Value in Public Services

Rhodri Davies

Executive Summary

The government has a stated goal of achieving "world class services", which[1]

- Deliver excellent outcomes

- Offer personalised approaches

- Are fair and equitable

- Offer good Value for Money (VfM)

These aims suggest a different conception of public services from that which has been prevalent in the UK since the creation of the Welfare State. Rather than services being delivered to users by monolithic public sector organisations on the basis of a notion of the public interest decided by policymakers, these goals imply a framework in which far greater emphasis is placed on the needs and wants of individuals and communities.

It is appreciated widely that simply increasing spending cannot achieve these sorts of changes, and that there also needs to be a strong focus on reform of services. The standard narrative of public services since 1997 is that New Labour's focus in its first term was on increased spending and central targets as a way of improving services, whilst the focus since then has been on transforming them.[2] As public finances are squeezed, Government will need to reduce spending and use innovative models of delivering services in order to achieve efficiency savings whilst retaining service quality. This may lead to a reshaping of the State as it withdraws from service areas in which it is appropriate for it to do so:

"*Just as a strong government is required to steer the economy through the global recession, it is also the case that a responsive state should withdraw from areas in which it is no longer required. …Now more than ever government must prioritise its interventions and secure the greatest possible efficiency for every pound of taxpayers' money it spends.*"[3]

In areas where the State remains involved, there will be a greater emphasis on the role of commissioning and procurement coupled with the use of non-State providers to deliver services where appropriate. This has been a strong trend in recent years in any case, but the use of external provision to maximise value

(usually through some form of competition) will become even more important as finances become stretched. But competition will not achieve the results we desire if there is not a suitable notion of value at the heart of the system of public services.

Markets and quasi-markets were first introduced to the public sector to drive down costs through competition amongst private sector providers. This led to concerns that by selecting providers solely on price, services suffered as quality was sacrificed in favour of lowering costs. In recent years, however, there has been growing interest in the potential for commissioning from third sector organizations (TSOs).[4] Various motives have been suggested for interest. Some claim that it is simply a natural development of the market-based framework for services: it is beneficial to widen the pool of potential suppliers as far as possible, and a "mixed economy" of providers from different sectors strengthens competition and drives up standards. But there is also a strong body of opinion and literature which claims that TSOs have distinctive features which enable them to deliver better services or to "add value". Advocates of third sector added value have argued that greater involvement of TSOs could be crucial for the transformation agenda, as many of the features of "world class services" are claimed to be what TSOs are particularly good at delivering.

Whilst it is clear that there are many examples of TSOs that do bring value to public service delivery, there is little evidence to back up the claim that TSOs systematically add value that cannot be found in either the private or public sector.[5] This is not surprising - the third sector is really a loose collection of organisations of all different sizes and structures, and, as in both the private and public sectors, these organisations vary widely in terms of their strengths and weaknesses. However, there is a need for balance here - whilst it is dubious to jump from case studies of TSOs that do add value to service delivery to a general conclusion about all TSOs, it would similarly be a mistake to ignore the fact that these examples show ways in value can be added.

It is a positive sign that the government's Value for Money (VfM) guidance states that: "*Value for Money is defined as the optimum combination of whole-of-life costs and quality (or fitness for purpose) of the good or service to meet the user's requirement. VfM is not the choice of goods and services based on the lowest cost bid.*"[6] And the government Green Book makes the further point that: "*wider social and environmental costs and benefits for which there is no market price also need to be brought into any assessment. They will often be more difficult to assess but are important and should not be ignored simply because they cannot easily be costed.*"[7] This suggests that a wider notion of value than simply lowest unit cost is being sought. But although there is some indication of what VfM is not, there is still no coherent positive account of what it actually is.

Greater clarity about value is certainly needed, but is not sufficient to improve public services alone. Changes to the framework of commissioning and procurement will also be required; simply incorporating a new conception of value into a system that is ill-equipped to identify or quantify it will not achieve real results. The current system was developed to deal with outsourcing to private sector providers, so the model of competition it uses mirrors that found in the commercial arena. Whilst the system has evolved somewhat to take into account considerations other than cost, these are treated as externalities rather than core features of services. This makes them more likely to be ignored in practice, as financial pressures lead commissioners to revert to a "least cost" mentality.

This report argues that a new concept of value is needed to form the basis for reform of public services. We identify five elements of value against which services should be judged:

- **User value**
- **Value to wider groups** (such as family or friends of service users)
- **Political value** (support to the democratic process, e.g. through co-planning of services with users and other stakeholders)
- **Social value** (creation of social cohesion or supporting of social interaction)
- **Environmental value** (ensuring sustainability of all service provision)

This will place a new emphasis on the role of service users and citizens in clarifying what they value in services, which will involve identifying both what they want services to achieve (the outcomes they value) and how they think those services should be delivered (the governance principles that guide them). We suggest some criteria of good governance that may be adopted to guide service delivery:

- **Citizen engagement**
- **Transparency**
- **Accountability**
- **The equalities agenda and social inclusion** (gender, ethnicity, age, religion, etc.)
- **Ethical and honest behaviour**
- **Equity** (fair procedures and due process)
- **Ability to work effectively in partnership**
- **Sustainability**
- **Respect for the rule of law**

This reassessment will also impact on the role of public sector managers in engaging the public and achieving outcomes. We consider the changes to the existing framework of public services that will be required in order to accommodate these new emphases, and in particular how an outcome-based system of commissioning and procuring services from non-State suppliers can be used to maximise value. We also highlight the importance these changes will place on developing methods of measuring value as a means of gauging success. The report indicates key areas where further research and policy development are needed, and what direction this work might go in.

The Elements of Value

The central argument of this paper is that a new, broader notion of value needs to be put at the heart of our system of public services if we are to achieve real reform. A useful starting point for trying to understand what this might mean in practice can be found in "public value" theory. This was developed in the mid 1990s by Professor Mark Moore at the Kennedy School of Government, Harvard University.[8] At its heart is the argument that the purpose of public policy making and management is the maximisation of *public value* – *i.e.* those things the public considers valuable – in the same way that the goal of private sector enterprises is the maximisation of shareholder value.

In the UK, public value has been viewed as a possible alternative to the existing "traditional public management" (TPM) and "new public management" (NPM) approaches. TPM is the approach enshrined in the original model of the welfare state, in which the public interest is defined solely by politicians and the role of public managers is to implement policy decrees. This model has long been criticised for its lack of responsiveness and its inability to cater to the needs of a diverse and rapidly changing populace. NPM is best characterised as the approach introduced during the first term of the New Labour government, in which the public interest was seen as an aggregation of the choices of individuals, expressed through their roles as consumers of services. It aims to align the public sector much more closely with the philosophy and approach of the private sector, and to *"replicate the efficiency imposed by the price mechanism and competition, under the assumption that this would ensure cost effectiveness."*[9] NPM relies heavily on an audit-based approach, setting central performance targets and requiring public managers to respond upwards to central government, and believing that 'quality can be inspected into a service'. The hope for public value theory is that it can provide a framework which will avoid the problems with both TPM and NPM.

Public value is a useful starting point, but it does not go far enough. In order to achieve real reform of public services we need to broaden our conception of value further and bridge the gap between theory and implementation. Following Bovaird, we suggest five categories that can be identified in the debate about public sector value, which could provide a more practical framework for putting value at the centre of decision making.[10]

Figure 1. Ways in which activities in the public sector can add value

- **User value**
- **Value to wider groups** (such as family or friends of service users)
- **Political value** (support to the democratic process, e.g. through co-planning of services with users and other stakeholders)
- **Social value** (creation of social cohesion or supporting of social interaction)
- **Environmental value** (ensuring sustainability of all service provision)

Using these categories allows us to move beyond the crude distinction usually made in analyses of public value, between 'what is produced' and 'how it is produced', by highlighting the kinds of value which are created through 'process' rather than just 'outcomes'. It emphasises the importance to citizens of the quality of the social processes of interaction which they experience, as well as the democratic processes which lead to the decisions made (by themselves and others) about their lives.

This approach is more operational, as it possible to devise ways of assessing achievements in each of these five elements of value. It also emphasises that 'public value' is not a technical or managerial concept, which exists in a non-political environment. Indeed, setting out clearly a portfolio of value categories makes it clear that using these different categories will involve making judgments of relative worth – both between types of value and between stakeholders experiencing this value– and these judgments are, of course, at the very heart of political decision-making.

Determining Value

In terms of determining value and establishing its legitimacy, the key notion is that of *refined public preference*. Meaningful engagement with the public is central to the idea of public value, as it is only through engagement that public preferences can be adequately determined. Advocates of public value criticise existing approaches to public participation for not taking it seriously. *"Politicians and public managers must… recognise that deliberative governance is not simply a matter of 'bolting on' public*

participation to existing models….This is not merely a matter of marketing or communications, or an exercise in 'giving the public what they want', but a process for involving the public in decision making on the basis that citizens have the capacity to engage and understand the dilemmas faced by both politicians and public managers."[11]

Meaningful public participation can enable citizens to play their proper role as the arbiters of what matters in public services. And, as Blaug, Horner and Lekhi suggest: *"Failure to engage with the public about what they want and need may result in services not providing public value, but a value determined and recognised solely by politicians, public managers or even private organisations delivering on behalf of government."*[12] Instead of downplaying the role of the public, it is argued: "*successful public service delivery depends on a continuous dialogue with citizens, who should be thought of as stakeholders on a par with government, experts, industry representatives, the media, the judiciary and service users."*[13]

Sceptics see the greater need for public engagement as a weakness. They argue that it is unrealistic to expect more involvement from citizens in an environment where ever-greater levels of apathy are the norm. But this ignores the fact that current levels of apathy may in part be due to the failures of existing methods of engagement. If people feel that they are only ever being consulted as a PR exercise, or that their input has no impact, it is unsurprising that they are not enthusiastic about engagement. *"[One] reason for low levels of involvement is the common perception that consultative processes are top-down and lack genuine opportunities for people to influence decision making. Research indicates that there is considerable public willingness to be more involved in decisions about local services, but also suggests that people are far more likely to get involved when those opportunities are meaningful."*[14] One possible outcome of taking public participation seriously and being able to demonstrate its value is that it may help to re-engage people with the democratic process.

This will clearly not happen automatically, but as advocates of public value theory have pointed out: *"[the] approach requires us to take seriously the superior capacity of public managers at all levels to engage with citizens. Expert in administrative structures and often more sensitive to local conditions, public managers are, therefore, being increasingly drawn into what is most accurately described as a political role."*[15] This does not imply that the role of politicians is in some sense being usurped or undermined – rather it means that it is changing, as others play roles which were traditionally unique to politicians. In a world of public value creation, where more voices are heard clearly and the conflicting expectations of different groups are more articulately expressed in public debates, the role of the politician is likely to increase, to be more visible and to be seen as more important. This, though, clearly raises significant challenges.

The importance of engaging citizens and determining public preferences does not mean that determining and creating value is simply about slavishly responding to public opinion. Rather, it entails the development of a real dialogue between citizens and service providers, in which the former can outline their needs and expectations but the latter are also able to explain how their responsibilities and the policy and funding environment they work in may constrain the ways in which they can respond. As Coats and Passmore explain: *"If resources are constrained that should be explained. If tough choices about priorities are required then that should be described. The intention is that public managers share some of their dilemmas with the public, seek citizens' views and adapt their decisions accordingly. This is what responsiveness to refined preferences is all about."*[16]

The idea that public preference may have to be challenged and refined is important. It allows for situations in which the public has opinions which are largely ill-informed, such as in the MMR vaccine debate, where claims about the links between the combined vaccine and autism in children, based primarily on a single piece of research and stoked by intense media speculation, led to many parents refusing to let their children be vaccinated. This was despite the government's Chief Scientific Adviser, Sir David King, repeatedly pointing out that no other study had found any causal link, and that there was a far more real risk from measles if children failed to be vaccinated.[17] The process of refinement allows public managers to balance considerations of value based on public preferences against those based on longer-term aims, such as carbon reduction, and highlights the fact that public sector managers operate in a political environment in which potentially conflicting aims and requirements need to be taken into account. It is also important that both public managers and citizens are clear about exactly what it means to consider something "valuable". In the next section we consider the different aspects of value that may be taken into account by public sector managers.

As well as balancing the 'outward' responsibility to service users and citizens with the 'upward' responsibility to politicians, public managers must also maintain balance amongst the citizens they are engaging. It is well-known that many forms of participation suffer from the difficulty that a particularly vocal, active or well-connected minority can exert a disproportionate level of influence. Since a crucial aim of public value theory is to re-legitimise public services in the eyes of citizens, it is important not to compromise the fairness of services and thus risk losing peoples' trust. Hence public managers must be aware of the potential pitfalls of encouraging public "voice": *"…We need to be alert to the fact that special interest groups can sometimes become dominant and that the voice of the poor is all too frequently only heard as a whisper."*[18] This suggests a need for more proactive approaches to engagement, which ensure that previously marginalised

individuals and communities are able to have their say. This concern is very strongly embedded in the recently-published framework for the Comprehensive Area Assessment, but little indication is given as to how it will be operationalised.

Citizens- not just service users

Current approaches tend to focus on the idea of individuals as users of or clients for services. However, this is not always appropriate. In the criminal justice system, for instance, it does not really make sense to talk of "users" of a service which is non-voluntary and deliberately curtails individual liberties. For policymakers in this area, it seems the only clear option is to revert to the approach of deciding for themselves what the public interest is and the best way to achieve it, and then to mandate public sector managers to implement their policies. Public value theory, however, offers another approach: because the framework considers individuals as citizens rather than just service users, it allows public preferences to be determined on the basis of what people value about the role of criminal justice in their society, even if they themselves have no contact with the service. In this way public value in criminal justice can still be determined by appropriate engagement with citizens. This approach has informed, for instance, initiatives on restorative justice, which give citizens (in this case, victims) a much greater role in the criminal justice system than previously.

A number of commentators have pointed out that: "*For something to be of value it is not enough for citizens to say that it is desirable. It is only of value if citizens – either individually or collectively – are willing to give something up in return for it.*"[19] There needs to be a more mature conversation between public sector managers and citizens, which recognises that individuals place value on services from a number of different perspectives. As Parston explains: "*Each citizen actually speaks from three distinct points of view—that of service user, citizen and taxpayer. As users of public services, people want the highest-quality service possible, and as members of the wider community, they have a vested interest in services that promote social harmony, safety and wellbeing— whether or not they actually use those services. As taxpayers, however, people generally seek clear limits to the levels of public spending they support and the costs they willingly bear.*"[20] In order to gauge value accurately, citizens and public managers will have to be clearer about the trade-offs they are both willing to make between the often competing aims dictated by these different viewpoints.

EXAMPLE – tensions between different assessments of value

An example of the potential tensions between differing priorities and notions of value with respect to services can be found in the controversies surrounding the introduction of Alternate Weekly Collection (AWC) systems for waste disposal in certain local areas in the UK. The idea behind these schemes is that

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rather than a single weekly rubbish collection, an alternating system of collecting recyclable and non-recyclable waste is used instead. In Oxford, where an AWC system was introduced in 2006, vehement opposition from some citizens led to the formation of the Collect Refuse Weekly in Oxford campaign, which was mirrored on a national level by the Campaign for Weekly Waste Collection.

The main complaints from those opposing AWC in Oxford were: the increased requirement on individuals to sort their rubbish properly; the perceived health risks of waste remaining in bins for 2 weeks as well as the aesthetic effect it would have on the city's streets, and finally the belief that the move meant a cut in services and was motivated by a desire to reduce costs. The first of these concerns seems to be from the service user's perspective; the second from the perspective of the wider citizen; and the last from the combined service user/taxpayer perspective.

However, there were also those in favour of AWC. In a notably environmentally-conscious city such as Oxford, the argument that implementing such a system would increase recycling rates went down well with many people. And this argument seems to have been backed up by evidence: in Oxford, the introduction of AWC saw the recycling rate go from 19% to 40% between August 2006 and June 2007.[21] There also some evidence from other areas in which AWC has been introduced that financial savings could be achieved through economies of scale and more efficient collection systems.[22] Increased recycling rates may be valued by individuals from their point of view as citizens with an overarching concern about the environment, whilst cost savings may be valued from the point of view of taxpayers. And from the perspective of local public managers, an additional key driver was the need to increase recycling rates in order to meet EU landfill targets and avoid potentially heavy fines.[23]

Delivering Value

If the goal of public service is to maximise value in the senses identified in figure 1, then it is necessary to ensure that the political environment and the framework in place for designing and delivering services reflect this. Whilst citizen participation is crucial in determining and legitimating public value, the public sector has the key role in acting to achieve the goals specified during this process of engagement. Blaug, Horner and Lekhi point out that: *"Public value is clarified and authorised by the public, but it is made, increased and created by public service organisations through their decisions about what services to provide. It is for these organisations that politicians and public managers must justify the allocation of resources and develop management practices that are consistent with the generation of public value."*[24]

As explained in the previous section, there will be at least two aspects of public preference that emerge from engaging citizens in public service design: what they want their services to achieve, i.e. the **outcomes** they value, and how they want them to be achieved, i.e. the **governance principles** that guide their delivery. We shall consider below how both of these might translate into approaches to the specification and assessment of services.

Outcomes

In order to use outcomes to create value, it is necessary to be able to set them as goals against which the success of services can be measured. As Parston argues: *"Governments traditionally gauge the success of public services by the number of programs delivered and their relative cost-effectiveness. Today's governments need to judge public services not by outputs but by* **outcomes**- *the actual results they produce in people's lives."*[25]

Unfortunately, the system of services that has developed through the Traditional and New Public Management approaches does not lend itself to outcomes-based goals. Coats and Passmore point out: *"Perhaps the most striking feature of the UK model is that the targets selected often have little resonance with the public and are focused on internal management, audit and control questions that may be operationally useful but hardly constitute an appropriate benchmark of organisational success."*[26] They go on to argue that: *"Public value offers a systematic framework for a new approach to goal setting and management... [and] this represents a very different approach, with a strong emphasis on the devolution of power and authority. It assumes, for example, the objectives are not set at the centre through national targets but can be fixed at a local level."*[27] It is quite possible, too, that local priorities will differ from national priorities. A recent article for *Public Finance* asks: *"What incentives are there for a locally accountable police commissioner in Bradford to tackle Islamic radicalisation, given that it is London and not Yorkshire that is most likely to be affected by a terrorist attack?"*[28]

Example – Conflict between local and national priorities

An interesting example of the potential difficulty of reconciling local priorities with national or central government ones can be found in the case of Crime and Disorder Reduction Partnerships (CDRPs) Introduced by the Crime and Disorder Act 1998, these are multi-agency partnerships, between the police, local authorities, the probation service, health authorities, the third sector and local residents and businesses, designed to come up with a strategy for crime prevention in the local area. By engaging all these different groups, the resulting approach was intended to reflect more accurately the priorities of the local community.

As explained in a recent Policy Exchange report on crime prevention in the UK, the value of this local engagement was soon undermined as local strategies came into conflict with central government priorities.[29] The initial funding for CDRPs came entirely from existing local government money, so central government had no say on the way it was directed, but within a few months new Home Office funding was made available. This new funding was open to CDRPs that were able to contribute to achieving central government priorities, such as the national burglary initiative, but did not take into account whether these national priorities matched the local ones decided by the CDRP. By introducing significant new funding based on its own priorities, and thus encouraging local authorities to focus on these areas, central government managed to undermine the value of locally-decided strategies and to skew the approach to crime reduction so that it no longer truly reflected local priorities.

Governance principles

We must be careful not to assume that achieving desirable outcomes is synonymous with creating value. Whilst outcomes are important, they are just one aspect of what citizens value in public services.

It may even be that there is a tension between the outcomes people want and the other aspects of value they feel to be important. Kelly, Mulgan and Muers highlight this potential problem, pointing out that: *"Measures that would help to boost recognised outcomes (educational attainment, crime reduction) may differ from those that would boost levels of satisfaction/confidence in services. A well-known example is the tension between public demands for more "bobbies on the beat", and limited evidence about whether it is effective in reducing crime levels. There are also potential trade-offs between outcome goals and perceptions of fair treatment. If, for example, prisons found that giving ex-offenders financial incentives not to re-offend was successful in delivering outcomes, public values might challenge such an option."*[30]

This is clearly a situation in which the *way* that outcomes are achieved is also important to citizens. We expect that the public domain will be sensitive in many cases to the adage that 'the ends do not justify the means'. Specifically, we expect the achievement of outcomes to be undertaken in ways which respect a series of governance principles which we hold to be of major importance.

In recent years, there have been many attempts to categorise the main public governance principles and processes.[31] Bovaird and Loeffler list some of the characteristics of 'good governance' which have recurred frequently, both in the literature and in the political and practitioner debates on the subject:[32]

If these governance principles and processes are important, we should expect that some attempt should be made to assess how well they have been conformed to – and what the trade-off may be between them and outcomes. For example, in an investigation of the contribution of public services to the quality of life of people living in areas of social housing in the Cornwall district of Carrick, residents and other stakeholders were asked to comment not only on their perception of quality of life issues (the quality of the housing and the local environment, health and social wellbeing, how safe the area is, etc.,) but also on how well public agencies performed in terms of transparency, honest and fair behaviour, sustainability and partnership working.[33] It was found that many respondents were as keen to give their views on these governance issues as on the quality of life issues.

Commissioning and Procurement

Almost all commentators agree that the involvement of non-State organisations is crucial to maximising public value. Alford and O'Flynn criticise what they see as the incorrect view that public value can only be created by public sector organisations, because this *"…is an implicitly output-oriented framing of the notion. But in fact public value can be produced by a variety of other entities- for example, by private firms, non-profit or voluntary organisations, service-users or various other entities. It is not who **produces** it that makes value public. Rather…it is a matter of who **consumes** it."*[34] Kelly, Mulgan and Muers agree that: *"…Even where there is a clear role for government this does **not** imply that direct provision by government is the only, or even primary, route through which public value will be created. Voluntary and community associations, business and professional and citizen groups will all play a key role in achieving the goals of public policy."*[35] This is evident from Figure 1, where it is clear that the elements of public value are also

found in the approach of private firms to corporate social responsibility and in the core missions of third sector organizations.

Commissioning and procurement are currently the main tools used to engage non-state suppliers in public services. Hence we should ask whether they are the best methods to maximise value, if this is how we define the task of public management. This is a question we shall be considering in detail in future Policy Exchange work. For now, it is sufficient to suggest some ways in which they might be used to maximise value.

One key task is to clarify the distinction between "commissioning" and "procurement" and the relationship between the two. Perhaps because they are associated in many people's minds with a model of involving the private sector in service delivery, based on specifications set by government, there is a tendency to conflate "commissioning" and "procurement". However this misses a crucial distinction, and makes commissioning seem like a much blunter tool than it can in fact be.

The Public Administration Select Committee, in a report on the role of the third sector in public service delivery, noted this confusion and attempted to clarify the distinction:[36] "*Commissioning is the process of deciding what work or services are needed; whether they should be sought by delegation, the use or setting up of some new body, or by competition; and, if by competition, what sort of contract to use.*" Procurement, on the other hand, is *"The complete process involved in identifying the business need to make a purchase, including market research, specification, purchasing, and subsequent contract management."*[37] It is crucial to note that when defined in this way, procurement is quite different from commissioning and need not even follow automatically from it. Commissioning is an upstream process of identifying needs and the appropriate ways of addressing them, whilst on the downstream using a procurement approach is just one of the available options. (And procurement from external providers is just one of the available procurement options).

If commissioning is properly understood and implemented in this way, then it is clear that it lends itself well to an approach based on a broad notion of value, such as we are proposing. Indeed the purpose of the commissioning process can be seen as that of identifying outcomes and approaches which maximise value, based on consultation and collaboration with citizens and organisations from all different sectors. However, the fundamental problem at the moment is that even where desirable outcomes are identified, contractual and funding relationships and measurement criteria are still primarily based on outputs. It is a commonly-heard complaint amongst service providers that this leads to a level of process specification on the part of

commissioning bodies that is so prescriptive that it leaves little room to add any value to the delivery of the service.

There has been an increasing amount of talk in recent years of "commissioning for outcomes", where a commissioning body agrees to fund a provider on the basis that they achieve particular agreed outcomes, but does *not* specify exactly how this is to be done. The idea is that this would leave room for innovation to add value to service delivery. Some progress has been made in the move towards Outcome-Based Commissioning (OBC), but as Coats and Passmore caution: *"Whilst OBC is clearly an innovative process with the potential to provide significant improvements to current commissioning practice, it remains a largely untested approach."*[38] There have been a number of interesting developments in recent years, such as the introduction of Local Area Agreements and Comprehensive Area Assessments,[39] which seek to base local service commissioning, delivery and evaluation on an agreed set of outcomes for that area rather than on central targets. There have also been practical trials of a full-blown OBC approach. For instance, Camden Council, in partnership with the New Economics Foundation (nef), has moved to an outcome-based system for commissioning its mental health daycare services.[40]

Comprehensive Area Assessment

Comprehensive Area Assessment (CAA) is a new assessment framework for local public services, which Comprehensive Performance Assessment as of May 2009. It is designed to look at how well local services are working together to improve the quality of life for local people. It combines the perspectives of the seven existing partner inspectorates, to provide a joint assessment of outcomes for people in an area and a forward look at prospects for sustainable improvement.

The focus of CAA in a particular area is supposed to reflect local priorities. It is also designed to improve the quality of information available to people about their local services, to help them make more informed decisions and to have confidence in their service provision.

CAA also places an emphasis on partnerships, as for the first time local public services will be held collectively to account for their impact on better outcomes. This means that CAA will look across councils, health bodies, police forces, fire and rescue services and others responsible for local public services. Because of this specific focus on shared outcomes, the CAA will run alongside existing assessment frameworks rather than replacing them. So, for example, health and police services will still be assessed by their respective inspectorates for those services that they are solely responsible for, but these will be developed alongside CAA to avoid any duplication.

These examples are encouraging, but there needs to be much greater development before Outcomes-Based Commissioning can become a core part of our public services, and are a number of key questions that need to be considered. For instance: How do you reform the commissioning framework to overcome the difficulty that outcomes are usually complex and multi-faceted and cut across traditional services areas and commissioning bodies? Is it possible to have joint commissioning between central government departments or local areas? And how do you translate high-level outcomes into practical criteria for designing funding relationships, for example in contracts?

There is clearly a need for much more work in this area, and at Policy Exchange we shall be considering a number of issues in detail, including: the current uses of OBC; what impact, if any, it has had so far on services and outcomes; and how some of the existing difficulties with it might be overcome.

The Role of the Third Sector

The third sector has had a huge influence on the debate around value in public services, and is also likely to play a key role within any revised framework of services incorporating a broader notion of value, so it is worth looking at specifically.

We should be clear about how we view the relationship of the third sector to public services and the motivation for wanting to involve third sector organisations (TSOs) in service delivery. The government has demonstrated increasing enthusiasm in recent years for engaging TSOs, but the rationale for this is far from clear and mixed messages can be heard from different parts of government. Some suggest that the point of encouraging TSOs to get involved in public services is to ensure as wide a base of potential providers as possible, in the belief that this will have a positive effect on the quality of services by increasing competition and driving up standards. Those who hold this view believe that in the end, the State should be agnostic about the sector from which a provider comes. Others instead take the view that there are particular attributes of TSOs that make them better suited to delivering particular services.

The latter view is based on a notion of "third sector added value", an idea promoted for a long time by the sector itself and enthusiastically bought into by many politicians. The argument is that TSOs have certain features that enable them to provide services in a way that "adds value" for users and for wider society. The most often-cited examples of this added value are: a high-level of knowledge of a particular user group; greater innovation; a higher level of trust amongst service users; greater flexibility and responsiveness; the ability to reach difficult or marginalised individuals or groups and the capacity to offer "joined-up" or "holistic" services. The government's action plan on third sector involvement in public service delivery states

that: *"Third sector organizations often bring a range of strengths to the tasks of empowering users and promoting community engagement, particularly for those who may be distrustful of the State. They often have the personalised approach and public trust required to build services around the needs of users and to build their capacity."*[41] The usual conclusion of this argument is that the government and commissioners should take into account the added value TSOs can bring and thus aim to increase third sector involvement in service delivery.

The added value argument is in many ways compelling, primarily because it is easy to find inspirational examples of TSOs that are delivering services that convey one or all of the benefits mentioned above. The danger is in extrapolating from this to a general conclusion that all TSOs inherently add value and that by actively prioritising their involvement in services we will achieve the improvements in services we are aiming for. One can see how this would be appealing to politicians struggling with the public service reform agenda, as it suggests that all that is required is to increase the level of third sector involvement and the rest will take care of itself. Unfortunately this argument is flawed, as the available evidence does not support the conclusion. In fact, almost all attempts to examine the idea of third sector added value in detail have led to the conclusion that there is no firm basis to believe that TSOs do anything that either public or private sector providers cannot also do in some circumstances.[42] As Eliot and Piper argue: *"The idea of added value rests on the assumption the TSOs bring added value because they are distinctive: independent, values-driven and involving users and volunteers in their organisations. While many TSOs offer some or all of these benefits, they don't do so because they are third sector organisations. An organisation's 'sector' does not create these benefits and characteristics."*[43] Moreover, all analyses of the third sector come quickly to the conclusion that it is so heterogeneous that no such generalised conclusions about the sector are ever likely to be justified.

The danger at this point is that if we conclude on the basis of the available evidence that there is no justification for the general claim of third sector added value, then it would be easy to become cynical about the merits of involving TSOs in services at all. But this would completely throw the baby out with the bathwater: clearly the many examples of TSOs providing services with distinctive features demonstrate *something,* even if they do not provide evidence for a general claim about added value. The diagnosis of the problem may in fact be found in the phrase "added value" itself: the fact that the examples used to support the argument are ones in which it is agreed that services have been improved suggests that the government does recognise the *value* of these approaches, but also that it views it as *additional*, so that it is something above and beyond the core criteria used to assess services. This is where the mistake lies.

As we have argued through the course of this Research Note, a notion of value that incorporates more than just cost considerations needs to be placed at the heart of public services and the commissioning framework

if we are to achieve the sorts of services we desire. The lesson from the third sector added value debate should be that the many examples of TSOs that are claimed to be "adding value" to services should instead be seen as highlighting features that we might want to incorporate into this revised notion of value. These features would then no longer be seen as "additional", but rather as elements of the core value criteria used to design, commission, procure and evaluate services. For example, if the State recognises the value of an organisation having strong links within a local community, then it should incorporate this as one of the measures it uses to assess potential providers (extending the concept of 'social value added' used earlier), rather than thinking in terms of "sectors" then purchasing on the basis of cost and hoping to get community links as an additional benefit.

A system of public services of the sort we are advocating, using a notion of value that incorporates public, social and environmental elements together with a system of commissioning based on outcomes, is one in which it should be hoped that TSOs are able to compete effectively. Rather than artificially trying to increase their involvement by giving them preferential treatment, this would provide a truly level playing field on which they could compete on the full range of their merits. There is some evidence that this is what the sector itself really wants: the work by the National Council for Voluntary Organisations (NCVO) on Full Value is very much in line with what we have said here.[44]

Of course, such a fundamental change to the way public services work will not happen overnight. In the meantime support for the third sector should continue, as it is trying to compete within a framework that is not designed to allow it to do so effectively. There are a number of clear barriers in the current system affecting both TSOs and other organisations, which could be removed in the short term and must be avoided in any reformed system. These are outlined in the next section.

Practical Barriers to Effective Commissioning

Before we even consider how to move to a system of commissioning based on outcomes, there are a number of known problems in the existing system that are having a detrimental effect on value creation, and need to be addressed as part of a wider overhaul of the commissioning system.

- **"Siloed" funding streams** -Often commissioning is done along departmental or traditional service lines, which is a real problem for new services that cut across these lines, or for organisations attempting to offer "joined-up" services. In these instances, a service provider may end up receiving funding from a number of different public sector bodies for the same service, or receiving no funding because no commissioning organisation sees the service as falling squarely enough

within its remit. This is a particular barrier to the development of outcomes based commissioning, which will throw up any number of "cross-cutting" services. Coherent service provision is made even less likely if each service commissioner emphasises different elements of 'public value', e.g. some may call for special attention to 'social value added', while another gives particular weight to 'environmental value added'.

- **Size of contracts -** In some service areas, there is a concern that commissioning bodies are moving towards awarding a small number of very large contracts, which leaves only a handful of providers capable of delivering them. As it is argued that small organisations from the private or third sector have a real capacity to add value, forcing them out of the marketplace can be seen as destroying value.

- **Length/volatility of contracts -** A complaint often heard from the third sector, but also relevant to private sector providers, is that government contracts are often too short and subject to cancellation with little notice. This potentially destroys value in two ways, by destabilising the service provider and thus preventing them from creating maximum value, and by sacrificing the value that comes from aggregated experience. Whilst no-one should argue for contractual relationships to be permanent and not subject to proper review procedures, a balance needs to be struck between the willingness to cancel contracts and the recognition that there is value in organisational experience and in maintaining ongoing relationships.

- **Working Capital -** Most contractual payments for providing services are end-loaded, so they are only received on completion of the contract. Whilst this does not present a problem for larger organisations which have sufficient reserves to use as working capital, it is a real problem for smaller organisations that do not have such reserves. If a smaller organisation is best placed to create maximum value in delivering a service but cannot do so because it cannot finance the ongoing operations needed to create that value, then value has been destroyed.

- **Irrecoverable VAT –** Current VAT legislation treats providers from different sectors very differently. Private sector providers are generally unaffected, as they pay VAT on purchases but are also able to recover it by charging it on their own goods and services. Public and third sector organisations, however, are both VAT exempt - so they pay VAT but cannot charge it themselves. But public sector organisations providing services then receive a rebate for VAT on purchases. Third sector organisations do not get any rebate, even when providing exactly the same services as a public

sector organisation, so they are left at a distinct disadvantage when it comes to bidding for contracts.[45]

- **Awareness of contract opportunities -** One very basic problem faced by smaller organsiations is that often they are not aware of contract opportunities in sufficient time to allow them to prepare a bid. Partly this is about commissioners developing better relationships with their supply base, but it is also about using new technology more effectively to remove this barrier. A number of commissioning bodies now have dedicated websites notifying potential providers of contract opportunities. For example, the "CompeteFor" website was set up to enable businesses and third sector organisations to bid for contracts related to the London 2012 Olympics.[46]

- **Bid costs -** Even when they are aware of opportunities to tender for contracts, many small private and third sector organizations still struggle to bid successfully because the costs- in terms of capital, skills and time- are prohibitive. This gives an advantage to larger organizations that have sufficient reserves to finance bids.

- **Risk aversion -** This is primarily a problem about the culture of public service commissioning and the policy environment in which it operates. The huge imbalance between the incentives for success and the penalties for failure has led to many public sector managers being highly risk averse. This can destroy value if it prevents them from commissioning from "untested" providers which may have high potential but also an inherent element of risk attached.

Measuring Value

Using our 5 categories of value and a system incorporating Outcome Based Commissioning, it is possible to see how we might achieve a rational and effective system of public services, i.e. one which has a clear goal (the maximisation of value) and a method of achieving it (engagement with citizens to determine refined public preferences, and Outcome Based Commissioning to design and deliver services in the best way to deliver the right outcomes and service quality). However, in order to complete this picture, we must be able to *show* that our methods are achieving the goals we originally set. Hence a crucial part of a revised system of public services is a means of *measuring* the value created.

This is not a simple task. Many commentators have noted the difficulty of establishing a chain of cause and effect when evaluating outcomes: *"Determining value through the impact on objective measures of outcomes is difficult. It may involve complicated (and contested) assessments of causation: was government*

action X the cause of social outcome Y? In most areas there are still considerable gaps in our understanding of how to create value through outcomes: either we have limited knowledge of what causes an outcome, or even if we do have a reasonable sense of the causes, we understand little about the effectiveness of different policy levers."[47]

A further difficulty is that there is an ongoing desire to try and find a single measure that can capture the notion of value in public services. Unfortunately, as Kelly, Mulgan and Muers point out: "*…most public policies and agencies have multiple objectives with no single 'bottom-line'*,"[48] so they do not lend themselves to this kind of assessment. (Indeed, this is also partly true of the private sector, which is one reason why the Balanced Scorecard approach, with its four 'results areas', has become so popular).[49] The complexity of measuring value in the broad sense required for public service may be one reason why there has been reluctance to move beyond the New Public Management model and measurement based on inputs and outputs. However, given the benefits that we have argued could arise from placing a new conception of value at the heart of services, we believe the issue of measurement must be tackled head on, rather than using it as an excuse to do nothing.

There are a number of different existing systems for measuring social return, such as Social Accounting and Social Return on Investment (SROI), which have developed a track record in the third sector.[50] The key for the development of value measurement in public services in a way that reflects the five elements of value we have suggested will be to consider these various approaches to see which aspects of them might be useful and how well they could serve the needs of the public sector. The government is already paying particular attention to SROI,[51] but this is very much focused on using measurement to assess the impact of third sector organisations rather than more generally to assess the value of public services. If value measurement is to be used as a tool to drive improvement, it must be applicable across the board and not just to organisations from one sector.[52]

One feature which may be missing from existing approaches is the focus not just on outcomes, but on governance. We have argued that this is important because value is created not just by what public services achieve but also by the way in which they are delivered. Developments in the assessment of how well governance principles (of the sort we outline in this report) have been achieved in UK public services have been more limited than developments in measuring outcomes. For example, the latest framework for the Comprehensive Area Assessment,[53] which will be implemented by all local public services inspectorates, has a category in its organizational assessment which it labels 'governing the business'. In the case of assessment of councils, it highlights as one of the key issues to be assessed: "Does the organisation promote and demonstrate the principles and values of good governance?" but gives no further details of how this will

be done.[54] These omissions suggest that, while espousing the need for proper governance, the government still attaches much less weight to this aspect of its agenda than improving outcomes.

We shall be considering in future Policy Exchange work how the evaluation of governance principles in services might be clarified and systematised, in parallel with the development of outcome-based goals and measurement.

Conclusion and Areas for Further Work

The arguments in this paper show that whilst some progress has been made towards a system of public services in which value is about more than cost, there is still far more to be done. The key, we have argued, is to have clarity about the different aspects of value we want to use to assess services. We have indicated one way in which this might be done by identifying five practical categories of value:

- *User value*
- *Value to wider groups* (such as family or friends of service users)
- *Political value* (support to the democratic process, e.g. through co-planning of services with users and other stakeholders)
- *Social value* (creation of social cohesion or supporting of social interaction)
- *Environmental value* (ensuring sustainability of all service provision)

These criteria can be applied, through engagement with citizens and service users, to determine the outcome priorities for particular services. Alongside these, we have argued that there should also be criteria guiding the way services are delivered. The key governance principles we have identified are:

- Citizen engagement
- Transparency
- Accountability
- The equalities agenda and social inclusion (gender, ethnicity, age, religion, etc.)
- Ethical and honest behaviour
- Equity (fair procedures and due process)
- Ability to work effectively in partnership
- Sustainability
- Respect for the rule of law

Even with a new notion of value and principles of good governance in place, there are a host of further issues that need addressing if this is to be used as a basis for transforming services. Some of the key questions, which we will be addressing in subsequent Policy Exchange work, are outlined below.

How will incorporating the 5 different aspects of value we suggest in this report affect the strategies of public sector agencies?

In future work, we will look in detail at a number of organizations such as Local Authorities, PCTs and central government departments and assess what the impact of an operationalised version of these broader value criteria would be.

Are there any potential limitations to the use of outcomes?

Identifying and using outcomes is clearly a key part of a new approach to public services, but we cannot assume that it will be unproblematic. There may be instances where the outcomes are prohibitively difficult to specify or measure, so do we have a "plan b" for these cases? Also, what trade-offs might have to be made between governance principles and the achievement of outcomes?

How can we systematise governance principles and build them into assessments?

If how services are delivered is to have equal importance with the outcomes they deliver, then far more needs to be done to enable governance principles to be appropriately specified, and adherence to them measured.

What is the role of commissioning and procurement in maximising value?

Where are the examples of really effective commissioning which is driving transformation in public services? Is there also scope for greater innovation in processes, such as the formation of public/private/third sector delivery partnerships?

If commissioning is properly understood as distinct from procurement, what are the other potential options for delivering services that might result from a commissioning process?

We will look for examples of services where a commissioning process has been gone through, but procurement was not seen as the best way to maximise the value of delivery. We will assess some of the possible alternatives to procurement, their role in maximising value, and the potential for using them more widely.

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Acknowledgements

The work of the Public Services unit at Policy Exchange

For more information on the work of the public services unit, please contact Rhodri Davies, Research Fellow, at rhodri.davies@policyexchange.org.uk.

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