

Improving the strategic commissioning of public services: a joint LGA/CBI vision



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Foreword

The way people view local public services is changing. Individuals and communities want more efficient and responsive local public services. They want innovative services that put them in control. They also want services to meet needs that are defined not around what providers do but around broad social, environmental and economic outcomes.

Local authorities, business and the third sector are on a journey to meet these new challenges. The LGA and CBI believe that improving strategic commissioning by councils and their public sector partners is fundamental to meeting the expectations of local people. In an unprecedented move, the two organisations have now established a joint forum to map out what needs to be done and to address jointly the issues that will inevitably arise during the process of transition to a new commissioning environment. This statement of intent will guide the work of the forum by identifying how the business, third sector and local government communities can work together, devising pragmatic solutions to the challenges we encounter on this journey of change.

Local government and the private and third sectors are at a crossroads in terms of how we work together. Too often we have worked in a fractious, difficult and highly contractual operating environment – one underpinned by a lack of trust, frequent allocation of blame and little recognition of the different principles that drive each of us. To provide the highest possible standards of local public services for people across the UK, we must build a new and different set of relationships which can get the best out of each stakeholder.

We now want to seize the opportunity to reflect on and then reconstruct that relationship.

By setting clear and achievable objectives for change, we believe we will make a real difference to the development of local government service markets. A simple statement of what we want is, though, not enough. Dialogue is essential: leading first to understanding and then to action and changed ways of working. So we have set out a two-year work stream that will sustain our joint commitment. We have also agreed a programme of activity to promote cultural and behavioural change in the way local authorities and their partners, working through Local Strategic Partnerships, commission outcomes for their residents.

New ways of working will provide opportunities for local government to engage more effectively with the business

community but, in response, businesses will also have to be open to listening to and learning from local government if the new relationship is to add real public value and be genuinely two-way. What works in improving the direct commissioning of services will also be invaluable in encouraging commissioners and service providers to focus on outcomes and radically transform their perspective on how services are delivered.

It is a huge change for all. Some organisations are leading the way. Examples are emerging of good practice based on much more mature and collaborative approaches to partnership and joint working. But for the majority, change has yet to happen: many private businesses feel happier in a tight contractual framework – it means they do not have to be creative. Many local authorities remain adversarial in their view of the private sector and see business only as a threat to their running of services. And business may fail to value and support the importance of strong local political leadership and debate.

As community and service user pressure grows, we believe that these old-fashioned views of the world will become increasingly unsustainable. People and communities who use local public services want to see change.

We offer this statement as a contribution to the debate, and to the process of change, by defining:

- what strategic commissioning means;
- how long-term sustainable improvement in local services can be supported;
- how procurement processes and new contract models can reflect the new demands of strategic commissioning.

The aim of this work is to begin a dialogue that is an essential part of the process of learning about the new relationships and ways of working. We look forward to engaging with the wider local government and supplier community to encourage input and co-operation into our work and to encourage similar working relationships at the regional and local level.



Paul Coen, chief executive, LGA



Richard Lambert, director-general, CBI

Strategic commissioning: the key areas

1. What strategic commissioning means

The LGA and CBI believe that a strategic approach to commissioning and delivering community-based outcomes requires public bodies across a community to step back and take an overall view of their role in a locality. Leadership, here, is now more than just the management of services. It is about imagining and delivering new solutions that do not yet exist, and being prepared for challenges yet to emerge. It gives life to strategic planning and resource allocation, drawing on the expertise of local partners and cementing effective partnership working, collecting data on service costs, running a competitive procurement and monitoring and assessing performance (see figure on page 6).

Good leadership allows a commissioner the oversight to check, gather feedback and improve on the quality of services provided to local people. Well-managed commissioning also ensures close engagement with service users at every stage. It should drive continuous change and make services truly citizen-centric.

Good commissioning is much more than just procuring services. It is about delivering customer-centric outcomes for an area, not narrow outputs. As an example, a contract at present might contain a specification for street cleaning (in order to make a place more attractive and safe). An outcome-based contract would specify a more attractive and safe place as the outcome. This would be achieved not just through street cleaning but through bringing together a range of services to improve a neighbourhood. This might include services to reduce crime, improve transport, street clean and generate economic development. And it is the provider that makes the decision about 'the how' rather than the public body, bringing into play such behavioural change and innovation as deliver the desired outcome. That is a key difference.

Visionary leadership is required to consider what outcomes are sought within the public sector budgets available and what is the best commissioning model needed to secure services to meet community priorities. Local authorities up and down the country are embarking on a journey to meet the challenge of joined-up service delivery. This is not just about effective procurement. Councils will wish to consider the implications for their local economy in the commissioning process. They may also wish to ensure that they retain the capacity to operate as providers in a mixed economy of service provision and to use their full range of powers. Therefore, as leaders of place, councils will make important political choices about how service delivery is shaped,

setting priorities covering both what is to be done and how others are to be engaged. Developing strong relationships with suppliers across sectors will help councils to understand more about what is involved in creating a supply chain to meet delivery needs. And they will need a supply-side that understands the breadth of the ways to deliver a service and is able to translate commissioning aims into practical services by also coming up with effective delivery models.

Good examples of partnership approaches to commissioning for outcomes are underway but only in some parts of local government are these processes presently integrated at the population level and the process is rarely strategic in the sense of spanning the responsibilities of different public bodies with an interest in the outcome, and then engaging a supply-side.

Our work in defining what is meant by strategic commissioning is guided by seven clear principles:

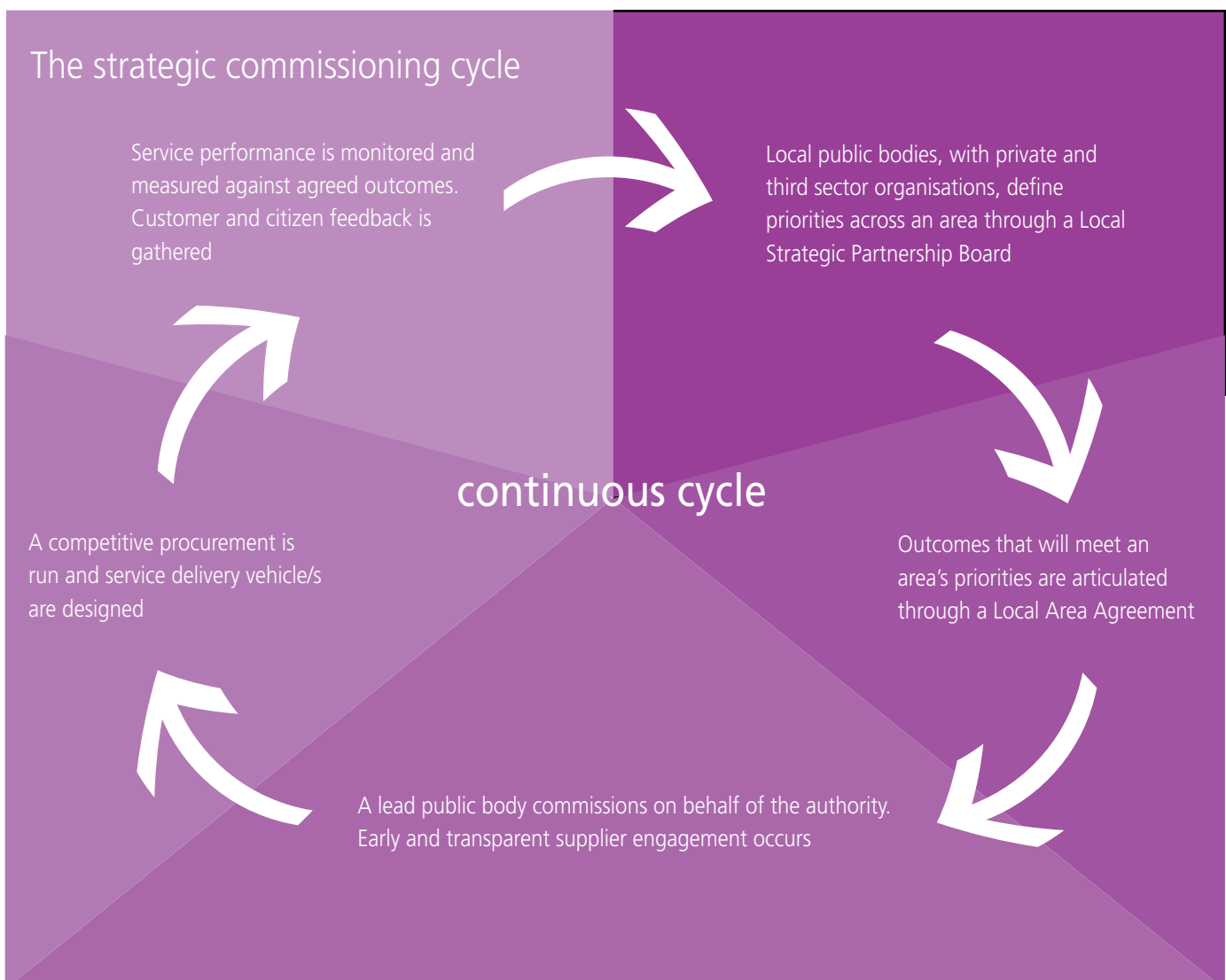
- **centred on people:** putting local people and communities at the heart of the process, and ensuring that they are engaged in the design and delivery of services so that the outcomes delivered are the ones that really matter to them;
- **smoother collaboration:** developing a three-way relationship between the client, supplier and service user, based on trust, will create a shared sense of what people want to achieve and some degree of consensus on cause and effect – the things that will allow them to achieve it;
- **better evidence and deeper analysis:** a whole-needs analysis of populations will better identify service priorities;
- **clearer outcomes:** clear signposting between outcomes, and identifying clear links with inputs and outputs, will show how they fit into the strategic policy context;
- **better dialogue:** early dialogue within client teams, for example, between technical staff (heads of procurement) and strategic staff (chief executives), and between client teams and suppliers, will mean operational programmes are joined-up with strategic policy goals;
- **improved sustainability:** the sustainable management of services and assets demands a focus on quality and value for money – not lowest cost – so that more is achieved with less in an environmentally friendly way;
- **contractual challenge:** transparent information about the cost and performance of local services will allow authorities to make accurate assessments about whether existing services represent value for money.

We will:

Ensure that strategic commissioning frameworks provide for citizen and community engagement so that outcomes meet the needs of service users by conducting research into models of user satisfaction.

Encourage wide debate on developing strategic commissioning through joint publications, regional events and publicly-reported roundtable seminars.

Strive to develop a framework of commissioning which aims to clarify the principles, has the support of elected members from all parties, and encourages all partners to innovate and look at how issues such as risk can be managed.



2. How long-term sustainable improvement in local services can be supported

We need better engagement between the commissioner and supplier communities. We need trust in order to drive changes in behaviour. Dialogue is crucial for partnership working and responding to the *People and places* agenda. Building links across the community will drive better outcomes that local commissioners, suppliers and communities want to see. Creating this scenario requires national leadership. Our initiative aims to provide some of that national leadership.

We must address and seek to change the deep seated, non-responsive, contractual culture that still exists between suppliers of services and their clients. Including more local councillors and officers in conversations with suppliers must be one of the key steps. But to make these new partnerships work we need effective markets and better commissioning skills across the public, private and third sectors.

We must strive for a better understanding by suppliers of the political environment in which local authorities operate, including the political cycle, budget setting and funding, and the decision making processes. We must also explore how local authorities, statutory partners and LSP members might better articulate their future service needs so that suppliers can plan to match capacity to needs.

There is a growing drive towards using community and voluntary organisations to design and deliver public services. Authorities are discovering the benefits of commissioning the third sector. The National Programme for Third Sector Commissioning, run by the Improvement and Development Agency, conducted a survey which showed that many of those questioned felt that authorities are merely ticking a box as opposed to giving third sector organisations a real voice on the local strategic partnership. The data also showed that smaller third sector organisations are less likely to be involved in commissioning than the larger ones. This highlights an emerging problem: how do small, local organisations get actively involved in the commissioning process?

Peterborough City Council

Peterborough City Council's ambition to achieve excellence in local authority performance is driving new approaches in how it manages and delivers services, with the Business Transformation team achieving £3.5m embedded cashable savings in its first year. Core to this work is continuous review and improvement, to ensure that services effectively meet customer needs and clearly contribute to delivering strategic outcomes. This new way of working was initially trialled in a number of smaller services, including the Drug and Alcohol team, where savings of £300k a year enabled greater investment in client services, commissioned from commercial and voluntary sector providers.

'Strategic Improvement' is now being fully piloted across the children's services directorate. A new performance and commissioning team has been set up, as part of a wide-ranging cultural change programme. Standard processes and performance reporting will ensure that information on operational needs and local, regional and national strategic requirements are effectively linked. The formal framework will provide both consistent data to address short-term issues of changes in demand or quality and long-term predictions of expected outcomes. By providing this 'joined-up' analysis of requirements, we will be able to ensure that customer needs are met through effective and value-for-money delivery, whether they are commissioned from internal providers, through public partnerships, or commercial and voluntary sector contracts.

With the successful completion of phase 1 of the Business Transformation Programme, phase 2 and 3 are now in progress to deliver deep and enduring organisational transformation. Working with the council's teams, our residents, communities and partners, and private and voluntary sector organisations, projects will improve collaboration, performance and value for money, releasing more funding to where it is needed, delivering excellent services to all our citizens.

Strategic Commissioning – Chorley Council

In recent years strategic commissioning of services has been at the heart of Chorley Council's drive to deliver truly customer centric services while achieving and improving value for money. Early options appraisal to determine the most effective means of service delivery has seen the development of a mixed economy environment which includes public-private partnerships in the provision of property, leisure centres, waste and the golf course services, the transfer of our housing stock to a registered social landlord, the collaborative procurement of our telephony service with a neighbouring authority, the shared service delivery of our financial services with another council, the ongoing transfer of community centre management to local people, the transfer of the 'Pets Corner' service to a third sector organisation and the in-house retention of the grounds maintenance and street cleansing services.

This strategic approach to procurement has paid significant financial dividends, which has seen the council double the efficiency gains target set for the 04 comprehensive spending review period. The success of this approach has also been recognised in our Use of Resources score of 4 on the VFM theme in both 2006 and 2007. Additionally we were awarded an overall score of 4 in the Use of Resources assessment for 2007. For a small council like Chorley this approach has been critical in enabling us to divert scarce resources into key frontline services, whilst reducing costs, minimising council tax increases and improving levels of customer satisfaction.

Our programme of business transformation continues around a focus on neighbourhood working geared to engender a wider partnership approach to service delivery and to ensure that opportunities to work with and procure from the third sector, are maximised. We have also developed a key partnership framework to strengthen ties with existing partners and to ensure that existing and future key partnerships are robustly and effectively managed.

We will:

Identify the key skills shortages in commissioning and procurement that currently exist within the public, private and third sectors, sponsor joint training programmes to improve skills, working with the improvement agencies and other partners to deliver a programme of co-ordinated support.

Raise the profile of strategic commissioning in joining-up local public services for the benefit of service users – by identifying and supporting examples developed in response to outcome-based targets set across local public services through the new Local Area Agreements.

Promote our work at conferences, and through the media, including at the CBI's public services summit on 26 June 2008 and the LGA's annual conference on 2 July 2008, and a number of regional events.

Work together to identify what barriers SMEs face in commissioning, with a view to submitting evidence to the Glover review commissioned by the Treasury. We will highlight good practice in this area by promoting examples such as the London Borough of Croydon's set of principles for commissioning the third sector and Birmingham City Council's work with the third sector to tackle homelessness.

3. How procurement processes and new contract models can reflect the new demands of strategic commissioning

We believe the commissioning model offers significant opportunities and challenges for suppliers too.

There will be a number of changes in the pattern of supply required by *People and places and Strategic commissioning*. Suppliers will, either by themselves or with other suppliers, have to develop approaches in four main areas:

- **outcome-based contracts:** success and payment will increasingly be determined by broad measures of wellbeing (economic, social and environmental) and will include a strong element of customer satisfaction;
- **co-operation** with other suppliers will be essential since few suppliers by themselves are likely to be able to deliver all aspects of a commission in a form that meets local regeneration objectives and wider community concerns; for example, the formation of local businesses;
- **flexibility** over time and between different groups or areas. Services will have to adapt rapidly to changing citizen demands and to the needs of diverse groups within a locality. This will challenge the 'one size fits all', fixed output specification, which is typical of much local authority contracting and the basis of most supplier business delivery models;
- **customer focus and engagement:** delivering 'choice and voice' to service users demands high levels of interaction with customers by providers. This needs to occur at all levels of an organisation and will challenge traditional 'command and control' organisational models across local government. In particular, both clients and suppliers will need to empower front line managers within clearly set limits.

The initial responsibility to create the conditions in which a contestable, commissioning-based marketplace can develop, belongs to local government. But the private and third sectors have integral parts to play in the development of local public service markets, as do the new Regional Improvement and Efficiency Partnerships that have been formed by local authorities.

There will be a number of essential elements. Helping to nurture a sustainable flow of deals for the market and ensuring competitive neutrality in the bidding process are typical examples. More broadly, local authorities will need to approach the market in an earlier and different way to that which they currently adopt; a way which is based on helping to develop a range of sustainable partners for a given market, rather than procuring a 'product' requirement.

There will be a practical challenge of relating measurable outputs (which can be more easily defined in contractual terms) to the outcomes, especially if multiple agencies in Local Area Agreements, or multiple authorities in Multi-Area Agreements are commissioning for local public services.

There will also need to be a general move away from organising services around a rigid contractor/client split, and towards a 'one team' approach. This, in turn, implies a co-management of change and risk involving a move away from rigid risk allocation between partners to agreement on shared risk and rewards. In place of attempts to 'lock in' certainty of outputs and methods, partners will need to co-manage risk and change in an open and flexible way. Successful commissions will typically involve substantial investment in relationship building, people skills and systems to secure broad-based outcomes. This will usually require longer term contracts than the traditional one to five years to deliver results. This is an issue of particular importance for the third sector, which has typically faced one or two year contracts which often therefore inhibit ability to innovate and improve service quality.

These major changes in approaches to procurement and contract management will require substantial change in both suppliers' and commissioners' culture and behaviour. Critical to choosing the right partner will be to manage competitions based on open dialogue, the best possible information and a mutual understanding of political drivers and risks. This, in turn, should encourage bidders to help council and statutory partners understand the commercial viability of different approaches.

There is some way to go yet if we are to encourage public bodies and the supply-side (through Local Strategic Partnerships, two-tier working in county areas and emerging city-region structures, such as Multi-Area Agreements), to step outside their traditional silos and rethink "the problem" of commissioning.

One of the biggest challenges relates to a better understanding about value for money and use of resources, and in particular, how economic decisions should be based on long-term value rather than just up-front cost.

We will:

Carry out a piece of work that identifies what strategic commissioning means in nuts and bolts terms for the procurement and contracting process, which offers ideas on:

- what specifically is an “outcome-based contract”?
- how can outcomes be defined and measured in practical terms, and expressed in commercial relationships, particularly if there is joint commissioning across multiple public sector agencies?
- what are the incentives for suppliers?
- how should the supply chain be involved?
- what extent is payment linked to outcomes and customer satisfaction, and how can this be reconciled with the budget constraints now faced by the public sector?

Seek to evaluate and offer practical guidance on alternative – and in some cases – new models of service delivery, including joint ventures, community enterprise companies and collaboration and co-production with communities and with other public, private and third sector providers.

Annex: members of the LGA/CBI commissioning steering group

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Provide quality and value for money

Use the best providers from every sector

Develop the skills of their staff

Contribute to economic growth

The Local Government Association is the national voice for more than 500 local authorities in England and Wales. The LGA group comprises the LGA and four partner organisations which work together to support, promote and improve local government.



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