

Nick Herbert MP

The Government's reform agenda: Third Act or Final Curtain?

[CHECK AGAINST DELIVERY]

A colourful former Mayor of New York, Jimmy Johnson, once made the scornful observation that “a reformer is a guy who rides through a sewer in a glass-bottomed boat.” But if the cause of radical public sector reform was once a lonely business, it is increasingly central to today's politics.

Five years ago, *Reform* set out ‘A Better Way’, predicting that without reform, huge increases in public spending and taxation were “programmed to fail”. We warned of the dangers of “spending without reform” and of the loss of productivity and national wealth if politicians took that course; we highlighted the poor state of Britain's public services; and we pointed to international examples of how services could be delivered more efficiently and fairly.

I am proud of what *Reform* has achieved in advancing this case, not least by Andrew Haldenby since I went native and joined the Parliamentary Conservative Party. Under his leadership, *Reform* has established a reputation for being both authoritative and above party, fearless in challenging politicians from all sides of the political spectrum. Long live that independence.

Co-incidentally, Andrew set out his latest challenge to us in the Observer yesterday. “There is still a fundamental question the Conservatives have to answer about the direction of their next government”, he said. “Is it going to be a decentralising one, is it really a government of a ‘post-bureaucratic age’, as they say? Or will it be one that imposes its values on schools and hospitals and other services, setting out their practices and their codes? We haven't got an answer to this yet.”

Today I'd like to try and help answer that question. My contention is that the importance of public sector reform is growing by the day, underlined by fundamental trends in modern society and the modern economy. Reform is essential, not just in

itself, but also to solve the key problems of modern politics, including social mobility, the need to deliver taxpayer value, and to re-engage voters.

The post-bureaucratic age

The world has changed. We are in the “post bureaucratic age”. Twenty years ago the internet did not exist – twenty years from now, the opportunities that it will give to individuals and families to take control of their lives can only be imagined. The internet and modern communications have given individuals much improved capability to use information and manage their own lives. A more informed population have rising expectations and will demand more from public services. But the greater use of technology will support reform and enable the shift in services away from uniformity and towards personalisation.

Younger people are less likely to be resident in one place and to have an ongoing relationship with public sector professionals. Proximity and flexible opening hours in public services are more likely to play a role in where people choose to get treated or educated.

More than one-fifth of full-time employees and more than one-quarter of part-time employees now have form of flexible working arrangement. The number of homeworkers has increased from 2.3 million in 1997 to 3.1 million in 2005.

As Jeremy Hunt has said, the “wise state” is being replaced by “wise citizens” who demand to participate actively and equally in the decisions that affect their lives. With a natural scepticism about big government and a belief in decentralising power, Conservatives are comfortable in this new world. With its natural affection for big government and mistrust of human nature, Labour isn’t. In more ways than one, Gordon Brown is a politician out of time.

Labour’s attack

Labour’s crude attack on us is to polarise the debate – claiming the choice is between government and no government. They say that in an age of uncertainty, people want more government. It’s ironic that the disciples of the ‘third way’ are now denying its

existence, suggesting that there is nothing between the free market and state intervention.

Labour cannot understand that people don't want more government – they want government that delivers value for money. In the post-bureaucratic age, the need is for a government that enables and empowers. As Alan Milburn has said, in striking contrast to the views of his colleagues, the modern State “has to be strong where citizens individually are weak – providing collective security and opportunity – and weak where citizens are strong – exercising personal choice and responsibility.”

Governments can waste resources in many ways. They can spend unwisely, lowering productivity. But they can also monopolise, crowding out the private and third sectors, shutting out the contribution of civil society and of individuals. We want to unlock this potential.

Tony Blair was right to argue that the 1945 welfare state needed to be renewed in the light of social change. His centralising agenda has, for some, made reform a dirty word. But real reform is intrinsically modern and post-bureaucratic, and it is necessary to deliver on the challenges of modern politics.

First, reform is needed to redress inequity. The poorest in society still have the worst health and education outcomes. People in deprived areas are more than twice as likely to be victims of violent crime as their wealthier peers. The Government's raising of public spending as a share of GDP by five percentage points (37 to 42 per cent) – the largest and longest spending increase of the last 35 years – has failed to redress these inequalities. Social justice demands a new approach.

Second, reform is needed to drive social mobility. Britain's dismal record in educating and motivating the poorest in society, while having some of the best elite education in the world, has been a central cause of low social mobility. We will not make progress in resolving this problem without radical education reform. Strikingly, the countries with high social mobility – the Scandinavian countries – also contain some of the most reformed education systems, where the barriers between state and independent schools are broken down.

Third, reform is needed to improve services. Gordon Brown has asserted that “public services have moved from below average in 1997 to above average now” – itself a revealingly modest claim given the scale of spending increases over the past decade. In fact, as Michael Gove has noted, we have fallen in the league tables of international school performance. Cancer survival rates and coronary heart disease mortality rates remain well behind peer group countries. The latest comparative victim survey shows that the United Kingdom remains a high crime country, with the second highest rate of crime in the EU and the highest rates of burglary and assault among 18 countries.

Fourth, reform is needed to obtain value for money. National prosperity is driven by productivity. Indeed, before this Government came to power, Gordon Brown said that "productivity is the fundamental yardstick of economic performance". Yet public sector productivity and national productivity growth have fallen. In its pre-Budget report, *Reform* reached this devastating conclusion:

“The scale of spending increases – and the absence of reform – means that they have acted as a ‘flash flood’ rather than a planned irrigation. Much of the spending has resulted in doing the same thing at a higher cost. Unreformed and over-centralised management has not ensured that resources are used productively. Capital has been purchased and then rendered obsolete or underutilised. Staff costs have risen. Entrenched producer interests have not been effectively challenged and consumer preferences are not driving delivery in the way they should.”

Initially, successive years of economic growth and the credit boom shielded families from the pain of rising taxes. But Labour can no longer indulge in what Rupert Darwall (a consultant director of Reform) has called their “politics for the good times”. Britain is now facing its highest tax burden in history. Taxpayers are at the limits of their tolerance for tax rises, and are now feeling the squeeze as real incomes fall and prices rise – but the budget deficit created by Gordon Brown leaves no room for relief. A key political, as well as economic, challenge will be to ensure taxpayer value across the public sector – and reform will be crucial to delivering that value.

Brown's 'third act'

Before the last Budget, Gordon Brown set out three stages in the Government's public service reform programme, implying that the first two were already completed. The first stage was "investment and repair" – which he conceded involved targets and centralisation. The second was obtaining value and improvement through reform, with a greater diversity of providers. Brown clearly intended to suggest a planned and phased programme of successful reform, in which choice and competition replaced centralism. To any neutral observer the characterisation is revisionist and absurd. Like his description of the 10p tax band as "temporary", or his claim that he cancelled the election because he was going to win, Brown was simply attempting to justify his mistakes after the fact.

The centralisation which has been at the heart of New Labour's approach remains intact: the spending framework introduced in 1998, which makes services accountable to Secretaries of State rather than to users and institutionalises centralisation, was confirmed in place in the 2007 Comprehensive Spending Review. The absolute number of targets may have been reduced, but the framework remains. Similarly, there has only been a minimal greater diversity of providers. The academies programme will only cover 12 per cent of secondary schools and 1.5 per cent of all schools. From the beginning, not least so as to placate its party and the unions, the Government placed a low and artificial limit of 15 per cent on the extent of independent healthcare provision within the NHS.

The true history of the successive stages in New Labour's reform programme is less edifying. In its first term, the Government reversed the Conservative Government's reforms, including the internal market in the NHS and freeing schools from government control. There followed one turning point, the flash flood of public spending and tax rises to fund it, and another, Blair's discovery of choice and competition to drive up standards. Increasing centralism was the only constant. Blair's damascene discovery of reform was too late, overshadowed by Iraq, and bitterly opposed by Brown.

While Blair argued forcefully for reform, driving the agenda from Downing Street, Brown constantly positioned himself as – in George Osborne’s telling phrase – the roadblock to reform. He fought against foundation hospitals and city academies. He asserted that the patient could not be sovereign in the NHS (which begs the question, who exactly is?) It is still impossible to imagine Brown talking, as Blair did, about competition and choice to drive up standards in public services.

Gordon Brown has now had three chances to change the Government’s direction on public sector reform, none of which he has taken: his arrival as Prime Minister, last year’s Comprehensive Spending Review, and this year’s Budget. He now has a fourth opportunity, the “re-launch” after the local election results. But the omens are not good. He told the Today Programme that “the only thing that matters is ... whether you are taking the right long term decisions” – hardly a convincing argument when he has so manifestly taken the wrong decisions: the budget deficit, retreating from an election, his botched Capital Gains Tax changes, the 10p tax debacle. The only thing that ministers are now willing to say about Brown’s decisions is that he should apologise for them.

Government is not just about taking the right decisions: it is about having the right agenda – indeed, having an agenda at all. We don’t know what Brown’s is. Pressed further in his interview about the changes he had made, he claimed that he had “opened up cleaner hospitals”. As John Humphrys scathingly responded, these were “not exactly Gladstonian changes” for a Prime Minister who had stood on the steps of Downing Street and declared “let the work of change begin.” In Humphrys’ words, the policies were “incremental”, no more than the “business of government.”

In a conscious attempt to throw off the “roadblock to reform” badge, Brown now claims to be driving a “third stage” of reform, the pursuit of excellence and world-class standards. But this is an ambition, not an agenda. We are told that the draft Queen’s Speech, to be published this week, will pave the way for the fightback. But there is no sign of boldness or novelty in the plans, and no reason to believe that there will be. Today’s announcement of a review on social care isn’t a policy proposal or – as Alan Johnson admitted this morning – a blueprint. It isn’t a white paper or a green paper: it’s a “radical look.” So after eleven years in power, eleven years after the

Labour Party said that people should not be forced to sell their homes to pay for care, we have another consultation, little more than the nervous dipping of toes into water.

Across the Government, reform has either stalled or been thrown into reverse. In education, Ed Balls' first decision in July 2007 was to re-impose the national curriculum in core subjects on city academies, removing one of their two key freedoms, the other being teachers' pay. The Government has now restricted the freedom of new academies over the curriculum, staffing, and control of their buildings, and it has given local authorities a crucial blocking, constricting role. Gordon Brown's key lieutenant doesn't think reform is the solution – he thinks it's the problem.

In healthcare, independent sector secondary care provision is not being introduced effectively. Nominal choice is being extended while in fact local hospitals are being downgraded and care centralised. Fewer than half of patients are being offered choice, and the proportion is falling. Some Primary Care Trusts see patient choice as a risk factor rather than a means to improvement. The Government is now attempting to manage the delivery of primary care from the centre, via 150 new health centres.

In welfare, James Purnell's grand claim to be extending private and voluntary sector involvement in delivering work programmes omits the fact that Labour's programme will only tackle new entrants, while we will also help those currently out of work on benefits who could work. The reality is that more than half of people on out of work benefits will have no access to specialised help back to work.

In criminal justice policy, the Government appears to be without ambition. Prisons are now in a permanent state of overcrowding, re-conviction rates have risen, but we are simply promised more prison places in future. Blair's 'respect' agenda has vanished. According to the British Crime Survey, anti-social behaviour has not diminished since 2000, yet the number of ASBOs has just halved in a year. While the Home Secretary is reduced to telling the police to harass thugs, we have a Prime Minister who displays an extraordinary lack of interest in the issue of crime. He is about to complete a year in office without making a single speech on it.

Labour's uncertain brush with reform is over. Blair never really was 'unbound' in his brief third term, to use Anthony Seldon's title phrase – he was bound by his party, the unions, and most of all Brown. For Labour to have been the party of reform, it would have been necessary to skip a generation to a younger leader, less ideologically opposed to reform and more in tune with the post bureaucratic age. But they didn't.

During last year's campaign for Labour's deputy leadership, the candidates competed to distance themselves from reform. Alan Johnson proposed a limit on city academies, and even the arch Blairite, Hazel Blears, advocated more public ownership. Off stage, only Alan Milburn has urged a new agenda "where power is relocated to the lowest possible level." But he has been a voice in the wilderness.

As Blair left Downing Street, even his allies took the opportunity to tell the incoming Prime Minister what he wanted to hear, that public sector reform had alienated voters. In March, John Hutton laid bare the Blairites' simultaneous loss of faith and direction when he told Progress "we believe in using the strength of collective provision", before criticising, in the next paragraph, "an historic British belief in the value of collective public services." Where Milburn explicitly calls for a weaker State, Hutton explicitly rejects it.

Now, as Labour conducts its post mortem after the local elections, reform has no voice at all. Charles Clarke could only manage a series of homiletic suggestions to "increase both public and private investment in effective, fair and locally accountable public services", "strengthen public confidence in the criminal justice system" and "establish a radical, holistic commitment to sustainable transport and energy." The election results had not been declared before the chair of Compass proclaimed New Labour dead. To quote Dorothy Parker on being told of the death of President Calvin Coolidge, how could they tell? The corpse had been cold since Tony Blair's departure.

Brown's chosen theme could have been reform and renewal. But he took this only in relation to constitutional changes, which he bound up with trust. Now trust is broken, while the constitutional proposals have been at best uninspiring, at worst ill-judged,

such as the ludicrous suggestion of replacing the national anthem. Within a few months, Brown's entire launch theme has expired.

We are the progressives now

Yet as Labour has abandoned the ground of reform, we are taking it. As they have forfeited the claim to be the party of fairness, we are assuming it. And as the Government is paralysed, we are now leading the battle of ideas.

In the 1990s, Conservatives underestimated Blair and believed that they could persuade the public that Labour hadn't really changed. That was a fatal mistake. Similarly, today, Brown and his ministers have underestimated the modern Conservative Party. We have changed. As John Cruddas argued last week, "While the Government pretends nothing is wrong, David Cameron's new Conservatives are staking out ground that once belonged to the left".

Central to that change has been a commitment to improving public services, and a new approach towards them. We have rejected opt outs and approaches which preserve privilege rather than extend it. As David Cameron said last week: "It is the Conservative Party that is the champion of progressive ideals in Britain today."

The vision which we set out at last year's party conference was to give people more opportunity and power over their lives, make families stronger and society more responsible, and make Britain safer and greener. That requires us to cascade the power which has been assumed by government to the lowest possible level. Where possible, in relation to services which are in essence personal, we should ensure that power and choice can be exercised by the individual. So we have unveiled a schools policy which will bring the best education to the poorest children by opening up the state system to new providers, and health plans to give patients greater choice over their GP and empower GPs to control more of their patients' budgets.

Where services are true public goods, and the principles of individual choice and competition cannot apply, we will enable power to be exercised by communities, if possible at the most local level possible – in neighbourhoods – or else at the level of

local government. So we have set out ideas for individual neighbourhood budgets, to give local communities greater power over planning and licensing decisions, and for directly elected crime commissioners to transform the local accountability and performance of the police.

These principles for a radical decentralisation clearly change the role of central government, refocusing it on areas where central decision making is clearly necessary. But they do not deny a legitimate role for central government in controlling public spending, setting minimum standards and ensuring fairness of opportunity.

A number of conditions will ensure successful public sector reform. First, the public will not have real choice unless the supply side is liberated and the consumer given choice. We need to we need to unlock the potential of both the private and third sectors to allow enterprise and innovation to flourish, shaping new services for the future that will respond to growing consumer demands.

Second, choice needs to be backed with meaningful information, published independently of government, so that consumers are able to decide. Information is also vital to hold public services to account where choice is not available. The internet has revolutionised the sources of information to consumers about companies, goods and services. We need to ensure that the public sector is similarly opened up. Yesterday, it was reported that a private sector company is selling 'asbo packs', revealing local crime levels by collating unpublished data from the police and councils. Our plans for crime mapping would make such data freely and easily available to citizens, informing and empowering them to assess the effectiveness of local law enforcement.

Third, the key to successful reform is to ensure clear lines of accountability and the alignment of incentives. Politicians and managers need to be judged by outcomes, not inputs or adherence to targets. And fourth, we should aim to transfer public spending from subsidising failure to incentivising success.

Applying these principles is leading us to policies which are both ambitious and truly radical in their scope. Over the past few months, we have set out plans for bold welfare reform which will help people move from long-term poverty to long-term employment by engaging the private sector. That same principle is applied in our prisons reform policy, where a rehabilitation revolution will incentivise prisons to reduce re-offending, for the first time in decades offering the prospect of arresting the growth in the prison population.

Both policies aim to deploy the private and third sectors to deliver new services and pay them by results. Both aim to change the accountability and incentives in the system, so that those on welfare and offenders have the same incentives to succeed as providers have to deliver. And both policies are self-funded by transferring existing spending on failure – the cost of out of work benefits or imprisoning re-offenders – to spending which is conditional on the successful return of the claimant to work or reduction of re-offending by a prisoner.

The sincerest form of flattery

We should not worry if Labour purport to steal our ideas. Gordon Brown has deployed the notion of the “personalisation” of services as an alternative language to Blair’s mantra of choice and competition. But the way to develop responsive services tailored to the needs of families and individuals is to give people choice between competing providers and real control over the process. Brown’s “personalisation” is fundamentally different: government would use technology to approximate the relationship between consumer and provider. A top-down bureaucracy, instructing public services would remain. Where Brown wants to use technology to enhance the power and control of the producer, we want to use technology to enhance the power and control of the consumer.

If Blair was unable to go down the route of reform, who believes that Brown will follow us? His own aversion, the Left’s atavistic hostility to markets and the resistance of the unions will all mean that the roadblock to reform remains in place. Big government and centralisation are in Labour’s DNA. The idea of more powerful citizens inspires Conservatives, but it makes Labour uncomfortable. Where we trust

the people, Labour are trapped by a dated mantra of trusting government. And where they do try to ape our plans, they merely grow weaker. Greg Clark and Jeremy Hunt have coined the phrase of Labour's "intellectual surrender". The successive, clumsy and unprincipled capitulations on key policies such as inheritance tax or a border police force merely underline that when a government follows rather than leads, when it no longer commands, it is finished.

Reclaiming reform

I want to end by observing that reform is a means, not an end. We need to reclaim reform from Blair's delivery units and from the management consultants, and shape a reform agenda for the people. Reform must not become synonymous with endless re-organisations, bureaucratic process, or distorting and demoralising targets. Reform does not mean central planning or direction. It should be enervating and empowering, setting the framework to shape personal and local services. It should return freedom and discretion to professionals while holding them accountable for the outcomes of the services they provide. It should allow dynamism and consumer focus while holding to the public ethos. Reform is the route to a better local school, to healthcare that delivers for your family, to a safer neighbourhood. This is why David Cameron is today talking about the importance of social value alongside economic value, so that our sights are set on the mutual goals of creating a stronger society as well as a dynamic economy.

In the new politics, voter disengagement requires a fundamental new approach. Those who believe that trust can be rebuilt through constitutional tinkering, or worse still, electoral gimmicks, wholly miss the point. People feel locked out of decision-making, and we have to let them back in. Reform has a fundamental role to play in giving people a stake and a say, re-engaging them, drawing politics out of Westminster and so re-building democracy. This new agenda for a new age is liberating and optimistic. Returning power to the people is as much as a way to change politics as it is to change public services and deliver a better quality of life for citizens. While Labour has lost sight of its purpose, the modern Conservatives are demonstrating that we are the party of ideas, progress and reform.