Creating Public Value

An analytical framework for public service reform

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Foreword

Reforming public services is a central task for this Government. For reform to be successful it needs to underpinned by a common view of objectives, agreement as to what constitutes success and a clear understanding of the relationship between ends and means.

Just as we are constantly developing and refining our programme of reform, so we need to be willing to think afresh about how best to clarify and articulate our ultimate objectives. This paper is an important contribution to that process. It suggests that the concept of "public value" offers a useful way of setting out the ultimate goals of public service reform and our performance in achieving them. It makes the case that public value can help to avoid the narrow and over-simplified approaches that have sometimes dominated in the past.

I am not suggesting that public value answers all the questions about public service reform. However it does have the potential to prompt a different way of thinking and talking about these issues, as well as pointing towards some practical ways forward. I very much welcome the publication of this paper and I would welcome the views of others on how best to use the concept and develop it further.

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This document is a discussion paper only, not a statement of government policy. Throughout the paper "government" refers to government in general, and not to the current administration.

Overview

This paper argues that:

- The concept of public value provides a useful way of thinking about the goals and performance of public policy. It provides a yardstick for assessing activities produced or supported by government (including services funded by government but provided by other bodies such as private firms and non-profits, as well as government regulation).

- Public value provides a broader measure than is conventionally used within the new public management literature, covering outcomes, the means used to deliver them as well as trust and legitimacy. It addresses issues such as equity, ethos and accountability. Current public management practice sometimes fails to consider, understand or manage this full range of factors.

Section 1 (page 2) introduces the concept of "public value" as a way of capturing all the aspects of government performance, and makes clear its contemporary relevance. It explores some of the contextual issues, including the role of public preferences and the differences between public and private notions of value.

Section 2 (page 7) contrasts the public value concept with some of the established approaches to public sector management.

Section 3 (page 9) outlines three broad dimensions of public value: services, outcomes and trust/legitimacy. It looks at our level of knowledge about the sources of the different dimensions of public value and the relationships between them.

Section 4 (page 17) assesses how these sources of public value are currently managed, identifying a number of weaknesses in existing approaches.

Section 5 (page 22) sets out case studies that indicate how a public value perspective could generate different, and potentially more effective, policy conclusions.

Section 6 (page 24) of the paper concludes by looking at some of the tools and techniques that are currently employed in the policy process suggesting how they need to be developed and adapted if public value is to be of practical use.

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1. Introducing the concept

This section establishes the concept of "public value" and why it is relevant to current debates about public service reform. It explores how public value relates to the citizen/state relationship, 'public preferences' and private sector notions of value.

1. Public value refers to the value created by government through services, laws regulation and other actions.

2. In a democracy this value is ultimately defined by the public themselves. Value is determined by citizens' preferences, expressed through a variety of means and refracted through the decisions of elected politicians. Later sections of this paper summarise a wide range of evidence on public perceptions and preferences.

3. The value *added* by government is the difference between these benefits and the resources and powers which citizens decide to give to their government. An implicit – and sometimes explicit – contract underlies public value The legitimacy of government as a whole generally depends on how well it creates value.

4. The concept of public value provides a rough yardstick against which to gauge the performance of policies and public institutions, make decisions about allocating resources and select appropriate systems of delivery.[1]

5. For something to be of value it is not enough for citizens to say that it is desirable. It is only of value if citizens – either individually or collectively – are willing to give something up in return for it. Sacrifices are not only made in monetary terms (i.e. paying taxes/charges). They can also involve granting coercive powers to the state (e.g. in return for security), disclosing private information (e.g. in return for more personalised information/services), giving time (e.g. as a school governor or a member of the territorial army) or other personal resources (e.g. blood). The idea of opportunity cost is therefore central to public value: if it is claimed that citizens would like government to produce something, but they are not willing to give anything up in return, then it is doubtful that the activity in question will genuinely create value.[2]

6. As a general rule the key things which citizens value tend to fall into three categories: outcomes, services and trust. These overlap to some extent. However they provide a useful way of thinking about the dimensions of public value and are explored in more depth later on.

7. Value and values are closely linked. Seen through the lens of public value, the ethos and values of any public organisation, service provider or profession must be judged by how appropriate they are to the creation of value: better outcomes, services and trust. Inappropriate values may lead to the destruction of public value.

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[1] There is an emerging literature making use of the concept of public value. See Moore *Creating Public Value* (1995); Bozeman *Public Value Failure: When Efficient Markets May Not Work* Public Adminstration Review (2002) and Jackson *Public Sector Added Value: Can Bureacracy Deliver?;* Public Administration (2001).

[2] For example an opinion poll that suggests that citizens would like government to spend more money on services but fails to indicate public willingness to pay for this course of action does not constitute evidence that higher spending will increase public value.

8. Some accounts of the roles of government deduce conclusions from theoretical principles. The approach proposed here, by contrast, is more evidence based: definitions of value are likely to constant changing as a result of public experience and debate; similarly government views as to how best to maximise value are also shaped by experience and evidence about what works.

9. Within the UK context a number of current reforms can best be understood as aiming to increase public value, by contrast with an earlier phase of reform which was much more sharply focused on cost reduction. Examples include: measures aimed at improving patient experience in the NHS; devolution; the encouragement of greater choice; the use of schools as community assets available to citizen groups.

10. The lens of public value also helps to explain why, against many predictions, most western societies have retained broadly universal systems of provision in health, education and welfare. The high transaction costs of market models are one factor; but so is the greater perceived equity of non-market systems. It helps to explain the important role of accountability - for example in schools - as a driver of performance which is a vital complement to inspection and top-down controls. It also explains the role of contestability. Much of the experience of the last 20 years has shown that public value is best maximised neither by competitive private markets nor by monopoly public provision. Instead, as UK experience in prisons, employment and welfare services has shown, the combination of strong public sector institutions and competition from private and non-profit organisations achieves the best balance of accountability, innovation and efficiency.

Value and the high level choices made by governments

11. All governments should want to maximise 'public value *added'*; that is the benefits of government action when weighed against the costs (including the opportunity costs of the resources involved). But different governments may have very different views about the *total* amount of government activity that is likely to achieve this. Some societies have believed value-added is maximised by direct government production of a wide range of goods and services – including many privately consumed services such as banking or electricity. From the late 1970s onwards there was a growing view across many OECD countries that some areas of government activity did not add value. This was premised on the judgement that a growing public sector crowded out private sector investment, privileged producers at the expense of consumers, and squandered resources. Many economists argued that government should focus primarily on the provision of classical public goods (e.g. the army, rule of law) and would maximise value added by limiting its own activities.

12. Over recent years views of the potential role of government as a generator of value have changed. It is no longer the case that government activism is deemed unlikely to maximise value added. During the 1990s there was a growing emphasis in bodies such as the World Bank on the importance of governance arrangements in increasing the legitimacy of governments and quality of decision-making, as well as outcomes.[3] Recognition has grown that, in addition to well functioning markets, successful liberal democracies require strong and effective governments able to guarantee fair treatment, equal opportunities, access to a range of key services, and to act as a steward of a

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[3] Demery et al *Understanding the Social Effects of Policy Reform* (1993); World Bank *The Development Effectiveness Record: Learning from Experience* (2002)

country's interests within and across generations. There is no systematic correlation between different levels of public spending (30%, 40% or 50%) and a nation's credit ratings and competitiveness: the key issue is how well public resources are spent.

13. This renewed focus on the potential role of government in adding to overall value takes account of the literature on the potential failure of government as a producer, regulator and shaper of outcomes. An understanding of 'government failure'[4], together with market failure, should inform our analysis of where and when there is a role for government (and in these instances the appropriate nature of government interventions). And even when there is a clear role for government this does *not* imply that direct provision by government is the only, or even primary, route through which public value will be created. Voluntary and community associations, business and professional and citizen groups will all play a key role in achieving the goals of public policy.

Public value and public preferences

14. Public preferences are at the heart of public value. In a democracy only the public can determine what is truly of value to them.

15. Conventional welfare economics provides a utilitarian account whereby value relies upon individual self-interest, primarily derived through consumption of goods and services (including leisure). These individual preferences are taken as given and beyond the reach of policy-makers. They are aggregated into a 'social objective function'. The role of policy is then to ensure that resources are used to achieve these objectives in an efficient manner. Efficiency can be both *allocative* ('are we doing the right things') and *technical* ('are we doing them in the right way?'). In relation to the spending of resources this translates into "are we spending resources in the right areas" (e.g. prevention vs cure); and, within each area, "are we being cost-effective" (e.g. avoiding administrative waste).

16. In practice people express defined preferences for a much wider set of public goals - for example fair distribution or peacekeeping in distant countries. Even though in theory this should be compatible with traditional welfare economics, in practice the analytical techniques this approach employs rarely give proper recognition to these public preferences (in contrast to their well-established capacity to value the private benefits of consuming non-market goods and services such as health-care). For this reason public preferences for trustworthy government, due process, and fair treatment rarely feature within conventional decision making techniques.

17. Public preferences are formed socially in the family, amongst friends and in public debate. A long tradition of political thought reaching back to Plato, through de Tocqueville to contemporary commentators such as Robert Reich and Michael Sandel maintains that citizen engagement in public affairs is desirable precisely because it challenges and changes underlying preferences.

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[4] The government failure literature argued that politicians and public agencies could destroy value for a range of reasons including poor information about citizen preferences, the self-interest and rent-seeking behaviour of public officials, capture of public agencies by narrow interest groups and a lack of incentives for public agencies to act efficiently or responsively to citizen needs.

18. Preferences also depend on other's behaviour. For example, someone might support a shift to a different public transport system so long as other members of the community also supported it and were willing to use it. Interdependent preferences of this type are common across many areas of public policy and need to be resolved through collective procedures that allow shared aspirations to be formed, expressed and given legitimacy. Good government requires citizens and their representatives to continually revise shared values and objectives through a process of public deliberation.

19. The existence of public preferences suggests the need to add to the conventional 'market failure' rationale for government action. Under this traditional approach government should only be involved in producing or commissioning goods/services that markets finds it hard to provide. Put another way, the case for government involvement rests upon an objective criteria: the technical problems in producing the optimal quantity of certain goods/services through markets (e.g. public goods). A public value perspective recognises this justification for government activity but builds on it by recognising that citizens may want the government to take action to bring about or prevent a course of action even when the traditional features of market failure do not apply. That is, this approach recognises an inherently *subjecti*ve – or value-based - rationale for intervention. It may, for instance, be perfectly possible for someone to create a reasonably functioning market for controversial goods or services – for instance buying body parts from developing countries. According to traditional welfare economics this will lead to utility gains for both buyers and sellers. But such a market may offend prevailing social norms and moral codes of behaviour.[5] In these circumstances government regulation to reduce the boundaries of market activity is likely to generate public value even though intervention is not itself premised on a market failure.

20. In addition to gaining a better understanding of established preferences, government will also want to try to predict and pre-empt emerging attitudes and expectations. On some issues, by the time the public has clearly formed preferences, a problem may already exist. Political leaders will want to identify and avoid political/policy icebergs rather than consult people about how they would like to repair the ship of state after it has been hit.

21. Political leaders will also want to shape as well as accommodate public preferences: there is, arguably, value in a leader who creates new preferences and fulfils them, as opposed to simply addressing the preferences that already prevail (the same is true in the private sector: the most successful companies pre-empt and shape preferences rather than simply responding to them).[6] Indeed, there is evidence that public interest in specific issues does increase as politicians focus their attention on them.[7] The idea of the preference-shaping politician tends to give rise to concerns over paternalism. However, there are powerful checks (such as electoral considerations, the free press and institutions of civil society) that are likely to check leaders from seeking to impose views that cut against the grain of popular opinion. Rather, successful political

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[5] There is a welfare economics defence of this market, namely that moral revulsion is an externality that can be captured in a social utility function. For a public value based critique see Bozeman *op cit*

[6] Evidence suggests that citizens value politicians who are prepared to take a lead in this way. E.g. Pillai and Williams *Voter Perception of Candidates' Transformational and Charismatic Leadership and the 1996 US Presidential Election* The Leadership Quarterly (1998)

[7] E.g. public opinion data (www.mori.com) found the number of people saying education was the most important issue facing the country rose from 20% to 49% over the 1992-1997 parliament.

leadership often involves tapping into and shaping patterns of preferences as they begin to emerge.

Private conceptions of value

22. Business makes use of a sophisticated set of techniques to measure and manage value. In a private market, value is created when a business uses resources (labour and intellectual, physical and financial capital) to meet individual customer preferences that are signalled through the price mechanism. When firms add economic value this is reflected in an operational surplus[8]; ultimately value is created by using inputs in a way that delivers returns to shareholders that are at least as good as those resulting from alternative uses.

23. In practice the mechanics of defining and capturing private value are rarely straightforward.[9] There has been a long history of innovation in accounting techniques to capture shifting patterns of value in different industries – from railways and the telegraph, to large scale aerospace production and more recently the Internet – and of major failures which have resulted from the mis-measurement of costs, assets and potential returns.

24. In business there is a clear distinction between means and ends. The boundaries and structures of private sector enterprises have been continually revised as part of the search for forms that will generate greater value (e.g. partnering, strategic alliances, franchising and joint-ventures). However, the overarching <u>goal</u> – creating returns to shareholders – has remained consistent.[10]

25. Public value aims to provide a similar yardstick for assessing performance within the public sector. In some areas there are substantial overlaps with private value. However most public policies and agencies have multiple objectives with no single 'bottom-line'. The factors that make public value more complicated than its private sector counterpart need to be recognised and managed rather than avoided. There are undoubtedly similarities between value in the public and private sectors, but, as is discussed in section 2 below, recent public management theory has often focused on them at the expense of significant differences:

- Citizens often place a strong value on 'public' issues such as distributional equity and due process. The utility of any one citizen is affected by the government's ability to discharge its responsibilities to others.
- Often it is difficult for individuals to register preferences on a particular issue. There is no device, such as the price mechanism, to aggregate the dispersed decisions made by individuals.
- Citizens themselves are often involved in the production of public services in a way that is not the case in relation to private services (for example in the areas of

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[8] Assuming that prices take account of all externalities.
[9] For example the ongoing debate about economic value added versus shareholder value.
[10] Note however, that even if the goal of shareholder value is clear, it does not follow that the best way of a firm achieving shareholder value is by managing its resources with this goal in mind. It may be that shareholder value is best pursued obliquely (as has been argued by John Kay). For instance staff might be encouraged to focus on quality, long term customer relations and preserving market share rather than short-term profit maximisation. Likewise, it may be that aspects of public value should also be pursued obliquely.

public health, education, and community safety citizens typically provide as much of the critical input that contributes to outcomes as services do).

- There are more likely to be fundamental differences among the public about public value than there are among shareholders. Shareholders may have differences on some issues (e.g. on the time horizon for returns) but these generally do not extend into ethical disagreements (e.g. over the nature of social justice).

- Governments have a stewardship role in relation to future generations that is different to companies' obligations to future shareholders. Firms have a legal responsibility only to their current shareholders (albeit it one that includes the future value of their equity). In contrast, democratic governments have an ethical responsibility to protect the interests of the next generation of citizens (though it is of course the case that in practice government is sometimes very short termist, arguably as much as business). Private companies tend to have a shorter life-span than key public bodies: only a handful of the current FTSE 100 were there 50 years ago.

2. Existing approaches to government performance

This section contrasts the concept of public value with other ways of looking at public management, in particular the narrower perspective of the "new public management".

26. Much of the new public management reform (NPM) agenda that dominated the 1980s and 1990s was premised on the applicability of management techniques across both public and private sectors. To the extent that government created value it would do so by mimicking organisational and financial systems used by business. This approach led to some important gains, not least the elevation of consumer interests and the clarification of objectives and responsibilities. Some aspects of it are now uncontested - for example the use of executive agencies, and strict use of performance management mechanisms, including transparent data. Some are being taken further (e.g. the extension of choice for NHS patients).

27. However, the practice of the new public management often emphasised narrow concepts of cost-efficiency over other considerations (i.e. the focus was on technical rather than allocative efficiency). Those things that were easy to measure tended to become objectives and those that couldn't were downplayed or ignored. Hence within some public services 'efficiency' measures represented the average cost of processing a given output (e.g. Finished Consultant Episodes in hospitals), regardless of what mattered to the public. In these circumstances it was possible for measures of efficiency to improve without there being a concomitant improvement in the service experienced by the user (as occurred under the internal market when measured outputs increased substantially but service quality did not). Improvements in efficiency in this narrow sense were not synonymous with increases in public value.[11]

28. Part of the reason for this divergence is the widely recognised difficulty in specifying service *quality* compared to service inputs. If inappropriate (or non-existent) measures of quality are used then apparent gains in technical efficiency may cloak falls in quality.

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[11] This is consistent with the finding from industrial economics that in activities where there are multiple tasks with varying degrees of observability, then a focus on measurable activities will reduce effort on those that are not (with detrimental effects on quality).

29. Other weaknesses of the NPM caused by its narrow perspective included:

- the focus on improving functionally defined services rather than meeting the overall service needs of different client groups;
- a pre-disposition towards piecemeal improvement rather than larger scale innovation;
- a tendency for micro-management and reduced discretion for front-line workers, with high costs created by detailed inspection by the centre;
- a lack of attention given to democratic engagement with citizens and stakeholder groups.

The table below characterises some stylised differences between three models of public management.

Table 1 - Approaches to public management

	Traditional public management	'New public management'	Public value
Public interest	Defined by politicians / experts	Aggregation of individual preferences, demonstrated by customer choice	Individual and public preferences (resulting from public deliberation)
Performance objective	Managing inputs	Managing inputs and outputs	Multiple objectives - Service outputs - Satisfaction - Outcomes - Maintaining trust/legitimacy
Dominant model of accountability	Upwards through departments to politicians and through them to Parliament	Upwards through performance contracts; sometimes outwards to customers through market mechanisms	Multiple - citizens as overseers of govt - customers as users - taxpayers as funders
Preferred system for delivery	Hierarchical department or self-regulating profession	Private sector or tightly defined arms-length public agency	Menu of alternatives selected pragmatically (public sector agencies, private companies, JVCs, Community Interest Companies, community groups as well as increasing role for user choice)
Approach to public service ethos	Public sector has monopoly on service ethos, and all public bodies have it.	Sceptical of public sector ethos (leads to inefficiency and empire building) – favours customer service	No one sector has a monopoly on ethos, and no one ethos always appropriate. As a valuable resource it needs to be carefully managed
Role for public participation	Limited to voting in elections and pressure on elected representatives	Limited – apart from use of customer satisfaction surveys	Crucial – multi-faceted (customers, citizens, key stakeholders)
Goal of managers	Respond to political direction	Meet agreed performance targets	Respond to citizen/user preferences, renew mandate and trust through guaranteeing quality services.

3. The components of public value

This section sets out in more detail some of the key building blocks of public value, divided into three broad categories of <u>services, outcomes</u> and <u>trust</u>. It also outlines what generates value in these areas.

30. There are many things which government can do which will be valued by the public. But all of the important areas of value fall into three broad categories: services, outcomes and trust.

The value created by services for users

31. Citizens derive benefits from the personal use of public services that are very similar to the benefits derived from consuming those purchased from the private sector. For example, BBC programmes are not inherently different from programmes bought on subscription; some of the retail services provided by the Post Office are not inherently different from those provided by other retailers. Other public services may not face direct competition, but are nevertheless used, or experienced, individually. Examples include the NHS, schools, universities, childcare, social services and welfare services. Either implicitly or explicitly, and even when other factors are crucially important too, the public makes an assessment about the balance between the cost of (for example) NHS services, schools and the level of service they receive.

32. In these areas user satisfaction is critical to public value. This is particularly likely to be the case with a more demanding, consumerist public whose expectations are influenced by their experience of private services. In the past there has been insufficient attention to satisfaction – the existence of the service was deemed to be enough, and the public was often grateful regardless of the quality of service.

33. Evidence suggests that user satisfaction is likely to be shaped by a wide range of factors including:

- *Customer service*: We know from the private sector that how people are treated by staff ranks only just behind quality and price of product in determining their satisfaction.[12]

- *Information*: There is a strong correlation between satisfaction with different services and whether people feel they are well informed about them. It is unlikely that information alone determines views of services; however, information is a crucial part of building relationships between services and their consumers.

- *Choice:* there is some evidence that enhanced levels of choice can boost user satisfaction even if it does not have a discernible impact on service outcomes.[13]

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[12]Evidence presented by MORI to PIU seminar on public satisfaction (2000). Many public sector agencies do not have targets on how they deal with the public, although that will have a strong influence on satisfaction with a service. For example the Metropolitan Police have no objectives that look at service to victims or witnesses. The force could meet its targets on arrest rates and reducing crime, but still see a drop in satisfaction if people objected to the personal service they received.

[13] PIU paper on Consumer Choice in Public Services, (2001) (www.strategy.gov.uk)

- *Use of services and advocacy:* Whether people have used specific services, as opposed to only hearing about them through the media, is significant in determining their satisfaction. Evidence from both the UK and Canada shows satisfaction with all specifically named services, and among service users, is substantially higher than for services in general. Canadian survey evidence shows satisfaction levels with 'federal government' performance of around 47%; however satisfaction levels for individual federal services averaged 60%. In the UK 80% of users of local secondary schools are very or fairly satisfied but only 30% of the general population are very or fairly satisfied with secondary schools.[14] These findings, along with evidence that people are increasingly inclined to trust those close to them rather than institutions, points to advocacy by service users as a potential tool for boosting satisfaction. Private sector research indicates that advocacy by staff is a potentially powerful tool for developing strong trust in services.

32. There is evidence that satisfaction is higher in services seen as important by users.

Relationship between satisfaction and importance
Net Satisfaction ±%

Importance %
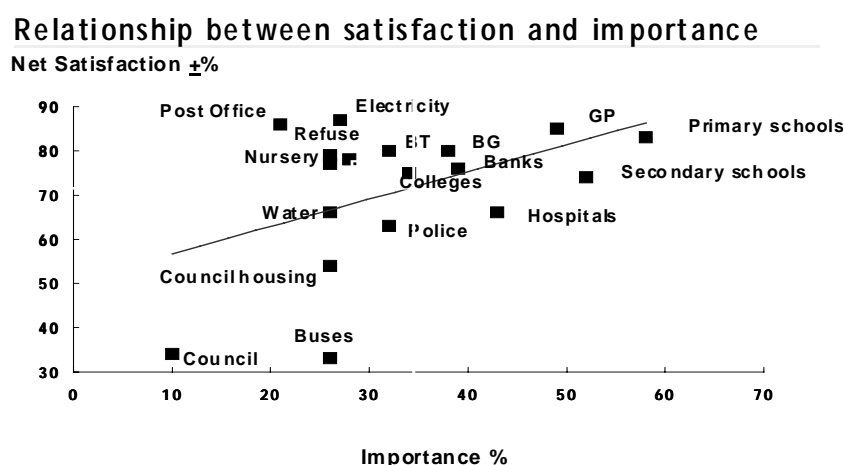
Source: MORI

33. There is not a simple linear relationship between improving key aspects of a service and increasing satisfaction. The evidence suggests that some factors will create dissatisfaction if they are *not* present, but will not make people feel *more* satisfied if they increase, and vice versa. (The chart below is from research in the private sector, but it is likely that similar effects exist with public services). *(Source: MORI)*

Factors driving satisfaction and dissatisfaction

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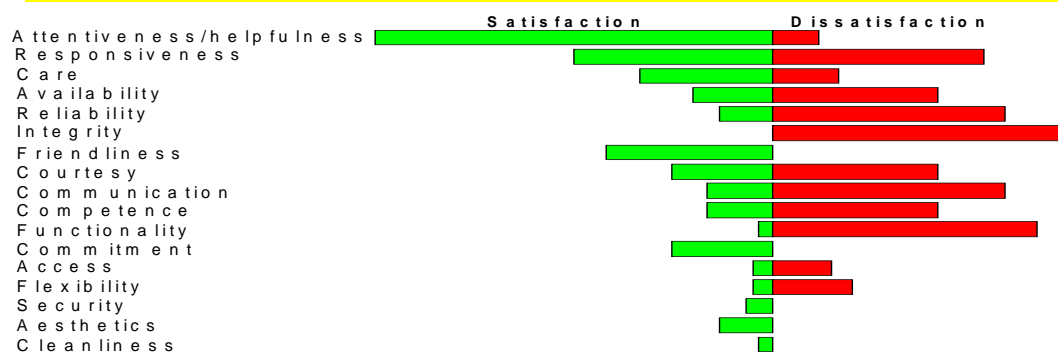
[14] www.mori.com

34. Efforts to improve levels of satisfaction should be based on an understanding of the *relative importance* of different factors in relation to satisfaction, as well as how they vary across different service areas. Currently there are considerable gaps in our understanding of these issues though, as the box below indicates, there are some pointers from other countries.

Relative Importance – Canadian Research

Maximising value through service provision requires an understanding of what is most valuable to the public in a given service. The Canadian Government's "Citizen-Centred Service" work argues that five factors account for 72% of variation in satisfaction levels across all services. In order of importance these were found to be:
- timeliness
- knowledge of staff
- courtesy/comfort
- fairness
- outcome

However, this work did not discriminate between services, and there should probably be differences in emphasis. For example procedural fairness could be seen as more important in the court service than in most other services because of the implications for individual liberty, while we might prioritise efficiency for a service processing information requests.

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35. There is also evidence that the ethos and culture of an organisation is very important in determining the extent to which services create/destroy value. An extensive management literature offers different models for understanding these cultural variables in performance: one commonly used distinction is between *culture* (fundamental attitudes and belief systems), *climate* (explicit behavioural characteristics, e.g. how managers treat staff) and *values* (taking an individual rather than organisational perspective on priorities and motivations of staff).[15] All these aspects are linked, and can affect the performance of a public service organisation and its ability to create value. For example:

- On culture, the inquiry into the Stephen Lawrence case suggests that fundamental attitudes and assumptions affected the performance of the Metropolitan Police.[16]
- On climate, prison inspection reports of some poorly performing institutions have pointed to a climate of behaviour in which staff fail to offer prisoners basic levels of respect, which undermines the effective operation of the prison.[17]
- Climate is also critical in schools: although quantifying the effect is difficult, inspection reports have repeatedly identified the prevailing pupil behavioural norms instilled by schools (e.g. 'willingness to listen to others') as a significant factor in determining performance.
- Values can create value: the values held by the vast majority of military personnel (of loyalty to superiors and respect for the hierarchy) are essential to its capacity to deliver results.

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[15] For a review of this literature and the different analytical frameworks see Wallace, Hunt and Richards *The Relationship between Organisational Culture, Organisational Climate and Managerial Value*s International Journal of Public Sector Management (1999)
[16] Home Office *The Stephen Lawrence Inquiry* (1999)
[17] HM Inspectorate Of Prisons *Report on a short unannounced inspection of HM Young Offender Institution and Remand Centre Feltham 28 – 30 September 1999*

36. Questions of ethos and culture are particularly contentious when the private and voluntary sectors are involved in delivering public services.[18] Though there is not robust evidence separating the effects (if any) of competition as opposed to ownership on ethos, the available research does suggest that no one sector has a monopoly on a public service ethos:

- In some instances the private sector appears to have succeeded in turning around a failure in public sector ethos. For instance, it is argued that some of the gains from privately managed prisons have resulted from the introduction of a new and more respectful culture between staff and prisoners.
- There are other examples where the use of the private sector to deliver services has led to a deterioration in service quality due to an inappropriate provider ethos (e.g. maintenance of the rail network, where priorities changed after privatisation[19]).
- Moreover, surveys from central government agencies support the notion that a public sector culture is valuable: in-house teams that have won contracts following market testing have subsequently surpassed specified service levels because of a continuing commitment to service quality.[20]
- Yet other research, for instance from the health and long-term care sectors, suggests that there is little systematic difference in the prevailing ethos between for-profit and not-for profit providers.[21]
- Finally, differences in values between managers do not necessarily follow the stereotype of cautious bureaucrats and dynamic businessmen: one study found that NHS board members drawn from within the NHS were <u>less</u> risk averse and <u>more</u> flexible than those brought in from outside.[22]

37. This complex picture has given to growing interest in the concept of a *public service ethos* that stretches across public, for-profit and not-for-profit providers.

Value of fairness in service provision

38. In many public services citizens value the service received by others, as well as the service they themselves benefit from. In other words, fair distribution in itself creates value.

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[18] Generally, procurement is an example of a process that is generally tightly managed by government but little or no guidance exists on provider ethos.

[19] See chapter 7 of Health and Safety Commissioners *The Ladbroke Grove Rail Inquiry Part 1 Report* (2000)

[20] Newman *What counts is what works? Constructing evaluations of market mechanisms* Public Administration (2001)

[21] IPPR *Building Better Partnerships* (2001), Kendall *The motivations of domiciliary care providers in England* mimeo (2001).

[22] Sheaff and West *Marketisation, Managers and Moral Strain: Chairmen, Directors and Public Service Ethos in the NHS* Public Administration (1997)

39. Attitudes towards the regulation of access vary between service areas. In some areas there will be support for unconditional universalism, where all citizens have unrestricted access to a service. In others a targeted and/or conditional approach towards access will prevail. For example, it is widely accepted that education up to 16 should be unconditional and universal whereas access to and support for post-16 education should be determined according to other criteria, including both merit and need. Establishing the appropriate terms of access for services/benefits will often be a crucial factor in determining whether or not services are highly valued by the public.

Value of outcomes

40. The public has always seen outcomes as a core part of the contract with government. In the past the most important outcomes were peace and security; in the 19th century public health because increasingly important; in the 20th century a range of outcomes including poverty reduction and improving the environment also moved to centre stage. These outcomes will often overlap with services. For example the service provided by a school to parents is linked to the outcome of a better educated population; similarly the service provided by the police to victims of crime is linked to their success in cutting crime. However, outcomes and services are clearly distinct and need to be managed in different ways.[28] There is value in safe streets beyond the quality of police services, benefits to low unemployment over and above quality of service offered by the Employment Service and gains from having a healthy population over and above those enjoyed by users of a high quality NHS.[29]

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[23] Public Management Foundation *The Glue that Binds – Public Value of Public Services* (1996)

[24] Bryson Trends in Attitudes to Health Care 1983 to 1996 (1998)

[25] Institute of Fiscal Studies *What Drives Support for Higher Public Spending* (1997)

[26] Public Management Foundation *op cit*

[27] Miller and Listhaug in Norris *Critical Citizens* (2002). Correlation is .26

[28] For the distinctions between the categories to be meaningful we need to stick to a conventional account of outcomes: if outcomes are very broadly defined (general well-being; levels of trust and satisfaction) then they will subsume the other categories.

[29] The list of social outcomes that are valuable is potentially extremely long. It is open to change over time, as well as ideological contest (e.g. a racist government could regard the well being of ethnic minorities as valueless).

41. Government has increasingly sought to focus attention on outcomes. They have been given form in PSAs and other targets. Genuine outcomes are now seen as better targets than narrower outputs or activity measures, which risk being distorted. A good example is the use of child mortality as a target in developing countries. This outcome target captures a range of other factors; is clearly desirable; and is less vulnerable to the risk of distortion by the agencies involved than narrower measures (such as numbers of vaccinations).

42. Outcome targets have become increasingly sophisticated. The floor targets recently introduced to reduce the variation in performance of public services, and contribute to reducing social exclusion, are a good example.

43. In some areas funding has been more closely tied to outcomes, drawing on extensive experiments with different forms of outcome-related funding. For example there have been experiments where prisons have been funded in part according to their success in reducing recidivism; providers of Employment Zones will be funded according to their success in placing people in jobs (and in due course according to their success in keeping people in jobs).

44. Determining value through the impact on objective measures of outcomes is difficult. It may involve complicated (and contested) assessments of causation: was government action X the cause of social outcome Y? In most areas there are still considerable gaps in our understanding of how to create value through outcomes: either we have limited knowledge of what causes an outcome, or even if we do have a reasonable sense of the causes, we understand little about the effectiveness of different policy levers. However, across a wide range of policy areas the sophistication of policy tools is steadily improving.

45. The fact that public value can be produced as a joint effort between citizens and government is particularly salient for outcomes. Government alone cannot deliver lower crime and better health: social norms of behaviour are critical. For example, better diet and exercise is as critical to health outcomes as service delivery. Changing these norms can be one of the most powerful tools for a government seeking to create value through outcomes. There have been some notable successes (such as cutting drink driving); but understanding of how governments can most effectively change behaviour remains underdeveloped,[30] and in many cases the public still overestimates what government can and cannot do.

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[30] Social norms can have a value independent of their impact on outcomes, and would justify government support for this reason. For example, having a basic level of predictable behaviour enhances the well being of all. (Having to plan constantly for the unexpected would create large costs and a lack of control. Control over one's life is a significant factor in well being.)

Value of trust/legitimacy
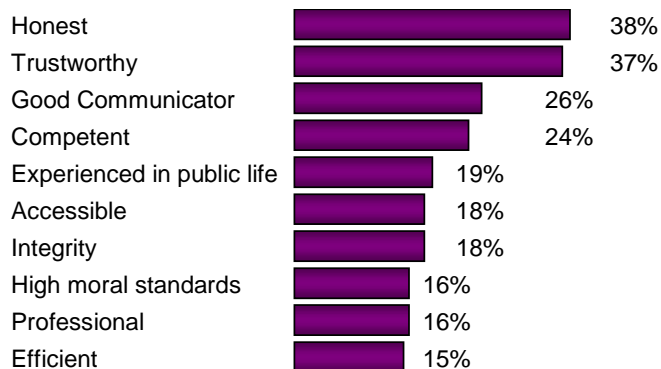
46. The third main source of public value is trust, legitimacy, and confidence. Trust is at the heart of the relationship between citizens and government. It is particularly important in relation to services which influence life and liberty – health and policing. But it also matters for many other services – including social services and education. In these cases even if formal service and outcome targets are met, a failure of trust will effectively destroy public value.

47. During the 1980s and 1990s there were sharp declines in public confidence in many public institutions, including the civil service, parliament and judiciary. Parallel crises of trust affected some private companies. In some cases the causes may lie in perceptions that these institutions no longer performed their core tasks very well. In others, perceptions of lack of integrity and compromised ethos were also critical. These trends now appear to be moving in the opposite direction; however they are reminders that no public institution should take its legitimacy for granted.

48. Trust is highly valued by the public. One UK survey found that honesty and trustworthiness were the qualities the public value most in a political leader (see chart below). Related to this is the public desire that leaders and officials should operate according to norms of behaviour that are deemed to be appropriate for public life (e.g. not making decisions to advance personal interests, civility).

Table 2 – Desired Personal Qualities in Public Leaders

Q. Which three of these qualities, if any, do you feel are most important in a public leader?

Quality	Percentage
Honest	38%
Trustworthy	37%
Good Communicator	26%
Competent	24%
Experienced in public life	19%
Accessible	18%
Integrity	18%
High moral standards	16%
Professional	16%
Efficient	15%

*Base: People's Panel Wave 5 – All (1,086)*

49. Living in an open, fair, democratic polity offers benefits additional to any improvement this makes to the quality of policy as measured by outcomes. It encourages a feeling of belonging, reduces resentment of government actions

(legitimacy) and increases confidence that government is likely to make good decisions.

50. There is a complex debate on what determines levels of trust and legitimacy in which there are three main positions:

- Trust in government is shaped by general levels of social trust and propensity to trust institutions in general.
- Trust in government is shaped by the effectiveness with which it manages the economy and delivers services.
- Trust in government is shaped by the way politicians and political institutions behave.

51. There is mixed evidence for the strength of all these effects: Some evidence indicates that factors outside government control may have a strong impact on measures of trust. For example, the chart below shows a strong link between changes in the general national mood and trust in the government.
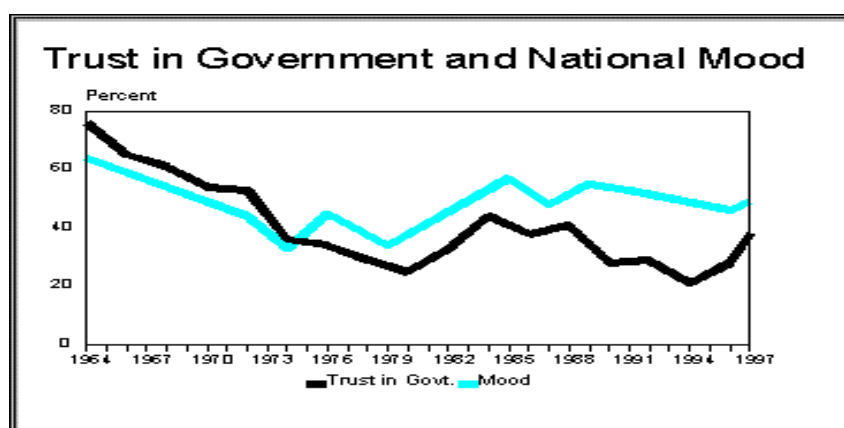
Source: Pew Research Centre. US data

52. However, some of the evidence points in a different direction. One of the reasons often cited for declining trust in government is that this is symptomatic of a general decline in the trust of authority and institutions. Looking at changes in trust in a wide range of authority groups from 1983-2002, there is no consistent pattern of a changing attitude to authority (see charts below).

Net percentage saying they would generally trust members of different groups to tell the truth
Source: MORI
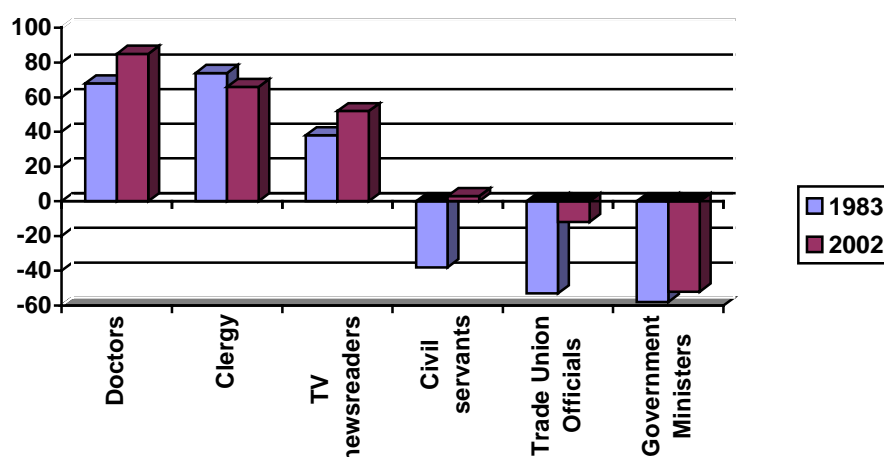
% who believe that behaviour is likely

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British police not to bend the rules in trying to get a conviction

British governments of any party to place needs of nation above those of political party

Top civil servants to stand firm against a minister wanting to provide false info to parliament (*)

Politicians of any party to tell the truth when in a tight corner (*)

■ 1987
■ 1994
■ 2000

* Not asked in 1987

0% 10% 20% 30% 40% 50% 60% 70%
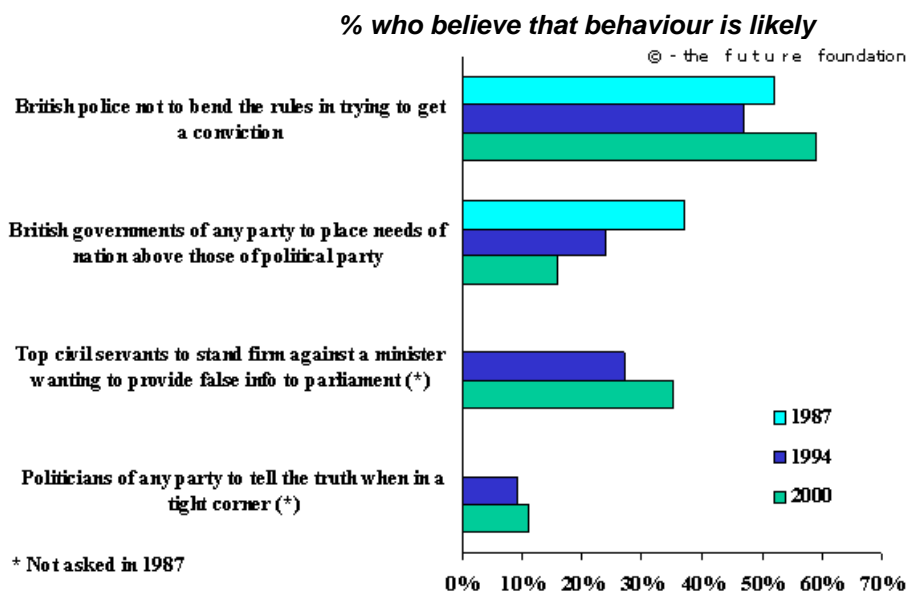
53. Another study finds no systematic relationship across countries between general levels of social trust and trust in political institutions.[31]

54. Therefore specific events and actions connected to individual groups or institutions are significant in driving the trust measure. Looking first at outcomes, there is evidence of a significant correlation between large government budget deficits (high deficits being a proxy for poor economic outcomes and management) and low confidence levels in political institutions.[32] Another study finds a link (albeit minor) between confidence in political institutions and respondents' subjective assessments of the health of the economy[33], and yet others point to significant correlations between a series of performance measures and changes in trust.[34]

55. On services, a Canadian study found a strong positive correlation between satisfaction with services and overall opinions of the Government.[35] (Note this did not show direction of cause: it may be that people with a negative view of the Government for other reasons will rate public services poorly.) A US study found that in a period where trust in the federal government had fallen sharply, satisfaction with the services of nineteen agencies had, overall, risen markedly.[36]

56. There is mixed evidence on how the behaviour of Government and politicians, as distinct from the results they produce, affects trust. Trust in UK government ministers has moved within a 10% range from 1983-93, and within a very similar range since 1997. In the intervening period, when a series of "sleaze" scandals engulfed the administration, it fell to a new range 10-12% lower.[37] However in the US trust in the federal government hit a low point in 1994 (of just 1% saying they "just about always"

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[31] Newton in Norris *op cit*

[32] Norris *op cit*. Correlation is .41

[33] McAllister in Norris *op cit*

[34] Weil *Sources and Structures of Legitimacy* 1989

[35] Canadian Centre for Management Development *Citizens First* 1998

[36] Pew Research Centre www.people-press.org/

[37] www.mori.com

trusted it) and subsequently recovered, showing virtually no negative effect of the Lewinsky scandal.[38]

57. It is worth noting that some reviews of the trust literature[39] note that there has often been a gap between very detailed empirical work looking at specific survey questions and their validity, and broad theoretical frameworks for looking at legitimacy. Drawing macro level conclusions from the detailed data can be difficult.

58. The two charts below show the results of attempts (to model the impact of different variables on political trust in the (ranked in order of significance).

Actual Predictors of Trust in Government
$(R^2 = .23)$

1. Age/Age^2 (curvilinear)	-/+
2. Social Policy Satisfaction	+
3. Leader Evaluations	+
3. Efficacy	+
4. Interest in Politics	+
4. Critical of Globalisation	-
4. Life Satisfaction	+
5. Ethnic Minority	+
5. Graduate	-

Source: David Sanders (Essex University) presentation to Strategy Unit Public Value seminar. "Leader evaluation" is view of all current political leaders. "Efficacy" is belief in the general effectiveness of government action.
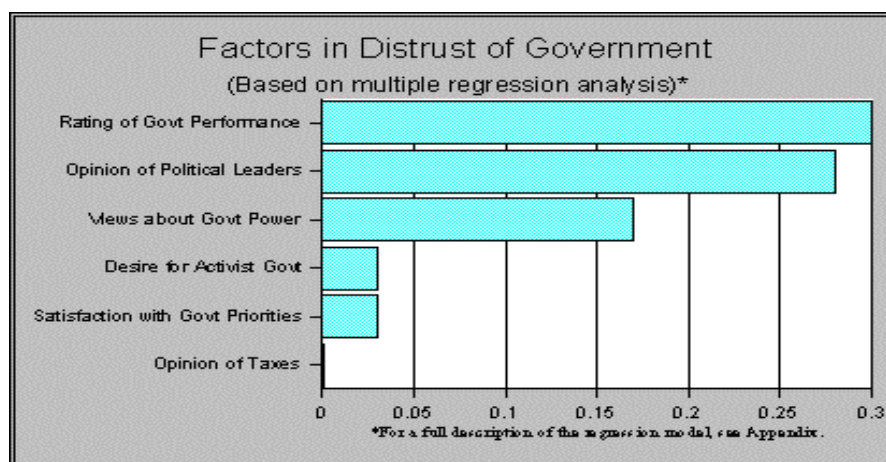
Source: Pew Research Centre

51. Overall, the evidence points to a very complex causal relationship between government performance and trust. Wider social changes, outcomes, service levels and the behaviour of political leaders and institutions probably all have a part to play. Actions that seek to boost trust by delivering on one of these dimensions may be affected by, even undermined by changes, in one of the others.

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[38] www.gallup.com
[39] e.g. Weathford *Measuring Political Legitimacy* 1992

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Case Study – the US Military

The US has seen a widespread decline in trust in institutions of authority (the different branches of government, universities, churches, the press) in the last 20 years. The military offers a striking exception to this, improving from a nadir after Vietnam to being the most trusted of 14 institutions today.

One study[40] cites three important factors driving this:

- **Performance**: The military has demonstrated success in a series of missions since 1980 (Grenada, Panama, Gulf War, former Yugoslavia). This has helped erase the memories of failure in Vietnam and create an image of a successful, professional service. Failures (Somalia) have been attributed more to weaknesses of political leadership.

- **Professionalism:** The military has dealt effectively with major management challenges, in particular racial integration and combating drug abuse. In both fields, it has been more successful than US society as a whole.

- **Persuasion:** Effective marketing has been the other strand to building trust and respect. Since 1980 the armed services have run substantial advertising campaigns to win recruits and broader support. They have also proved adept at bargaining assistance with film and TV portrayals of the military into favourable coverage.

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52. To summarise: each of these building blocks – service quality, outcomes and trust - is an *independent* source of public value. An improvement in health outcomes generates value even if satisfaction with GPs/hospital services remains constant. Likewise, if levels of trust in public institutions increase over time this is a source of value even if it does not flow from improved services or outcomes.

Inter-relationship between dimensions of public value

53. The fact that the components of public value identified above are conceptually distinct, and can occur independently of one another, does not mean they are not related. In practice they will often be closely linked, with results in one affecting another.

54. In many cases, the sources of public value will be mutually reinforcing. An obvious example would be that clear success in delivering an outcome (e.g. less crime) could improve trust in government and satisfaction with the police (even if police improvements accounted for only a small part of the changing crime rate). Another example could be that an effective programme of public education would increase satisfaction with the relevant service as citizens felt better informed, with the side effect of improving outcomes as they better understood what the service was trying to do and adjusted their behaviour accordingly.

55. However, there are also potential trade-offs between the different components. For instance, measures that would help to boost recognised outcomes (educational attainment, crime reduction) may differ from those that would boost levels of satisfaction/confidence in services. A well-known example is the tension between public demands for more "bobbies on the beat", and limited evidence about whether it is effective in reducing crime levels. There are also potential trade-offs between outcome goals and perceptions of fair treatment. If, for example, prisons found that

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[40] King and Karabell *Generation of Trust: Public Confidence in the US Military since Vietnam* John F Kennedy School of Government, Harvard *(*2001)

giving ex-offenders financial incentives not to re-offend was successful in delivering outcomes, public values might challenge such an option.

56. Recognising these overlaps and tensions does not diminish the utility of the public value concept. Rather it clarifies the need for an integrative framework and associated decision-making techniques that will help policy makers and managers think systematically about the various benefits that their actions can create (and how to weight them).

4. How we manage the sources of public value

This section looks at how the sources of public value are currently managed, and identifies a number of weaknesses.

57. In the light of the preceding discussion of the sources of public value we can now assess the extent to which government and public bodies are focusing their energies on managing these and related factors.

Managing the drivers of service satisfaction

58. There is now widespread recognition of the need to ensure high levels of customer satisfaction. However, there remain important gaps in relation to how this is being done:

   - government's understanding of the public's weighting of the relative importance of different service areas is patchy.[41]
   - the same is true of our understanding of the relative importance of different drivers of satisfaction within each service area.
   - there remains a gap between the recognition that customer satisfaction is a key goal of policy and existing incentives, focus of management effort and deployment of resources.

59. There are, however, a number of examples from the UK and abroad where incentives and resources are being used in innovative ways to boost satisfaction. Public Service Agreements are being used to direct resources to meeting satisfaction targets in areas such as the criminal justice system. Moreover, innovative examples exist where an element of the payment to a service provider is linked to user satisfaction ratings (see box).

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[41] Some evidence indicates that the NHS, and GPs in particular, are seen as the most important services. (In one survey 47% said GPs are one of the most important services, and 38% said the same for NHS hospitals, well ahead of all others. In another, 86% said that all NHS services were one of the most important services to them and their family, with no others scoring above 62%. (Public Management Foundation, *op cit*)

> **Tenant satisfaction and PFI in social housing.** A PFI currently being prepared for a housing estate in Camden has residents groups closely involved in specifying the measures that will be used to determine payment to the PFI contractor. This aims to ensure a tight link between payment and user satisfaction.[42]
>
> **Passenger satisfaction and buses in Copenhagen.** A 'quality measuring system' has been developed that offers bonuses (up to 7% of contract value) to the best performing bus operators. The points system used gives twice the weighting to measures of passenger satisfaction (as measured through quarterly surveys) as it does traditional 'objective' measures of performance. Studies show that this system has generated significant increases in satisfaction.[43]

Managing culture and ethos

60. Ethos and organisational culture are crucial to overall performance and satisfaction. Changes in ethos can create a strong dynamic for further improvements. In education for example, the culture and leadership of schools has repeatedly been shown to be the most critical factor in explaining success. The converse is also true, and has been described as a 'Gresham's Law of Public Service': in organisations with a poor ethos, bad employees drive out the good (and vice versa). In some areas the very act of focusing on a culture can damage it. A good example is the use of the voluntary sector in the provision of care services on the grounds that the ethos commonly associated with voluntary providers was more effective. In the process of becoming more significant players, the voluntary sector organisations have had to professionalise, with more full-time paid workers and much higher demands of the remaining volunteers, thereby changing the very culture that was the reason for their involvement.[44]

61. Ethos clearly matters, yet despite its importance in relation to public value, the public service ethos is more talked about and invoked than managed. The most important aspect of managing ethos is ensuring that the ethos is in sync with the value produced by the organisation or profession. Often there is a mismatch. A classic example of an inappropriate ethos was the culture of cavalry officers in army during the early years of the 20th century.

62. A related issue is the need to ensure that the values of an organisation are in tune with those of the public. If the priorities and expectations of the public shift, and the culture of a public body does not, then satisfaction and trust in the service may be undermined. Research suggests that service users are well attuned to the ethos of providers.[45]

63. There are many examples of services which failed to respond to changing public values:

   - The culture and climate of the criminal justice system has traditionally been viewed as one of scrupulous fairness and formality. The wider public has increasingly seen this as undervaluing the importance of the victim's experience,

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[42] London Borough of Camden *Second Interim Report of the Scrutiny Panel into Choices about the Financing of Capital Projects (*2002)

[43] Preston "Bus Service regulation and competition: an international comparison" in Grayling (ed) *Any more Fares: Delivering Better Bus Services* (2001).

[44] Russell and Scott *The Impact of the Contract Culture on Volunteers* Joseph Rowntree Foundation (1997)

[45] Evidence from GP practices in Brown *Organisational Values in General Practice and Public Involvement in an Urban District* Health and Social Care in the Community (2001)

offering them little or no input into the system, weak support and giving rise to a feeling that no-one takes account of their interests. Satisfaction with the police among victims of crime fell 10% from 1994-8.[46] The importance of the shift in public sentiment towards greater victim support is now being recognised (for example through giving the probation service statutory duties towards victims, and considering a statutory set of victims rights).

- The traditional values of the medical profession (as encapsulated in the Hippocratic Oath) focused on preserving life at all costs. Such a clear professional purpose has arguably been important to building the high levels of public trust that medical staff have maintained over time. However, in recent years a number of cases have pointed to a possible shift in the public's values in which greater weight is put on the quality as well as duration of life, leading to a growing number of conflicts with the medical profession, some of which have ended up in court.[47] Maintaining high levels of trust in the medical profession will require continued attention to the fit between public and professional values.

64. The civil service also needs to ensure that its values remain in line with those of society if it is to create public value. The traditional civil service ethos of impartiality and objectivity remains as important as ever (as shown by the reaction to any hint of it being undermined). However, as expectations of government expand to include customer service, and effective delivery, and as the complexity of policy challenges increases, traditional values need to be complemented with new ones.

65. More generally, in an era of less deference, professional ethos is likely to need to adapt to recognising the need for public involvement.

Managing user engagement and consultation

66. Over the last decade there has been a rapid growth in engagement and consultation exercises. Research suggests that *used appropriately* this can generate considerable value. However, there is also evidence that consultation/participation is used very unevenly by central and local government and often poorly managed.[48]

- Analysis of public participation and consultation exercises reveals a large gap between the nature of citizen involvement and actual decision making. An Audit Commission survey found that three-quarters of 'best practice' authorities failed to link the results of consultation to decision-making processes.
- The management of methods of participation in public services is highly underdeveloped.[49] For instance, nine out of ten councils undertake public involvement work with young people, but only one third of them evaluate their impact.[50]

67. The chart below shows the extent to which local authorities felt participation efforts affected their final decisions; a large proportion do not feel it has much impact.

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[46] Home Office *Policing and the Public Findings from the 1998 British Crime Survey* (1999)

[47] Most famously in *Airedale NHS Trust v Bland* 1993

[48] Clarke *New Democratic Processes* (2002).

[49] For an assessment of how these techniques are being used in the social housing sector see Public Services Productivity Panel (HM Treasury) *Putting Your House in Order* (2000)

[50] Coombe *Getting young people involved in local government* Joseph Rowntree Foundation (2002)

Impact of participation on final decision[51]
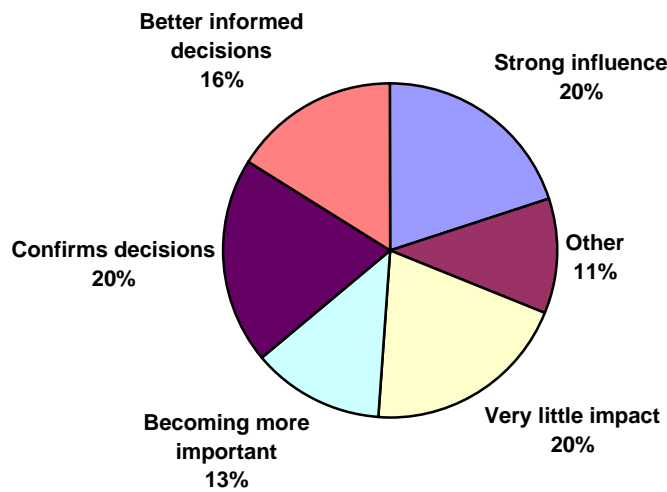
68. There is clearly a balance to be struck between involving the public sufficiently to ensure that government actions reflect their preferences and are legitimate, and on the other hand overburdening the public with questions and forms of involvement that are properly the concern of elected representatives and officials. There is a real danger of underestimating the cynicism people feel about making a difference through consultation, and the extent to which for some services all they want is provision with minimum effort. The above evidence indicates that in some areas public bodies are at risk of making demands on the public and interest groups, but offering little in response.

Managing co-production and behavioural change

69. Relatively little is known about what drives citizens' behaviour along with government's capacity to change it. There is currently a paucity of research into this issue despite its centrality to the question of public value. Many public managers consider the issue of how to bring about behavioural change to be relevant but outside of their remit. Nonetheless there are a number of interesting examples of policy induced behaviour change (see box below). Though little is known about the relative efficacy of different policy levers, a recurring theme of successful strategies at changing citizen behaviour appears to be offering personalised and credible information on the benefits to individuals of alternative courses of behaviour. Good examples in the UK include the New Deal personal advisers, the Connexions advisers and services like NHS Direct. All offer highly personalised models of support (and interestingly all operate within the public sector).

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[51] Lowndes, Pratchett and Stoker *Trends in Public Participation Part 1 – Local Government Perspectives* Public Administration (1999)

> **Successful Behaviour Change**
>
> **Public Transport:** In Perth, Australia, the council used individualised marketing such as contacting households by phone, personalised route planners and home visits to promote public transport use. The effect was a 35% increase in walking, a 61% increase in cycling, a 17% increase in public transport and a 14% decrease in using a car as driver.[52]
>
> **Recycling**: The authorities in Denver found participation in a recycling programme rose dramatically when individual "block leaders" were appointed to persuade their neighbours to participate. Neighbourhoods with block leaders saw people recycling waste more than twice as often as those where information was sent through the post.[53]

70. The record of government in harnessing citizen involvement in the direct production of services is also patchy. A number of key public services are, however, undertaking concerted efforts to involve citizens in the production of key services; public agencies understanding of the potential for co-production does seem to be increasing (home school contracts in schools, recycling initiatives and public health programmes are all examples). And, of course, there is a long history of co-production in some areas (e.g. Neighbourhood Watch and the Territorial Army).

> **Parental involvement and learning**
>
> A project in a former coal-mining district introduced new IT equipment into schools and trained teachers in its use. In the evenings, parents would come in to the school, help their children complete homework using the equipment and receive IT training themselves. The project aims to increase parental involvement in education (thereby raising attainment) while also developing new skills among the current and future workforce of a deprived region.

Managing fair treatment and due process

71. Ensuring fair treatment and respecting due process is traditionally thought to be a strength of the civil service and public agencies (NHS, social security), backed by a strong ethos and institutional safeguards (e.g. judicial review, ombudsman). Over recent years there has been a growing recognition that too strong a focus on due process/equal treatment, or a particular interpretation of it, could detract from other aspects of value, such as the capacity of providers to tailor services to fit individual needs and circumstances. Changes have been made in a number of areas, for instance, the use of personal advisers with considerable discretion in the *Connexions* service.

72. Placing a value on process as well as outcome raises issues in relation to contracting with private providers. It is sometimes argued that private providers should only be accountable for achieving outcomes and therefore should be freed from 'bureaucratic' process regulations. From this perspective, private providers of public services should comply with their contractual commitments but not be subject to public law forms of accountability such as judicial review. Conversely, if public value derives from process as well as positive outcomes then it is important that all service providers comply with the norms/regulations that ensure equal treatment.

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[52] Travelsmart. http://www.travelsmart.transport.wa.gov.au/ cited in PIU *Customer Satisfaction in Public Services (*2001)

[53] Burn *Social Psychology and the Stimulation of Recycling Behaviours* Applied Social Psychology *(*1991)

5. Examples of how a 'public value' perspective could be used

This section sets out a few case studies – some real , some hypothetical – which illustrate how looking at policy issues from a public value perspective might lead to different policy solutions than would otherwise be the case.

73. If public value is to be a valuable concept it needs to make a practical difference to how we think about policy choices.

Converting school inputs into value

Schools that excel tend to have their own distinctive culture and ethos. They are often are run by heads who think creatively about how they can best harness the social, human and physical capital available them to in order to achieve full their school's mission.

- parents are encouraged to be co-educators so that levels of attainment are improved and they become key stakeholders in the mission of the school
- school premises are used as a community asset, making ICT resources available to local citizens thereby building up connections with and goodwill with local people
- governing boards are used as a resource

For example one primary school with severe behaviour and attendance problems made regular "surgeries" and forums for parents the centrepiece of its recovery strategy. Parental involvement increased, and with it links between the school and community, and attainment.[54]

Recognising different forms of value - contracting school meals

Studies of competitive tendering have suggested that some schools saved around 10% of their total spend on school meals by switching from in-house to out-of-house provision. It is often claimed that part of the reason for the lower cost was a decline in quality/nutritional standards but assume for the sake of this hypothetical example that quality remains constant. Conventional reasoning would maintain that contracting out increased technical efficiency and with it public value (citizens benefit through better use of public resources). However, when consideration is given to some of the hidden benefits of in-house provision then the calculus may become less clear. For instance it may have been the case that in-house provision led to a higher ratio of pupils' parents and other local members of the local community being employed by the school. This could have created benefits in the form of increased:

- supervision of children;
- attention to learning to sit and eat meals;
- recognition by local adult members of the community of school pupils.

The proper use of cost-benefit analysis could have captured some of these components of value resulting from in-house provision (i.e. by asking parents how much they value having local members of the community providing school meals). However, some of the wider benefits to community cohesion are unlikely to be picked up through a contingent valuation exercise.[55]

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[54] OFSTED *Lessons Learned from Special Measures* 1999
[55] It should be noted that taking account of these wider forms of public value would not necessarily imply opposition to contracting out (the in-house team may have been poorly managed etc..); though it might suggest that there should be some form of 'parental labour' clause in the contract.

Rethinking a service - libraries

Libraries in the UK are a traditionally popular service that have experienced a long period of decline. Numbers of visits and borrowings have fallen considerably, some of the services on offer feel antiquated and there has been a lack of innovation. Management time can be spent on dealing with inadequate funding rather than increasing value. However, over recent years some libraries have responded by thinking creatively about how to use their resources to increase value for local citizens. This has involved using ICT to boost internet access in rural areas; introducing self-issue systems so library staff are freed up to support and advise users; and a move towards weekend opening.[56] A more radical experiment in re-thinking how libraries can create public value has taken place in Singapore where the National Library Board has been set the overarching target of tripling usage over an eight year period. In pursuit of this libraries have co-located with other service outlets (shopping centres, cafes, railway stations), new technologies have been introduced for checking in/out books, and new services are being offered (internet, music booths etc).[57]

Capturing wider forms of value - the post office

It is well known that many post offices in rural locations (or deprived urban ones) are not economically viable. It would be possible to provide most of their services through other means (e.g. paying benefits directly into bank accounts, selling Post Office products through other outlets), saving money in the process. However, a wider economic assessment suggests that post offices often support the only shop in a settlement (in one survey 46% of postmasters in Scotland felt the attached shop would not be viable without the post office). Conventional CBA might conclude that the optimal policy solution is to directly subsidise rural shops, if that is the policy goal, rather than doing this indirectly through a post office. If public value is considered, the case against maintaining post offices may change. For example, it might find that a post office provided a useful community function as a meeting point and source of information, which might not be replicable with alternative service providers. Moreover, the Post Office brand is a very well respected one and may be the only symbol of government presence in the area. Its removal may undermine trust and feelings of connection to Government. Work done for the PIU Post Office study shows some of the techniques that can be used to capture systematically some of these wider forms of value.

Designing for value

Different approaches to design can create or destroy public value. One example of this is the design of town halls. During the 1960s the focus was on creating buildings that were suitable for their administrative functions. Over recent years, however, there has been concern to ensure that the design of town halls creates public value in the form of increased opportunities for democratic participation and engagement. The recognition that local people place value on opportunities to participate in civic affairs, as well as the efficient delivery of local services, will lead to different design outcomes.[58]

Another example of design creating value comes from public housing. In the 1950s and 1960s, architects focused almost entirely on the need to house large numbers of people cheaply and in limited space. Several of the resulting estates have been characterised by social deprivation and crime. Taking a wider view of the value that can be created by architecture has lead to efforts such as "designing out crime" which can be remarkably successful. For example, one study of two Bronx housing projects with similar social composition found that one designed with lobby areas clearly visible to the street and residents had a crime rate 33% below the city average, whereas the other, with much poorer natural surveillance, had a rate 52% higher.[59]

74. It is noteworthy that using public value could create arguments for the status quo in some situations, but for change in others. Arguably, adopting a public value perspective might act to reduce the scale of change in our construction of the case of the post office and increase it in relation to the management of schools and libraries. It is also worth noting that none of these examples rely on central imposition of new

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[56] Audit Commission *Building Better Library Services* (2002)

[57] Leadbeater *Innovate from Within*, Demos, (2002)

[58] IPPR Designs for Democracy project www.ippr.org,uk

[59] Newman *Defensible Space* 1972, cited in Katyal *Architecture as Crime Control* Georgetown University working paper (2002), which offers a general review of the literature in this field.

public value focused targets or measures. They would be more likely to arise through flexible and innovative thinking at the level of the individual decision-maker or service provider.

6. Achieving public value – future challenges

This section points to areas where further work is required if the concept of public value is to be put to practical use by policy makers.

75. Public value could generate new techniques and approaches to help inform decision-making at each stage of the cycle of policy development: listening to preferences, analysis, option appraisal, measurement/monitoring and evaluation

76. With a concept as broad as public value, the implications will vary widely across different policy and service areas. It is essential to avoid a single approach introducing rigidly applied techniques across the board. All the suggestions below would need piloting in different fields for which they might be suitable: local rather than central government may in many areas be best suited to this.

Establishing public values: finding out what the public thinks

77. Understanding public preferences is key at the early stages of the policy process (setting objectives and analysing options). At the broadest level, conventional democratic processes provide an opportunity for expressing collective views about policy priorities. This is however, a very blunt mechanism for signalling complex preferences across a broad range of policy issues. Making use of the concept of public value requires the use of techniques that are effective at probing public preferences in some depth.

78. Establishing underlying public preferences about what is valued, and to what degree, will involve reasoned and deliberative processes as well as snap-shot opinion polling/voting. As well as traditional representative channels (parties, MPs and so on) and the media, public bodies need to (and often do) employ a range of filtering devices in order to decipher these preferences (media, polling, focus groups, user groups/panels) as well as directly elected user representatives (school governing boards, NDCs etc).

79. Key issues for policy makers include

   • Identifying whose preferences should count: current users, those who might need a service (even if they are not aware of it), future users, those who will never use it but whose political support needs to be maintained, those who have views about who else deserves a service?
   • Identifying the issues on which the public will want to be involved, to obtain citizen views where important but not to be over-demanding. There is clear evidence that on some issues there is a strong desire among affected citizens to make their views known, especially those with a direct personal impact.[60] In other areas this will not be the case.
   • Providing forums in which citizens/groups can learn about issues, express views, explore scenarios and seek to reach accommodations that can inform policy.
   • Recognising the limits of 'revealed preferences' and exploring the potential of 'stated preference' approaches that focus on policy trade-offs and don't rely on cash as the only unit of comparison.

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[60] For example turnouts in ballots on proposed social housing transfers have tended to be very high: in one Manchester ward the local election generated a 12% turnout while the housing ballot attracted 85%.

- Recognising that as well as listening to the public, we might also develop techniques that delegate (at least in part) decision making responsibility to the public.

Participatory Budgeting

One option that could be explored is participatory budgeting. This concept has been used in a number of developing countries, particularly following concern about the methods used to allocate resources. The aim is to engage a wide range of citizens and community groups in the process of debating and agreeing spending priorities for localities. Each locality agrees priorities that are then passed on to a city-level 'budget council', the majority of whose membership is made up of representatives from localities. The budgeting process is designed to be transparent, deliberative and as far as possible bottom-up. From an efficiency perspective the total hours spent agreeing the budget would appear to be highly costly.[61] However, participatory budgets have the potential to create considerable public value through increased legitimacy and a closer alignment between public preferences and the use of resources.

Appraisal techniques and decision making

80. Moving to the appraisal of policy options, public value is not always fully addressed by the existing tools. There is a well-established body of practice in government for evaluating policy options, investment possibilities and changes in services. The *Treasury Green Book*, and individual departmental methods that draw on it, set out clear methods for systematic evaluation to inform ministerial decisions.

81. These methods do go a long way towards capturing the components of public value. Some parts of value (e.g. service outputs, financial costs to business, citizens and the Exchequer) are relatively easy to quantify and therefore to use in an assessment. We have standard valuations for many of the outcomes that are important in public value (for example putting value on Quality Adjusted Life-Years to measure health and travel time for transport). Beyond this there are other well-established techniques for tackling elements of value that are very difficult to quantify (including revealed preferences, contingent valuations and rankings).

82. This range of established tools ought, in principle, to take us a long way towards being able to assess the key dimensions of public value. The available guidance is not restrictive: people are encouraged to look at all the impacts of policy options and to weigh them up systematically. However, although the tools are available, they are not always used to capture the full range of public value. Taking as an example one central government department's appraisal framework (recently produced and regarded as good practice), it does address a number of the building blocks of public value, including issues where quantification is difficult and the above techniques would be needed. However, it says nothing about some of the other significant components set out above, including:

- Public/user involvement
- Satisfaction (as distinct from outcomes)
- Trust in government and service providers
- Procedural fairness

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[61] The city of Porto Alegre estimates that over 100,000 people or 8% of the total population were involved in setting priorities. (Fung and Olin Wright *Deepening Democracy: Innovations in empowered participatory government* John F Kennedy School of Government, Harvard (2000))

83. This is not to say that these factors are never taken into account in decision making. However, their absence from the formal appraisal process means that they are likely to be included only at the final decision, often in an *ad hoc* manner, as part of an overall political judgement. Clearly capturing the value created by these intangible factors will remain an art as much as a science: improved metrics that capture new aspects of public value will not remove the need for difficult political judgements to be made. But they may help improve and systemise the decision-making process.

84. We need to note the risk that the diffuse nature of the 'benefits' incorporated within public value could lead to a bias towards conservatism. Controversial decisions that generate short-term unpopularity may be avoided to prevent reducing trust/legitimacy (e.g. closing a local hospital) if the policy tools are not designed and used carefully. Arguably, the relationship between trust and reform is often "U" shaped, with a decline in trust as new arrangements are introduced followed by an increase to levels above the starting point if the expected benefits are realised.

Selecting delivery vehicles

85. Another aspect of policy appraisal is selecting the appropriate process through which citizens gain access to services. In some circumstances user <u>choice</u> between different providers is likely to be an highly effective mechanism for registering and aggregating citizen preferences, particularly in instances where public value closely resembles private sector value (e.g. a student's decision at which university to study). In other areas, using choice as a key element in delivery might have a powerful negative effect on some aspect of public value (for example fairness: in New Zealand greater school choice led to increased polarisation, with fewer, and worse schools in deprived areas).[62] It may also be the case that there are particular services in which citizens' value the right to exercise choice (e.g. courses of medical treatment), compared to others where there is either less demand for choice, or introducing it is less practicable (national defence). Policy makers need to be attuned to these different possibilities for choice affecting value.

86. Another set of issues concerns the criteria for <u>selecting service provider organisations</u>. The prevailing approach across much of government has been to ignore altogether wider questions such as ethos (discussed above) and instead select providers on the basis of their capacity to deliver a given output at the lowest cost (e.g. this was the case with CCT). Another established approach has been to maintain that certain broad classifications of organisation (e.g. profit making) should not be eligible to provide certain services.

87. Section 3 has already cautioned against this type of generalisation about the nature of private/public/not-for-profit organisations. In its place we might expect the bodies commissioning services to adopt a more variegated approach, replacing a 'one-size-fits all' perspective with one that assesses any potential provider according to their capacity to create value. In some areas this might involve assessing the different resources available to a provider – leadership; capacity to listen to and work with citizens/local groups; openness; ability to innovate - together with the provider's track record in converting these resources into dimensions of public value.[63] In other areas,

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[62] PIU *op cit*

[63] For a relevant discussion of ethos and procurement see Stoker and Aldridge *Advancing a new public service ethos* New Local Government Network (2002).

where the components of value are less complex, the procurement process might be simpler and more conventional, involving the selection of the least cost-bidder to deliver a given output that is easy to specify.

Developing new metrics/reporting mechanisms

88. Public value is also potentially important once policy options have been appraised, chosen and implemented. If we are going to use public value as a measure of performance, then we will need methods of accounting for it and reporting on success. Government has much to learn from the private sector and NGOs in this regard.

- A number of large companies and voluntary groups now publish social and environmental accounts, looking at their total impact beyond traditional financial measures. The methods used in these audits, and the principle of transparency that underpins them, might have potential for 'public value audits' of public sector bodies.
- In relation to financial audits, there is a long history of evolving techniques for accounting for intangibles (such as reputation of a brand, which may have some similarities to trust in a government body). The DTI's recent review of company law recommended a modernised system for dealing with intangibles, and there may be lessons from this.
- The literature on community-capacity building is starting to develop metrics that gauge the social quality and vibrancy of community relations. As these metrics become more established they should feed into decision-making techniques.
- "Balanced scorecards" are being developed as a way of looking at performance in organisations without a simple metric of success, weighing up all the different factors that contribute to a valuable outcome overall. Some government bodies, in the UK and abroad , are beginning to use this approach.[64]

89. Public agencies are increasingly using performance models to assess how well they are meeting objectives. As with appraisal frameworks, the existing performance models tend not to include the more intangible components of public value, although some are being adapted by users to cover wider aspects of service delivery. There are also a number of emerging IT-based systems that can help track performance across a balanced range of objectives and indicators.

Accountability, management freedom and innovation

90. Adopting a public value perspective may also lead us to question the traditional assumption about public administration and accountability: namely that key questions of value should be resolved at the level of policy, with public management focusing on 'technical' questions of implementation. Public value encourages managers to think of goals, such as maintaining legitimacy, that go beyond organisational survival and meeting immediate service delivery targets. Those organisations that are tied down to delivering highly specified functions may end up falling behind (and failing to shape/lead) public expectations.

91. Enabling managers to adopt a broader view of their organisation's role will often involve conferring greater management flexibility, as the move towards "earned autonomy" recognises. The 'centre' cannot specify how best a local agency providing a complex service can best go about boosting service satisfaction, improving outcomes

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[64] Charlotte, South Carolina, is an example of a city where this technique has been applied.

and securing local legitimacy. However, this does not mean that in every instance public value should be equated with greater managerial discretion and looser accountability. In some circumstances an established process – a service template – can be used reliably to deliver an efficient service. Arguably, this approach would be beneficial in areas such as the paying of housing benefit; it also underpins the growing use of clinical protocols within the health service. In these instances public value is likely to be created by ensuring that *all* service providers adhere to recognised best practice. Similarly better coordination of IT systems and data management is likely to improve the ability of services to deliver outcomes.

92. Accountability arrangements need to be shaped to support the creation of public value. An over reliance on process driven inspection/audit regimes, that target narrow measures of efficiency, will be inappropriate. A more rounded accountability, which faces outwards towards users and citizens, as much as upwards towards departments and inspectorates, is likely to work better.

Conclusion

93. Public value offers a broader way of measuring government performance and guiding policy decisions. Taking this holistic approach, looking at the totality of the impact of government, could help to improve policy decisions – and improve the relationship between government and citizens.

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October 2002