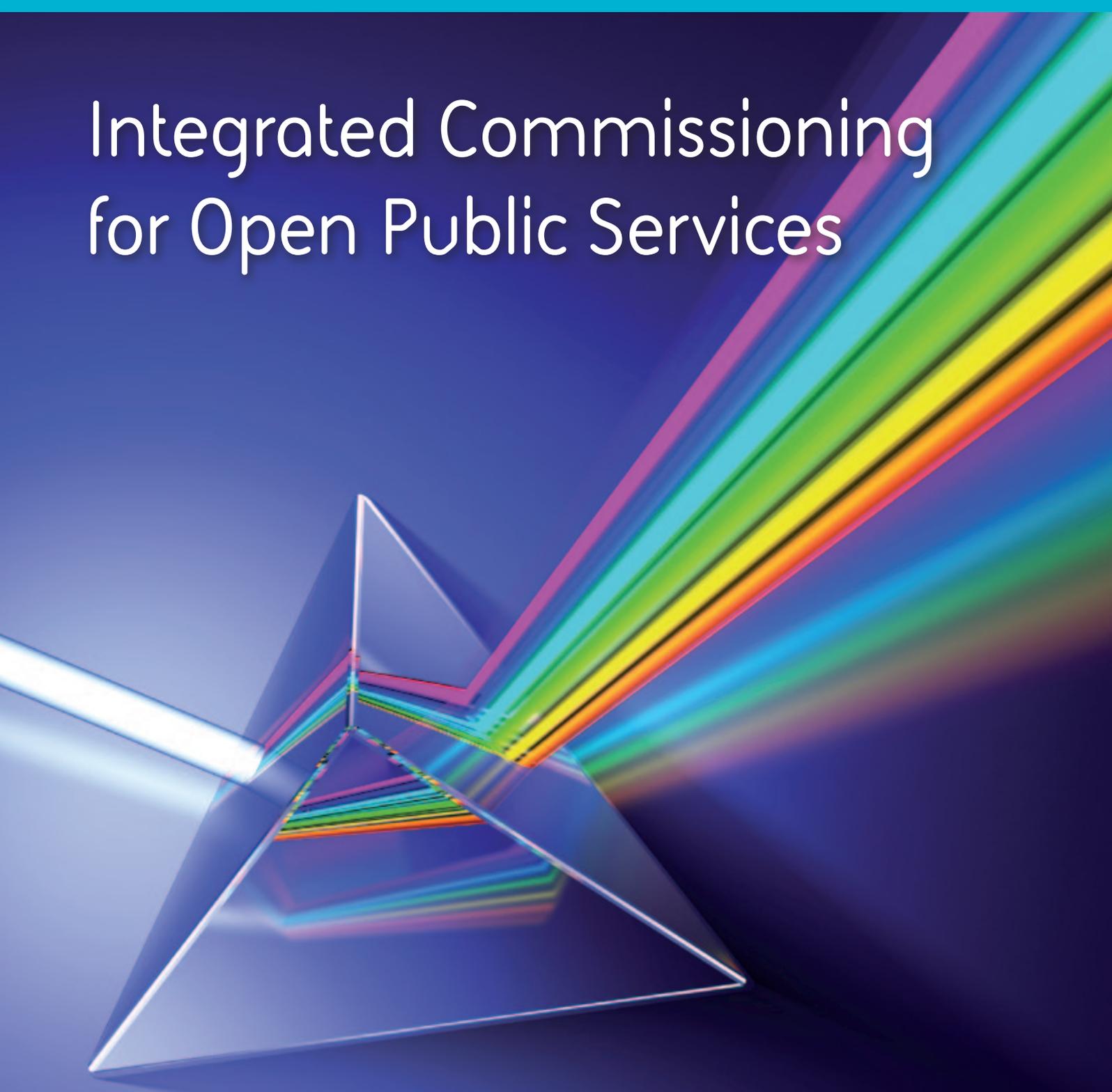


# Integrated Commissioning for Open Public Services



Building a better model for the delivery of social value  
through diverse networks of local providers

## About the Serco Institute

The Institute is Serco's research facility. Our aim is to foster the development of sustainable public service markets through an outward-facing programme of research and communication. Using an evidence-based approach, we study competition and contracting in public services and share the findings through our publications. These are intended to enhance understanding, in governments and the wider community, of the role that competition and contracting can play in improving public services and of the conditions and practices that deliver the best outcomes

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# Executive Summary

Decentralisation has been identified as an important key to unlock more productive and responsive public services. The closer the services are to service users, the more accountable they are for addressing users' diverse and individual needs. As such, increasing the impact of public services means devolving control and providing more choice.

There are a number of challenges in creating and maintaining local choice and responsiveness. It implies a diverse spread of local small and medium enterprises (SMEs), including many from the voluntary and community sector (VCS) and newly emerging mutuals. Paradoxically, large-scale and complex public service commissioning has required an increasingly centralised state, which lacks the flexibility and sensitivity to manage local networks and often produces unintended consequences.

However, the emergence of the 'integrator' establishes a promising model to implement decentralisation – a prism refracting central direction into a diverse array of provision. An integrator is an organisation strategically deployed by the commissioner with specific responsibility for mapping and then assembling a network of local providers to achieve agreed outcomes. Historically both central and local governments have performed this role but with a poor return on investment.

The model has evolved further with the use of prime contractors to manage large, complex infrastructure projects through a blend of self-delivery and supply chain management. The separation of roles between the commissioner, prime and provider has created greater clarity in respective roles and responsibilities but has also resulted in some blurring in the lines of accountability. The translation of prime contractors into the social sector, such as large welfare to work contracts in the UK and US, has led to a further evolution in accountability as the role of the end-user has become a more important consideration in service design.

Two distinct types of integrator can be identified. 'Pure' integrators, that build diverse networks of providers through which they deliver 100% of service delivery. The performance of this type of integrator is entirely dependent upon the performance of their network, so the integrator needs to support and challenge providers to optimise outcomes and can best demonstrate accountability through the transparent reporting of management information.

'Blended' integrators, on the other hand, sub-contract some service delivery but retain a significant proportion of revenue to deliver the same service directly. As such they can be more opaque in nature, with less defined separation between management and provision. This also presents them with the opportunity to self-select the more profitable work whilst pushing down the harder cases or projects to their supply-chain. As such the performance of blended integrators may require greater scrutiny by commissioners.

Using integrators will free up commissioners to focus on long-term strategic objectives by enabling them to delegate the micro-management of a supply-chain of smaller providers to the integrator. In selecting integrators, commissioners should consider their specific capacities to:

- Bring together local networks of providers, and manage that supply chain on behalf of the commissioner;
- Align the goals of local service providers to deliver the agreed outcomes;

- Act as a local market maker by growing the capability of current SME and VCS enterprises;
- Incubate potential new providers to diversify the supply chain;
- Manage the performance of all organisations in the network and provide transparent management information in real-time.

The integrator should be in a position to provide upfront investment to fund a range of smaller providers that will deliver those outcomes. Far from adding cost by inserting a new layer to service delivery, the integrator can reduce waste, improve effectiveness and use its scale to increase efficiency and diversity. This may also present an opportunity to contract on a payment by results basis to deliver long-term social outcomes.

To understand this further, we have considered three case studies to offer insights as to what works from examples where integrator models have already been tested.

- The Work Programme has devolved risk to prime contractors, using a range of blended and pure integrator models, with payments linked to long-term employment outcomes.
- The National Offender Management Service (NOMS) is running a number of pilots in which different degrees of service integration are being applied, with a focus on reducing recidivism.
- Drawing parallels with the construction sector where network delivery is well established, the Olympic Delivery Authority brought their complex project in on time and under budget by using a Delivery Partner as a service integrator for a highly complex network of providers.

### **Innovations emerging from the case studies indicate that:**

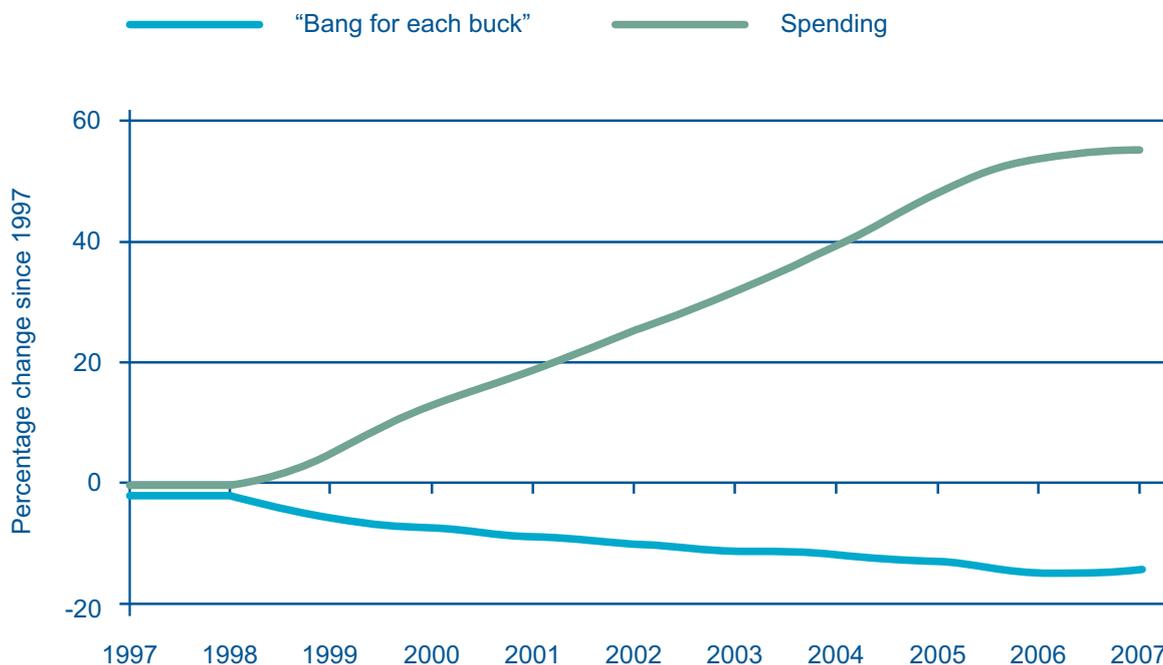
- Effective management of subcontractors, through increased alignment of incentives and objectives, can lead to improved outcomes;
- Sophisticated tools have been developed for designing, developing and performance managing networks of subcontractors;
- Service integrators are effective in drawing in funding streams from local sources and joining up provision from the bottom up;
- Accountability to service users is primarily underpinned by governance arrangements, stakeholder engagement and transparency.

There is a broad spectrum of maturity in commissioning, resulting from a variable understanding of the profile and cost of existing provision. A substantial amount of public money is invested in public services that are currently delivered by loosely mapped and poorly integrated networks. Commissioning through a service integrator could deliver greater public value through more effective performance management of diverse and localised solutions.

Collaboration and learning have emerged as a recurring theme. Collaboration will be needed both between and within central and local government to remove systemic barriers resulting from organisational silos. Partnership is needed between commissioners and integrators to identify opportunities, build an understanding of cost and objectives, and maintain joint stewardship of the provider networks. Network managers and their delivery partners must work together, since their success is co-dependent. Most of all, the user must be engaged at the heart of service design and delivery, if greater public value is to be realised. This report explains why and how.

# The Challenge

## Total Public Spending and Efficiency Estimates 1997-2007



**Notes:** "Bang for each buck" is output over spending, where spending is General Government Final Consumption Expenditure (GGFCE) deflated by the GDP deflator.

**Source:** Institute for Fiscal Studies calculations based on ONS UKCeMGA, *Total public service output and productivity*.

## Systemic Change - More For Less

The coalition government has set out an agenda of radical reform in public finances and service delivery. The objective is to deliver a sustained reduction in the budget deficit, whilst meeting the expectations of citizens by ensuring fair access to high quality services, particularly for those most in need, whether it is personalised social care for their elderly relatives, aspirational education for their children, expensive health interventions or a reduction in re-offending within their community.

Our existing centralised systems and services have probably reached their natural limits. Analysis suggests that huge investment in public services has failed to increase productivity. Under the previous government public service productivity did not match public spending increases that grew by more than any other OECD country over this period, yielding a much lower 'bang for each buck'.<sup>1</sup>

## Entrepreneurial Government

Fiscal challenges in the past have unleashed what Osborne and Gaebler identified as ‘entrepreneurial’ responses from the state:

*“[Governments] learned how to bring community groups and foundations together to build low-income housing; how to bring business, labour and academia together to stimulate economic innovation and job creation; how to bring neighborhood groups and police departments together to solve the problems that underlay crime. In other words, they learned how to facilitate problem solving by catalyzing action throughout the community – how to steer rather than row.”<sup>2</sup>*

A consequence of entrepreneurial government has been the creation of new networks of delivery harnessing the contributions of public, private and civil society sectors. This has brought many benefits through experimentation with innovation flourishing whilst providing flexibility to address areas of acute demand and enabling decision-making at the most local level appropriate. However, it has also created larger supply chains of diverse providers that bring with them new risks and challenges. This includes an increased likelihood of service duplication, variable service quality, poor measurement systems, a lack of comparability between different providers, and a general risk of poor value for money.

Network management also creates a deep dilemma for government concerning the retention of effective political accountability in the absence of the traditional direct forms of control. Public officials are required to routinely act within relatively rigid rules that preserve their impartiality and the duty of investing tax-payers’ money wisely. Yet they are also increasingly required to empower local providers, communities and citizens to proactively pursue solutions to their social problems.

To deliver consistently high standards under these conditions requires a level of organisational and process maturity which may be outside the capability of many providers. To avoid widespread service failure it is therefore necessary to select the right providers. In the 1980s the US Department of Defense commissioned a study of its suppliers after a string of projects ran significantly over time and budget. The analysis suggested that organisations gradually mature their processes in stages, based on solving problems in a specific order. This was used to construct a model that detailed the stages of maturity that was further refined and implemented through future projects and ultimately applied more broadly beyond defence to developing public service performance management systems.<sup>3</sup>

Furthermore, where networks must provide specific capabilities to meet complex needs there is likely to be a trade-off between delivery skills and provider maturity as smaller and niche organisations will have less developed commercial and performance management systems. It therefore becomes incumbent on the state, or more mature delivery partners, to take a supportive approach to the less mature members of their supply chain, similar to Toyota’s well-documented model of intimate collaboration with key suppliers over the long-term in the automotive industry.<sup>4</sup>



## Opening Public Services to Innovation

The Open Public Services White Paper (2011) delivered an essentially entrepreneurial message for government and public service providers by establishing decentralisation as a critical principle for delivering greater public value:

*“We want control of public services to be as close to people as possible. Wherever possible we want to decentralise power to the individuals who use a service. But where a service is used by a community collectively, the control over services needs to be exercised by a representative body. In these circumstances we are clear that the principle should be to decentralise power to the lowest appropriate level.”<sup>5</sup>*

The White Paper set out further principles to deliver a step change in productivity:

- **Choice** – wherever possible choice should increase;
- **Diversity** – public services need to be open to a range of providers from public, private and not-for-profit sectors;
- **Fairness** – fair access to public services ensured;
- **Accountability** – public services to be accountable to users and taxpayers;
- **Decentralisation** – power to be decentralised to the lowest appropriate level.

Central government was given the role of defining the desired outcomes whilst front line professionals would be freed up to respond locally, designing or adapting service delivery according to local and individual need. Diversity of need implies a plurality of providers, close and accountable to the service users, with the ability to flex the service as required by deploying a multiplicity of skills and experience.

## The Commissioning Paradox

The message from entrepreneurial government and open public services is that the centre should step back from direct intervention in delivery, commissioning services sustainably through focused relationships with extensive networks of local service providers. However, multiple local providers potentially represent challenges in relationship management and quality assurance. Having multiple providers increases transactional costs and duplicates administrative costs. Furthermore, multiple local providers will not have the scale to secure investment in new resources such as premises or equipment, stifling service development and innovation. Without scale, providers cannot shift to a funding model where money is tied to delivery of evidenced social impacts, such as the current 'payment by results' programmes and pilots. Smaller providers cannot carry the long-term risk and require front-loading of funding that is not generally available through current commissioning practice.

These limitations are often exacerbated for not-for-profit organisations and will potentially also be problematic for mutuals that have limited access to working capital. Such providers, however, are key to the achievement of the principles set out above, ensuring localisation and diversity. Community, voluntary and social enterprises are perceived by the public as bringing a vital public service ethos and as reinvesting their surpluses directly back into the communities they serve.

# The Service Integrator



## An Emerging Model

The ‘service integrator’ is a flexible model that has been developed to meet the challenge of delivering improved services through diverse local networks of providers but with simplified central relationships. It has evolved from the traditional prime contractor role employed in the construction of a large-scale infrastructure, and applied to managing a complex service through the life of a contract.

The state therefore needs to delegate its authority to convene and manage the delivery of multiple local service providers. In practice it should also devolve some commissioning powers to the integrators that take responsibility for mapping and designing local networks of provision and managing them within the available resources. These are skills that that are not often available to centrally employed public officials:

*“Managing network government requires a different kind of internal capacity than managing public employees. Good network procurement capacity requires the participation of individuals with broad experience and the ability to see how various configurations produce different outcomes and how different partners produce different results.”<sup>6</sup>*

The coordination of multiple local providers by a service integrator also enables shared learning and the transfer of skills across the service. This can be facilitated by the integrator through publication of comparative performance data to stimulate competition and the sharing of best practice to raise the standards of lower performers. In addition, integrators are in a position to tailor support packages to their providers to increase their productivity and serve their clients more consistently.

## Learning From Experience

There is no systematic evidence establishing the efficacy of this model. Whilst a great deal of work has been done on evaluating construction mega-projects and large government programmes, we are still at the early stages of understanding the success factors and innovations in organisational management that enable integrated delivery. Furthermore, the integrator concept itself is broad, embracing both in-house and external management models and thus cannot be easily evaluated statistically.

Three case studies have been explored in detail to illustrate the different strengths and weaknesses in the application of the integrator model, particularly regarding the relationship between commissioners, integrators and their subcontractors. Through identifying the development of good practice in these case studies, we suggest how commissioning, and subsequent procurement, of future service integrators can be used to maximise benefits.

- **Welfare to Work** – This is the pre-eminent area in the social sector where integrators have been applied to focus service delivery. Applied initially in some American states in the mid-1990s such as Wisconsin and New York following the enactment of work-based welfare reforms, an integrator model was adopted in the roll-out of more ambitious programmes which sought to tailor support packages to jobseekers. Most recently, prime contractors have been used to roll out the government's flagship Work Programme. We look in particular at a 'pure' integrator model, which subcontracts 100% of service delivery, and employs a proactive performance management system.
- **Offender Management** – Whilst prisons have been contracted out for some time in the US, UK and Australia; the resettlement of offenders beyond the walls is emerging as a much more complex task than running a vertically integrated custodial establishment. A distinct integrator approach therefore appears to be developing at the leading edge of the management of short-sentenced prisoners with a greater focus on case management skills and links with local social support networks for offenders who would otherwise slip between the cracks in the system.
- **Olympic Construction Project** – The Olympic Delivery Authority engaged a Delivery Partner to integrate the construction of the venues for London 2012. The integrator in this case was contractually prohibited from any direct delivery of construction services but had the responsibility for aligning objectives and increasing collaboration with subcontractors. An independent study of the project reported this as a critical success factor.<sup>7</sup>

The success of the service integrator depends in large part on the initial design of service delivery. In the Work Programme, a shift to focus on outcomes rather than inputs or outputs has enabled the commissioner to pass responsibility for service design to the prime contractor. The Olympic Delivery Authority had a highly complex set of outputs to be delivered within a strict timetable, and so was highly proactive and interventional, commissioning within closely assured standards. It is a fact that in the case of construction projects there is no opportunity for feedback from service users during delivery so the main lines of accountability are against time and budget targets.

An appropriate balance is required between tight and loose management, by the commissioner in response to the nature of the service or programme being procured, and by the integrator to optimise the performance of smaller subcontractors. As a general rule of thumb the commissioner should exercise tight strategic direction, but should be looser over operational control which is largely the domain of the integrator, barring any massive service failure. In addition, the tone of management control needs to recognise the different cultures in the delivery network and adapt accordingly through the alignment of goals.

Relationship management tools are therefore critical to successful performance, since it is more fruitful to coach local providers constructively whilst holding them to account through open and transparent reporting of management information. With a professional, transparent approach to performance management – delivered in partnership with the commissioner – service integrators can reduce the risk of unintended consequences and thereby increase public value.

## Layers of Risk

The service integrator is able to assume long-term risk precisely because it is able to package up the overall risk into smaller parcels and then manage performance. The diverse nature of the providers, and the variety of their different inputs, will demand a multiplicity of funding and financing models from the service integrator that distinguish between different providers based on maturity and change over time. The integrator will need to invest in and pay some subcontractors upfront; while funding others with payments tied to interim outputs.

Given the risk that sits with the service integrator, only organisations that have the risk appetite, balance sheet and management expertise to mitigate those risks whilst improving network capability can fulfill the role sustainably. This will be particularly true if the head contract ties payments to long-term outcomes. Even without payment by results, the breadth of the service provision is likely to present a risk of some magnitude.

Yet it is precisely this transfer of risk that frees up service design and delivery from the constraints of public sector budgeting and risk management. The integrator must focus on outcomes, not administration. The skills of an integrator in project management are likely to be distinct from the skills of frontline providers – and stronger for it. A degree of separation helps mitigate the possibility of any conflict of interest. Arguably, this is more likely to be the case with ‘pure’ integrators as compared to ‘blended’ integrators which by their very nature set out to deliver and integrate.

By enabling the centre to step away from short-term service management and focus more on long-term planning, the integrator lays the foundations for radical service redesign and continuous improvement. In the case of the Olympic Delivery Authority the use of an integrator

allowed the commissioner to focus on complex relationship management with government and other stakeholders whilst the integrator was mandated to deliver the outcomes on time, within budget and fit for purpose.

## Flexibility

The length of commissioning cycles does not facilitate responsiveness in frontline services and can stifle innovation. With lead times of two to three years between initial consultations to service commencement not uncommon, there is increased scope for changing user needs. Over such timescales political cycles and macro-economic factors may also come into play. Smaller providers become precluded from competing for contracts because the long commissioning cycle demands larger investment in bidding and carries greater risk.

The service integrator is able to maintain continuity between the commissioning cycle and the need for local flexibility. By building and maintaining a richly diverse provider network, the integrator can procure smaller, shorter blocks of supply that can be tailored to varying contract and procurement timescales whilst also addressing diverse user needs. The integrator's success is therefore dependent on the maintenance of a healthy, growing, diverse supply chain.

## Driving Out Cost

The service integrator looks for productivity improvements across the supply chain, addressing inefficiencies in frontline delivery to create savings which can either be shared with the commissioner or reinvested in additional services to achieve higher performance.

The wider the scope of the outcomes as defined by the commissioner, the greater the opportunity for these savings. The wider the integrator's view across multiple services, the more synergies they can find, for example: reducing multiple home visits by up-skilling social workers to deliver assessments and care services; combining electronic tagging for offenders with resettlement advice; or delivering public health advice in schools.

A diversity of provision can increase local effectiveness but such diversity can mean duplication and inefficiency. The service integrator is able to offer back-office and other administrative savings across the supply chain, driving out cost through shared premises, HR, learning and development, IT systems, procurement and many other areas.

In order to compare the cost of the new integrated service with the previous provision, it is necessary to understand what that old service cost. However, the unit cost of direct public service delivery is often opaque as it is hard to disaggregate overheads and monitoring costs, pensions and tax payments. The early stages of an integrator's contract may therefore need to include a period of data gathering to enable the comparison.

# Emerging Innovation



## Targeting Investment for Greater Value

The service integrator can add significant value by matching customers to the best-fit provider or combination of providers. Use of multiple providers offers a diversity of expertise, enabling the network to address individual needs. However, it is important that access to interventions is carefully targeted to deliver the desired outcomes.

In social interventions such as public health or welfare to work, this would typically involve one organisation providing the core service and brokering the services of specialists. Mechanisms driving referrals to specialist providers may involve diagnostics which can assess users' needs to match with providers' capabilities as well as guided customer or key-worker choice.

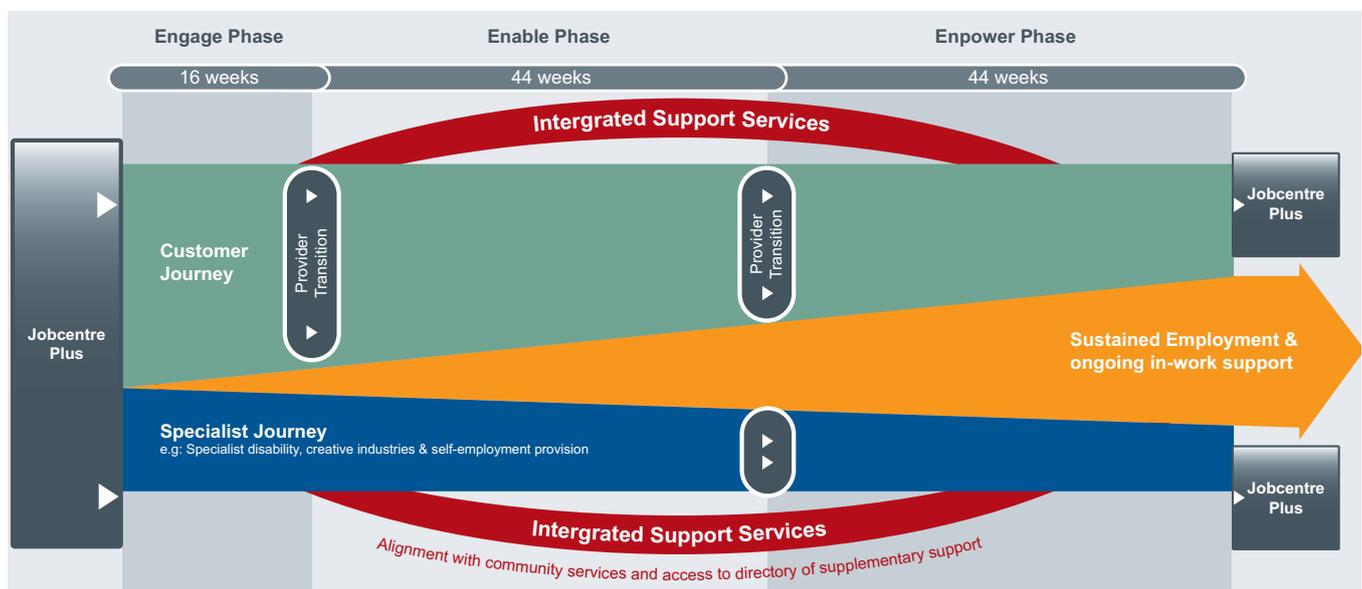
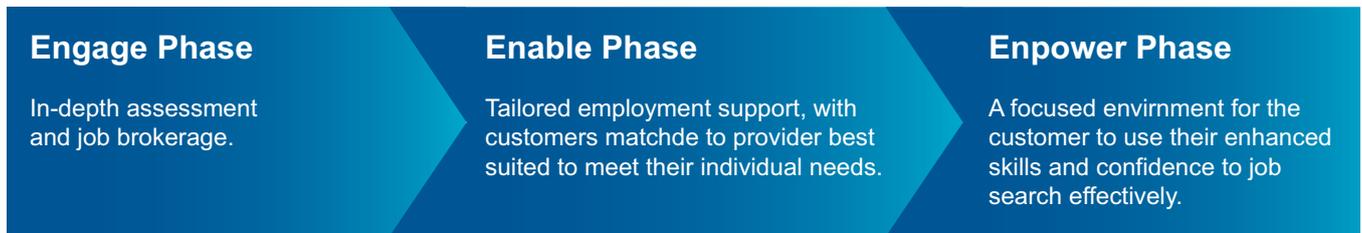
However, where the integrator is also the principal provider operating in a more blended approach, there may be questions about the objectivity of this cross-referral. For example, an evaluation of Pathways to Work, a predecessor to the Work Programme, which undertook job placement services for incapacity benefit claimants, found:

*“A division of services emerged whereby prime providers served those customers who were considered more likely to enter work, while partner agencies attended to the not directly work-related needs of customers who were not immediately ready for employment.”<sup>8</sup>*

In order to address the problem of 'creaming' those closest to the labour market and 'parking' those who are considered harder to help, one prime contractor developed a solution for the Flexible New Deal programme that was based on a 3-phase model to:

- Use time into work as a real-time segmentation tool to identify those who are furthest from the job market; and
- Enable the fast-tracking of those in high-risk groups.

This model was further developed in the Work Programme. As illustrated below, jobseekers closest to work are helped quickly, and cheaply, to achieve that outcome. This frees up investment for those who do not respond in the initial 'Engage' phase, when they pass onto later phases. Engage providers also identify customer needs and can signpost those with multiple constraints to the most suitable delivery partners. The Engage subcontractor is required to develop a Personal Profile and Employment Plan (PPEP) in order to facilitate this, a process that is closely quality assured by the prime contractor.



## Mitigating Unintended Consequences

Unintended consequences typically result from gaming behaviours that are incentivised by poorly specified contracts developed through inefficient commissioning processes.

*“Gaming is the providers’ ability to increase measured performance in ways that do not address the primary outcome... commissioners will need tools that help reduce or eliminate the perverse incentives that cause it. Adjusting the mix of performance measures so they accurately reflect the primary outcome sought; using measures appropriately, assessing impact and interposing discretion where necessary; changing the intensity and diversity of incentives and segmenting the population differently.”<sup>9</sup>*

Systems which do not respond quickly to perverse behaviours increase the potential for service failure and fraud, exposing the government to potentially significant political damage. The danger of spiralling risks has often been addressed through a combination of overbearing inspection and threats of severe financial penalties which themselves introduce further perversity such as displacing patients to get around waiting time targets.

A heavy deterrence approach suggests a significant lack in responsiveness and a gap in accountability, which needs to be filled by an appropriately incentivised organisation that can act flexibly as an effective preventative agent, retaining equal exposure to financial upside and reputational downside.

### Lessons Learned About Reducing Gaming in Welfare to Work

In employment service provision, especially where paid by results, providers prioritise their caseload and deal first with those who are closest to the labour market. The funding providers receive and the time allocated to jobseekers determines the frequency and intensity of service, which in turn determines its success rate. After a certain point in time they will ‘prioritise out’ jobseekers not responding within their model or timeframe.

Following analysis of substantive data from the Flexible New Deal, one prime contractor adjusted the length of the first phase from 20 weeks to 16 weeks under Work Programme contracts. This mitigated the ‘parking’ of harder-to-help clients and accelerated their journey to providers with additional funding to deliver a more intensive service.

Providers of each phase were also contracted to deliver within tight minimum service standards and are closely quality assured by the integrator.

Payments to subcontractors are made against specific milestones, the incentives being designed to support provider cash flow and discourage gaming. More money could be made available upfront to fund third sector providers and those delivering particular specialist interventions:

Milestone/fee	Financed by	Reason
Start/attachment fee	Integrator as DWP payments taper off	Provider has had three meetings with jobseeker
Initial Job Entry	Integrator	Feeds working capital to provider
13 weeks of employment	Integrator	Interim incentive & more working capital
26 weeks of employment	DWP via integrator	The 'outcome'
Sustained payments	DWP via integrator	Keep jobseeker in work for up to 2 years

## Selecting and Developing Providers

The resilience of the delivery chain is key to the continuous improvement of the service and dependent on the integrator's constant drive for higher performance and higher rewards. The wellbeing of the integrator is inextricably linked to the wellbeing of the supply chain.

Choosing and developing the appropriate combination of providers is important to building a sustainable solution to ensure that in each locality there is:

- An ability to engage with diverse service users;
- A cost-effective base of premises, resources and staff;
- The right mix of skills and specialties;
- An established network of connections with associated local services for potential cross-referral;
- A track record of performance and an evidenced commitment to quality;
- Sufficient competition to drive up performance, with transparent benchmarking, the possibility of user choice and also shifting of business volumes; and,
- Sufficient redundancy to provide system resilience, including new service requirements.

The service integrator considers the overall delivery chain as representing a 'funnel' of risk that is at its widest at the earliest stage of procurement, when little is known about the solution or the providers. The risk band gradually narrows over time as providers respond to analysis and profiling from the integrator.

In the first instance, understanding the maturity of providers is a vital component of due diligence and selection. The process of evaluating their maturity clearly sets out to potential subcontractors what the priorities are for the service and the service integrator.

Provider development acts to increase performance and reduce risk over time, either by reducing the contract value held with any provider, or working with the provider to baseline and then develop their maturity as a business.

A maturity model, as set out below, can be designed to identify the processes that allow the integrator to benchmark the current levels of competence and risk. Development plans can then be put in place by the provider to address agreed priorities and continuously self-assess progress.

## Provider Maturity Model

A Provider Maturity Model (PMM) was developed by a welfare to work prime contractor to assess and record the current and changing level of capability and resilience of the providers in its network as follows:

**Level 1** – undocumented processes, ad-hoc, reactive approach

**Level 2** – repeatable processes with consistent results

**Level 3** – use of metrics to adjust processes, whilst maintaining quality

**Level 4** – continuous improvement

As an example, this includes both generic and industry-specific business processes and is set out in more detail in Appendix 4. It includes:

### 1. Leadership and Management

– sense of purpose/direction and ability to track progress

### 2. Performance Management

– focus on delivering operational results using KPIs

### 3. Sustainable Outcomes/Employer Focus

– meeting employer needs and preparing customers for sustainable work

### 4. Quality Management

– ensuring that customer, staff and commissioner needs are met

### 5. Caseload Management

– loading, activity levels and jobseeker progress are managed systematically

### 6. Customer Journey

– customer service is promoted effectively and the jobseekers' needs are satisfied

### 7. Communication

– meets the needs of customers, staff and wider stakeholders, uses feedback mechanisms

### 8. Human Resources

– organisational structure fits the services provided and staff development meets the needs of the provider and individual

## Managing Performance

In order to ensure sustainable outcomes are maintained, service integrators act on the whole system, not just the immediate supply chain. Successful performance management of a delivery chain requires appropriate skill-sets, integrated management information and a reasonable degree of cultural alignment. It is important for an integrator to adopt an approach that exercises sufficient oversight with a view to enriching and empowering providers to improve performance, without attempting to micromanage:

*“The kinds of skills involved in orchestrating a high degree of collaboration between the public and private sectors are very high-level skills. They’re similar to those needed to be an investment banker, a venture capitalist, or senior-level consultant. They don’t come cheap.”<sup>10</sup>*

The integrator needs to establish a small number of carefully selected key performance indicators and adopt a performance management regime that delivers mutual benefit. The provision of consistent management information and information systems to support this are essential to ensure that data can be deployed across the network. Data is also analysed to identify value-adding activities and design processes accordingly and design out wasteful activity.

### Pre-conditions for Effective Performance Management in the Work Programme

- Prepare for significant variation in referral volumes of jobseekers, due to a range of factors such as system changes, policy change or exchange of ‘stock’ of customers with other programmes.
- Insist on subcontractors meeting targets from day one, rather than allowing a ramp-up, as they will tend to underachieve against whatever target is set and then struggle to catch up.
- Maintain an active local and national provider engagement programme outside the nominated supply chain, to allow for substitution into the network on provider failure or exit.
- Establish effective working relationships with local Jobcentre Plus offices. This is particularly important for primes not involved in direct delivery, as day-to-day contact is usually with the subcontractor and use of the prime’s brand and literature can cause confusion with advisers and clients.

There are risks of unintended consequences if practice focuses too narrowly on performance, or productivity. In performance, ‘what gets measured gets done’, and what gets measured is usually something that is easy to measure, where data emerges quickly and recognisably.<sup>11</sup>

Productivity is relatively easy to identify as the ratio of inputs to outputs but the capability to maintain and improve not only outputs but wider social outcomes as well as dealing with peak demand is the sum of several factors and harder to see. Its deeper nature means that gradual deterioration does not attract management focus but can occur catastrophically and without warning, when a threshold is breached and multiple factors come into play. Likewise, incremental improvements can occur over a long period before a sudden, recognisable breakthrough in performance is achieved.

There is the potential for pushback from providers in the supply chain if they believe that performance targets are set too high and the performance management regime is perceived to be too tight. Integrators are also in a position to assimilate and represent some of these concerns to commissioners and government if they might impact on objectives.

To create a sustainable environment for continuous improvement integrators must also focus on the way things are being produced as well as what is being produced. It also demands the integrator to work on continually improving itself along with the network and wider system. This coaching approach relies heavily on soft skills that may be hard to define. Positive outcomes seem to be associated with practices where:

- Success is celebrated, across the network, with users and external partners;
- Knowledge is shared for the common good – rework is reduced and best practice is spread as it emerges from interaction with service users;
- Larger subcontractors are able to learn from smaller ones about specialist solutions and innovations;
- Smaller organisations can cut the cost and time of the learning curve as volumes increase, by learning from their larger neighbours;
- More constructive dialogue means that ideas are challenged appropriately, to surface insights that circulate through the network;
- The network can scale up without adding to central control functions through the process of becoming more self-regulating.

## Olympic Construction Project – Critical Success Factors

An evaluation of the approach adopted in this ‘mega-project’ emphasised the interrelationship of hard and soft factors in driving good performance. While the rigorous use of project and programme management processes was a main driver, there was criticism by many tier one subcontractors of overly bureaucratic processes which ‘took resource away from project management,’ especially the monthly reporting requirement. However, in the context of a highly visible publicly-funded programme, it was broadly understood that detailed information was a necessity. Furthermore, tight management processes were delivered within a supportive organisational culture that drove open and collaborative behaviours:

- A fundamental belief that ‘failure was not an option’ and that everything must be done to make the programme a success;
- A commitment to bringing problems to light at an early stage and striving collaboratively to find solutions;
- A particularly strong discipline around health and safety aspects.

## Providing Resilience

Contracting with a smaller number of organisations, with larger and longer contracts, creates a continuity risk for the commissioner. If the commissioner wishes to remove one of the contractors, the transfer of service provision may be disruptive and costly. This is exacerbated if the contractor is also the service provider as with a blended integrator.

Where the service integrator is 'pure' and not directly delivering services but focused on supporting multiple local providers, resilience is provided at a number of levels. If a frontline provider is in difficulty, the integrator will have a greater capacity and incentive to assist, perhaps giving interim financial support, subject to implementing an effective performance improvement plan. If the provider fails completely, the integrator should have alternative providers able to step in.

If it is the integrator that fails – for whatever reason such as breach of contract – the commissioner can replace them while maintaining continuity in the provider layer, as long as that integrator is not also a significant provider. This implies that it is in the interest of the commissioner to take some responsibility for oversight or joint stewardship of the subcontractors. This would, at least, suggest audit and assurance of the integrator's systems for supply chain selection, management and development.

### **Jobdeal\* Provides Resilience for Sub-contractors and Users**

In the South East region the prime contractor was able to react quickly to the insolvency of one of its providers, a local charity. The organisation informed its staff of redundancies by email on the morning that it announced that it was going into administration. Thanks to good relationships with its network, the prime contractor received intelligence two days earlier allowing sufficient time to prop up the charity financially until a replacement could be found. In addition, the 14 Jobdeal staff from the insolvent provider were transferred to the replacement whilst the prime contractor was able to honour payments to a few specialist training providers contracted by the charity to avoid further failures in the local economy.

\*Jobdeal is a programme co-financed by the National Offender Management Service (NOMS) and the European Social Fund (ESF), using a similar prime contractor model to the Work Programme but on a much smaller scale and directed to more specialist interventions. The programme uses prime contractors in each of 12 English regions to design networks of support that provide additional interventions in employability, training and skills for ex-offenders who would otherwise not receive help. Referrals are made by Jobcentre Plus, prisons and probation and all offenders are allocated a case manager with a local provider.

## Additional Resources

As an agent operating at a national or regional level, the integrator can obtain economies that would otherwise not be available to its providers. For example, the integrated procurement of raw materials for the Olympic Park allowed the delivery partner negotiate much better deal on one million tonnes of concrete than would have been available to each of the individual subcontractors for lesser amounts.

In addition, a strategic perspective allows services and funding to be more efficiently joined up around the service user's needs. Some prime contractors in the Work Programme have deployed their own business development and partnership managers to access additional funding or services from statutory and voluntary bodies that enhances local providers' ability to support long-term unemployed people more efficiently into sustained employment. This also stimulates funding for the services of specialist support providers such as those helping disabled jobseekers, people with alcohol or substance misuse, or ex-offenders and helps to map the most effective organisations.

## Governance – Accountability, Transparency & Trust

A sustainable performance management regime requires a robust governance framework which helps to foster trust and openness between all parties. Trust can help to reduce transaction costs of inspection and monitoring whilst this is re-enforced through transparency, with open reporting of performance amongst all providers in the network and other key stakeholders.

A strong, shared visibility of contribution to overall network performance means that there is less likelihood for misunderstandings about decision-making. Local providers will also feel confident in raising their performance to compete with each other for market share within the network and integrators can use this as a basis for transfers of volumes to mitigate underperformance and reward high performance. The overall health of the network and service delivery to citizens is the primary concern, rather than the potentially destructive pursuit of cashable outcomes.

Representation of stakeholders such as the local community and the customer is formally sought through Partnership Boards and Steering Groups. In addition to giving voice to groups outside the central delivery chain, these open governance structures allow for the discussion of innovations and potential changes to goals and Key Performance Indicators (KPIs), where the programme has evolved beyond its original scope and design vision.

In the reducing re-offending pilots initiated by the Ministry of Justice, the prime contractors report to NOMS on their KPIs and give regular updates to the Ministry of Justice Payment by Results Team on the progress of the pilot. NOMS has also commissioned an evaluation of the pilot by an independent research company.

As a result of the payment by results scheme in Doncaster, the prime contractor negotiated a suspension in eight out of 11 KPIs to provide greater freedom to tailor services and reduce the reporting burden. As the delivery partner, Catch 22 is solely responsible for the management of the offenders but there is a 'dotted line' of responsibility that reports to senior prison management, should action to address shortfalls in performance be required.

## Reporting and Governance at Doncaster Reducing Re-offending Pilot

- An internal partnership board has been created to monitor performance on a monthly basis bringing together representatives from the public, private, voluntary & community sector and academic evaluators from Sheffield Hallam University. Sheffield Hallam have selected 15 prisoners that they will track to gather qualitative data about their experience of the interventions and issues around social dynamics that affect the chances of success or failure and feed these back into the pilot.
- Catch 22 manages the prison's resettlement team of case managers as well as an inventory of specialist providers that deliver services along the NOMS seven resettlement pathways and where necessary cross-referrals are made. At an open day held in the prison for these providers, 74 organizations were represented. These providers were generally small local organisations many of which do not work with other establishments and are statutorily or grant-funded. There is no direct contractual relationship to manage performance in these relationships so to achieve the necessary results local services must be accurately mapped and the capabilities and capacities well understood to be linked to offenders needs.

# Contract Design



## Separate Roles, Aligned Goals

It is a recurrent theme in this discussion paper that separation of roles and responsibilities strengthens the hand of each layer – commissioner, service integrator and subcontracted provider. It allows for a clearer focus and increased transparency and therefore accountability.

A small number of integrators simplify the supply chain for the central commissioner. The integrator is the tool by which decentralisation is effected – a prism refracting political imperatives into localised responses. It encourages more diverse services.

In order to ensure alignment of behaviours between commissioner and integrator, payments should be directly linked to the contract objectives. If the purpose of the service is for as many people as possible to secure and sustain employment, then payments to the integrator should be tied directly to this.

The integrator may choose to subcontract building blocks that collectively contribute to the achievement of their overarching goal. Good practice would be to align their payments to the objective of the block being procured. Good practice also indicates variation of payment terms according to the unique characteristics of each provider. For example, a small charity will probably require funding to be frontloaded.

If payments incentivise the delivery of outcomes for as many individuals as possible, this encourages service design that identifies the differences in individual needs, leading to greater choice and more diversity.

## Risk Balance

The commissioner must maintain a balance between retaining control over service delivery whilst adopting a collaborative approach based on joint stewardship. It is of mutual interest to the commissioner and the integrator to maintain a thriving supply chain. This implies visibility over provider selection and development; payment terms and conditions; performance management tools; and any subcontract terminations; but with rare direct interventions.

The Olympic Delivery Authority had a specific set of tasks to be completed within a set of strict deadlines. Having procured this through an integrator, they could then tightly monitor and assure delivery of each segment. By sharing risk with the delivery partner, they secured tight supply chain management and a transparent reporting process to ensure accountability.

Similarly under the Work Programme, with significant risk-transfer to the integrator, the commissioner is able to step back from intervening in service provision and focus on assurance of the integrators' own control systems allowing more time to pursue other strategic and policy objectives.

## Gaming

The commissioner, acting on behalf of the state, may require the maintenance of core minimum service levels in all provision. If, for example, the integrator is seeking to deliver cost-effectiveness through rigorous prioritisation of the service, they may inadvertently exclude certain groups of users with particular characteristics – of a certain ethnicity or age or disability. Minimum service levels can safeguard the fairness of the service.

The negative consequences of service prioritisation can also be mitigated by the payment mechanism. The integrator can be incentivised to ensure services are extended to users, for example, with very complex needs, or in secluded locations. This approach has been adopted in the Work Programme where the funding available for delivering particular outcomes varies according to the jobseeker's original benefit category.

An alternative 'target accelerator' has been proposed as a mechanism to drive appropriate behaviours, with payments for successful outcomes increasing with each step of performance improvement. On the whole, the first steps are comparatively easy, generalisable and cheap. With each additional step of improved outcomes, the complexity of user need and the potential expense of the solution increases and therefore should be incentivised accordingly.<sup>12</sup>

This funding mechanism may have greater applicability in other areas of service delivery such as supporting those living in chaotic families where there is no clearly measurable or definable 'original category' such as those for individuals receiving out of work benefits.

## Learning Contracts

It is clear that the current confused nature of some forms of public service delivery is driven by their different funding sources. The goal should not be to build a perfect system from the outset, but to create an environment for ongoing learning that can deliver continuing improvements both in terms of quality and cost.

It is inevitable that in some instances it may be difficult to link the objectives directly to payments. It may be a service in which the coupling between inputs and outputs are not clearly understood or the outcome may be simply too far disconnected from the input, such as in dysfunctional adult behaviours resulting from an early childhood in care. It is also possible that the service is being delivered in a volatile environment, highly susceptible to events in the local or national economy compounded by local and national political cycles.

A learning contract between the commissioner and the integrator could progress on the basis of input costs for a short period of time thus permitting rigorous measurement of inputs, outputs and their relationship with outcomes. At the same time this reduces the need for complex contracts and gives integrators time to implement more efficient structures that are fit for purpose before the challenge of hitting stretching targets emerges. In some areas, such contracts could be overseen by independent regulators with powers to vary payment terms or impose penalties.

# Future Applications

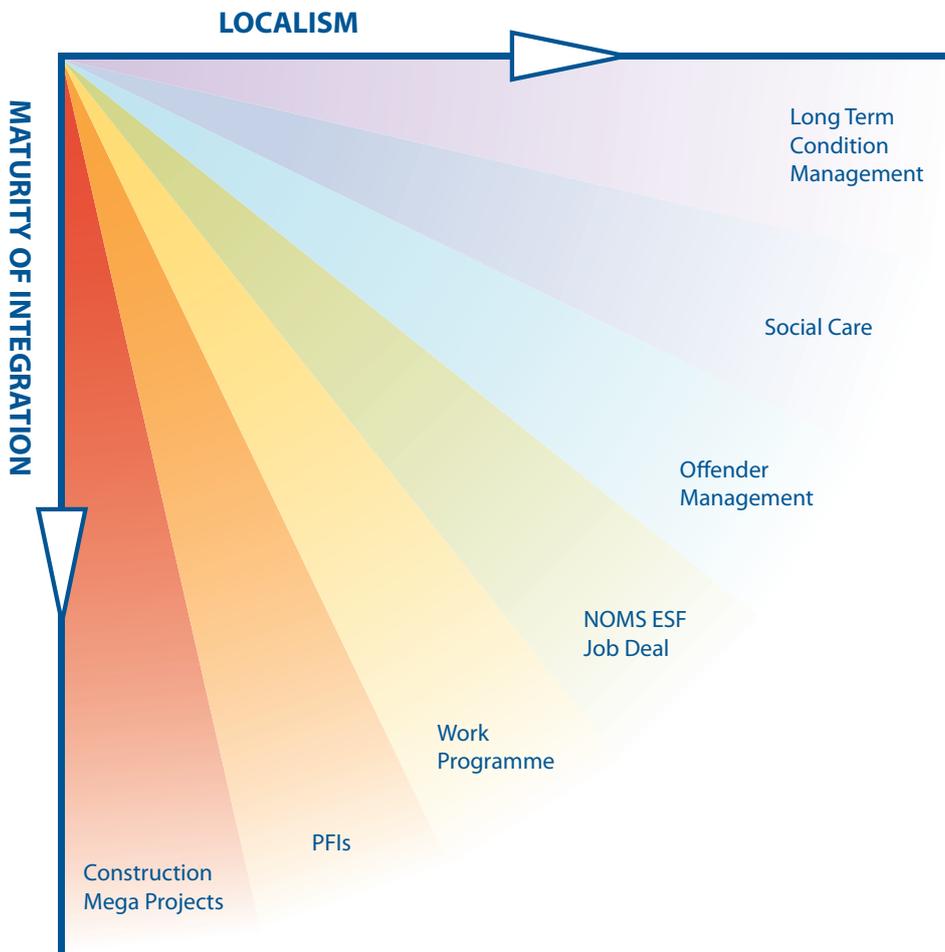


## Spectrum of Integration

In this report we have, in the main, considered the integration of services that have been the subject of relatively tight central management. However, the principles can be applied to those which are more loosely controlled due to mixed public, personal and private funding streams as well as variations in local commissioning patterns.

Future opportunities therefore exist in areas such as social care and community health, where integrated platforms can be used to join up triage, assessment and e-market systems, allowing users to navigate the network of available care providers, using personal budgets, private funds and other locally available services. <sup>13</sup>

Services can be considered along a spectrum based on the maturity of their integration. In the diagram below the mature area demonstrates the use of well-designed networks with consolidated funding streams, orchestrated by commissioners and integrators operating appropriate balances between tight and loose management control.



Spectrum of Integration

## Integrating Diverse Networks

Over 600 small organisations were contract-managed directly by the UK government for the delivery of outsourced welfare to work. Following the launch of the Work Programme, this responsibility was transferred to 18 prime contractors, deploying tools for provider development and adopting variable performance management regimes through a range of 'pure' and 'blended' integrators.

The Ministry of Justice has started a similar journey. They currently let and manage hundreds of small contracts through NOMS. NOMS was introduced as an attempt to create a public sector integrator. However, without separation between commissioner and integrator, this has proved problematic. A new generation of pilots, based on the vertical alignment of incentives through payment by results, is driving greater integration to reduce re-offending.

## Mapping Diverse Networks

In order to introduce an integrator model in a new area of public service, a comprehensive mapping exercise should be carried out to understand local capacities and capabilities. Fragmented funding streams often create poor local understanding of the component parts of service delivery, what each costs and how they currently interact. The lack of such analysis is a significant constraint on improvement. This can be a key element of the service integrator's role in the form of a learning contract during the initial development phase that informs service and contract design.

## Integrating Funding Streams

Another area where the role of an integrator could bring clear benefits is in helping to join up funding streams around service users. A good example currently being tackled in a piecemeal top-down fashion is the demands placed on public services by families living in chaotic circumstances. These result from the input delivered by police, social workers, criminal justice services, education, healthcare, substance misuse, benefit payments, domestic violence and the inevitable consequences from social disruption.

In December 2011, the Prime Minister, David Cameron, announced the release of funds amounting to £448 million, drawn from Whitehall departments, to be made available to local authority social services departments to provide assistance to 120,000 households that cost the taxpayer an estimated £9 billion every year. Councils will be paid by results whilst they must raise 60% of the overall amount themselves. If taken as a sum of money to be divided among the families to purchase additional services, on top of the multitude of disparate interventions already in place, it comes out at just £3,750 per family per annum.

This is a challenging proposal for councils given these families' complex needs unless the funding is used to address the disparate nature of the existing interventions. Fragmented funding could be aligned by an integrator model whose impact would be multiplied as the conflicting parts were drawn into a collaborative whole, with the risk transferred to an integrator paid by results and a shift in focus from delivering inputs to delivering outcomes.

## Community Budgets

Local and central government have collaborated in helping to shape and establish Community Budgets, which offer a potential tool for the alignment of goals to underpin integration. A Community Budget gives local public service partners the freedom to work together to redesign services around the needs of citizens, improving outcomes, reducing duplication and waste and so saving money.<sup>14</sup>

A successful Community Budget should pool the budgets of all agencies where it is effective to do so and draw in local knowledge, community assets and voluntary effort. They must be used to remove central rules and regulations so local professionals can deliver better services by redesigning them so delivery is more effective for residents. The intention is to give people greater control over their local public services by establishing appropriate local partnership and governance arrangements to create a unified approach that suits their area.

## Ecosystems for Integration

Creating the right conditions for integration, and the right commissioning and contracting vehicles to deliver integration and services, could enable a fundamental shift in the relationship between the centre and the citizen. Services could be viewed by the centre not as pre-defined and centrally controlled inputs, with all the inflexibility and inefficiency that this brings; but as the locally designed solutions that collectively foster long-term outcomes. Such outcomes could include: a rise in regional employment rates; improved road safety; reductions in certain types of crime; better public health; fewer children taken into care; fewer exclusions from school; lower rates of teenage pregnancy; reduced benefit fraud; and lower energy consumption and higher recycling rates.

# Conclusions

Greater use of the integrator model provides government with a new tool to deliver the vision of open public services. This creates opportunities to devolve decision-making to the lowest appropriate level, by designing tailored interventions which draw on the diverse resources of the public, private, community, voluntary and social enterprise sectors and local citizens to optimise outcomes.

## Integrated Commissioning Requires:

- Strong relationships between commissioners and integrators to develop sustainable delivery and contracting models;
- Joint accountability of delivery networks by commissioners and integrators in order to maintain resilience and rich diversity;
- Informed pricing, based on the actual cost of delivery and the savings created downstream by better service delivery.

## Commissioners Should:

- Be clear about what outcomes they want to achieve from contracts – for example the balance they wish to achieve between short term cash savings, creating a diverse market and decentralising to the lowest level possible;
- Design intelligent contracts that flow from the required outcomes. In particular, striking the right balance between setting conditions (e.g. minimum service standards, composition of the supply chain, 'blended' or 'pure' integrator) and a 'black box' approach to maximise integrator flexibility;
- Consider the use of payment by results or establish learning contracts which may include a period of data gathering and then allow for payments to be varied.

## Integrators Should:

- Promote transparency in reporting outcomes, funding flows and service quality to embed accountability;
- Work closely with a range of smaller providers, including investing in their capacity and capabilities through proactive performance management to ensure a viable and diverse supply chain;
- Establish a detailed map of services and funding streams surrounding individuals and communities, enabling integration at the point of delivery;
- Co-design services with users to match them more closely with needs in order to increase choice and ensure fair access;
- Implement commercial models to share risk with commissioners and mitigate financial challenges faced by small local providers.

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