Public Value in Practice
Restoring the ethos of public service

**By Diane Coyle
with Christopher Woolard**

Edited by Teresa Poole

Contents

Foreword

The BBC Trust's sole reason for being is to serve its public – the licence fee payers. In practical terms this means that when we make a decision, whether it's in relation to the BBC's overall strategy, the remit of a specific BBC service, or an editorial complaint, we have to ensure that the interests of licence fee payers are paramount.

Of course these interests are notoriously hard to define and what is in one person's interests may not be in another's. The public are becoming increasingly effective at expressing their views on issues that affect them and this, together with a wider scepticism about the work and motivations of public bodies, makes the business of decision making in the public sector more complex than ever.

To further complicate matters, this is not as simple as just considering what value a new proposal brings to the public, to the total exclusion of everything else. For example, in many of our deliberations we also have to assess the market impact of a particular proposal; not to favour commercial competitors, but in recognition that their activities also have value for the public as consumers and investors. Our public value tests seek to carefully weigh these often conflicting benefits.

To help us chart a course through these issues, the Trust has devised procedures including public value tests which we have been regularly applying over our three year life span. These help us assess the public value of any proposal that comes before us. Of course there is inevitably an element of judgement in doing this, but these tools have helped us put some structure and rationale into what could otherwise be a rather subjective process. And importantly they give the public and the market reassurance that there is structure and an important role for evidence in the way the Trust approaches these matters.

This has put the Trust at the cutting edge of what is still a relatively new approach in the public sector – assessing public value in the course of decision making. I believe we have a record to be proud of in this area and this book is an attempt to distil and share some of the expertise we have built up so that we can add to the limited experience in this field so far. BBC Trustee Diane Coyle in particular has been far sighted in realising the considerable wider potential of the Trust's public value work.

I hope that our experience will be of value to other bodies tasked with assessing public value and will help deliver a better deal for the public whatever the field of interest. If it helps restore faith in the work of our public bodies along the way that will all be to the good.

Sir Michael Lyons
Chairman, BBC Trust

|
The meaning of public value

Why public value matters

This book is an attempt to illustrate how the concepts underpinning public value can be taken from theory and turned into a workable set of tools to be used by decision makers. Naturally a large part of the material is based on the work we have carried out at the BBC Trust, the body responsible for the strategic direction of the BBC. Most notably a 'public value test' was developed for assessing new BBC services and significant changes to existing services, and this approach has been extended to other key decisions. However, we also look at the theory underpinning the public value approach and offer a number of illustrations of where public value tools are being used, or can be used, in the wider public sector.

The BBC was one of the pioneers of the practical implementation of the concept of public value in decision making. The scope for its use was set out first in 2004 with the publication of *Building Public Value* (BBC 2004b), a policy document which helped to shape the BBC's Charter and Agreement of 2006. As a result, the BBC Trust has gained considerable experience during the past three years of implementing this approach, and we hope to share here the lessons we have learnt.

In the three years between the formation of the BBC Trust and this publication, we have explicitly been putting public value into practice, through public value tests and other formal regulatory procedures, known as 'non-service approvals'. The approach has more informally influenced the whole of the BBC's approach to significant decisions, building on the work by the BBC management prior to the inclusion of formal public value tests in the BBC Charter and Agreement. Later chapters set out the detail. This record of several years of extensive experience implementing decisions based on public value makes the BBC one of the most significant examples of this approach anywhere in the world.

The concept of public value is a fairly young one in academic terms, combining a mix of economics and management theory. The Harvard University professor Mark Moore introduced the public value approach in 1995 with the aim of laying out 'a structure of practical reasoning to guide managers of public enterprises' (Moore 1995). He described the challenge as changing the approach of public administrators who conventionally saw their duty as simply being to follow efficiently and effectively the legislative-based mandates that set out the purposes of particular public enterprises. This 'traditional doctrine' meant that public sector managers acted with the mindset of administrators rather than of entrepreneurs or executives, resulting in an absence of the kind of leadership which would deliver public services better suited to the needs and wishes of their users.

Moore therefore introduced the idea of public value as a way of reorienting public managers away from the narrow remit of perfecting their organisations' operations in traditional roles (*downward* outcomes) and towards more ambitious goals. He aimed to provide a different approach to public administration, so that decision-makers could increase an organisation's value to society (*outward* outcomes) and achieve better results by challenging existing policy mandates through innovation (*upward* outcomes). Put another way, public value could be a central part of the answer to the question: how can public administrators get the best outcome for society from the assets and resources with which they have been entrusted?

Viewed more broadly, many of the concepts underpinning public value are as old as organised bureaucracy itself – the need for accountability, authorisation and value for money. However, the environment in which public bodies operate today in the UK is vastly removed from the medieval barons of the Exchequer and their chequer board. These days very few public bodies can claim to operate without a degree of independent scrutiny, parliamentary oversight or direct public accountability.

This trend was accelerated in the UK in the 1980s and 1990s with the privatisation and deregulation of nationalised industries such as telecoms, gas and electricity. In most cases the government remained a significant shareholder in such industries, and competition opened up between wholly private firms and these former state-owned businesses. A number of regulators were created to ensure that there was independent oversight and to guard against unfair price-setting by the newly-privatised entities.

These developments have been coupled with social changes, improved access to information, greater willingness to litigate and less acceptance by the public of the 'expert' authority of public bodies. All this means that individuals are more likely to question decisions made by public authorities, particularly when they touch directly on their lives. A greater expectation of participation on the part of individuals who are more exacting about outcomes has combined with a loss of deference towards established institutions to create demands for greater public accountability for public organisations.

Furthermore, the rapid pace of technological innovation in some fields – and broadcasting is at the forefront of the movement to online delivery in particular – makes it difficult to identify public preferences with confidence. For people can not possibly be aware of the potential value of innovative technologies or services, and the literature on innovation is awash with examples of transformative products and services which were initially dismissed as unimportant. This problem is acute for the BBC, given the changes affecting broadcasting and other media, and the finding from our research that innovation in both programme content and form is seen as particularly important by the public.

Getting big strategic decisions right in such an environment is always going to be a matter of judgement. Mistakes have a high opportunity cost when scarce resources are being deployed, and big reputational risks are at stake for the organisation involved. Ultimately it is those who pay for a particular service (the public) who will suffer if decisions result in poor service, increased expenditure or some other loss of value.

The concept of public value is an attempt to create a framework in which such judgements can be made as soundly as possible – rooted in the purposes of the organisation and based on evidence – and explained to the wider public that is paying for services.

The elements of modern accountability

In his exposition of public value, Moore (1995) emphasises three aspects of performance for public agencies:

— delivering actual services

— achieving social outcomes

— maintaining trust and legitimacy of the agency.

It is trust and legitimacy that encourages compliance (at the least) and active cooperation (at the best) between citizens and state agencies, and underpins the

raising of public money to fund collective enterprises that the market would not otherwise provide (Talbot 2008).

Moore explores the justifications for public intervention in a modern democracy and particularly the importance of an 'authorizing environment' to provide the support and legitimacy that can sustain society's commitment to the enterprise. Those who are the source of the authority (namely, the citizens and those who represent them) 'must be satisfied that the public authority is being used well on their behalf' (Moore 1995). The use of public funds makes it necessary to explain the value of an enterprise in terms that are satisfactory to the community as a whole, and not just to those who benefit from the publicly-subsidised services.

Thus the argument in favour of any specific public intervention has to be established in terms that can command support and withstand a degree of scrutiny. In his book, Moore (1995) uses rubbish collection as an example of how this might be done, to demonstrate that the concept of public value can help establish legitimacy and accountability. What, he asks, are the grounds for having public enterprise as the means of delivery instead of, for instance, a legal requirement on individuals to collect and dispose of rubbish? Two potential types of justifications are suggested. Firstly, that there is a defect in the market and that free exchanges between

producers and consumers will not produce a desired public good – in this case tidy, clean, aesthetically pleasing streets. Secondly, that there is some 'crucial issue of justice or fairness at stake' – in this case the protection of public health. The status attached to public health is seen as more 'fundamental' than that attached to cleanliness, and relies on a collective judgement made by citizens about the value of the public enterprise.

Once there is a collective assertion about the value of rubbish collection, the issue of production and distribution becomes one of fairness in the way the enterprise is seen to be delivered and carried out. Fairness is distinct from efficiency and effectiveness, and must be a feature of the public enterprise's aggregated operations over society as a whole. It is the population in their role as citizens, rather than as consumers, that will judge fairness and must authorise the public enterprise – and who must hold it accountable. Public organisations seek democratic legitimacy for their actions 'by engaging with their authorising environment' (Coats and Passmore 2008), that is by referring back to the source of their legitimacy – usually the taxpaying public and industry stakeholders through consultation and the iterative development of policy.

The need for fairness makes the process of authorising decisions important in its own right: the process of authorisation embodies a means of striking a social contract between the citizen and the public enterprise. In current practice, this has its limits. The established lines of accountability for the public enterprise are almost inevitably *upwards* to politicians or appointed public 'representatives', rather than to the public directly. Introducing the public value approach puts more emphasis on achieving real *downward* accountability to citizens. That process involves public explanation, justification and transparent decision making. In other words, it introduces an element of deliberation. The principle of public value 'reinstates citizenship, rights and accountability as distinctive features of the public realm' (Coats and Passmore 2008).

Parston (1998) defines a key role for the public manager as 'engaging in a dialogue with all stakeholders to understand their expectations and needs. It also means fostering real debate between stakeholders in order to help each of those who make demands of public service to understand the demands of all, to develop trust among them, to identify areas of consensus and difference, and to strengthen the voice of those whose claims are often easy to ignore'.

Overall, public value points towards the value in modern society of public services that seek to use the resources at their disposal to respond to the needs of that society, while also actively seeking public accountability and authorisation. It is this embrace of their own accountability to the public that distinguishes those organisations that are committed to building public value from those avoiding active engagement

with their users. The central role of accountability has been a keystone of the BBC Trust's approach to public value, which provides one of the mechanisms through which we can ensure the interests of licence fee payers are kept at the forefront of the BBC's decisions.

The theory of public value in the UK

Following the early work on public value in the United States, the concept was taken up in the United Kingdom. A 2002 report by the Cabinet Office's Strategy Unit entitled *'Creating Public Value'* suggested that public value can be understood in three dimensions (Kelly et al 2002):

— **services** – public value is created through delivery of high-quality services which create user satisfaction

— **outcomes** – such as security, reduced poverty, public health. The achievement of these goals can overlap with, but is distinct from, service. This is largely because the delivery of public value in practice depends on the actions of citizens themselves as well as public organisations

— **trust** – this refers to the relationship between citizens and the public authority. It is often the most neglected element, but a lack of trust, even where services are well delivered, reduces public value and can hinder a public service's capacity to create it elsewhere.

The Work Foundation has developed this thinking further and has published a range of reports on differing aspects of public value. It sees public value as the public service 'analogue of the desire to maximise shareholder value in the private sector' (Coats and Passmore 2008). Public value therefore poses three main questions to public managers:

— what is this organisation for?

— to whom are we accountable?

— how do we know if we have been successful?

Those questions can only be answered through a deliberative process in which public organisations engage with citizens and are responsive to their 'refined preferences'.

The concept of citizens' 'refined preferences', although not clearly defined in the literature, is rooted in the notion that engaging with the public means more than just giving the public what it wants – that is, responding to uninformed preferences – or following the dictates of public opinion polls. Instead, 'public value requires policy or services to be responsive to what is valued by the public, but also to shape what the public needs' (Horner et al 2006). This implies a need to provide relevant information and set out key choices, especially to support consultations. Interaction with the public is necessary at all stages of public service management: design, planning, provision and evaluation.

The Work Foundation model identifies a public value 'dynamic' between three inter-dependent activities: authorisation, creation and measurement. This builds explicitly on Moore's authorising environment, but differs in that it identifies the issue of measurement as critical to the production of public value. The Work Foundation's three activities clearly interact. 'In order to produce public value, the public must 'authorise' – that is, confer legitimacy to expend resources – the relevant bodies. Public managers seeking to create public value … use evaluative criteria for the measurement of public value creation that were themselves authorised by the public' (Horner et al 2006).

John Benington and his colleagues at Warwick University Business School have also been developing the concept of public value. Benington defines public value in two ways (Benington 2009 forthcoming):

–— first, what the public most values

–— second, what adds value to the public sphere.

He believes these two aspects are often in tension and sometimes conflict, but it is necessary to link both dimensions if the theory is to be robust.

In this, 'what the public values' is intended as a counterbalance to previous traditions in public administration in which 'producers' defined and determined the value of public services – for example through political goal-setting, expert policy analysis and professional standards.

However, in relation to his first test (and indeed most articulations of public value), the decision to take a more citizen-centred and consumer-focused view of public services does tend to beg the question: how does the notion of what the public values differ from what the public needs, wants or desires? Benington (2009 forthcoming) argues that the question of what the public values will always be a contested one, to be established through dialogue with citizens, and a difficult and uncomfortable process of making trade-offs and crunch choices. The Cabinet Office report (Kelly et al 2002) suggests that this requires citizens to choose what

and how much they are willing to give up in order to have what they value more. These trade-offs will sometimes take the form of choices about funding priorities, but sometimes about competing values (for example, how much liberty are we willing to give up in order to have more security). The Work Foundation's concept of 'refined preferences' offers one attempt to tackle this question. This issue of exploring and focussing people's preferences is central to any practical application of public value and is discussed in more detail later in this and other chapters.

The second dimension of Benington's definition of public value as 'what adds value to the public sphere' is his way of focusing attention not just on individual interests but also on the wider public interest, and not just on the needs of current users but also on those of future users, and the longer term public good.

Benington (2009 forthcoming) defines the public sphere as the 'web of values, places, organisations, rules, knowledge, and other cultural resources held in common by people through their everyday commitments and behaviours, and held in trust by government and public institutions'. It is what provides a society with some sense of belonging, meaning, purpose and continuity.

Overall, policymakers in the United Kingdom have been attracted by the 'narrative' that public value can offer and the potential advantages that may be secured by following a public value approach. These can include (Coats and Passmore 2008):

— giving public organisations the tools to demonstrate that they can justify the spending of public money

— improving the quality of decision making by contributing to a better evidence base

— challenging a purely technocratic or expert-led approach

— making full use of the knowledge and experience of service users and citizens

— educating the public about the dilemmas facing politicians and public managers and the limits of the possible

— managing political risk more effectively.

Public service managers and politicians all too often complain that objective improvements in public services are met by static, or even falling, levels of user satisfaction – the so-called 'delivery paradox' (Horner et al 2006). Implementation of the public value approach, with its emphasis on citizen involvement throughout the decision-making process, offers a more sophisticated route to achieving user satisfaction. (This is considered in more detail in Chapter 2.)

The 'values' in public value

What are the values that are relevant to a discussion of public value? It is important to make a distinction between 'public values' and 'the public's values'; the former 'are moral concepts, the latter are empirical findings about what position people take on those moral concepts' (Staley 2002). The element of prescription here – what people think 'ought' to be most valued – is important and useful.

Moore, Benington and other writers all make the argument that one of the central reasons for thinking about public value as a concept is that it advances the idea of value beyond standard economic theories of exchange value (which reflects market prices), labour value (which reflects the amount of human effort invested in its production), and use value (which reflects how useful an item is to a given person or situation) (Benington and Moore 2009 forthcoming). That is not to say that all these concepts are not useful to a public value evaluation, but rather that they only give one part of the relevant value.

Public value offers a broader view that embraces a number of wider social and political factors including (Benington 2009 forthcoming):

— **economic value** – through the generation of other economic activity and employment

— **social and cultural value** – by contributing to social cohesion, social relationships, and cultural identity, individual and community well-being

— **political value** – by stimulating and supporting democratic dialogue and active public participation and citizen engagement.

This list isn't exhaustive – for example Benington also argues for the inclusion of ecological and environmental considerations. The Work Foundation (Hills and Sullivan 2006) identifies 'clusters' of core values. In the case of public service *delivery* these include: efficiency, effectiveness and cost effectiveness; public involvement; transparency; equity; negotiation between different stakeholders; and trust. The values relating to the *outcomes* of public services include enhancing: quality of life, wellbeing and happiness; social capital, social cohesion and social inclusion; safety and security; equality; and civic engagement.

The point is that the framework enables the inclusion of several dimensions of value, which might well vary in different contexts. The abstract concept of value is capable of many interpretations, and these can co-exist in people's minds. The public value framework is sufficiently flexible to accommodate different aspects of value, and at the same time make them explicit.

Public value and the BBC

As described earlier, the BBC Trust has been a pioneer in the implementation of public value. The BBC finds itself in distinctive circumstances when considering public value. Its connection with the public is vast and personal. No other UK public service is invited into almost everybody's homes, cars and offices every day. At a conservative estimate, people in the United Kingdom choose one of the BBC's television, radio or online services 120 million times a day – equivalent to roughly twice a day for every man, woman and child. In 2008/9, the BBC's services maintained the previous year's reach of 93 per cent of the United Kingdom population aged 15 and over on a weekly basis (BBC 2009). Some of its presenters and other on-screen talent are among the best known people in the UK. The potential to deliver public value through BBC services is therefore immense.

At the same time, serving the public also makes it important to consider the wider impact of the BBC. The BBC has competed with commercial broadcasters for many years. Independent Television (ITV) was created as a rival in 1954, followed by commercial radio (1973) Channel 4 (1981), BSkyB (1990) and Five (1997). This commercial interaction has intensified as the BBC, other broadcasting and print organisations in the UK and elsewhere, UK communications companies and major US technology companies have come to compete increasingly in online content. The rapid evolution of online technologies and consequent shifts in viable business models and market structure, including the evolution of new markets, all demands careful consideration.

In making its decisions on major new strategies for the BBC, the BBC Trust is therefore charged with considering what is in the public interest. The public clearly want the maximum 'bang for their buck' from the investment they make in the BBC. Yet the public also benefit from the plurality of broadcasters, in terms of news, current affairs and creative competition. In making judgements about the public interest, the Trust needs to consider the potential benefits to consumers of competition in the wider market. The BBC Agreement therefore states that 'the Trust must be satisfied that any likely adverse impact on the market is justified by the likely public value of the change before concluding that the proposed change should be made' (Department for Culture, Media and Sport 2006a).This tension has been inherent from its creation (the first BBC radio news broadcasts in 1927 were scheduled later in the evening so as not to interfere with evening newspaper sales). There is much potential for the BBC to be a powerful force for the positive, serving the public interest – from both a citizen and a consumer perspective – by supporting a varied and dynamic creative sector in the UK. But there is also scope to make mistakes given the complexity of the judgments involved.

Why public value is difficult

Public value is clearly a goal worth pursuing, but in practice it is difficult to do so. These practical difficulties are set out later in this book. There is also a conceptual difficulty which relates to how the idea of 'what the public wants' can be interpreted when the public consists of many varied individuals with different and often contradictory needs and preferences. This means that any decision on public value will ultimately always involve a judgment by the organisation in framing what choices to put before the public. This may seem like a statement of the obvious, but is important to bear in mind when considering how public value systems are built in practice. It highlights the importance for a public organisation of having clarity about its own guiding principles – in the case of the BBC, for example, Lord Reith's original framing values. These underlying principles will define the range of options for subsequent decisions.

Why does the inescapable need to make judgements arise? Clearly, everyone is different. What is valuable to me may not be valuable to you. Expressed preferences also change over time even for the same person; what matters to you as a teenager may not matter to you as a young parent or as a pensioner. Even at a single point of time, an individual may indicate a set of preferences that are not consistent.

The need to aggregate preferences of an individual or across society occurs in many different disciplines: in welfare economics; in decision theory; and where a person has to make a rational choice based on several criteria. Most explicitly it underlies voting systems, which are mechanisms for extracting a decision from a multitude of voters' preferences. Famously, in 1951 Kenneth Arrow (1970) asked whether individual tastes and preferences could be aggregated in a way that was logically consistent, obeying a set of seemingly innocuous conditions, and could be captured in a voting system – and concluded that the answer was 'no'.

This conclusion held even though Arrow made only a few uncontroversial assumptions, including that citizens had free choice and a range of credible alternatives before them. Each individual in the society (or equivalently, each 'decision criterion') is assumed to assign a particular order of preferences to the set of possible outcomes. Arrow was in effect looking for a preferential voting system, called a 'social welfare function', which would transform the set of individuals' preferences into a single global, societal preference order.

Arrow's general theorem of possibility (commonly known as his 'Impossibility Theorem' and for which he won the 1972 Nobel prize for economics) says that if the decision-making body has at least two members and at least three options to decide among, then it is generally impossible (given his reasonable-looking set of logical assumptions) to design a social welfare function that implies an entirely free choice.

This work on social welfare, and the related extensive literature on voting paradoxes, can seem very abstract. But there is a practical implication for public administrations like the BBC Trust; namely that it will not be possible simply to 'ask the public what they want' from an *unconstrained* array of possibilities and simply aggregate their answers.

However, this is not to say that the goal of establishing a societal consensus is pointless. Seeking public views will always be an important part of any process for an organisation with close links with the public like the BBC, as illustrated in Chapters 5 and 6. Building on Arrow's work, Amartya Sen, another Nobel economist, has argued that the public will make consistent and rational choices from a range of options which is limited in sensible ways.[1] He writes that coming to terms with the impossibility problem in the case of social decision mechanisms 'is largely a matter of give and take' between different principles with different respective merits' (Sen 1995). The relevant principles will be those which define and guide the public decision-making body.

The conclusion of Arrow and other economists' and political scientists' work on social choice theory is that there is an unavoidable need to exercise judgment. However, this is not an insurmountable obstacle. In fact, if those in positions of authority are clear about when such judgements are being made, and open about the factors they have considered in reaching their conclusions, this could be a way of increasing levels of trust and understanding in the decision-making process.

There are now many examples of the public value approach being used to assess the success and failure of public service organisations in the United Kingdom, Australia and elsewhere (Talbot 2008). It is flexible enough to be relevant across a wide spectrum of activities including policing, local government services, publicly-funded sports and arts, and broadcasting. When implemented effectively, public value can help restore trust in public services, which is certainly desirable in an environment where trust has eroded alarmingly in many countries. Some proponents go further and argue that a public value approach offers a practical agenda for public management to be 'depoliticised' to the extent that politicians can agree about what constitutes effective public management and that public

managers and staff must think creatively about service improvement (Coats and Passmore 2008). It is probably safer to say that a public value approach works best where a clear dividing line is drawn between the political environment in which decisions are made about how to structure and fund public services and the delegation of administrative responsibility for running those services. Provided that split is clear, it may be easier for managers with delegated responsibility to apply objective judgements of public value as the basis for running and improving services.

This book explores the theoretical concepts behind public value (Chapters 2 and 3); looks at when to implement a public value assessment and the components that go into its measurement (Chapter 4); and describes real world applications of the public value approach as implemented at the BBC Trust (Chapters 5 and 6) and in other public bodies (Chapter 7). Finally, it assesses the potential role of public value in rebuilding the ethos of public service and as an expression of recognizing the importance of public institutions for economic and political outcomes (Chapter 8).

2
The role of the citizen

The 'public interest' — citizens and consumers

The main goal in trying to maximise public value is to achieve and optimise outcomes that are in the public interest. As seen in Chapter 1, the concept of public value opens up a whole range of potential considerations and trade-offs that must be addressed and weighed in any judgment that extends beyond classic economic regulation.

The development of a practical framework for such judgments thus relies in the first instance on a common understanding and acceptance of what is meant by the 'public interest'. In political terms, the concept of the citizen can be traced back to ancient times, including the writings of Aristotle and Plato. The 'citizen' did not mean all people to Plato, but rather the ruling elite and those closest to them. However, the concept was established of a society in which the interests of the city as a whole were greater than those of the sole individual. This powerful if flexible sense of the common good, the common wealth or the public interest has pervaded political thinking and governance systems in the West ever since – whether in the context of absolutist monarchies or republican democracies – but of course the idea can be interpreted in many ways.

This concept of 'the public interest' underpins most current regulation in the UK. When the independent regulatory regimes for various sectors were established in the 1980s, the underlying legislative frameworks were based on the political view that encouraging or introducing competition in previously monopoly, or quasi-monopoly, markets would create a varied range of pricing and service levels. These would operate in the interests of ordinary members of the public as consumers, and therefore in the public interest. The 2002 Enterprise Act also specified that in the context of competition, the relevant criterion was consumer interest.

In a situation where the products being delivered were largely commoditised (such as telecoms, gas and electricity) this approach worked well. Any wider public interest concerns were resolved by universal service obligations on the dominant incumbent provider, such as maintaining a network of public telephone boxes.

In broadcasting, the Communications Act 2003 took this approach an important step further by introducing the notion into UK law of the citizen as a distinct entity from the consumer. The new communications regulator, Ofcom (the Office of Communications), was given duties to act in the interests of both citizens and consumers, and specific limitations were set for when it should operate in its different 'modes'. For example, when exercising its competition powers Ofcom should purely have regard to consumers.

Politically there was a sense and acceptance of the citizen as having distinct needs from those of a consumer. In other words, simply achieving an economically efficient outcome would not always serve the best interests of the public at large. This is not a wholly new notion in broadcasting. Lord Reith, the British Broadcasting Corporation's first Director General, is usually considered to have expressed quite a patrician view of how to serve audiences. However, his views were nuanced. In 1924 he wrote: 'It is occasionally indicated to us that we are apparently setting out to give the public what we think they need – and not what they want, but few know what they want, and very few what they need. There is often no difference. One wonders to which section of the public such criticism refers. In any case it is better to over-estimate the mentality of the public, than to under-estimate it' (Reith 1924).[2] His famous triad – 'inform, educate and entertain' – clearly recognised the need to satisfy both popular tastes and paternalistic imperatives.

A more modern version of this was articulated by Lord Puttnam when speaking on the duties of Ofcom in the House of Lords in June 2003. He said that there should be (Hansard 2003):

'… the principle of a clear hierarchy of duties favouring the concerns of the citizen when at variance with the imperatives of the market place'.

In this instance, the debate concerned the parallel duties of Ofcom to further 'the interests of citizens in relation to communications matters' and also 'the interests of consumers in relevant markets'. The contrast was between what could be delivered commercially and what might require some form of public intervention to achieve.

The economic basis for such distinctions is actually a familiar one. As outlined in Chapter 1, Moore (1995) sets out a commonly accepted feature of public goods and services. The argument runs that, as consumers, people will not value *fully* certain goods and services (street cleaning, universal education and so on). Therefore there is a need to view the general public not just as self-interested consumers but also as members of a society when addressing such problems. (Chapter 3 looks in detail at the associated market failures that arise if narrow market-based decisions do not take account of the wider impacts on third parties and society.)

It is important to recognise, however, that the distinction between individual and societal best interests is not simply an 'economics versus the arts' argument. Nor is it a straight division between 'bean counters' and 'intellectuals', or between free marketeers and paternalists. Rather, at a fundamental level, the distinction being made is more subtle. From an economic perspective markets should work well if there is perfect information. However, this is rare and even when there is relevant information available somewhere, it is not always known to citizens and consumers when taking their decisions. It is the need to address this problem that underlies much of the thinking about what it means to account for public value and how it can be gauged. If done properly, such a process of accountability (for example through a public value test) will provide a degree of redress for the absent voice of the informed citizen.

However, in political terms, public value should do something more active than simply attempt to reflect the static public interest. It seeks active engagement in order to involve people in a process, which will enhance their capabilities as citizens, rather than simply capturing their passive reactions through their voting – or shopping – choices.

Public management and the 'engaged citizen'

If it is accepted that the need for managerial efficiency in public decisions is a prerequisite for effective governance in modern societies, then a public value approach offers a process both to demonstrate such efficiency and also to secure positive public 'buy-in' to the specific decisions in question. This should be an attractive prospect for both politicians and public managers.

Moore articulated this process in his 'strategic triangle' (Figure 2.1) which illustrated the issues that public sector managers must consider before committing their organisations to a particular course of action (Moore and Khagram 2004):

— first, what was the important 'public value' the organisation sought to produce?

— second, what 'sources of legitimacy and support' would be relied upon to authorise the organisation to take action and provide the resources necessary to sustain the effort to create that value?

— third, what 'operational capabilities' (including new investments and innovations) would the organisation rely on (or have to develop) to deliver the desired results?

Figure 2.1: The 'Strategic Triangle'

(Source: Moore and Khagram 2004)
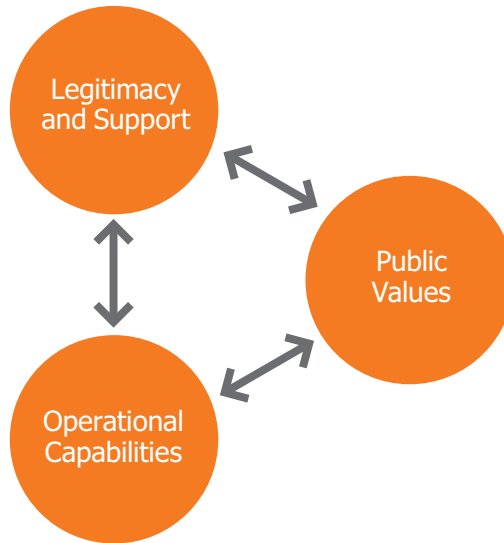
The citizen plays a key role, either directly or indirectly, at two of the triangle's three apexes: in the determination of what constitutes the creation of public value and in the processes needed to secure legitimacy and support. According to Moore (1995), in the first instance, the organisation must produce outcomes of value to 'overseers, clients, and beneficiaries'. Then, in order to be 'legitimate and politically sustainable', the organisation must attract both authority and money from the political and 'authorising environment' to which it is accountable. Additionally, from a pragmatic standpoint, if a course of action is to be a realistic option, it must be 'operationally and administratively feasible' for the organisation to implement the chosen strategy.

If any of these conditions is unmet, implementation will fail. In particular, in Moore's view an (operationally feasible) valuable goal that does not attract political support will fail as it will not secure the necessary resources. Similarly, a strategy that does have political support (and is operationally feasible) but does not produce results of value will, over the long run, fail because it will be revealed as a waste of resources – to the embarrassment of politicians and public managers.

The 'authorising environment', within which public managers must secure legitimacy and support, encompasses a wide variety of players ranging from people in specific positions of authority (including elected representatives) who authorise a course of action and sanction its funding, to the wider class of individuals who are in a position to hold those decision-makers to account (Moore and Khagram 2004). As Moore (1995) pointed out, when he introduced the concept of public value, the demands and expectations of the authorising environment can and do change, sometimes rapidly. This may be as a result of political power ebbing and flowing, or in response to events.

Public opinion, whether expressed momentarily through the ballot box or through the long-term active engagement of committed individuals, will play an important part in shaping the authorising environment. In other words, any public value system relies upon securing authorisation from society at large – and this is essentially part of the wider political process. The Work Foundation describes the process in these terms: 'Public value is what the public values, and it is the role of public managers to help determine through the democratic processes of deliberation and public engagement what social outcomes are desirable. It is through such processes that public managers can help to articulate collective citizens' preferences and thereby redress the "democratic deficit" between public services and citizens' (Horner et al 2006).

Some of this may simply be by assertion rather than any formal public consultation or notional engagement. Moore (1995) gives the example of the Houston Police Department, where the new Chief of Police took the view that policing needed to gain the consent of, and reflect, the wider community. He therefore set about a range of reforms and other measures designed to secure community support for the police, for instance by making officers work a consistent local area and making them more approachable. In the Houston case there was no viable means of testing the reforms before they were implemented – indeed the eventual proof may have been a negative one (for example, the absence of riots or organised violence against the police).

However, to advance beyond a high-level theory any public value framework needs to have the means to test what indeed will be valued by people as citizens, over what they may value as consumers.

In practical terms this is difficult, but nevertheless possible, to achieve through public opinion research. Inevitably when asked about social choices that seem to be made without 'their' money involved (except indirectly as taxes) people tend to be more generous than when facing choices as individual consumers who would spend money directly. However, this effect has been thoroughly researched, and it is possible using methods such as 'choice experiments' or survey-based 'contingent

valuation' methods to get a realistic sense of the public's broad willingness to pay for social benefits over purely personal ones. These, and other such engagement mechanisms, are an important part of the public value philosophy; it is important actively to involve the public in the public value process – albeit only to the degree that the public is realistically willing to be engaged – in order to establish the legitimacy of the process. Chapter 4 looks at this issue in greater detail.

From the politician's point of view, a public value process, with engaged citizens playing an important role, is also a potential means of addressing the so-called 'delivery paradox' (Blaug et al 2006a). This is the phenomenon whereby, despite measurable improvements in the output of public services, including in personal experiences of such improvements, the public view tends to be that services are declining.

This was demonstrated in a 2004 MORI study (Mortimore and Gill 2004) which showed that for a range of public services there was a consistent gap between personal experience and perception of the service generally. So, for example, people surveyed had a good personal experience of public transport in 41 per cent of cases and a bad personal experience to the same degree. However their perception of the state of public transport was bad in 52 per cent of cases and good in only 32 per cent of those surveyed. Similar divergences were found in attitudes to the NHS and the criminal justice system. As Mortimore and Gill put it, 'contrary to the received wisdom the grass always seems greener on our own side of the fence'. In terms of the distinction made earlier, in all of these cases the consumer is more satisfied than the citizen.

Why then does public satisfaction often remain low even when targets have been met and improvements demonstrated? Mortimore and Gill (2004) argue that the dissatisfaction persists because the public does not believe in, or does not know about, objective improvements in service quality. They suggest that 'communication of success is politically as important as the policy success itself'. From a public value perspective, however, the shortcoming is rather that the citizen, as distinct from the consumer, has not been sufficiently engaged in the decision making about the service. Individuals make different assessments depending on whether they are taking a consumer perspective or a wider perspective about the public interest.

It would be a bold and indeed self-serving claim to suggest that the process of authorisation in any public value test could bridge these perception gaps, but the conscious attempt to seek public authorisation before acting may have some merit. After all, if the public value approach is successful in meaningfully engaging citizens in the process of deciding what strategies will increase public value, and citizens also have a role in the environment that confers legitimacy on decision-makers, then the public 'buy-in' mentioned earlier will have largely been achieved. All of which sits

comfortably in the current political ethos for public participation and involvement in policy development in public services. High levels of dissatisfaction with many public organisations and institutions suggest it is important for any method of re-engagement with the public to be given serious consideration.

Politics and public governance

Traditionally the public interest in a service has been exercised by a degree of political control, either by direct ministerial influence or by legislation. The type and style of that control has evolved significantly in the UK over recent decades, as has the role that citizens have been encouraged to play. The emergence of public value as a mechanism for improving the governance of public organisations needs to be viewed against the backdrop of these recent policy shifts.

The Work Foundation has identified three approaches to analysing the governance of public bodies, each embodying a different concept of the relationship between elected politicians and senior public managers, and with a different potential role for the engaged citizen (Blaug et al 2006b):

— 'principal-agent' theory – where politicians drive process and hold public managers to account in a 'top-down' manner. Political control is exercised through oversight, appointment, budgeting and legislation

— 'new public management' – where public managers are given incentives to respond to the public in innovative ways, mimicking private sector companies competing for their custom. The emphasis is on efficiency, often assessed against mandated targets, and using the 'market-style' mechanism of choice to drive performance. The role of the public is primarily as consumers

— 'new public service theory' – where public managers have a role in building a collective shared notion of what constitutes the 'citizen interest' and acting accordingly. Here the emphasis is on collaboration among the various players and, in contrast to the previous two cases, the active inclusion of those who pay for and use the service.

The philosophy underpinning this third category is at the heart of public value. Implementation of new public service theory needs to encompass far more than market-based services to include community values and political norms. This 'narrative' for public service reform has gained ground politically in the past decade in an evolution of the new public management market-style approach which predominated earlier. Chapter 8 will return to the wider philosophical question of public service; for now, the main point is that public value rests on a particular understanding of governance.

As noted, the three different models of governance accord varying degrees of control to public managers and politicians respectively. Public value offers a framework within which public managers, politicians and citizens can all have roles in the strategic decision-taking process. At best it provides a more meaningful form of accountability for taxpayers and, more broadly, citizens. Public value is a particularly useful model for the BBC, which has to maintain its independence from political control as a fundamental and essential part of the service it provides to citizens. By grounding its judgements of public value in audience research and audience opinion, the BBC Trust aims to attain a level of authority and legitimacy and demonstrate accountability to licence fee payers without having to rely as much on more traditional forms of political engagement and support.

Public value can also make transparent and explicit the trade-offs that are often implicit in control systems such as those surrounding the police, local government or the National Health Service. Citizen engagement in the public value process will tend to create better understanding of the reasoning behind the potentially divisive choices. As Coats and Passmore (2008) put it: 'There are few self-evidently "right" answers to questions of public policy, and many difficult decisions and tradeoffs have to be made on the journey to a clear policy decision. What public value offers is a framework for securing greater democratic legitimacy for the objectives of public services and a means of improving the quality of decision making, by explaining these challenges to the public and seeking their views on what is valuable.'

Public value offers the means to bring a range of factors and players together within a framework that can be applied across a variety of situations. The following chapters set out more concretely how this can be done, first by exploring the specific elements of a public value framework and then by providing practical examples. We hope ultimately to demonstrate that the public value approach has the potential to revive the ethos of public service and restore the public's faith in public management.

3
Economic aspects of public decisions

The very concept of 'public value' implies that it differs from the conventional sense of value, which is usually taken to mean the purely economic concept of market value. Public value therefore becomes relevant when market value seems inadequate; it incorporates the adjustments to assessments of social welfare that arise from market failures. So market failure is the second frame of reference, after the civic dimension discussed in the previous chapter, for thinking about public value (Moore 1995).

For some advocates of public value, the market failure frame is at best too narrow and at worst actually distorts debate about social welfare by placing too much emphasis on economic and purely monetary concerns. However, given the success of markets in so many areas of activity, it is important to understand when and why public interventions are desirable. In particular, it is important to appreciate the scale of market failure in the economy as a whole. The choice of an alternative approach to price-driven and consumer-focussed market choices depends on understanding the different types of market failure which occur.

This chapter explores the forms of market failure, the links between market value and public value, and the reasons why the public value framework may be useful in addressing market failures to improve outcomes for consumers and citizens. This is ultimately because of the presence of externalities and spillovers: that is, the effects of choices or activities on third parties whose interests are not taken into account. These externalities provide the classic economic rationales for public intervention. However, the public provision of services also has drawbacks – often described as 'government failure' in a parallel to the terminology of 'market failure'. (One recent overview can be found in Besley (2007)). The public value framework addresses both types of issue by giving a shape to public sector decision making that can enhance social as well as individual benefits.

Market failures and the rationale for public intervention

The notion that markets should be pre-eminent as the means of organising activity in a modern economy has perhaps lost ground since 2007 as a result of the economic crisis originating in the financial markets. Yet the natural reaction against free market philosophy does not overturn the truth that markets are often the best way of using the resources available to deliver the goods and services that people want. However, events have given us a timely reminder of the equally valid point that *market failure* is widespread. Markets 'fail' because, while they reflect individual preferences and valuations more effectively than any other mechanism, market prices do not take account of the impact individuals have on each other. At the same time, *government failure* is widespread too, because of the shortcomings inherent in having public

officials take decisions on behalf of other people while lacking the information they need or the incentives to reflect fully the preferences of others. If an illustration is needed, the failures of financial regulation will do as well as any, but a more conventional example would be a centralised producer-dominated service that is unresponsive to users' needs. Public value is a means for trying to achieve better decision making in the realm of market failures – while at the same time trying to guard against regulatory or governance failures by engaging with citizens.

Market failure (like Tolstoy's unhappy families) can take many forms, but there are several main categories.

Externalities are the consequences of economic activity that are experienced by unrelated third parties. They occur when costs are incurred, or benefits gained, by people who were not directly involved in the economic activity and whose interests were not taken into account. A classic example is the (negative) externality of pollution, such as when a factory pollutes the atmosphere to the detriment of all residents, without paying for clean-up or compensation. Externalities are often now referred to as *spillovers*, and have for example become a widely used concept in the literature on productivity and innovation. One type of spillover is the (positive) externality of the know-how brought by an overseas investor (hiring workers and buying supplies locally) spilling over into productivity benefits for other local businesses. Both of these examples are *production externalities* which arise in the production of goods and services.

A particularly important kind of externality lies in the inability of future generations to participate in today's markets, even though they are affected by today's outcomes. The public sector offers the only means for the future to be represented, and for decisions to be taken over a much longer time horizon than is ever possible in the commercial sector. This is vital for decisions which affect the environment, but also for any investments such as large-scale infrastructure developments, or policies that impinge on national assets and patrimony (the national heritage). In such cases the impact or returns of these activities will continue many years after they can be used by the consumers currently paying for them.

There are also *consumption externalities*, when one person's consumption of a good or service affects other people. Education is one example: personal investment in education will not only benefit the individual but, if it encourages businesses to create better-paid jobs, or just turns us into better-informed citizens and more stimulating company for others, it will have a larger social benefit. Left to the free market, there would be too little personal spending on education compared to the ideal level for society. Public service broadcasting also involves consumption externalities, as reflected in the requirements for education and citizenship in the

BBC's 'public purposes' or Ofcom's description of public service obligations (Department for Culture, Media and Sport 2006b and Ofcom 2005). Some will be provided by the market, but less than is desirable from society's perspective.

Missing markets arise when consumption is *non-rivalrous* so that consumption by one person does not prevent consumption by another and/or *non-excludable* in that it is not possible to exclude anyone from consuming the good or service. Products of this kind are also referred to as *public goods*. Examples are parks or television programmes (both non-rivalrous) and national defence and free-to-air broadcasting (non-excludable). If I walk in the park it does not stop others doing so too, and the additional cost of an extra visitor is zero. Covering fixed costs like buying flowers and paying a park keeper is most efficiently done through a fixed fee such as annual membership or a local tax. But determining what level that should be – what quantity of park services – is inherently collective. It depends on all the potential park users. These circumstances mean there is less likely to be adequate commercial provision and the situation lends itself to organisation by the state. Similarly, free-to-air broadcasting by the BBC relies on the state to implement and enforce the licence fee. The level and character of the licence fee have been challenged in some quarters, and of course it should not be any higher than it needs to be. However, as the theory of public goods makes clear, the structure of the licence fee has a solid economic rationale, as well as the important rationale rooted in the independence of the BBC from political interference.

The paragraphs above describe the 'classic' examples of market failure, but there are two other categories where there is a failure of the assumptions which underpin the conclusion that market prices truly reflect social value and therefore market provision is optimal.

The first is when production of a good or service features *increasing returns*. This means there are high fixed costs so that the cost per item or per user diminishes rapidly as the number of users increases. Some traditional public services are *natural monopolies*, so large are the economies of scale in the sewage or road networks, for example. Increasing returns are also widespread in modern economies, applying to capital intensive businesses such as automobiles or aircraft and to businesses where much of the effort (and therefore the cost) is incurred before the product can be consumed at all, such as software, music or broadcasting. Where there are high fixed costs and low variable costs, it will be more efficient to produce at a large scale, and businesses will tend to grow large, sometimes with monopoly power. But whereas the price that delivers the best results for society would be low, an unregulated monopoly or dominant business will produce less and charge more than would be the case in a competitive market, and (at least if there is no threat from potential and viable new entrants) consumer welfare will be lower.

Secondly, economies of scale can arise in demand as well, when they are described as *network externalities* – for example, these arise in telephony, whereby having a phone is more useful the more other phones you can connect to. Network externalities often have an important dynamic aspect to them because networks grow slowly at first (when the value to a new user of joining is low) until reaching a critical mass (or 'tipping point') after which they snowball. A new network might not develop if it cannot get to that critical point quickly enough to pay back investors. Some leading online businesses have spent large sums on marketing and upfront investment, incurring losses in order to reach that point, when they will have a great advantage over new would-be competitors.

Finally, markets fail to maximise consumer welfare when there are *asymmetries (imbalances)* or *deficiencies of information*. These can take many forms. Examples in the fields of finance include the presence of moral hazard (when the existence of a contract will change the behaviour of one or both parties to the contract, for example when someone with health insurance makes less effort to stay fit). Another manifestation of the problem was the excessive risk-taking in banking in the run-up to the 2008 financial crisis, due to the inadequacy of information outside an inner circle about many of the exotic financial instruments in use. A related type of market failure consists of 'experience goods' whose benefits are only appreciated by consumers after they have already consumed them, and therefore will be under-purchased in advance. Education again is a good example. So is public service broadcasting. Programmes which society as a whole tends to consider are 'good for you', including categories such as news and current affairs that contribute to a sense of citizenship or understanding of the world, come under this heading. They will be under-provided in a commercial context because consumers will not choose in advance to purchase as much of this type of content as is desirable from society's perspective.

Types of public intervention

It will be apparent from the list above that there are many ways in which markets can 'fail', and market failures might indeed be more widespread than was the conventional wisdom in the 1980s and 1990s. In fact, the literature on economic institutions has long recognised that very many transactions cannot occur in a market because of the kinds of externalities and information asymmetries listed above. This is why institutions such as firms exist at all, making possible within the organisation transactions which would not occur, or would not deliver the desired result, if they involved a market transaction with an unrelated party. The classic example in the literature of institutional economics[3] is a vertically-integrated business which cannot rely on external suppliers because of inadequate information and/or a lack of trust in dealing with another business with its own incentives.[4]

In a famous passage, Nobel laureate Herbert Simon imagined visitors from Mars looking at the social organisation of humans on Earth: 'The firms reveal themselves, say, as solid green areas with faint interior contours marking out divisions and departments. Market transactions show as red lines connecting firms, forming a network in the spaces between them … Organisations would be the dominant feature of the landscape. A message sent back home, describing the scene, would speak of 'large green areas interconnected by red lines …When our visitor came to know the green masses were organisations and the red lines connecting them were market transactions, it might be surprised to hear the structure called a market economy. 'Wouldn't 'organisational economy' be the more appropriate term?'' it might ask' (Simon 1991).

This perspective is a useful corrective to the tendency to contrast sharply 'markets' and 'government'. In practice, there is a fuzzy boundary between organisational arrangements, and moreover different countries vary enormously in the forms of government intervention in the economy and in what activities take place in the public rather than the private sector. There is no hard science about where this public/private boundary is best placed. The size of government in rich Organisation of Economic Development (OECD) countries varies widely between the United States and Sweden. Both are very prosperous economies, as are other OECD members in between these two contrasting approaches to government involvement. What's more, the line between public and private and the scope of regulation changes over time. The public-private boundary therefore reflects voter preferences, and the specifics of history and culture, rather than an objective assessment of the existence of certain market failures. Clearly, there are also likely to be interactions between 'market failures' and 'government failures'. We have seen this all too clearly recently in the heavily-regulated financial sector where market and regulatory failures ultimately led to many banks in many countries forcibly crossing the private-public border to become state-owned or state-controlled.

That does not mean there are no economic principles involved in drawing the boundary. The long experiment in planned economies behind the Iron Curtain demonstrated comprehensively that the public sector is very bad at very many kinds of economic activity – including producing the right number of pairs of shoes in the right sizes and colours, innovating in consumer electronics or producing jazz, fiction and other popular arts that their consumers would like to have purchased, for example. On the other hand, the same experience suggests the government can be reasonably good at delivering a high average level of education and health

care, at basic scientific research, and at the delivery and popularisation of high quality sport and demanding arts like ballet and opera. Public transport in pre-capitalist Eastern Europe was cheap, frequent and the quality was generally rather high. It offered a standard of service which a British commuter waiting for a delayed, crowded and expensive private commuter train can only dream of wistfully.

A very wide range of services, including rail, roads, airports, water and sewage systems, street lighting, telephone and energy networks, canals, bridges and dams, air traffic control, hospitals and schools, parks, benches, broadcasting, art galleries and housing, are either publicly-owned (in at least some countries), a mix of state and commercial, or privately owned and run but heavily regulated. Their provision is frequently politically contentious. People who are not parents think education provision is less important than health, and the majority will often resent public spending on minority interests such as the arts.

There are as many forms of public intervention as there are categories of externality. Raising taxes to pay for publicly-provided services is one form. Regulation of public or private services is another. Peak-load and off-peak pricing can distinguish between people who value their time and comfort most highly and those who prefer to save money; for example business travellers on the railways as opposed to tourists. Similarly, commercial users of electricity tend to be willing to pay higher prices during working hours in order to keep factories running, while households may opt for cheaper off-peak supplies. In such cases a regulatory framework ensures that the average level of prices is not too high. Technology has made possible new forms of public intervention; for instance, commuters can now be charged (or charged more) by a local authority for driving into a city during busy periods.

Democratic government is obviously the over-arching mechanism for resolving social priorities in the face of economic externalities, but other tools are needed for everyday use. The two broad alternatives are direct public provision and the government funding and/or regulation of privately owned and run businesses. Before turning to the implementation of a public value framework in these contexts, we first consider the way new technologies are dramatically changing the economic landscape, including the prevalent types of market failure.

The impact of new technologies

Technological change alters the nature and scope of market failures over time. For example, mobile telephones made the natural monopoly in the fixed telephony network less relevant by changing the boundary of the relevant market. This paved the way for the successful privatisation of many former state-owned fixed line monopolies in many countries, as competition was available from new mobile operators. Similarly faxes and then email created new forms of competition with the old postal monopolies. Smart cards and electronic monitoring have made it feasible to exclude some drivers from the roads at certain times. In all of these examples, it should be noted, the possibility of private provision has not removed the need for government regulation of the industry, whether because of remaining market failures or because of other aims such as distributional fairness (for example, universal service obligations). Rather, the role of government has changed in scope.

In addition to specific innovations like these, the new information and communications technologies have in general had a wide-ranging effect on market economies. They form what economists refer to as a 'general purpose technology' because they affect the organisation of the economy in a wide-ranging way, like steam or electricity or rail in the past (Helpman 2004). One widespread effect has been greatly to increase economies of scale, as there are many industries in which it is now possible to reach a much larger number of consumers at very little incremental cost, thanks to the possibilities of online marketing and distribution. Network effects have amplified this dynamic. So in many industries, the structure has evolved into a small number of very large firms competing across all products and services, and often globally, and a large number of small businesses supplying particular niches.

Furthermore, a larger share of the richest economies is accounted for by 'experience goods' – education, health, entertainment, leisure activities – as described earlier. As people grow richer they spend a growing share of their incomes on services of this kind, rather than on the material basics of life.

Taken together, these technological developments have altered somewhat the types of market failure which are most pressing. Some former natural monopolies have become much less relevant, such as utilities. Some services which were non-excludable may no longer be so; for example, broadcast services can now be encrypted to keep out non-subscribers. On the other hand, the scope of information asymmetries, consumption externalities and economies of scale has become much greater. Overall, the implications for market failure and public intervention will vary from sector to sector and may need to be addressed on an individual basis.

Externalities in broadcasting

Technological change has had a particularly profound impact in the media industries. Before the dawn of the digital age, broadcasting was very clearly non-rival and non-excludable. There were also consumption externalities and 'experience goods', which shaped the kind of content included in the definition of the Reithian values (to 'educate, inform and entertain') and in public service broadcasting more generally. Thus public service content was perceived to create a value for society over and above that conferred on individuals who, in any case, might also not appreciate until afterwards the benefits of some programming. There were also economies of scale both in programme-making and in distribution, to the point that the network of transmitters was a natural monopoly in any specific geographic area.

Digital technology has reshaped the types of market failure which affect broadcasting, but has not made them less extensive. It is possible to exclude consumers from digital broadcasts using encryption (so that only paying customers can decode the signal), and to a large extent from online video using geo-IP technologies (which can determine a user's location). Some economists, focussing on the new scope for excludability, conclude that there is a reduced 'market failure' rationale for public intervention in broadcasting (Armstrong and Weeds 2005). However, consumption is still non-rival, and there are the same or greater consumption externalities and information asymmetries. That is, the social benefit from consuming public service output still exceeds the private benefit. Economies of scale in programme-making have been reduced somewhat thanks to much cheaper equipment for filming, editing and so on. Similarly, the natural supply monopoly in transmission has been mitigated by satellite and cable and online broadcasting. On the other hand, the economies of scale in each of these types of infrastructure and in the scope for reaching much larger – increasingly, global – audiences are enormous. A small number of extremely large global companies have taken advantage of these trends to garner a high share of media markets including in the UK, something which has both competition and civic implications, given the importance of the media in effective democracy (see Chapter 8).

Other parts of the media landscape are equally dramatically affected by digital technologies, which indeed are bringing broadcasting and print media closer together online. Newspapers' pre-digital business models relied on economies of scale in the production of content on the one hand and in the printing and distribution of physical copies on the other. The former ensured high circulation revenues while the latter secured advertising revenues. In the digital era, many suppliers compete for the attention of audiences whose consumption habits are changing, and at the same time advertising revenues have declined. However, the result is a more competitive commercial landscape in which few publishers, large or small, are making profits from online operations.

Although the big names (including the BBC) still get the largest audiences online, these users are no longer paying for what they read. As a recent analysis puts it: 'The problem is not that an advertising model cannot support the production of news content … The problem is that no mechanism exists to channel the ad dollars back into the news production enterprises' (DeLong 2009). The author concludes that the provision of news has turned into a 'commons' in which other internet businesses, whether one-person bloggers, huge aggregators, or something in between, fish freely for their content. With so much 'free riding' on a limited amount of news content, the externality is obvious. He concludes: 'It is impossible to begin to imagine the shape of an internet deprived of the material produced by the newspapers and wire services', and suggests government-sponsored news services will become more widespread. For an American commentator, this is an 'ominous' outlook; less so for those of us used to the UK model of publicly-funded news sources that are independent and impartial.

Implications for public service broadcasting provision

The digital age has transformed the wider media market environment in which public service television and radio broadcasting must carve out a position. With each technology-based development – such as the take-up of digital television, the multiplicity of broadcasting channels, the launch of high definition television – has come new issues about the future of public service broadcasting. In particular, the rapid evolution of online activities has expanded the choice available to consumers in their roles both as content consumers and providers. The world of user-generated content, video file sharing services, videogames, video on demand, mobile television, interactive services, social networking and other websites bears little resemblance to the broadcasting environment of just a decade ago.

The key question is: what are the implications of this changing market for the shape of intervention in the provision of public service broadcasting? Overall the challenge is how to ensure the delivery of programmes which fulfil the desired outcomes of public service broadcasting and meet the interests of citizens and consumers throughout the UK.

Public service broadcasting serves a number of defined public purposes. For the BBC these are explicitly set out in its Charter (Department for Culture, Media and Sport 2006b):

— sustaining citizenship and civil society

— promoting education and learning

— stimulating creativity and cultural excellence

— representing the UK, its nations, regions and communities

— bringing the UK to the world and the world to the UK

— in promoting its other purposes, helping to deliver to the public the benefit of emerging communications technologies and services and, in addition, taking a leading role in the switchover to digital television.

Ofcom expresses very similar public service broadcasting purposes for the public service broadcasting market as a whole (Ofcom 2007c):

— to inform ourselves and others and to increase our understanding of the world through news, information and analysis of current events and ideas

— to stimulate our interest in and knowledge of arts, sciences, history and other topics through content that is accessible and can encourage informal learning

— to reflect and strengthen our cultural identity through original programming at UK, national and regional level, on occasion bringing audiences together for shared experiences

— to make us aware of different cultures and alternative viewpoints through programmes that reflect the lives of other people and other communities both within the UK and elsewhere.

In addition, public service broadcasting is assumed to demonstrate certain characteristics with content that is: high quality; original; innovative; challenging; engaging; and widely available (Ofcom 2007c).

The technological changes (the growth in digital channels, subscription television and online services) that have mitigated some of the market failures in broadcasting have at the same time created the new pressures that underlie many of the current arguments for continuing intervention. On the one hand, time-shifting, rapid repeat cycles and on-demand viewing 'allow consumers a greater range of ways of accessing content at different points, reducing information problems. Encryption and pay models allow broadcasters to limit access to their content based on consumer preferences, so the public good nature of broadcasting caused by non

excludability disappears' (Ofcom 2008a). The digital market is more effective than traditional broadcasting in meeting the *private* demands of the viewer and provides a great variety and volume of content.

On the other hand, these developments pose a challenge to current plurality of conventional commercial public service broadcasters. There is 'an increasing challenge to the reach and impact of public service programming as audiences fragment' (Ofcom 2008b). Over 85 per cent of homes had access to digital television at the beginning of 2008 and Figure 3.1 illustrates how the five main public service television broadcasting channels experienced a 14 percentage point reduction in viewing share between 2003 and 2007, although more recent Broadcasters' Audience Research Board figures suggest this reduction has subsequently stabilised. The decline has been much greater among 16-24 year olds (who have grown up with the internet) and among people from ethnic minority groups (where the main five channels now represent a minority share of viewing). Research shows that often these audiences do not turn to the public service channels as their first choice for public service content; they prefer digital channels and increasingly the internet. The overall loss of viewer share 'is creating serious pressure on the ability of commercial broadcasters to deliver certain genres and to sustain historic levels of investment in UK content' (Ofcom 2008b).

Figure 3.1. The five main networks' share of viewing in all homes, 2003–2007

(Source: Ofcom 2008c)

Source: BARB, all people 4+
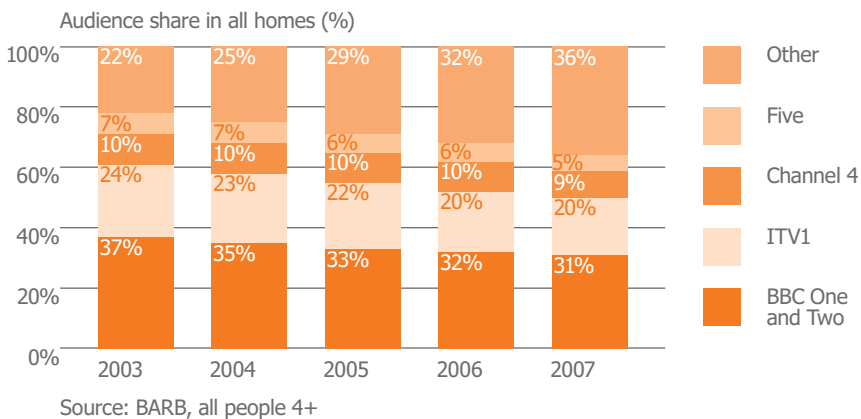
For some commercial providers, the balance between the costs of their public service broadcasting commitments and the benefits they derive has moved unfavourably, exacerbated by the weak economy. Yet as the presence of effective rivalry in broadcasting is important for the health of the BBC and the wider creative sector in the UK, there has been a long debate about the best policy response to the technology-driven changes in the market. Ofcom published its first review of public service television broadcasting in 2005. It concluded then that the market probably would not continue to meet all public service broadcasting purposes, even in an all-digital environment, and that the existing commercial model would not be sustainable in a wholly multichannel world (Ofcom 2005). The challenges to the commercial public service broadcasters have been exacerbated (even before the cyclical impact of economic recession) by a trend decline in television advertising as a proportion of total advertising.

Ofcom's second review of public service broadcasting in 2008 looked at the changes in the way television content is distributed and consumed; it judged that the market if left to itself would not deliver UK-originated, high quality public service programming in all the genres in which audiences had come to expect it (Ofcom 2008b). In surveys, audiences consider high levels of UK-commissioned programming to be essential if the purposes of public service broadcasting are to be delivered. The problem is seen as most acute for programming from the nations and regions and children's programmes.

On the other hand, the review identified that digital services are having a positive impact on public service content. Outside broadcasting, there is an 'extraordinary flowering' of public purpose content in digital media from a variety of sources – public sector, community and voluntary organisations, individual and commercial, with a wide range of funding sources (Ofcom 2008b). The barriers to entry for online services are low and users are spending increasing amounts of time on the internet. Public service broadcasters, including the BBC, also achieve public service outcomes through their online presence.
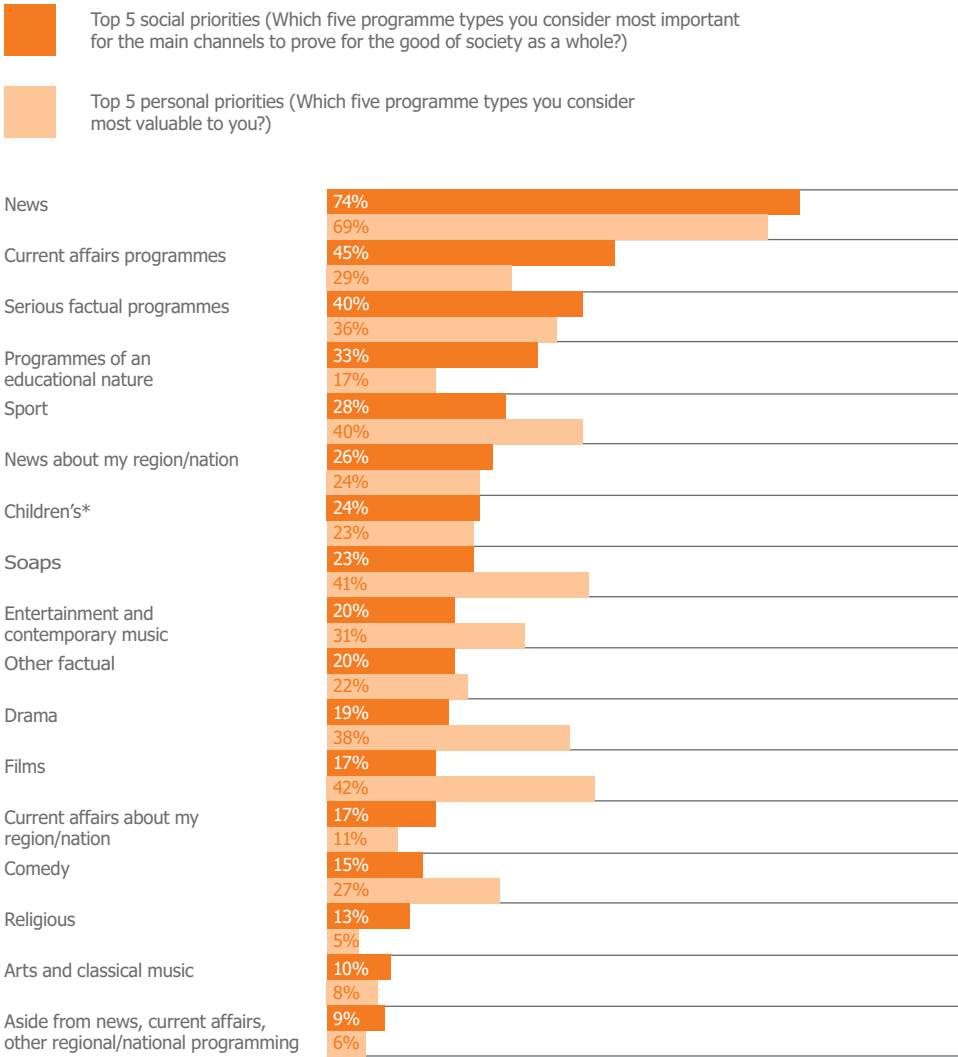
The success of online services may, however, introduce new market failure issues. The vast amount of material means there is the need to match individuals to the most appropriate and trustworthy content. It is a problem of 'information deficiency' – a lack of knowledge of the location of content, combined with an inability to judge the quality of the guidance provided by many online navigational

tools (Ofcom 2008a). In addition there is a continued lack of access by a significant minority of the population to online services, either by choice or exclusion. Just over half of UK households had a broadband connection at the start of 2008, but if public service outcomes are significantly enhanced by new media then near universal access to high-speed broadband is a priority. The Digital Britain interim report in January 2009 urged the need to identify the market failures standing in the way of a full roll out of digital infrastructure and said that access to the digital economy was 'not simply a question of economic competitiveness, but also of fairness' (Department for Culture, Media and Sport and Department for Business, Enterprise and Regulatory Reform 2009). The final report, in June 2009, made a commitment to providing a universal 2Mbps broadband connection by 2012, extending the technology to the one in 10 households that currently have no access. Furthermore, it announced plans to roll-out high speed 'next generation' broadband funded in part by a £6 a year levy on all fixed telephone copper landlines (Department for Culture, Media and Sport and Department for Business, Innovation and Skills 2009).

Thus, the issue of market failures in broadcasting is enduring, the main ones being the non-rivalrous nature of broadcasting combined with high levels of externalities, such as the opportunity to create broader social value. Surveys of public opinion confirm this, as evidenced by the clear differences in people's personal television preferences compared with their view of the various programme types that benefit society as a whole, such as educational programming or regional/national news. Figure 3.2 illustrates the distinction people make between their personal and social priorities for programme types. Current affairs programmes, for instance, score 29 per cent as a personal priority but 45 per cent for social priority; in contrast, for soap operas it is 41 per cent and 23 per cent respectively.

Figure 3.2. The perceived 'social value' of television

(Source: Ofcom 2008b, from Figure 9)

■ Top 5 social priorities (Which five programme types you consider most important for the main channels to prove for the good of society as a whole?)

■ Top 5 personal priorities (Which five programme types you consider most valuable to you?)

Programme type	Social	Personal
News	74%	69%
Current affairs programmes	45%	29%
Serious factual programmes	40%	36%
Programmes of an educational nature	33%	17%
Sport	28%	40%
News about my region/nation	26%	24%
Children's*	24%	23%
Soaps	23%	41%
Entertainment and contemporary music	20%	31%
Other factual	20%	22%
Drama	19%	38%
Films	17%	42%
Current affairs about my region/nation	17%	11%
Comedy	15%	27%
Religious	13%	5%
Arts and classical music	10%	8%
Aside from news, current affairs, other regional/national programming	9%	6%

*Among parents 'Children's' rises to 53% and ranked 2nd for personal priorities and to 36% for social priorities, ranked 4th

Source: PSB Review survey Q30 2,260 interviews with UK adults aged 16+, October – December 2007

Thus, although some of the market failures that public intervention has in the past sought to address will become less marked, there will remain 'gaps and shortfalls which call for continuing public support' (Foster and Meek 2008).

However, there is no clear consensus about the form this should take, or even the amount. It is inherently difficult to make predictions about the speed of change, or the nature of people's viewing and listening and online consumption, in the light of technical and structural change and the downturn. The impact of these changes on the constellation of public service providers is unclear. Ofcom (2009) has specified a number of 'tests' that any future model for public service broadcasting should satisfy, and in their wide-ranging and challenging nature, these set out clearly the scope of the potential public intervention (Figure 3.3).

Figure 3.3. Tests for a future model for public service content

(Source: Ofcom 2009)

Objective	Test
Reach and impact	Are providers incentivised to deliver public services content that achieves reach and impact?
Plurality	Does competition between providers deliver the benefits of plurality?
Flexibility	Is the model sufficiently flexible to respond to audience and market changes?
Value for money	Does the model make efficient and effective use of public resources?
Governance	Do providers have clear remits, independence, transparent accountability arrangements and incentives aligned to public purposes?
Complementarity	Does it complement, not discourage, market provision?
Openness to new platforms	Does it embrace the platforms, content forms and services that most effectively meet audience needs?
Sustainability	Are providers' funding models sustainable?
Audience support	Is the model broadly supported by audiences?

It remains to be seen what shape public service broadcasting in the UK will take in future, although the BBC will clearly remain its cornerstone. However, in some areas of core public service content – news, regional content, UK children's progamming – the market failures are *more* acute now than in the past. The number of providers and/or the amount of these types of content from amongst the conventional public service broadcasters is shrinking. The economies of scale in broadcasting are now so great that, as a result, some of these sub-markets are simply too small in the UK to be commercially attractive to organisations with an existing high cost base, and might not in all cases support a plurality of providers. The public value framework provides a context against which public intervention in these markets can be judged.

Role of public value

The specifics of the market failures to which public decisions – in broadcasting or elsewhere – are responding form the strategic context for assessing public value. In practice, the decision framework will vary widely from case to case. A regulator of a network supply industry such as electricity or telecommunications will have very different decisions and challenges compared with a public service provider in a hospital, a local authority or in broadcasting. Regulatory decisions for the former category tend to be relatively narrow in scope, often simply the setting of prices to counteract the incentives for monopoly pricing by dominant suppliers. This is not to say that they are not difficult and complicated decisions. However, they typically have far fewer dimensions than do decisions in broader public services. The public value approach is consequently more relevant to the latter.

As described in more detail in Chapters 5, 6 and 7, the public value framework is sufficiently flexible to be useful in varied circumstances, but it must be applied in ways that are tailored to its context. One important part of that context is the nature and scope of the market failure which has made public intervention necessary or desirable. We return to this question in the many examples given in the later chapters. It is enough here to point out that the structure of the decision mechanism will depend on the specific underlying market failure. As already indicated, this can vary widely from, for example, an intergenerational externality to large economies of scale in an industry with significant network effects. Before the public value framework is applied there must be a clear identification of the strategic rationale for public intervention in the precise context under review.

The other key part of the rationale for using a public value approach is its potential for reducing the drawbacks experienced in the past in the provision of public services, sometimes referred to as 'government failure'. As government services largely operate without the price signals which indicate individual preferences in

a market context, they have frequently been criticised as unresponsive to the needs of their users. For the same reason, they may over- or under-provide the service in question. Without the discipline of the profit motive in a competitive market, productivity and efficiency levels may be low.

These shortcomings identified in public services are to a large extent the result of information gaps. A robust public value process must be a strongly 'evidence-based' approach. However, clear evidence is often difficult to establish, incomplete or unavailable, so it is important not to over-claim for this or any other approach. The term 'evidence-based' in any case needs to be used with some hesitation, given the cynicism which has rightly developed due to the over-used public sector fiction that judgemental decisions are 'objective'. It is a mistake to pretend that decisions which do trade off against each other are wholly unjudgemental. Although efficiency and good management are important in public services, public provision will always be much more than just a question of management. The purpose of a public value framework is to make collective or social (and therefore inherently political) judgments using relevant evidence and being transparent about the choices made (Gains and Stoker 2008).

As a final note, in addition to clarity of strategic purpose and the collection of a systematic evidence base, the application of the public value approach requires public sector organisations to have sufficient capacity and authority to implement decisions, as discussed in the theoretical material in Chapter 1. This might seem an obvious point, but one worth making: ineffective organisations will not implement any decision framework well, and a public value framework is not a substitute for good management. What's more, good decisions implemented by an effective organisation also need to have public legitimacy or authority when they concern the inevitably controversial territory covered by market failures. Following from this, the next chapter describes the importance of predictable processes and transparency, which allow people to retrace the decision-making process and test the judgement made from different viewpoints.

Meanwhile, it is worth a final note of caution. We live in an era of great disenchantment with government as well as with market effectiveness. There is also little agreement about what is rightly in the public domain – in financial services as much as in broadcasting. Against this backdrop, the issue of trust and authoritative decision making is a difficult one. In the UK we remain some way from a shared sense of trust and esteem in the public realm.

4
Building public value in practice

The previous two chapters discussed the political and economic rationale and context for the concept of public value. This chapter turns to more practical aspects and looks at when and how to implement public value methods. Subsequent chapters give detailed examples, in particular about the public value tests conducted by the BBC.

When to apply a public value approach

The first step to practical implementation is to identify the kinds of decisions for which a public value approach is appropriate. In principle, it is applicable whenever social value – or, to use the more old-fashioned term, the public interest – differs from the sum of private values. However, this gap emerges in many contexts including, for example, with straightforward 'externalities' (or spillovers), the effects of economic activity on third parties whose interests are not taken into account.[5] These can be corrected, for example, by taxes (congestion and pollution), subsidies (set-aside land) or using other tools such as price regulation (more straightforward in the case of 'natural' monopolies, such as utilities). What then are the criteria which point to the use of the public value method over other possible approaches?

Chapter 1 outlined why public value matters and the potential role it can play in ensuring public resources are used in a way that achieves the best outcomes for society. But that still leaves the question of when the concept is most applicable. A distinctive strength of the public value approach over traditional consumer/audience satisfaction analysis is its ability to help with situations where there are conflicts (either in terms of rationed provision of services or provision where there are polarized views). However, there is no exact science of decision making, so any set of criteria will only be indicative. It is also possible that public sector organisations can in practice be applying decision making processes that are using a *de facto* public value approach, but that are not formally cast in that mould.

It is also worth commenting here on the difference between the public value approach and the use of 'contingent valuation' methods which have become popular as a practical means of putting an estimated monetary value on public services. These work by asking members of relevant population groups to indicate the maximum they would be willing to pay for a particular service or public good (as defined in the last chapter, one whose use by one person does not exclude its use by others, and/or one from which users can not be excluded, such as defence or roads). The average answer is multiplied by the number of households to give a monetary value. Some surveys go further and ask respondents to divide their answer into how much they would pay for their personal use of the service, and

how much for its existence for anyone to use. There is research, for example, that has explored the public's willingness to pay for the BBC as a whole (Barwise 2006; Fauth et al 2006). Would such approaches not provide a simpler and more direct means of assessing the value of a proposed new service, or of some other public good?

The answer is: not when any reasonably complex assessment is involved. First, responses to willingness-to-pay surveys vary depending on how the questions are presented and on the context in which they are asked. Responses also differ depending on the time horizon which the respondent is asked to consider; values per unit of time are typically much higher when the choice is presented as a long-term commitment. Kahneman and Knetsch (1992) also showed in a well-known paper that the values people assign to various public goods are strongly associated with what they termed 'moral satisfaction', a psychological and clearly non-monetary type of valuation. So while contingent valuation methods certainly have their place in the armoury of public service decision-taking, they should be treated with some caution, especially in areas where there are several dimensions to a decision, and whose presentation could therefore lead to a very wide range of potential willingness-to-pay estimates.

These considerations suggest the following criteria can be used to determine the applicability of a public value process.

Public values exist

Following from the observation above about the link between what people value and the 'moral satisfaction' they derive, the first point to make is that the decision should be in the territory where non-monetary and non-market values such as citizenship, democratic engagement, cohesion and social or moral values are important. Broadcasting is very clearly in this category, as illustrated by the BBC's Charter and Ofcom's statements of public service broadcasting values (see Chapter 3). However, many other areas of public service fall into the same category, such as public health, publicly-subsidised arts and policing.

Type of externality

Among the reasons public goods and services are provided, externalities rank high (although, as argued earlier, they are not the only valid rationale for public provision as civic reasons may be more important than, or as important as, economic efficiency reasons). Some types of externality, however, can be more easily remedied by other means. A 'pure' public good is described as 'non-rival' in that consumption by one person does not subtract from another person's consumption. It is also 'non-excludable' in that it is not possible to exclude anyone from consuming the good or service. Free-to-air television takes this form; national parks, defence and policing are other examples. However, public goods and services have various characteristics, or could indeed be provided in the market privately. The closer a

public organisation is to the pure public good category, the more useful a public value approach is likely to be. In other cases, there could be a simpler public intervention. In particular, the combination of non-rivalry and limited budgets is likely to mean there are competing demands which must be adjudicated in some way, and public value can provide a mechanism.

Information failures and asymmetries

Market failure is likely to arise in circumstances where there are information failures or information asymmetries, resulting in high transaction costs. This can include contexts where nevertheless the activity occurs in the private rather than the public sector. Financial services fall into this category, for example. However, when the market failure is such that the public sector steps in, spending public funds, the same circumstances make government failure quite likely too. Maximising value is hard in such circumstances.

Similarly, there is very often an imbalance (asymmetry) in the information known to the providers of traditional public services and the public. For instance, taxpayers might resist the idea of paying for the full cost of street cleaning if they did not understand the public health implications of inadequate waste management (Horner et al 2006).

The attraction of a public value approach is that it can create a known and shared framework for taking decisions and assessing outcomes, especially in a situation where good outcomes depend on the maintenance of trust. There are many examples in the economic literature of the importance of public institutions in situations where there is an asymmetry in the information available to different parties (Stiglitz 2001). One recent example of the potential is the fallout from the 2008 credit crunch in which the government decided to take large stakes in UK banks, with the aim of averting a systemic crisis. Although the timescale and market sensitivities meant the decision-making during the crisis had to be rapid and without public consultation, there is certainly scope with large stakes in the banks in government for a systematic assessment of whether public value is being protected and enhanced.

Competing interests or lack of consensus

Implementing a public value mechanism is particularly useful, as mentioned, in circumstances where there is not only potential public value in the outcomes but also in a process that weighs up conflicting interests or differences of opinion. Such a process can also be effective when scarce funds need to be allocated between very many potential uses to achieve a wide array of desired outcomes, or where the dimensions of a decision are simply not directly comparable. It might well be that an organisation also needs to try to achieve several goals which could even conflict. Public sector decisions in these circumstances where there are trade-offs and

opportunity costs to consider are complex, with many dimensions, and are vulnerable to all kinds of pressures. The implementation of an orderly and evidence-based mechanism is enormously valuable, both as a shield against continuous external pressures and as a tool for seeking out the best possible outcomes in a complicated and contradictory environment. The outcomes produced by the process might not be the best – for there might not be a single best outcome – but the relevant considerations will have been taken into account and explained.

Need for fairness

The trade-off between efficiency and equity is a staple of the political science and public choice literature. In the public domain, fairness is an important value in its own right. The consent of the people to their government, and the legitimacy of public institutions, depends on the fairness of collective decisions. There is evidence from psychological studies that in some contexts people have a preference for public rather than private provision even when private provision is feasible or exists, and may be more efficient in the traditional sense of economists. These contexts overlap with some of the previously listed criteria, and clearly speak to a sense of fairness. They include (Kemp 2002):

— access to healthcare

— provision of certain necessities if they are scarce, with a preference for rationing in situations of scarcity, for example during wartime or strikes

— to overcome a monopoly which is profiteering

— to address longer-term scarcity.

Need for accountability

Those who manage public organisations and take decisions about how to spend public money are expected to be accountable to that public. Public institutions need some mechanism for constantly securing authorisation, or legitimacy for how they deploy public resources. The 'dynamic' of building public value has been represented (Horner et al 2006) as the interaction between three elements: the process of authorisation (securing legitimacy for action), creation (deploying resources) and measurement (measuring what has been achieved). Accountability requires that there is both legitimacy for action and that public managers be seen to have achieved the intended outcomes.

Time horizon

The timescale for the impact of public decision making may influence the applicability of a public value process in any particular situation. The social time horizon can be much longer than the private one. In particular, decisions taken today may affect future generations in irreversible ways. Aspects of the national heritage (patrimony) can also be at stake, which has cultural value and also, increasingly, economic value for current and future new creative businesses. And the public sector ought in principle to be able to invest with a view to earning returns over the long term, for example in long-lived infrastructure. The longer timeframe for public decisions can therefore be seen as an aspect of fairness, between present and future taxpayers or generations.

Participation

There are some contexts where the act of consultation by, or public participation in, a publicly-funded service is in itself part of the value that is created. Examples could include some of the arts or local government activities, such as public engagement measures or public events to encourage community cohesion. There is an extensive literature on the importance of 'voice' (for example, Hirschman 1970 and Saunders 1992); participation and consultation offer forms of engagement, which contribute to 'voice'. The benefits of 'taking part' are in some contexts potentially far broader than the one-way expression of 'voice' typically referred to in this literature.

All of these criteria make it evident that there is a link between reasons for deciding that a public value approach is applicable and the actual development of a methodology through which public value can then be assessed. If there are effects on third parties that are not captured in market transactions, for instance, then it needs to be possible to measure those effects in a way that puts a public value on them. Similarly, it is not possible for a public organisation explicitly to have the goal of building public value without it being possible to assess and measure whether public value is increasing or not. Some proponents (Blaug et al 2006b) of public value go further and argue that the process of measuring performance in a public value context must also itself create public value.

Difficulties in implementing public value methods

As we have discussed, public value is a tool for using evidence to achieve civic values, things that citizens care about which are not reflected solely in the expression of their preferences as consumers in markets. As already mentioned, this is inherently difficult to do because individuals will differ in their views about what creates value for them as citizens. This means that the actual procedures are an important part of any public value approach, at least in a democracy where the voices of all have to be heard and weighed properly. A 'conversation with the public' is needed to establish citizens' expectations, and any changes in those expectations over time if they are reshaped by politicians and public managers. The 'sophistication' of public value is that it is grounded in the idea that service effectiveness is best defined by 'responsiveness to refined public preferences' (Coats and Passmore 2008).

Adding to this challenge is evidence of the 'often contradictory nature of public opinion. It is not just the case that there is a broad spectrum of views across different people, but the same person can hold apparently very inconsistent views' (Marshall et al 2007). Individuals 'do not have stable preferences, or even stable ways of thinking about them, but ''flip-flop'' between different desires and even ways of thinking about them' – with public attitudes being described by one Ipsos MORI representative as 'cognitively polyphasic' (Talbot 2008).

Secondly, as public value is a way of reaching aspects of economic value which are not captured by market transactions, it is by definition looking at situations when the value to society of an activity differs from the sum of private values which are reflected in a market relationship. But this highlights another difficulty, because by definition the usual market metrics such as price, revenue and cost either do not contain enough information to assess public value or are unavailable.

A third kind of difficulty stems from the fact that citizens have a diminishing amount of trust in a wide range of institutions, in decision-makers who would in the past have been respected and seen as independent, in the political process and in statistics. The proportion of people saying the government can be trusted to put the interests of the UK before the interests of its party halved between 1986 and 2003, and a review for the Office for National Statistics found that two-thirds of people (68 per cent) believed official figures were changed to support whatever argument people want them to (Ipsos MORI 2005). Public value approaches may therefore have to contend with a high degree of public cynicism.

Finally, 'value for money' is a key aspect of public value assessment in that providers of public services are expected to deliver the optimum level of service for a given amount of public funding, subject to government objectives. Yet in most cases maximising the social benefit derived from public service provision 'is clouded by [a] mix of public and private actors who have quite different objectives in the supply chain' (Cowling 2006). A public organisation's goal of creating public value may subsequently be affected by decisions outside its control.

Principles of public value assessments

A number of broad guidelines to implementing public value follow from these difficulties. We discuss these first, and then turn to the more detailed metrics which need to be included in public value assessments.

The process is important

It is the essence of a democracy that people's views differ, and when it comes to political decisions this makes the mechanism for aggregating individual choices absolutely crucial. Public value assessment is not a voting process but it must nevertheless take account of citizens' different or even conflicting preferences and mediate between them to find the best collective outcome. It is inevitable that some people will disagree with the decisions; if they did not there would be no need for a public value framework. As far as possible the framework needs to take due account of all perspectives.

To sum it up, the assessment process must be fair, and of course part of being *fair* is being seen to be so, which means being *accountable*. It must also be independent of specific interests, or at least independent enough to be sufficiently objective. These requirements point to some basic criteria for a good public value process:

— it must be consistent and predictable, so that people understand the process

— it must be based on a clear framework of analysis so people know the kinds of evidence and the criteria which will be applied to decisions

— it must be orderly with clear rules for taking and treating evidence which treat people (and organisations) equitably

— it must clearly involve deliberation, possibly with the participation of relevant groups of stakeholders

— it must be transparent, with a known timeline and the reasoning and relevant evidence published as far as possible.

Of course, these have increasingly become basic requirements for all good public sector decisions in an age when citizens have come to expect an ever-greater degree of transparency and accountability. The principles above apply just as much to monetary policy decisions or planning decisions as to public value processes.

Public organisations need to express their basic values

People have widely differing political views and this affects their preferences as citizens. As a consequence, public organisations will need to have a framework setting out their own fundamental aims and values in order to make public value assessments manageable. Mark Moore (1995) expresses this as the need for a 'strategic narrative', which will change over time but will provide a focus for what the organisation is trying to achieve. It is needed in order to set out the scope of what will and will not be included in a public value assessment. It is also a means of gaining citizens' consent to the eventual decisions made in their interest. People are willing to accept judgments which may not obviously operate in their interest if they assent to the values and aims underpinning the decision-taking. What's more, the process of developing a 'strategic narrative' can in itself help strengthen civic values and the concept of public interest or the public domain. The weakening of these concepts in modern societies has been described and lamented by many political scientists, especially now that purely market-based approaches have once again come under some critical scrutiny, following the recent financial crisis. The statement of values and aims by public organisations can have an important symbolic impact.

Wider political developments are likely to steer changes from time to time in these underlying aims and values, as public organisations which are not directly elected will derive their legitimacy from the direct expression of citizens' preferences in elections. Significant changes in the political consensus (as opposed to normal variations between different governments) will clearly be reflected throughout the public sector. Other kinds of significant social and technological change will also affect the strategic narrative which guides the public value process.

Universality matters

Public value is a tool for reconciling competing pressures. On one side is the full array of individual citizens' preferences. On the other are technical judgements about how to achieve the best collective or social outcome when spending public money, and to do so in a way which gains broad support from the public. This balancing act between democratic legitimacy and expert judgement can only be achieved as long as there are not significant numbers of individuals or specific groups which have been excluded from decisions that will affect them. In particular, it is important to go beyond serving the interests or opinions of the majority alone.

However, universality does not mean the same provision or even the same citizen value for everyone. The balancing of many differing individual interests means messy compromises will be inevitable. It is a pragmatic rather than an abstract universality, a combination of sufficient inclusiveness and sufficient variety. An emphasis on universality does not equate to token inclusion of any, or all, social categories. There is clear evidence that the values people attach to public services are not explained at all (in a statistically meaningful or significant way) by conventional demographic and political variables of the kind so often used by public organisations in an attempt to be inclusive. Values are determined by individual personal preferences (Kemp 2002). Philosophically, John Rawls's concept of the 'veil of ignorance' is one useful way of thinking about the relevant concept of universality. He poses the question: would the decision be valued in its context by an imaginary individual who did not know the specifics of their own social situation (Rawls 1971)? This focuses attention on impartiality in serving different people's different preferences.

Clarity of purpose

Given these broad principles, there is also a more practical question of defining what public organisations expect to elicit from a public value approach to goal setting and performance measurement, and how this might vary for different types of bodies. Possible objectives include: an absolute measure of value translatable into monetary value; a new performance measurement framework; a better understanding of 'what the public values'; and a way of determining the 'value' held by the public about the organisation (Coats and Passmore 2008).

There is a continuing debate over whether the measurement of public value can provide some form of absolute numerical value, a 'quasi-monetary value' to be put on the outcomes of a public service. Is it possible in principle to determine the value of one public service and then compare it with another public service? Some have attempted to take a quantitative approach. However, this overlooks the importance of the process. As the Work Foundation (Horner et al 2006) argues, an absolute numerical value is 'inappropriate', as public value is determined through political debate and the interaction between different groups of society. Furthermore, one strength of public value methods is that they provide a framework for complex decisions, so it seems perverse to try to reduce the many dimensions down to one figure.

Overall, in setting the principles for assessment, it is evident that many of the 'values' in public value must themselves be embodied in the process of assessment. Effective public involvement and transparency, for example, are necessary in the development and use of the metrics that are needed to assess public value (Hills and Sullivan 2006).

Components of a public value assessment

Moving to the next step, towards implementation of a public value framework, it is necessary to identify what types of evidence will be relevant to making a judgment or decision. The criteria for selecting metrics and indicators will derive from the outcomes being sought. The challenge is how to know if the organisation's actions are delivering the outcomes which create public value – and doing so as effectively as possible.

It will be clear that even the early steps towards practical implementation involve the exercise of judgement; there is nothing mechanical about public value assessments. Developing the metrics will have to refer back to the strategic aims and values of the organisation. Using the wrong measures can potentially destroy public value, for example by skewing managers' behaviour towards meeting targets rather than user needs (Horner et al 2006). In this way an ill-thought out process of assessment can also distort what is being measured.

Equally, it will often be tricky to collect suitable statistics, as they will often not fit into everyday management and administrative systems. It might be necessary to set up new data collection mechanisms.

The metrics that are needed can be sorted into four categories. The first category concerns the proportion of the relevant population successfully served by the organisation. The key point here is identifying the relevant population. Sometimes this will be obvious; for example, age groups which would benefit from a certain kind of health intervention, or specific socio-economic groups such as C2DEs, or the entire population of a certain region. However, it will often be a fuzzier or even malleable concept, such as the group in the population interested in the performing arts. However the relevant population is defined, the creation of public value will depend on ensuring that as many as possible members of that group benefit.

The second heading concerns the quality and effectiveness of provision by the organisation. Whatever services the organisation is providing, it should be doing so to as high a quality and as high a degree of efficiency as possible. The guiding concepts are clearer in this case although the specific metrics will differ between organisations. It is all about getting the best out of the providers of the service, in economic terms this is assessed through supply-side metrics.

The third category of metric looks at the outcomes achieved or likely to be achieved. It is the most judgmental part of the public value process. These potential outcomes will vary widely from one context to another. There might be several desired outcomes. They will probably not be commensurable and could even be mutually contradictory, opportunity costs and trade-offs being inevitable sometimes. It will sometimes be hard to measure outcomes in any way at all other

than perhaps by survey – for example, whether a public organisation is contributing to a sense of community or social cohesion. However, it is a central part of the public value approach that these nettles are grasped and publicised so that citizens can see that there is a judgment about value being applied. What is encouraging in this difficult task is the evidence that people do have quite stable views about what they value in public services. The psychologist Simon Kemp (2002) has described these value ratings as 'psychologically fundamental'.

Finally, as public sector organisations are spending public money to allocate scarce resources to competing demands, there will necessarily be a cost and a value for money hurdle. This might include the absolute budget proposed as well as the value gained for the amount spent. Again, value for money considerations may involve reference back to the organisation's ultimate aims and values as these will indicate priorities and set a hierarchy of desirable outcomes. The stewardship of public money is obviously important, and all the more so as the psychological evidence is that people do not take account of the cost of provision in their own valuation of government services, and will typically underestimate the cost of providing expensive services and overestimate the cost of providing not so expensive ones. We are not very good at the kinds of mental calculations involved in large sums being spent over many years (Kemp 2002).

A further element which it may be important to capture in a public value assessment is 'responsiveness' (Horner et al 2006), an aspect of process. This is central to the whole public value approach, and requires the public organisation to engage with the public at all stages of its management process: in defining goals; to inform decision making; and to establish whether the organisation's performance has met public expectations. It is crucial that the process of engagement is seen as a 'means', and not an 'end'. It is to be expected that the organisation's intentions are adjusted as a component of engagement – thereby demonstrating that the managers do actually respond to what they are told when engaging with the public.

There is no 'ready-made' measurement model that can be applied (Coats and Passmore 2008). Various attempts have been made to provide public service organisations with a framework for devising and applying metrics in a public value context. Mark Moore (2003) has produced a 'public value scorecard' with several measures of 'operational capacity' and 'support and organisation'. The Work Foundation (Horner et al 2006) proposed a Public Value Performance Indicator (PVPI) to be used alongside existing performance and efficiency indicators 'as a positive weighting' towards the creation of public value. This would use a group of metrics to quantify responsiveness (defined as the quality of processes for interaction with the 'authorisation' environment) and to quantify preference refinement (the quality of processes to deliver the refinement of public preferences).

A well-known approach is the Accenture Public Service Value Model's methodology for measuring how well an organisation achieves outcomes and cost-effectiveness over a period of years (Cole and Parston 2006).[6] As already mentioned, a public organisation needs to have set out its own fundamental aims and values – a 'mission statement' setting out the outcomes it aims to deliver. In the model's first step, these outcomes are 'weighted' to make the organisation's strategic priorities more explicit.

The next stage of the Accenture Public Service Value Model is to assess potential metrics for use in the process, including the traditional performance measures and key performance indicators that an organisation is already using. These are all subjected to a 'metrics filter' to identify those that: are focused on outcomes; track what the public values; drive the intended behaviour; and provide meaningful information for deciding how to improve outcomes. At a practical level, the metrics must also be quantifiable, reliable, well-defined, consistent over time, and affordable to obtain if not already collected. Where necessary, existing data can be combined in new ways to develop 'proxy metrics' if there are aspects of the outcomes that are not covered by available metrics. The metrics are then weighted, as were the outcomes, in line with strategic priorities.

The process of obtaining the set of metrics for use in a public value assessment will itself yield benefits if it helps the organisation to focus on what really matters to the public. But at the heart of the Accenture Public Service Value Model is the process of aggregating the weighted metrics and outcomes into a 'total outcome score' that can be used to demonstrate whether public value is created (or destroyed) by the organisation. To show the results graphically, outcome scores are represented on the vertical axis and cost-effectiveness on the horizontal access. Cost-effectiveness here is defined as the ratio of outcomes generated to the resources deployed (in public sector terms, this is the social return on public investment) and is calculated by dividing outcomes by the 'adjusted' cost per user.[7] The cost-effectiveness measure answers the question: What is the highest social return for the level of resources employed? For example, if the rate of increase in outcomes is faster than the rate of increase in costs, then cost-effectiveness goes up.

The graphical representation of outcomes against cost-effectiveness provides a way of assessing an organisation's performance in creating public value, both over a period of time and for any one year in comparison with its average performance. The direction of movement, as shown in Figure 4.1, demonstrates value creation or destruction.

Figure 4.1. Value creation or destruction
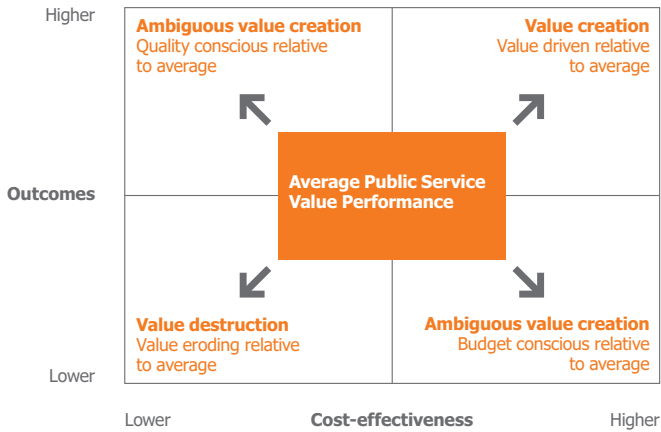
(Source: Derived from Cole and Parston 2006, Figures 5.4 and 5.5)

Movement towards the upper right-hand quadrant demonstrates clear value creation, and towards the lower left-hand quadrant represents value destruction. The Public Service Model has its limitations, but offers one tool for achieving improvements in the delivery of services and public goods.

There are still relatively few public organisations that routinely use public value methods. Those doing so have found ways to adapt the concept of public value assessment to fit their particular requirements and circumstances. The next three chapters describe some examples of public value assessment as it is actually carried out currently, starting with our experience in the BBC Trust.

5
Public Value at the BBC

The theory of public value has been developed by a number of different academics but with common themes, as previous chapters have demonstrated. Bringing these public value concepts to life and using them as a decision-making tool is not easy, but the BBC has been putting this theory into practice for major decisions since the formation of the BBC Trust at the start of 2007. This chapter explains how the Trust, as the body responsible for the strategic direction of the BBC, has used public value both in strategic decision making and also as a means for wider public accountability.

The need for public value assessment at the BBC

The BBC is a unique institution. It is driven by a public service mission, not by profit. Its primary source of funding for UK public services is the public through the licence fee. Yet it operates in markets that are largely commercial, acting both as a competitor to other broadcasters and as a customer for programmes made by independent producers. The BBC often produces unique and distinctive content, and its size and scale has led some to question whether it is shutting other organisations out of certain markets or stifling innovation. This debate is particularly acute in the area of new media where the website – bbc.co.uk – has been a pioneer of new internet-based services in the UK but has also been criticised for the scale of its ambitions as other participants enter online markets.

Faced with such questions, there was a need for a mechanism to assess the appropriateness of BBC activities. The concept of public value is now central to a framework used by the BBC Trust to evaluate proposed new services and major changes to existing services. An assessment of public value has so far[8] been used by the Trust to guide four major decisions on public services provided by the BBC:

— approval, with conditions, of the development of new on-demand services (including the BBC iPlayer)

— approval, with conditions, of a new channel for High Definition TV (BBC HD)

— approval, with conditions, of the Gaelic Digital Service for TV (BBC Alba)

— rejection of a proposed Local Video Service.

A detailed look at the public value tests as applied in three of these decisions is given in Chapter 6. In addition, the same framework for decision making is made in other regulatory approval processes, known as 'non-service' approvals, although formal Public Value Tests are confined to the BBC's public services.

The development of public value as a tool at the BBC

The BBC's founding document is its Royal Charter, which sets out the organisation's 'public purposes' as well as guaranteeing editorial independence. The Charter is renewed around every 10 years; the current version was granted in September 2006 and came into effect on 1 January 2007 (Department for Culture, Media and Sport 2006b). Complementing the Charter is a more detailed Agreement between the BBC and the Secretary of State for Culture Media and Sport, which also covers regulatory obligations and funding arrangements (Department for Culture, Media and Sport 2006a).

In June 2004, in the run-up to Charter renewal, the BBC published *Building Public Value*, which it described as a 'manifesto' (BBC 2004b). It argued that the BBC created public value to individuals, to society and to the market through its pursuit of public purposes. This public value encompassed: democratic and civic value through trusted and impartial news; cultural value by investing in and encouraging original British talent and programmes; educational value – giving everyone a chance to learn; social value – allowing communities of interest a place to flourish; and global value – as a trusted news provider and creative bridgehead for British talent.

The BBC proposed that its governing body would apply a test of public value to all the BBC's activities to assess what the BBC should and should not do. This process would use a set of measures including: reach, quality, impact and value for money, as well as the economic value and potential market impact. The then Chairman of the BBC, Michael Grade, described the use of public value in the following way (BBC 2004a): 'Some of these measures are quantitative. But some are unashamedly qualitative. At some point, assessing public service broadcasting does have to be a judgement call.'

Much of the thinking in *Building Public Value* influenced the Government's Green and White Papers on the BBC[9] during 2005 and 2006. What emerged from this process in the most recent BBC Charter and Agreement was the creation of a new governance structure for the BBC, comprising the BBC Trust and an Executive Board, together with new public purposes and the concept of a public value test to be applied to proposed new BBC public services and significant changes to existing services.

The new structure was designed to introduce greater transparency into how the BBC was run. In particular, the new BBC Trust and Executive Board were set up as two distinct boards within the BBC, each with its own roles. The Trust has responsibility for high-level strategy, oversight of the BBC's management, achieving value for money for the licence fee payer and a range of regulatory functions. The BBC Executive Board and management have operational and editorial direction over all the BBC's services.

As discussed in Chapter 3, six new public purposes were specified in the current Charter, with the sixth one underpinning the others. They are:

— sustaining citizenship and civil society

— promoting education and learning

— stimulating creativity and cultural excellence

— representing the UK, its nations, regions and communities

— bringing the UK to the world and the world to the UK

— in promoting its other purposes, helping to deliver to the public the benefit of emerging communications technologies and services and, in addition, taking a leading role in the switchover to digital television.

The new Charter also created for the first time the concept that each of the BBC's public services should have its own service licence that would set its objectives and parameters.

The performance framework for the BBC

At the same time as *Building Public Value*, the BBC began to develop a general performance framework for all its services. The BBC identified four 'drivers' of public value in the framework: audience reach, quality, impact and value for money (the RQIV framework)[10]. Some of the performance measures linked to these drivers were carried forward from previous performance systems that had existed within the BBC for many years, while others were developed specifically for the framework.

The overall framework was designed to maintain a balance between the four drivers so that no single one has an undue influence. A strength of the framework is that the package of drivers together provide an overall picture of performance (National Audit Office 2005). The RQIV framework provides the material for making assessments of new and existing services in a public value test, or in any other approval or decision process. In other words, the RQIV drivers provide an over-arching means for measuring the BBC's performance.

The RQIV framework uses the terminology of the BBC but the concepts are the same as those in any assessment of public value, as set out in the last chapter. In all situations the assessment will include the number of users in the relevant groups (reach); the quality of the service; the impact (which will differ depending on the kind of public service under consideration but will be an assessment of outcomes); and in all situations involving public finance there will be a value for money hurdle.

Reach

Reach is the headline indicator of take-up of the BBC's services and has the benefit of providing quantifiable measures. Overall weekly reach is given by the percentage of the population who have viewed, listened to or used a BBC service for a consecutive period of 15 minutes over the course of a week. Placing greatest emphasis on weekly reach reflects the BBC's aim to serve the whole population whose licence fees largely fund its services, in line with the commitment it made in *Building public value*.

One aspect of reach is audience share (the percentage of the total audience watching or listening to a particular channel or service rather than to any of the others over a given period of time). Audience share together with audience volumes were traditionally the key measures of performance in broadcasting and share continues to be part of the BBC's new performance measurement framework. However, it is important to consider reach in the context of the audience relevant to any particular programme or service, so audience share is often not the appropriate metric although it was traditionally used in the past.

The ways the BBC currently measures reach are summarised in Figure 5.1.

Figure 5.1. Reach

— Overall weekly 15 minute reach

— Weekly reach among under-served audiences

— The weekly reach achieved overall and by individual television channels (for all homes and for homes with digital television) and radio services

— The average number of hours consumed per week by each viewer/listener/user

— Audience share achieved overall and by individual television channels (for all homes and for homes with digital television) and radio services

Quality

The BBC strives to provide the high quality, distinctive programming that it believes the public expects in return for the licence fee. Measuring quality is not straightforward, however, as it is inherently subjective. Audience research provides quantifiable measures, but interpretation of the results can often be complex because of the interdependence of these measures. For example, audience views on an individual programme may affect wider perceptions of the channel concerned and of the BBC as a whole. Also, surveys of audience perceptions need to be treated with some caution because people tend not to watch or listen to programmes they think they will not like (National Audit Office 2005).

The ways the BBC currently measures quality are summarised in Figure 5.2. Where appropriate, the BBC Trust will also look at the robustness and quality of the technical aspects of a proposal.

Figure 5.2. Quality measures

— Audiences' approval ratings for the BBC as a whole, assessed on a scale of one to 10

— Audiences' perceptions of the BBC as a whole based on their responses to statements such as 'the BBC is independent and impartial' and 'I think the BBC makes great programmes to watch and listen to'

— Audiences' perceptions of individual television channels based on their responses when asked which channel is 'best for' particular types of programme, such as soap operas or children's programming

—Audiences' approval ratings for individual radio services, assessed on a scale of one to 10

— Appreciation indices by television channel based on viewers' responses to individual programmes, assessed on scale of one to 10

Impact

The BBC describes impact as 'enriching the lives of individuals and citizens'. The National Audit Office (2005) report recognised that the strength of impact as a driver of performance is that 'it seeks to assess whether the BBC is delivering against its public purposes. For example, to help assess whether it is "supporting informed citizenship", the BBC asks audiences for their views on statements such as "the BBC helps people understand and make up their minds" and "the BBC helps me understand what is happening in the United Kingdom and the world".'

It is, however, probably the most difficult driver of public value to measure. A particular challenge is the question of attribution and the need to establish cause and effect. For example, the BBC may be able to demonstrate that increased public awareness of particular issues that have been covered in BBC broadcasts, but it also needs to provide evidence of the BBC's contribution to that change.

The ways the BBC currently measures impact are summarised in Figure 5.3

Figure 5.3. Impact measurement

— Audiences' views on the 'memorability' of programmes, based on the number and proportion of respondents saying that a programme 'stood out'

— The 'impact factor' – the percentage share of memorable programmes on a particular channel compared with its audience share

— Audiences' perceptions of the BBC and its impact on them, based on their responses to statements such as 'my local interests and concerns are well reflected by the BBC's coverage' and 'I've learnt new skills or developed existing ones'

—Assessment of the impact of the BBC's social and educational campaigns

Value for money

The need to measure the value for money provided to licence fee payers is not a new concept. The BBC's performance against this driver is quantified using indicators that are largely cost-based, focusing on inputs rather than wider concepts of value for money, although the BBC also measures audiences' perceptions of the value for money it provides (National Audit Office 2005).

The ways in which the BBC currently measures value for money are summarised in Figure 5.4.

Figure 5.4. Value for money measures

— Cost per viewer, listener or user

— Cost per viewer or listener hour (or cost per user reached in the case of online services) – calculated by dividing the total programming cost by the number of viewing or listening hours

— Audiences' views on: the value for money of the licence fee; how wisely the BBC spends the licence fee; whether the BBC is well run; and whether the BBC is accountable to licence fee payers

The public value test

The process

The 2006 BBC Charter and Agreement set a basic framework for the public value test. At its core was the following judgement for the BBC Trust (Department for Culture, Media and Sport 2006a):

'…the Trust must be satisfied that any likely adverse impact on the market is justified by the likely public value of the change before concluding that the proposed change should be made'.[11]

The Charter specified that the public value test was to consist of two elements. These are a public value assessment conducted by the BBC Trust itself, and a market impact assessment which is to be carried out by Ofcom. The final judgement in the public value test, taking into account both assessments, rests with the Trust.

The detail of the public value test arrangements was developed in 2006 by the nascent BBC Trust, including arrangements with Ofcom for the market impact element. The result was the following process, shown schematically in Figure 5.5 (BBC Trust 2007e):

— the Executive Board must apply to the BBC Trust for approval to make any potentially significant change to the BBC's UK Public Services

— the BBC Trust determines whether the proposals represent a significant change to the UK Public Services and whether the public value test should be applied

— the public value assessment and market impact assessment are carried out and both include a period for public representation or consultation

— the BBC Trust considers the outcome of the public value assessment and market impact assessment, both of which are published, and reaches provisional conclusions regarding the proposed change

— the BBC Trust consults on its provisional conclusions before reaching a final conclusion on the proposed change

— The BBC Trust must be satisfied that any likely adverse impact on the market is justified by the likely public value of the change before concluding that the proposed change should be made

— the public value test process must be completed within six months of the date on which the BBC Trust determines that it is to be applied. Where justified by the circumstances, the Trust, at its discretion, may allow a longer period for completion of the public value test.

Figure 5.5. Summary of the public value test process
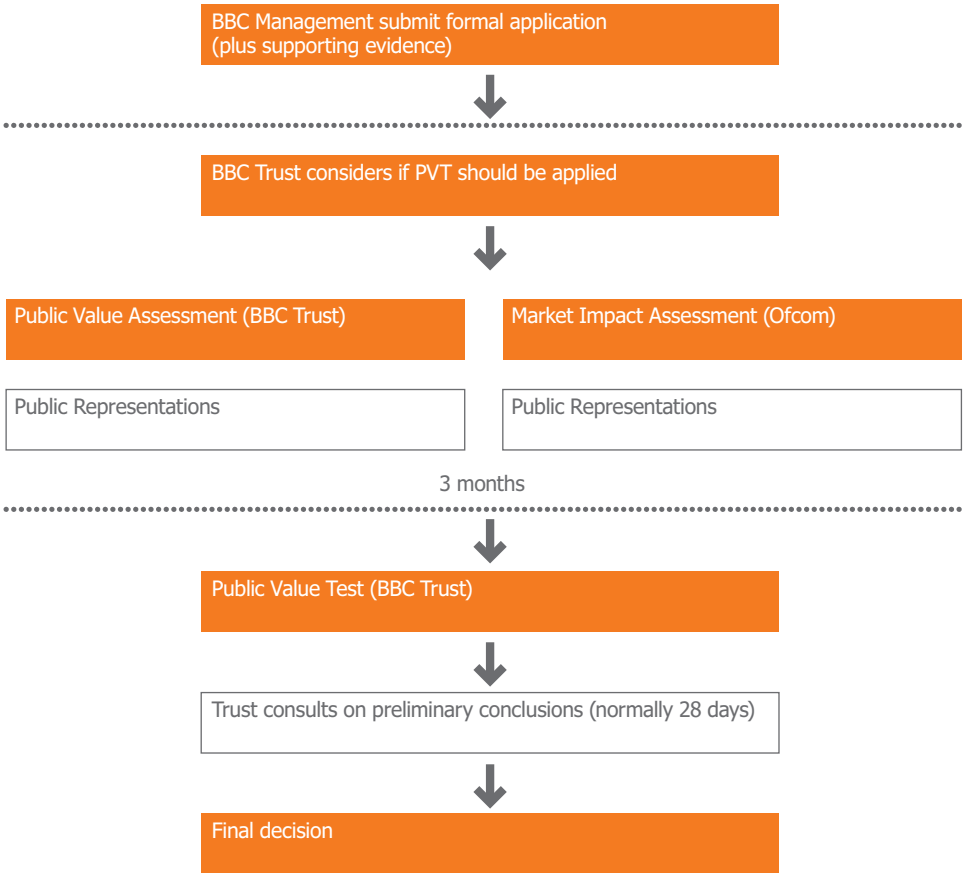
(Source: BBC Trust 2007e)

When the public value test is applied

By its nature the public value test is a lengthy and resource-intensive process. This means that when innovations are subject to the public value test it may delay them reaching the public. The existence of a process also creates market uncertainty. It is therefore important that the full public value test is only applied in the most significant circumstances and to its predictable timetable, in line with other regulatory decision making such as merger inquiries.

As mentioned earlier, the BBC Trust is required to apply the public value test before any significant change to the BBC's UK Public Services. This includes introducing a new service or discontinuing an existing service. The BBC's UK Public Services are all the services provided by the BBC in promoting its public purposes: each of these services is governed by an individual service licence that contains a description of the service, including its remit, scope, aims and headline budget.[12]

Preparing an application

The public value test will be applied in response to an application from the BBC management. The Executive Board is responsible for co-ordinating and submitting all such applications to the BBC Trust, and is required to submit the following documents before collecting the evidence to support an application (BBC Trust 2007e):

— service proposal – providing an outline of the proposed change. This provides a framework for determining research requirements and should include:

  – a summary of the new service or proposed change, including its aims, objectives, potential scale and budget

  – a brief outline of the strategic rationale for the proposal and an indicative timetable of service launch

— research terms of reference – outlining the research that will be undertaken in support of a proposal. This should provide details on:

  – the primary and secondary research (including pilots) that will be used to evaluate public value and market impact

  – existing BBC or external services against which the proposal will be benchmarked. While direct comparisons may not always be possible, high level comparisons should be provided where possible.

Once these documents are approved, the BBC management is asked to gather appropriate supporting evidence, which will be considered by the BBC Trust and Ofcom in assessing the proposal. The Trust seeks to agree the evidence base with the BBC management in advance of any application in order to ensure that sufficient evidence is provided. It is possible that proposals may evolve in the light of responses to trials and pilots or evidence gathered. In such cases the BBC management is responsible for ensuring that the final proposals submitted for approval are supported by the appropriate evidence.

The Executive Board must approve all applications before they are submitted to the BBC Trust. On receipt of an application, the Trust will normally produce an agreed understanding of the proposal with the BBC management. This serves as the basis for any assessment by the Trust and by Ofcom.

This may seem bureaucratic, but this part of the process is designed to ensure that public value tests are only applied once the proposition being tested can be clearly defined and explained to external stakeholders. It might also seem to impose an undue burden on the BBC management, but – as discussed below – the considerations which contribute to the public value assessment should be, and usually are, part of the business development process which is anyway undertaken by the BBC management.

Criteria for applying the public value test

Whether any proposals for change meet the criterion of a 'potentially significant change to the BBC's UK Public Services' is a matter for the BBC Trust. In exercising its judgment the Trust must consider (Department for Culture, Media and Sport 2006a):[13]

— impact – the extent to which the change is likely to affect relevant users and others

— the financial implications of the change

— novelty – the extent to which the change would involve the BBC in a new area of activity, as yet untested

— duration – how long the activity will last.

In addition, the BBC Trust should presume that any change which requires a new service licence, or any amendment of the key characteristics described in a service licence, ought to be subject to a public value test. The Trust must justify its reasoning if it decides not to do so.[14]

The BBC Trust can also decide that a public value test should be applied to any sufficiently significant change to a UK Public Service that was not formally notified to the Trust before the change was made. These are expected to be exceptional circumstances and the Trust might suspend the service pending the completion of the public value test.

How the BBC Trust considers an application

When the BBC Trust considers whether a public value test should be applied to a proposed change in services, it uses the criteria outlined above. Prior to deciding to launch a public value test, the Trust can decide to undertake an initial investigation. Any facts or considerations at this stage could lead the Trust to decide that a specific proposal does not require a public value test.

If the BBC Trust decides that a public value test should be applied, it publicly announces the launch of the process and the Joint Steering Group considers the market impact assessment that Ofcom will carry out. The Joint Steering Group consists of three members from Ofcom and three from the Trust. However, the BBC's Charter makes it clear that the public value test judgement, including the weight to place on the market impact assessment and public value assessment, is the Trust's. The Trust commissions the market impact assessment from Ofcom, which as the sector regulator has particular expertise.

At the time of the launch of a public value test, the Trust publishes as much relevant information about the proposal as possible, including the application from the BBC Executive and the agreed service description. It also outlines the proposed timetable for completion of the public value test; the process must be completed within six months but a shorter period may be agreed after discussions with Ofcom about the market impact assessment. Where necessary, the timetable can be revised during the public value test process, including extending the six-month deadline when justified by the circumstances. However, it is preferable to avoid extensions, which prolong uncertainty and could delay the launch of services which can create public value; six months is the same as the length of a Competition Commission merger inquiry, and should normally be adequate.

The BBC Trust liaises with Ofcom throughout the public value assessment process and information is shared between both parties, except where submitted in confidence or if overtly commercially sensitive, as set out in the Joint Steering Group constitution.[15] The Trust and Ofcom work to ensure that the public value assessment and market impact assessment provide a consistent basis on which the Trust can assess a proposal. However, the two assessments perform different roles and the Trust's conclusions on the public value assessment are developed independently and without the input of Ofcom, and vice-versa.

The public value assessment

The public value assessment normally starts at the launch of the public value test process and looks at the likely public value that will be created by the proposed change. The staff in the BBC Trust Unit carry out this work, reporting to a committee of the full Trust. Some of the research involved is commissioned from external experts, depending on the specific proposal. An Equality Impact Assessment is also conducted at the start of the public value assessment process to identify the potential impact on different groups of people, as the BBC, like all public bodies, is required by law to promote equality positively and to work to eliminate unlawful discrimination across race, disability and gender in respect of its public functions.

Public consultation is important in assessing a proposal. This normally involves seeking views on the proposal from licence fee payers, industry stakeholders, and any particular groups for whom the subject of the proposals may warrant specific input. The BBC Trust also consults with its Audience Councils during the public value test process.[16]

The BBC's main object is the promotion of its public purposes. Therefore the public value assessment considers the value which the proposed change would deliver through its contribution to these public purposes. As part of this process, the BBC Trust also assesses the proposal in terms of the BBC's wider strategy, including the expectations of licence fee payers and external market developments. For each public value assessment the Trust must decide which aspects of public value are relevant to the specific proposal, and how those aspects should be explored and evaluated. In general terms, a public value assessment should include an assessment of:

—— the value which licence fee payers would place on the proposed change as individuals

—— the value which the proposed change would deliver to society as a whole through its contribution to the BBC's public purposes

—— the value for money of the proposed change and its cost (including the potential financial implications if the proposed change were not to be made).

The assessment will look at the measures which make up the key drivers of public value. These are usually those in the RQIV performance framework described above: that is, measures of reach, quality, impact and cost/value for money. The exact definition of each of these drivers of public value will vary a bit depending on the specifics of the proposals. Figure 5.6 provides a guide to how these drivers may be used in the public value assessment.

Figure 5.6. Broad description of the drivers of public value used in the public value assessment

Reach	**How far will the proposal extend the BBC's reach and usage?**
	Reach assesses the projected usage of the service over a given period of time (for example, the number or percentage of adults who would use the service at least once in an average week).
	Taking into account its duties under the Charter and Agreement and the particular proposal under consideration, the BBC Trust may in some cases wish to focus on a particular consideration of reach; for instance reach by specific audiences and regions or programme genres.
Quality and Distinctiveness	**Is the proposal of high quality and distinctive?**
	The public value assessment may consider the likely quality of the proposal. This may include the quality of any content to be supplied by the service or possibly technical issues in some cases. The public value assessment will also consider the extent to which the proposal is distinctive from other existing or proposed services.[17]
	Distinctiveness may be particularly difficult to assess in nascent markets. The public value assessment needs to consider what features could make a proposal distinctive in such markets.
Impact	**Will the proposal create consumer and citizen benefit (that is, for individuals and/or society as a whole)?**
	The impact of a proposal can consist of two components which may be considered separately:
	consumer benefit – this refers to the benefit that an individual user would directly gain from using the proposed service; for example, whether individuals find a proposed new service engaging or challenging. This would also include an assessment of the value which licence fee payers would place on the proposed change as individuals
	citizen benefits – this refers to benefits which the proposal may create for society as a whole; for example, whether a service would result in a better functioning democracy or understanding and respect between different communities.

Cost and value for money	**How much will the proposal cost to deliver and will it provide value for money?**
	This driver assesses the value for money of the proposed change and the cost to the BBC of the proposals (including the potential financial implications if the proposed change were not to be made). This may involve consideration of the relative efficiency of delivering the proposed change; for instance where possible through comparison with similar services.

Sources of evidence

The BBC Trust always includes appropriate public consultation in exploring and evaluating public value but will also draw on a range of other evidence. This includes, for example, forecasts of demand; results from trials or pilots; qualitative and quantitative research including consumer research and deliberative juries; internal and external market analysis; and independent expert advice.

The BBC Trust assesses the evidence submitted by the BBC Executive and may ask further questions about the proposal and, if required, commission additional research.

Overall assessment

The public value assessment considers the relative strength with which the proposed change supports the relevant drivers of public value and the cost of delivering that value. The outcome of the public value assessment takes account of all the factors, but can give particular weight to the ones which specifically drive the public purposes for the proposal in hand. For example, the proposals to launch the BBC high definition television service and BBC Alba in Gaelic were aimed at serving different public purposes, and the public value assessment placed more emphasis on different aspects of the RQIV measures in the two instances.

The public value assessment may also consider any conditions or restrictions which would alter the public value of the proposals. Finally, the assessment may also take some account of alternative methods of delivering the stated aims of the proposal, although this would be unlikely to involve an assessment of any alternative options in detail.

The market impact assessment

As noted above, the BBC Trust makes the judgement required in a Public Value Test, but one of the two elements is the market impact assessment conducted by Ofcom. This assesses the effect of the proposed service (or service change) on other services in the market, both now and in the future. It considers both the direct impact on consumers and producers of other services, for example in terms of price and choice, and the likely impact on competition and market development, which will affect consumer and citizen interests in the longer term (Ofcom 2007b).

The market impact assessment is carried out by Ofcom and overseen, as described above, by the Joint Steering Group. The Joint Steering Group, with members drawn from the BBC Trust and Ofcom, is responsible for:

— setting and publishing terms of reference for the market impact assessment

— agreeing the potential relevant markets for the assessment after considering advice from Ofcom. Where there are a number of potential markets identified by the Joint Steering Group, the market impact assessment reports on each potential market unless the Joint Steering Group has agreed otherwise

— ensuring that the market impact assessment is conducted in a manner appropriate to the nature of the public value test and to a suitable timetable.

The market impact assessment process itself begins with the publication of its terms of reference. It must be completed within three months, although the Joint Steering Group, where justified by the circumstances, may allow a longer period. The Joint Steering Group may also determine, after public consultation, that a simplified approach is appropriate for a particular assessment.

The market impact assessment is undertaken in accordance with the methodology agreed by the BBC Trust and Ofcom.[18] There are two main purposes of the assessment: to identify the ways in which the BBC's proposals will affect the demand for, and supply of, competing services; and to assess the extent to which they may distort competition (Ofcom 2007b). As an entrant to a market, the proposed service may have a positive effect, for example creating increased consumer choice and enhancing competition, or helping a new market reach critical mass. However, as the BBC's UK Public Services are funded by the licence fee, there is also potential for consumer harm if the BBC's moving into nascent markets deters entry (or forces exit) of other competitors; or reduces the scale of potential rivals; or reduces investment in similar services by commercial providers.

The market impact assessment analysis is based on evidence from the BBC (including the BBC management's public value test application and supporting documents), market research, stakeholder submissions and interviews, and Ofcom's own desk research. The main stages of the market impact assessment, as described by Ofcom (2007b), are outlined below.

Identification of products and services likely to be affected

Identifying the range of products and services potentially affected by the BBC proposal generally involves analysis of the relevant features of the BBC service and an assessment of potential substitutes and complementary services. The geographical basis for this analysis will depend on whether a UK-wide assessment is appropriate or whether regional or local evaluation is more relevant. The forecast period over which future changes in services and markets are taken into account is normally about five years.

Analysis of take-up and usage

An assessment is carried out of the likely take-up and usage of the proposed service over the relevant projection period. The market impact assessment evaluates, and may amend, any usage projections included in the public value test application, taking into account other information such as stakeholder submissions, market research and the role of hardware and software in delivery of the service. If the BBC Trust is developing its own usage or reach projections, the two organisations could agree a common set of projections for use in both the market impact assessment and the public value test. If not, the market impact assessment may include sensitivity tests on the Trust's preferred reach forecasts. Both approaches have been taken in market impact assessments.

Static analysis of market impact

'Static' effects are the immediate 'first order' direct effects of the BBC service on demand for other services without taking account of how other service providers might respond over time; for example by altering their pricing policies or investment plans. Static effects may include the negative impact of taking audiences away from competing services (substitution) and/or positive 'market creation' effects. The analysis is inevitably difficult, as it relies on comparison with a counter-factual world in which the proposed BBC service is absent but there are also no other changes. The extent to which the BBC services are substitutes for commercial offerings depends on a range of factors such as the platform over which the service is offered, the time period over which content is made available and the type of content. The market impact assessment takes account of reduction in demand for commercial services offered by the BBC (for example BBC Worldwide) but does not include the reduction in demand for other BBC public services (as that is relevant to the public value assessment rather than the market impact assessment).

Analysis of dynamic effects

This stage of the analysis looks at the 'dynamic' effects of the BBC proposal on other services and service providers, allowing for the likely competitive responses of other providers, in both the short and longer term. Suppliers of substitute services may, for example, seek to maintain their competitiveness and market position by cutting prices and/or improving quality. In the short term, this is beneficial for consumers. In the long-term, however, there may be a detrimental effect on market development if lower profit leads to reduced investment and innovation, fewer market entrants, or the withdrawal of existing suppliers. As there will always be considerable uncertainty over how competitors will respond, the dynamic effects are usually assessed qualitatively, taking into account evidence from stakeholders and, if relevant, information about past behaviour. However, dynamic effects are likely to be larger than static impacts, given the way they are cumulative over time.

Assessment of wider impacts

The assessment of wider impacts may include consideration of the effect on upstream markets (for example for media content) or downstream markets (for example for products using BBC services as a free input) or for complementary services (for example platforms involved in service delivery). This analysis will normally be qualitative in nature and is likely to be based primarily on evidence from stakeholders.

Analysis of possible modifications

Where the market impact assessment has identified potentially adverse market impacts, there may be ways in which the BBC proposal could be modified to avoid or limit them. This analysis may be quantitative or qualitative in nature. It may be possible to identify changes that could reduce the adverse market impact of the BBC proposal without also reducing public value. In such cases, Ofcom liaises with the BBC Trust over the analysis of possible modifications.

Overall assessment

At the conclusion of a market impact assessment, the outputs will normally include:

— an assessment of the static effects of the BBC proposal on other services, in quantitative terms where possible

— a qualitative evaluation of dynamic effects on competition and market development

— a discussion of possible wider impacts

— a discussion of possible modifications

— a summary of main findings and recommendations.

While the market impact assessment is overseen by the Joint Steering Group, the substantive findings of the assessment are a matter for the judgment of Ofcom, which publishes the final market impact assessment report.

Conclusion of the public value test

Once the public value assessment and the market impact assessment are completed, the BBC Trust considers their final reports. In deciding whether to approve the proposal, the Trust must satisfy itself that any likely adverse impact on the market is justified by the likely public value to be created. In arriving at its decision, the Trust will also take into account whether any approval would be consistent with its duties under the Charter and Agreement and competition law (including state aid law).[19]

When assessing the proposal the BBC Trust may also consider whether any possible amendments to the proposal could increase the public value created or reduce any adverse impact on the wider market. Having considered the public value assessment and market impact assessment, the Trust reaches its provisional conclusions.

The BBC Trust and Ofcom aim to publish the public value assessment and market impact assessment close together, and in any event normally at least one week before the provisional public value test findings are published by the Trust. The Trust also publishes any proposed amendments to service licences, if required by the proposal. Where the proposal requires a new service licence the Trust publishes for consultation, at this time or shortly thereafter, a new draft service licence in relation to new services.

The BBC Trust publicly consults on its provisional conclusions, and this is a key part of attempting to create a conversation with the public. The consultation period normally runs for 28 days, although there could be a longer or shorter consultation period, depending on the nature and complexity of the proposal and the volume of information published. The Trust publishes extensive material so that the public has access to the evidence on which decisions have been reached, and this transparency promotes the public dialogue over the provisional conclusions.

The Trust considers and takes account of the responses received during this consultation before making its final decision. This can either:

— approve a proposed change to the BBC's UK Public Services

— approve a proposed change to the BBC's UK Public Services with conditions (see Case Study A in Chapter 6)

— reject a proposed change to the BBC's UK Public Services (see Case Study C in Chapter 6).

The final decision is shared in confidence with the BBC management one working day in advance. The BBC Trust then publishes its final decision and, at a minimum, an analysis of all inputs received in connection with the public consultation. It also publishes final versions of any amendments to service licences, or new service licences if required, and these come into effect as a result of the decision.

The BBC Trust's decision in relation to a public value test is final. Proposals for the introduction of a wholly new service are, however, also subject to a procedural veto by the Secretary of State for Culture, Media and Sport[20]. As of August 2009, this veto had not been used.

The public value test as an accountability and strategic decision making tool

When *Building Public Value* was published in 2004, the new test of public value was introduced in the context of the British public's 'right to know why money is being spent on particular services, and what the benefits are' (BBC 2004a). At the same time the BBC pledged to use public value 'to aid decision making about what the BBC should, and as importantly, should not do'. Although it is still relatively new, implementation by the BBC Trust of the evidence-based public value approach has provided an effective mechanism for greater transparency and public accountability for decisions about what services the BBC should provide. The next chapter describes in detail how the public value test has been applied in three decisions about new BBC services.

The formal public value test process outlined here applies, as described, only to new BBC public services and significant changes to existing services. However, the process of analysis has much wider application. The same framework is used by the BBC Trust for 'non-service approvals' (a separate regulatory process)[21]. The BBC's Charter and Agreement make a firm distinction between services and non-services, depending on the extent to which editorial decision-making is involved in the proposal; and on the degree to which audiences would recognise it as a new BBC service. Illustrations of how the public value approach has been applied in practice to two particular non-service approvals – Freesat and Canvas – are provided in the next chapter.

In general, the only difference is that the market impact assessment in a non-service process is not carried out by Ofcom but by the BBC Trust. The assessment is a thorough, evidence-based analysis of the markets likely to be affected and the BBC's potential (positive or negative) impact on competition over the short and long term. Just as in competition analysis elsewhere in the UK's regulatory framework, the analysis assesses likely impacts on consumer welfare through the competitive dynamics in the affected markets. Given the small size of the Trust Unit, the chief economist manages the work but much of it is contracted out to independent competition economics experts.

The public value framework has also become a useful vehicle for putting into practice the public purposes of the BBC and is increasingly being used by the BBC management and BBC Trust internally for smaller-scale and incremental decisions. This includes a focus on distinctiveness and careful attention to any potential for adverse competitive impact of BBC activities. Its usefulness has come to be appreciated in the context of annual research by the BBC Trust into how well audiences think the BBC is fulfilling its public purposes, set out above. The biggest 'purpose gaps' between what audiences think of the BBC's performance and what they expect apply to the public purposes of enhancing creativity, and representing the UK's nations, regions and communities. Audiences rate the BBC's performance on citizenship, especially via the delivery of high quality independent journalism, highly, but their expectations for the fulfilment of this purpose were increasing according to the latest research. The citizenship dimension of the public value framework also makes this public purpose doubly important for the BBC.

Some of the metrics included in public value assessments were already in common use by the BBC management. Under the BBC Trust there has been a fresh focus on dimensions that are harder to measure, particularly impact and quality. In this respect, the public value framework has resulted in a sharper focus on the practical implementation of the aims and values of the BBC.

Public broadcasters in Europe

Outside the UK, many public service broadcasters in Europe are now considering whether they should adopt a system for authorising their new activities along the lines of the BBC Trust's public value test. Many face the same challenges as the BBC in terms of the conflict between the market impact of their new services, particularly online and the need to serve audiences that are increasingly choosing to consume content there.

Recently revised EU guidelines on the application of state aid rules to broadcasting have therefore, after extensive consultation, incorporated elements of the Public Value Test into European law. The Commission's statement said it had identified a need for 'transparent evaluation of the overall impact of publicly-funded new media services'. One of the main changes in the revision to the guidelines was therefore the introduction of 'the ex ante control of significant new services launched by public service broadcasters (balancing the market impact of such new services with their public value)' (Official Journal of the European Union 2009). However, the use elsewhere of a public value test clearly needs to be set in context, take account of local political and economic circumstances and be proportionate to the scale of the intervention being planned.

6
BBC case studies

By the summer of 2009 the BBC Trust had completed four public value tests: the BBC's on-demand services (the iPlayer); the high definition television (HDTV) channel; BBC Alba, the Gaelic digital service run as a joint venture with the Gaelic Media Service; and the BBC's proposal for enhanced local video news. The aim of this chapter is to give a flavour of how the process was established and our early experience of running public value tests. The following three case studies illustrate different aspects of how the public value tests were applied within the general framework set out in detail in Chapter 5.

Case study A: 'On-demand' services (BBC iPlayer) – understanding dynamic market impacts

The public value test on the BBC's new on-demand services (subsequently launched as the iPlayer) was the first one conducted by the BBC Trust. This was a major test in policy terms for the Trust in its very early days – in fact, this public value test had been kicked off before the Trust formally came into existence on 1 January 2007. There was great time pressure in drawing up and publishing the public value test guidance (BBC Trust 2007e), and in establishing the Joint Steering Group with Ofcom, responsible for overseeing the market impact assessment strand of the test. In short, it was a new body, a new process, newly-established working relationships, all operating in a tight timeframe.

The Secretary of State for Culture, Media and Sport had previously exercised the role of approving new services. This was a lengthy and unpredictable process, which potentially compromised the BBC's independence by putting key decisions under political control, and was not procedurally robust. Even so, and not surprisingly, perhaps, there was scepticism about whether the untried BBC Trust would perform the task of assessing new services in the open, thorough and transparent way demanded by the BBC's new Charter and Agreement. The early publication of formal guidance on the conduct of public value tests aimed to provide some assurance about the process, drawing on the Charter and also on other existing practice in bodies such as the Competition Commission and the Office of Fair Trading.

There was added complexity in the case of on-demand services due to the pioneering nature of the service the BBC was seeking permission to launch. The iPlayer proposal was to make available on the internet on demand the BBC's traditional television programming on all its channels (described in the industry as 'linear' programming), and also to expand the available online range of radio content, all of which would be accessible for up to three months after broadcast.

Market impact was always bound to be a key issue because of the nascent nature of the on-demand market. The Joint Steering Group between the BBC and Ofcom spent a good deal of time considering the best methodology for understanding market impacts over time in such new and rapidly changing markets. In the industry, there was a fear that having BBC content available free to download for an extended period of time would lead consumers to substitute away from existing media such as CDs and DVDs. Other concerns centred on the impact of free audio downloads on the commercial sector. Industry stakeholders were nervous about both the potential impacts of the new BBC service and about the decision-making processes, and whether or not their views would be taken into account with due seriousness. To offer assurance on this point, staff at both the BBC Trust and Ofcom held numerous meetings with representatives from external organisations. Only six organisations responded to this first public value assessment in the first consultation phase; but there were subsequently 10,608 responses to the Trust's website (mostly from licence fee payers and individuals) during the consultation on the Trust's provisional conclusions, as well as submissions from 21 organisations.

The BBC's Agreement (Department of Media, Culture and Sport 2006a) sets out a 6-month time limit for public value tests. However, as the first, there were some delays and due to an extension the on-demand public value test took eight months. During that time a shared understanding of modelling and forecasts for on-demand markets was developed with Ofcom — laying the foundation for a working relationship between Ofcom and BBC Trust staff which has continued to be very productive.

The public value assessment (BBC Trust 2007d) of the on-demand proposal found that the likely public value of the new service was high. However, Ofcom's market impact assessment (Ofcom 2007a) confirmed that some either adverse or unknown impact on these new markets could be expected. In particular there was a risk that the provision of BBC content on demand might reduce the commercial opportunities for other broadcasters, as well as for other providers of media content such as the recording industry, independent producers and commercial video-on-demand services. It also flagged up as a concern the amount of broadband capacity available in the UK, something which has continued to be an issue with the growth in online viewing of all TV channels as well as other uses of the internet such as YouTube, online games, social networking and so on.[22]

Therefore when making its final judgement the BBC Trust (2007a) included the following restrictions on the new service:

— the length of time users could store a programme file before viewing it was reduced from the proposed 13 weeks to 30 days

— book readings and classical music were excluded from the proposals for on-demand audio downloads in order not to harm the market for audio books and classical music CDs.

The first restriction was influenced both by market impact issues and research into audience behaviour which showed that the bulk of time-shifted viewing (by recording or downloading) occurred within 48 hours of first linear transmission, with very little viewing beyond 7 days after recording or downloading.

The second restriction was based on the concern that substitution of iPlayer material for DVD, CD or paid downloads could have an adverse effect on performing groups (such as choirs and orchestras) as well as recorded material. During the public value test process there had been mixed evidence provided from the music industry on expectations about the impact, so the decision erred on the side of caution, given the claimed frailty of market provision for both excluded categories.

A number of other conditions were also included such as: requiring platform neutrality for seven-day catch-up television over the internet within a 'reasonable timeframe' so that users without a recent Windows operating system (for example Apple Mac and Linux machines) could also access the service; setting limits on the amount of material permissible for 'series stacking' which allows users to catch up with all episodes of a series for the duration of its run, and not just for the seven days following transmission of each episode; and the rejection of third party access to iPlayer by third party content providers. It also said that 'undoubtedly' the BBC management might be involved in discussions with internet service providers and network providers about broadband capacity and costs (BBC Trust 2007a). The BBC Trust also required the BBC to develop a policy for syndication of the new service (BBC Trust 2007f). Finally, in recognition of the speed of change in online markets, the Trust said the new service would be reviewed after two years (that is, late 2009 or early 2010).

Provisional public value test decisions are followed by a further period of consultation, and we had no idea how much interest to expect in this first instance. As mentioned, at the end of the 28 days consultation period more than 10,000 responses had been received, a staggering number. A large number of these were driven by the online dynamics whereby people interested in the technology influenced each other to respond, but it was nevertheless a welcome response. In particular, replies from key industry stakeholders were helpful on questions of detail, for example in shaping the development of the syndication policy. This was an early and valuable lesson about the benefits of public value tests: the consultation process in itself generates useful information which helps deliver better services to licence fee payers.

There were of course other useful lessons from the first public value test. Many concerned processes and working methods, not surprising given that this was the first public value test. Of particular note was the question of 'bookmarking'. This element, allowing users to choose in advance a whole series of programmes for later download or viewing, was not part of the original application by the BBC management. Consequently, it was not part of the BBC Trust's formal approval. This meant that subsequently the Trust had to consider the bookmarking question separately, and with a new public consultation, before giving it the go-ahead (BBC Trust 2008). Although it might not always be possible for the BBC management to include in the initial application all the features they might eventually wish to include, especially in new technology areas, there is a premium in terms of simpler procedures and greater clarity for all parties in trying to make the initial application as complete as possible.

Case study B: BBC Alba and education – ensuring strategic clarity

During 2007 and early 2008 the BBC Trust used the public value test to examine the BBC management's proposal to run BBC Alba, a digital television channel in the Gaelic language in Scotland in partnership with the Gaelic Media Service (a publicly funded body in Scotland). This was consistent with the wider duties of the BBC to support minority indigenous languages where the BBC already provides radio and online services.

The BBC Trust's own research showed a high level of potential support for a new service in Scotland. Around 75 per cent of people in Scotland agreed that a dedicated Gaelic service was important and around a third said that they would use the service. Among the views from those supporting the new service were comments that 'it would generally increase the profile of the BBC's Gaelic language services and increase interest in them', that 'the benefits to consumers would be an improved visibility which will challenge the view of Gaelic as a dead or dying

language', and that BBC Alba would be 'an excellent opportunity for innovative participative broadcasting because of the small size of the communities involved' (BBC Trust 2007c).

Once again, there was a substantial amount of consultation and meetings with stakeholders. The BBC Trust received 156 response to the public value assessment representations phase (135 from individuals, 21 from stakeholders) and 284 responses to the consultation on the provisional conclusions (249 from individuals and 35 from stakeholders). Members of the Trust and the Trust Unit met a range of stakeholders – visiting Inverness, Edinburgh and Glasgow during this process – including the Scottish Executive, the Gaelic language board, TeleG (a Gaelic broadcaster), Voice of the Listener and Viewer, Highlands and Islands Enterprise, the Scots language Association and BBC managers involved in the proposal. The meetings sought to enhance the Trust's understanding of stakeholder issues and to ensure the full range of interested parties were heard (and felt that they had been given an opportunity to convey their thoughts in person). Audience consultation in connection with the public value test was also carried out by the BBC Audience Council for Scotland. A focus group of Gaelic speakers was held in Glasgow, in Gaelic. In November 2007 a consultation event was held in the Gaelic heartland *(Gàidhealtachd)* itself with an invited audience at Sabhal Mòr Ostaig, the Gaelic college at Sleat on the island of Skye. Students and staff at the college, related Gaelic organisations, and licence payers from the local area attended as well as Council members and the BBC Trustee for Scotland, Jeremy Peat.

Ofcom's market impact assessment showed that the service would generate significant positive market impact within the (small) Gaelic media sector. However, the BBC Trust had to balance wider questions to ensure that investment of the licence fee delivered high public value. The underlying logic for the intervention was to help secure the future of the Gaelic language rather than simply reinforcing the quality of services provided to existing Gaelic speakers. Therefore, in the case of this service, the additional investment had to create value for more of Scotland's licence fee payers than were already served by existing Gaelic services.

The BBC Trust was not convinced that the proposal for the service placed enough emphasis on attracting new speakers to the Gaelic language. In particular, the Trust had not seen sufficient evidence as to how the educational strategy would be delivered – which was key to the potential public value of the service. In addition, although some programmes could appeal more generally to an audience beyond Gaelic speakers, there was very little evidence of a convincing plan for appealing to a wider audience in Scotland – certainly not sufficient to justify the projected audience figures in the application for the reach of the service.

Without such evidence the service could not be given permission to launch. To that end, the BBC Trust used the public value test process to challenge the BBC management to provide additional information to demonstrate both the Gaelic Digital Service's educational benefits and how it would appeal to a wider audience. As the latter point was a key strategic aim, it was essential to document how the new service would support it. This evidence was forthcoming and the service was subsequently approved for launch on cable, satellite and online (although still subject to a range of controls by the Trust) with a later review of the service to determine whether it should also be carried on Freeview (Digital Terrestrial Television), given the lack of space available on that platform and its greater cost. This aspect of the decision was subject to review as the service evolved and also subject to the spread of broadband penetration in the Highlands.[23]

This was an interesting case also in that the judgement for the BBC Trust was to ensure there would be sufficient impact and reach from the proposed new service for it to deliver adequate value for money. Thus one of the lessons from this public value test was that the separate elements of the RQIV (reach, quality, impact and value) assessment may well not be independent, but in fact can be related to each other.

Case study C: Local video news – importance of the counterfactual

In each of the two preceding public value test case studies the BBC Trust had a very clear analysis demonstrating that the benefits from the creation of public value would be considerably greater than the likely adverse effects on the market. In both cases there were either positive market impacts or it was possible to set straightforward conditions to limit the negative market impacts.

In the case of local video services, there was an expectation both inside and outside the BBC that the BBC Trust would face a more difficult decision. Earlier BBC local television pilots had proved popular but had been stymied by the licence fee settlement, which was insufficient to cover the cost of producing local TV in all the nations and the English regions. The proposed local video service developed out of this historical context, with online video seen as a realistic alternative to television. However, it was expected to have considerable adverse market impact, particularly on local newspapers, which had already been in decline for some time. The BBC's proposition in both its forms was strongly opposed by the local newspaper industry, existing local television projects (like Channel M in Manchester) and commercial radio, all of whom had some interest in operating the same type of service. Newspaper groups along with their representative body, the Newspaper Society, had been voicing strong concern that any moves by the BBC into more local provision would damage their own commercial plans to offer their content online including video. Carolyn McCall, chief executive of Guardian Media Group, told a

House of Commons Select Committee: 'Margins in the regional press are being squeezed very hard and the issue for me is significant, not just for me because I'm a publisher but because I think this is a danger to plurality, diversity and democracy. I think if you start losing local newspaper local websites you end up with a very strong BBC and nothing else' (Luft 2008).

The BBC Trust and Ofcom held extensive meetings with commercial providers of local news through the consultation period, which was lengthened from 28 days to 42 days to ensure that all stakeholders had ample time to make their views known and provide supporting evidence. During this period, views were sought from consumer groups, stakeholders in the print media, radio and broadcast industries, representatives of newspapers and regional publishers, and audience councils. The consultation received 131 responses from the public and 26 from industry stakeholders.

The Trust Unit also commissioned qualitative research with around 130 adults from a range of socio-economic backgrounds and with varying degrees of internet usage. The study involved 16 focus groups and 10 in-depth interviews in a range of locations (Slough, Exeter, Manchester and Bury, Cardiff and Bridgend, Glasgow, Inveraray, Isle of Mull, Belfast and Holywood). The research sought to: understand definitions of and appetite for local news; explore attitudes towards the BBC's current local news offering; and assess the appeal, likelihood to use and value of the proposals to all licence fee payers.

Turning to the public value side of the assessment, on the face of it the BBC management's proposal was an attractive one: the creation of local video reporting across the UK, to be shown on 65 dedicated web pages (corresponding roughly to county level in England or equivalent), at an eventual annual cost of £68m. The aim of the service was to reverse the decline in viewing for regional news and generate new audiences for the BBC's output.

In this case the market impact assessment did indeed reveal a negative impact. While not as negative in static terms as had been suggested by many stakeholders, Ofcom confirmed there would be a damaging dynamic impact on longer-term investment plans by others in the industry.

The public value assessment was more of a surprise to many, including the BBC itself. The BBC Trust found that while local video on the web had the potential to deliver some public value, it did not represent the most efficient use of licence fee funds. The main reason for this was that the Trust's audience research showed broadband delivery of local news posed some real issues for potential users. Put simply the very young liked content delivered over the internet, but not local news and would need it packaged with a range of commercial content (such as listings, local adverts and reviews) to make it compelling. Those in the 30-40 age range

generally felt they were too 'time poor' to search for local news. The main potential users were those in older age groups who were already watching the existing regional television linear broadcasts. The cost of broadband was also a factor in terms of limiting the scope for extending reach to core social groups for local news (who tend to be in low income groups) (Rosenblatt 2008).

The BBC Trust therefore concluded that a series of smaller, targeted changes in the BBC's local news and radio coverage could increase public value and contribute to the relevant public purposes more effectively. These would take account of the BBC's current regional provision and be focused particularly on improving the quality and depth of the BBC's television offering. The original proposal was therefore rejected by the Trust (BBC Trust 2009b).

The BBC management subsequently returned to the BBC Trust with a smaller scale proposal using the BBC's existing television and radio channels to deliver more frequent regional news at convenient times, and more coverage of local politics and sport.

The BBC Trust's decision on the local video proposal was welcomed by industry stakeholders including the Newspaper Society and British Sky Broadcasting Group. Northcliffe Media said it was 'pleased that the Trust has concluded that Local Video is low on distinctiveness, includes partnership proposals of "limited value" and does not offer value for money … We applaud Ofcom's comprehensive and impressive work assessing the market impact of Local Video' (BBC Trust 2009a). However, it was criticised by others who argued that, given the likely impact of the advertising downturn on local newspaper finances, there would not be much additional online investment in local newsgathering by the commercial sector. In that case the absence of a BBC service would leave a vacuum. This remains a live debate, and regional news has more broadly been a key issue for concern in the debate about public service broadcasting. The Digital Britain interim report outlined various potential options for ensuring that audiences are provided with regional news beyond the BBC services (Department for Culture, Media and Sport and Department for Business, Enterprise and Regulatory Reform 2009). The proposals were developed further in the Digital Britain final report with a number of proposals to support the continued delivery of regional and local news beyond the BBC, including piloting new means of funding and delivering news for the Nations and Regions (Department for Culture, Media and Sport and Department for Business, Innovation and Skills 2009.)

One key lesson from the local video public value test has therefore been that the counterfactual, the 'alternative history' against which any proposal has to be assessed, can be difficult to pin down. Sometimes there will not be a consensus so the BBC Trust will inevitably have to exercise its judgement in such cases.

Wider applications of lessons from public value tests

As the BBC Trust has gained experience in running public value tests we have come to appreciate the wider applicability of the analysis undertaken in a formal public value test. As a result, as mentioned in Chapter 5, the same analytical approach is being applied in other Trust approvals processes. Two key examples are the 'non-service' approvals for Freesat and Canvas.

Freesat, the free-to-view digital satellite service, was approved early in the life of the BBC Trust, in April 2007. This was a proposal which had been developed by the BBC more than two years previously, with the aim of ensuring that as digital switchover progressed through the UK, people whose location meant they could not receive digital terrestrial television signals would nevertheless be able to access all the BBC's services as well as the wider choice of channels available on Freeview. The Secretary of State had not reached a decision by the time the Trust came into existence, and some earlier analysis existed. The proposal was not subject to the public value test process as it was not a proposed BBC service, but the Trust commissioned a new market impact assessment by an external economic consultancy and considered the likely public value which would be created. There was also a short consultation before the Trust made its final decision (BBC Trust 2007b).

The approval process for the BBC's Canvas proposal – the ambition to develop an open industry standard for viewing internet material on television sets – had the benefit of the experience of the first four public value tests. Canvas was classified as a non-service approval because the proposal involved only minimal editorial interventions and concerned the technical means by which audiences can access services. Although this meant that a public value test was not applied to Canvas, the decision involved the same process of a separate public value assessment and market impact assessment, albeit with a market impact assessment led by the BBC Trust rather than Ofcom.

The process was under way still as this book was completed.

There are obvious advantages in applying the same approach no matter what kind of major decision by the BBC is under consideration. Internally, it means people inside the BBC focus on the characteristics which will create public value, aligned to the BBC's strategic public purposes. Externally, it gives stakeholders a predictable process and meaningful consultation. At a time when new technologies are creating great uncertainty for the commercial sector, and also bringing many more businesses into contact with the BBC, this is a great advantage.

7
What other organisations do

By its very nature this book has focussed on the public value work of the BBC Trust and the theories underlying that work. However, many other organisations in the UK and in other countries have also been exploring the concept of public value and how to use public value tools in their decision making.

This chapter looks briefly at some of the main sectors where this is happening, identifies common themes and discusses how some of the practical ways of engaging with public value, as illustrated in Chapters 5 and 6, could be applied in those sectors.

The arts and heritage

In the UK, a variety of bodies in the arts and heritage field are applying public value techniques similar to those used by the BBC Trust, albeit sometimes in less detail or less formally.

Royal Opera House

In 2006/7 Ruth Jarratt, the Royal Opera House's Director of Policy Development, represented the Royal Opera House in a two-year consortium convened by The Work Foundation to investigate how the notion of public value might be applied within the public sector. Ms Jarratt said she 'found some of the theorising rather heavy-handed, but I was taken with the simple idea at the core of public value. That is, that public value is what the public value – not in a tick-box way, but when given an array of evidence and opinion and the chance to reflect on it'.[24] When, as consortium members, the Royal Opera House had the opportunity to test out a public value intervention, it chose to set up a citizens' jury.

The citizens' jury was established in January 2007. Sixteen adults were randomly selected by a research agency to represent a cross-section of the London population. At an all-day gathering they considered the question 'What is the role of the Royal Opera House in UK society?', which included observing a wide range of Royal Opera House work and quizzing a number of artists and executives. The 'overwhelming' message from the group 'was that the passion and openness which they had experienced that day did not come across to them from [the Royal Opera House's] usual communications'. As a direct result, the Royal Opera House reviewed and revised its 'core imagery'.

An indirect finding of the session, however, was that the participants had difficulty engaging with the issues as citizens. 'Being local they veered towards a consumer mindset'. So the Royal Opera House held a second citizens' jury later that year in a hotel in Manchester. The methodology was similar and involved 12 local people. The question this time was 'Should Britain have a Royal Opera House?'

This time the group had no difficulty in engaging as citizens and the findings from the day were correspondingly richer. Participants considered the Royal Opera House as a 'national asset' and were able to establish a connection with it through Royal Opera House individuals and their stories. They were not interested in citizen representation on the board, but they did think they had the right to know how it was run. For some of the participants 'it was quite an emotional experience', recalls Ms Jarratt.

The Royal Opera House management felt that the insights that were gained from the juries have been valuable and it hopes to continue the programme. It considers the most important result to be 'in helping us to think about the public not just as actual and potential consumers but as citizens'. This perspective 'has added to its understanding of the Royal Opera House's role within society'.

Arts Council

As the national development agency for the arts, Arts Council England supports a range of artistic activities and between 2008 and 2011 will invest in excess of £1.6bn of public money from the government and the National Lottery. Since 2005, the Arts Council has been developing a public value framework to underpin its activities. The first key step came in 2006 when the Arts Council launched the 'arts debate', its first ever public value inquiry. Through a large-scale programme of research and consultation, the arts debate looked at how public value was currently created by the arts and what it would mean for the Arts Council, and its funding allocations, to create greater public value. The events involved over 200 members of the public, over 80 artists and arts managers, and around 30 stakeholder organisations such as local authorities, charities and health and education institutions. There were over 1,200 contributions to the open consultation (Bunting 2007).

The findings of the arts debate led the Arts Council to develop a new mission statement of 'great art for everyone' and to identify five key outcomes of excellence, innovation, reach, engagement and diversity. These outcomes formed the basis for the Arts Council's plan for 2008-11 and mirror the elements of reach, quality and impact within the BBC's RQIV (reach, quality, impact and value for money) model. Other responses to the findings included a major national campaign to increase arts attendance and participation, new approaches to funding based on self-assessment and peer review, and new grants criteria with a focus on public engagement (Keaney 2009).

The Arts Council has now established a three-year public value programme. This aims to embed the findings of the arts debate across all its activities and to involve a wider range of voices in the organisation's planning and decision making. A number of key public value projects are planned for 2008-11 including: introducing processes to track how stakeholders and the wider public perceive the value of the Arts Council and their experience of working with it; how the Arts Council can engage a wider range of voices in the decision making; and refreshing the 'organisational values' (Arts Council England 2009).

The Art Fund

Since 1903, The Art Fund has helped museums and galleries throughout the UK secure 860,000 works of art, funded entirely by public donations. The independent charity is also a campaigning body that successfully lobbied for the 2001 extension of free admission to all national museums and galleries. Visits to former charging museums subsequently almost doubled on average, but little was understood about what the public valued about the permanent collections held in their name.

Using the Work Foundation's consortium project on 'public value' as a model, The Art Fund wanted to extend the public value approach to an analysis of the role of the nation's permanent art collections. A greater understanding was needed about a range of issues including: what kinds of value did the visiting and non-visiting public think they gained from the collections; whether people wanted more say about the art works that will be added in future; and, if irrelevant to them as individual users, did people nonetheless think as citizens that art in public collections had a value to society as a whole?

The Art Fund held two 'citizens' workshops' during 2008, one in the Manchester Art Gallery and one in London's National Gallery (The Art Fund 2009). These two venues were chosen to explore any differences between the perceptions of national and regional level collections. Topics included participants being asked to develop criteria for assessing the public value of art collections. They were then shown individual works of art and asked to choose which work they would purchase for the gallery (Constable won out over Titian and Seurat, in one example). After wide-ranging discussions, the groups finally returned to the main question of the day: 'What is the role and value of Manchester Art Gallery/the national collection in London?'

Among the conclusions drawn by The Art Fund after the events were that:

— free access is valued but significant non-financial barriers to entry remain

— institutions need to make the art relevant to the public

— the role of public collections in representing our shared history and holding it in trust for the future is valued

— people value being asked for their views – but are happy to leave decision making to the experts.

The public value work will feed into The Art Fund's ongoing research projects into public engagement with art and cultural issues.

Natural History Museum

In 2008 the Natural History Museum embarked upon a three-year project to define and build a mechanism to monitor the Museum's public value and to look at the impact on perceptions about the Museum of the Darwin Centre (its new landmark scientific research and collections building for visitors and scientists).

The first stage included a series of 20 interviews with a range of stakeholders (including teachers and learning opinion formers, the global science community, Government, and funders), a full-day deliberative workshop with visitors and non-visitors, and a limited staff survey. Among the key findings of the initial research was that public perceptions of the Museum were based only on the visitor attractions. The extremely low awareness of the Museum's scientific research suggested that this was the area with the most potential to change people's perceptions of the organisation's public value, but that in doing so it would be crucial to emphasise the relationship between the science and the visitor attractions.

The information gathered in this early phase was used to produce a Public Value Framework for the Museum that could be tested qualitatively and then utilised to create a public value metric. The framework explored public value according to the following definitions:[25]

— intrinsic value: the inherent value of the Museum and the value that is hardest to articulate (for example, it inspires wonder and amazement in visitors)

— instrumental value: the tangible benefits that the Museum provides through its existence and activities (for example, it inspires a new generation to be interested in science)

— institutional value: the way that the Museum interacts with the public and stakeholders to transmit the intrinsic and instrumental value it possesses (for example, it offers a unique combination of research and engagement facilities).

The framework was tested using surveys of opinion formers, the public and visitors. These revealed how different groups valued the various roles of the Museum. For example, visitors gave a public value 'score' of 9.0 to the Museum's ability to inspire a new generation to be interested in science, while for opinion formers it was 7.8. The areas which were perceived to have the highest public value by all were: being open and accessible to a wide range of people; providing a good day out; preserving an important document of life for future generations; and as a major contributor to London's tourism economy.

The project will repeat the information gathering process in autumn 2009 and autumn 2010 in order to monitor the Museum's public value and to track brand awareness at the launch and post-launch of the Darwin Centre. The Public Value Framework is currently being used by the Museum management to identify the aspects of public value that should be monitored for change, and those which the Museum should seek to enhance, especially among visitors and the general public.

English Heritage

In 2006, English Heritage, the Heritage Lottery Fund, the National Trust and the Department for Culture, Media and Sport organized a conference on 'Capturing the Public Value of Heritage' (English Heritage 2006). By that time, the Heritage Lottery Fund, the major funding organisation for heritage projects, had already started to use citizens' juries to explore public views on heritage and on a series of projects it had funded.

The notion of public value would seem to have a natural place in heritage decisions. After all, whether we feel something is part of our heritage depends on the value people place on it. 'Value therefore remains at the centre of all heritage practice; it is what justifies legal protection, funding or regulation; it is what inspires people to get involved with heritage' (Clark 2006). The conference highlighted distinctions between different kinds of values in heritage, using the same categories as the Natural History Museum (see above). It looked at the intrinsic values – aesthetic, social, scientific or historical – that mean we want to preserve something. Secondly, it assessed the instrumental value that people or communities gain from using something that is preserved for heritage reasons, such as the community value of a historic park. Thirdly, it considered institutional values connected with how organisations behave and gain legitimacy.

Assessing value across these varied dimensions, and deciding how best to create public value through heritage, reaches well beyond the public sector. As Sir Neil Cossons, then chairman of English Heritage, put it: 'We need to remember that most of this country's listed buildings are privately owned, and that when we admire a historic town centre or a beautiful landscape from a railway train window, most of what we see – and value as part of the public good – is the private property of

other people. So, in the historic environment, this debate about public value takes on a whole series of complex meanings' (Cossons 2006). Managing heritage involves much more than just taking decisions about how to spend the available public money.

The public value concept has encouraged a framework for seeking consensus over heritage issues and for giving greater weight to citizens' views in a subject area where specialist knowledge and opinion has traditionally held sway. The idea that decisions about changes to historic places need to take account of the opinions of the general public as well as the advice of experts '[has] found its way into the mainstream of heritage Management' (Impey 2006). In Sir Neil Cossons' view, as a result of this shift, the Heritage Lottery Fund has taken the wider view of what the public values. 'Heritage assets that would have been overlooked 10 or 20 years ago have been the beneficiaries of public money. That reflects changing public value' (Cossons 2006).

In 2008, following four years of debate and consultation, English Heritage (2008), seeking to be more open and accountable, published a document that for the first time set out a number of fundamental propositions that should underpin the way it operates. Although it does not explicitly mention 'public value', there is common ground. For instance, part of the process of assessing the heritage of a place should be to identify 'who values the place, and why they do so'. Six high-level principles were formulated:

— the historic environment is a shared resource

— everyone should be able to participate in sustaining the historic environment

— understanding the significance of places is vital

— significant places should be managed to sustain their values

— decisions about change must be reasonable, transparent and consistent

— documenting and learning from decisions is essential.

The English Heritage document also explored the different ways in which society values places. Its range of 'heritage values' were: evidential value (the potential of a place to yield evidence about past human activity); historical value (the ways in which the past can be connected through a place to the present); aesthetic value (the ways in which people draw sensory and intellectual stimulation from a place); and communal value (the meanings of a place for the people who relate to it, or for whom it figures in their collective experience or memory). It is an analysis that in effect implicitly examines the 'what the public values' aspects of public value in the realm of heritage.

Bridging the divide

It is perhaps not surprising that it is the arts bodies that have most enthusiastically embraced the public value approach as an operational tool. The traditional means of engagement by the arts with government and funding bodies have been based on economic and political parameters, which run the danger of undervaluing intrinsic cultural benefits. It has often been an uneasy relationship. Government officials have sometimes proved wary of what appear to be the taste-based judgements of arts bodies seeking funds, while the arts bodies themselves have in turn feared bureaucrats apparently trying to reduce everything to a singe monetary number.

However, some of this mutual fear is misplaced and can be avoided. Within the BBC Trust's public value framework such issues are explicitly recognised and brought into the process of reaching a balanced judgement that does not seek to reduce everything to an equation. Some proponents of public value go further, arguing that economic techniques within a public value framework can begin to place a value on intrinsic value (Bakhshi et al 2009). While the Trust has not adopted this approach, it is clear that the use of willingness to pay surveys can give some broad indication of the wider value the public will place on a service or good (although there are caveats, as mentioned in Chapter 4). However, as Bakhshi et al note, the central problem in any such survey is commensurability – measurement by a common standard – of the service in question and the alternative public spending options.

It is not just in the UK that a range of different types of organisations have employed public value concepts. David Throsby has been working with a group of museums, galleries and public institutions in Australia, as detailed in his book *Economics and Culture* (Throsby 2001). Throsby breaks down public value into the concept of 'use value' and 'non use value'. Broadly speaking:

—— 'use value' – meaning the value of directly consuming the arts

—— 'non use value' – meaning the indirect value of the existence of an archive, the option to view and the benefits to future generations.

This model is not dissimilar to considerations of 'impact' in the BBC Trust's RQIV (reach, quality, impact and value for money) model, as described in Chapter 5.

Policing

The concepts of public value have a much wider application than the arts. In Mark Moore's (1995) original work one of the case studies concerned the Houston Police Department (as mentioned in Chapter 2), and in many respects policing is a natural area in which to apply public value techniques when making decisions. The Work Foundation has produced a study in the UK (Skidmore 2006) which argued that a public value framework helps to identify three priorities in policing:

— reshaping the 'market' in policing services to deploy public resources more efficiently and effectively

— creating open, transparent and democratic settings in which to manage relationships – including political relationships – and balance different stakeholders' expectations

— reasserting the values, legitimacy and independence of the police service by proactively searching for new, practical ways to express them rather than retreating into splendid isolation.

The concept of public consent for policing dates back to the creation of the modern police force by Peel in the 1820s. The need for such consent sits well with the idea of a public value process involving specific validation of proposals by qualitative research and consultation. Such processes are at the heart of the Moore case study, and the Work Foundation report also concentrates on these practical aspects and the theories for achieving political and public consent.

At the same time, however, modern policing is also a very technical and specialised subject. Some aspects of policing work are susceptible to simple measurements while other aspects rely on judgements that the public are unlikely to be qualified to make.

Arguably an approach using some form of public value test could help reconcile some of these tensions. Take, for example, the competing pressures of public opinion surveys that always say the public wants to see more 'bobbies' on the beat, and the well-worn Home Office statistic that says a patrolling officer could expect to pass within 100 yards of a burglary only once every eight years (Povey 2001). Taken in isolation, and against an objective of simply detecting crime, it would seem that beat policing is simply inefficient. One argument in its defence could be that the public draws reassurance from it.

However, in a balanced judgement a much better assessment could be made. Crucial to this is setting the right baseline for the assessment. A simple example comes from Cole and Parston (2006) – should the City of London police be judged on the permanent population of the City (7,000) or its peak population of 350,000 commuters?

In the example of community policing, what is the strategic objective for such policing in the first place: Reassurance? To deter crime? To detect crime? To gather local intelligence? Or some combination of all, or some, of these?

Within a public value framework evidence could be gathered about public reassurance through survey data, deterrence could be measured through the police's own data, detection could be monitored (although it might not be expected to be particularly effective), as could the quantity and quality of local intelligence being gathered by beat officers. The proposed service could be viewed according to the following 'dimensions':

— a sense of who will benefit – presumably in this case a very large percentage of the community in the area being patrolled (reach)

— whether there will be demonstrable results in terms of public attitudes or crime statistics (impact)

— whether the intelligence gathered will be of real use (quality).

This creates the possibility of building an objectives- and outcomes-based means of comparing the relative value of different policing activities. Value for money would probably have to be assessed in the light of other pressures on policing budgets.

Of course trying to export across systems like the BBC's approach to public value will have its limitations. It is fairly straightforward to compare the cost per user hour of two different television programmes and to identify with considerable accuracy the audiences reached. A similar metric for community policing in terms of the cost per estimated reach could also deliver a (presumably small) number. But this raises the question of how such a figure could ever be compared with a similar metric in a murder case. Who is 'reached' in such circumstances, the victim's friends and family or society more broadly? Or future potential murderers who are discouraged from violence by the fear of detection and imprisonment?

Nevertheless the potential for a more informed series of judgements and public dialogue clearly exists and is surely desirable given that, as for any public service, there will be more calls on the police service's limited budgets than they can meet.

Health

Public health poses another example of decisions being needed about how to deploy limited resources in an environment in which there may be strong public opinions (often emotive and cause-based) and specialist professional advice too. This is another area where the Work Foundation (Mahdon 2006) has looked at the underpinning theories of public value and in particular how local health trusts can gain public authorisation for their actions and key decisions. In the realm of the NHS, the Work Foundation has judged that a public value approach requires:

— connecting with citizens and professionals, not just service users, to involve them in the public value process

— ensuring choices are real

— enabling patients and the public to be involved in healthcare in general as well as their own healthcare

— measuring more than just management efficiency targets

— ensuring the measures meet good practice standards, are appropriate, relevant and trusted by citizens and staff; for example, services must be equally accessible by all, efficient and trusted.

Over the past decade, the NHS has been subject to a series of organisational reforms aimed at improving service quality and greater patient choice. Another important aspect has been the government's moves to place parts of the healthcare system into professional hands thereby taking some decisions away from politicians and vesting them with bodies such as the National Institute for Health and Clinical Excellence (NICE).

NICE was established in 1999 to secure greater cost-effectiveness and consistency in the provision of publicly-funded health services. As well as giving advisory guidance on clinical treatments, its technology appraisals provide mandatory guidance on which licensed drugs/medicines, medical devices, diagnostic techniques, and surgical procedures should be funded by the NHS in England and Wales (Poole 2008). The appraisals are based on clinical and economic evidence but, as evidence about health technologies can be of varying quality and not always complete, rely on professional judgements.

NICE makes considerable efforts to engage the public and local bodies in its work and to operate a transparent process. In particular, the appraisal process inevitably involves value judgements – scientific value judgements about the significance of the

evidence, and social value judgements which place NICE's work in the context of society. NICE sets out the principles that should underpin these social value judgements (NICE, 2008). These principles aim to capture the broader views and values of society and are produced by the Board with input from NICE's Citizens Council, a group of 30 people with whom it meets regularly, drawn from across the population. Two of the principles specify that: appraisal decisions must consider the need to distribute health resources 'in the fairest way'; and that NICE can recommend restricting an intervention to a particular group of people (for example, by age or gender) only on the basis of clear evidence, 'fairness for society', or a legal requirement.

A central part of the appraisal process is the technical cost effectiveness analysis which looks at whether the higher cost of a new drug or treatment can be justified in terms of how much someone's life can be extended and improved by it, when compared against the existing routine NHS treatment. But cost-effectiveness is not the only criteria. The technology appraisal can take into account a range of other considerations in reaching recommendations, including imminence of death, severity of condition, and lack of alternative treatments (NICE 2007). Again, the NICE model has the familiar concepts of strategic aim, target patients (reach), how well a treatment works (impact/quality) and value for money.

Assessing public values about health within a budget-constrained system is challenging. NICE is interested in methods to determine what monetary value the public thinks should be attributed to different health gains, for instance whether such gains are valued differently for different beneficiaries (Poole 2008). Earlier this year, responding to 'the premium that society places on helping those with terminal illnesses', the government announced the NICE would adopt a new, more flexible approach to the cost-effectiveness required for end-of-life drugs (Hansard 2008).

Within the operational NHS, there are various examples of how an informal public value approach can lead to improvements on the ward in the interacting realms of both impact and value for money. At the Heart Hospital in London, data is continuously collected and monitored on activity levels and costs, but also on quality measures such as infection readmission and survival. Medical staff received detailed information about how they are performing, and there is a cross-hospital approach to working out what is, and is not, working. The hospital has found that the drive for quality has also produced greater efficiency and better financial performance (Timmins 2009).

Local government

Many of the examples in Mark Moore's (1995) original book are drawn from local and state government in the US, and both the US and Canada has also been a rich source for Cole and Parston (2006). In the UK, Warwick University has led work to look at how far public value can contribute to a sense of so-called 'place shaping' by engaging local communities with the services they value.

The one theme between these studies and examples is the sheer diversity of models and approaches. However, once again there are common threads: defining strategic aims, seeking to judge reach and impact, a sense of quality control and the relative value for money. Measurement is also clearly important (although it can become very complex and a means to an end in itself). Overall, with a greater degree of standardisation of assessments it should be increasingly possible to benchmark and make comparisons between local authorities with the aim of driving better services.

The Cabinet Office Strategy Unit paper (Kelly et al 2002) considered how looking at policy issues from a public value perspective 'might lead to different policy solutions than would otherwise be the case'. One example looked at ways in which school inputs were converted into value. It pointed out that 'schools that excel tend to have their own distinctive culture and ethos. They are often 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 fully their school's mission'. This includes: encouraging parents to be co-educators so that levels of attainment are improved and they become key stakeholders in the mission of the school; and making school premises and equipment available as a community asset, thereby building connections and goodwill with local people.

Echoing a US case study by Moore (1995), Kelly et al (2002) also consider UK libraries, and how a public value approach can be used to rescue them from a long period of decline. Some British libraries have come up with innovative ways to increase their value for local citizens including 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 offering more weekend opening.

Oldham Metropolitan Borough Council

In the public sector there is the potential for real conflict between the drive for 'value for money' and for 'public value', as demonstrated in earlier chapters. Oldham Council is working to address both these issues simultaneously in order that the services provided are cost-effective and efficient, but are also valued by citizens. This approach was reflected in the Council's new 'statement of purpose' that was included in its four corporate objectives in July 2009. One of these relates to

delivering quality services that meet residents' needs ('Services of Choice') with the priorities of: accessible and responsive services; quality services that are valued by citizens; and a 'One Place' approach to service delivery whereby public sector organisations 'join up' their delivery of services and support.

Part of the challenge faced by local government in England today is that, while satisfaction with services generally is increasing, satisfaction with councils overall is reducing. As mentioned in Chapter 2, this has been called the 'delivery paradox' (Horner et al 2006). The concept of public value is viewed by Oldham as extremely helpful in responding to this challenge.

Central to the improvement programme underway in Oldham Council is Mark Moore's (1995) approach, as outlined in Chapter 1, which recognises how citizens, clients and government organisations coproduce the value attributed to public sector organisations. The capacity that is available for achieving real changes in the Borough is much greater than that available to the Council alone, and needs to include citizens and partners. A straightforward example of this is the measures that have been taken to increase the amount of waste that is recycled. The Council provides the infrastructure such as recycling bins/receptacles and recycling sites, supported by collection services and awareness campaigns. But citizens have to engage in the process in order for it to be successful – they 'coproduce' the recycling service.

But Oldham Council does not just deliver services. It also has a fundamental role in managing and shaping the borough. This role is enacted at both borough and neighbourhood (ward) levels. The approach to working at the local level has recently been strengthened by the introduction of six District Partnerships, which cover an area of three or four neighbourhood wards. As part of this approach, local people are engaged in decision-making around resources devolved to the District Partnerships to ensure that the decisions made are of value to the area.

The first stage of the assessment for funding proposals is whether they fit with overall purpose as set out through the Sustainable Community Strategy for the Borough (Safe and Strong Communities, Health and Well-being, and Economic Prosperity). Impact is also assessed against local priorities within these themes. For example, the priority for Safe and Strong Communities in one area may be reducing vehicle crime, in another it may be reducing domestic burglary. The impact on communities is considered. Will the proposal benefit the whole area, or is it focused on a particular part? Will all groups benefit, or is it aimed at a particular group such as young people? The potential for added value is also discussed – for example, are training opportunities provided at the same time as a project is delivered? An additional wider benefit of the approach is that it is helping to build an understanding of the complexity of decision-making by public sector organisations.

Examples from overseas

In the US, the Center for Technology in Government, University at Albany, has worked with SAP in devising a 'return on investment' approach for publicly-funded information technology (IT) investments. The 'return' included social and political value, as well as the traditional cost measures, and the process paid particular attention to the role of public value in how the investments are conceived and developed. The resulting public value assessment framework described six dimensions in which government IT can have an impact on the interests of public stakeholders: financial; political; social; strategic; ideological; and stewardship (by government officials). Thus there are two distinct but equally important types of public value: 'the delivery of *benefits directly to citizens*, and enhancing the *value of government itself as a public asset*'. The public value framework includes both – 'an IT investment that makes government more transparent, more just, and a better steward has added public value, a non-financial but nonetheless important return' (Cresswell et al 2006).

In another Center for Technology in Government case study, Service New Brunswick (SNB), run by the government of New Brunswick in Canada, developed a one-stop 'single window' to provide citizens with integrated access to provincial and municipal government services while also developing and maintaining geographic information databases. Links were also included to Federal Government. As a result of the new IT-enhanced model, customer satisfaction numbers rose from around 50% in the late 1980's to 92% in 2005 (Cresswell et al 2006).

In an example from a very different industry sector, Accenture has applied its 'Public Service Value Model' approach (as described in Chapter 4) to public transport arguing that it can enable organisations to balance the outcomes that matter most to the end-user (the actual service, as the citizens experience it) with cost-effectiveness (Accenture 2006). The model looked at three main outcomes – accessibility, quality, and utilisation – which were then broken down into sub-outcomes. For example, one of its case studies involved Consorcio Regional de Transportes de Madrid (CTM), the public transport body in Spain's capital city which functions through multiple operators across four main modes of transport. The Accenture model analysed which aspects of the service were having the greatest impact on the overall performance results. 'For example, improved public perceptions of bus security, emissions and information services led to a dramatic rise in the quality of service outcome from 2004 to 2005. Reliability, however, dropped sharply in the same year, linked to a rise in cancellations of service.' The second 'axis' in the model was cost-effectiveness, in terms of a ratio of outcomes produced against resources employed. In a different Accenture case study, of an un-named 'large, mature public transport organisation', the analysis showed that outcomes had improved whereas cost-effectiveness had decreased due to large infrastructure investment. In all cases, the public value tool could then be used in future decision making.

Market impact

What many of the systems discussed above do not necessarily take into account is market impact. There may be a number of reasons for this. It may be because there is an established consensus that certain activities are properly conducted from public funds. Or it may be because where there are private alternatives to public provision they do not have the will or capacity to replace the public system. Alternatively it may be that the private suppliers are relatively weak and unable to make an impact of their own. Or conversely they may be strong (like the security industry) but unwilling to fill any gaps in public sector provision for fear the business will not be sufficiently long term to justify their own investment.

Nevertheless where market impact considerations do apply, it will be important to ensure such issues are considered alongside the question of what public value is being created and that any examination of market impact is proportionate to the scale of the public intervention being made. It is also important to consider the shape of the market and its gaps in order to direct appropriate public interventions, as discussed in Chapter 3.

Overview

The examples given in this chapter demonstrate the wide applicability of the concept and use of public value in public and voluntary services, ranging from core services such as health and the police to the arts. Our aim in setting out these examples is to demonstrate the commonalities of approach. In these sectors, as in broadcasting, the key elements are the same.

— The public value assessment needs to be shaped by an underlying strategic rationale, including an awareness of what part of the public's needs are being met by commercial providers in the market. Both the types of externalities and the long-term strategic aims of the organisation concerned will affect the services provided and the metrics established to measure public value.

— Among the metrics there will always be measures of how many people will use the service (reach), how effective the service will be in delivering the desired outcomes (impact), and how good its delivery is (quality). Needless to say, the specific metrics will differ depending on the context.

— There is a requirement for engagement with citizens and a 'conversation' with the public, to which the organisation must then respond.

— Given pressure on public budgets there will also always be a value for money hurdle. An important element in this assessment will be the opportunity cost of this use of funds rather than any alternative, which will itself be informed by the basic strategic rationale for the proposal. Both internal and external benchmarks will be important for this assessment. However, a value for money assessment should not be regarded as a necessary but unwelcome limitation on the delivery of effective services, as the value for money may itself be affected by reach and impact. There is a two-way process at work whenever it is possible for the drive for efficiency to stimulate improved ways of working or organisation, which in turn improve outcomes and reach, creating a virtuous circle. So in other words value for money provides a very disciplined focus on both strategic fit and the delivery of outcomes.

— The market context ought to be considered, sometimes directly, if commercial providers are also supplying the service under consideration, or indirectly if there is a particular kind of market failure which accounts for the need for a public intervention.

— The next and final chapter considers how the adoption of a process that implements these elements in an effective and transparent manner could go some way towards restoring citizens' confidence in public services, in the managers who run them, and in the policy-making processes that decide what publicly-funded services are provided.

8
The ethos of public service

BBC Trust — Public Value in Practice

The origins of the concept of public value were set out in Chapter 1, and subsequent chapters have explained in more detail the scope and practicalities of the application of the concept. We have described the use of public value tests by the BBC Trust and also the use of the public value approach in other public sector organisations in the UK and elsewhere, including a discussion of many of the issues that arise during implementation.

In this concluding chapter we draw together the separate threads in a discussion of what our experience has led us to believe can be achieved using this approach to decision making in the public domain – in other words the merits of the public value approach.

Social welfare and public choice

There have been many attempts over the centuries to identify the best form of decision taking by those in authority – or governance, to use the word currently in vogue. Modern debates have roots going back at least as far as the work of Enlightenment philosophers such as Hume, Locke and the founders of American democracy. A particularly influential strand of argument in recent times has been the 'public choice' school derived from *The Calculus of Consent: Logical Foundations of Constitutional Democracy* (Buchanan and Tullock 1962). This undermined the presumption that politicians and officials would take objective decisions in the public interest to increase social welfare, asking instead what impact their personal motives and incentives had on government decision making.

The self-interest of public officials, and its implications for policy outcomes, has been a focus of debate ever since. The public choice school (and its successor in economics, institutional economics) has had particular appeal for those who argue for as limited a role as possible for government intervention, but across the board an awareness (at a minimum) of the effect of the incentives facing public officials has remained influential. It has also meshed with a political trend in several countries since the 1980s towards the greater incorporation of market-style mechanisms in public services, usually described as New Public Management (Walsh 1995) (see Chapter 2).

The validity of the underlying assumption about the self-interested motivation of public servants has been captured in the phraseology of Julian Le Grand (2003) as the question of 'knights' versus 'knaves'. Are government employees and officials to be seen as 'knights' with an honourable sense of the public interest or wider good? Or are they 'knaves' motivated mainly by personal gain – not necessarily directly so but perhaps indirectly in terms of elite professional status and influence, or career prospects?

The term knaves echoes an argument made in the 18th century by David Hume (1742):

'In contriving any system of government and fixing several checks and controls of the constitution, every man ought to be supposed a knave and to have no other end, in all his actions, than private interest. By this interest, we must govern him, and by means of it, notwithstanding his insatiable avarice and ambition, co-operate to the public good …

'It is, therefore, a just *political* maxim, *that every man must be supposed a knave:* Though at the same time, it appears somewhat strange, that a maxim should be true in *politics*, which is false in fact. But to satisfy us on this head, we may consider, that men are generally more honest in their private than in their public capacity, and will go greater lengths to serve a party, than when their own private interest is alone concerned. Honour is a great check upon mankind: but where a considerable body of men act together, this check is, in a great measure, removed; since a man is sure to be approved of by his own party, for what promotes the common interest; and he soon learns to despise the clamours of adversaries.'

Hume is arguing that the machinery of government should be designed on the assumption of self-interested behaviour, even though this is not a wholly accurate assumption, in order to ensure that decisions in fact enhance the public good. And he further argues that while people mostly do act honourably, they are paradoxically least likely to do so in public life. Le Grand makes the same kind of case for the structures of government – they should be designed on the assumption of self interest in order to mitigate any potential adverse impact of self interest on the decisions taken.

The influence of this knavery argument about the best governance structures in public organisations stemmed from a fairly widespread perception that too many decision-makers were indeed from self-perpetuating and self-serving elites who did not take seriously enough the needs and interests of the general public. The pendulum swung firmly against reliance in public service on professional ethics, honour and paternalism. Instead, over the past two decades, the emphasis has been on targets, market-style incentives, and the pre-eminence of 'customer' preferences.

The corrosiveness of cynicism

The pendulum has now started a reverse swing away from market-style incentives and target-setting. This is only in part because the dramatic financial crisis has caused great distrust of markets in general. Even before these events, a growing number of critics were pointing to the counter-productive effects of the New Public Management approach and the perils of unintended consequences. For example, target-setting was seen increasingly as distorting public officials' behaviour, as measurable targets can only capture part of the desired outcome and oversimplify the real objectives. There has also been concern about the tendency of the New Public Management approach to create a degree of centralization and uniformity which sits uneasily with the fact that citizens' preferences are genuinely plural and varied.

At the same time, there are two types of costs in the precautionary assumption of self-interest in designing decision-making structures. One is that if people do in fact act honourably and in the public interest, it will be unnecessarily inefficient and expensive to bring in constraints and mechanisms to police their decisions as if they are knaves. 'Good works which were formerly produced out of the goodness of people's hearts must now be compelled through more expensive and inefficient external mechanisms of social control' (Goodin 1982).

The second is the argument that treating people like knaves will make them more likely to behave like knaves. Designing structures of governance on the assumption of self-interested behaviour actually makes it real: it is 'performative' in the language of sociology. For example Chhotray and Stoker (2008) argue:

'Institutional economics sees the issue of governance as about securing the voluntary co-operation of actors to meet collective challenges. Things go wrong when individuals cannot oversee the action of others and thus overcome their fears of opportunistic behaviour and the solution is seen in developing mechanisms that enable more effective communication and mutual oversight. But insights from political science would suggest that there is a danger of crowding out intrinsic or moral motivations if the intervention is designed alone around the assumptions of institutional economics …For policy makers, there is a danger that by focusing on crass material or instrumental incentives they may undermine moral motivations.'

It is worth dwelling for a moment on the implications. The importance of trust in others for economic and social well being has been increasingly recognised by economists. The heyday of the public choice school quickly gave way to an emphasis on the role of trust and 'social capital' in thriving economies. As the economist Daniel Hausman (1998) has put it: 'People can become what they are assumed to be, and with too much regulation people may not be able to make trust-inducing overtures to each other.' He concludes that the design of governance structures should try to reflect the realities of behaviour, not an unverified assumption. Another economist, Bruno Frey (2008), who has pioneered the incorporation of psychological research into economics, suggests that different types of structure can either 'crowd in' or 'crowd out' people's intrinsic values and motivations, such as a sense of professional honour or public service to such a degree that general social norms are affected.

Of course, there is nothing new in the notion that individuals can curb their self-interest and personal priorities in order to act in the public interest. Adam Smith, for all his praise of the socially beneficial effects of self-interest in the operation of markets (in *The Wealth of Nations*) also noted the importance of our regard for others in the public sphere (in *The Theory of Moral Sentiments*). Tim Besley (2004) traces the history further back: 'There is a much older tradition going back at least to Aristotle recognizing the possibility that individuals might curb their self-interest in the pursuit of public service. The Public Choice approach marginalises this.'

Finally, not only does undue cynicism about 'knavery' in public services risk bringing about that very behaviour, it can also undermine 'knightly' behaviour where it exists. Public spiritedness is not in fixed supply; its prevalence will depend on opportunities to exercise it, whereas excessive cynicism will corrode it. The renewed interest in the ethos of public service is clear in, for example, the work of the 2020 Public Services Trust (2009).

The role of public value

The wider debate about policy institutions and governance provides a context for setting out the rationale for adopting a public value approach. Public value offers a framework for steering between the opposing risks of assuming too much self-interest in public organisations (thus corroding public spiritedness and sense of integrity) and assuming too little (thus falling victim to elite professional interests which have insufficient regard for the users of public services). Application of the framework can be tailored to the specific context.

Besley (2004) concluded that while institutions do need to constrain decision-makers from acting purely in their own self interest, the structures must also be such as to select individuals who will in fact act in the public interest. Gains and Stoker (2008) reach a similar conclusion about the need to find the right balance between cynicism about public officials and encouragement of a sense of higher purpose. They advocate the public value approach as a means of doing so:

'The public value framework reflects a desire to move on from a sterile debate between dichotomous views of public bureaucracy as either passive and responsive, as in a hierarchical commissioning environment, or self interested, and therefore in need of quasi market disciplines to ensure efficient delivery. In short, when it emerged the concept of public value enabled managers to think and speak again about the public purposes of their organisations and aided recognition of the distinctiveness of managing in the public domain.'

We share this view that the use of a public value approach encourages a sense of values and public service in decision making. As discussed in Chapter 4, the selection of metrics derives from the basic principles or values which the organisation concerned is promoting. At the same time, the tools and metrics involved in implementing a public value framework, and the importance of procedures and transparency for its effectiveness, provide benchmarks for the decisions taken. The fact that decisions based on a public value assessment are inherently judgmental means there is still a danger of too great an internal focus or complacency. Still, there are safeguards in the process against the risk that decision makers will conflate their own interests and views with the public interest, especially if decision-makers do stay alert to external benchmarks (such as the BBC Trust's audience research) and to the organisation's fundamental values.

Institutional legacy and the long term

There are other important merits in the public value framework, from the perspective of the public interest. It has features which give it the potential to overcome some inherent shortcomings in decision making in the public sector. The first of these is the difficulty of taking policy decisions which give proper weight to the future. This might be as short a period as the next election deadline, but a failure to take proper account of future citizens is likely to be far more detrimental over much longer periods. The problem is not that political horizons are short, but rather that it is inherently difficult to take and sustain decisions whose outcomes have relatively little bearing in the near term but will be important in a decade, or two, or longer. There is not only the challenge of obtaining reliable long term projections and forecasts on which such decisions can be based, but also the

difficulty of securing public support for investment in outcomes that are of primary benefit to future generations. What's more, not only do political and practical incentives lead to a focus on the short term, there is also psychological evidence that people find it difficult to weigh up arguments about future events.

One prominent example is environmental decision making. It has become clear that the effects of current consumption decisions have extremely long-term and unpredictable effects, and policy responses have only recently explicitly incorporated considerations of how to give weight to the interests of future generations. There is a lively debate among economists now about what that weight ought to be when it comes to climate change, and how to incorporate such considerations in current decisions (Stern 2006; Nordhaus 2007; Stern 2009). In economic terms, the 'social discount rate' (which reflects the social view of how the future should be valued against the present) is likely to be lower than the 'private discount rate' (reflecting individuals' views of that balance): the state should be more patient than its individual citizens, as it has a responsibility of stewardship to generations of future citizens as well.

Similar questions of posterity arise in many other areas of government and voluntary sector activity, however, not just natural assets. For cultural bodies in particular, decision-makers have a responsibility to preserve and enhance the national patrimony. Museums and galleries, heritage bodies, public broadcasters, theatre and performing groups, cultural foundations and libraries all play a part in shaping our culture and sense of identity. It is an active role which affects how citizens identify now with each other in a shared national story, and also what kind of nation citizens will be part of in future. As English Heritage put it in its 2006 study of the use of public value (Clark 2006):

'There are the values that we put on something that mean that we want to keep it – perhaps after its useful life. These may be aesthetic, social, scientific or historical; we may value something for the story it has to tell about the past, or because it was associated with events or people. Something may have an intense personal value, or it may hold memories for us as individuals or as communities. The stewardship role of heritage organisations is about looking after those assets that people value…'.

The specific types of decision taken in different contexts will vary widely. For heritage organisations, for example, the main questions might concern choices over preservation priorities and new purchases (Impey 2006). In many cases, the question of legacy will help shape the prioritisation of spending decisions (Jowell 2006).

In the use of the public value test on the BBC's activities, there is explicit consideration of the time horizon (see Chapter 5). In the market impact assessment, in line with standard practice in competition assessments, the assessment is made over a relatively short period, perhaps three years. In part the public value assessment also concerns a relatively short time frame, for example in predicting reach. This is because it is simply unrealistic to make predictions over a longer horizon, especially in the case of new services using novel technology where consumer usage and market dynamics might change quickly and dramatically. However, implicit in both is the scope to consider a much longer time frame.

In the market impact assessment the dynamic effects are included, for example effects on investment by others, and the scope for market-building impacts in new technology areas. In the public value assessment, the impact metrics include consideration of long term impacts. For example, the public value assessment on the BBC's proposed 'on-demand' services (delivered through BBC iPlayer) recognised that the new provision could encourage wider media literacy, including the skill to judge the accuracy and trustworthiness of web content, seen as an essential tool of modern citizenship. Similarly it had the potential to familiarise less technology experienced users with the use of new technologies (BBC Trust 2007d). Legacy questions may sometimes be very explicitly considered, as is likely to be the case in the important public value judgement on the development of the BBC's digital archive. Here there is clearly a role of stewardship for the nation.

The market context for public decisions

A second important merit of the public value framework is that it can – and should – incorporate an evaluation of the private decision-making context for any public interventions. As discussed in Chapter 3, there are many different flavours of market failure which create the scope for public policy intervention to achieve better outcomes. This implies that the action that should be taken will also vary depending on the circumstances.

The application of public value mechanisms in some cases will not need to take account explicitly of a market environment. For example, policing decisions might have adverse impacts on the business of private security firms, but nobody would consider it sensible to carry out market impact assessments explicitly. There is an implicit – and entirely sensible – judgment that public value created by good policing will always outweigh any possible damage to the profitability of the private sector competitors to the police. The clearer it is that the public organisation is operating

in an environment of large-scale market failure, the less important it will be to consider the wider market impact explicitly. That will be implicit in the assessment of impact. In other cases, including areas where there is private as well as public provision of services, the public value approach gives a structure to the consideration of the mix of public and private activities which will maximise welfare.

The BBC's Charter requires our public value tests to contain an explicit market impact assessment, including both positive and negative effects, while acknowledging at the same time that public value considerations can be large enough to outweigh negative market impacts. In the end there is a balance of judgment. Even so, the careful consideration of the wider context means that approvals for new services can be shaped to encourage the creation of value in the private sector as well as public value, through specific conditions. The case study in Chapter 6 outlined how this approach influenced the BBC Trust's approval for 'on-demand' services.

Public value is a mechanism for addressing market failures while trying to avoid new failures in public intervention. In this way it resembles earlier approaches such as New Public Management which were trying to square the same circle. Bearing in mind that weaknesses have become apparent in earlier solutions such as this, we would not want to over-claim for the public value framework. However, given our experience of implementing the public value test at the BBC Trust, we do think it is useful and pragmatic approach for many organisations.

The importance of a fair and transparent process

Part of the explanation for the inadequacies of government intervention, and the renewed interest in governance, lies in the complexity of what modern governments have to manage. This complexity is the result of several factors, among them: new technologies which have both raised expectations of public sector performance and brought about structural economic changes to which governments have had to respond; social trends and the dislocations in the lives of many individuals as a result; cultural globalisation and migration which together have brought about more diverse societies and more fragmented cultural expectations.

As long ago as 1973 Daniel Bell noted the challenge this created for democratic governments. People expect to be consulted about governmental decisions which affect them, on the one hand. But on the other hand, many more decisions are complicated, require the careful interpretation of evidence, and are better suited to expert than to popular decision making. As Bell (1973) wrote:

'The relationship of technical and political decisions in the next decades will become …one of the most crucial problems of public policy. The politician, and the political public, will have to become increasingly versed in the technical character of policy … And the technical intelligentsia must learn to question the often unanalysed assumptions about efficiency and rationality which underly their techniques'.

Rationality alone, Bell argues, cannot deliver political conclusions. This echoes Arrow's Impossibility Theorem, discussed in Chapter 1, which shows that the application of logic cannot deliver a consistent social welfare function. Instead, public policy decisions are inherently political in affecting different groups in different ways and requiring a process for managing the conflicts involved. This is echoed in the public value literature by Gains and Stoker (2008):

'There are few decisions which can be so effectively ring-fenced from debate and contestation. We need to embrace politics rather than technocratic arms' length governance without government – a form of decision making without full democratic accountability.'

We have throughout this volume emphasised the importance of a fair and transparent process for the public value framework to be effective. Le Grand argued that citizens had been turned into 'pawns', disempowered by paternalistic 'expert' decision making by public officials. His proposed solution was to introduce choice into public services, and turn citizens in a sense into consumers of those services (Le Grand 2003). It is fair to say that this approach has been controversial because many people (and the legislative framework) reject the idea that citizenship can always be boiled down to consumer choice, and we do not propose to take these arguments further here. There is a large literature (Dowding et al 2000; Williams and Rossiter 2004) on the role and effects of 'contestability' or competition in public services.

The public value framework takes a different tack and tries to enable public organisations to marry expertise and participation. Some of the public value literature under-emphasises the importance of engaging with the citizens being served. At the BBC Trust we place a high priority on public engagement, consultations and research. As outlined in Chapters 5 and 6, public value tests are informed by the Trust's annual audience research on how well the BBC is fulfilling its public purposes; by the continuing programme of audience engagement; by specific research used or commissioned in the context of each individual public value test; and by public consultations and extensive meetings with stakeholders during the 6-month public value test process.

At the same time, realism is needed, especially concerning complex decisions or those involving specialist knowledge. Gains and Stoker (2008) warn about this:

'Advocates of engagement tend to over-prescribe particular forms of engagement and to misjudge the extent and nature of the engagement that most people require. We should be cautious about our expectations about the extent and depth of engagement that people want.'

Individuals are often supportive of the principle of 'having a say' but less eager to become actively involved in an engagement process. For example, a survey commissioned by the BBC Trust in 2007 found that there was only limited personal participation and interaction by respondents, both with the BBC and with other organisations. While 73 per cent said it was important for the public to have a say in the running of the BBC, only 15 per cent of respondents regularly shared their views with any organisation, and only 8 per cent had ever given feedback to the BBC (British Market Research Bureau 2007). Respondents to an open consultation said that taking part in engagement and consultations should require a minimum of effort on the part of the public. Although online consultations do make participation easier, in practice, the majority of people want to be assured that their views are taken into account without having to spend a lot of time and energy on engagement processes even about important areas of their life, never mind lesser ones.

Nevertheless, the importance of processes and procedures should not be underestimated. Amartya Sen (2009) argues strongly that social justice depends on the processes by which citizens are engaged in public decisions, as well as the outcomes of those decisions. Gerry Stoker (2010, forthcoming) presents evidence that the decline in trust in the UK, described in Chapter 4 above, is related in particular to people's sense of their declining ability to influence decisions in a political system which has become unresponsive to them.

The special role of the media

All public services are important to their users. However, the media have an additional dimension of importance which stems from their role in citizenship and civic life. In addition to their indirect impact through shaping our collective experience, they offer the most frequent means by which voters can become aware of issues of accountability in the political process, as well as potentially influencing voters' choices in elections. There is emerging evidence that mass media are more important than the formal institutions of democracy in ensuring voters can hold their governments to account:

'Mass media can be a powerful source of information generation at low cost to citizens. By being bundled with other activities (such as sport or entertainment) many individuals may be induced to regard acquisition of information not as a chore, but as a pleasure, thus raising the general level of awareness about policy and public affairs' (Besley et al 2002)

This is needless to say a responsibility which is taken seriously in the BBC's public value assessments, and one captured in the organisation's 'sustaining citizenship and civil society' public purpose (see Chapter 3). The effects of a BBC service on active interest, and perhaps even participation, by citizens in the democratic process will, where relevant, have a distinct place in assessments of impact in the public value framework.

Conclusions

Our aim has been to set out the rationale for the public value framework and to illustrate some of the practicalities involved, based on the now-extensive experience of the BBC Trust in applying formal public value tests, other regulatory approvals, and informal public value assessments to significant changes in BBC services and activities. We have found it a powerful and flexible tool for making judgments incorporating both the views of the public and other stakeholders and evidence about the likely results. Although judgment is certainly required, the process is based on evidence and is fair and transparent. We believe that, despite the initial scepticism of external stakeholders in the industry, there has been a gradual acceptance of the rigour of our public value tests and parallel processes. Transparency has been an important part of building credibility, as we always consult substantially and publish all the research as well as our reasoned decisions. We believe it is possible that the public value framework will over time provide a discipline and challenge to the BBC's activities and priorities, and help shape them in ways which command a reasonable degree of public consensus.

However, there are limitations to the usefulness of the public value test framework. The analytical mind-set it involves can extend well beyond the formal decision making and approval processes, and helps ensure that managers throughout the organisation think in terms of the audience reach, quality, impact and value for money (RQIV) metrics which build public value. But the formal process is time-consuming and demanding, using a great deal of staff time in both the BBC Trust and BBC management, as well as Ofcom and external organisations submitting consultation responses.

The lesson is that public value frameworks need to be set up with a degree of flexibility so that they can adjust to changing environments. There is also a need to guard against procedural and legalistic points that drive out the ability to make good substantive decisions: just as in many other areas of public decision making from competition decisions to ombudsmen's activities, there is a risk some parties to trying to 'game' the procedures with legal challenges (Kay 2009). This of course delays decisions, to the detriment of the public.

Having set out all these caveats, we believe they are far outweighed by the advantages of the public value framework as a discipline on decision making on behalf of the public. In the end, the greatest merit of all may be the way that using public value procedures focuses decisions on society's shared values and the moral basis for our collective decisions in the UK. The approach promotes collective reflection in public policy and practice, and does so in the context of attempting a conversation with those who use and pay for the services. In our case, the framework focuses us firmly and procedurally every day on the BBC's public purposes. Public decisions will rarely come up with firm answers which satisfy everyone, but in that case a mechanism for shaping the continuing conversation is a valuable one indeed.

References

2020 Public Services Trust. 2009. Drivers for Change: Citizen demand in 2020. A report prepared for the Commission on 2020 Public Services. London: 2020 PST (25 August, 2009; available at http://clients.squareeye.com/uploads/2020/documents/STC%20Drivers%20for%20Change.pdf).

Accenture. 2006. Public Service Value in Public Transport, A Model for High Performance. Accenture Institute for Public Service Value (30 June 2009; available at http://www.accenture.com/NR/rdonlyres/D8276BC8-87BD-4BDE-A770-CBC492FD68FF/0/acn_publictransport_final.pdf).

Armstrong, M. and H. Weeds. 2005. Public Service Broadcasting in the Digital World (25 August 2009; available at http://www.econ.ucl.ac.uk/downloads/armstrong/PSB_Armstrong_Weeds.pdf).

Arrow, K. 1970. *Social Choice and Individual Values* (first published in 1951). Yale University Press.

Arts Council England. 2009. Beyond the arts debate. Arts Council website (30 June 2009; available at http://www.artscouncil.org.uk/artsdebate/home.php).

Bakhshi, H., A. Freeman, and G. Hitchen. 2009. Measuring Intrinsic Value: How to stop worrying and love economics. MPRA Paper 14902, University Library of Munich, Germany (30 June 2009; available at http://www.missionmodelsmoney.org.uk/u/Measuring_Intrinsic_Value.pdf).

Barwise, P. 2006. The BBC Licence Fee Bid: What does the public think? An Independent Report by Professor Patrick Barwise (London Business School) for the BBC Board of Governors. London: BBC Governance Unit (30 June 2009; available at http://www.bbcgovernorsarchive.co.uk/docs/reviews/barwise06.pdf).

BBC. 2004a. BBC launches its vision of the future and manifesto for action. BBC website (30 June 2009; available at http://www.bbc.co.uk/pressoffice/pressreleases/stories/2004/06_june/29/bpv.shtml).

BBC. 2004b. Building Public Value: renewing the BBC for a digital world. London: BBC (30 June 2009; available at http://www.bbc.co.uk/info/policies/text/bpv.html).

BBC. 2008. Consulting with you, Delivering for you. Part 1 Annual Report and Accounts 2008/09, The BBC Trust's review and assessment. London: BBC (25 August 2009; available at http://downloads.bbc.co.uk/annualreport/pdf/bbc_trust_2008_09.pdf).

BBC Trust. 2007a. BBC on-demand proposals: Public Value Test final conclusions. London: BBC Trust (30 June 2009; available at http://www.bbc.co.uk/bbctrust/assets/files/pdf/consult/decisions/on_demand/decision.pdf).

BBC Trust. 2007b. BBC Trust final conclusions on BBC participation in a 'Freesat' proposition. London: BBC Trust (30 June 2009; available at http://www.bbc.co.uk/bbctrust/assets/files/pdf/consult/decisions/freesat/decision.pdf).

BBC Trust. 2007c. Gaelic Digital Service Public Value Assessment, Summary of responses to the public consultation. London: BBC Trust (30 June 2009; available at http://www.bbc.co.uk/bbctrust/assets/files/pdf/consult/gaelic_digital_service/pva_annex3.pdf).

BBC Trust. 2007d. Public Value Assessment: BBC On-demand Service Proposal. London: BBC Trust (30 June 2009; available at http://www.bbc.co.uk/bbctrust/assets/files/pdf/review_report_research/pvt_iplayer/ondemandpva.pdf).

BBC Trust. 2007e. Public Value Test (PVT): Guidance on the conduct of the PVT. London: BBC Trust (30 June 2009; available at http://www.bbc.co.uk/bbctrust/assets/files/pdf/regulatory_framework/pvt/pvt_guidance.pdf).

BBC Trust. 2007f. Syndication of BBC on-demand content: Statement of policy. London: BBC Trust (30 June 2009; available at http://www.bbc.co.uk/bbctrust/assets/files/pdf/consult/ondemand_syndication/policy.pdf).

BBC Trust. 2008. BBC iPlayer Pre-booking functionality, Explanatory Note. London: BBC Trust (30 June 2009; Available at http://www.bbc.co.uk/bbctrust/assets/files/pdf/consult/iplayer_pre-booking.pdf).

BBC Trust. 2009a. Local Video, Provisional Conclusions Consultation Organisation Responses. London: BBC Trust (30 June 2009; available at http://www.bbc.co.uk/bbctrust/assets/files/pdf/consult/local_video/org_responses.pdf).

BBC Trust. 2009b. Local Video, Public Value Test final conclusions. London: BBC Trust (30 June 2009; available at http://www.bbc.co.uk/bbctrust/assets/files/pdf/consult/local_video/decision.pdf).

Bell, D. 1973. *The Coming of Post-industrial Society: A Venture in Social Forecasting* (paperback ed. 1976). Peregrine Books.

Benington J. 2009 (forthcoming). From Private Choice to Public Value. In *Public Value: The Theory and Practice* (ed. J. Benington and M. Moore). Basingstoke: Palgrave.

Benington J. and M. Moore. (Eds.) 2009 (forthcoming). *Public Value: The Theory and Practice*. Basingstoke: Palgrave

Besley, T. 2007. *Principled Agents? The Political Economy of Good Government.* Oxford: OUP.

Besley, T. 2004. The New Political Economy. London: London School of Economics (30 June 2009; available at http://econ.lse.ac.uk/staff/tbesley/papers/keyneslecturetext.pdf).

Besley, T., R. Burgess and A. Prat. 2002. Mass Media and Political Accountability. London: London School of Economics (30 June 2009; available at http://econ.lse.ac.uk/~tbesley/papers/medbook.pdf).

Blaug, R., L. Horner, and R. Lekhi. 2006a. Public value, citizen expectations and user commitment, A literature review. London: The Work Foundation (30 June 2009; available at http://www.theworkfoundation.com/assets/docs/publications/116_citizen_lit_review.pdf).

Blaug, R., L. Horner, and R. Lekhi. 2006b. Public value, politics and public management, A literature review. London: The Work Foundation (30 June 2009; available at http://www.theworkfoundation.com/assets/docs/publications/117_politics_lit_review.pdf).

British Market Research Bureau. 2007. Audience Engagement: Public consultation by the BBC Trust. Appendix C: Summary of Quantitative Research. London: BBC Trust (30 June 2009; available at http://www.bbc.co.uk/bbctrust/assets/files/pdf/consult/audience_engagement/quantitative_research.pdf).

Buchanan J. and G. Tullock. 1962. *The Calculus of Consent: Logical Foundations of Constitutional Democracy.* Ann Arbor: University of Michigan Press.

Bunting, C. 2007. Public value and the arts in England: Discussion and conclusion of the arts debate. London: Arts Council England (30 June 2009; available at http://www.artscouncil.org.uk/downloads/publicvalueartsdebate.pdf).

Chhotray, V. and G. Stoker. 2008. Investigating Governance Practice: the value of a cross-disciplinary approach. Paper 1 for Euroloc – Summer School in Local Government Studies 2008 (30 June 2009; available at http://www.soton.ac.uk/ccd/events/SuppMat/ghent%20paper%20on%20governance%20lessons.pdf).

Clark, K. 2006. Introduction to Capturing the Public Value of Heritage, The Proceedings of the London Conference 25–26 January 2006. Swindon: English Heritage (30 June 2009; available at http://www.helm.org.uk/upload/pdf/Public-Value.pdf).

Coats, D. and E. Passmore. 2008. Public Value: The Next Steps in Public Service Reform. London: The Work Foundation (30 June 2009; available at http://www.theworkfoundation.com/assets/docs/publications/201_PV_public_service_reform_final.pdf).

Cole, M., and G. Parston. 2006. *Unlocking Public Value: A New Model for Achieving High Performance in Public Service Organisations*. Hoboken, New Jersey: John Wiley.

Cossons, N. 2006. Capturing the value of places – opening remarks. In Capturing the Public Value of Heritage, The Proceedings of the London Conference 25–26 January 2006. Swindon: English Heritage (30 June 2009; available at http://www.helm.org.uk/upload/pdf/Public-Value.pdf).

Cowling, M. 2006. Measuring public value: The economic theory. London: The Work Foundation (30 June 2009; available at http://www.theworkfoundation.com/assets/docs/publications/172_measuring_economic.pdf).

Cresswell, A., G. Burke and T. Pardo. 2006. Advancing Return on Investment, Analysis for Government IT, A Public Value Framework. New York: Center for Technology in Government, University at Albany (30 June 2009; available at http://www.sap.com/industries/publicsector/pdf/BWP_Public_Value_Framework.pdf).

DeLong, J. 2009. Preparing the Obituary. The American website (30 June 2009; available at http://american.com/archive/2009/february-2009/preparing-the-obituary).

Department for Culture, Media and Sport. 2006a. An Agreement Between Her Majesty's Secretary of State for Culture, Media and Sport and the British Broadcasting Corporation. Cm 6872. London: The Stationery Office (30 June 2009; available at http://www.bbc.co.uk/bbctrust/assets/files/pdf/regulatory_framework/charter_agreement/bbcagreement_july06.pdf).

Department for Culture, Media and Sport. 2006b. Copy of Royal Charter for the continuance of the British Broadcasting Corporation. Cm6925. London: The Stationery Office (30 June 2009; available at http://www.bbc.co.uk/bbctrust/assets/files/pdf/regulatory_framework/charter_agreement/bbc_royal_charter.pdf).

Department for Culture, Media and Sport and Department for Business, Enterprise and Regulatory Reform. 2009. Digital Britain, the interim report. Cm7548. London: The Stationery Office (30 June 2009; available at http://www.culture.gov.uk/images/publications/digital_britain_interimreportjan09.pdf).

Department for Culture, Media and Sport and Department for Business, Innovation and Skills. 2009. Digital Britain, Final Report. Cm 7650. London: The Stationery Office (30 June 2009; available at http://www.culture.gov.uk/images/publications/digitalbritain-finalreport-jun09.pdf).

Dowding, K., P. John, T. Mergoupis, and M. Van Vugt. 2000. Exit, Voice and Loyalty: Analytic and Empirical Developments. *European Journal of Political Research* 37(4): 469-495.

English Heritage. 2006. Capturing the Public Value of Heritage, The Proceedings of the London Conference 25–26 January 2006. Ed. Kate Clark. Swindon: English Heritage (30 June 2009; available at http://www.helm.org.uk/upload/pdf/Public-Value.pdf).

English Heritage. 2008. Conservation Principles, Policies and Guidance for the Sustainable Management of the Historic Environment. London: English Heritage (30 June 2009; available at http://www.english-heritage.org.uk/upload/pdf/Conservation_Principles_Policies_and_Guidance_April08_Web.pdf?1242332030).

Fauth, R., L. Horner, M. Mahdon, and S. Bevan. 2006. Willingness to Pay for the BBC during the next Charter period: A report prepared for the Department for Culture, Media and Sport. London: Work Foundation.

Foster, R., and K. Meek. 2008. Public Service Broadcasting in the United Kingdom, A Longer Term View. London: Social Market Foundation (30 June 2009; available at http://www.smf.co.uk/assets/files/publications/SMF%20PSB%20in%20the%20UK.pdf).

Frey, B. 2008. Motivation crowding theory – a new approach to behaviour. Behavioural Economics and Public Policy, Roundtable Proceedings, Melbourne, 8-9 August 2007. Canberra: Australian Government Productivity Commission (30 June 2009; available at http://www.pc.gov.au/__data/assets/pdf_file/0005/79250/behavioural-economics.pdf).

Gains, F. and G. Stoker. 2008. How Politics Works: Understanding the New Realities of the Political Process in Public Management. London: The Work Foundation (30 June 2009; available at http://www.soton.ac.uk/ccd/events/SuppMat/public%20value%20management%20and%20politics.pdf).

Goodin, R. 1982. *Political theory and Public Policy*. Chicago: The University of Chicago.

Hansard (House of Lords Debates). 2003. Debate on the Communications Bill, 23 June 2003, column 11 (30 June 2009; available at http://www.publications.parliament.uk/pa/ld200203/ldhansrd/vo030623/text/30623-03.htm#30623-03_spnew12).

Hansard (House of Commons Debates). 2008. Debate on NHS Medicines, 4 November 2008, column 131 (30 June 2009; available at www.publications.parliament.uk/pa/cm200708/cmhansrd/cm081104/debtext/81104-0005.htm#08110438000004).

Hausman, D. 1998. Rationality and Knavery. In Werner Leinfellner and Eckehart Köhler, eds. *Game Theory, Experience, Rationality; Foundations of Social Sciences; Economics and Ethics: In Honor of John C. Harsanyi*. Dordrecht: Kluwer (30 June 2009; available at http://philosophy.wisc.edu/hausman/papers/knave.htm).

Helpman, E. 2004. *The Mystery of Economic Growth. Cambridge, MA: Belknap Press of Harvard University Press.*

Hills, D., and F. Sullivan. 2006. Measuring public value 2: Practical approaches. London: The Work Foundation (30 June 2009; available at http://www. theworkfoundation.com/assets/docs/publications/171_measuring_practical3.pdf).

Hirschman. A. 1970. Exit, Voice, and Loyalty: Responses to Decline in Firms, Organisations, and States. Cambridge, MA: Harvard University Press.

Horner, L., R. Lekhi, and R. Blaug. 2006. Deliberative democracy and the role of public managers. Final report of The Work Foundation's public value consortium. London: The Work Foundation (30 June 2009; available at http://www. theworkfoundation.com/assets/docs/publications/107_Deliberative%20 democracy%20and%20the%20role%20of%20public%20managers.pdf).

Hume, D. 1742. Of the Independency of Parliament. In *Essays Moral, Political, and Literary*. (30 June 2009; available at http://www.econlib.org/library/LFBooks/ Hume/hmMPL6.html).

Impey, E. 2006. Why do places matter? The new English Heritage Conservation Principles. In Capturing the Public Value of Heritage, The Proceedings of the London Conference 25–26 January 2006. Swindon: English Heritage (30 June 2009; available at http://www.helm.org.uk/upload/pdf/Public-Value.pdf).

Ipsos MORI. 2005. Who Do You Believe? Trust in Government Information. London: MORI Social Research Institute.

Ipsos MORI and Royal College of Physicians. 2009. Trust in Professions 2008: Public Awareness of Trust in Professions. London: Royal College of Physicians.

Jowell, T. 2006. From consultation to conversation: the challenge of Better Places to Live. In Capturing the Public Value of Heritage, The Proceedings of the London Conference 25–26 January 2006. Swindon: English Heritage (30 June 2009; available at http://www.helm.org.uk/upload/pdf/Public-Value.pdf).

Kahneman, D., and J. L. Knetsch. 1992. Valuing Public Goods: the Purchase of Moral Satisfaction. *Journal of Environmental Economics and Management* 22:57-70.

Kay, J. 2009. 29 April 2009. Box-tickers should not be the ones making decisions. London: *Financial Times* (30 June 2009; available at http://www.ft.com/ cms/s/0/8868fc42-3425-11de-9eea-00144feabdc0.html?nclick_check=1).

Keaney, E. 2009. Public value, public engagement and the Arts Council. London: Arts Council England (30 June 2009; available at http://www.biglotteryfund.org.uk/ presentation_artscouncil.pdf).

Kelly, G., G. Mulgan, and S. Muers. 2002. Creating Public Value: An analytical Framework for public services reform. London: Cabinet Office (30 June 2009; available at http://www.cabinetoffice.gov.uk/media/cabinetoffice/strategy/assets/public_value2.pdf).

Kemp S. 2002. *Public Goods and Private Wants: A Psychological Approach to Government Spending.* Edward Elgar Publishing.

Le Grand, J. 2003. *Motivation, Agency and Public Policy: Of Knights and Knaves, Pawns and Queens.* Oxford: Oxford University Press.

Luft, O. 2008. Carolyn McCall and Sly Bailey attack BBC local online video news plans. *The Guardian* website (30 June 2009; available at http://www.guardian.co.uk/media/2008/nov/04/bbc-pressandpublishing).

Mahdon, M. 2006. Public Value and Health. London: The Work Foundation (30 June 2009; available at http://www.theworkfoundation.com/assets/docs/publications/112_health_AG.pdf).

Marshall, B., B. Duffy, J. Thompson, S. Castell and S. Hall. 2007. Blair's Britain: the social & cultural legacy. Social and cultural trends in Britain 1997-2007 and what they mean for the future. London: Ipsos MORI Social Research Institute.

Moore, M. 1995. *Creating Public Value: Strategic Management in Government.* Cambridge, MA: Harvard University Press.

Moore, M. 2003. The Public Value Scorecard: A Rejoinder and an Alternative to 'Strategic Performance Measurement and Management in Non-Profit Organisations' by Robert Kaplan. The Hauser Center for Nonprofit Organisations Working Paper No. 18. Boston: Harvard University (30 June 2009; available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=402880).

Moore, M. and S. Khagram. 2004. On Creating Public Value: What Business Might Learn from Government about Strategic Management. Corporate Social Responsibility Initiative Working Paper No. 3. Cambridge, MA: John F. Kennedy School of Government, Harvard University (30 June 2009; available at http://www.hks.harvard.edu/m-rcbg/CSRI/publications/workingpaper_3_moore_khagram.pdf).

Mortimore, R., and M. Gill. 2004. *New Labour and Delivery.* London: MORI.

National Audit Office. 2005. Public service broadcasting: the BBC's performance measurement framework. London: NAO (30 June 2009; available at http://www.bbcgovernorsarchive.co.uk/docs/reviews/VFM_PSB_webversion.pdf).

NICE. 2008. Social Value Judgements: Principles for the development of NICE guidance, 2nd ed. London: National Institute for Health and Clinical Excellence (30 June 2009; available at www.nice.org.uk/aboutnice/howwework/ socialvaluejudgements/socialvaluejudgements.jsp).

NICE. 2007. Briefing paper for the Methods Working Party on the Cost Effectiveness Threshold. NICE website (30 June 2009; available at www.nice.org.uk/media/4A6/4I CostEffectivenessThresholdFinalPaperTabledAtWPMeeting5Sep3907KT.pdf).

Nordhaus, W. 2007. Critical Assumptions in the Stern Review on Climate Change. *Science* 317 (5835): 201–202 (30 June 2009; available at http://nordhaus.econ.yale. edu/nordhaus_stern_science.pdf).

Ofcom. 2005. Ofcom review of public service television broadcasting: Phase 3 – Competition for quality. London: Ofcom (30 June 2009; available at http://www. ofcom.org.uk/consult/condocs/psb3/psb3.pdf).

Ofcom. 2007a. BBC new on-demand proposals, Market Impact Assessment. London: Ofcom (30 June 2009; available at http://www.ofcom.org.uk/research/tv/ bbcmias/ondemand/bbc_ondemand/bbc_ondemand.pdf).

Ofcom. 2007b. Methodology for Market Impact Assessments of BBC services. London: Office of Communications (30 June 2009; available at http://www.ofcom. org.uk/research/tv/bbcmias/statement/statement.pdf).

Ofcom. 2007c. Ofcom's Second Review of PublicService Television Broadcasting Terms of Reference. London: Ofcom (30 June 2009; available at http://www.ofcom. org.uk/tv/psb_review/psb_2review/psbreview2.pdf).

Ofcom. 2008a. Market failure in broadcasting. Annex 1 of Ofcom's Second Public Service Broadcasting Review Phase One: The Digital Opportunity. London: Ofcom (30 June 2009; available at http://www.ofcom.org.uk/consult/condocs/psb2_1/ annex11.pdf).

Ofcom. 2008b. Ofcom's Second Public Service Broadcasting Review Phase One: The Digital Opportunity. London: Ofcom (30 June 2009; available at http://www. ofcom.org.uk/consult/condocs/psb2_1/consultation.pdf).

Ofcom. 2008c. PSB Review 2008, Research findings (30 June 2009; available at http://www.ofcom.org.uk/consult/condocs/psb2_1/annex6.pdf).

Ofcom. 2009. Ofcom's Second Public Service Broadcasting Review, Putting Viewers First. London: Ofcom (30 June 2009; available at http://www.ofcom.org.uk/consult/ condocs/psb2_phase2/statement/psb2statement.pdf).

Official Journal of the European Union. 2009. Communication from the Commission on the application of State aid rules to public service broadcasting (1 September 2009: available at http://ec.europa.eu/competition/state_aid/legislation/broadcasting_communication_en.pdf).

Parston, G. 1998. What is Managing for Social Result? London: Office for Public Management (30 June 2009: available at http://www.opm.co.uk/resources/papers/practice/Managing_for_social_result.pdf).

Poole, T. 2008. NICE technology appraisals. London: The King's Fund (30 June 2009; available at http://www.kingsfund.org.uk/document.rm?id=8156).

Povey, K. 2001. Open All Hours, A thematic inspection report on the role of police visibility and accessibility in public reassurance. London: Her Majesty's Inspector of Constabulary (30 June 2009; available at http://police.homeoffice.gov.uk/publications/community-policing/open_all_hours_.pdf?view=Binary).

RAJAR. 2009. Breakfast Shows (weekdays), National Stations, Q1 09. Radio Joint Audience Research (RAJAR) website (30 June 2009; available at http://www.rajar.co.uk/docs/2009_03/2009_Q1_Breakfast.pdf).

Rawls, J. 1971. *A Theory of Justice*. Cambridge, MA: Belknap Press of Harvard University Press.

Reith, J. 1924. *Broadcast over Britain*. London: Hodder & Stoughton.

Rosenblatt. 2008. BBC Local Video Research Report, prepared for BBC Trust. London: BBC Trust (30 June 2009; available at http://www.bbc.co.uk/bbctrust/assets/files/pdf/consult/local_video/audience_research.pdf).

Saunders, D. 1992. Introduction to Research on Hirschman's Exit, Voice, and Loyalty Model. *Employee Responsibilities and Rights Journal, Vol. 5, No. 3, 1992* David M. Saunders]

Saunders, D. 1992. Introduction to Research on Hirschman's Exit, Voice, and Loyalty Model. *Employee Responsibilities and Rights Journal* 5(3):187-190.

Sen, A. 2009. The Idea of Justice. Allen Lane.

Sen, A. 1995. Rationality and Social Choice. *American Economic Review*. 85(1):1-24.

Simon, H. 1991. Organisations and Markets. *The Journal of Economic Perspectives*. 5(2):27-28.

Skidmore, P. 2006. Public value and policing. London: The Work Foundation (30 June 2009; available at http://www.theworkfoundation.com/assets/docs/publications/115_PV_police_AG.pdf).

Staley, K. 2002. Voices, values and health: involving the public in moral decisions. In New, B. and J. Neuberger (eds). 2002. *Hidden Assets: Values and decision making in the NHS*. London: The King's Fund.

Stern, N. 2006. Stern Review on the Economics of Climate Change. London: HM Treasury and Cabinet Office (30 June 2009; available at http://www.hm-treasury.gov.uk/sternreview_index.htm).

Stern, N. 2009. *A Blueprint for a Safer Planet: How to Manage Climate Change and Create a New Era of Progress and Prosperity.* The Bodley Head.

Stiglitz, J. 2001. Information and the Change in the Paradigm in Economics. The Nobel Prize Lecture. Stockholm: The Nobel Foundation (30 June 2009; available at http://nobelprize.org/nobel_prizes/economics/laureates/2001/stiglitz-lecture.pdf).

Stoker, G. 2010, forthcoming. The rise of political disenchantment: can political studies respond?, in *New Directions in Politics* (ed. C. Hay). Basingstoke: Palgrave.

Talbot, C. 2008. Measuring Public Value: A competing values approach. London: The Work Foundation (30 June 2009; available at http://www.theworkfoundation.com/Assets/Docs/measuring_PV_final2.pdf).

The Art Fund. 2009. Free to See, but what's next? The value of public art collections. London: The Art Fund (30 June 2009; available at http://www.artfund.org/pdf/Exec%20summary%20free-%20to-see.pdf).

Throsby, D. 2001. *Economics and Culture*. Cambridge: Cambridge University Press.

Timmins, N. 2009. Information the key to improving health service. London: *Financial Times*.

Walsh, K. 1995. *Public Services and Market Mechanisms: Competition, Contracting and the New Public Management.* London: Macmillan Press.

Williams J., and A. Rossiter. 2004. Choice: the evidence. The operation of choice systems in practice: national and international evidence. London: The Social Market Foundation (30 June 2009; available at http://smf.smf.co.uk/assets/files/publications/Choice-The_Evidence.pdf).

Endnotes

1   The assumption of 'unrestricted domain' in Arrow's original formulation drives the 'impossibility' result, so aggregating social welfare requires the introduction of appropriate restrictions to the questions being debated.

2   Various sources report that, when asked in the 1920s whether he would give people what they wanted, Lord Reith said: 'No. Something better than that.' However, no official source could be traced for this comment and it is possibly an eroneous paraphrasing of the quotation that we have reproduced from Reith's 1924 book *Broadcast over Britain*. The part of the book excerpt that is most commonly quoted – 'few know what they want, and very few what they need' – is usually reproduced out of context.

3   The study of the role, nature and evolution of institutions in economic growth and economic behaviour.

4   The well-known difficulty of establishing correct transfer prices within big organisations illustrates how hard it would be for the transactions concerned to involve explicit prices in an external market.

5   This includes significant social costs or benefits from production or consumption that are not reflected in market prices.

6   The remainder of this chapter draws heavily on Cole and Parston (2006).

7   Adjusted cost per user = total costs x (operating expenditures + capital charge [adjusted for inflation]) divided by the target population.

8   As of September 2009.

9   The Green Paper, A strong BBC, independent of government' was published in March 2005; the White Paper, 'A public service for all: the BBC in the digital age', was published in March 2006.

10 The National Audit Office (2005) examined the RQIV framework. Much of this section is based on its report.

11 Clause 26 in Department for Culture, Media and Sport. (2006a)

12 A full list of the BBC's UK Public Services and a description of service licences can be found at: www.bbc.co.uk/bbctrust/framework/bbc_service_licences/index.html

13 Clause 25 (2) in Department for Culture, Media and Sport (2006a).

14 Clause 25 (3) in Department for Culture, Media and Sport (2006a).

15 Available at: www.bbc.co.uk/bbctrust/assets/files/pdf/about/ofcom_trust_mou.pdf

16 Information on the Trust's Audience Councils is available at www.bbc.co.uk/
    bbctrust/about/audience_councils/index.html

17 The BBC Trust's research shows that licence fee payers place particular
    importance on the distinctiveness of the BBC's output. As well as its important
    role in the public value assessment, distinctiveness is also of course relevant to
    minimising any adverse market impact.

18 This section is largely based on that methodology as described in Ofcom (2007b).

19 The Trust will satisfy itself in this regard on the basis of advice received. Ofcom
    has no responsibility for providing the Trust with advice on compliance with
    competition law, either as part of the market impact assessment or otherwise.

20 The 'introduction of a new service' for the purposes of the Secretary of State's
    procedural veto means anything which the BBC Trust proposes to authorise
    by a new service licence rather than the amendment of an existing licence
    (Clause 33 (4) in Department for Culture, Media and Sport 2006a).

21 'Non-service' approvals apply when the publicly-funded BBC is making a
    significant investment, but not in a new service that commissions its own
    content. When considering non-service applications from the BBC
    management, it is for the Trust to decide how it will consider the public
    interest and market impact issues.

22 The interim Digital Britain report concluded that it was a priority for the UK to
    ensure that its wired and wireless communications and broadcasting networks
    were upgraded and modernised to meet the demands of a modern knowledge-
    based economy, and that much had to be done over the next five years to
    achieve this (Department for Culture, Media and Sport and Department for
    Business, Enterprise and Regulatory Reform 2009). Specific proposals were
    included in the final Digital Britain report (Department for Culture, Media
    and Sport and Department for Business, Innovation and Skills 2009).

23 In this case the requirement for an early review was included in the approval in
    order to determine whether the service should be carried on digital terrestrial
    television (DTT) as well as on satellite and online; the initial approval covered
    only the latter two because the costs of broadcasting on DTT are so much higher
    and, given the lack of availability of spectrum, not feasible at the initial launch.

24 Information in this section was provided by the Royal Opera House.

25 This framework was originally devised by the London-based Demos think tank.
    The Natural History Museum's public value research and analysis, as presented
    here, was carried out by Opinion Leader.

www.bbc.co.uk/bbctrust

BBC | Trust