

THE STATE OF COMMISSIONING

*Preparing Whitehall for
outcomes-based commissioning*

The State of Commissioning

Executive Summary

The Coalition Government has set out plans for a significant acceleration in the policy of commissioning public services with payments by results based on achieving defined outcomes. This shift has the potential to fundamentally realign the roles of central Government and Local Government, and to define more clearly the role of the state as a commissioner with civil society and the private sector as providers. In the future, commissioning of services by outcome based payments will be a core competency for Government.

The Comprehensive Spending Review signalled a radical approach to the role of external markets in delivering outcomes, stating that:

- “the Government will pay and tender for more services by results, rather than be the default provider of services. The use of simple tariffs and more innovative payment mechanisms will be explored in new areas, including community health services, processing services, prisons and probation and children’s centres. This builds on measures already announced to implement payment by results in welfare to work, mental health and offender rehabilitation services; and
- the Government will look at setting proportions of appropriate services across the public sector that should be delivered by independent providers, such as the voluntary and community sectors and social and private enterprises. This approach will be explored in adult social care, early years, community health services, pathology services, youth services, court and tribunal services, and early interventions for the neediest families.”

An increasing focus on commissioning, through payment by results, as a default way of delivering public policy objectives will challenge markets to find innovative solutions to provide better results at lower cost. At the same time, many of the services being tendered will be more complex than anything that has been seen in the past, the process of achieving better outcomes uncertain and the supplier base in some instances at an immature state of development. The commissioning challenge will test the skills of public servants in defining the process in the short term.

In the long term the relationship between Whitehall and the delivery of public services might fundamentally shift as a consequence. Whitehall will remove itself from prescribing the process of delivery and policy on interventions, as it will only define and account for their success through payments to providers.

Finance, provider structures and the role of small providers will all be a function of what the commissioning process is. The outcomes that are defined, how they are rewarded and who commissions them will drive the response from markets. The role of Whitehall will change, as policy for interventions will be shaped by markets as well as civil servants, with the potential consequence of a smaller, more strategic Whitehall and a devolved, more expert commissioning base.

The recommendations and discussion within this document cover three broad aspects:

- **Market creation:** Government needs to have clarity about the problems it is trying to solve, particularly where there are problems that cut across departments. Market structures have to be designed and refined to deliver those outcomes efficiently in the absence of current provision and there needs to be a change in the role of the public sector in the long term;
- **Whitehall Skills:** Whitehall transformation during the period of fiscal consolidation has to identify and keep expertise in dealing with commissioning, with resource and skills focused on this task. The incentives structure needs to align Whitehall, commissioners and the delivery chain as far as possible in common cause; and
- **Transparency and accountability:** commissioning by results must be a process of continual refinement to services and contracts on the basis of data and evidence, with a proper role for users. Transparent data and clear information on the service and outcomes has to be publicly available to develop future policy and promote value for money.

A radical change in service delivery requires an approach that is not fixed on transactional contracting and procurement relationships based on a set of clear, easy to measure outputs. There will be a greater ambiguity in the process by which outcomes are achieved. Government will set the “what” and the market will respond with the “how”. Doing this successfully will require a Whitehall approach that can use a wide set of skills to successfully translate policy intent into commissioning arrangements while fostering innovation and a dynamic market for provision.

Market Creation

Setting the right outcomes

Policy, finances, commissioning, contracting and procurement are all parts of the commissioning puzzle, but to be clear what commissioning is the definition given by the Institute of Commissioning Practitioners provides a good starting point:

“Commissioning means securing the services that most appropriately address the needs and wishes of the individual service user, making use of market intelligence and research, and planning accordingly.”

Commissioning is a process that starts with understanding the needs of the end users of services. It is not procurement, the purchasing of goods by Government, as it is about delivering a service not buying a commodity. Civil Servants will be developing plans that require complex interactions with institutions in public, private, voluntary and community sector. As the Third Sector Research Centre puts it; *“Commissioning is a broader set of service delivery processes which involve consultation, needs assessment and service planning and design. If procurement is about shopping, commissioning is about deciding what to buy and how.”*ⁱⁱⁱ

Multiple funding streams and interventions for individuals have been built up to help end users that may have needs that cross departmental boundaries. Commissioning has to avoid the situation where different Departments set up separate processes, outcome indicators and payments for what in practice might be the same person or the same basic interventions. As such “commissioners” need a full understanding of the supply chain, the potential providers in the market, and how to devise contracts and structures that will deliver those services to end users to the best possible effect and get the best possible value for the taxpayer.

The likelihood of multiple risk factors holds true on an area basis but is also true at the level of an individual, for instance 50% of ex-offenders are out of work. There is a significant overlap between those that are likely to be ex-offenders, face mental health problems, drug addiction and poor employment outcomes, clear on any study of the hardest to help in the UK. Outcome based approaches in welfare to work, rehabilitation and in interventions such as health and the delivery of drug and alcohol treatment need to reflect this reality.

In Government there is a clear synergy between the aims of departments but an enduring difficulty of translating that into efficient delivery, themes discussed in the Institute for Government’s Shaping Up report. To ensure a “whole person approach”, where potentially complex and multiple needs are treated, outcomes have to be based on the entirety of the end user’s needs.

Outcomes that will improve a person’s life chances, such as sustainable employment or stopping offending behaviour are important objectives in themselves. However, commissioning may often involve pooling a wider set of objectives that have similar

potential interventions. If Government gets this right, commissioning has the potential to succeed in this where current Departmental based delivery fails.

The market structures must be developed to deliver synergies that escape the historical quirks of Government delivery and the fiefdoms of Departments. Most importantly they must be developed from a user perspective. Solving the problems of the user may require a set of outcomes that relate to the treatment of a number of underlying risk factors.

If the target culture of Government provided perverse results as public services chased crude outputs, the same trap could be fallen into in setting outcomes. Firstly, the 'wrong' outcome could be set, leading to unintended consequences as costs are loaded onto other parts of the public sector, or too narrow outcomes, as Government fails to connect its objectives across related Departments.

Procurement and contracting must have a shared understanding of the problem, a clear description of the outcome desired and no ambiguity to what is expected by the provider. This includes working out what qualitative and quantitative measures are necessary in a contract to ensure objectives are met.

Policy development on contracting for outcomes should have a fundamental objective of reducing duplication of interventions. Markets should be developed that can provide for a number of outcomes in the same commission.

Creating a market for provision

The way Government sets up its commissioning structures will greatly influence the shape of the market, at least in the short term before markets mature. The Government is potentially creating markets from start up, rather than transferring ownership or delivery from Government to the private or third sector. This is a complex task that is fraught with dangers.

A potential consequence of the current move to commissioning is that several departments will rapidly increase demand for the provision of similar services from a small and underdeveloped market. At an extreme, Government could bid up prices by competing against itself for provision from constrained supply. Early moves by Government to avoid competing with itself for the same end user are welcome. An individual may have several characteristics that are being commissioned – e.g. unemployed and an ex-offender. The commissioning process has to avoid similar interventions targeted at the same person by different providers. Of course, this has an allied challenge to Government to ensure it has the ability to share information across Departments to identify who is on one of its programmes.

The economics of the problem caution that if Government rapidly increases its demand for services at a time when supply is limited, the price it pays will be high – too much demand chasing too few goods. On the supply side, the finance and capital investment necessary for the kind of scaling up of provision will lead to questions about incentives to invest, risk against reward in innovative markets and a simple problem of too many firms chasing too

little finance in the current uncertain market. Market entry will be essential, as will increasing capacity. How Government manages this dynamic will be critical.

The final aspect is the skill base in the provider workforce. The supply of people to work in providers is one aspect that is often lost in decisions made by Whitehall. Whitehall tends to concentrate on devising structures and incentives, but the question always remains: “who will be the front line workers in the new provider markets?” One of the problems identified in early Pathways to Work evaluations was the high turnover of staff in the providers, leading to a lack of continuity for users of commissioned services. Such evidence may indicate a lack of a stable, trained workforce ready and able to work in the private and voluntary sector. In some cases the potential workforce may currently work in the public sector and the creation of markets will encourage a flow between the two.

Developing successful markets

The structure a Government gives a market has significant consequences on the success of that market. Commissioning for outcomes is not new, but nor is it established and tested with great confidence that the approach improves outcomes in some of the areas under consideration for payment by results mechanisms.

One of the problems faced by the actors in a nascent market will be the need to access capital on the basis of potentially uncertain revenue streams. The businesses involved are mainly labour intensive – their assets are their staff and the success or otherwise of their interventions with those with difficult circumstances – and as such there is a potential lack of a capital asset base to raise revenue against. The cost of capital will rely on the business case that revenue streams will come in at some point in the future. This might be a difficult gamble, or it might be reasonable enough punt that the future income is worth the investment.

Government needs to construct an outcome based payments schedule such that the providers may raise revenue, at least to cover early set up and running costs, at a reasonable cost to get a reasonable return. To set a schedule without setting too low a bar for providers, getting an unsatisfactory deal for the taxpayer until markets are developed, will be a difficult process for Government and commissioners. The way in which Departments set up commissioning frameworks over the next few years will have significant implications for the way in which finance allows those markets develop. As such, a great deal of thought has to be given across Government to the approach to commissioning across the board.

Whilst the aim may be for a very light touch from Government, allowing the market itself to decide how it should develop, this aim is impractical to achieve in the short term. What is commissioned, how the outcomes are set, what the payment schedules are, who commissions and the scope, structures and size of contract will all have a significant impact on who can bid and who can access capital. Government has to be very cautious about the consequence of the decisions it is making on design. Aligning some of the aspects across Departments, in particular at what level of Government commissioning takes place, might be sensible so that providers do not chase rent across Government by identifying different payment schedules or narrow objectives.

Commissioning is in most cases a process of understanding the needs of users at a much lower level than national Government. The Government can set a policy framework and a commissioning framework, but the decisions on the form commissioning takes in practice should be open to some flexibility at a lower level of Government or governance. This may be done, as the Department for Work and Pensions have, through contracting centrally with “primary contractors” at a regional level. What is clear is that the structure of a commissioning framework could lead to the decisions on market and supply chain to be undertaken at either a lower tier of Government or even outside of it.

A thorough understanding of the aspects of market design and end users is required to determine the level at which commissioning should be carried out. Consideration should be given about what level commissioning can be effective:

- **Individual:** getting the users to design the services around their needs, e.g. through use of individual budgets;
- **Community:** where the community organises itself and is commissioned to deliver services;
- **Local Government:** Local councils or a designated tier of the appropriate delivery organisation;
- **Partnerships of Government:** through e.g. a shared services framework of local councils; and
- **National Government:** the level furthest from the user.

Public services may be commissioned locally, but there will always be a role for specialist services that require scale – for instance management of the very serious and dangerous offenders in secure accommodation. However, as a principle, *Government should structure commissioning so that decisions on providers are taken at the closest appropriate level to the user community.*

Markets for innovation

The particular market structure that develops will impact on what achievements are made against aims of quality, cost and innovation. In some of these markets, Government is looking for providers to innovate, and to use markets to reach solutions that successive Governments have failed to achieve.

There is a great deal of debate about the role of competition in achieving aims of quality, cost and innovation. In health markets, where there has been a greater deal of experience studies have found evidence that competition was important in raising standards but that if contracts are competed on cost, then quality suffers. To raise standards and incentivise providers to compete on quality contracts needed to fix a price above marginal cost and compete on the basis of that price.*

This is possible, although difficult, where there is ample cost information to base such a price on, as might be argued in clinical procedures, but becomes more difficult when applied to nascent markets where there is no such data. In the outcome based markets Government is expanding to, such as re-offending, there may be insufficient evidence on the cost/benefit of interventions to give confidence that the right price would be set. Government could choose to ignore this, as long as it is above marginal cost, as something that can be adjusted in the future.

However, setting the price is difficult as Government and the market may not adequately give a pricing signal based on experience of costs on a sensible basis of allocation. Government may decide to set the price high compared to its likely long term rate in order to stimulate the market. The other possible approach it could take would be a "cost-minus" approach. It could calculate how much Government spends at the moment on interventions and aim to make a saving that would be appropriate from more efficient delivery.

Government is looking for providers to innovate, and to use markets to reach solutions that successive Governments have failed to achieve. Payment by results is seen as a mechanism for joining together services around the provision of support to an individual with complex needs. Given this objective the types of contract and, therefore, market, rely on innovation rather than cost as a driver. In the evidence provided by Frontier Economics to the OFT they describe the principle of "competition for contracts not competition within contracts".

There is a healthy economic debate about what innovative markets look like, going back to Schumpeter's view that monopolists have a greater incentive to innovate and Arrow's response on the benefits of competition. Others have pointed to an 'inverse-U' of markets, where perfectly competitive markets and monopolistic markets both characterise low innovation with the hump in the middle of oligopolistic market structure encouraging more innovation. Government needs to be sure it is allowing enough scale and certainty to providers in the market to innovate. A poor result would be to replicate in markets what Government currently delivers, albeit at a lower price, with no room for innovation.

A fair market and competitive neutrality

For markets to develop that are in the overall benefit of end users there has to be a fair market that allows public, private and third sector to bid on equal terms. This is a source of some concern from both sides – from Government commissioning in the complexity involved in ensuring fairness, and from the bidders who feel that there are a number of asymmetries that are difficult to overcome without co-ordinated central Government action. This problem takes on a number of different aspects: economic; financial; and regulatory which require consistency across Government, particularly where the problem exists that Government itself is competing for an as yet undeveloped market in very similar types of provision of services and interventions.

Different approaches by different parts of Government may create problems in long term markets of provision across Government services. There are some practical problems that have been raised with Government on tax treatment, pensions and entry costs – particularly

where they are a significant barrier to entry where there is a particular need for asset specific investment, e.g. a prison or a hospital. These need to be addressed in a common manner.

Commissioning has to be structured to allow competition from new entrants and fair competition between all sectors which will require common rules across Government.

Whitehall Skills

Transforming for commissioning

The structure and skills of Whitehall need to reflect its increasing role as a commissioning state. The methods of recruitment, assessment, learning and development within Government have to be effective in this task. The problems of capacity within Whitehall were highlighted by the Public Accounts Committee Report on Pathways: *“The Department had an objective to build a healthy market, but has failed to develop an adequate understanding of the supply chain. It has not monitored how well prime contractors are sharing rewards and risks with the more than 80 specialist sub-contractors involved.”*

In order to cope with the scaling up of commissioning, Whitehall has to close the gap between the intent of policy and the shape of the contract it results in. Those undertaking development of commissioning structures need to be equipped with a thorough understanding of contract negotiation and market structures and it is critical that Departments embarking on commissioning arrangements have people with a thorough understanding of the supply chain. Whitehall policy officials will require knowledge that necessarily is found by being externally focused. Additionally, the behaviours and approach of the Civil Service need to be a match for hard-nosed bargaining with large private companies.

Government weaknesses in procurement skills, experience and capacity have been well documented. In the OGC capability reviews of procurement capacity in Whitehall, the worst performing categories were for ‘Resourcing’ and ‘Knowledge and Performance Management’²⁰. The civil service recognises the need for expertise in professional processes, including within procurement. It needs to build its own long term capability to commission in a way that can hold policy and outcome aims alongside value for money and the technical, and relationship, difficulties of a contractual negotiation. The entrance route to the service, possibilities for progression and the reward and incentive structures must recognise the importance of focusing on results in commissioning arrangements.

Work in the USA by Brown, together with Potoski and Slyke has studied the problems of Government contracting in complex markets. In their study of Deepwater²¹ they form a general conclusion that in facing the task of contracting in complex markets Government needs a wide set of skills, starting with market dynamics and firm behaviour but taking in legal aspects, procurement, negotiation, contracting and oversight.

A future Whitehall, post cuts will have a smaller policy function. Departments embarking on this process need to ensure that they have a way of brigading the skills that can set the

frameworks and appropriate assessment for services that will be managed and delivered from far outside of central Government. Whitehall is adaptable, but will struggle against hard commercial experience and greater knowledge if it relies on a notion of generalist civil servants turning their hand to commissioning with any market that they are pointed towards.

Whitehall has to have a work force that is rewarded, incentivised and expert in its knowledge so that it can develop a complete understanding of users, communities, external delivery chains and local markets in the delivery of services. It needs to face much more out of Whitehall and be ready to reflect up the experiences of those users and markets to shape the Government's approach to commissioning and funding. Commissioning should be a defined skill to focus on the development of people that will be able to link policy objectives in complex markets with a thorough end to end understanding of the users of services and the supply chain that is available

The impact of a successful commissioning culture will be a civil service, and a public sector, that understands end users of services and local delivery markets to a much greater sophistication. Civil service time should be much more experiential – understanding the front line, delivery and users and customers of public services.

Allied with this is a Civil Service that is smaller and has devolved power and responsibility for the implementation of the policy to a much lower level. The implication of a greater commissioning state is a smaller Whitehall and a concentration on capacity building in local areas to undertake effective processes and deliver results together with suppliers. A significant amount of public money could be spent through the route of commissioning and ensuring the skills are in place to manage commissioning at all levels of Government is a challenge.

Each Department should ensure there is a commissioning function creating expertise in commissioning. Officials in commissioning roles, including policy development, should be in post for a long enough period to ensure there is a link between their approach and outcomes for Government.

To avoid the failures in responsibility, where civil servants are rewarded for measures that are not related to outcomes, Whitehall needs to need to align incentives and ensure a line of sight from policy development to outcomes. **Civil servants working on commissioning and commissioners must be appraised and rewarded on the basis of the same outcomes as the providers they are commissioning with.**

Transparency and Accountability

Monitoring costs and developing contracts

The monitoring of value for money in is a central objective for contract management but Government has to get better at measuring of the costs of its monitoring processes, and provide much greater transparency of those costs both to Government and to providers. This

is particularly important to as expensive tendering and monitoring process reduce profit and exclude bidders, particularly small bidders that might lack capacity and skills in the disciplines of monitoring valued by Government contract managers.

In 2008 DeAnne Julius produced a significant report for the then Department for Business, Enterprise and Regulatory Reform on the Government's approach to commissioning public services. It concluded that: *"Once contract monitoring commences the attitude of the public sector commissioners is often inflexible towards dealing with changing conditions. This stifles innovation over the course of the contract and, in the worst cases, may jeopardise its overall success."* It also stated that: *"the costs of bidding are rising with an increasingly complex commissioning process."*

In the areas that Government is now considering as fertile ground for commissioning of payment by results, the costs of that management, for bidders, successful firms and the ongoing management of the contract are important. Government can expect much more of providers than we do the public sector itself. Commissioning for outcomes in complex markets, where capacity is growing, evidence is not clear and price signals have not been fully clarified might require a much more dynamic relationship with the supply chain that is ongoing for some time and a view of contracting that is based on collaborative principles.

Aside from the complexity of the process, Government procurement can be a lengthy and costly process and there needs to be greater speed and more tolerance of risk in the process. Procurement processes can take up to two years, by which time the market has moved on. Government has to make bidding cheaper, easier and more inclusive.

There should be a transparent approach on allocating costs to the process of bidding, including the cost to bidders of the process.

Ongoing public sector involvement in markets

Delivering positive outcomes for people with difficult needs is a complex interaction between provision by different bits of the public sector and provision outside of it. It is not as simple as one entity being commissioned to deliver the outcome and taking responsibility for all of the potential interventions, there will be an ongoing role for the public sector.

The first aspect of this is "who owns the customer"? Where the user is not in a position to make their own choice between providers of services, this is very important. For markets where there is an element of user coercion – e.g. re-offending programmes or employment programmes – it is crucial. The user themselves might not make an optimal decision of provider; they might also be in a position where a number of different commissioning authorities place requirements on them.

So where a person is released from prison, claiming benefit and on a drug programme, the decision on who 'owns' them, who is commissioning for their outcomes and who is paid for success needs a mechanism. Government needs to have a way of deciding who triages the individual in this circumstance – is it the National Offender Management Service, Jobcentre Plus or a Health service?

Government needs to develop a mechanism for managing how people are allocated to programmes provided by outcome based commissioning, particularly where there is an element of compulsion, when there is a likelihood of potential overlap and competing provision.

The second aspect to consider is how commissioned providers interact with public provision that will be maintained in the future, whether it is social housing, education or benefits policy, the role of policing in managing ex-offenders or providers such as the National Health Service or Local Authorities. In a world where Government is no longer the lead agency in some areas, there has to be a sensible relationship between Government provided and Government commissioned services. This is particularly important where potentially deep cuts to central and Local Government will have implications for providers as service provision by the state may be reduced in critical areas.

In a spending review a Department could, theoretically at least “buy” additional services from another by providing a joint bid, or seek to influence decisions by Government as a whole. Commissioned provision will be delivered outside of the public sector, but Government still needs to make allocative decisions on the provision of services that are crucial to overall outcomes. Commissioning must have feedback mechanisms from providers up to commissioners and a way of influencing the way in which policy is developed in the future.

At the same time, Government cannot take a “static” view of the current success or otherwise of their interventions as they are currently delivered as they may depend on support services that could be greatly reduced in scale or scope. The dynamics of great change in the public sector, whether by reducing the number of staff in Local Government housing offices or through a different focus of policing, will change the costs of interventions by a provider that may previously have been able to point their users at those services. Hidden costs of transactions within the state may now become very transparent.

Further work is needed on the means by which commissioned service providers can effectively integrate with support services from the parts of Government to improve outcomes and value for money. Part of this is ensuring there is a collaborative loop on policy making – ensuring that providers of contracted out services are sharing with Government their evidence on “what works”. Part will be for the organisations themselves to help convince Government that support from the state or local Government in particular aspects of support are crucial.

Government should put close thought to how external providers “transact” with Government at national and local level to improve outcomes and how they may influence the decisions of Government in resource allocation in priority areas.

Contract monitoring

The pressures within Government to be able to monitor quality and internal processes as well as the desired outcomes has the danger of leading to disproportionate costs, particularly on small players in the market. The transaction costs of contract monitoring

within Government are difficult to identify and challenge externally as they are lost in internal administration budgets.

The more oversight that is provided in order to ensure that providers are delivering outcomes to contract, the more expensive the process is. Monitoring the cost of managing commissioning is extremely important but at the moment is extremely opaque. The less specificity in contracts, the lower the bidding and transaction costs will be. That can only, in the long term, be good for attracting entrants in particular from small or not-for profit enterprises¹⁰.

Government should also ensure that there are clear and transparent routes for communication by the customers of payment by results organisations so that the problems of quality, parking and sorting are managed. In many of these markets the user will face coercion as their participation may be a condition of bail, probation or receipt of benefits or other Government support. It is vitally important that they are given the widest possible choice and that coercion does not bring with it the inability to comment on the nature of the provision or treatment of the customer.

Users must be given the right for anonymous, open, feedback on their user experience as an integral part of the commissioning process. **There should be a requirement on providers to ensure that open, transparent feedback processes are available for users to report experience to commissioners.**

If services are in the public sector they are open to Freedom of Information and data transparency guidelines that are not obliged of other providers in the market. As a simple point of principle, the taxpayer should be able to investigate services whether they are provided within the state or externally. Additionally, some of the costs of ongoing management would be reduced if there were greater requirements for transparent data from providers. The publication of data on outcomes helps to develop the market, and also help to develop the potential for people to make decisions on providers in a local area.

Although this will add cost, and should be applied proportionately, it will be of great benefit, including to potential entrants to the market to have the widest possible information particularly in the early stages. Government will also have a role in aggregating evidence on "what works" and focusing on the evaluation, analysis and data that helps to support this but it equally should facilitate external evaluation by wide data release as ultimately this will reduce the need for intrusive contract management.

The same rules that apply to the publishing of Government data and statistics should apply to organisations commissioned to deliver public services.

Endnotes

i http://cdn.hm-treasury.gov.uk/sr2010_completereport.pdf p.34

ii <http://www.iocp.co.uk/>

iii Macmillan (2010) *The Third Sector delivering public services, an evidence review*:
<http://www.tsrc.ac.uk/LinkClick.aspx?fileticket=l9qruXn%2fBN8%3d&tabid=712>

iv See index for multiple deprivation at
<http://www.neighbourhood.statistics.gov.uk/dissemination/Info.do?page=analysisandguidance/analysisarticles/indices-of-deprivation.htm>

v See for instance Metcalf H., Anderson T. and Rolfe H. (2001) "Barriers to employment for offenders and ex-offenders" (DWP Research Report No 155)

vi <http://www.instituteforgovernment.org.uk/pdfs/shaping-up-a-whitehall-for-the-future.pdf>

vii See: Nice, K., Davidson, J. and Sainsbury, R. (2009) *Provider-led Pathways: Experiences and views of early implementation*, Department for Work and Pensions Research Report, No. 595, HMSO, Norwich.
<http://research.dwp.gov.uk/asd/asd5/rports2009-2010/rrep595.pdf>

viii See: Propper, Carol, Simon Burgess, and Denise Gossage. 2008. "Competition and Quality: Evidence from the NHS Internal Market 1991-9." *The Economic Journal*, 118(525): 138-170.

ix *Choice and Competition in Public Services A guide for policy makers: A report prepared for the OFT by Frontier Economics March 2010*

x Schumpeter, Joseph, *Capitalism, Socialism and Democracy* (London: Allen Unwin,1943).

xi "Economic Welfare and the Allocation of Resources for Innovation", 1962, in Nelson, editor, *The Rate and Direction of Inventive Activity*

xii For empirical evidence see *Competition and Innovation: An Inverted-U Relationship*, Philippe Aghion, Nick Bloom, Richard Blundell, Rachel Griffith, Peter Howitt, *Quarterly Journal of Economics* 2005 120:2, 701-728

xiii Public Accounts Committee: *Support to incapacity benefits claimants through Pathways to Work*
<http://www.publications.parliament.uk/pa/cm201011/cmselect/cmpubacc/404/40402.htm>

xiv IFG analysis of data available at:
http://www.ogc.gov.uk/ogc_transforming_government_procurement_procurement_capability_reviews.asp

xv *The Challenge of Contracting for Large Complex Projects: A Case Study of the Coast Guard's Deepwater Program*: http://www.businessofgovernment.org/sites/default/files/deepwater_magazine_0.pdf

xvi Understanding the Public Services Industry: How big, how good, where next? A review by Dr. DeAnne Julius CBE <http://www.berr.gov.uk/files/file46965.pdf>

xvii For a commentary on contract specificity see Brown, Trevor L., Potoski, Matthew and Van Slyke, David M, (2007) 'Trust and contract completeness in the public sector', *Local Government Studies*, 33:4, 607 – 623 <http://dx.doi.org/10.1080/03003930701417650>

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