants, the patient should be allowed to be referred to the consultant (or other health care professional) and hospital (or other provider site) of their choosing, conditional on the treatment being considered sufficiently effective and cost-effective by the health care team in consultation with the patient. The provider would offer dates for consultation and/or treatment on the basis of their capacity and the clinical priority of the case and not on the basis of central diktat, which could distort local priorities. The funding authority would then fund the patient's choice of referral. Usually, based on past referrals and consultation with local GPs there would be an agreement in place with a local hospital. But funding authorities should be prepared to make more 'extra-contractual' referrals where requested.

6.3.4 Liberal Democrats are committed as a priority to improving equity (fairness) and access to health services. Increased choice for patients need not come at the expense of access and equity if capacity is increased first. We would increase capacity through, among other measures:

- Guaranteeing the increased funding stream for the NHS and social services which has been set out in the 5 year spending plan of the Government through our NHS Contribution (see section 6.1 above).
- Allowing for variable regional and local financial contributions.
- Increasing social services investment and other prevention and early intervention strategies, to reduce or postpone demand for

secondary care, and release wasted capacity.

- Making better use of currently unused clinical skills such as clinically qualified asylum seekers and refugees.
- Return pay beds in NHS hospitals to NHS use unless they represent use of true spare capacity and they make a profit for the trust.

6.3.5 It is necessary to be clear how funding authorities will cope with patient preferences and stay within budget if patients need and/or request either:

- a) A less cost-effective treatment than others that are available; or
- b) A high volume of treatments that there is insufficient resources to match without damaging reductions elsewhere in the service.

6.3.6 Obviously, in a publicly-funded health service the commissioners must ensure that services are delivered equitably within the money available. The local health authority would have to manage within budget. Less cost-effective treatments or treatment that local GPs and commissioners (including public representatives) generally agreed were of a lower medical priority might not be paid for until it was clear the budget could accommodate more usual and higher priority care.

6.3.7 Rationing (the mismatch between need/demand and resources to deliver) is a fact of life in any publicly-funded system, but it is vital to ensure accountability of the NHS to patients and tax-payers that such rationing is

explicit. The NHS nationally and regionally would publish a list of treatments that could not be afforded because of affordability issues or because of their low effectiveness. In that way local voters would be empowered to make decisions about the amount of NHS funding to vote for in the knowledge of what would be provided with the extra resources. It is the job of the regional strategic health tier to ensure that such resource constraints were explicit. A report should be made on all those cases where a funding authority felt it had to delay agreement to pay.

6.3.8 Most continental European health care systems offer the patient choice of treatment without being overburdened with the problem of rationing on the grounds of poor cost-effectiveness or affordability. The evidence shows that most patients place a high value on being treated in their nearest local facility, which is where the funding authority would most likely have an arrangement. As capacity expands with increased resources and reformed functions, the extent of rationing should decline. Again the better-funded European systems demonstrate this.

6.3.9 The advantage of explicit rationing, with empowered patients taking a greater role in choosing from different treatment options, is that where a local or regional health service is underfunded, this will obviously result in patients more often experiencing delays in obtaining their preferred referrals, and should result in political pressure for a more realistic level of health spending.

6.3.10 Users of the health service – because of the high stakes involved in making appropriate choices – need more

understandable, relevant and accurate information to empower themselves to make choices which are right for their circumstances and to enable them to access the specialist advice and advocacy that must also be available. An informed patient is an empowered citizen who can then use their choice to further improve the responsiveness and quality of health services. Badly conceived information systems create a danger that:

- Patients will not be helped by misleading, poor or meaningless data that provides no useful basis for a decision.
- Clinicians will be pressured into defensive practice and conservative patient selection to seek to improve the appearance of the data.
- Money will be wasted on spurious outcome measures and useless information which only ends up undermining the morale of those in the service.

6.3.11 We would therefore improve the range of, reliability of and relevance of the information available both to GPs and the public on the range, ease of access and quality of health services available within the NHS, through, for example, a **national database of clinically-based actual hospital waiting times**, and properly adjusted, sensible outcome measures. This information would be available online and through public libraries. Hospital Trusts and other providers would be under stronger obligations and have specific funding to conduct audit and provide rational information. Such websites might also contain areas for patients to report on their perceptions of the experience of different services. In

addition to information on particular health treatments, information should also be more widely available online and through telephone helplines on how the Health Service works, for example on the procedures for changing one's GP (many do not know they can do this) and how to make a formal complaint. We will also strengthen patient advocacy services for all patients, especially those patients unable to make informed choices for themselves.

6.3.12 We will scrap incentive payments for GPs and hospitals which pressurise providers into placing quantity before quality and give the appearance of a financial vested interest in the outcome of the consultation. We will end the ability of GPs to strike patients off without giving a reason and allow patients to appeal against a GP's decision.

## 6.4 A New Emphasis on Prevention

6.4.1 To improve health outcomes in England, you cannot just focus on how patients are treated once they become ill. In Scotland, health outcomes are poor to a large extent because of health inequalities and lifestyles, rather than because of the health service.

**Liberal Democrats want to see the emphasis of the NHS and social care shift from treating sickness to promoting good health and tackling problems before they become severe.**

The greater focus of the national and regional tiers on co-ordinating policies across the board to deliver a coherent public health strategy is an important plank of this commitment. The merging of primary care and social care will provide a more seamless approach to people's needs. The focus will be on

keeping those people who do not need to be in hospital, out of hospital, and if possible, in their own homes.

6.4.2 Our policies on ending charges for eye and dental tests and phasing out prescription charges will also help to reduce barriers which deter disadvantaged groups from accessing health care in a timely and effective manner, boosting overall health levels and achieving greater health equity.

6.4.3 We wish to develop this emphasis by focusing resources on new effective screening programmes. We would identify clinically proven and cost-effective screening programmes which we would prioritise for resources – examples might be early detection of maturity onset diabetes and high-risk identification for osteoporosis. This enhanced screening programme could be integrated with the development of Electronic Health Records to create **Personal Health Plans**. These would set out the appropriate screening checks and other interventions or lifestyle changes that each individual should be having or

making at different times of life based on their gender and other characteristics. They would be updated as the state of medical knowledge on screening programmes improved, and could be accessed by patients directly online on PCs or in public libraries, or printed out by the GP surgery.

6.4.4 We wish to increase the effectiveness of social work intervention to ensure that there are goals for every individual and family. Each care user should have an effective and guaranteed **Personal Care Plan** drawn up with the case worker, relevant professionals and other family members, as appropriate, to achieve agreed goals. Personal Care Plans are particularly important for children and young people who are in public care to make certain that they are not lost in the system and have full opportunities. Their Personal Care Plans should set out the steps by which they may return to their families or enjoy alternative support as they grow up. Personal Care Plans should be linked with Personal Health Plans and Education Passports.

# Education

Liberal Democrats will improve the quality of education by giving young people an Education Passport so they have greater control over their educational choices from age 14, allowing local authorities greater freedom to fund local education from Local Income Tax, and abolishing oppressive nationally imposed testing. Our key proposals include:

- **Tackle the effects of socio-economic inequality** on education by funding pupils according to their individual needs using a system similar to that used in the Netherlands. This would raise an individual's access to funding based on need. For example, a pupil who is not a native English-speaker would attract extra funding until a level of competency had been achieved.
- **Fund improvements to local services such as schools** through a fair system of local income tax which would replace the unfair council tax. Local authorities would be freed to enter into capital projects using objective local criteria to judge the best form of procurement.
- **Teachers should be free to teach** subject only to national requirements for what children and young people should know at the end of years or courses, so responsibility for how this is achieved will be devolved to individual schools and teachers, overseen by local accountable elected authorities.
- A more **flexible and relevant curriculum** with nurseries and pre-school for ages 0-7, a development stage for ages 7-14 which would include mandatory provision of a modern foreign language, and greater choice, including a measure of specialism (including vocational education and employer-led training) at 14-19.
- Give young people more choice and responsibility through individual **Education Passports** to use in schools or colleges or on other training from 14.
- Give parents detailed information on the performance of both their child and the school through **Annual Progress Reports**. The Report would set individual targets for each child for the coming year and form the basis of an **Entitlement Guarantee**. Improved comparative data would be included in APRs but the present crude government-sanctioned national league tables would be scrapped.
- **Tackle the skills gap** taking account of regional needs by scrapping the national Learning and Skills Council and replacing it with regional Learning and Skills Councils. These will also replace the current 47 local Learning and Skills Councils which are too small to draw together sufficient expertise. The regional Learning and Skills Council, which will eventually be democratically accountable to a regional assembly, will work in partnership with LEAs, FE colleges, universities and employers who will have open access to funds.

## 7.1 Teachers to Teach, Local People to Decide

7.1.1 Education is a clear example of a public service where central interference, primarily through the mechanism of crude target setting and testing, has distorted priorities, constrained innovation and undermined the quality of provision. In a decentralised system of government the general principle should be that education is devolved to the tier of elected government nearest to where it is delivered – that is to say local government. Although these authorities presently range in size from Rutland, to cities the size of Manchester, Birmingham and Leeds, this paper does not recommend any particular local government structure. With the advent of elected Regional Government as advocated in chapter three, the precise structure of local government below the regional tier would be for regional decision and will depend on local circumstances and traditions.

7.1.2 These **local education authorities would be wholly responsible for the planning and operation of education up to the age of fourteen**, including pre-school education, admissions policies, the curriculum within the overall Minimum Curriculum Entitlement (which they could further devolve to individual schools), and special services (for example, music teaching). Regional and national governments would be expected to set key objectives, usually by agreement, while national government would remain responsible for monitoring

standards though audit, inspection and sampling.

7.1.3 Funding of education 14-19 will be primarily a local responsibility, and operation of schools a wholly local responsibility. However, there needs to be **a more coherent strategy across further education and vocational education in the 14-19 range** to ensure that students have the kinds of opportunities that can only be delivered across the boundaries of local authorities. This proposal specifically ensures that a wide range of employers take part in vocational schemes, and recognises that local authority is not necessarily the best tier to plan strategically for this age range, as the full range of vocational and employment-based training will not be available in every local area. For example, some London Boroughs have no FE or HE institutions and the same is true in many shire areas. To make this happen, the existing Learning and Skills Council will be replaced with regional bodies, working under the political direction of the regional assemblies. This system will be similar to the ELWa body currently operating in Wales.

7.1.4 The central government would continue to be responsible for the provision of Higher Education and for research funding including civil science funding. It would also have responsibility for the setting of certain minimum standards such as the school leaving age, and would oversee school inspections, comparative performance, efficiency and value for money. It would retain responsibility for teacher training though we envisage that, once established, the regional tier of government would take over this

responsibility from the Teacher Training Agency.

7.1.5 Minimum guaranteed standards of provision for individuals could be included in a national 'Education Charter' incorporating features such as UN Declarations and a **Minimum Curriculum Entitlement** with a guarantee that all children will be taught by teachers who are trained in the subjects that they are teaching. This minimum entitlement would set national guidelines for what children and young people should know and what skills they should have developed at the end of key stages or courses, but would devolve responsibility for how this is achieved to regional or local authorities, and to individual schools and teachers. There would also be national standards for provision of education for those with special needs and groups such as refugees. These standards would all be agreed on the collective basis outlined earlier.

7.1.6 Such a structure would be based on the principle that authorities took responsibility for their local residents – the Greenwich and Rotherham Judgements would have to be set aside by statute.

7.1.7 The operation of this system requires substantial reforms to the education structures which are currently in place without institutional upheaval. However, the failings of the current curriculum must be addressed. These include over-prescription of subject matter, too much attention to meeting centrally-set targets, and too little emphasis on vocational education. Rather than starting formal schooling at the age of five – or four as it is for most children – **our proposed system would ensure that all children are involved in**

**early years care and learning support from birth**, with compulsory attendance at a pre-school from five, but that formal schooling would not start until the age of seven. From seven until fourteen children would receive a basic grounding in a wide range of subjects, concentrating on literacy, numeracy, ICT and statutory access to a modern foreign language. There would be an emphasis on including all children in mainstream education though special schools would remain with an enhanced role as **Centres of Excellence** linked to a university department. From fourteen until nineteen young people would be able to choose the path or paths most relevant to them aided by an independent guidance mentor provided through a regional Connexions provider. This could include equally weighted courses of traditional academic learning or vocational learning and training, with the option to take a mixture of these two. It would be possible for young people to access part of their education through the workplace either as employees or students.

## 7.2 Improving Funding and Quality

7.2.1 Local authorities should take on full responsibility for funding school and pre-school education up to the age of 14, through local income tax (but with a redistribution mechanism as set out in 3.2 above). We would also support an **'individual pupil needs formula' along Dutch lines, whereby those from disadvantaged backgrounds would carry additional funding** to the school they attended. This would allow schools with such pupils to have smaller classes or to fund extra English language tuition, for example. This formula would need to be agreed on a national basis (through the Finance Commission for the Nations

and Regions), so that local authorities could decide to pay more but not less on each pupil.

7.2.2 Funding for undergraduate maintenance and course fees will continue to be channelled through local government, though within a national framework as at present. Central government will continue to provide universities with their current funding. This will reflect the need for students to be able to study at universities across the UK to have access to a full range of degree courses.

### 7.3 Better Information for Parents, More Choice for Students

7.3.1 The current system of league tables has failed to provide parents with accurate information on the performance of schools, based as they are on crude target setting and testing. We therefore propose to **replace government-published national league tables with Annual Progress Reports (APRs)**. Each APR would have two parts. One would be made available only to a child's parents and would contain accurate information about the progress of their child. It would propose learning objectives for the ensuing academic year and how they would be measured; and would contain performance data against national standards. The other part of the APR would contain information about the school and in addition to being sent to parents would be published locally and placed on the LEA's website for national viewing. This second chapter would include information on the comparative performance and progress of the school. Examination results would continue to be reported but this information would be supplemented by

information on how the school has performed against a wide range of indicators including wider school activities, pastoral care, parental support etc. Annual trends in areas of absenteeism, permanent exclusions would also form part of the second part of the APR. Inspection reports would be included, as would staffing levels. OFSTED inspection reports will continue to be a vital source of information to parents and, though we would add a new dimension to these reports (that of school development), we would retain external audit which we feel is vital in a more devolved and responsible school system. We would make these a prime source of information about schools by: ensuring that they are available in local libraries; making them available to all parents in a local education authority on request; and providing all parents choosing schools with brief but accurate summaries of the latest reports for schools in their area. These summaries would also be part of the school's Annual Progress Report. All schools, including private schools, would be required by law to produce APRs.

7.3.2 Formal testing, which creates tremendous stress for children and takes up a great deal of time, will be radically scaled back. Tests should provide the essential skeleton of a good education, not its flesh. The **tests currently taken at 7 would be replaced with individual skills profiles** used to determine future provision. These would be carried out at any time during the sixth year of a child's life and would be set against national standards that all children are expected to achieve at the age of seven. There will continue to be a universal, but lighter, testing regime at age 11. Externally examined units would be awarded for courses taken between 14



and 19 breaking the traditional link between age and examination. This would allow parents to gauge how well their child is progressing, and would ensure that standards remain high, but would end the annual testing which causes unnecessary stress to young children, and would stop schools 'teaching to the test' to the exclusion of other vital aspects of education. We will also encourage further work on value added measures of school performance, involving the General Teaching Council in their development. These would be included in Annual Progress Reports when there is broad agreement that they provide useful information.

7.3.3 At the same time, young people would be encouraged to take charge of their education, so that they are learning in a setting which is appropriate to them and helps them achieve their goals. We would therefore channel funding for education at ages 14-19 through individual '**Education Passports**', which young people in consultation with their parents could choose to use to study for specific qualifications in LEA/Learning and Skills Council approved schools, colleges or other training settings of their choice. For example, young people could be funded to undertake apprenticeships or other work-based training rather than stay in traditional formal education. This would be combined with an overhaul of the vocational qualifications system, with

the DfES offering funds for employers to form Guilds or Chartered Institutes, offering nationally accredited qualifications for vocational training, etc. Personal advisers should be available to every young person from the age of 14 through a regional Connexions service so that they are fully advised on the options available to them. A crucial aspect of the Education Passport scheme would be that people could take up any unused part of the passport later in life. For example, if they had left school at 16, they could use the 16-19 part of the Passport in later years. The formal education leaving age will remain at 16.

7.3.4 Decisions on how to deliver education at the various levels will be left to the local and regional authorities. In accordance with the principle of devolution, this means that we accept local education authorities could, for example, choose to have locally devised testing programmes.

7.3.5 The Liberal Democrats accept that for many students, their access to a wide range of educational opportunities in the 14-19 key stage will depend on adequate transport and/or high quality ICT. We would therefore aim to include within the **Education Passport** access to a lap top computer for personal use, access to the Internet for an agreed number of hours and access to subsidised transport using their Passport.

# Appendix One

This policy paper does not attempt to be an encyclopaedia of all Liberal Democrat policy on the detail of every public service. Rather, it sets out key themes for improving the performance of public services which can be applied generally; and it also specifically exemplifies how we would put these themes into practice in the crucially important areas of health and social care, and education.

More detail on Liberal Democrat policy on other specific services can be found in the following policy papers:

Transport: Policy Paper 46 *Transport for People* (2001)

Housing: Policy Paper 31 *Housing into the 21<sup>st</sup> Century* (1999)

In addition, policy on policing is being developed in policy paper 51 *Justice and the Community* also for debate at the Brighton 2002 conference.

More detailed policy on social care is being developed by a current policy working group and will be presented for debate at the Autumn 2003 conference.

# ***Appendix Two***

## **Remit of the Reform of Public Services Policy Commission**

We must continuously re-examine our policies on public services to ensure that they remain ahead of the game. There may also be lessons to learn from how other countries fund and deliver public services.

The remit of the Working Group is to review party policy on public services and develop proposals on reform of public services. It will hold a consultation session at party conference in March 2002, with a view to producing a paper of no more than 15,000 words for the September 2002 conference. It will particularly:

- Examine the fundamental aims of public services, including the definition of a public service and which ones should have the highest priority. This will include examining whether the term 'public service' is appropriately applied to services as diverse as health, education, pensions, police and defence.
- Establish the most appropriate ways of funding public services, through, for example, general taxation, hypothecated taxation, and mutual or insurance schemes (whether privately or publicly run).
- Determine the appropriate role for government in providing or regulating public services.
- Establish which level of government is most appropriate for provision, regulation and funding of public services.
- Decide whether national standards have any role in public services, or whether they hinder decentralisation.
- Consider methods of raising productivity and ensuring value for money in delivery of public services.
- Explore how to make public services more directly responsive to the needs and preferences of individual users.
- Examine the role of volunteering and NGOs in public services.
- Draw on specific examples of successful public services from other countries.

*This paper has been approved for debate by the Federal Conference by the Federal Policy Committee under the terms of Article 5.4 of the Federal Constitution. Within the policy-making procedure of the Liberal Democrats, the Federal Party determines the policy of the Party in those areas which might reasonably be expected to fall within the remit of the federal institutions in the context of a federal United Kingdom. The Party in England, the Scottish Liberal Democrats, the Welsh Liberal Democrats and the Northern Ireland Local Party determine the policy of the Party on all other issues, except that any or all of them may confer this power upon the Federal Party in any specified area or areas. If approved by Conference, this paper will form the policy of the Federal Party, except in appropriate areas where any national party policy would take precedence.*

*Many of the policy papers published by the Liberal Democrats imply modifications to existing government public expenditure priorities. We recognise that it may not be possible to achieve all these proposals in the lifetime of one Parliament. We intend to publish a costings programme, setting out our priorities across all policy areas, closer to the next general election.*

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*Note: Membership of the Working Group should not be taken to indicate that every member necessarily agrees with every statement or every proposal in this Paper.*

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