

Mainstreaming Outcomes-based Commissioning

“Moving from the operational to the strategic”

Introduction

The past 5 years have seen mixed progress in the development and piloting of outcomes-based commissioning (OBC) approaches across the public sector.

There are numerous examples of good practice across both local and central government, largely in the commissioning of “people” services such as those targeted at children & families or adults with social care needs. In particular there has been a drive to build outcomes evaluation into the way voluntary and community sector (VCS) organisations demonstrate their value and impact.

In spite (or maybe because) of the significant developments made in developing evidencing outcomes and building them into how services/providers are evaluated, outcomes based commissioning is rarely used as a strategic mechanism for allocating resources.

As such, there is always a danger that outcomes approaches are seen as an “added luxury” to core service delivery i.e. outcomes only level the playing field for VCS organisations if they are an integral part of strategic commissioning.

This paper explores this issue further and attempts to make the case for public sector commissioning authorities to integrate OBC into strategic their strategic decision-making processes.

Outcomes-based commissioning: what it is

It is estimated that public sector spending on independent providers is around £82bn per annum¹. This is approximately a quarter of public sector service expenditure in the UK. The decision to commission services is largely driven by the belief that a third party can deliver a pre-determined service on behalf of a commissioning authority in a better and/or cheaper way.

These services are usually commissioned on an “activity basis” (i.e. outputs); that is to say that the commissioning authority has already decided what type of service should be provided to address a community need e.g. commissioning the provision of IT training courses (“the activity”) in an area of high unemployment (“the need”).

In activity-based commissions, success is often defined by the achievement of the activity rather than the impact made. This can lead to a risk that a provider prioritises compliance over impact, ensuring that the strict conditions of a contract are adhered to (e.g. providing training courses) whether those conditions are making a difference to residents or not.

An OBC approach identifies a need, or problem, to be addressed and makes it the benchmark for the success of a contract. This can be implemented in two main ways:

- commissioning a pre-determined service, but building the success and evaluation criteria around outcomes to evidence value and impact; or

¹ The Shadow State, Published by Social Enterprise UK December 2012

- commissioning a solution instead of a pre-determined service – allowing the freedom for providers to propose solutions that might solve the problem e.g. commissioning an increase in the number of people in employment (“the outcome”) in an area of high unemployment (“the need”).

Across local government, the majority of OBC arrangements have been trialled using the first method; however the second method will become increasingly important in helping the local authorities to meet the challenges presented by wider corporate initiatives.

Outcomes-based commissioning: why it is important

The financial pressures currently encountered by both the public and voluntary sectors mean that it is becoming increasingly difficult to maintain certain activity based arrangements.

In order to be truly cost effective and value for money, commissioning arrangements will need to be planned in such a way that resources can be justifiably redistributed according to evolving priorities. OBC approaches encourage the setting of a decommissioning target at the commissioning stage which can enable the redistribution of resources more effectively.

Activity-based commissions often define success by either the quality of the activity, or the simple fact that the activity exists. Where the quality of an activity falls below an acceptable level, an intervention is likely to be triggered and the activity continues. However as success is also defined by the existence of the activity, if a decision is ever taken to stop doing something, this is invariably seen as a failure or “a bad thing”.

Inevitably this makes it more difficult for public sector bodies to make decisions to redistribute resources knowing that even if the decision is taken for a positive reason, it will likely be seen in a negative light.

Where success is defined by an outcome or “a change”, it is justifiable to disinvest where that outcome has been achieved and re-invest in another area where appropriate.

An OBC approach would allow commissioning authorities to take a genuinely strategic approach to deploying resources over the medium to long term to achieve social benefits for residents, by changing the dynamic of the public sector from a commissioner of services to an investor in solutions.

Outcomes-based commissioning: the benefits

OBC has four main added benefits to the traditional activity-based models for commissioning

- Freedom and encouragement of innovation
- Better understanding of the local area
- Achievement of appropriate financial savings
- Achievement of positive outcomes for residents

Freedom for and encouragement of innovation: by clearly specifying outcomes rather than the activity the commissioning authority allows the opportunity for proposing new ideas for achieving outcomes. The provider market is challenged with promoting

or creating a delivery model that fully responds to the needs identified (and which is potentially very different from current public sector services).

This is of particular importance to the public sector at a time when current models of service provision are unaffordable, even where it is believed that the social value/impact is great.

Better understanding of the local area: understanding whether an outcome has been achieved, and why it has been achieved requires a more sophisticated approach to performance management. Although this does not preclude target setting, by taking a more mature and evaluative approach to assessing performance, the council would be able to gain benefit from contracts even where significant impact has not been achieved.

Although commissioning authorities carry out numerous studies and needs analyses, they always run the risk of being divorced from the numerous flowing changes that take place at a localised level. Having delivery agents help identify need and chart impact provides commissioners with a better understanding of what works and where resources should be prioritised.

Much of this depends on both the commissioner and provider working together to collate the right information and analyse it effectively.

Achievement of appropriate financial savings: in many cases, where outcomes are achieved there will be scope to reduce the requirement for public sector services/interventions. By reducing the demand for services, the commissioning authority can have greater scope to make de-commissioning decisions that reflect reduced demand, rather than potentially increase pressure on over-worked resources.

Financial savings in this case are most likely to be medium to long-term and on an “invest to save” basis whereby the commissioning of an action now will lead to a reduction in demand and expenditure later. OBC approaches allow the financial element to be explicitly integrated into future planning.

In addition OBC can be used to avoid up front costs by enabling the leverage of 3rd party social investment, something which is not usually possible under traditional activity-based contract arrangements.

Achievement of positive impact for residents: at the heart of the outcomes based commissioning approach is the aim to generate meaningful impacts for local residents, and change the public sector dynamic from services designed to provide a “safety net” to solutions that improve the ambition and general well-being of all residents.

This approach encourages commissioning authorities and service recipients to look beyond the “need for a service” and consider how to unlock the ambition for the individual which not only has significant personal benefits, but also reduces dependency on statutory resources.

Outcomes-based commissioning: the challenges

Attribution of impact – as success will be measured against a positive change in circumstance or behaviour, and that there are likely to be many variables that could influence these changes, it may be difficult to attribute success/influence solely to the

commissioned provider. This may mean that good work by a provider is hidden by a wider social change (e.g. a recession); alternatively this may mean that a provider's success is artificially magnified by an external factor (e.g. a major development bringing jobs and prosperity).

Mitigation: close working with the delivery agent to understand their “theory of change”; that is to say how they understand the journey from problem to solution and what role they can play. Organisations can often fall into the trap of both overstating and underestimating what they can achieve. Commissioning authorities can play a role in challenging which outcomes can be directly affected by an organisation and focusing commissioning agreements around these as well as requiring agreed outcome tools to measure impact.

Targets and payment schedules encouraging perverse behaviours – a danger highlighted in some central government outcomes based programmes is that the way that targets and payment schedules are agreed dis-incentivise providers to tackle the most difficult elements of a social outcome. For example if payments/targets are based on quantity alone, providers are much more likely to target the easiest outcomes in order to maximise throughput and potential funding/recognition. This may lead to further entrenching the problems highlighted by the outcome amongst marginalised groups.

Mitigation: once again, the commissioning authority has a role in co-producing outcomes with providers to ensure that delivery agents are not encouraged to take the path of least resistance in achieving their outcomes.

Unrealistic outcomes proposals from bidding organisations – outcomes are generally more difficult to estimate and evaluate than outputs through activity based commissioning. As prospective bidders may be in competition with each other, there is a risk that they will overstate the impact that they can make in order to secure council funding.

Mitigation: this is a challenge, and there will always be an element of risk to these agreements, particularly where a delivery agent is proposing an entirely new activity to achieve an outcome. Mitigation could be achieved through taking a “whole government” approach to commissioning and ensuring that representatives from a range of disciplines are called upon to assess delivery agent proposals, and the potential impact achievable.

Role of OBC in other strategic drivers

The public sector as a whole is already exploring a number of new ways of working that challenge existing processes and delivery models. Developing a robust and consistent approach to OBC will be crucial in successfully meeting these challenges.

Social Return on Investment – although not embedded in public sector commissioning, the use of Social Return on Investment (SROI) methodologies is being increasingly discussed across the public and voluntary sector. SROI is designed to help commissioners and providers better understand the additional social value that can be delivered, and to ensure that commissioning decisions are not based on price alone. OBC is a key ingredient to allowing SROI to be calculated as it relies on the ability to attach financial values to outcomes.

Social Investment models – similar to SROI, OBC is a key ingredient to emerging social investment arrangements across the country. Going a step further than valuing social return, social investment models (such as Social Impact Bonds) look to monetize the savings available through the achievement of outcomes and use a proportion of these savings to repay the initial investment in the intervention. The identification, measurement and understanding of robust outcomes are essential to ensuring these financial arrangements are correct.

Community budgets – if there is a genuine movement towards community-led budgeting or commissioning, then it is likely that the artificial categorisation of public services will become redundant as people begin to define their needs and ambitions in more holistic ways. An embedded and tested OBC approach will help traditional commissioning authorities to better enable communities to structure commissioning agreements that reflect the cross-service/outcomes-based nature of community-led budgeting.

Right to challenge – commissioning authorities will need to explore the role of OBC in responding to community proposals through the Community Right to Challenge process. Helping organisations to understand whether their challenge relates to the delivery of a service or the achievement of the outcome may enable commissioning authorities to implement a more transitional approach to encouraging community solutions while at the same time supporting existing service delivery.

Moving forward

In order to achieve the potential benefits offered by OBC, it is recognised that a corporate approach is needed to further build on the work carried out by commissioners across the central and local government.

To achieve this, procurement and senior commissioners across the public sector will need to exchange expertise and experience to help the development of the OBC support offer for their organisations.

Public sector departments/organisations will also need to instil a commitment and culture of commissioning on an outcomes basis that challenges pre-existing models and focuses commissioning intentions on effecting social change in their areas of influence. OBC will not always be the most appropriate methodology to be employed, however it is encouraged that all commissioners challenge themselves as to whether they are interested in purchasing an activity or an outcome before entering into a commissioning process.

Senior and Chief Officers across the public sector are key in promoting this message and challenging their commissioning leads to consider OBC approaches, particularly where their departments/organisations have decided to trial innovative/alternative delivery methods in response to wider financial pressures.

Moving forward, a mainstreamed and embedded culture of OBC needs to be at the heart of any future programme of work to create alternative models of delivery and/or community-run services. Quite apart from the potential to make a genuine impact on issues that affect residents, and deliver savings by reducing demand on public services, the greatest potential benefit of employing this commissioning framework is the opportunity to nurture the transformation of public service delivery in the UK.

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