

Commissioning for Maximum Value

Introduction

This think piece is intended to stimulate discussion about value; the concept, how it is identified, how it is measured and how commissioning processes may be run in order to maximise it. It is for people concerned with allocating public resources towards those things that make the most positive difference to people and to the environment and away from those that have a significant negative impact.

The SROI Network is a partner in the second phase of the National Programme for Third Sector Commissioning (NPTSC). Local Government (LG) Improvement and Development was the lead partner in this programme which ran from 2008-2011 and was funded by the Cabinet Office. This document draws on our interactions with Commissioners on the subject of Value from various training, events and meetings held as part of the NPTSC and beyond.

We will publish a more detailed guide as the culmination of our work within the NPTSC, which will reflect on any feedback and examples that we receive in response to this think piece, together with case studies we are already working on. This document has been published on a Linked In network (details on the last page) and on LG Improvement and Development's online Communities of Practice and we welcome responses and debate through either of those routes.

Context

The Evolution of Commissioning

Commissioning is generally understood as the entire of a cycle from identifying a need for the public sector to intervene, through to reviewing implementation of something that is delivered to meet that need.¹ Use of the term usually implies that a third party is doing the delivery, either receiving funding or being contracted.

Throughout the 19th Century UK governments took responsibility for more and more services to meet social need and during the 20th Century some governments outsourced or otherwise shifted some of the provision of services to third parties. The reason for bringing in third parties to deliver services was and is generally to increase competition with a view to achieving more, spending less, or both.

In the past, routes to third parties being tasked with delivering goods works and services were more polarised than they are today. Some requirements were procured and other

¹ For example see <http://www.idea.gov.uk/idk/core/page.do?pageId=9342617>

requirements were grant funded. If procuring, the balance of emphasis was on the public sector professionals knowing what should be bought, and if grant funding it was assumed that the organisation being funded knew what should be delivered. In these caricatures the common feature of the system is that there is relatively little consideration and analysis of *what to source*.

Over the last decade there has been an increase in public sector contracting with charities and a decrease in grant funding². Competition for remaining grant funds became stiffer³. As a result there has been greater consideration of what grants are supposed to achieve and greater scrutiny of what they do achieve, i.e. an expanded commissioning process before and after the grant award decision. In the context of procurement, again several trends⁴ have combined so that there is greater emphasis on the commissioning process before and after the procurement exercise than before. So regardless of the choice of grant or contract, there is now a greater awareness of the need to analyse what to source.

Recent Developments

The first round of the National Programme for Third Sector Commissioning produced Eight Principles of Good Commissioning in 2007⁵, in which great emphasis is placed on the early stages of commissioning, prior to sourcing, suggesting both that whilst such an emphasis was considered good practice it was also sufficiently unusual as to still require underlining. In 2010, the NAO led the development of an online publication called Successful Commissioning⁶ which further consolidated knowledge about good commissioning and reinforced that deciding what to buy or fund is at least as important as ensuring the best choice of offers available is made. It is particularly helpful in exploring the basis on which different sourcing routes may be selected. In the NHS, World Class Commissioning offered an aspirational model for commissioning, underpinned by competencies where sourcing was again seen as just one part of the jigsaw. In the early days of this initiative at least the health sector made slowest progress on market engagement⁷.

Since the establishment of the Coalition Government in 2010, there has been rapid change in the public sector. Spending cuts, changes to what is commissioned and by whom, and changes

² See for example "The Government Funding Relationship: Its impact on the sector and the future challenges and opportunities" by Sarah Flood, 2010, NCVO Funding Commission, page 3 available at http://www.ncvo-vol.org.uk/sites/default/files/Government_Funding_Relationship_by_Sarah_Flood1.pdf. Figures for non-charities within the Third Sector/ Civil Society are harder to come by.

³ The Finance Hub Commissioner BRAP to research this areas, reported at http://www.financehub.org.uk/local_authority_grants.aspx

⁴ Such trends include more services being sourced externally, a drive to professionalise procurement, personalisation, introduction of various outcome frameworks to measure results, efficiency reviews and, policy through procurement.

⁵ <http://www.idea.gov.uk/idk/aio/6617745>

⁶ www.nao.org.uk

⁷ See any of the reviews published at http://webarchive.nationalarchives.gov.uk/+www.dh.gov.uk/en/Managingyourorganisation/Commissioning/Worldclasscommissioning/DH_083194

to performance review all have implications for commissioning. The choices that the public sector has to make about what to buy have become harder but there is probably less resource available for initial analysis. Public bodies have greater freedom to decide what to do but less consistent data available for benchmarking. Decisions for health spend move closer to the frontline but have to be implemented within new structures.

Within this context it is perhaps more important than ever to anticipate and track consequences arising from delivery of goods, works and services, and to use this understanding at all stages of commissioning, including in the early stages. In doing so we must ensure resources employed for analysis are focused on the most relevant and important consequences and towards identifying the relative importance of those consequences. We must also ensure that the analysis is used to make better decisions.

Value

Principles and Methodology

The SROI Network is a membership body for professionals with an interest in accounting for value. Accounting for value may be distinguished from financial accounting by its concern with being accountable to those who are most impacted on by an activity, rather than only those with a financial stake, and by its concern with accounting for consequences of activities, whether or not these will ever result in financial transactions.

A definition of value that those associated with the SROI Network might recognise is: “The relative importance of changes that occur to stakeholders as a result of an activity”

This definition reflects the principles of accounting for value⁸:

- Involve stakeholders
- Understand what changes
- Value the things that matter
- Only include what is material
- Do not overclaim
- Be transparent and
- Verify the result

Members of the SROI Network are concerned with this because if value is ignored in decision making this may result in decisions that reinforce inequality and environmental damage.⁹

⁸ See A guide to SROI, Nicholls et al, Cabinet Office 2009 for the full text

⁹ The problem of negative externalities is well recognised in development and environmental economics however there are also problems associated with systemic failure to recognise positive externalities as discussed by e.g. Nicholls in http://www.thesroinetwork.org/component/option,com_docman/task,doc_view/gid,13/Itemid,38/ and Ryan-Collins, Sanfilippo and Spratt in http://www.thesroinetwork.org/component/option,com_docman/task,doc_view/gid,13/Itemid,38/

Applying Principles to Deciding What to Source

The SROI Network exists to promote principles and standards for accounting for value. The application of these principles in a framework results in a methodology which may be applied to forecasting or evaluating the results of a set of actions.

It is of course possible to take findings from an evaluation or a forecast and rethink or redesign services iteratively to improve them. However in the earlier stages of commissioning the question which professionals are trying to answer is often "which activities should be undertaken?" or even simply "which consequences do we want/ want to avoid?" At these points *accounting* for value of activities may be less relevant- and **designing** for value more relevant- see diagram 1. Therefore in addition to mapping out how accounting for value principles and practices may best be employed in commissioning we must also consider what "design for value" principles and practices might be.

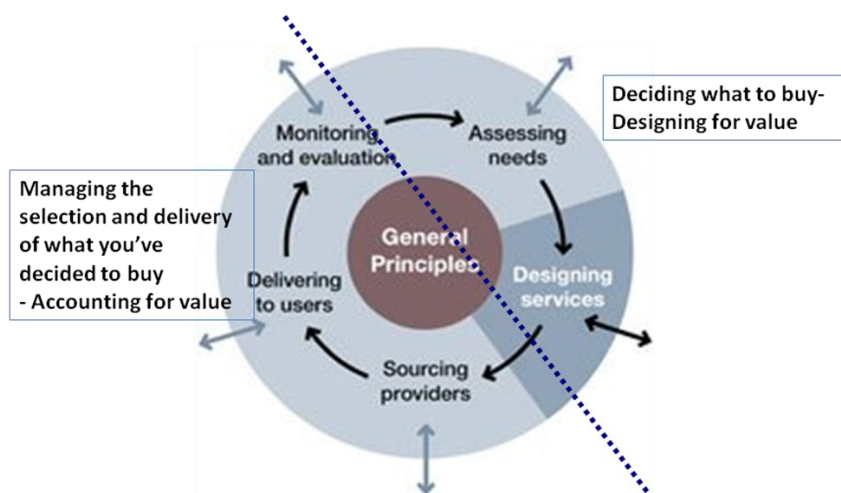


Diagram1- Accounting for and designing for value

The commissioning cycle has been drawn from National Audit Office online Successful Commissioning guide www.nao.org.uk

In the public sector, where activities are concerned with changing people's lives, supporting vulnerable members of society and addressing market failure, it might be expected that systems for designing and accounting for value would already be in place. In reality, whilst concepts of value for money are in use, approaches to understanding what this value is, and to making decisions based on that understanding, vary considerably.

Value for Money

Value for money may be defined as "the optimum combination of whole life cost and quality to meet user requirement" or "the effective use of resources to achieve desired outcomes"¹⁰.

¹⁰ Various sources including OGC, HM Treasury, Audit Commission and NAO.

Various guidance¹¹ suggests that value for money is a consideration at the procurement stage and that the choice of what to procure should be made with regard to the normal public expenditure tests of need, affordability and cost-effectiveness. However there are also ways of looking at value for money that integrate these aspects across the commissioning cycle. For example the NAO's published Value for Money (VfM) diagram – diagram 2- shows how VfM may be understood in the round.

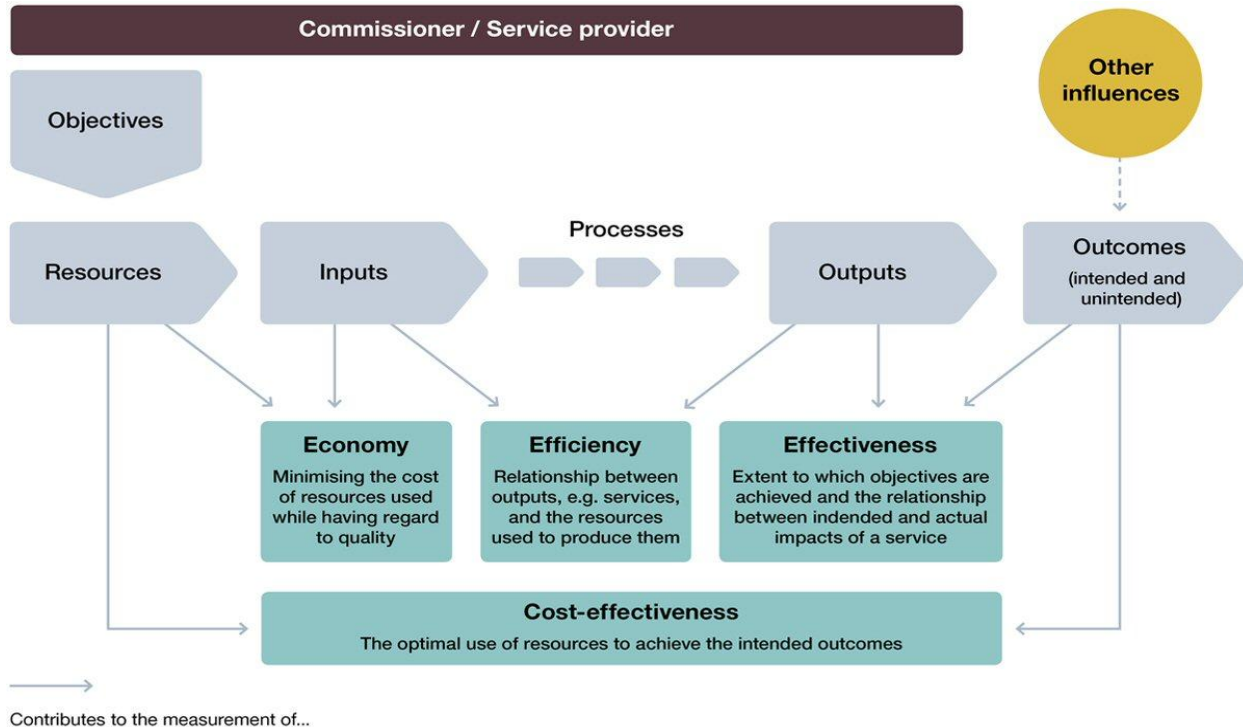


Diagram 2- National Audit Office Value for Money Schematic

Relative Importance

There are many observations that can be made about this diagram and how it relates to a discipline of accounting for value. One particularly pertinent point is that this model stops at identifying outcomes. However some outcomes are likely to be more important- and therefore more valuable- than other outcomes and this model does not provide a process for deciding which are more important.

This point may be further illustrated by considering the following chart- Diagram 3.1. Let's assume there are three outcomes/ impacts called A B and C from a particular activity. If presented with the information that A and B are positive and C is negative one might tend to judge that the activity was performing reasonably well.

¹¹ http://www.ogc.gov.uk/documents/environmental_issues-defra.pdf

<i>Impact</i>	<i>+/-</i>
A	+
B	+
C	-

Diagram 3.1

Yet when we know how much of the change occurs a different picture emerges as shown in the next Diagram- 3.2

<i>Impact</i>	<i>+/-</i>	<i>Quantity of change</i>
A	+	40
B	+	80
C	-	20

Diagram 3.2

Crucially, when we find out that outcome C is very important, and of course we already know it is negative and how much of it there was, the conclusion we draw is totally altered from that we might have originally drawn when presented with more limited information, as shown in diagram 3.3. So gauging importance of outcomes is a revealing but under-invested task.

<i>Impact</i>	<i>+/-</i>	<i>Quantity of change</i>	<i>Value</i>	<i>Total Value</i>
A	+	40	10	+400
B	+	80	10	+800
C	-	20	100	-2000
				-800

Diagram 3.3- the importance of value- courtesy of Peter Scholten

What is Required of the Public Sector?

Under Best Value, substantially still in place, each local authority has a duty to "make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness". Furthermore "this improvement involves consideration of costs, making the most of money spent, and making sure that services meet the needs of communities and authorities' priorities"¹². In 2010, the new Government's spending review framework clearly stated the need for better prioritisation in order to improve value for money¹³.

¹² <http://www.idea.gov.uk/idk/core/page.do?pageId=5184420>

¹³ http://www.hm-treasury.gov.uk/d/spending_review_framework_080610.pdf see e.g. page 8

The public sector, therefore, is clearly concerned with measuring and managing aspects of value but systems for addressing the measurement of value vary and are incomplete. There are choices that need to be made in any measurement system concerning what to measure, how to measure it and how to determine its relative importance. In deciding what to measure the public sector has tended towards top down systems (as in the Labour Government's National Indicators) and those driven by professionals or academics as are prevalent in the NHS. There are some advantages to this- ability to compare data and being able to standardise how things are to be measured- but there is also a risk that some important impacts will be missed, complexities ignored and that immaterial data will be produced. There are many perspectives on deciding how to measure things influenced by the background and training of those in charge of measurement in each field. There have been some participants on the one day course for commissioners on measuring social value run as part of the NPTSC who find the inherently subjective nature of measurement in social science difficult. In terms of valuing things to help determine relative importance, there appears to be very little widespread use of any approach to judging relative importance. This is despite valuation techniques being common in some public sector fields, for example where there is a need to try to protect natural resources or to decide the level of fee or toll to charge for infrastructure.

Developments in Commissioning for Value

Despite these issues value remains a hot topic in relation to commissioning and in relation to commissioning from the third sector, with a Modernising Commissioning Green Paper published in late 2010¹⁴ devoting a whole section to the subject. Social Value in some guise also features as a subject in a Private Members bill which received sufficient support in November 2010 to proceed past second reading¹⁵. A recent publication by the Centre for Social Justice talks extensively about SROI¹⁶ and the importance of valuing outcomes.

In a marketplace that exists for the sake of the people it is encouraging that there is so much debate about value. That is there are both a need and an opportunity at present to consider what should be valued and which systems and principles should underpin the identification and interpretation of data to support decisions.

Key Accounting for Value Practices

A guide to SROI, Nicholls et al, Cabinet Office 2009, offers a more detailed description of these practices¹⁷, together with a worked example, and in the context of forecasting or evaluating the results of a set of actions within the scope chosen. This short description is provided only in the

¹⁴ <http://download.cabinetoffice.gov.uk/green-paper/commissioning-green-paper.pdf>

¹⁵ Public Services Social Enterprise and Social Value bill <http://services.parliament.uk/bills/2010-11/publicservicessocialenterpriseandsocialvalue.html>

¹⁶ "Outcome-Based Government: How to improve spending decisions across government" Centre for Social Justice- A Policy Report from the Social Return on Investment Working Group [24/01/2011] http://www.centreforsocialjustice.org.uk/client/downloads/CSJOutcomeBasedGovernment_final2_WEB.pdf

¹⁷ Available for free download from www.thesroinetwork.org

interests of illustrating the subject matter in this think piece and of flagging up common misconceptions, rather than as a guide to SROI.

Mapping Outcomes

The relationship between stakeholders- those people that experience change as a result of an activity or make an input to it- and inputs, activities and outcomes is explored and then documented on an impact map. Put like this it may sound mechanistic but there is no expectation that outcomes will arise neatly from activities. Indeed the principles of accounting for value suggest that effort needs to be made to understand change- positive, negative, intended and unintended- from the perspective of the groups that experience that change.

The first principle, involve stakeholders, states that the choice of what is (i.e. which outcomes) measured must be informed by those that experience those outcomes. From our work with commissioners and also civil society organisations, the significance of this part of the process and associated principles of involving stakeholders and understanding change are often underestimated. Mapping outcomes is not a desk exercise, nor can it usually be completed from previous research. It requires some interaction with those who may have been affected by an activity (or, for forecasting who may be in the future). The basis for interaction must be open to exploring what changed (prompting for negative and unintended), what led to other things, what about the change was most significant, how important it is compared with other things and how it may be demonstrated. To map outcomes, the answers to these open questions need to be analysed and the principles of accounting for value recognise that judgements will need to be by the analyst. Therefore mapping outcomes (and the other practices) may be considered stakeholder-informed rather than stakeholder-led.

It should be noted that this involvement of stakeholders is intended to help the analysis to be better informed and guided by the sorts of change that are actually happening and the ones that are relevant and important to the stakeholder groups, rather than to evidence the change. Therefore it is not generally necessary to talk to a high percentage of each group at this stage and the resource implication is not as great as it may at first appear. In the public sector it may be possible to revise existing consultation plans to ask questions about impact and importance of impact which could assist commissioners.

Another aspect of mapping outcomes is that outcomes are mapped for each stakeholder group, thereby developing a much better understanding of differences in how people are affected by an activity. Through being systematic in identifying impacts on stakeholder groups that may often sit in commissioners' blind spot, e.g. families and neighbours of service users' unintended consequences, both negative and positive, may be found.

In building up a map of the outcomes for each stakeholder, the various public and civil society organisations that may have an input to the activity or that are impacted in some way (on their budget, the demand for their service, their working practices, their ability to meet targets or fulfil a duty etc) may see more clearly what each party stands to gain and provide a basis for partnership to solve entrenched and complex problems.

Identifying Indicators and Evidencing Change

A basic premise of accounting for value is that our judgement about what to measure needs to be guided primarily by materiality rather than by how easy the change is to measure. If something is relevant we should find a way to measure it. Materiality judgements are made unconsciously by professionals all the time but by being conscious of them and applying some criteria they may be improved. Recognition that professionals need to make judgements also needs to increase.

A second point is that care needs to be taken to choose indicators that actually measure the relevant change. A subjective indicator (how someone feels) may be improved upon by use of a well researched scale, may be balanced with a more objective indicator (e.g. a related behaviour), or may be cross referenced with observations from a third party.

The principle of 'involve stakeholders' states that stakeholders should be involved in the analysis to inform what is measured, and *how* it is measured and valued. One particularly useful source of information about how to measure things is the relevant stakeholder group themselves. Looking for a way to measure the change in conversation with them may in fact lead to a better understanding of the change itself. When you ask someone how they might show a third party the change they are describing it often throws up a piece of information about the meaning of the change to them that was previously hidden. Sometimes asking about this throws into question whether there is a significant change, e.g. if someone tells you they feel so much better but then can't think of anything in their behaviour that evidences this feeling.

In order to evidence change, i.e. to collect indicator data of how much of the types of change, or mapped outcomes to put it another way, it will often be necessary to change existing monitoring systems such as enrolment forms, questionnaires, surveys, and what data professionals record about their interactions. Sometimes this will mean reducing the amount of data that is collected. Usually it means collecting either more subjective data or more objective data depending on the previous monitoring emphasis,

Valuing Change

This is the part of SROI for which SROI is well known although it is only one part and its function is often misunderstood. The purpose of valuing change is to reveal missing value which then allows consideration of the relative importance of changes to the affected stakeholders.

There are three basic approaches to valuing change. Firstly where change results in a real change in money (income or costs) this change may be used. Secondly where change results in the possibility of reallocating resources, unit costs or other calculations may be used as a proxy for value, ideally with the support of the affected stakeholder. Thirdly where change does not result in any kind of actual or potential market transaction, a revealed or stated preference method may be applied. Since the ambition of valuing impact on marginalised and less

powerful stakeholders and bringing this onto the table is relatively new, this is a developing field.

In the public sector, and particularly in these times, there may be a tendency to pay attention to only those effects that immediately save money. However an improved understanding of the relative importance of the effects of a service or approach on the different groups affected is crucial to ensuring the money that **is** spent is spent on the best things.

Taking Account of Value in Commissioning

The following five points describe the additional things, *over and above a standard commissioning practice*, that would need to be taken into account at each stage in a commissioning cycle to ensure value is maximised. Commissioning practices vary considerably so some commissioners may find they are already doing more of this than others.

1. **Initiating commissioning.** Recognise proposals from stakeholders and consultation and survey results as prompts to investigate need. Put in place systems to prompt proposals from stakeholders about improvement, redesign and identifying and filling gaps.
2. **Needs analysis.** Understand the relationship between need and change by involving stakeholders. Identify activities that contribute to the need arising or are intended to tackle it. Define the objectives of the service in terms of the change that stakeholders value. Identify potential to influence other objectives of the stakeholders with this service area. Research what would happen without doing anything.
3. **Options appraisal and service design.** Involve stakeholders in generating options. Use forecast SROI as part of appraising options, include consideration of value to, and negative impact on, all stakeholders and seek solutions to taking important but previously unrecognised or under recognised value into account. Where value is unclear use to set research agendas.
4. **Sourcing.** Collaborate with public and civil society stakeholders in resourcing and sourcing the solution in the event there are significant cross boundary resource or result implications. Take account of opportunities to maximise value of the service through the sourcing strategy by communicating with providers about the desired positive value and potential negative value to avoid or manage. Take account of value in award decisions, contract conditions and performance monitoring.
5. **Implementation, delivery and review.** Design monitoring systems to focus on most significant areas of value. Incentivise good performance against priority outcomes. Use evaluative SROI as part of service review.

As noted on Page 4, the standardised methodology, and to some extent the detailed wording of the principles, of SROI are focused on forecasting or evaluating the impact of *a defined activity* on those affected. Therefore, considering a commissioning cycle, once one or more possible activities have been identified then it is possible to apply the standard SROI approach to forecasting and later to evaluating. For example forecast SROI analyses could be prepared to assist the choice between options and/or to identify outcomes to be measured and

performance managed. Evaluative SROI could be used for service review. The method does not require further development in order to be applied to these situations although judgements made about evidencing and valuing outcomes and assessing deadweight may need to be stricter than in is suggested by the tone of the guide¹⁸.

Nonetheless, the standard methodology does require practices that are not common across the public sector. It may be worth considering where best to develop existing forecasting and evaluation practice to get better at accounting for value. This might mean doing partial SROI analysis in some situations, e.g. concentrating efforts to understand and value change on only the service users, or taking more account of impact on other stakeholders such as families.

SROI analyses may also be undertaken by suppliers or prospective suppliers, particularly civil society organisations and particularly where they feel that there is some value that their approach is creating which hasn't been taken account of in the marketplace¹⁹ Such analyses may be particularly useful to considering whether an innovation should be tested further, whether there is an opportunity to develop a new service or whether there is a case for commissioning something differently.

We welcome views on the circumstances in which using forecast SROI to compare options and identify value that should be managed would yield the greatest results. We are also interested in views on the circumstances in which evaluating or reviewing a project or service using SROI would most lead to information that would improve accountability or build a useful evidence base.

We welcome feedback from those in the public sector who have used SROI to forecast or evaluate public services delivered by third parties. We would like to hear from those who have been influenced by SROIs undertaken by suppliers and providers and we would also like to hear from suppliers/providers who have used SROI to influence decisions about scope of services.

We are also interested in views on how the method, particularly the principles, can be applied to different audiences or purposes.

In the early stages of commissioning, specific activities have not yet been defined and the standard approach cannot be applied. Therefore, for the National Programme for Third Sector Commissioning, we are seeking to define a set of principles and a methodology that would apply to the earlier stages of commissioning. Effectively we're trying to answer the question of what the principles and practices of *design for value* in public services would look like. This is a work in progress and we are particularly interested in feedback on this topic.

¹⁸ "A Guide to SROI", Nicholls et al, 2009, was written primarily with a third sector audience in mind.

¹⁹ As noted earlier, if the work has been assured by the SROI Network then such a report will have been judged to comply with the seven principles.

The most important aspect of identifying opportunities to maximise value through the definition of needs, choice of priority outcomes and design of services is gaining a closer understanding of change and the importance of that change to a broader range of stakeholders.

As described in steps 1, 2 and part of 3 above the practices required would be to be systematic about identifying where there is under tapped value, being holistic in assessing value and involving those affected in order to better inform priorities. This is not the same as asking people what they want; in order to be truly transformational what is needed is a better understanding of what would most make a difference.

We are interested in any examples or feedback which reflects either becoming more systematic about which stakeholders are considered, particularly where this led to recognition of important impacts on them. We are also interested in examples of better understanding need and desired outcomes and how the choice of which outcomes are important is made.

There are some system issues that individual commissioners or even departments of colleagues will find difficult to tackle. We are interested specific examples of the barriers to improving commissioning practice along the lines outlined in this document, such as perverse incentives, lack of clarity about the law and underinvestment in skills.

Responding to this Think Piece

Whilst some particular areas of interest have been highlighted in the above section we welcome any responses to the themes and points made in this paper. Please signpost to relevant pieces of work and cases where any of the approaches and principles mentioned in this short publication have been used. Please post your comments on the Commissioning for Maximum Value Linked In forum at <http://www.linkedin.com/e/-1vivxx-gkfj1hnz-2d/vgh/3797114/>, or on the Local Government Improvement and Development Strategic Commissioning Community of Practice at <http://www.communities.idea.gov.uk>

Comments and contributions received prior to 17th March 2011 will be taken into account in the forthcoming Guide. Other contributions are still welcome as we seek to build a community of Commissioners with an interest in this topic.