



# Commissioning for success: how to avoid the pitfalls of open public services

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# Executive summary

On paper, the Government's vision for open public services sounds appealing. It will give people more choice. Innovative organisations will step up to provide public services in new ways. And competition will force poorly performing providers to up their game or face failure.

Few areas will be untouched by efforts to 'open up' public services through choice and competition. Flagship reforms in schools, health and social care all aim to ensure that public, private and voluntary sector providers are funded according to how much citizens want to use their services. Where direct choice is not considered appropriate – in employment services, prisons or probation, for example – public sector commissioners will choose on behalf of users. They will change how they commission services to try to ensure that providers are only rewarded when they deliver 'results'.<sup>1</sup>

While attractive in theory, however, making choice and competition work in practice is far from straightforward. Recent high profile difficulties include G4S' failure to deliver on its Olympics security contract and the 2011 collapse of Southern Cross Care Homes. History provides further examples.<sup>2</sup> To understand the difficulties and identify possible remedies, the Institute for Government brought practitioners and advisers together to examine four particularly common and problematic issues:

1. commissioning skills
2. effective choice
3. continuity of service
4. collaborative commissioning.

## Commissioning skills

Participants in this workshop suggested that **too few Whitehall departments understand the skills shortages they have or have clear plans to address them.**<sup>3</sup> Most felt that commercial skills in Whitehall were particularly scarce and that commissioners focused too much on securing a good price on individual contracts rather than developing a diverse market of suppliers that can effectively meet the needs of users in the long term. There was agreement that new 'payment by results' (PbR) models demanded more from commercial and analytical staff, including better knowledge of financial markets and the factors that encourage investment in companies delivering PbR contracts.

1 Brown, A. and Gash, T. (2011) *Open Public Services*: <http://www.instituteforgovernment.org.uk/publications/open-public-services>

2 Gash, T et al. (2012). *Learning from History: Introducing choice and competition in public services*: <http://www.instituteforgovernment.org.uk/our-work/new-models-governance-and-public-services/public-service-markets-and-commissioning/market>

3 NAO (2011) *Identifying and meeting central government's skills requirements*: [http://www.nao.org.uk/publications/1012/skills\\_requirements.aspx](http://www.nao.org.uk/publications/1012/skills_requirements.aspx)

## Effective choice

This workshop highlighted the importance of ensuring service users are helped to navigate and choose from the complex array of public services on offer. Government does not always need to provide active support itself. However, participants often felt [some departments lacked a coherent strategy for ensuring users can make informed choices](#) that incentivise 'good' provider performance. In addition, information is not provided in the best format for those who use several related services. Too often it is provided through departmental silos. Participants emphasised that the way information is provided (by whom, where, and when) has a major impact on the choices people make.<sup>4</sup>

## Continuity of service

This discussion raised several notable examples (such as the collapse of Southern Cross Care Homes) where government has been caught out by the financial failure of a public service provider. Discussion highlighted that some departments had clearer plans for coping with the failure of a provider than others. It was felt that [many 'failure regimes' needed improvement](#). Some needed greater efforts to protect service users. Others needed regulatory changes as poor providers are currently discouraged from leaving the business or encouraged to take excessive risks.

## Collaborative commissioning

This workshop explored examples of a problem cited in previous Institute for Government research: that from the user's perspective public service offerings are often too fragmented and therefore give poor value for money.<sup>5</sup> When commissioning services, [government can end up paying twice for the same \(or closely related\) outcomes](#) – or alternatively can end up not paying providers for the value they create.

Appropriate responses to these difficulties often depend on the service in question. But our workshops raised many examples where good practice in one service area might be applied in another and ideas where cross-government action could improve services. This report highlights some of the most interesting proposals raised by participants, including:

- creating a temporary government ethnography unit or service to stimulate new skills and ways of thinking about service user behaviour (Proposal 3)
- 'kitemarking' trusted providers of public service information to boost data quality and public confidence in the information provided (Proposal 10)
- creating navigation platforms to help citizens quickly access the most appropriate service, for example based on the single non-emergency number (311) in the US (Proposal 11)

- ensuring that 'failure regime' plans are tested rigorously with those affected – for example through simulations and scenario exercises involving users, providers, officials and ministers (Proposal 17)
- Encouraging users to pool individual budgets to boost their purchasing power and force providers to redesign services to better suit their needs (Proposal 22)

The overarching lessons from the workshops are as important as the proposals that came out of them.

First, the workshops clearly showed that managing public services through choice and competition is dramatically different to directly managing services. Choice and competition increase the number of decision makers in public services and reduce direct administrative control. Some civil servants are struggling to adapt to these differences. The Civil Service is only slowly developing the tools needed to influence system improvements with more limited powers of mandate.<sup>6</sup> And there is no common language for discussing the delivery of public services through choice and competition-based models.

Second, the increased number of decision makers has left many public servants, regulators, and providers struggling to work out who was responsible for solving the issues that were discussed in these workshops. Participants had difficulty describing not only which organisations were responsible, but also which departments or individuals within these organisations. This is perhaps one reason why these problems have persisted.

Third, it was clear that ultimately choice and competition only deliver effective public services when the organisations charged with designing and overseeing competitive systems are performing well. Participants frequently discussed problems that covered far broader topics than contracting services or enabling user choice, such as:

- public sector culture and incentives
- relationships between officials and politicians
- policy and decision-making processes.<sup>7</sup>

From these observations, it seems reasonable to doubt whether government is yet ready to implement its programme of public service reform in a way that will ensure value for money for the taxpayer.

We make three broader recommendations for government which would ensure that government was better equipped to deliver its choice and competition reforms effectively.

1. [Government departments that deliver public services through contractual mechanisms should provide parliament and the public with accountability maps](#). These should give a clear account of which organisations (and individuals) are responsible for which aspects of system management.

4 Dolan, Hallsworth et al. (2010) *MINDSPACE: Influencing behaviour through public policy*: <http://www.instituteforgovernment.org.uk/publications/mindspace>

5 Moss, I. (2010) *The State of Commissioning*: <http://www.instituteforgovernment.org.uk/publications/state-commissioning>

6 Hallsworth, M. (2011) *System Stewardship*: <http://www.instituteforgovernment.org.uk/publications/system-stewardship>

7 For a wider analysis of civil service challenges see Thomas, P. *Civil Service Reform: our verdict*: <http://www.instituteforgovernment.org.uk/publications/civil-service-reform-0>

2. Government should agree areas where there are potential benefits from co-ordinating commissioning across two or more departments and should assign responsibility (and budgets) for taking forward a more co-ordinated approach to specific ministers. This approach could build on the example set by the Ministry of Justice (MoJ) and Department for Work and Pensions (DWP) who are attempting to pay for re-offending and employment outcomes through the same contract.
3. 'Safe spaces' should be provided to enable commissioners, regulators and providers to engage in frank discussion about the challenges of implementing choice and competition effectively. Regulators should advise on how such interactions should be managed to avoid the appearance or risk of collusion, while still enabling the maximum knowledge exchange possible.

These steps are urgently needed if government is to ensure that open public service reforms deliver good value for the taxpayer. Without them, it will be much harder to ensure that public services are improved and some of the exciting ideas raised by practitioners and experts in this report can be implemented.

## 1. Context

Choice and competition are the two fundamental principles that underpin the Coalition's public service reform agenda. As the Open Public Services white paper highlights, the Government's preference is for choice. It believes that wherever possible power over the public services should go to individuals so that they can choose between different services. Mechanisms – such as 'individual budgets' and 'per-person funding' – are being introduced to support individual choice.

Choice-based services are not new. Indeed, choice was one of the defining themes of the Thatcher and Major years and of the New Labour governments. The period since 1979 has seen the introduction of an array of choice-based reforms including:

- personal budgets for health and social care
- greater choice over schools
- giving NHS patients a greater choice of GP.

What is different today is the range of services where users will be able to exercise choice. The Government hopes that by the end of the parliament:

- councils will provide all those who are eligible for adult social care with access to a personal budget
- personal budgets will be tested for sufferers of chronic health conditions, those with special educational needs (SEN) and disability
- personal budgets will be tested as a way of housing disabled people
- users will have a greater role in further education and skills, the NHS, and early education.

Choice is not always possible: for example, if the service is delivered in a community setting or when there is low public tolerance for users choosing. In these cases, the Government wants to switch the default position from one where the state provides the service itself, to one where the state commissions the service from various different providers.

Again, commissioning and its associated activities – such as contract design, procurement and contract management – are not new. Many local authorities, for example, started to commission social care services when compulsory competitive tendering was introduced in the 1980s. Two things make the situation today different:

- the range of services that the Government hopes will be commissioned
- the sophistication of the contracting models used – PbR contracts, for example, aim to reward providers not for the activities they perform but for the outcomes they generate.<sup>8</sup>

At a local level, the Government is looking at whether it's possible to commission from different providers services such as:

- planning
- property and facilities management
- back-office transactional services
- family support
- support for looked-after children.

At a national level, the Government is exploring the commissioning possibilities for:

- court and tribunal administrations
- payment processing
- prevention, detection and investigation of fraud
- debt management and enforcement services
- identity-related services
- land and property information services
- immigration and visa administration.

How commissioning might work in many of these service areas is being explored for the first time. The scale of the Government's public service reform ambitions is not in doubt.

The Government expects that increasing the scope of choice and competition will bring a host of benefits, including:

- encouraging new innovative providers to compete for contracts
- building incentives to support vulnerable groups
- disaggregating services into specialist, targeted functions.<sup>9</sup>

However, there is a long history of failure as well as success.<sup>10</sup> For example, in health, attempts to give patients more choice over where they received hospital care in 1991 actually ended up reducing it.<sup>11</sup> And in further education, the introduction of Individual

Learning Accounts provided disastrously poor value for money and led to widespread fraud.<sup>12</sup>

Government cannot afford such errors at a time when many services are reducing expenditure significantly in real terms. So it is crucial that reforms minimise mistakes and maximise benefits. One way to ensure this is to test the new commissioning models adequately.<sup>13</sup>

However, history and recent research also highlight ongoing challenges which will need to be overcome.<sup>14</sup>

1. **Commissioning skills** – departments will need to be equipped with the commissioning skills and capabilities necessary for introducing choice and competition in their service areas.
2. **Effective choice** – when appropriate, service users should be supported so that they can make effective choices and informed decisions about which types of public services they use.
3. **Continuity of service** – competitive market dynamics must be balanced with the need to ensure reasonable continuity of service for users when providers fail financially.
4. **Collaborative commissioning** is often required when commissioning services that make sense from the user's perspective.

This is not an exhaustive list of what needs to be done for choice and competition to work effectively. Indeed, even if these challenges are resolved, there is still no guarantee that market-based delivery models will work effectively – especially if the service in question does not lend itself to individual choice or competitive provision.

Nevertheless, these long-standing challenges have one thing in common: they are all 'cross-cutting', that is, they affect more than one department with responsibility for public services. As a result, if solutions can be identified and implemented across government then the pay-off could be huge.

9 Open Public Services white paper p.29

10 Gash, T et al. (2012). *Learning from History: Introducing choice and competition in public services*: <http://www.instituteforgovernment.org.uk/our-work/new-models-governance-and-public-services/public-service-markets-and-commissioning/market>

11 Timmins, N. (2012) *Never Again: the story of the health and social care act 2012*: [http://www.instituteforgovernment.org.uk/sites/default/files/publications/Never%20again\\_0.pdf](http://www.instituteforgovernment.org.uk/sites/default/files/publications/Never%20again_0.pdf)

12 Panchamia, N. (Forthcoming) *Choice and Competition in Further Education* : <http://www.instituteforgovernment.org.uk/our-work/new-models-governance-and-public-services/public-service-markets-and-commissioning/market>

13 Blatchford, K., and Gash, T. (2012) *Testing New Commissioning Models*: <http://www.instituteforgovernment.org.uk/publications/testing-new-commissioning-models>

14 Gash, T et al. (2012). *Learning from History: Introducing choice and competition in public services*: <http://www.instituteforgovernment.org.uk/our-work/new-models-governance-and-public-services/public-service-markets-and-commissioning/market>

## 2. Aims and method

In February and March 2012 the Institute for Government hosted four workshops with senior civil servants, commissioners, regulators and providers (public, private, and voluntary). The aim was to unpick these four long-standing commissioning challenges and to identify practical ways of addressing them.

The four workshops were structured differently to stimulate a productive exchange of ideas. They focused on sharing lessons and perspectives across different service areas. Each workshop was supported by a preparatory briefing which outlined the problem under discussion so that the workshop itself could focus on generating practical ideas rather than reiterating well known difficulties.

The following four chapters of this report address each of these challenges and the concluding section provides the Institute's reflections on the series as a whole. The chapters provide an overview of the insights generated by the commissioning experts that attended our workshops. And they summarise the ideas participants proposed as possible solutions to the challenges discussed.

The insights should be seen as helpful suggestions for tackling cross-cutting commissioning challenges, rather than a comprehensive set of recommendations.

## 3. Skills for a world of commissioned public services

### Background to the roundtable

Many departments are expanding the proportion of services which are competitively tendered and are introducing innovative commissioning tools such as payment by results and individual budgets.<sup>15</sup> The skills and capabilities of civil servants responsible for implementing new commissioning models will be pivotal to the success of these reforms.

Different departments need different sets of commissioning skills depending on their precise role. Those with direct responsibility for commissioning services need civil servants with commercial skills.

Others – with responsibility for services where users choose from several providers – will require design and stewarding skills. They will need to be able to set market-based policy frameworks and design systems for providing feedback on how regulators, commissioners and providers are achieving policy objectives.

However, all departments face a common challenge – to develop commissioning skills that are fit for purpose.

### Overview of the discussion

Participants highlighted six areas that need to be addressed to equip civil servants with the necessary skills:

1. recognising that commissioning skills are broader than procurement skills
2. understanding existing skills
3. developing new skills
4. blending expertise in commissioning teams
5. giving civil servants access to supported on-the-job training
6. ensuring senior leaders encourage experimentation with different approaches to commissioning.

<sup>15</sup> A list of the various new commissioning models being introduced by government can be found in *Testing New Commissioning Models*: <http://www.instituteforgovernment.org.uk/publications/testing-new-commissioning-models>

## Commissioning skills

Participants agreed that the skills departments need to either oversee or directly manage public quasi-markets are broader than just procurement skills. Participants highlighted skills that can be grouped into two categories:

- commercial expertise
- more general expertise in 'market design'.

### Commercial expertise

Commercial expertise includes skills in:

- programme management
- project management
- financial and contract management
- working with partners to assess service-user needs.<sup>16</sup>

Commercial expertise should give departments a greater understanding of provider perspectives. This in turn will allow government to work more constructively with providers and to recognise when providers are behaving inappropriately.

Commercial skills should also allow government to understand what the market can deliver and what steps need to be taken to develop the market. Such steps might include:

- ensuring that there are sufficient numbers of providers to maintain effective competition
- ensuring that high performing, specialist providers are not forced out of the market simply because they lack contracting skills
- ensuring that organisations are not prevented from competing for payment by results contracts simply because they lack the working capital to cope with delayed payment schedules.

Participants reported that many private sector companies will actively cultivate long-term relationships with particular 'mission critical' suppliers – even lending those organisations staff to build capability – rather than aiming to secure immediate cost-savings on short-term deals. This was seen as being effective but in tension with the greater public sector emphasis on transparency, fairness and probity.

### 'Market design'

The idea of market design challenges the way civil servants think about markets. It gets them to see markets not as entities that will inevitably emerge and deliver public value, but

as structures that are susceptible to the actions of different 'market actors'. These might be commissioners, providers, regulators and service users for example.

Civil servants cannot dictate the actions of some of these actors. But they can influence their behaviour by shaping the environment in which commissioning takes place and through the 'market mechanisms' that they create. These include contracts, methods of redress and payment schedules. So civil servants need market design skills that ensure market actors – especially those with commercial interests – achieve public value.<sup>17</sup> This description clearly overlaps with some of the commissioning skills described above. However, 'market design' was seen as a still broader skill set requiring consideration of issues such as:

- which organisations should be commissioning services
- how commissioners should be incentivised, rewarded and supported
- whether 'checks and balances' are required, for example regulatory assurance mechanisms or public redress mechanisms.

The appropriate mix of commercial and market design skills will vary depending on the department's role in the public market. Commercial expertise is particularly important when departments have direct responsibility for commissioning services. Skills in market design are vital when the department has responsibility for creating a new market or overseeing the overall health of an existing market.

Senior leaders need to have a clear understanding of their department's role. They need to use this understanding to develop an appropriate mix of skills for their department. They also need to recognise that their department will need a broad range of skills that are unlikely to be mastered by one person or one professional group.

**Proposal 1:** Senior leaders must to be able to articulate which procurement, commercial and market design skills their departments need to fulfil their roles in the public market. The appropriate mix will depend on a department's role in the public service market.

## 2. Understanding existing skills

Participants suggested that the development of commercial and market design skills firstly requires departments to understand the skills they currently have.

Participants were impressed by the efforts the Government Procurement Service has made to understand what procurement skills exist in government. Buying Solutions – the Executive Agency of the Cabinet Office with responsibility for delivering centralised procurement for departments – has undertaken an intensive exercise to evaluate the skills

<sup>16</sup> NAO DWP departmental overview p. 15.

<sup>17</sup> We further discuss the skills needed to test different market mechanisms in Blatchford and Gash (2012) *Testing New Commissioning Models*: <http://www.instituteforgovernment.org.uk/publications/testing-new-commissioning-models>

and capabilities it has in place across the organisation.<sup>18</sup> It has used this evaluation to develop a programme to up-skill 60 core procurement staff in five key modules:

- customer relationship management
- negotiation
- demand management
- contract management
- specification management.

However, according to participants, departments lack a clear understanding of the commissioning and market design – as opposed to procurement – skills they have. This is partly because departments take a narrow view of commissioning and may look no further than procurement as the extent of their departmental expertise. When definitions of commissioning are expanded beyond procurement, departments struggle to understand their expertise and capacity. They lack definitions, data and information about the skills that exist in the department.

It is difficult for senior leaders to know where and how to expand commissioning expertise without first knowing where the department stands. So participants were enthusiastic about the idea of carrying out a 'skills audit' across government to identify:

- existing skills
- pockets of significant expertise
- areas for development.

**Proposal 2:** Senior leaders should be able to identify the skills their departments have to fulfil their role in public service markets, and recognise where there are gaps. A 'commissioning skills audit' may provide senior leaders with a better understanding of current commissioning capacity.

### 3. Developing new skills

Discussions suggested that some skills and ways of thinking were still relatively alien to public servants. In particular, it was noted that there was a shortage of understanding on how individuals make choices and the factors that influence their behaviour. The Behavioural Insights Team (or 'Nudge Unit') in the Cabinet Office was recognised as having built Whitehall's understanding of decision-making processes. Some participants wondered whether a similar unit focusing on ethnographic research could be helpful.

**Proposal 3:** The Government should consider whether there is value in setting up a central resource pool or 'service' focusing on ethnography to increase its understanding of user behaviour, and focus particularly on how people make choices about public services.

### 4. Blending expertise in the commissioning team

With a better understanding of the skills they have, departments can start to build teams with an appropriate mix of expertise. This is important as a single person cannot master the broad range of procurement, commercial and market design expertise that departments need to execute their role in public markets. Commissioning must not be seen as a skill set that is 'farmed off' into an operational area. Rather, departments need to ensure that commissioning teams are inter-disciplinary, draw on a range of different professional expertise and are well connected into departmental leadership.

There are good examples of inter-disciplinary commissioning teams, such as the payment by results team in the Ministry of Justice. However, participants suggested that departments tend to rely too much on bright and enthusiastic individual civil servants becoming experts in all aspects of commissioning. There needs to be a more strategic attempt to build a range of expertise in government. Inter-disciplinary commissioning teams should become the norm. Participants welcomed the idea of moving towards flexible resource allocation.

**Proposal 4:** Departments should not assume single individuals can have all the skills needed to commission services effectively. Senior leaders need to develop multi-disciplinary commissioning teams that blend policy, financial, and commercial expertise.

### 5. Training civil servant commissioners

More flexible resource allocation will not be sufficient to equip departments with the necessary skills, if the skills don't currently exist in government. When skills are absent senior leaders face three options:

- buy in skills through recruitment or secondment
- commission non-government experts
- develop existing employees.

Participants thought the best way for current employees to develop their commissioning expertise would be through a combination of formal training and continuous on-the-job development. This would strike the right balance between respecting resource constraints and the need to build institutional knowledge about operating choice and commissioning.

Formal commissioning training opportunities are becoming increasingly available to certain commissioning groups within central government. For example, the Major Projects

<sup>18</sup> Buying Solutions Annual Accounts 2010/2011 <http://www.buyingsolutions.gov.uk/aboutus/publications/corporatepublications/>

Authority (MPA) is a new collaboration between the Cabinet Office, HM Treasury and departments. It aims to improve the delivery success rate of major projects across central government.<sup>19</sup> MPA has commissioned a Major Projects Leadership Academy at Saïd Business School to “develop a cadre of world-class major project leaders within the Civil Service to direct major government projects of high complexity and cost”.<sup>20</sup>

Participants welcomed these developments, but were keen to emphasise the importance of continuous on-the-job development – which tends to be overlooked in favour of formal training. On-the-job training is effective when it is part of a civil servant’s continuous professional development. Peer-to-peer learning through interdisciplinary teams is one form of on-the-job training that could be further explored. Other options include:

- spending time on secondments with providers
- working with other commissioners to learn from their experiences
- spending time with user communities
- getting colleagues with ‘frontline’ experience to advise or even work with central government teams.

But civil servants are not necessarily rewarded in career terms for spending time on ‘frontline’ secondments. Even spending time in local government is not seen as a step to the top. Civil servants need to be given opportunities to build their skills throughout their careers. A more fluid civil service which values external experience might help build commissioning capacity within government.

**Proposal 5:** Senior leaders need to create opportunities for commissioners to continuously develop their expertise by combining formal training sessions with on-the-job development. Potential on-the-job development options include secondments to work with other commissioners and spending time with service users.

## 6. Encouraging experimentation

While skills are essential for effective commissioning, participants recognised that more is required. The environment in which commissioning occurs is also important, and needs to encourage creative thinking from all the public servants involved. Creative thinking is particularly important when reallocating funding from areas that are not working, and when using the commissioning process to redesign services. So public servants need to have the courage to ask questions about practice and be given the freedom to experiment with new approaches to commissioning services.

There is an important role for leaders in fostering an environment that encourages innovative approaches to commissioning. Leaders should seek to reward experimentation,

encourage lessons to be learnt from failed experiments, and build trusted relationships with their colleagues. When senior leaders change position it can undermine the trusted relationships needed to try new approaches. Greater stability among senior leadership teams might help to foster an environment that challenges existing practice.

**Proposal 6:** Senior leaders need to pay serious attention to the environment in which commissioning is taking place. Commissioners need to be given incentives to experiment with new ideas and ask questions about current practice. Effective contract management demands good management of those designing and implementing contracts.

<sup>19</sup> More details can be found here <http://www.cabinetoffice.gov.uk/content/major-projects-authority>

<sup>20</sup> More details can be found here <http://www.sbs.ox.ac.uk/newsandevents/news/Pages/MPLA.aspx>

## 4. Supporting effective user choice

### Background to the roundtable

Public service reforms in health, education and social care rely on users being able to make informed judgements about the quality and appropriateness of the different services available to them, and being willing to act on those judgements by choosing the provider that best suits their need. The Open Public Services White Paper suggested that choice-based services will be extended into other service areas.<sup>21</sup> In March 2012 the Government announced a consultation on whether the 'right to choose' should be enshrined in legislation.<sup>22</sup> Choice is therefore a fundamental principle that underpins public service reforms in the UK.

However, low rates of switching between providers in areas such as privatised utilities raise concerns over how far choice will be exercised – and therefore how quickly any benefits of choice will be realised. There are particular challenges for ensuring effective choice when services are complex. There are strong disincentives for switching provider – for example, potential disruption to a child's schooling – or when the analysis of data on provider performance is too time consuming.

Given these complexities, the second workshop in the Institute for Government's commissioning series looked at the role of departments in supporting effective user choice. The workshop had a particular focus on the 'demand side', that is, the role of departments in making sure the public has access to information which helps them make effective choices. The 'supply side' is also important, as choice cannot be effectively exercised where there are no services to choose between.

### Overview of the discussion

The starting point for many participants was that choosing between different public services is very different from choosing between many 'private' goods. There are a number of reasons for the distinction. Users of public services often make a 'one-off choice' that then leads to a continuing relationship with providers. In the case of schools, for example, this may mean that competition incentives are mostly present in interactions between schools and parents before their children even start experiencing the service. The 'repeat custom' incentive is therefore minimal.

Public service users may also have difficulty making fully informed choices because of information 'asymmetries' between users and providers. In the case of healthcare, for example, is it unlikely that service users will be in a position to make a fully informed decision about which treatment centres will best meet their needs. Dependence on GPs to make choices on behalf of users is likely to be high. In such cases, the provision of information alone is unlikely to be sufficient to make choice work effectively.

Service users may also be resistant to choosing different services. They may be unaware that they have a choice of different services, may not have the time to choose different services, or simply may not want to choose. Low levels of user demand may mean that choice is not an effective driver of service improvement.

Finally, choice is also not appropriate for all public services. In the case of prisons, for example, where there is likely to be low public tolerance for prisoners choosing their prison, other mechanisms for service improvement will be required.

As a result, the group suggested that there was no 'one size fits all' role for government departments to play in supporting choice and ensuring that users have the appropriate information. Roles need to vary depending on:

- the nature of the service in question
- the role choice can play in realistically improving service standards
- the extent to which organisations exist which digest information and help users make choices.

Nevertheless, five principles for effective public service information did emerge from the discussion. These principles were:

- the underlying system supports user choice
- information should be publicly available
- information should be useful
- information should be reliable
- users should be able to navigate different sources of information.

When departments have direct responsibility for ensuring users have access to information that allows them to make effective choices, they may need to assess the extent to which they are upholding these principles. When the responsibility falls on others, be it providers, users, or intermediary organisations, departments need to decide what role they should play in ensuring these principles are upheld.

### The underlying system supports user choice

There are two sides to the choice equation. Ensuring users have different services to choose between is equally as important as enabling service users to make informed service choices.

Although it was beyond the immediate scope of the workshop, participants raised concerns that it was particularly difficult to guarantee a range of providers when the level of demand for public services was low (for example in rural areas), and when there was insufficient money to pay for the extra capacity on which choice depends.

Some participants also questioned whether choice-based services were appropriate at all, especially when competition is incentivised at the expense of collaboration.

21 Open Public Services White Paper (2012): <http://files.openpublicservices.cabinetoffice.gov.uk/OpenPublicServices-WhitePaper.pdf>

22 David Cameron Speech <http://www.number10.gov.uk/news/speech-on-open-public-services/>

They questioned just how much choice was needed to really drive improvements in service quality. For example, there was a debate about whether choice 'on the margins' is sufficient. That is, would a few users choosing different services put sufficient pressure on the system to lead to overall improvements? Or do the majority of service users need to actively switch between providers for choice to have an effect?

**Proposal 7:** Departments need to consider whether their services lend themselves to being delivered through a system of choice-based competition.

## Information should be publicly available

Users will find it difficult to choose between different providers when information about public services is lacking. Participants felt departments should make clear who is responsible for ensuring information is publicly available, but not necessarily have primary responsibility for generating information.

Participants were enthusiastic about encouraging users to feedback on their experiences.<sup>23</sup> User feedback can add an important qualitative dimension to the information available to other users. It also reveals what users value, putting more pressure on providers to improve their services in line with user preferences. Participants suggested that those with responsibility for encouraging user feedback should consider:

- whether it is easy for users to give feedback
- how rich data can be generated from different user groups
- how user perspectives can be aggregated in a way that is accessible to others.

The credibility and independence of user-generated information is also important.

**Proposal 8:** Service users need publicly available information to make choices. Departmental leaders need to make clear who is responsible for providing information about public services, and encourage user feedback where possible.

## The information is useful

There may be a wealth of publicly available information, but for choice to work, users need to find this information useful. The Government hopes that as part of the 'armchair auditor' revolution, many intermediary and user groups will put publicly available information into formats service users find helpful and usable. However, some participants felt government might, at least initially, need to take more proactive steps to encourage groups to turn data into usable formats.

One way in which departments could help users access information would be to address how information providers are funded. For example, government could 'pay per click', that is, pay providers for each service user which actively uses the information on a website.

Alternatively, if government was clearer about the 'rules of the game' – including whether it is acceptable to profit from public information – it could help information providers self finance (for example by selling advertising space). Participants suggested that the market for information provision is likely to be more vibrant if departments are clear about which business models they will support.

But departments should not assume that useful information is only available on the internet. Conversations at the school gate will often determine where parents send their children to school as much as where the school sits in the league tables. To be really useful and influence user choice, information needs to be available when users make real-life choices. As a result, putting information on the internet may not be sufficient to really make an impact. Linking information to the point at which choices are made is crucial. For example, participants suggested that it would make far more sense if information on GP performance was available in the place where the user booked his or her surgery appointment.

Information also needs to be relevant to service users' 'choice areas', that is, the services that users can realistically choose between. Concerns were raised, for example, that national school league tables hide improvements in low-scoring schools, and make it hard to make local comparisons when schools perform similarly against national averages. When choices are local, participants suggested that information should be localised to provide a more meaningful comparison between services.

**Proposal 9:** Service users need useful and meaningful information to make choices. Providers of information that influence user choice need to ensure that it is available when and where users make choices.

## Information should be reliable

For users to make informed choices between different public services, it is important that information is of good quality and reliable. Accessing reliable information can be challenging, especially when there are a lots of providers that produce non-comparable performance metrics. Concerns were raised that in the absence of clear performance metrics against which to report and independent arbitrators to assess the quality of performance information, providers would not have enough incentive to generate reliable information about their performance.

Participants suggested there may be a 'light touch' role for government in raising the reliability of public service information. Government approved 'kitemarks' could help to improve quality by publicly demonstrating the reliability of information, naming and shaming poor information providers, and using the 'stick' of ex-post consumer protection legislation.

<sup>23</sup> More information about maintaining a competitive market for choice tools can be found here [http://www.ofc.gov.uk/shared\\_ofc/reports/consumer\\_protection/ofc1321.pdf](http://www.ofc.gov.uk/shared_ofc/reports/consumer_protection/ofc1321.pdf)

**Proposal 10:** Departments may need to inject confidence into choice-based public services by experimenting with light touch ways of encouraging the provision of reliable information, such as 'kite marking' reliable information providers.

### Users can navigate different sources of information

Even when there is an abundance of information about public services in a usable format, choice can still be undermined if there are several sources of information which are hard to navigate. For example, when service users are faced with lots of different websites that provide information about public services, it can be difficult to know which sources to trust, and where to access information which reflects their particular service needs.

When information is fragmented there may be a case for departments building platforms (either directly or through an intermediary) which signpost users to services that are most appropriate to their needs.

Participants were particularly impressed by the 311 phone service in New York. The 311 service has replaced the 40 resource-intensive city agency call centres with a single number and operators who direct customers to the information they need.<sup>24</sup> Participants suggested that the 311 service works because it directs customers beyond existing service silos – an approach that should be replicated by any similar platforms in the UK.

It was suggested, for example, that if the 111 telephone service covered social care as well as non-emergency health enquiries then many callers could be directed to more appropriate social care services.<sup>25</sup> To achieve this, those providing such platforms must have the authority to direct service users beyond traditional organisational boundaries.

**Proposal 11:** Departments need to consider whether they should play a role in building platforms which help direct users to the services which will best meet their needs, as the 311 phone service does in the New York.

<sup>24</sup> [http://www.accenture.com/SiteCollectionDocuments/PDF/Accenture\\_Health\\_and\\_Public\\_Service\\_NYC\\_311\\_Customer\\_Service\\_Solution.pdf#page=1&zoom=50%](http://www.accenture.com/SiteCollectionDocuments/PDF/Accenture_Health_and_Public_Service_NYC_311_Customer_Service_Solution.pdf#page=1&zoom=50%)

<sup>25</sup> [http://www.dh.gov.uk/en/MediaCentre/Pressreleases/DH\\_118861](http://www.dh.gov.uk/en/MediaCentre/Pressreleases/DH_118861)

## 5. Coping with service failure

### Background to the workshop

For competition to work as a way of driving improvement in the quality of public services, providers need to believe that poor performance will result in contracts being retendered to more successful competitors. In theory, using competition and retendering contracts to more successful providers creates a Darwinian system where some providers improve their performance, while others perform less well than their competitors. Markets encourage the fittest providers to survive.

Such a system of public service delivery raises a number of questions, such as:

- what happens in the period before a provider is deemed to have 'failed' by the terms of the contract, but service standards are slipping?
- what happens to people who depend on the services of a failed provider?
- how should government respond once a provider is deemed to have failed?

These questions are tough to answer, both in political and administrative terms. Yet without answers, there is a risk that unpredicted and unmanaged service failures will occur and that these will have a disproportionately negative impact on service users and the public purse.

Because of this, the third workshop hosted by the Institute for Government addressed the issue of how to balance competitive dynamics in public service delivery with protecting the interests of service users.

### Overview of the discussion

Participants started with the premise that any steps government takes to address the risk of providers failing should be proportional to the scale of failure, and relevant to the type of service in question. Government therefore needs to be prepared to intervene in different ways – from taking steps to prevent service failure to full-scale intervention and taking over from a failing provider. Consideration needs to be given to who should prevent and tackle service failure, when they should do so, and how they should go about the task.

Participants discussed the steps departments need to take to ensure proportional continuity regimes are in place. A number of action areas emerged from the discussion:

- understand the type of failure
- ensure 'early-warning systems' are in place which use appropriate indicators
- incentivise market actors to address problems early
- plan who should intervene, when and how in cases of failure
- rigorously test failure plans with different market actors.

## Understand the type of failure

Two main types of failure were discussed:

- service failure – where standards slip below an acceptable level
- financial failure – where the service provider is no longer able to provide a service because they are bankrupt or it is not financially viable to continue operating the service.

The two types of failure are sometimes related. Financial difficulties might lead to economy drives that undermine standards, for example. Or performance failures may lead to lower demand, leaving the service under-utilised and inefficient.

Participants agreed that the Government's response to failure needs to be flexible according to the nature of the service in question. There are different types of markets for the provision of public services – from natural monopolies, to competitive mixed markets.

When natural monopolies, such as railways and water services fail, the Government's priority tends to be to find alternative providers or step in as a 'provider of last resort', as by definition, natural monopolies do not have existing competitors. Given the importance of most natural monopolies to the economy and society, government tends to tolerate only minimal disruption to service users.

When the market is diverse, such as in markets for schools and social care, there is a greater likelihood of commissioners being able to re-commission services relatively quickly to alternative providers. As a result the departmental focus is more likely to be on encouraging alternative providers to bid to take over service provision, while also aiming to minimise disruption for service users.

There may also be greater scope to ensure a rapid increase in service standards in such markets. Departmental priorities and what departments can realistically achieve in response to failure is likely to depend on the characteristics of the market they oversee.

Departmental priorities are likely to be shaped by public expectations about service standards. In areas where a high value is placed on the service (as in healthcare) the public will expect government to spot failure early and take appropriate steps to tackle the problem. For services such as hospitals and schools that deliver essential public services, the public is less tolerant of the complete collapse and closure of local institutions. Mergers, acquisitions and management take-overs are likely to be preferred.

For non-essential services or services that are less geographically based or 'customer-facing', such as waste management or IT services, participants suggested the public is more likely to tolerate one provider collapsing and being replaced by an alternative.

The appropriate governmental response to service failure will depend on the type of market involved and public preferences. So departments need to build their continuity regimes on a good understanding of the type of market in which they are operating.

**Proposal 12:** Departments need to ensure that their plans to address provider failure are based on an understanding of the type of market in which providers are operating. Plans will vary depending on what acceptable failure looks like, the service standards that need to be upheld, and the degree to which service continuity needs to be ensured.

## Ensure 'early-warning systems' are in place which use appropriate indicators

Participants discussed the importance of departments developing 'early-warning systems' to oversee the 'health' of public services and flag up when services are beginning to struggle. These systems would expose the problems providers were having early and therefore allow time for those responsible to intervene and try to prevent failure.

The precise characteristics of these early-warning systems will vary depending on the nature of the market. If, for example, only a few providers exist then government may need to keep a closer eye on providers' financial health than if the market was more diverse. But, in general, these systems need to provide quick and consistent feedback on:

- the quality of services
- the financial health and market share of different providers
- how providers would cope with a competitor failing.

For early-warning systems to work effectively, timing is important. Information about the health of the market needs to flow back to the department quickly so that commissioners, policy makers and providers can assess, and respond to, the impact their actions have on the way the market operates. The Government will also need to find ways of getting information into the hands of those who need it quickly if it wants to adopt a preventative approach to market failure. Participants suggested that any early-warning system should be kept simple. They were particularly keen on methods which flag the extent to which the providers, and the market more generally was 'red, green or amber' on a range of dimensions.

Participants debated which indicators early-warning systems should use, and the appropriate balance between financial, market share and quality indicators. Indicators such as the EBIDTA<sup>26</sup>/debt ratio can provide a good indication of the financial health of an organisation without having to make the reporting system too complicated.

But as quality indicators and levels of user demand are likely to be leading indicators of financial problems, it may be fruitful to focus any early-warning system on the quality of services being provided. When users can choose between different services it might also be helpful for the department to track levels of user demand. Lots of users leaving one provider in favour of another would indicate that the first provider was on a failing trajectory. This may mean plans need to be put in place to transfer remaining customers to a different provider should failure materialise.

Participants also discussed whether departments should have primary responsibility for early-warning systems. It is not always clear that departments have both knowledge about the 'totality' of market performance, and the powers to intervene to address market failures. Furthermore, the extent to which there is political appetite for departments taking the lead role for monitoring markets appears to vary across sectors. Some departments prefer arm's-length institutions to monitor markets, while others prefer a more active role. Nevertheless, if they do not do it directly, it is important that departments ensure someone is gathering intelligence and looking out for the health of the market.

**Proposal 13:** Departments should ensure that early-warning systems are in place to provide quick feedback on the health of public service markets.

### Incentivise market actors to address problems early

Minimising the likelihood of service failure requires providers, commissioners, regulators and departments to be clear on their respective roles in spotting failure and acting on problems. All need to have the appropriate capacity and capability to act on problems as they arise and before they escalate into failure.

Participants emphasised the importance of providers having governance structures in place that allow them to respond quickly to declining performance. We heard that organisations can at times be overly dependent on non-executive directors – many of whom do not necessarily have the capacity, skills or powers to spot and address problems early.

Participants also stressed that commissioners must be incentivised to assess the impact of their contracting decisions on the 'health' of the market. To minimise the risk of failure, commissioners need to consider whether a contract will:

- decrease capacity in the market
- radically increase the market share of the provider
- demand unachievable levels of service.

Yet participants reported that commissioners are not always incentivised to make these assessments and to look after the health of the market. To increase incentives, commissioners could be externally regulated and held to account for the actions they take. This approach is likely to be expensive however and may encourage risk aversion among the commissioning community. A less interventionist approach could involve commissioners providing peer-to-peer support and pressure to uphold transparent standards.

**Proposal 14:** Departments should assess whether providers are incentivised to address problems early and have strong, capable governance that will minimise the likelihood of provider failure.

**Proposal 15:** For commissioned services, departments should assess whether commissioners are incentivised to take a long-term view of market health and resilience.

### Plan when and how to intervene in cases of failure

While prevention is better than failure, government needs to be prepared for provider failure for ex-post and ex-ante reasons. Knowing what to do when a provider fails can:

- minimise the disruption to service users
- maintain the value of contracts and the failed provider's assets
- minimise the 'panic' in the market.

The threat of intervention can also have dramatic ex-ante effects on the way that providers operate, and can help to steer the market towards more desirable outcomes. If the department has an explicit view on how it will respond to deteriorating service standards – and the degree of management required if services were to fail – then confidence will be injected into the public service market.

To do so, any continuity regime needs to clearly define:

- what the response to failure will be
- who has what responsibility in cases of failure
- how an intervention should be undertaken.

As one participant suggested, "failure needs to be well managed, needs to be minimal, and there needs to be a commitment to act on the approach". More specifically, any failure framework may need to give departments the legal and contractual powers to facilitate or force re-contracting, takeover or merger. This legal framework may need to be written into legislation.

Departments will then need to bring these powers to life by being clear who has the lead role in response to failure and by planning what kind of service transfer might need to take place. This includes planning what happens to existing contracts and assets that service providers own outright and public sector assets that are held by the non-government providers. A lot of value can be lost or gained when contracts are transferred from one provider to another. A clear plan can help maintain the cost effectiveness of the contract from the Government's perspective.

There are a number of ways of dealing with the transfer of services from a failing provider. Government can allow another provider to take over the service, although it may be difficult and expensive to attract alternative providers if the contract is seen as 'toxic'. Government can allow the failing provider to merge with another organisation, but experience with hospitals suggests mergers spread problems rather than solve them. Government can act as an operator of last resort in cases of failure. In the early days of

franchising rail, for example, First Class Partnerships provided this role. Latterly Directly Operated Rail has functioned as the holding company in cases of rail franchise failure.

There are different views on who should take primary responsibility for managing failure. Some participants suggested that departments should devolve powers to respond to failures to an organisation at arm's-length from government. They suggested that ministers need a degree of protection from the immediate fallout of public service failure (although ultimately ministers are accountable in cases of failure), and officials need 'space' to address the problem in hand. It is also helpful to maintain a division of responsibility so that different actors can be clear about their role in response to a crisis. However, others suggested that departments needed to maintain a direct line of intervention, and that devolving responsibility would make it more difficult to be responsive in the event of failure.

The appropriate response will depend on the service in question and the nature of the service failure. Nevertheless, it is important that the Government has taken steps to prepare an appropriate response, or range of responses. The ultimate objective of a carefully engineered Plan B, or 'failure framework' should be to allow for a quick intervention that service users hardly notice, and which then leads to service improvement.

**Proposal 16:** Departments need a clear plan for dealing with provider failure, including what happens to contracts and assets, and who has responsibility for managing failure. The plan should inject confidence into the market without creating moral hazard.

### Rigorously test failure plans with different 'market actors'

Participants suggested that continuity regimes – and the roles different actors should play in response to a crisis – should be thoroughly tested through methods such as war games and simulation exercises.<sup>27</sup> This testing will expose weaknesses in plans and help prepare different actors for their role in the event of service failure.

Government also needs to communicate plans to all the stakeholders involved. It is important that government communicates realistic expectations about how long it may take to put a service back on track after service failure has occurred. Effective communication requires officials to engage with public service users, employees and other stakeholders when failure plans are initially developed so that different actors know where they stand if failure occurs.

**Proposal 17:** Departments should ensure that failure frameworks are tested rigorously with those affected, and that those affected understand how the frameworks work.

<sup>27</sup> Blatchford, K., and Gash, T. (2012) *Testing New Commissioning Models*: <http://www.instituteforgovernment.org.uk/publications/testing-new-commissioning-models>

## 6. Collaborative commissioning

### Background to the workshop

Different public service providers often help the same groups of people. A person with a drug addiction, for example, may require health, welfare, education and housing services to get them on the path to recovery. Yet these services are often designed, delivered and held to account within different organisational and administrative boundaries. As a result, there is fragmentation between different providers. This can lead to service users having bad experiences with providers, and services being duplicated and not meeting user needs.

The reasons why organisations struggle to collaborate across administrative silos and 'wrap' services around service users are well known. Conflicting organisational priorities and cultures can create obstacles. The sustained effort collaboration requires is difficult to maintain in a world of rapidly changing budgets and personnel. And there are many legal and technical difficulties that can stand in the way of the best efforts to collaborate. In sum, collaboration is difficult.

There is also no magic solution to these collaboration challenges. Successive governments have tried different approaches, from formal partnerships such as local strategic partnerships at a local level and cross-departmental units in central government, to more informal collaborations between statutory and non-statutory organisations. While there are many examples of success from the history of such partnerships, there is no hard and fast rule about what works when.

Commissioning could offer another route to joining up public services. But equally commissioners could continue to reinforce administrative silos if they do not seize the opportunity to redesign services. As a result, the fourth workshop in the Institute for Government's commissioning series looked at how commissioning could help design public services that make sense from the service user's perspective.

### Overview of the discussion

Participants discussed different ways commissioning could help design services that cross traditional organisational boundaries. From the discussion, six different 'collaborative commissioning models' were identified:

- formal joint-commissioning partnerships
- informal partnerships led by 'heroes'
- constructive relationships with providers
- providers being paid for broad outcomes
- providers joining up different outcome-based contracts
- empowering users to join up services.

Below is an overview of the different collaborative commissioning models, their relative strengths and weaknesses, and what would be required to make them work effectively. These models are not mutually exclusive and – as the case study below on the Lambeth Livingwell Collaborative suggests – combining different models can be effective. It is also important to remember that collaboration is messy and hard to define. How different models are used in reality is likely to feel very different from their description on the page.

It is vital to recognise that 'joining up' doesn't always work. In some cases, the benefits of clarity of purpose and management accountability may outweigh the benefits of collaboration, which often has high transaction costs. There are many areas where greater co-ordination is highly sensible but it is critical to focus collaborative efforts on areas where the benefits outweigh the costs.

### Model 1: Formal commissioning partnerships

The first collaborative commissioning model discussed was a 'red blooded partnership' between different public sector budget holders who then jointly commission public services.

Formal joint commissioning partnerships can be very difficult to create. Particularly at a local level, different organisations have different rules about the extent they can delegate budgets, who they can take on secondments, and most importantly who they can trade with. As one participant suggested, the "will to collaborate is underachieving" because of legal constraints.

Cultural barriers can also prevent formal partnerships being established. Different commissioners have different assumptions about the appropriate approach to contracting, the types of outcomes that are being purchased, and the type of organisations that should provide services.

Once created, joint partnerships need a clear sense of purpose to operate successfully. Participants suggested that such clarity comes when partnerships:

- are time limited
- have clearly defined shared outcomes and joint priorities
- are championed at a high level
- are task focused.

Pressure from 'the outside' can also help maintain a sense of purpose.

**Proposal 18:** To join up services through formal commissioning partnerships, senior leaders need to make a concerted effort to assess how cultural and technical barriers can be overcome.

### Model 2: Informal partnerships led by heroes

The second model discussed was one where informal partnerships are led by enthusiastic leaders with a desire to link up different services. These leaders may pool or align budgets to jointly commission services. Or, especially if they directly provide services, they might collaborate with other service providers without any commissioning necessarily taking place. The approach depends on strong relationships between different leaders who want to join up the services they lead. As one participant suggested, these leaders tend to be "heroic pioneers who are given the freedom to take on more risks".

As this approach to collaboration is informal and depends on individual 'heroic' leadership, it is difficult to know what government can do to encourage this model to be used. This is not the kind of approach that can be mandated, and there are few formal levers that senior leaders can pull to encourage such an approach. Nevertheless, leaders can provide the cover, freedom and mandate to support and allow heroic individuals to lead informal efforts to collaborate.

**Proposal 19:** To join up services through informal partnerships that collectively commission services, senior leaders need to create an environment which encourages 'heroic' leadership from commissioners.

### Model 3: Paying providers for achieving broad outcomes

Contracts that pay providers for broad cross-organisational results was the third commissioning model discussed by participants. Here, commissioners could define a broad 'joined-up' outcome, such as an improvement in mental health, but not be prescriptive about who delivers the outcome. Different providers who could contribute to the outcome could group together. Or a single provider with the skills and expertise to deliver the outcome on its own might take on the challenge. Jointly rewarding providers for contributing to a shared outcome can result in alliances being built between providers bidding for contracts. This can lead to more joint ventures in the future.

We were told that this approach works particularly well when departments and commissioners move beyond purely transactional relationships with providers – where invitations to tender come out 'cold' with outcomes already defined – towards relationships which are more open and constructive.

Many areas of government are already adopting this approach. For example, the Department for Work and Pensions (DWP) has hosted a number of 'industry days' with social investment organisations to discuss what they could contribute if the Innovation Fund supported them before the competitive element of the tendering process started. These days allowed DWP to get a better understanding of the social investment market and an idea of the types of organisations that could be involved in the Innovation Fund. These more constructive relationships can inform decisions about broad outcomes that can be realistically commissioned.

However, commissioning broad outcomes can be difficult if the burden of payment falls on one part of government but benefits another. This is because the non-contributing parts of government have an incentive to 'free-ride' (that is, benefit, but not pay) the outcome. Over time, commissioners may only be willing to pay for outcomes from which they directly benefit, rather than focusing on the broader needs of the individual. For example, if a person is helped back into work and consequently improves their health but health commissioners do not contribute to this improved outcome, there will be less incentive on welfare to work commissioners to focus on how employment can also help the individual's health needs.

To work effectively therefore, the model requires the different parts of government that benefit from success to contribute financially. Ministers and civil servants are often reluctant to lose control of money they consider 'theirs'. This makes it difficult to attract contributions from different parts of government once funds have entered departmental balance sheets.

One solution might be for departments to 'top slice' money into a cross-departmental budget before it enters the department. This single pot could then be used to commission services which meet their joint departmental priorities. However, top slicing budgets for joint projects can create tricky accountability issues that would need to be addressed. Ministers might need to appear jointly before select committees, for example, to justify the use of taxpayers' money.

Commissioning broad outcomes can also be problematic if all providers who contribute to the outcome are not incentivised to help. Welfare to work providers, for example, which are paid on the basis of the sustainable employment outcomes they achieve, rely on the unemployed people they help being able to access education services. Yet education services – such as further education and adult education centres – are paid through block contracts or on an input basis depending on the number of pupils they attract. As a result, these providers are not necessarily incentivised to work with welfare to work providers to help people find a job.

For outcome-based contracts to be a truly effective way of joining up services, all providers who have a part to play in achieving an outcome need to be rewarded when the outcome is successfully achieved.

**Proposal 20:** To join up services by paying providers for achieving broad, cross-cutting outcomes, commissioners should encourage financial contributions from the different parts of government that benefit from success.

#### Model 4: Providers joining up different outcomes-based contracts

Instead of commissioning broad outcomes, a range of different 'narrow' outcome-based contracts could be commissioned. Providers could then bundle together contracts to achieve a joined-up outcome overall. A provider may, for example, take on both welfare to work and reducing re-offending outcome-based contracts. It may provide services to the same group of people who need help finding work and giving up crime.

This model depends on the sum of the contracts being bigger than the parts. Providers will need to be able to see the broader synergies and payoffs that can be gained by bundling together different outcome contracts. Providers are unlikely to join up different contracts if the outcomes defined are too narrow and there is no business case to be made for joining up contracts. A clear understanding of which outcomes need to be purchased, and how different outcomes are likely to link together, is essential.

Commissioners also need to consider:

- the implications of allowing providers to bundle together different contracts
- whether providers are getting 'too big to fail'
- whether excessive vertical integration along the supply chain is leading to anti-competitive practice.

If providers are bundling together contracts from different parts of government, there will need to be co-ordination across government to assess the state of the provider landscape.

**Proposal 21:** To encourage providers to join up services, commissioners need to experiment with ways providers can bundle together different contracts, and assess the impact of bundling contracts on the provider landscape.

#### Model 5: Empowering users to join up services

The idea behind individual budgets is that they put power in the hands of users to choose the services they think meet their needs best. In this model, service integration takes place at the point of service consumption.

There is a lot written about individual budgets, and it is worth investigating this literature to get a full understanding of their strengths and weaknesses.<sup>28</sup> At the workshop, participants were particularly keen to emphasise that individual budgets only allow service users to choose between services that already exist, and therefore create limited opportunities for budget holders to redesign the services they receive. Aggregating individual budgets might create opportunity for budget holders to actively redesign services as consumer demand is strengthened. The collective pool of resources can then be used to commission new and innovative services that meet user needs better.

**Proposal 22:** To join up services using individual budgets, the Government should explore ways of supporting users to aggregate their budgets to give them more purchasing power to actively redesign services.

28 The Health Foundation. (2011) *Improvement in Practice: The Personal Touch. The Dutch experience of personal health budgets*: <http://www.health.org.uk/public/cms/75/76/4162/2684/Personal%20health%20budgets%20case%20study.pdf?realName=1r4eQJ.pdf>; Glendinning, C., Challis, D., Fernandez, J., Jacobs, S., Jones, K., Knapp, M., Manthorpe, J., Moran, N., Netten, A., Stevens, M. and Wilberforce, M. (2008) *Evaluation of the Individual Budgets Pilot Programme: Final Report*: <http://www.york.ac.uk/inst/spru/pubs/pdf/IBSEN.pdf>

## Case study: Combining approaches – Lambeth Living Well Collaborative

The Lambeth Living Well Collaborative is an informal alliance between a number of statutory and non-statutory bodies with responsibility for mental health services in the London Borough of Lambeth. The group consists of voluntary sector organisations, users, GPs, and South London & The Maudsley NHS Foundation Trust (SLAM) supported by commissioners in NHS Lambeth and Lambeth Borough Council.

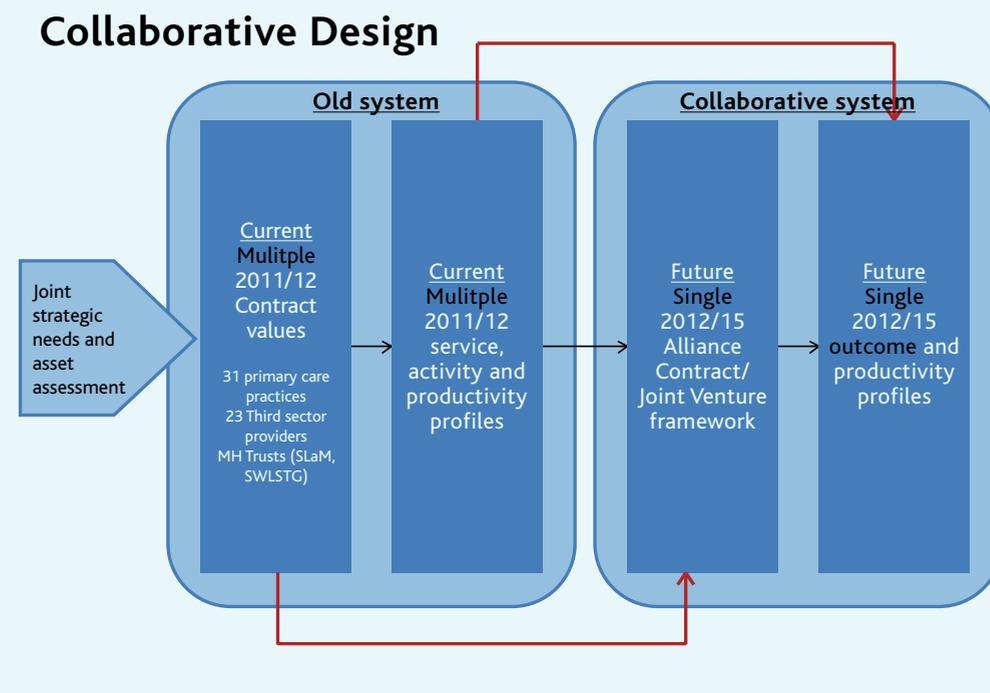
The group first met in March 2010 with the shared aim of fundamentally redesigning the whole system of care provided in Lambeth for people with severe and enduring mental illness. The Collaborative demonstrates what can be achieved when different approaches to collaborative commissioning are combined with strong local leadership and a common drive to do things differently.

Lambeth's 2010-11 Commissioning Strategy Plan (CSP) set out an ambition to "shift" care from a secondary to a primary and community setting for 1,000 people with mental health problems. The Collaborative aims to support this goal by enabling a controlled shift in resource to a new integrated system of enablement and recovery in primary and community settings.

To shift the focus onto enablement and recovery, the Collaborative has set up a transitional incentive fund called the Integrated Commissioning for Quality and Innovation fund (iCQUIN™). Money from this fund will flow to a 'provider collaborative', that is, a group of providers who have come together to jointly bid for contracts. Providers within the Collaborative will set their own parameters for distributing cash flows among themselves.

Providers are then held jointly to account for the extent to which they help people with mental health problems first to recover and stay well, second to make their own life choices and third, to participate on equal terms in daily life. How the new system of integrated commissioning is likely to work is illustrated in Diagram 1. The fund is a good example of what can be achieved when broad outcomes are commissioned and providers are encouraged to make joint bids. Providers are encouraged to trade together and to share resources in the best interests of consumers.

Diagram 1: Lambeth Living Well Collaborative's integrated commissioning model



## 7. Cross-cutting lessons and recommendations

There are a number of lessons that came out of the workshops, which are as important as the proposals.

First, the workshops clearly showed that managing public services through choice and competition is different to directly managing services. Choice and competition increase the number of decision makers in public services and reduce direct government control. Some civil servants are struggling to adapt to these differences and are only slowly beginning to develop the tools they need to influence system improvements without the traditional 'levers' of direct service management.<sup>29</sup>

There is also a great challenge to ensure that knowledge and experience is shared across the system. This is exacerbated by the fact that there are commercial sensitivities around some types of information. Providing 'safe spaces' where commissioners, regulators and providers can engage in frank discussion is helpful, although it is vital that such conversations do not risk collusion or the appearance of it. The workshops conducted for this research demonstrated that sensitivities can be quite easily managed when commissioners and providers work in different service areas, but agreed protocols for such discussion could also be helpful.

Second, choice and competition appear to have contributed to a situation where many civil servants, regulators, and providers are unable to identify who is responsible for solving the problems discussed in these workshops. This could be why the problems under discussion have persisted.

It was difficult to say which organisations were responsible and which departments or individuals within these organisations. These challenges were particularly apparent when responsibilities were 'cross-cutting'. For example, it was unclear who had responsibility for building commissioning capacity across government, or whether there was anybody who had responsibility for developing tools for those stewarding choice-based 'quasi-markets'.

Lack of clarity was also due to the absence of common professional language to talk about systems that use choice and competition. Some departments are comfortable talking about markets and quasi-markets of provision. Others – including those who effectively operate in quasi-market systems – are not, partly because of political sensitivities around language in certain core public services.

Similarly, some people use the term 'commissioning' narrowly, confining it to the act of buying a service. Others have a broader definition of the term, using it to cover many ongoing oversight functions and actions to encourage new suppliers to enter the market or ineffective ones to improve.

Third, it was clear that ultimately choice and competition only deliver effective public services when the organisations charged with designing and overseeing competitive systems are performing well. Problems discussed were frequently not about the difficulties of contracting services or enabling user choice, but ranged far more broadly, covering topics such as:

- public sector culture and incentives
- relationships between officials and politicians
- policy and decision-making processes.<sup>30</sup>

These observations suggest three broader recommendations for government.

### Recommendation 1

Government departments who deliver public services through contractual mechanisms should provide Parliament and the public with a clear account of which organisations and individuals are responsible for which aspects of system management.

There is currently no agreed way of describing the functions that need to be performed to ensure that choice and competition are effectively stewarded.

What's more, a standard language would enable the exchange of ideas and people across different departments and organisations. This could be achieved through the 'accountability maps' that the Institute for Government previously recommended as a way of strengthening and clarifying accountability of civil servants and ministers.<sup>31</sup>

### Recommendation 2

Government should agree a number of areas where there may be synergies from co-ordinating commissioning approaches across two or more departments.

Government should assign specific ministers responsibility (and budgets) for taking forward a more co-ordinated approach.

This approach can build on the example set by the Ministry of Justice (MoJ) and Department for Work and Pensions (DWP) who are attempting to pay for re-offending and employment outcomes through the same contract.

29 Hallsworth, M. (2011) *System Stewardship*: <http://www.instituteforgovernment.org.uk/publications/system-stewardship>

30 For a wider analysis of civil service challenges see Thomas, P. *Civil Service Reform: our verdict*: <http://www.instituteforgovernment.org.uk/publications/civil-service-reform-0>

31 Moyes, W., Wood, J., and Clemence, M., (2011) *Nothing to do with Me*: <http://www.instituteforgovernment.org.uk/publications/nothing-do-me>

### **Recommendation 3**

'Safe spaces' should be provided to enable commissioners, regulators and providers to engage in frank discussion about the challenges of implementing choice and competition effectively.

To ensure that these discussions are, and are seen to be, fair and appropriate, they must include representatives from a typical range of organisations and should have clear ground rules on the commercially sensitive matters that cannot be discussed. It may be necessary for regulators to provide guidance on how such conversations should be managed but a failure to enable these exchanges may mean that civil servants take longer to learn and improve.

These recommendations are in many ways common sense. It is vital that government is clear on what needs to be done and who is doing it. It is equally vital that where services are closely related, departments join up their efforts to create more co-ordinated services and better value for money for citizens. And it is obvious that when knowledge is broadly distributed, there should be ways to share that knowledge and engage in productive exchange.

But it is apparent from this series that these basics are not yet in place. Their absence acts as a barrier to implementing some of the exciting ideas raised by those who participated in our workshops. Until some of these basics are in place, it is likely that government will struggle to use choice and competition as effectively as possible.

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