



## Creating greater innovation in public services: challenges and opportunities

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### 1. Introduction

The impacts of the recession and global financial crisis have been unprecedented. As a result public spending will be cut aggressively in the coming years, no matter which party is in government, with less resource likely at a time when more is needed to be achieved. How this translates to local government remains to be seen, however it seems safe to assume that conditions for economic development and regeneration practitioners are likely to become more challenging. The need, therefore, to create new innovative methods and processes will become ever more imperative and to achieve this, a shift in culture of many existing practices will be needed.

There is much rhetoric around the term innovation, and the purpose of this Local Work is to go beyond this and provide a detailed understanding of the drivers of innovation in the public sector, the future challenges which will further increase the need for it, and to outline the typologies and opportunities for public service innovation.

### 2. Understanding innovation

Innovation is one of the five key drivers of productivity, together with investment, skills, enterprise and competition. Innovation is widely recognised by economists, businesses and government as a key catalyst for growing economic productivity, driving enterprise, creating new products and markets, and improving efficiency, delivering benefits to firms, customers and society in general.<sup>1</sup> It is regarded as the major source of wealth creation and competitive advantage, in an increasingly competitive global economy, and within the public sector, as being crucial in efficiency savings and helping create conditions conducive for economic success.

Innovation has been studied in many different contexts, including in relation to technology, commerce, social systems, economic development, and policy construction. There are, therefore, a wide range of approaches to conceptualising and defining innovation and the 'ecosystem' in which it operates.

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<sup>1</sup>

HM Treasury (2000): Productivity in the UK: The Evidence and the Government's Approach

Essentially innovation is about delivering change and the successful exploitation of new ideas to provide economic or social value;<sup>2</sup> change in the products or services which an organisation offers (for example, an economic development department), and change in the ways in which they are created and delivered. Innovation is an outcome from the creation and exploitation of new ideas, but also from the improvement of existing ideas and their diffusion to new firms and institutions, as reflected in the commonly used definitions shown below:

*Innovation is "the application of something new — a new product, process or method of production; a new market or sources of supply; a new form of commercial business or financial organization." (Schumpeter, Theory of Economic Development)*

*Innovation is the commercially successful exploitation of new technologies, ideas or methods through the introduction of new products or processes, or through the improvement of existing ones. (Simmie et al, 2002)<sup>3</sup>*

*Innovation is the implementation of a new or significantly improved product (good or service), or process, a new marketing method, or a new organisational method in business practices, workplace organisation or external relations. (OECD)<sup>4</sup>*

## 2.1 Typologies of public sector innovation

Public sector innovation differs according the interventions and changes in processes being made, and there are a number of typologies that have previously been identified:<sup>5</sup>

- **Service and production innovation:** involves the development and use of technologies. An example of this is the introduction of NHS Direct, using the computerised decision support system.
- **Delivery innovation:** involves new ways of solving tasks, delivering services and interacting with service users in supplying services. Liverpool City Council engaged in local delivery innovation to make managerial and service orientation changes based upon adopting a new customer first approach, allowing itself to learn from the private sector on innovative practice.
- **Organisational innovation:** involves new or altered ways of organising activities within a supplier organisation. A well known example is the New York Police Department Reforms, where the adoption of technological advances, implementation of modern management techniques and strong leadership transformed the department.
- **Conceptual innovation:** innovations that introduce new missions, worldviews, objectives, strategies and rationales. An example of this is the Sure Start initiative, which was a radical cross-cutting scheme for the delivery of childcare, early education and health/family support.
- **Social innovation:** in addition to the typologies identified above, social innovation is also important for recognition as a particular type of innovation, which may incorporate some of the above mentioned typologies. This involves innovating through ideas, concepts, and processes to more effectively meet social needs. Examples of social innovations are numerous, including such things as the creation of social enterprises by resident groups and provision of broadband services by resident groups in isolated areas.

## 2.2 Policy background

The innovation agenda has become increasingly entrenched within UK economic policy over recent years, taking a lead from the United States, which long ago embraced innovation and drove it forward, becoming an exemplar for other countries, both in terms of technological changes and

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<sup>2</sup> Frenz, M. and Oughton, C. (2005): 'Innovation in the UK Regions and Devolved Administrations: A Review of the Literature.'

<sup>3</sup> Simmie J., Sennet J., Wood P. and Hart D. (2002): Innovation in Europe: A Tale of Networks, Knowledge and Trade in Five Cities. Regional Studies, 36:1, 47-64.

<sup>4</sup> OECD (2007) [http://www.oecd.org/home/0,2987,en\\_2649\\_201185\\_1\\_1\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/home/0,2987,en_2649_201185_1_1_1_1_1_1,00.html)

<sup>5</sup> IDeA (2005) Innovation in Public Services <http://www.idea.gov.uk/idk/aio/1118552>

systems management. The 2003 Lambert Review<sup>6</sup> made a series of recommendations aimed at smoothing out the path between Britain's strong science base and business community. HM Treasury's Science and Innovation Investment Framework<sup>7</sup>, developed in response to the Lambert Review, set out how the UK intends to build and harness Britain's knowledge base contained in research led higher education institutions and public laboratories. The 2007 Sainsbury Review<sup>8</sup> concluded that despite upgrading industry and meeting the challenge of globalisation in recent years, the UK faces difficult challenges ahead and needs to create the conditions conducive to growth.

There is clearly a key role for economic development practitioners to play in meeting the above challenges, creating the conditions that will help encourage local businesses to be innovative. However, for areas to champion innovation to communities, the public sector needs to become more innovative in its own processes and workings. Mulgan and Perry's 2003 paper on innovation in the public sector<sup>9</sup> outlines the key steps that are needed for innovation, and is evidence that public sector innovation is not a recent phenomenon that has simply been bolted onto wider innovation within the economy.

A key factor in driving the public sector innovation agenda in recent years has been the efficiency agenda, with cost savings a key policy objective. The 2004 Gershon Review,<sup>10</sup> outlined a number of proposals to deliver £20 billion of efficiencies within public spending up to 2007/08. A number of potential areas for savings were identified: back office, procurement, transactional services and policy making functions. The ultimate objective is to release further resources for front line delivery. As people's problems and needs become more complicated, the public sector requires more resources on the front line to respond to these needs. The importance of the efficiency agenda within the public sector, and the influence that this has had on innovation, cannot be understated.

The most recent policy statement around innovation was the 2008 Innovation Nation White Paper,<sup>11</sup> which stated that for the nation to maximise productivity, it needs to draw on knowledge and ideas from both the private and public sectors to create more effective public service delivery. The White Paper stated that:

*"Innovation in public services will be essential to the UK's ability to meet the economic and social challenges of the 21<sup>st</sup> century....demand is growing amongst public services that are personalised to their needs."*

This was not simply in response to the recession, but acknowledgment of the scale of the challenges that need to be met over the coming decades. The White Paper outlined a range of measures that were being put in place to promote and drive innovation throughout the public sector. The White Paper demonstrates that there are a whole host of key stakeholders and bodies involved in innovation at any stage, whether they be commercial, public or social. The links to the efficiency agenda are clear, and likely to intensify in future years with the post recession situation.

### **2.3 Future challenges for public service delivery**

Despite the long term challenges the economy and society face, the growing interest in public sector innovation is likely to hold particular resonance as a legacy of the recession – central government spending will almost certainly be cut aggressively in the next few years, with public services, including

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<sup>6</sup> HM Treasury (2003) Lambert Review of Business-University Collaboration [http://www.hm-treasury.gov.uk/lambert\\_review\\_business\\_university\\_collab.htm](http://www.hm-treasury.gov.uk/lambert_review_business_university_collab.htm)

<sup>7</sup> HM Treasury (2003) Science and Innovation Investment Framework 2004-2014 [http://www.hm-treasury.gov.uk/spending\\_sr04\\_science.htm](http://www.hm-treasury.gov.uk/spending_sr04_science.htm)

<sup>8</sup> HM Treasury (2007) Sainsbury Review of Science and Innovation [http://www.hm-treasury.gov.uk/sainsbury\\_index.htm](http://www.hm-treasury.gov.uk/sainsbury_index.htm)

<sup>9</sup> Cabinet Office (2003) Innovation in the public sector [http://www.cabinetoffice.gov.uk/strategy/work\\_areas/innovation.aspx](http://www.cabinetoffice.gov.uk/strategy/work_areas/innovation.aspx)

<sup>10</sup> HM Treasury (2004) Gershon Review: Releasing Resources for the Front Line: Independent Review of Public Sector Efficiency [http://www.hm-treasury.gov.uk/spending\\_sr04\\_efficiency.htm](http://www.hm-treasury.gov.uk/spending_sr04_efficiency.htm)

<sup>11</sup> Department for Business, Innovation and Skills (2008) 'Innovation Nation', Science and Innovation White Paper [http://www.dius.gov.uk/reports\\_and\\_publications%20HIDDEN/innovation\\_nation](http://www.dius.gov.uk/reports_and_publications%20HIDDEN/innovation_nation)

local government, feeling the brunt of the cuts. This will mean that local government frontline services will be forced to do more with less.

This will be especially challenging given that the issues facing local authorities and many communities are as difficult as ever, with the implications of the recession meaning sustained high levels of unemployment. There are other longer term issues which are just as pressing, such as huge numbers of people with long term health problems, many linked to deprivation, and in particular an ageing society together with pension fund problems, which will put a burden on public services in future.<sup>12</sup> The financial side of the ageing population has been described as a 'ticking time bomb', with challenges around healthcare, care services and pensions – this is not to mention the other long term issues around climate change.

There is a clear need for resources to be focused in tackling these issues and those of similar ilk. The cuts in public spending will, however, affect all who deliver frontline public services and they must therefore significantly increase their innovative capacity if they are to meet both the short and long term challenges. Failure to do so will result in lower levels of well-being across communities and act as a further drag upon economic growth.

Despite the challenges, recessions in the past have been characterised by increased levels of innovation and used as opportunities to create innovative products and processes. Those responsible for public service delivery need to embrace Joseph Schumpeter's concept of creative destruction and foster an environment of collaboration that goes beyond partnerships. The 2008/09 recession, and the other long term challenges on the horizon, can be viewed as an opportunity to reform practices in delivering public services and champion innovation to local businesses and resident communities, which will ultimately, as the Innovation Nation white paper envisages, help the UK meet the economic and social needs of this century.

#### **2.4 The rationale for 'radical' innovation in public services**

The above outlines the recent recognition of the need for increased innovation in the public sector. Many key practitioners, such as the National Endowment for Science, Technology and the Arts (NESTA), are arguing the need for *radical public service innovation* measures to be put in place, as opposed to other incremental, slower evolving innovation that is generally the norm.<sup>13</sup> Radical innovation involves wholesale changes in a relatively short space of time to structures and processes that are not working, whereas incremental innovation is making a number of smaller scale evolutionary changes, generally over a longer period of time. Figure 1 outlines the major factors driving the need for this. The impact of the recession makes bold changes important, as without radical innovative approaches public services would be hampered by short term demands and overwhelmed by the long term challenges. The argument is that the cost of delaying, or of taking too little action to meet the challenges, such as an ageing society and worklessness, are rising and we will not be able to respond effectively in the future without new measures and processes in place. A new level of service provision is required to tackle the causes of the key challenges we face.

There are also risks around the radical innovation that NESTA and others champion. Throwing considerable resources and making major changes within structures and processes with ideas that are poorly conceived, or not fully thought through, can potentially result in failure and do more damage than good. Careful consideration by practitioners needs to be given to what changes will be most effective for their areas (whether this is around social disorder, tackling neighbourhood worklessness problems or other issues), and how to go about this.

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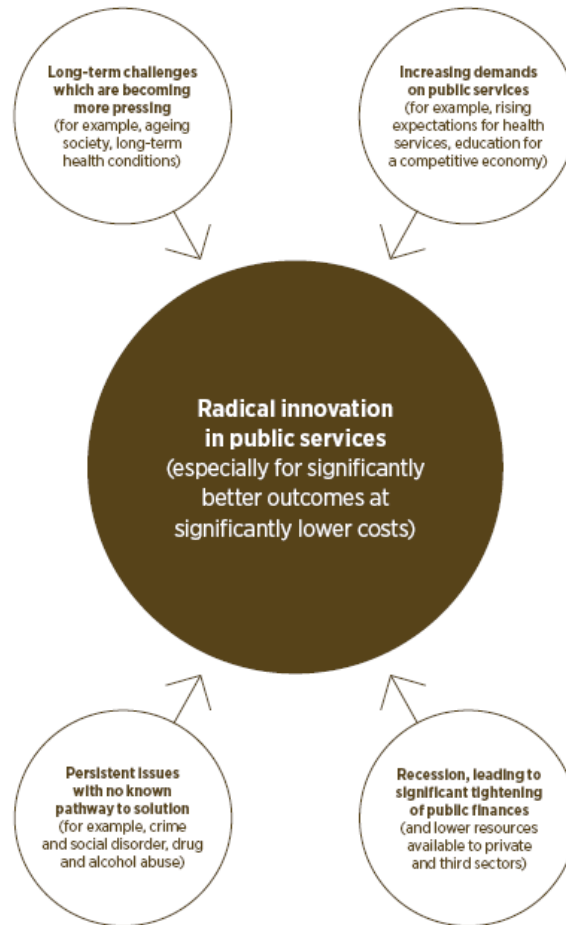
<sup>12</sup>

NESTA (2009) The Innovation Imperative: Why radical innovation is needed to reinvent public services for the recession and beyond

<sup>13</sup>

NESTA (2009) The Innovation Imperative: Ibid

**Figure 1: Factors determining the need for radical innovation**



Source: NESTA (2009) *The Innovation Imperative*

### **3. Opportunities in delivering public service innovation**

There are a number of opportunities to enable public service innovation, from implementing some of the basic principles outlined in the public sector innovation framework highlighted in Figure 2, to using the considerable power of public procurement to stimulate innovation, through to utilising local peoples' knowledge to maximise the effectiveness of public service delivery.

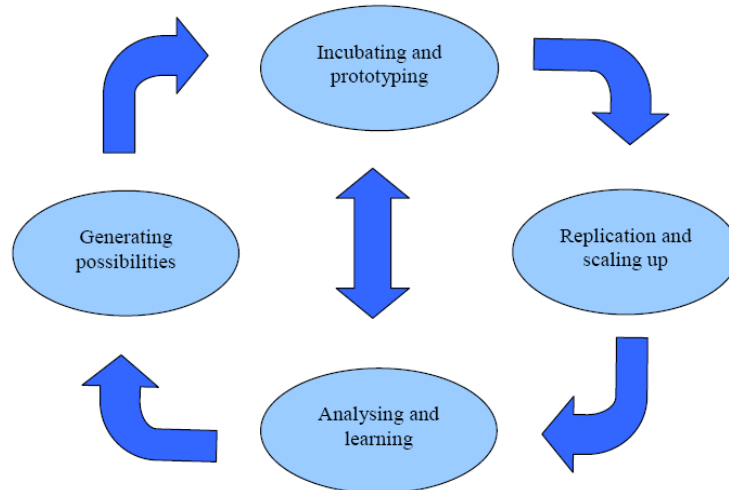
#### **3.1 Public sector innovation framework**

Mulgan and Albery,<sup>14</sup> in their paper on innovation in the public sector, proposed a framework to better understand how to foster innovation, which the public sector should adopt (Figure 2). Each of the elements of the process requires different skills, resources organisational methods, leadership and cultures.

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<sup>14</sup> Cabinet Office (2003) *ibid*

**Figure 2: A framework for fostering innovation in public services**



Source: Cabinet Office (2003) *Innovation in the public sector*

- *Generating possibilities* assesses how practitioners can stimulate and support ideas for innovation, including aspects such as learning from others, developing the capacity for creative thinking and learning from the experiences and suggestions of frontline staff and middle management – not all ideas have to be generated by the senior managers.
- *Incubating and prototyping* is about developing the mechanisms to develop ideas and manage the risks involved – for example, involving end users at the early stage of the process which will help find and fix weaknesses.
- *Replication and scaling up* is enabling the promotion of the rapid and effective diffusion of the successful innovations, effectively ensuring that the conditions within the organisation encourage individuals and departments to innovate.
- Finally, but perhaps most crucially, *analysis and learning* evaluates lessons learnt to promote continuous development, using mechanisms such as clear metrics for success, creation of knowledge management systems, using formative and summative evaluation techniques (this is important for any innovation, whether this be private/third sector or public).

This framework is, in theory at least, a relatively straightforward and logical tool to use when embarking upon public sector innovation. There is an opportunity for practitioners to provide an environment conducive to successful innovation through using this tool. What is crucial for the successful implementation of this framework is forward thinking within local government, where the development of a culture of continuous learning is embraced, and incentives are provided for staff at all levels to present ideas that can make public service delivery both more effective and efficient.

### **3.2 The power of procurement**

In recent years public procurement has increasingly come to be seen as a central way in which government can ‘pull through’ innovative practices from its suppliers.<sup>15</sup> It holds particular resonance in the public sector innovation debate. CLES has undertaken extensive research and has particular interest in this area. If effective, it can provide opportunities for local businesses and consequently local residents; and the more that local suppliers can improve their innovative capacity, the stronger and more resilient local economies can become. Smart and innovative ways of practicing public procurement by local authorities can also result in strengthening the local supply chain, ensuring more opportunities for local businesses and third sector organisations to compete for local public contracts.

The purchasing power of the UK public procurement budget, at £125 billion, is roughly 9 times as large as total business spending in Research and Development (R&D), which is around £17 billion,

<sup>15</sup> NESTA, (February 2007) “Driving innovation through public procurement” Policy Briefing

and over 20 times as large as government spending on Science and R&D. Using this purchasing power to drive innovative activity can assist in the embedding of innovation.<sup>16</sup>

Procurement can help to stimulate innovation. Current innovation policy focuses on boosting innovation through supply-side interventions, such as knowledge exchange programmes, but the demand-side of the balance is given little consideration. Furthermore, the public sector can create entirely new markets for innovation. For example, if the government decided that all new schools should be carbon neutral, the scale of the subsequent procurement would immediately stimulate firms to develop and supply environmentally-friendly construction techniques.<sup>17</sup> There is the potential for the same processes to apply at the local authority level, albeit on a smaller scale and relating to local conditions and needs.

Innovation needs to be embedded right at the start of the procurement process; it cannot be added at later stages.<sup>18</sup> Procurement bids need to be pragmatically presented and it is important that there is support for local Small and Medium Enterprises (SMEs) from organisations which are experienced and have been through the process before. Local authorities can provide advisory services to local businesses wanting to procure from the public sector, helping them be more competitive within the local market place.

To change attitudes in elements of the public sector, a clear local argument needs to be made that current procurement is having a detrimental effect on residents and an alternative is required. There has been considerable thinking around breaking down some of these issues. A possible way forward is combining the positives of large suppliers and smaller local SME's into the procurement process which could significantly strengthen the supply chain. The Greater Manchester Procure programme, for example, created a housing construction organisation out of the need for fairer, more predictable pricing for both landlords and their supply chains. It focuses on efficient procurement to gain volume cost savings, whilst promoting best practice amongst projects, and reinvests these savings back into local businesses, employment and training.<sup>19</sup> On their own, neither 'large businesses' nor 'small local businesses' are necessarily good or bad for procurement, but combining both effectively into a supply chain could potentially result in considerable rewards.

### 3.3 The potential of social innovation

Social innovation is potentially of key importance when tackling public service delivery issues in the future. With less resource and ever growing challenges, the role of the third sector and communities of residents themselves is likely to become increasingly prominent (although the role of the third sector has increased under the Labour government). Research from the Young Foundation<sup>20</sup> has illustrated that that working locally improves relationships between resident and public bodies and improves service delivery.<sup>21</sup> Some local authorities are now experimenting with devolved budgets and introducing new forms of local decision making processes and neighbourhood governance.

The reduction in state led services may well become more common as public spending falls at a time of growing social need, and we may see an ever growing pressure on community organisations to deliver public services.<sup>22</sup> This is not to say that the role of community based organisations is something new, however the scale and potential of community involvement may well be about to increase markedly.

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<sup>16</sup> Manchester: Knowledge Capital (2007) The Manchester City Region Innovation Ecosystem

<sup>17</sup> NESTA (February 2007) Ibid

<sup>18</sup> Manchester: Knowledge Capital (2007) Ibid

<sup>19</sup> GM Procure <http://www.gmprocure.com/>

<sup>20</sup> The Young Foundation are a centre for social innovation whose remit includes influencing ideas and policies and creating new organisations (public, private and not-for-profit)

<sup>21</sup> The Young Foundation (2009) Neighbourhood Working: where do we go from here? Towards a new research agenda

<sup>22</sup> The Young Foundation (2009) Citizen engagement and accountability: prospects for the future?



A successful example of, and potential template for, social innovation, is the Alt Valley Community Trust (AVCT). AVCT is an organisation in the Croxteth area of North East Liverpool and featured as a case study in a CLES project about community anchors. Originally formed to campaign against the closure of a local school, the AVCT has expanded to become a key player in the local community. It is one of three social businesses who work in partnership in the area. Between them, these partners own a number of assets and provide a range of services to the community. The organisations work closely as one cohesive partnership, with a clear synergy being integral to their success.<sup>23</sup>

Based in a former care home for older people bought from Liverpool City Council through EU funding, AVCT offers a broad curriculum, including a range of vocational training courses. The building contains a theatre, recording studio, conference centre, café, crèche and study support rooms. One of the other organisations, the trading arm of the partnership, undertakes activities to reduce unemployment and improve the local environment.

The partnership delivers a wide range of services to the local community in addition to the formal skills and employment provision. These include: women's and men's health awareness; healthy kids activity days; walking club; pre-school days; parenting support; teen health awareness events; and IT courses, among others. The aims of such activities are to increase life skills and healthy living, thus improving overall quality of life. The example of AVCT highlights how successful social innovation can be within communities, with residents developing social enterprises when there is a lack of public provision in an area and a poor commercial market. This was also achieved without significant intervention from practitioners. Not all localities may have the potential to create structures such as these on their own, so if policy makers engage with communities to identify solutions to challenges of all kinds, then the potential of successful social innovation will be enhanced dramatically.

### **3.4 Barriers to public service innovation**

In the public sector, more so than within the private sector, there are significant barriers to innovation that need to be overcome.

*"What starts as an innovative approach gets bogged down in the treacle, when projects start to become alive it attracts more officials, each with their own view and institutional role, they translate the programme from their perspective and then inertia takes over" – Director, Department for Environment, Food and Rural Affairs, DEFRA<sup>24</sup>*

Actually diffusing innovation across the public sector is an ongoing issue, with a core factor being the lack of contact between policy and practice. Some of the key barriers that practitioners face include:<sup>25</sup>

- bureaucratic and risk averse nature within central and local government, with too much consideration to rigid rules and regulation, primarily due to the accountability to the tax payer;
- target based culture which, at its core, is based around short term budget and planning restraints;
- lack of reward for successful risk taking, with penalties being more prevalent for failure;
- lack of private sector style competition which would drive innovation;
- tight control, in recent years, from central government which has meant innovation in service delivery has become increasingly difficult.

These are clearly substantial barriers which can slow innovation, especially the radical innovation which many are calling for in the current environment. They do provide a dose of realism, especially in the case of radical innovation, not necessarily to the end result, but to the duration and nature of the process of reaching that goal. This is not to undersell existing innovative practices or to say the barriers cannot be overcome, as there are many examples within public service delivery where

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<sup>23</sup> North West Together We Can (2009) The importance of community anchor organisations to empowerment issues in the North West (report by CLES Policy Advice)

<sup>24</sup> National School of Government (2009) <http://www.nationalschool.gov.uk/sunningdaleinstitute/publicserviceinnovation.asp>

<sup>25</sup> NESTA (2008) Transformers – how local areas innovate to address changing social needs <http://www.nesta.org.uk/transformers/>



innovations have been implemented, and with strong leadership and vision this will always be possible.

#### 4. CLES comment

CLES believes that innovation will be vital in addressing the pressing economic and social challenges of the future, and practitioners realising the opportunities of investing in their own communities will be an important element of this. In a resilient local economy, creating the conditions which encourage and nurture innovation are a necessity; a flowing dynamic between the private, public and social sectors, at all levels, from top tier local government to the neighbourhoods they serve. Public service innovation also needs to be more than simply rhetoric, with real, sustained actions being made to tackle the key challenges, both short and long term, which the economy and society faces. Local government needs to be able to work with communities to create the solutions to our long standing and future challenges. This approach will ultimately address both social needs and help maximise economic performance.

CLES feels that local economic development practitioners can play a central role in helping instil a culture of innovation and creativity in their localities through a comprehensive approach to enterprise - working with schools and young people in terms of their learning, experience of business and aspirations. There is also an opportunity to create the conditions from which innovation can emerge, through proactively engaging with local businesses in promoting innovation, ensuring businesses take a lead in engaging and collaborating with existing businesses, and attracting new firms through knowledge flow and transfer.

Innovative public procurement is an area in which CLES has undertaken considerable research, and this is an obvious field in which local business communities can be stimulated.<sup>26</sup> We believe that there is huge potential for the process of procurement to be used to derive economic and social benefits for a locality, giving support to small businesses and third sector organisations to help them access contracting opportunities and to develop employment and skills clauses in large scale contracts. Similarly, enabling social innovation at the community level is a key opportunity which if utilised more in future years will constitute a total shift in focus in how public services are delivered. The work described in this paper by AVCT shows the potential of social innovation and the economic value it can have, which is too often forgotten. Indeed previous CLES research has highlighted how many economic development plans and strategies fail to incorporate the work of the voluntary and community sector.<sup>27</sup>

There is also a clear correlation between efficiency and public sector innovation. CLES believes that innovation must not simply become a discussion around cost effectiveness and savings, but needs to be centralised around the effectiveness of services.

Ultimately, effective innovation within economic development will only be maximised once there is a rebalancing of centre-local relationships, allowing local authorities and other public sector bodies to work together to create solutions that result in more resilient economies and communities.

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<sup>26</sup> Association for Public Service Excellence and Centre for Local Economic Strategies (2009) Achieving community benefits through sustainable procurement

<sup>27</sup> Centre for Local Economic Strategies (2009) – Toward a new wave of local economic activism: The future for economic strategies [http://www.cles.org.uk/information/104257/copy\\_of\\_pp26/](http://www.cles.org.uk/information/104257/copy_of_pp26/)

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