



Tony Blair: The Duke of York of Public Sector Reform.

“Rather than creating a new legacy in public services, the prime minister is in large measure simply restoring the legacy he inherited”.

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TONY, DUKE OF YORK

**The Grand old Duke of York, he had ten thousand men
He marched them up to the top of the hill
And he marched them down again.
When they were up, they were up
And when they were down, they were down
And when they were only halfway up
They were neither up nor down.**

INTRODUCTION

Not a week goes by without the Prime Minister pledging to ‘stick to his radical reforms of the public services’. We are told they will be his legacy. Tony Blair presents himself as the Captain Kirk of reform, determined to boldly go where no politician has gone before.

For some reason, the media largely go along with this. Yet the truth is rather different. Far from marching forward into new territory the Prime Minister is heading backwards. The reverse gear that he famously claimed not to possess is fully engaged. Rather than creating a new legacy, he is in large measure simply restoring the legacy he inherited and which, in his first Parliament, he himself dismantled or aborted.

In the wake of his victory in 1997: in Health Tony Blair abolished what he derided as the ‘internal market’ in the NHS, scrapped fundholding GPs, and deprived patients of the right to choose which NHS hospital treated them; in Education he scrapped Grant Maintained Schools, restored them to Local Authority control and abandoned the

previous government's commitment to give all schools a status similar to Grant Maintained Schools.

Now he is recreating what are virtually Grant Maintained Schools, relabelled Trust Schools, largely free of Local Authority control and extending that status to all schools as John Major promised; he is restoring patient choice, recreating independent NHS hospitals as Foundation Hospitals, reviving GP Fundholding relabelled as Practice Based Commissioning and reintroducing an internal market in the NHS. Similar U-turns have been performed in a number of other policy areas.

His much vaunted 'radicalism' merely involves laboriously restoring (albeit under new labels) what he had abolished and returning to the path mapped out by the previous Conservative administration.

Having marched his troops up to the top of the hill, Tony Blair is now urging them back down again. He is unlikely to be remembered for a legacy of radical reform – more as a modern day Duke of York.

So he will largely have thrown away the huge opportunity he won in three successive election victories. How and why is he set to have wasted the best part of the twelve years the electorate has awarded him - performing a gigantic U-turn only to return to his starting point?

Is there any reason, other than schadenfreude, to examine these twelve wasted years if he is now returning to the right path? After all, there is more joy in heaven over one sinner that repenteth ...!

But it is far from certain that he and, more important, his Party have truly repented or even recognised why their original direction failed. Unless and until they do, there is a danger that they may slip back onto the path of centralism and abandon Tony Blair's present welcome programme of restoring the choice, competition and decentralisation they originally dismantled. Indeed, backbench pressures have recently forced him to retreat somewhat on key issues: Trust schools will apparently be granted even less discretion in their admission policies than originally planned and their overall independence will be compromised by giving Local Authorities strategic oversight. With Conservative support initial retreat does not turn into a rout. Moreover, there is little likelihood that they will understand where to go next. So it is important to examine why Blair followed this strange trajectory. There are also lessons to be learned which will be relevant for a future Conservative government.

Blair's problem was that much of the potential benefit that should have flowed from the huge injection of cash into the public services was largely dissipated by his early reversion to centralisation – changes that were costly and disruptive to introduce and a recipe for ongoing inefficiency once in place.

To his credit, Tony Blair did eventually realise that more money would only translate into more and higher quality services if he reverted to decentralised provision driven by user choice not command and control. Yet he has to pretend that he has been pursuing a consistent course of public service reform. The only mistake he acknowledges is not to have gone further, faster.

The danger is that the public will conclude that if the first two doses of this medicine of radical reform have not worked, why do we need another dose? Professionals working in the public services, battered by constant upheavals, find the rhetoric of apparently endless 'radical reform' even less appealing. Why do we need more of the same?

It is vital, therefore, to explain that this is not 'more of the same' still less an endless process of revolution. Much of the upheaval over the last two Parliaments was the result of a wholly unnecessary detour. Once a more decentralised system is restored there will be no need for continuous structural upheavals. Conservatives should support the current reforms because they are getting us back on the path we set out towards the end of the last government. But we should not allow ourselves to be associated with Blair's rhetoric of seemingly endless radical reform.

Doubtless a future Conservative government will need to refine what we inherit. It will always be essential to learn from experience and adapt to changing circumstances. But we will be building on what Labour leaves behind (and which we both initiated and will have helped to restore). We will be offering incremental amelioration not radical revolution. That is a message that may be a bit disappointing to some right wing commentators who chant the mantra of radical reform of the public services as mindlessly as the Trotskyites used to call for 'perpetual revolution'. Nonetheless it is likely to reflect what our country needs and what our potential voters want.

This pamphlet therefore not only charts the erratic course Blair has pursued in several fields but seeks to explain why he did so and to draw lessons for the future.

Chapter 1 Education: from independent state schools to LA control and back again.

Before considering what Tony Blair hopes to pass on to his successor, it is revealing to look at the legacy of reform that he inherited and the direction in which that was heading.

The key features of the Conservative reforms carried out from the late 1980s were embodied in their most advanced form in Grant Maintained schools. The 1997 Conservative Manifesto promised to extend the main features of this status to all schools:

“We will extend the benefits of greater self-governance to all LEA schools. We will require local authorities to delegate more of schools' budgets to the schools themselves. We will give them more freedom over the employment of their staff and over admissions. And, where they want it, we will allow them to take over ownership of their assets, so they can make best use of the resources.”¹

However, to understand the nature and purpose of those reforms we first need to recall the system that preceded and gave rise to them.

The Pre-1988 System

Most people have forgotten the system that prevailed prior to the reforms of the late 1980s. Essentially schools were under the control of Local Authorities. Local Authority bureaucracy determined the budget and staffing of each school; controlled all other costs centrally, often in microscopic detail; owned and managed the property; and could restrict the intake of popular schools, forcing pupils to go to less popular schools to prop them up.

In theory, Local Educational Authorities were responsive to parental wishes via the ballot box. One might have expected marked differences between different areas under different political control. In practice, a remarkably similar approach prevailed across the country. The educational bureaucracy rather than local councillors imposed the dominant national orthodoxy. This was egalitarian, hostile to competition, and antipathetic to parental choice. It assumed choice was at best a zero sum game. The objective was to make all schools as equal as possible, to play down any differences that parents perceived and to channel more resources to less popular schools to compensate for their lack of appeal. In practice, it was increasingly widely recognised that this system was failing even those it was most intended to help – the most disadvantaged children attending the poorest schools. The reason for this was as follows.

What the system meant in practice was that before the 1988 Education Reform Act, popular schools were rarely allowed to expand even if they had the capacity and desire to do so. Moreover, schools that became popular would not necessarily

¹ As we shall see below, that promise almost exactly describes Trust School status that is to be conferred on all state schools under the proposals in the current Labour White Paper.

receive any increase in their budgets or staffing levels even though their pupil numbers increased. So popular schools had the largest class sizes and their teachers had more children to teach, more homework to mark, etc. In short, they were penalised for success. By contrast, schools that became less popular would not necessarily see any reduction in their budget or staffing even though they had fewer pupils. So their teachers had smaller classes to teach, less homework to mark. They were, in effect, rewarded for the school's relative failure.

In addition to penalising success and rewarding failure, centralised bureaucratic control stifled initiative, diversity and efficiency.

Schools lacked any incentive to use their resources efficiently or imaginatively. For example, schools gained nothing if they let out their premises in the evenings or weekends - because proceeds went to County Hall. As a result, premises were underutilised, community groups were deprived of convenient facilities, and schools did not have what has subsequently become a valuable source of additional revenue.

Likewise, central control led to waste. I remember attending a meeting in a school which had been called to oppose the introduction of 'Local Management of Schools' which involved letting schools manage their own budgets for the school's buildings. It was a warm spring day but the heating was on so the room was stiflingly hot. One of the protestors asked for the windows to be opened. I asked why they didn't turn the heating off. They replied that they couldn't because it was controlled by the Education officials at County Hall. I pointed out that under Local Management of Schools, they would control things like that and instead of burning expensive oil they could spend the money on books. Opposition evaporated.

In short the effect of bureaucratic control was to reward failure and penalise success; to restrict parental choice; to discourage diversity, innovation and efficiency; and to demoralise teachers.

The Conservative Reforms 1998-1997

Bureaucratic control of schools had been a feature of the educational system ever since the 1944 Education Act. Dissatisfaction with it had been growing for decades. In the late 1970s, Jim Callaghan responded to concerns by calling for a "national debate" on education. In the event nothing came of that and the incoming Conservative government was preoccupied for its first two terms with transforming the nation's economic fortunes.

By the mid 1980s, however, the public and government were focussed increasingly on the weaknesses of our educational system. Critics pointed to the perverse effects of bureaucratic control outlined above. They were also aware that in virtually every other sector the major force that drives up quality and efficiency is *choice*. Where users of a service have a choice between different providers and their choices determine how much money each provider receives, then every provider has to strive to emulate the quality of the best as efficiently as they can.

The aim of the reforms introduced in the 1988 Education Reform Act was to harness the mechanism of choice to drive up standards in education just as it does in every

other area. For choice to be effective there has to be a variety of autonomous providers, freedom to choose, money flowing with individual choices and information on which to make an informed choice.

The essential features of the Conservative reforms were:

- giving schools increasing autonomy from Local Authority control,
- setting head teachers free to run their own schools,
- allowing schools to expand if they had the capacity,
- encouraging diversity of ethos, specialisation² and style among schools,
- publishing school prospectuses and exam results,
- maximising parents' freedom to choose which school their children go to,
- allowing parental choice to determine each school's budget by making taxpayers' funds follow the pupil.

Local Management of Schools gave every school its own budget, which it was free to allocate on staff, premises and equipment. Schools were also given an incentive to add to that budget by being allowed to keep revenues from letting out their premises. Local Authorities were required to hand over some 75% of their total expenditure on schools to the individual schools to spend. Formula funding meant that each school's budget was directly related to the number of pupils. Parental choice was given real clout since when parents chose to send their child to a school they also sent an appropriate amount of no longer extra taxpayers' money to pay for the resources needed to educate them. So schools were rewarded for being undersubscribed. They actually had an incentive to become more popular. The reforms, "significantly widened choice and prevented local authorities setting arbitrary limits on good schools just to keep unsuccessful schools full" as Mrs Thatcher explained in her Memoirs. She added, "If parents vote with their feet and schools gained resources when they gained pupils...the worst schools in these circumstances would have to either improve or close"³. League tables of exam results put the focus on the achievements of teachers and their pupils. Together with prospectuses they gave parents more material on which to make informed choices.

These reforms were opposed root and branch by the educational establishment when first mooted. To the bureaucratic mindset, the idea of replacing their benign and expert central control by selfish and ignorant parental choice was a recipe for disaster. They assumed that choice would prove a zero sum game. Success for some schools would spell disaster for others: the less popular would lose pupils, lose resources and fall into a spiral of decline.

That is certainly what critics forecast in my constituency. It is not what happened. In one town there had been three secondary schools – one of which had long been markedly less popular than the other two. The head seemed more interested in progressive theory than exam results or discipline. Under the pre-1988 system lack of popularity did not trouble either head or governors too much. Fewer pupils did not

² The option of specialising in certain disciplines was extended to all schools in 1994. The number of disciplines was steadily widened and continued to expand under the Labour government. Specialist schools was one of the few reforms which was not dismantled by the incoming Labour government.

³ Margaret Thatcher 'The Downing Street Years' (p591)

result in a corresponding loss of resources or staff. It simply meant smaller classes, which the staff liked. When Local Management of Schools and Formula Funding came in the governors suddenly had to reduce staff numbers. They began by removing the head and replaced him with someone much more in tune with local parents' ambitions. The new head and his successors turned the school round. It is now heavily oversubscribed, despite its immediate catchment area being the least prosperous part of town, and was awarded Beacon status by this government. Far from competition between schools starting a spiral of decline, it provided the stimulus for improvement.

Across the country, most of the alarmist predictions proved unfounded. Although having to compete with other local schools for pupils is stressful, it would now be difficult to persuade most schools to hand back to local authority bureaucrats the freedoms and responsibilities they gained under LMS.

As well as extending these freedoms to all state schools, the 1988 Act gave schools the opportunity to attain Grant Maintained status. This carried the process of delegating independence individual schools still further. The entire running costs of Grant Maintained schools were allocated directly from the central funding authority on a per capita basis. The money was not channelled through the Local Authority so the local bureaucracy could not hold any back to spend on services it thought schools needed. GM schools could use their budgets to buy in services – e.g. advisory services – provided by the Local Authority. GM status gave head teachers the final say over staffing, the right to own their own premises and they could be more selective over a portion of their intake.

Initially Grant Maintained status was brought in on a voluntary basis. Schools had to seek the support of their parents in a ballot to opt out of Local Authority control. The main attraction was the independence they gained as a result. In some cases, independence was the key to survival. Schools that had been earmarked for closure by the Local Authority opted for GM status, improved their standing, and proved their ability to stand on their own two legs. GM schools also received extra funding to meet the costs of transition to independence. Critics who felt that to break ranks with schools remaining within the LA system was a form of treason vilified this extra cash as a 'bribe'.

However, had GM status been extended to all schools that differential would automatically have disappeared. The objective of the outgoing Conservative government was to do just that – [to] give all schools the freedoms and responsibilities of GM status.

Labour's response

Before entering government in 1997, Labour had been critical of all the Conservative reforms above all of GM schools. Both New and Old Labour believed in the virtues of governmental control of schools, feared competition between schools and were suspicious of parental choice. GM status was anathema to them because it challenged these beliefs head on.

Nonetheless, Tony Blair's main preoccupation in every sphere of policy was to avoid provoking any fears that Labour would upset the status quo. To satisfy his supporters without upsetting the voters he therefore promised "cooperation not competition" between schools and to concentrate on "standards not structures". He made it clear that a Labour government would abort John Major's promise to extend the greater freedoms of GM status to all state schools. However, he realised that existing GM schools were popular with parents. Each of them had had to win majority support to gain GM status. Moreover, once they attained it they invariably won over most of those parents who had voted no simply because they preferred the devil they knew. Labour, therefore, tried in its 1997 Manifesto to give the impression that GM schools would be safe in their hands. It said, "Schools that are Grant Maintained will prosper under Labour's proposals, as will every school. Tory claims that Labour will close these schools are false." In fact, no one suggested that Labour would "close" GM schools – only that they would reduce their independence. The Manifesto wording deliberately left the Labour government free to do just that.

Once in power that is exactly what they did. David Blunkett, then Secretary of State for Education, spelt out their approach in a debate about the fate of Grant Maintained Schools. "We have made it clear that the fact that *schools will no longer be unfairly funded, that they will be part of a collaborative, co-operative admissions policy and that there will be wider accountability does not detract from their ability to deliver high standards...* The whole country is ashamed of what the previous Government did, and the whole country is behind us in ensuring that *we unite the education service on standards, not structure, and on children, not segregation*"⁴(my italics).

Their first major step was to abolish Grant Maintained status and replace it by Foundation School status. The 1998 School Standards and Framework Act abolished Grant Maintained financing arrangements. Instead of receiving funds direct from the national funding council they were brought back under the financial supervision of their LEA. It also removed the preferential funding that had been available to assist schools in moving to Grant Maintained Status. Under Foundation Status former GM schools could only set their admission rules after consultation with their Local Education Authority and subject to the new National Code of Practice on Schools Admissions.⁵ For schools changing to specialist status from 1998 onwards only certain types of specialist schools were to be allowed to select 10% of their overall intake on the basis of "aptitude".

Labour did allow Foundation Schools to keep some of the freedoms given under Grant Maintained Status, in that they still owned their own buildings and land, had the final say in appointing and dismissing staff, and had some control over their own admissions procedure in terms of individual pupils, not the rules they set for pupils overall. These new, watered-down Grant Maintained Schools were renamed 'Foundation Schools'.

Transferring to 'Foundation School' status no longer entitles schools to additional funding to cover the transitional costs. This means schools moving from LEA control incur transitional disruption with no financial benefits in return for fewer

⁴ Hansard, 11 March 1998: Column 650

<http://www.publications.parliament.uk/pa/cm199798/cmhansrd/vo980311/debtext/80311-52.htm>

⁵ Currently schools specialising in performing arts, sports, music, modern languages and technology.

freedoms. Above all, they have lost the crucial element of financial independence from the LEA given via Grant Maintained Status. This has further weakened the appeal of becoming a Foundation School. While in theory Foundation Schools are free to select staff, and own the school's estate, and retain some discretion over admissions policies, the fact that the LEA ultimately controls the finances of the school severely damages the operation of such freedoms. This has slowed the movement of schools out of LEA control. In all 638 schools opted for GM status before it was abolished and they became Foundation Schools. Only 240 additional schools have subsequently opted to become Foundation Schools.

This has meant fewer children are able to move to more independent state schools – at present, around 2.6% of Primary School children and 17% of Secondary School children attend Foundation Schools.

Foundation Schools, while being an improvement on other models within the state sector, could never be as independent as the Grant Maintained model that preceded them because they lack the financial autonomy that such schools had.

While restoring the grip of local government over GM schools, the focus on “standards not structures” in practice meant not just a substantial increase in spending but a massive increase in centralised control over, and interference in, all schools. This has taken the form of:

- centrally imposed targets. The 2004 Treasury Report *Devolving Decision Making 1* noted that an average school faced 207 targets from central government alone⁶. These were on top of targets imposed by Local Education Authorities, still as keen as ever to interfere with their schools. The LEA analysed in *Devolving Decision Making* set an additional 307 targets for its schools to meet. The head of OFSTED remarked that “I have a very real concern that the innovation and reform that we need in our schools may be inhibited by an over concentration on targets.”⁷ The leader of the General Teaching Council stated that “Everybody is overwhelmed with paperwork and bureaucracy and targets.”⁸
- bureaucratic guidance. In 2003 the DfES sent out 2,280 pages of guidance to schools.
- detailed regulation. Even a theoretically admirable idea like the Literacy Hour involves mind bogglingly detailed rules. They fill 120 pages; set out what a teacher must do in each 5 or 10 minute slot throughout the hour; and even spell out the precise words that must be taught in each term of each year.
- ring fenced budgeting. The aim of giving schools their own budgets was to allow teachers freedom to spend it in ways best tailored to the needs of the school. Government has largely subverted this by breaking school funding down into penny packets each accessible only by submitting a bid requiring laborious preparation and resulting in funds which are subject to strings and a complex monitoring system. For example, the Standards Fund has 82 separate funding grants available for schools, either directly or through

⁶ http://www.hm-treasury.gov.uk/media/9B9/26/devolving_decision1_409.pdf

⁷ <http://education.guardian.co.uk/schools/story/0,5500,941877,00.html>

⁸ <http://education.guardian.co.uk/teachershortage/story/0,7348,870043,00.html>

LEA's, usually with conditions attached for the school or LEA, all monitored by the DFES.⁹

- task forces. Labour has a passion for task forces. In its first two years it created over 320 external task forces and 215 internal policy reviews. In education, many of these have added their own pet projects and initiatives to the bureaucracy at the DFES

The net effect has been to reverse the delegation of power to independent state schools. Instead, they were subjected to more detailed micromanagement from the centre than had ever existed since the 1944 Education Act.

Back to the future

Now, we are told, all that is to change. The 2005 White Paper, "*Higher Standards, Better Schools for All - More Choice for Parents and Pupils*", if it is to be believed will reverse the whole trend of the last eight years. It will create a new type of school – the Trust School. These will be to all intents and purposes Grant Maintained Schools.

In the foreword to the White Paper Tony Blair says:

“Our aim is the creation of a system of independent non-fee paying state schools.”

This almost exactly echoes Margaret Thatcher's declaration to the 1990 Conservative Party conference: “I want to see far more schools becoming independent State schools”.

The White Paper then goes on to state that Trust schools, just like Grant Maintained Schools, will;

- Be free to control their own staff
- Own their own assets
- Set their own admissions criteria (subject to the School Admissions Code of Practice)

When asked to define the difference between Grant Maintained Schools and Trust Schools, Tony Blair replied: “There will be fair funding and fair admissions [with Trust Schools]. There were neither with Grant Maintained Schools.”¹⁰

Neither difference is of the essence. Even if the extra transitional funding allocated to schools that opted for GM status was ‘unfair’ vis a vis other schools, that ceases to be relevant when all schools are to be given GM/Trust status and therefore identical funding. Moreover, Trust Schools (if they have specialist status) will still have freedom to select up to 10% of their admissions based on aptitude. The Government argues that some subjects (such as foreign languages) require a specific *aptitude*,

⁹ <http://www.dfes.gov.uk/standardsfund/guidance.cfm>

¹⁰ Column 1430, Hansard, 25 January 2006,

others (such as mathematics or the humanities) rely on general intellectual *ability*, a rather shaky distinction.

It really is a distinction without a difference. The chief schools adjudicator, Phillip Hunter commentated that "Finding a difference between the meaning of two such words is the sort of exercise lexicographers get up to when they haven't enough to do."¹¹ Even the Labour dominated Select Committee on Education stated "we are not satisfied that any meaningful distinction between aptitude and ability has been made and we have found no justification for any reliance on the distinction between them"¹².

The Government is also planning some welcome streamlining of the centralisation of the past few years. For example, schools will only need to draw up a single school plan to apply for funding, rather than separate applications for each and every one of the 82 funding streams.¹³

¹¹ <http://news.bbc.co.uk/1/hi/education/3059847.stm>

¹² <http://www.publications.parliament.uk/pa/cm200203/cmselect/cmmeduski/94/94.pdf> P37

¹³ *Higher Standards Better Schools* page 39.

Chapter 2 Health

As with education, before considering what Tony Blair hopes to pass on to his successor, it is revealing to look at the reforms that he inherited from his predecessors. And to understand the nature of those reforms we first need to recall the system that preceded and gave rise to them.

The NHS before the 1990 reforms

For most of its history the budgets of NHS hospitals were set by the NHS bureaucracy – initially on the basis of history (what they got last year) and more recently on a formula reflecting the size and morbidity of the local population.

Each hospital's budget did not reflect the number of patients it actually treated.

This had perverse consequences. It meant that the most popular and successful hospitals – those which attracted and treated most patients - exhausted their budgets before the year end and had to close wards, cut back on activity or refuse referrals from other districts. Less popular hospitals had little difficulty living within their budgets and avoided ward closures.

The general public including most MPs – who knew little about how resources were allocated within the NHS – were bewildered and angered by this apparently perverse sense of priorities. It seemed as if 'they' – the managers – singled out the most popular hospitals for ward closures. It also fuelled the idea that the government was generally under funding the NHS.

This sense that money was being arbitrarily allocated within the NHS prompted the reforms that were implemented in 1990.

The key features were:

- The purchaser/provider split. The function of commissioning and purchasing health care was separated from that of actually providing it.
- Larger GP practices could opt to become fundholders who could purchase health care for patients on their list.
- Local Health Authorities acted as fundholders for the remaining patients in their area.
- Hospitals were to manage themselves as independent Trusts providing health care under contract to fundholders.

The intention was that money would follow the patient. Taxpayers' money, channelled through the fundholders, would follow the patient to the hospital that treated them. Popular and efficient hospitals would receive sufficient resources to treat all the patients referred to them. Less popular hospitals would have an incentive to provide the quality and type of care that fundholders wanted for their patients. Hospitals would no longer be micromanaged from the centre. They would have a financial incentive to manage themselves efficiently and to provide the highest quality of care possible.

The changes undoubtedly produced a marked increase in both efficiency and patient centred care. Department of Health figures “suggest that the health reforms and the introduction of the internal market in 1990 may have accelerated improvements in efficiency. The gain over the six years [prior to the reforms] was 4.8 per cent whereas the gain for the ... four years when the internal market reforms were taking place was over 9 per cent.”¹⁴

However, in some respects the reforms did not work quite as intended. Had the Conservative government remained in power it is to be hoped they would have amended them in the light of experience. It is not part of the thesis of this pamphlet that the reforms either in education or in health were perfect. Any new system is bound to be capable of improvement in the light of experience.

In particular, rather than taxpayers’ money following the patient, the system tended to mean that patients followed the money. This was because the new system required the fundholder to negotiate contracts with the hospital they selected to provide each type of surgery. The fundholder had to estimate how many of their patients would require each type of surgery. They then committed to ‘deliver’ that number of patients to the hospital contracted to provide that surgery.

It remained possible, albeit not common, for patients to persuade their GPs to refer them to a hospital other than the one with which the local fundholder had a contract. This was known as an Extra Contractual Referral. Arrangements existed in such cases for the money to follow the patient to the hospital that actually treated them.

Labour abolishes the internal market.

Unfortunately, in opposition Labour did not focus on these areas where the Conservative reforms needed improvement. Instead New Labour opposed the very concept of what they derided as the ‘internal market’. Labour’s 1997 Manifesto attacked the Major government because it had “imposed on the NHS a complex internal market of hospitals competing to win contracts from health authorities and fund holding GPs. The result is an NHS strangled by costly red tape”. The Manifesto promised that Labour’s “fundamental purpose is simple but hugely important: to restore the NHS as a public service working co-operatively for patients, not a commercial business driven by competition”¹⁵. Labour’s 1997 Manifesto pledged to abolish the internal market, claiming that it would save £100million of administrative costs which would be diverted to improving patient services

Once in office they duly set about ending the internal market. The first Labour Secretary of State for Health, Frank Dobson, introducing his White Paper, *The New NHS; Modern, Dependable* to the House of Commons, stated that the “White Paper abolishes the wasteful and bureaucratic competitive internal market introduced by the Tories... We will abolish the internal market, because it has failed. It has failed to deliver quality of care, fairness for patients or efficient services. It has set doctor against doctor, and hospital against hospital”¹⁶. However, there was no sign of the

¹⁴ *The Prospects for Public Spending* by Andrew Tyrie. Social Market Foundation.

¹⁵ All quotes taken from Labour’s 1997 Manifesto

¹⁶ Frank Dobson, Hansard, 9th December 1997, Column 796

promised administrative saving. To save £100million would presumably have meant laying off several thousand administrators, which did not occur.

The Labour government did not end the purchaser/provider split. However, they did replace each of the other main elements of the market. The government:

- scrapped GP fundholding. Individual practices were no longer allowed a budget to pay for care for their patients from the NHS hospital of their choice. Instead the new government established Primary Care Groups – covering all the practices in an area – who were given oversight of commissioning health care for their patients. Soon Primary Care Groups were merged into larger Groups. These were replaced by trusts with somewhat greater responsibilities. These are being merged into yet larger units.
- replaced Contracts by Service Agreements negotiated between Primary Care Groups, later Trusts, and Hospitals. Unfortunately these agreements retained the least desirable and unintended consequence of contracts – namely that the patient followed the money rather than vice versa.
- abolished the last vestiges of patient choice. Extra Contractual Referrals were ended so that patients could no longer seek to be referred to a hospital other than the one with which their PCT had negotiated a Service Agreement. (Virtually the only exception was where patients needed emergency treatment when away from their home area, which would be financed by Out of Area Treatment arrangements.) The Director of the College of Health said the result of this change was that “patients ... have less choice than ever in the history of the NHS”.

Hospitals remained notionally independent trusts. But in practice their autonomy was progressively eroded by increasingly centralised micromanagement. This took the characteristically New Labour form of

- Targets. At one point local hospitals were subject to 248 different targets.
- Ring-fenced budgets. The announcement of large increases in total spending on the NHS generates a good but rather abstract headline. Repeated announcements of specific sums being allocated for expenditure on, for example, cancer treatment or extra operations to reduce the waiting list, generates additional much more heart warming headlines. Unfortunately, it inevitably curtails the discretion of individual Trusts as to how they spend their budgets. The government ring fenced 17% of the budget allocated to the NHS in 2002/3.¹⁷ Given the share of spending pre-empted by centrally determined costs (69% of all additional funding was swallowed up in higher staff and drug costs),¹⁸ hospitals in fact had very little discretionary spending.
- Detailed instructions. Specific edicts – for example requiring each hospital to appoint a waiting list manager – generate good headlines at the expense of local autonomy.
- Constant reorganisation. The continual reorganisation of the NHS absorbs a huge amount of time of both managerial and clinical staff. In my County, Hertfordshire we have seen Fundholding moved from

¹⁷ P12 <http://www.dh.gov.uk/assetRoot/04/06/58/22/04065822.pdf>

¹⁸ Today Programme survey 2003

<http://www.reform.co.uk/website/pressroom/bulletinarchive.aspx?o=55>

GPs to PCGs; PCGs merged into bigger PCTs; PCTs merged with neighbouring PCTs; all 8 remaining PCTs are now to be merged into a single PCT. Four Area Health Authorities were reduced to two by mergers. Those two then merged into one for the whole County. That merged with its neighbour in Bedford to form a single Strategic Health Authority. Now all the Strategic Health Authorities in the Eastern Area are to be merged into one for the whole region. Meanwhile the nine previous regional authorities were merged into four which are now presumably to disappear into the Department of Health. All this has happened in 8 years! The one constant feature has been amalgamation into larger more centralised units.

Blair reverses gear.

It is far from clear exactly when or why Tony Blair decided to engage his reverse gear and set about restoring the Conservative reforms that he had initially dismantled.

He has of course vigorously claimed that policy he inherited was a failure and his own policies have been a great success. There has certainly been an unprecedented injection of additional money. But there is considerable evidence that this has not produced a corresponding improvement in the quantity and quality of health care. An OECD report, using government figures, was particularly damning. It showed that over the years 1991-1999 (the period covered by Conservative spending plans which continued into the first two years of the Labour administration) the number of hospital admissions rose by 2.9% pa and the number of outpatients treated rose by 3.9% pa. Yet in the period from 1999 to 2002, during which health spending was soaring, the number of treatments actually rose at a slower rate – a 1.9% pa increase in hospital admissions, and a 2.4% pa increase in outpatients treated.¹⁹

Clearly a large portion of the money has been absorbed by pay inflation. Although there have also been significant increases in staff numbers, a disproportionate share of these have been non-clinical staff and extra clinical staff do not seem to have been deployed in ways that produced a commensurate increase the number of treatments.

The government points to performance against some of its targets particularly on waiting lists to demonstrate that the extra cash is generating marked improvements. But the same OECD report noted that although targets for waiting lists and maximum waiting times had been met, average waiting times had actually increased.

There have also been growing public concerns about hospital acquired infections and MRSA in particular. Moreover, despite the significant increases in pay that account for a large part of the spending rise, the morale of NHS staff appears to have fallen.

Presumably the prime Minister felt that whatever the truth behind these figures, huge increases in public spending were not producing commensurate benefits in either clinical or political terms.

¹⁹ Reform pamphlet <http://www.reform.co.uk/website/pressroom/bulletinarchive.aspx?o=64>

So he has set about restoring pretty comprehensively, albeit with new names for its main features, the very internal market that he originally dismantled.

- Foundation hospitals are to have the greater autonomy and freedom from central interference that was the whole purpose of Trust status. This is obviously incompatible with imposing a multitude of central targets as John Reid acknowledged when he said that “Because we are giving power to patients we will need fewer targets from the centre.”²⁰ targets were providing that a more decentralised model could be moved to.
- Patient choice is to be restored. Initially patients will be able to choose from a list of four hospitals.
- Practice Based Funding will bring back GP fundholding, restoring GPs’ clout in helping their patients exercise choice.
- Hopefully taxpayers’ money will follow the patient to the hospital that treats them. So patients will decide the bulk of each hospital’s budget. Hospitals will no longer be penalised for attracting and treating more patients.

How the new structure will work is not yet clear. It provides an opportunity to incorporate lessons learned from the original Conservative experience. In particular, it would be a great step forward if the original intention - that taxpayers’ money should follow the patient – can be achieved. As explained above the requirement that fundholders enter into contracts with providers meant that in practice patients had to follow the money – to be referred to whichever hospital the fundholder had contracted to provide that operation. If the government is going to deliver genuine patient choice Ministers will have to overcome the natural bureaucratic horror of uncertainty. NHS managers will want to retain the contract system to enable them to match supply and demand. They simply cannot conceive that hospitals (like providers of any other service) could cope if patients (like users of every other service) have genuine freedom of choice.

More encouragingly, the new system does seem to incorporate another lesson from previous experience. Under the new arrangements hospitals will bill fundholders a standard amount reflecting the average national cost of each type of operation – *not* the cost in each hospital. This will be simpler and less bureaucratic. No suspicion will arise that patients are being sent to the cheapest hospital. Credit should be given to this government if it does learn from past experience - although that would probably have occurred much sooner had the previous internal market not been dismantled in the first place.

²⁰ The U-turn on targets puts ministers in something of a dilemma. In the same speech John Reid claimed “NHS targets are working”. and that “precisely because the NHS is delivering through the huge initial impetus” provided by targets, we could now do without them. “But increasingly the means by which we achieve the high standards we all seek will lie in the hands of frontline staff themselves,” said Mr Reid. A Freudian admission that under a regime of targets improvements were not achieved by ‘front line staff’ but, presumably, by statisticians!
<http://politics.guardian.co.uk/publicservices/story/0,11032,1145006,00.html>

Conclusion

Tony Blair, often claims to be Thatcher's heir; he expresses sympathy towards personal choice and market based solutions; and he presented himself as a defender of the status quo. So it is surprising that should have begun by dismantling much of the market based reforms in the public services that Margaret Thatcher and John Major initiated.

Why did he do it? Presumably even moderate New Labour politicians start from a left of centre mindset which is instinctively inclined to think in terms of command and control, top down, centralising solutions to problems. They are likely to be susceptible to bureaucratic solutions rather than to market based approaches.

But the distinctively New Labour obsession with spin and media manipulation actually tends to reinforce that approach. Winning a good headline requires a simple story which portrays a Minister as initiating something desirable. That means Ministers must constantly be announcing expenditure on good things (ring fenced budgets), setting targets, laying down beneficent rules (more regulation), reorganising departments (micro management) etc.

The end result, as we saw, was one of the most interventionist, centralised systems this country has ever seen. Indeed, such faith in good intentions allied to centralised power has only ever been seen before in Gorbachev's Soviet Union. Not surprisingly, both regimes eventually realised that good intentions at the centre are no match for delegating decision making to the professionals at the coal face and making them beholden to the consumers, patients and pupils whom they serve.

It would be comforting to think that having discovered that centralised planning is as unworkable in the public services as it is in the economy, New Labour could now be entrusted to restore and carry forward a more decentralised, market based system. Unfortunately those with a command and control mind set are unlikely to be well equipped to devise systems to empower the individual and the professional. The danger of recidivism is ever present.

Nonetheless, the Conservative Party should support Tony Blair's attempts to restore what he dismantled and get back on the path of decentralised, choice based reform. We will need to refine and improve in the light of experience whatever we inherit. But we will be working with the grain of the system not launching a further radical upheaval.

Some commentators will find this disappointing. They have adopted the mantra of 'radical reform' in the spirit of the Italian Communists who chanted 'lotta perpetua'. Like them these Right Wing revolutionaries are a bit vague about the substance of the revolution they wish to achieve but they know it should go on for ever. But if we have succeeded in restoring the bulk of the reforms we introduced in the 1980s and 1990s we should not emulate Blair and ride off in a new direction. Our task will be to resume the path of steady improvement which our reforms make possible – led above all by the people who run schools and hospitals. We should not seize the reins at the centre.

Conservatives exist to conserve and improve not uproot and overthrow. If we believe in choice, delegated power and localism we should have courage to let them work.