

Markets for good: the next generation of public service reform

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Reform

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A note on scope

This report covers 'human' public services only, such as addiction support, social work, prisoner rehabilitation, skills training and so on. It is not intended to cover all of government activity, for example in areas such as defence and transport. Furthermore, this is a concept paper. It is designed to put forward new ideas, not to go to the nth degree of detail on their implementation. Therefore, there may be specific services where the approach taken in this paper will be more or less applicable. However, the main thrust of the report is suitable for an enormous range of current activity, activity that reaches millions of people and cost tens of billions of pounds.

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Executive summary

This report is about reform of 'human' public services only: health and education, and poverty-fighting services such as addiction support, social work, prisoner rehabilitation, skills training and so on. It is not intended to cover all of government activity.

The challenge: our failing human public services

Without reform, Britain's human public services are facing crisis. Budgets are falling, but demand is rising, driven by globalisation and ageing. Schools fail far too many pupils, the vocational system is more geared to producing nail technicians than nano-technicians, and the NHS is cracking under the strain of coping with, in particular, increasing levels of chronic conditions and ageing. The situation in services that receive less media attention is arguably even worse. There are tragic shortcomings in our mental health, addiction and prison rehabilitation services. Experts agree that more local, open, collaborative services are the answer, but even intermittent experiments in this direction often meet heavy opposition.

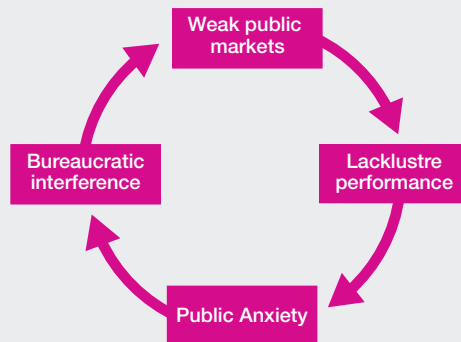
These challenges cannot be dealt with simply by spending more money. There isn't any. Nor is it sufficient to follow business-as-usual attempts to reach slightly better value for money. We need a quantum leap in value for money and that means fundamental public service reform. Unfortunately, the country is having totally the wrong sort of debate to deliver such a quantum leap. Public service reform, when actually discussed, is done so within a narrow framework of each particular service. It rarely arrives at the crucial topic of how these services fit together.

Whilst the problems faced by the socially excluded are overlapping and mutually reinforcing, for the most part the support they receive is not. Rather than solving social problems in full, billions are wasted on piecemeal interventions which only treat one aspect of the many barriers that some people face – for instance a drink problem, but not the connected debt problem; or a crime problem, but not the connected housing problem.

Successive governments have responded to the challenge by turning to private and third sector providers. However, with no clear, overarching vision, twenty years of stop-start change has left an incoherent hotchpotch of half-finished reforms, inconsistencies and exemptions. This is clearly demonstrated by the lack of join up between the departments covering work, skills and education on combatting youth unemployment, or the failure to mesh the Coalition's major justice and welfare reforms.

The predictable response has been to criticise the whole idea of competition and the use of markets in public services. Such criticism is misplaced. Its not that markets themselves are bad. Weak markets are bad, and human public service markets are weak. Indeed, they are scarcely markets at all. Providers only compete with one another at the outset in order to win a contract. Thereafter, they are commonly the monopoly local provider for the duration of the contract. In addition, government too often prioritises price over quality during the bidding process. When government does not get the results it expects, it steps in to micro-manage the process, only to throttle market forces further.

Figure 1: Vicious cycle



The response: a revolution in public service delivery

Britain needs a new model for human public services – one that moves away from traditional contracting, towards a much more open model of licensing and payment for results. This report proposes breaking open the old monopolies of public and private provision. Instead it proposes contracting in a very different, more open way: using clear rules and strong incentives to harness the power of genuinely free and fair markets. It is not too much marketisation that is the problem – it is too little.

Almost all poverty-fighting public services, as well as education and health, should be opened up to non-state providers: schools, hospitals, vocational education, employment support, drug treatment, prisoner rehabilitation and more. Conventional commissioning, through bid rounds and time-limited contracts, should be replaced by a licensing model, under which any organisation is free to provide social public services, provided that it possesses a licence to operate. To gain the licence, providers would have to show they passed certain standards of managerial, operational and financial competency. Licensing would not be restricted to certain departments or regions, allowing providers to work across the silos that currently hamper performance. A licence model would also make it much easier for new providers to enter the market, driving competition.

Incentives should be sharpened to drive performance. Government should set a smaller number of key outcomes that constitute the ultimate endpoints that we as a society want to see, paying providers for achieving them. A mature approach would also recognise that profit plays an important part in making a market work. Government should set an explicit target profit margin that it wants providers to achieve, making adjustments if profits are consistently under- or over-target to balance the need for well-functioning markets with taxpayer value for money.

Implementing Public Service Licensing would be a major shift, but that is what is needed. Doing nothing will only lead to the slow erosion of the quality of public services. Protecting public services

means reforming them. A licence model builds on lessons from of our most advanced public services, in health, work, social impact bonds, complex needs and justice. Embracing these new models of delivery – and going further by truly integrating, not simply ‘joining up’, services – would benefit us all. Better public services mean more impact for the money we spend, leading to a fairer and more economically competitive society, lower public expenditure and lower taxes.

Summary of recommendations:

- > Stop contracting, start licensing: all human public services should be opened up to non-state providers using a licence model. Providers could enter the market at any point.
- > Pay for results: providers delivering licensed services should primarily be paid by results (PBR) for achieving outcomes set by government, but the PBR model should not be so severe as to block new entrants and innovation.
- > Empower the citizen: customers should be able to choose the provider they work with and a proportion of a provider's payment should be based on customer satisfaction.
- > Personalise services: providers could address the 'whole-person' by working on multiple outcomes with the same individual.
- > Ensure mature pricing: pricing should be personalised to each individual's needs, flexible enough to respond to external factors, and dynamic enough to adjust for under- and over-pricing.
- > Accept profit-making: government should name a target profit margin for the market overall, and cap profits if they remain high over time.
- > Introduce an independent regulator: the Regulator should issue and revoke licences, audit providers, monitor the market and oversee pricing.
- > Gear for innovation: government should create a set of small experimental programmes, using different, higher payment terms, to encourage innovation.

1

‘The Axe Factor’ – why we must overhaul public services now

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Britain painfully needs to overhaul its human public services. Despite the significant policy changes being undertaken in areas such as education and social security, the primary focus in Westminster in this Parliament has been on reviving the economy. Justifiable as this is, in the next Parliament, we must begin work on a much more fundamental restructuring of how we operate human public services.

Whether we look at deficit reduction, growth, social justice, or lower taxes, success depends on fashioning a new way of delivering key public services; one radically different, not just from recent years, but from the post-war period as a whole. The need is urgent. Every generation faces challenges, but the problems we face, even beyond the recession, are arguably the greatest since the Second World War.¹ We are facing a 'triple crunch' of three huge problems:

1. Instability abroad

The next decade will decide if Britain chooses to remain a global power. Familiar threats, like confrontation with Russia, war in Iraq, and violence in Gaza are now being joined by the emergence of new threats, like extremism in Somalia, the widening availability of biological weapons, climate migration, and cyber-attacks. These coincide with the time when the last of our Cold War hardware – not least Trident – is reaching the end of its lifespan, and must be abandoned or renewed.

2. A fractured economic model

Undoubtedly the deficit is part of the problem, but beyond that are much bigger and more long-term challenges, as profound as those of the 1930s or 1970s: a growing North-South divide; a private economy based on excessive personal debt and property speculation; stagnating median incomes going back decades; a huge productivity gap against our rivals; economic dislocation as technology cycles accelerate; crumbling energy infrastructure; the extreme risk of climate change; and a profound shift in the axis of economic power from West to East. The notion that if we simply deal with the deficit with a period of sustained salami-slicing we will somehow be back in the sunny uplands of the early 2000s is pure fantasy.

¹ Albury, D. and Harris, M. (2009), *The Innovation Imperative*, NESTA.

3. A changing population: older, fatter, sadder

As if that were not enough to contend with, this period of deleveraging and globalisation coincides with the gigantic challenge of social change, as a combination of an ageing population and an increase in chronic health conditions threatens to swamp our public services.

On present trends, obesity alone could cost nearly half of the current NHS budget by 2050 (£49.9 billion),² whilst the overall cost of mental health problems in the UK is estimated at more than £110 billion a year.³ Life expectancy increases in the UK by five hours every day.⁴ By 2025, half the UK adult population will be aged 50 and over.⁵ Continuing to provide state benefits and pensions at today's levels would mean additional spending of £10 billion a year for every additional one million people over working age.⁶

The combined costs of an ageing society – assuming no significant reform or innovation – have been estimated at more than £300 billion by 2025, as a result of rising costs in areas such as social care, long-term health conditions, pensions and benefits.⁷ To put this in context, this is around three times what we currently spend on the NHS. The cost of just doing what we are already doing is about to increase sharply.

Together these constitute an immense challenge, not just for one Parliament or one Chancellor, but a 20 year problem for us all. They will directly impact Britain's ability to compete in the 'global race'.

2 Government Office for Science (2007), *Tackling Obesities: Future Choices – Modelling Future Trends in Obesity and Their Impact on Health*, 2nd Edition.

3 Friedli, L. and Parsonage, M. (2007), *Mental Health Promotion: Building an Economic Case*, Northern Ireland Association for Mental Health.

4 Khan, H. (2013), *Five Hours a Day: Systematic Innovation for an Ageing Population*, NESTA

5 Dean, M. (2004), *From Welfare to Wellbeing: Planning for an Ageing Society*, Joseph Rowntree Foundation.

6 Cracknell, R. (2010), *The Ageing Population*, Key Issues for the New Parliament in 2010, House of Commons Library Research.

7 Albury, D. and Harris, M. (2009), *The Innovation Imperative*, NESTA.

We face a crisis in government

Excellent public services will be fundamental to tackling this triple crunch. Public service efficiency is fundamental not just to fairness, but fundamental to growth, and essential for stabilising the tax burden. Human public services power growth – enabling people to learn new skills, gain and retain employment, and flourish as contributing citizens.

Yet these public services are struggling to meet the challenge. Over two million children attend schools that fall short of being graded either good or outstanding.⁸ We no longer make even the global top 20 for performance in maths, reading and science at age 15.⁹ Only 900 disadvantaged children out of the almost 8,000 who received excellent results at age 11 make it to an elite university.¹⁰ The Mid Staffs affair exposed appalling lapses in care in the NHS. On 34 million occasions last year, patients were unable to book an appointment to see a GP.¹¹

The situation in services that receive less media attention is arguably worse. More than 40,000 addicts have been 'parked' on state-supplied heroin substitutes for more than four years.¹² Just 13.2 per cent of children in care for at least six months left school with five GCSEs grades A*-C, compared with 57.9 per cent of all children.¹³ 45 per cent of adult prisoners – and nearly 70 per cent of young offenders – are reconvicted within a year of release.¹⁴

It is perhaps not surprising therefore that, measured by the extent that parental income predicts children's earnings, the UK is one of the

8 The Centre for Social Justice (2013), "Poor white boys slip further down school league tables", 3 September.

9 Coughlan, S. (2013), "Pisa tests: UK stagnates as Shanghai tops league table", *BBC News*, 3 December.

10 Social Mobility and Child Poverty Commission (2014), *SMCPC Research on Attainment of Disadvantaged Children*, 30 June.

11 Borland, S. (2014), "One in 10 patients can't get a GP appointment – with some queuing down the street for a slot and bringing their own CHAIRS", *The Daily Mail*, 23 February.

12 The Centre for Social Justice (2013), "Postmen are "unwitting drug mules" in deadly trade of 'legal highs'", 1 September.

13 The 'Who Cares?' Trust website (2011), "Educational Outcomes for Children in Care", <http://www.thewhocarestrust.org.uk/pages/educational-outcomes-for-children-in-care.html>, Accessed September 2014

14 Ministry of Justice (2014), *Proven reoffending statistics bulletin: October 2011 to September 2012*

least fair countries in the developed world.¹⁵ Even in the twenty-first century, 13 million people in the UK continue to live in poverty.¹⁶ The lesson is that we are not doing well enough, and the strain is about to get a great deal harder.

We cannot deal with these challenges by simply spending more money. The NHS, our most expensive public service, is projected to face a funding gap of £30 billion between 2013-14 and 2020-21.¹⁷ Our economy will not produce sufficient surplus to fund future demand if public services stay in their current format. Many public services will simply break if we do not find a way to increase their efficiency.

To remain globally competitive, public service reform has to be at the heart of what we do. We don't need somewhat better value for money, we need a quantum leap in value for money, and that must mean fundamental public service reform. There is a lot to play for here. Unless we can get substantially more from the hundreds of billions we spend on schools, hospitals, councils, care homes and prisons, we will be saddled with higher taxes, low productivity, persistent unemployment, and an unfair and immobile society in which where you are born counts for more than how hard you work.

These are the central governing facts of political life in the 2010s and 2020s. Everything about modern policymaking should be rooted in adapting Britain to meet these challenges.

15 The strength of the link between individual and parental earnings varies across OECD countries. See, OECD (2010), *Economic Policy Reforms: Going for Growth 2010*, Ch. 5 A Family Affair: Intergenerational Social Mobility across OECD Countries.

16 Aldridge, H. Bushe, S. Kenway, P. MacInnes, T. and Tinson, A. (2013), *Monitoring Poverty and Social Exclusion 2013*, Joseph Rowntree Foundation.

17 NHS England (2014), *The NHS belongs to the people, a call to action*

Why our current model is not working

Our current model of public service delivery cannot meet these challenges, the institutional architecture is flawed. The heart of the problem is structural and systemic: structural because it is caused by the way public services are divided and organised; systemic because it is not about improving individual institutions, but about how public services interact as a whole.

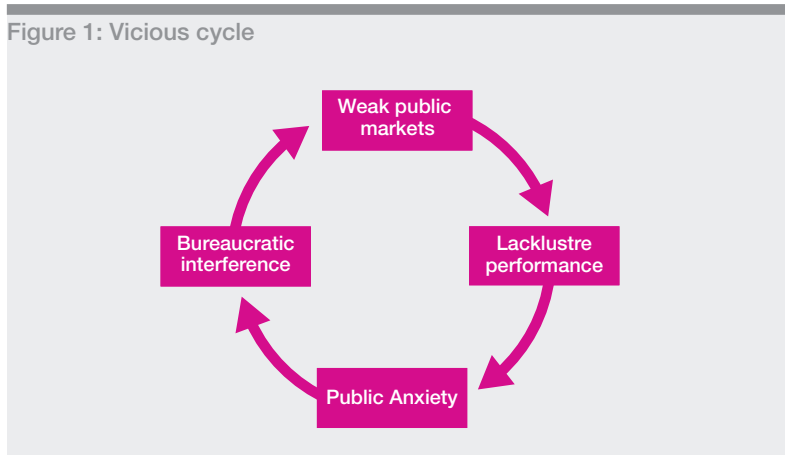
It is not surprising that the tangle of local and national, social and economic, in-house and outsourced services does not cohere, because most parts of government have never been designed. They have been layered haphazardly over time. As one recent report put it:

'The pattern of public service providers is still largely very traditional in structure and culture. It is still fundamentally based on professions demarcated in Georgian times (the constable, the school teacher, the turnpike engineer, the social worker, the surgeons versus the apothecaries, the secular academics, the nurse, etc.) which are organised into Victorian institutions (the library, the police station, the town hall, the city universities, the free school, the hospital, the charitable housing, etc.), and which are funded and governed in a 1940s settlement (the welfare state, the NHS, national control over local services, education entitlements, social housing, etc.).'¹⁸

This report argues that public service reform is an unfinished revolution. Successive governments have responded to the need to improve public services by turning to private and third sector providers. With no clear, overarching vision, twenty years of stop-start change has left an incoherent hotchpotch of half-finished reforms, inconsistencies and exemptions. Too many human public service markets are not true markets at all, but artificial oligopolies full of red tape and perverse incentives, which force providers to bend to bureaucratic convenience instead of meeting people's real needs. This has set up a vicious cycle of public anxiety and lacklustre performance.

18 Downey, A. Kirby, P. and Sherlock, N. (2010), *Payment for Success – How to shift power from Whitehall to public service customers*, KPMG.

Figure 1: Vicious cycle



The predictable response has been to criticise the whole idea of competition and the use of markets in public services. Such criticism is misplaced. Markets themselves are not bad. Weak markets are bad, and human public service markets as constructed are weak.

Strong markets are characterised by vigorous competition, new entrants, innovation, diverse business models, and the chance of sizeable winnings for the victors who succeed in the challenge of providing outstanding services and good value for money.

By contrast, public service markets are scarcely markets at all. Providers only compete with one another at the outset in order to win a contract. Thereafter, they are commonly the monopoly local provider for the duration of the contract. In addition, government too often prioritises price over quality during the bidding process.

Contracts do not usually include any consideration of customer satisfaction. Often providers simply need to run the service. If they do not provide the promised level of performance, government struggles to replace them, as more often than not there are few other providers that can do the job. This is a pale imitation of a proper market.

There are generally two types of reports on public service reform. The first type calls for specific changes to particular services or for importing proven programmes from overseas as a path to

improvement. These reports fail to address the root weaknesses of the broken system within which providers operate. The second type looks more widely, but too often concludes with vague exhortations for 'culture change' or 'join up', 'better commissioning' or 'a level playing field', without a notion of how government can deliver such changes. This report seeks to avoid both pitfalls. It calls for a paradigm shift to a modern system of service delivery, and lays out the concrete actions to get there.

2

Understanding what is going wrong – a diagnosis of our current system

Government commissions services in silos, not in the way real people live	21
Insufficient choice or customer focus	26
It is hard to enter the market	27
Providers are chosen by bureaucratic processes, not true market competition	29
Weak, absent or perverse incentives hamper the system	30
Providers are exposed to excessive risk	35
It is hugely expensive and difficult to implement changes in policy	36
No one wins from the current system	37

Markets thrive on fierce competition combined with opportunities for collaboration. Most public service markets are full of features that obstruct both. The standard model of commissioning for social public services is through the bid process. Government sets out its intention, issues calls for expressions of interest and bids, and then selects a limited number of providers to run the service for a defined period. This is a poor model of commissioning because:

- government commissions services separately, according to administrative silos, not how real people live;
- end users have little or no choice or power, getting what government contracts for, not what they need;
- it is hard to enter or exit the market;
- providers are selected through bureaucratic processes not genuine market competition;
- incentives are often too weak to drive appropriate behaviour, or are contradictory; and
- providers are often exposed to unreasonable, crippling, or unrealistic commercial and political risk.

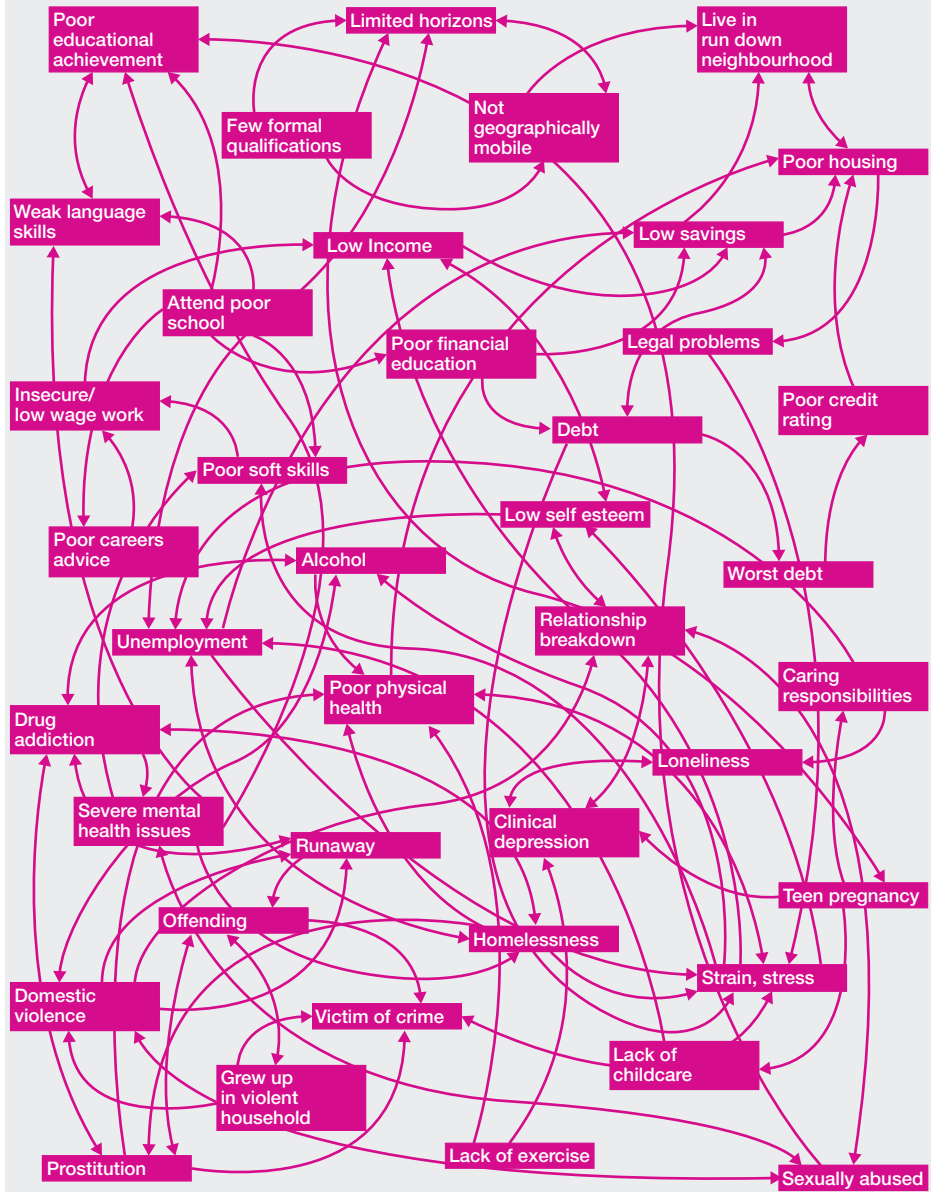
Each of these is discussed in detail below.

Government commissions services in silos, not in the way real people live

Current provision fails to deliver adequately because it finds it hard to see the whole person. It is well known that the problems facing the most disadvantaged people in society are interlocking and mutually reinforcing. Solving one alone makes little difference, as the remainder will simply cause it to return. For instance, imagine a person out of work, in debt, and depressed. Debt drives their depression. Depression keeps them out of work. Depression thrives on unemployment. Unemployment drives their debt. It is a vicious cycle. Unless public services can take a coherent approach to tackling all three problems at the same time, they make no progress, and money spent on one problem in isolation usually has no lasting effect.

The diagram below illustrates the complexity we need our public services to be capable of handling.

Figure 2: Tangle of problems



Whilst the problems faced by the socially excluded are overlapping and mutually reinforcing, for the most part the support they receive is not. Billions are wasted on piecemeal interventions that usually treat just one aspect of the many barriers that individuals face, rather than solving them for good.

To policymakers struggling to drive change, this creates the perplexing illusion that these acutely costly problems can never be overcome. We have grown used to spending billions year in, year out, on issues like welfare, antisocial behaviour and chronic health conditions, with frustratingly little impact.

The core problems of siloed services are that they are a source of duplication, muddled diagnosis, poor sequencing, cost shunting, agency sabotage and unnecessary 'join-up' bureaucracy. These issues are discussed in detail below.

Duplication

Disjointed agencies often repeat the same processes over and over again with a customer. Dozens of agencies might assess an individual just out of prison, for instance, including the Probation Service, the JobCentre, the council housing officer, the Work Programme provider, drug and alcohol teams and the GP. These agencies will often ask very similar questions. This obviously creates duplication, waste, and sometimes-dangerous gaps in action, where every agency assumes another has the issue covered.

Muddled diagnosis

Because services are fragmented, it is harder to build a full picture of what is going on in a person's life. Staff working with the same individual, family or neighbourhood may sit in different offices, with different reporting lines, political pressures, and priorities. Data protocols restrict the sharing of information about individuals and make it hard to deploy modern data meta-analysis of larger patterns of user data. As a consequence, services often have only a very partial understanding of what is going on in a person's life, making it hard to bring the right answers to bear.

Poor sequencing

A third problem is what practitioners call 'sequencing' – the right help may be offered but in the wrong order. For example, the JobCentre

might offer someone a CV writing class, and that person may well need an up-to-date CV, but if at that point they are still addicted to drugs, the entire exercise is a waste of time. It is not enough to make evidence-based interventions. They have to be in the right sequence to have any effect. Fragmented service provision makes good sequencing much harder to arrange.

Frustrating user experience

It is exasperating for citizens to interact with fragmented services. People get fed up with having to give the same details to different agencies time after time, and they resent sanction regimes and opening hours that do not make provision for problems they might be facing. At best, it is an inconvenience. At worst, it can leave users feeling disillusioned, disorientated, and resistant to government help.

Cost shunting

A further problem with siloed services is that of ‘cost shunting’, whereby one arm of government does something they know will add cost to another branch of public services, but goes ahead anyway because the cost does not fall into their budget. Thus, faced with tight budgets, many councils have closed youth centres. This has predictable consequences for offending, but it is the police and courts that have to pick up the tab for that, so many councils make this choice anyway. This is obviously not the best outcome for society or the taxpayer, but it is a rational response to working in a broken system.

Agency sabotage

A related problem to cost shunting is sabotage. Sabotage occurs when government pays providers to complete a certain task, but require the assistance of other agencies or providers. For instance, a rehabilitation provider treating a depressed customer may require the help of the local NHS mental health service, but if the local NHS is scaling back provision, this will hamper the rehabilitation provider’s ability to meet its objectives. This is not a problem in properly integrated services, because they put the right support for the individual in place at the outset.

Extensive ‘join-up’ required, which is a waste

It is orthodoxy that join-up between agencies is a good thing. It is not. In fact, join up is waste. New Labour came to power with a huge

emphasis on 'joined-up government', and left office with a panoply of boards, partnerships, networks, integrated plans and learning hubs to prove it. This is not proper integration. Rather it is keeping the defunct subsystem of separate institutions and budgets in place, and asking everyone to send an ambassador to interminable meetings. Proper integration implies a system whereby silos and separated budgets do not exist at all, and where improvement does not depend on the continuous push and shove of dedicated individuals, but comes naturally from inbuilt incentives and the right administrative structures.

To its credit, the Coalition Government has attempted to make progress on improving join-up. It has set up Community Budgets, City Deals, and the Troubled Families Initiative. However, none has been truly transformative, because all three struggle to work within the existing weak system.

Community Budgets are intended to provide a single pot of cash for an area to tackle its problems in the round. However, so far the pilot areas have rarely pooled budgets into a single bank account as was intended, offering instead to align services, or chip in staff time in kind. That is far less effective, because it means policy makers still have to work within existing structures.

City Deals have done better. City Deals permit local authorities to take control of chunks of central government money. They have made progress, but only in the tiny number of places and circumstances where Whitehall believes councils are sufficiently competent to handle the extra money. Furthermore, these are temporary arrangements, rather than a permanent devolution of funds, and a future Chancellor could easily withdraw them.

The Troubled Families Initiative is closest to what this report proposes. At first glance, it looks like a huge step forward. Here is a programme that aims to work with people with many different problems in a coherent, unified way. It works with whole families who have what is termed 'chaotic lifestyles' and very serious levels of poverty and disadvantage. Even better, the programme explicitly names the outcomes it is there to deliver.

In reality, however, the Troubled Families Initiative illustrates exactly what is wrong with current approaches. Firstly, the programme is not genuinely based on outcomes. The outcomes are targets rather than hard and fast payment triggers. Providers are unlikely to be removed if they fail. Secondly, the programme does not encourage new providers or models. Although there have been a few new entrants, many local authorities have simply rebadged their previous Family Intervention Project (FIP) arrangements.

The Programme only exists because current core services fail. Its existence is a sign of defeat. Despite 60 years of determined social policy, the UK still has hundreds of thousands of people living in deep poverty. Rather than dealing with the root inefficiency of our current model, the Troubled Families Initiative papers over the problem by throwing money at an additional layer of 'key workers'. These workers are only necessary because current services fit together so badly. If they worked properly, there would be no need for a special initiative to do what core services should be doing from the outset. Instead, the Troubled Families Initiative diverts cash from the real problem, and allows ministers to think they have taken a huge leap forward; in fact they have only created a sticking plaster. The state is effectively paying twice, or even several times, for the outcomes it should be getting from its investment in core services. The answer is not more programmes like the Troubled Families Initiative. It is real reform.

Insufficient choice or customer focus

In a system which rarely rewards providers for good customer service, and where many contracts are tightly specified, it is hardly surprising that many services are geared to what the contract dictates, not what the user needs. Some services are highly effective of course, but too many users still get a complex, uncaring or insensitive service.

This is not just unpleasant, it is also ineffective. Many social public services seek to change behaviour. Building a warm relationship with the user is critical to this. If people dislike a service, they are unlikely to seek it out or cooperate with its aims. A classic example was the New Deal employment programme. The service was rigidly prescriptive and often very boring for the job seekers, who were forcibly allocated to a

provider. Rather than genuine, motivated participation, such contracts promote grudging compliance and hostility.

Moreover, services which infantilise risk turning people into passive recipients, rather than the authors of their own better lives. Building customer-centric public services is not just the right thing to do; it is the cheaper thing too.¹⁹

It is hard to enter the market

Public services are much more open to independent provision than they once were, but there is still much more that policy could do to promote proper competition. In a normal free market, such as the sale of groceries, providers are free to enter at any point, in any place, for any duration. This is not how public markets usually work. It is difficult for smaller or new providers to enter.

- Most of the time, the market is not open. Providers can only get into the market at a single entry point: when contracts are awarded. Thereafter, the market is closed to new entrants completely, often for years, until the next contract cycle.
- Providers often face no, or little, competition once they have won a bid. The successful bidder usually has a regional or national monopoly for the duration of the contract. They are not subject to continuous competition. The only pressure to improve performance comes from contract managers within government departments, who are often remote and ineffective. Even in the Work Programme, providers have one, or at most two, additional providers within their region. Competition only exists sporadically, nearly always at the point of bid.
- The bid process can be very lengthy, complex and expensive. For example, the major welfare-to-work prime contractors had teams of dozens, even hundreds, of people working on their Work Programme bids for months. This is intensely costly, both for the provider and for government, not just because government departments have large procurement teams

19 Participle (2008), *Beveridge 4.0*

working on the bids, but also because providers have to price their bid activity into their submissions. Smaller providers cannot bear these kinds of costs, so are effectively excluded. Newer providers struggle too, even if they have scale, because they lack the experience to understand the corporate culture of the government department, and the difference between what is written and what the funder really wants. As a result, a few providers, with the scale and skill to decipher government intentions and bid successfully end up dominating the markets.

- Consequentially, governments end up with a limited choice of providers. This then creates the problem of a provider who is ‘too big to fail’. If a provider underperforms, the government may not be able to remove them due to the difficulty of replacing lost capacity, undermining the threat of sanctions written into contracts.

How far are we from real markets?

The Work Programme

The Work Programme is not perfect, but from a technical standpoint, it is the most advanced and best piece of large-scale commissioning in human public services in the UK, quite possibly in the world. It pays by results for long-term outcomes from the savings that it itself creates. It involves hundreds of providers from every sector. Despite the recession, it is outperforming the programmes it replaced in terms of value for money, and yet even this pioneering programme falls far short of a normal open market.

Consider this: if we ran supermarkets as we run the Work Programme, we would hold a competition to see whom we would allow to be a supermarket. The competition would be judged not by shoppers, but by a bureaucratic body mostly composed of people who had never been to a supermarket. They would judge the plans submitted by what the supermarket would like to provide, not what its customers wanted. The supermarket that won would then be entitled to be the monopoly supplier of groceries to a region for the next five years. No one else would be allowed to open another supermarket in that area, and shoppers would be forced to use this

store and none other. They would have their groceries chosen for them, and the supermarket would be paid not according to whether the shopper liked sprouts, or whatever was in his or her bag, but by how many calories they managed to get out of the door.

This is clearly absurd, yet is precisely the model we use today in even our most advanced commissioning programmes.

Providers are chosen by bureaucratic processes, not true market competition

A second failing of the current commissioning model is that providers are selected by a bureaucratic mechanism, the bid process, not by their actual performance in an open market.

The bid has been the primary mechanism of assessing quality, and if the commissioners get it wrong and select a poor provider, there is little consequence until the next bid cycle. Clearly, this is poor value for money. Obviously, the aim of the bid requirements is to give a good indication of future performance, but it can only ever be an approximation – especially since, in most bid rounds, commissioners explicitly ignore past performance in the selection process.

For decades, providers have been paid for delivering inputs (e.g. a service open between the hours of 9am-5pm) or outputs (the number of unemployed people attending an activity), not outcomes (the number of unemployed people moving into work). Policymakers have been attempting to rectify the situation by shifting to payment by results (PBR) outcome commissioning. PBR can be complex to set up, and involves a big shift in remit for both providers and government. However, the hope is that the initial effort will be worthwhile if it allows market forces to drive up quality.

However, the bid process substantially weakens the strength of the PBR mechanism. Having gone to the trouble of creating a market, government still selects the providers who get to participate in that market. These markets can only ever be partial, so long as providers still have to pass through the bid process, which is necessarily a bureaucratic selection mechanism, not a market one.

Weak, absent or perverse incentives hamper the system

The incentives in many markets are not aligned with the system's overall objectives.

Perverse incentives in the skills system

The purpose of the skills system is to equip people with the skills they need to secure stable, well-paid work. The providers, however, are not paid by whether the qualifications they deliver lead to work. They are paid for people to complete the course.

There is therefore an incentive for them to enrol learners for courses that are popular and easy, so that they have high completion rates, rather than ones that are rigorous and relevant to the job market.

This is the reason why in 2010-11, the taxpayer funded 94,000 people to qualify in hair and beauty, despite the fact that there were only 18,000 vacancies in that industry. Simultaneously the skills system produced only 40,000 people qualified to work as plumbers, electricians and other tradespeople, despite there being almost 72,000 recorded vacancies in that industry.²⁰

Here are some of the more common pricing failures:

Paying for process, not outcomes

Paying for the right outcomes drives the right behaviour. Yet most contracts continue to pay for inputs or outputs. As a result, most providers are not rewarded according to how good their service is, but whether they enact certain processes. Sometimes government specifies outcomes, but payment is still upfront and the outcome is just a hope. Even in cases of genuine PBR, which are still rare, payments are not always targeted towards the right outcome.

For instance, the Work Programme pays for getting someone into work and keeping him or her there for two years. This is certainly better than the commissioner incentivising a provider to put someone through a training course regardless of how helpful it may be to finding work (an input) or being paid to find someone a job, even if

²⁰ Gardiner, L. and Wilson, T. (2012), *Hidden Talents: Skills mismatch analysis*, Centre for Economic and Social Inclusion.

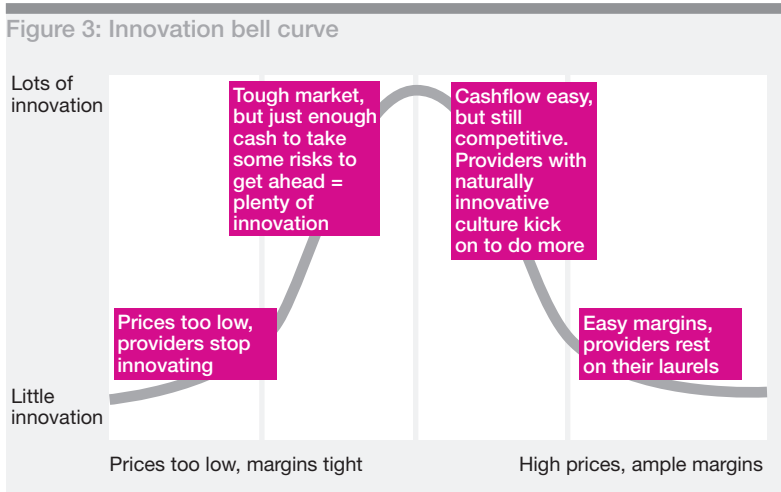
they drop out of work again the next day (an outcome, but not a very sensible one). However, the real outcome the government surely wants is not just work, or even sustained work, it is sustained work in a role the economy requires on a wage sufficient to provide for a family. That is not the PBR target though. As a result, the Work Programme providers have no incentive to make sure people go into jobs with the prospect of progression. Government could change this; as others have previously recommended, government could pay providers in proportion to the wage the worker goes on to earn.²¹

The price is set too high or too low

There is a bell curve to innovation. When prices are set too high, providers do not have to try hard to make a profit (and taxpayers money is wasted). Conversely, setting prices aggressively low creates another set of problems. With insufficient financial reserves, incumbent providers struggle to create a good service. They become risk averse. They stick to what they know is likely to yield moderate results, rather than daring to experiment to achieve better returns.

Furthermore, providers then struggle to find investors, driving up the cost of capital, which is either borne by government in higher costs, or simply squeezes many providers out of the market entirely. This then creates a vicious cycle. Underinvestment hampers performance, which further depresses margins. Smaller organisations drop out, are acquired, or go bust. Without adequate returns, potential new providers abstain from the market, snuffing out competition and limiting innovation. The market becomes more consolidated, less competitive, and less efficient. Critics can then point to the programme as a failure, and damn the providers, when really this is a programme design fault: a false economy on a grand scale.

21 Oakley, M. (2012), *Welfare Reform 2.0 – Long-term solutions, not short-term savings*, Policy Exchange.



This is precisely what we have seen in the Work Programme. By structuring such an aggressive form of PBR with such low prices, margins have been tight and some providers have actually been making heavy losses. Many in the industry believe that it is an automatic loss to take on the hardest to help, because they are so underpriced. This has meant that a programme deliberately designed to be 'black box' (i.e. non-prescriptive to enable providers to help claimants in whatever way they see best) has failed to drive the expected experimentation. Instead, many providers have had to jettison innovative pilot programmes, and much of their research capacity, to ensure they stay afloat.

Already we have seen mergers, as well as hundreds of subcontractors falling out of the programme. An inability to make a profit simply ends up costing the taxpayer more and undermining the whole notion of market-based reform.

Too low a bar

Sometimes government will attempt to save money by setting prices very low, but seek to compensate providers by also setting the outcomes they are required to reach low too. Here, the problem is not cash flow but incentives. Easy outcomes coupled with low prices create an anaemic market that might as well not exist. Providers

make the best financial return by ‘sticking to the knitting’, investing little, taking few risks, and letting natural deadweight success rates (e.g. the outcomes that would have happened anyway, with or without the intervention of the provider) do most of the work for them.

The price is right, but not enough is paid up front

Under PBR contracts, providers are usually only paid in full once they deliver a successful result, not up front. This can then become selection by balance sheet, not by quality. Good providers can fail and poor providers survive, simply because they do or do not have sufficient cash flow.

The price is right for some cohorts, not others

Many contracts offer a flat fee for dealing with every citizen, regardless of how hard or easy that person’s problems are to solve. Unless this is addressed, providers will ‘park and cream’, ignoring the hardest to help and focusing their efforts where they can make an impact most easily.

One way around the problem of parking and creaming has been to introduce differential pricing. Government bunches users into cohorts, meaning the hardest-to-help attract a higher tariff. However, there are two problems with this approach.

- Firstly, there can still be wide variations within the cohorts. A prisoner just released from a three month sentence with five GCSEs and a fork lift truck driver’s licence will be much easier to help than a person just released from the same three month sentence with a heroin addiction and nowhere to stay that night. Yet within the Work Programme they would likely still be put in the same payment cohort. Similarly, the Work Programme splits customers according to bureaucratic criteria – which benefit they are on – not the severity of their problems. For instance, a number of providers have found high levels of undiagnosed schizophrenia within the notionally easier to help groups, yet they receive no extra funding to cover this additional cost. So there can be substantial variance within cohorts.
- Another difficulty is that the cohort as a whole may be mispriced. If government prices one cohort too high or too low

relative to others, it will replicate the same ‘parking and creaming’ effect for the cohort as a whole. Even if providers are not intending to ignore some customers, if the resources earmarked for one cohort are too small to do the job, then performance will inevitably suffer in that cohort compared to others. This has been the pattern with the hardest to help cohorts on the Work Programme.

Rigid pricing

PBR is an attempt to make sure providers are rewarded when they succeed and penalised when they fail. However to do so, providers must be given the levers to affect success or failure. If government designs contracts badly then providers can be left on the hook for circumstances beyond their control. For example, Work Programme providers are responsible for getting people into sustainable work. They have some tools to do this in the form of a budget to deliver training sessions, for instance, but not others. The macroeconomy clearly has a strong influence on how easy it is to place people into work, but providers do not have a seat on the Monetary Policy Committee. Well-designed contracts take proper account of these variables and take pragmatic steps to mitigate risks that the provider cannot reasonably be expected to bear. Without these nuances, providers work within a warped set of incentives.

Providers are all too often chosen for being the cheapest, not the best

A common problem is that many commissioners set a target fee for the service, but then permit providers to offer discounts on this ‘recommended retail price’. Allowing discounting has obvious attractions to government. In the short-term, government gets the service it seeks more cheaply, but this is a short-sighted approach. Allowing providers to discount their bid prices is a serious problem because:

- It makes it much harder to compare bids. Some may be better in quality but higher in price. In the absence of clear metrics to assess these trade-offs, many commissioners default to picking the cheapest option.

- It forces providers to offer excessively large discounts to stand a chance of winning, discounts which they cannot in fact sustain – the so-called ‘winner’s curse’. Winner’s curse discounting is a particular problem in markets where a single contract makes up the bulk of the providers’ incomes. There is some evidence that this has happened in welfare-to-work. The Work Programme replaced many previous programmes, so winning it was imperative to the survival of most of the firms bidding. In this circumstance, the temptation to offer ‘kamikaze’ discounts can be overwhelming.
- It destroys the market. Large providers with deep pockets can afford to make loss-leading bids to enter to the market.

Providers are exposed to excessive risk

Our current mega-bid model creates huge commercial risk for providers. Their survival depends on winning bids. That means that every few years, they risk losing vast chunks of their revenue overnight if a major bid does not go their way. Even if they have had a successful track record of delivery, that is no guarantee that they will be successful in future bids. Political fashions can play just as important a part in who thrives and who collapses. There is a common perception that private providers are intent on getting their tentacles into every part of government, but viewed from the providers’ perspective, diversifying is in fact a rational attempt to spread their risk in an environment where selection is so arbitrary and risk-laden. The failures of this system create a paranoid dynamic where providers and government are suspicious of each other’s motives, and struggle to have an honest conversation about where and how to improve.

Ultimately, providers will not bear risks that they cannot control. They may agree to. They may attempt to. However, in the final analysis, if providers lack the levers to mitigate their risks, they will fail, and hand the risk back to the state. Therefore it is in government’s interest to do all it can to ensure the level of risk it is asking providers to take on is appropriate and manageable.

It is hugely expensive and difficult to implement changes in policy

The current contracting model is a big block to implementing democratically elected governments' will. Ministers often arrive in office saddled with contracts and providers from a previous political generation. If they do choose to go ahead and commission a different service, they are obliged to compensate the previous providers – at huge expense. For instance, when the Coalition introduced the Work Programme in 2011 it had to compensate providers of the previous programme, the Flexible New Deal, which itself had only been introduced a year earlier. The Work Programme was a technically superior model, but the inflexibility of our commissioning set up made it needlessly expensive to implement.

This might sound like a payday for providers, government paid twice for one set of work, but in fact it is a huge cost on providers too. Not only do they have to invest in two rounds of bids, two sets of market design, and so on, but the uncertainty also pushes up their cost of capital. Worse still, new contracts often mean new operating geographies, and that comes with enormous costs in TUPE as staff are shuffled from one provider to another. All this combines to create strong biases against reform, even when a government is elected explicitly on that platform.

No one wins from the current system

- small providers struggle to get a meaningful slice of the action;
- big providers risk their reputations at the hands of a critical media, and the prospect of losing half their businesses overnight if key bids do not go their way; and
- most importantly, governments have to put up with time consuming, expensive processes, a gaming relationship with providers, and unpopular contracting models that attract political criticism.

All of this produces poor services for some of the most disadvantaged people in society.

We need a new approach that makes it easier to commission across silos, to provide a caring, tailored service to everyone, for providers to enter and expand in the market, and which pays providers for the results they deliver and the way they treat people, not the boxes they tick.

3

A new approach – principles of a modern system

Principles of a modern public service system

A modern public service system should be deliberately designed to achieve clear objectives in a coherent fashion. It should not be the haphazard accretion of past initiatives, with every new scheme seeking to mask or soften the effects of the systemic flaws created by the last. The design should follow a set of key principles, which guide its creation and provide a reference point to monitor as government implements reform.

Principle 1: The system works hardest for the people who need it most

- > Payments should take into account both the circumstances of the individual, and the circumstances of the geographic area they live in. Providers working in more deprived areas should receive higher payments than those working in less deprived areas. The greater the need, the more money allocated.
- > Pricing should be flexible and able to reflect changes in the operating environment over time, such as shifts in the macroeconomy.
- > Providers should be held to account for what they can control, and shielded from risks they cannot.

Principle 2: The system is built around the people who use services, not the people who run them

- > Each person should receive a package of support that has been tailored to him or her as an individual. It should be natural and straightforward to work across departmental boundaries.
- > People should control the help they receive wherever possible.
- > The system should include incentives that ensure providers pay attention to the customer experience, not just raw outcomes.
- > Pricing should be set per individual, not by bunching people into administratively defined cohorts.

Principle 3: The system provides a truly competitive market, open to all

- > The market should be easy to enter. It should be possible to enter swiftly, cheaply and at any time.
- > It should also be possible to exit easily without causing

catastrophic damage to the rest of the system: government, users, or other providers.

- The system should create a genuinely level playing field between different models and sectors. The system should be free from bias towards certain organisational sizes or legal structures. There should be no advantage to large or small providers, and no bias for or against profit-making organisations. All players should be able to access the market and compete on their quality.

Principle 4: The system only pays for what works

- Precious public resources should only be handed over to those who deliver long-term, sustained better lives.
- Government should pay primarily by results for outcomes, not carrying out processes regardless of success.
- Outcomes should be true endpoints, not waypoints on the path to success. For instance, the achievement of qualifications is not an outcome. It is a milestone on the way to a well-paid sustainable job. That is the outcome government should be paying for.
- Government should not specify how providers achieve outcomes. That includes not specifying minimum service levels. Providers decide how best to reach their outcomes.
- The system should avoid contradictory or perverse incentives.

Principle 5: The system permits honest dialogue between policy makers, providers and the public

- The system should be actively regulated to preserve and promote clear, positive market forces.
- Regulation should be impartial and free from undue political influence.
- The body awarding contracts should not be the same as the body hearing feedback on the current system.
- The system should be as transparent and open to public scrutiny as possible.

- The system should fairly reward sharing best practice.
- It should be possible for providers to make good returns if they deliver excellent performance, without public censure.
- There should be mechanisms to govern ongoing excessive market-wide profits or losses.

Principle 6: Improvement does not rely on top-down diktat. It is inherent within the system

- The pressure to improve should be inherent to the incentives structure. It does not come from external inspections, media scares, political fads, or provider lobbying.
- The pressure to improve should be perpetual. The forces that drive improvement do not weaken or disappear over time.

Our current outdated method of organising public services cannot deliver against these principles. The way we commission services requires a fundamental overhaul in order to deliver the value, consistency, innovation, fairness, and results we need.

4

Public Service Licensing – how it works

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The core of the new approach is to shift commissioning from one-off ‘mega bids’, to a much more flexible and efficient, market-based system, where sharp incentives and minimal barriers to entry drive an open, plural market delivering outstanding performance.

Drawing on the principles in Chapter 3 this leads to six sets of recommendations.

Recommendation 1: Stop contracting, start licensing

1.1 End bid rounds, shift to licensing

- Instead of bid rounds and time-limited contracts, any organisation would be free to provide social public services so long as it possesses a licence to operate.
- To gain the licence, providers would have to show they passed certain standards of managerial, operational, and financial competency.
- Licences would not expire, and there would be no limit to the number of licences granted. Licences would only be revoked if there was cause for concern due to underperformance on outcomes or customer experience.
- Licences would not be limited to a certain geographic area.
- Licences would be almost free, costing only a small administrative fee for processing.
- There would be no ‘blink and you miss it’ single start date to a contract. Providers could enter the market at any time, not just in the brief gaps between old-style contract cycles.
- An independent Regulator would award licences, not a ministry. Separating the awarding function from the policymaking function allows a freer conversation between policymakers and providers about what is and is not working. The role of the Regulator is delineated in more detail below.
- Licence holders would be subject to inspection, in the manner of care homes or schools today. Providers could lose their

licence if the Regulator uncovers malpractice, poor customer service, or on-going poor performance.

To be clear, the licence is not intended to estimate how successful the provider will be. That is for the market to discover. Attempting to assess this upfront by bureaucratic means is likely to be both inaccurate and distorting. The licensing process is to check that providers meet basic standards of health and safety, financial probity and governance.

A licence model may sound radical, but it is in fact already in operation in several public services today. GPs are independent for-profit private providers who operate under a licence system. GPs do not bid for the right to open a surgery and do not hold a time-limited contract after which they cease to be general practitioners.²² They undergo a training and licensing scheme, and the Regulator then accredits them to perform services to the public in exchange for payment by the NHS. A similar model applies for dentistry and optometry.

The enormous advantage of the Public Service Licensing model is that it enables a truly market-based public service system: an open market, not the series of closed shop, unchallenged local and national monopolies we have at the moment. It is far easier and cheaper to enter the market under a licence-based system. Lower barriers to entry mean more new providers. New providers bring new approaches, greater choice for users and government, and ultimately better quality at a lower price.

1.2 End silos with a single licence to provide across government

In adopting such a system, the instinct of Whitehall will be for each department to issue its own licences for its own programmes or outcomes (a back-to-work providers licence, an addiction providers licence and so on). This should be resisted.

- Rather than issue separate licences to tackle each and every social problem, government should issue a standardised general licence, which entitles providers to help customers

²² Subject to renewing their training qualifications.

with a broad range of social outcomes. Licences should not be restricted to particular departments or social problems. There would be no Work Programme, Rehabilitation Programme, and so on. A licence model implies a single ‘Everything Programme’ across all social public services.

- If there is a compelling need for extra regulation, such as clinical governance in mental health work for instance, providers could work towards ‘top-up’ licences, which permit them to operate in these more specialist circumstances. However, government should keep this additional regulation to a minimum. Ideally, the standard licence will allow providers to operate across the fullest range of social issues. The general principle is to create a single system wherever possible.
- If a customer presents at a provider with more than one issue, government simply pays providers for each outcome as it is met. So if a person is both out of work and clinically depressed, the same provider can deal with both issues in a holistic manner. When the customer meets the mental health outcome, the provider is paid. When the customer finds work, the provider is paid for that too. Providers can work on multiple issues and outcomes with the same individual. Providers can work with whole families too if so desired, if a group approach might be the best way to achieve outcomes for all members.

Whilst multiple licences would still be an improvement on the current contracting model, a single cross-issue licence would be an immensely more powerful innovation. For the first time, genuinely personalised services would become not just possible, but simple to deliver. Providers could work with individuals in the round, or choose to specialise in just one area. It would also have the major advantage on making it much safer for government to allow an unsatisfactory provider to fail. With no barriers between commissioning silos, other providers could more easily expand to take on a failing provider’s caseload. No provider would then be able to brazenly fail and carry on, safe in the knowledge that government could not do without them.

Recommendation 2: Focus on outcomes, PBR everywhere

2.1 Set fewer, clearer ‘King Outcomes’

A reformed system should focus on a smaller number of key outcomes that constitute the genuine endpoints that we as a society want to see.

At present, that simply is not the case. Too many objectives are the responsibility of too many ministries; and hence the responsibility of none. For example, substance abuse comes under the umbrella of the Home Office, the Ministry of Justice, and the Department for Health. All three feel they should be consulted on policy in this area. Everyone is interested, but no ministry or minister holds ultimate responsibility for fighting addiction. People pay the price in dank bedsits up and down the country.

Divided and therefore opaque responsibility means that many ministries confuse endpoints with waypoints. For instance, the Department for Business, Innovation and Skills, the Department for Education and the Department for Work and Pensions all have a stake in helping people secure good quality work. They each operate separate schemes to meet this objective, with varying effectiveness, some targeting that end-goal, some just contributing to waypoints along the way. The result is an education system that can be perfectly happy if people attend 11 years of academic schooling, regardless of whether or not it prepares them for the outside world. A skills system that judges its success based on the numbers of people passing qualifications, regardless of whether the local labour market values those qualifications. A welfare system that seeks to push people into jobs, but cares little if they are satisfying, well-paid jobs, in the sectors that the economy needs.

The result is that it is not uncommon for a young person to go through a schooling that does not fit their aptitude, holding up an academic ideal which they will never reach; drop out and take a funded course in a subject that does not lead to a job; and then suffer a ferocious benefits system that forces them to take a poorly paid job that they hate. That is not the best outcome for them or for society. This is not because jobs did not exist or money was not spent. It is because all

those schemes and structures were not geared to the outcome we actually want as a society. Budgets should be aligned to the end-points we want rather than be scattered across dozens of pet projects and historic structures.

To achieve this government should name a set of ‘End Results’ that form its genuine objectives, and the ‘King Outcomes’ measured by the best practical metrics for getting there. Annex A suggests some of the End Results and King Outcomes in social policy, the tangle of agencies currently trying to deliver these, and the sorts of activities that do not need to be specified, but which are likely to be encompassed by providers seeking to hit King Outcomes.

There have been some attempts at this sort of approach before with the Public Service Agreement targets of the Blair years, and the recent Committee on Social Justice’s indicators.²³ Both failed to have a lasting impact because they were either driven by top-down diktat – and hence a ministerial fashion that can and did pass – or were not linked to budgets and power. Most of Whitehall has ignored the Social Justice Cabinet Committee entirely. Other countries have been more successful. New Zealand has ten cross-government outcomes that ministries work towards; Singapore has a pioneering ‘WOG’ (whole of government) approach. A King Outcomes approach provides systemic coherence to what government is seeking to achieve.

2.2 Payment by results

- Government would pay providers a proportion upfront; the bulk by results, based on their success; and a small proportion based on customer satisfaction. Any element of paying upfront may be undesirable, but is a price worth paying to reduce the working capital requirement on providers, which is itself a powerful barrier to entry. This could always be revisited once the system is up and running.
- The best mix could be something like 30 per cent of payment up front, 60 per cent for the outcome, and 10 per cent based on customer satisfaction (see below).

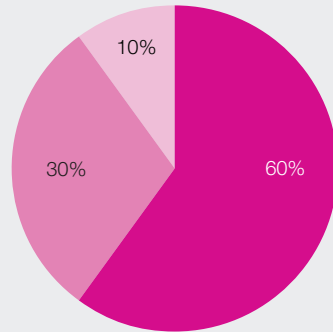
²³ Department for Work and Pensions (2012), *Social Justice Outcomes Framework*, 31 October.

- Withholding 60 per cent of funding until the provider can show success would still create a very sizeable incentive to focus on outcomes, whilst lessening the crippling working capital requirements of 100 per cent PBR.

Figure 4: Payment by results ratio

Suggested payment ratio

- Payment for outcomes to make sure providers deliver results
- Fee for service upfront to reduce the cashflow requirements that block many from the marketplace
- Customer experience to ensure providers focus on their users not their funders



Of course, these proportions would need to vary according to the capital intensity of the service. Services that require more capital should have more payment up front.

Recommendation 3: Allow customers to choose, and pay by satisfaction

3.1 Citizens should be free to choose any provider

Under a Public Service Licensing model, customers would be encouraged and supported to choose any provider who holds a licence. Choice is still unusual in most poverty-fighting public services. In programmes like the Work Programme or the Ministry of Justice's rehabilitation plans, service-users have no choice of provider. The JobCentre or probation officer tells them where to go.

Allowing choice has two benefits: firstly, services that allow you to choose set up an expectation that you can be and should be the author of your own improvement. This might sound like a subtle shift, but it is an important one for people used to months, years, or even decades of things being done to and for them.

This degree of choice already exists in many areas of public services that we take for granted. Parents have a degree of choice over which school their child attends. Students choose the university they think best suits them. Patients can choose their GPs, their dentist, optician, and where they go for most forms of surgery. Families choose care homes for elderly relatives. Personal budgets – a much purer form of choice – are now the default in many areas of social care.

Secondly, not only does choice give greater control to the citizen; it greatly increases the effectiveness of public service markets too. Providers are no longer able to win a contract then rest on their haunches, safe in the knowledge that, for a while at least, they will be the monopoly provider in an area, with a guaranteed income, regardless of their quality or customer service. Choice creates ongoing pressure to compete and perform within contracts, not just between them.

Critics of choice make two arguments. The first is that choice is confusing, so it advantages the sharp-elbowed and well informed over those that need help the most. Public Service Licensing protects against this by offering a variety of mechanisms to help people make the right choice for them (see Chapter 5), and a natural incentive in pricing for providers to seek out the most disadvantaged people anyway.

The second criticism is that people do not want choice, and do not exercise it when they get it. In most choice settings in public services, customers still choose their nearest provider. However, choosing somewhere local is not necessarily the ‘wrong’ choice. Convenience is a genuine advantage. Moreover, evidence from health shows that it does not matter if many customers simply choose their nearest provider.²⁴ It only takes around ten per cent to make an active choice to have a galvanizing effect on performance throughout the whole system.

Therefore, under Public Service Licensing, customers would be assisted to choose which provider helps them to achieve their outcomes. The next chapter details the mechanism for choice.

²⁴ Cooper, Z. and Le Grand, J. (2008), “Choice, Competition and the Political Left”, *EuroHealth* vol. 13.

3.2 Link payment to customer experience

A reformed system should incentivise good customer experience. Inspection by the proposed Regulator is part of this, but payment also has a role. 10 per cent of provider funding should be contingent on the quality of customer experience. Government would measure customer satisfaction by the simple ‘would you recommend this service to a friend’ test already used in A&E.

Customer experience matters for six reasons:

- It is a matter of common courtesy and humanity.
- It is an important component of ensuring buy-in to services.
- Including a customer experience measure provides a neat way to gather together elements of a service which government might want providers to offer, but which it is too intricate to specify through a conventional outcome target.
- Having a payment for customer experience ensures that providers keep a close eye on the quality of any subcontractors they choose to use.
- Formally including customer experience in the payment mechanism may reassure opponents of change that newly reformed services will care for vulnerable people.
- Finally, linking payment to customer experience provides a helpful safeguard against unforeseen or perverse behaviours that other payment mechanisms might create. Although no provider sets out to offer a bad customer experience, when the pressure is on to deliver outcomes, it is all the more important to buttress goodwill with solid incentives to ensure the service is built around the needs of vulnerable people. Linking payment to customer satisfaction would give commercial teeth to the rhetoric of customer-centricity.

It is important that the experience of all customers be taken into account, not just those who volunteer feedback because they have had a poor experience. Equally, the timing of feedback matters. Some services, such as employment or alcohol services, may need to challenge their users actively for a period; this can cause

resentment in the short-term. That does not mean it is the wrong thing for the provider to be doing, and often feedback on the service can be very positive six or twelve months later, when the customer is able to see his or her own success.

Therefore, the Regulator should experiment with the form and timing of feedback to find the best indicator of customer opinion (see Recommendation 4).

3.3 Inspect through mystery shopping

Providers should be inspected by mystery shoppers – inspectors undercover going through the system just as any other citizen would. The findings of the inspectors would be made public, published online.

The aim of Public Service Licensing is to create a self-improving system, which does not require external pushes and pulls to drive quality. As such, overt external inspection is not a core part of Public Service Licensing. Overt quality inspection can make sense in services where there are few other methods of challenging providers' performance, but in most cases the right answer to that problem is to build in sufficient market forces and incentives such that providers are always working to improve quality unprompted, not simply when the inspectors are rumoured to be on their way. Mystery shopping can be a far more valuable form of inspection. The main driver of improvement will remain the built-in market mechanisms, but given the scope and scale of these reforms, it is sensible to consider additional incentives on providers dealing with vulnerable people to undertake their work in a decent and sensitive manner.

Recommendation 4: A mature approach to prices and profits

4.1 Tailored pricing, not cohort pricing

In a reformed system, all payments to providers of social public services would be personalised to the needs of the individual. At present, hardly any parts of government tailor their funding to the severity of the problems each person faces. Where payments do vary, it is usually because they fall into categories that contain many thousands of people.

- In an overhauled system, government would not bunch people into arbitrary cohorts tied to payments (such as Jobseekers Allowance Claimants aged 18-25, JSA 25+, ESA claimants and so on in the Work Programme). Instead, each social issue should carry a payment, according to a tariff set by the Regulator. So a provider might be paid £2,000 to get someone into sustained employment + £300 more if they are blind + £3,500 more if they have a history of homelessness, and so on. This ensures that the payment level to the provider matches the difficulty of helping the person in front of them. It removes the possibility of so-called 'parking and creaming'. In a modern system, no one would be left behind just because they do not fit into bureaucratic categories. The illustrative case studies in the implementation section demonstrate how tailored pricing would work in practice.
- Assessment would be conducted by a standard assessment format, through referral points such as GPs, JobCentres or prison release processes. Many of these processes occur already, the difference would be that risk and need assessments would translate into a budget built on a person's needs and payment would be tied to outcomes.

Is this just personal budgets by another name?

Public Service Licensing is not a personal budget system. There are no cash transfers in this model. No citizen receives a personal pot of money to buy his or her own services directly. It is a PBR system, with an element of customer choice. It is no more of a personal budget model than the university UCAS system. The customer chooses a provider, usually with help from a broker (see Chapter 5) and the chosen provider is then subject to PBR.

4.2 Shielded pricing

Providers should be held to account for what they can control, and shielded from risks they cannot. For the market to work, providers must rightly suffer penalties for poor performance, but not be penalised for factors beyond their control. Even if government sets the initial price correctly, exogenous factors like a recession, change in another part of public services or extreme weather conditions, can prevent good providers from achieving the results they have properly earned. If pricing does not change, providers are carrying all the risk for decisions or events they cannot possibly control. This creates so much commercial risk that many promising schemes simply cannot get off the ground.

- Prices would carry a geographical weighting to take account of regional disparities, with a higher tariff attached to customers in areas of higher deprivation.
- Prices would have a cyclical weighting, to shield providers from macroeconomic factors beyond their control.
- If providers do make higher-than-expected profits in the short-term, that is not necessarily a bad thing. It allows them to build reserves, invest, and attracts new providers into the market. The important thing is to have mechanisms to ensure that ongoing high profits are not sustained across the whole market.
- If profits remain high for all providers, then the answer is for government to reduce the prices it is paying across the board, not keep prices too high and ask providers to guess at what level of discount they might accept or could endure. For more detail on profits, see Recommendations 4.5 and 4.6.

- The independent Regulator would be responsible for assessing any adjustment of the outcome-pricing tariff, see Recommendation 5.

An alternative option would be to adopt payment by relative results (PBRR). Under this model, providers would be judged relative to their directly comparable peers. Providers that are more successful would be paid more; less successful providers would be paid less. Whilst this model is attractively simple, it would be harder to operate in a system where providers are not confined to geographical boundaries, and does not allow for the possibility that prices may be too high or low across the board.

4.3 Compete on quality, not price

Providers should not be permitted to compete on price, only on quality. Under-bidding would be harder under Public Service Licensing anyway because with a licence system, there are no bids. Nonetheless providers should not be able to offer discounts on the tariff prices either. If government allows providers to compete on price, they will feel compelled to do so, for fear of being undercut by rivals. Whilst this natural market mechanism is desirable in most private markets, it is not helpful in public services markets. As discussed, ‘kamikaze pricing’ can end up with providers being unable to deliver the promised service.

Moreover, banning competition on price helps equalise the market between small and large providers. Larger providers cannot use their economies of scale to undercut rivals and win contracts. Economies of scale are a legitimate efficiency. Government should allow providers to use them for competitive advantage – but to deliver results well within contracts – not to swallow market share upfront. If providers cannot compete on price, they can only compete on quality: exactly what the system should encourage.

4.4 Dynamic pricing

A major difficulty in current models is underpaying (or overpaying) for outcomes. Governments are obviously anxious to save money, so often under-price. This starves providers of cash, killing innovation and performance, and often resulting in parking and struggling supply chains.

The Public Service Licensing response is to take a flexible approach, which we call Dynamic Pricing, a technique evolved from the work of the Centre for Market Design at the University of Melbourne.²⁵ Under this system, a computer algorithmically recalculates the prices paid for each outcome, aiming to adjust prices up or down until providers are succeeding with all types of customers at the same rate. If providers are finding they get the same success rate with all customers coming through their doors, whether they have one problem or twenty, that is a sign that the pricing for those different problems is absolutely spot-on. The provider always has just the right amount of money and incentive to help everyone, however deep their problems. No one is left behind. No one is allocated more than they need.

Thus, if addicted ex-offenders are failing to rehabilitate, then the payment for the addiction outcome might be increased until rates of progress are equalised with those of non-addicted ex-offenders. To do this manually would be laborious, and probably impossible, but using the Centre's algorithms, prices can be automatically adjusted every day, or hour, in such a way as to involve no increase in the overall spending envelope. This is not unlike the automatic buying and selling of shares by algorithms in financial services. The independent Regulator would oversee the repricing process.

Although on the surface dynamic repricing looks as if it offers less certainty to providers, in fact it provides more, as they know that they will not be left with customers who are impossible to help on the budget allocated. They know the ways pricing might change, and the rules that will guide price changes. For both providers and users, this is infinitely preferable to the current system, whereby when pricing goes wrong, either nothing can be done to remedy the situation, or the providers have to go through a clandestine arm-wrestle with government to extract an increase in funding. It is very difficult to get pricing right first time. It is much easier to build in a deliberate mechanism to update pricing, if it turns out to have been not quite right at the outset.

25 For more detail, see the Centre for Market Design website, <http://cmd.org.au/>

4.5 Cap profits

It is important to make sure that taxpayers' money goes as far as possible. Therefore, government should set an upper limit on the long-term average profits that the industry as a whole should make. This might be set at a cap of something like 15-20 per cent, probably a reasonable return for taking on very substantial risk.

The Regulator will be responsible for making recommendations as to whether the market is being over- or under-paid, and what government should do about it. The arrangement would work rather like the role of the Bank of England in hitting the explicit two per cent inflation target. If a whole industry were making sustained profits of 30, 40 or 50 per cent then the Regulator would recommend a change of course, perhaps dialling down the outcome payments, or increasing the level of competition by reducing barriers to entry.

In exchange, there should be no censure by government of providers making profit below that cap. If most providers are making large profits on an ongoing basis, that is not a moral sin. They will simply be operating successfully within the framework government has devised. If government wishes to restrict profits, it should do so by altering the framework it itself devised, not by publicly chastising or intimidating providers.

It is important to make clear that this does not prevent individual providers from making profits higher than the industry cap. The cap applies to the whole industry average, not individual organisations. If the industry as a whole makes average profits below the cap, but an individual provider is much more profitable than its rivals are, this should not be seen as a sign that something is broken. It is a sign that that particular provider is outstanding. They should be applauded, not penalised.

4.6 Name a profit target to permit stable margins

Just as countering sustained high profits is important, so too is challenging the lazy notion that all profit is bad. Profit is a necessary part of a market-based system. A market-based system relies on having strong, stable providers, and on being attractive to new ones. Reasonable returns are not an excess that government should eliminate. A hostile attitude to profit will scare off providers, and more

importantly alarm their investors. Aiming to pay no more than the raw unit cost of a service will kill the market.

This is not only an issue for private providers with shareholders. Many charities face a constant struggle to build reasonable reserves without the security of long-term contracts or adequate margins. Living hand-to-mouth obliterates the chances of investment and makes it very hard to build any sort of sustained strategy.

To avoid repeating previous public debates on the legitimacy of profit-making, government should state explicitly that it is perfectly acceptable and indeed desirable for providers to make a profit or surplus in providing public services. Furthermore, government should go further and explicitly set target margins it hopes providers will be able to make. This might be set at a long-term average of something like 6-13 per cent. If providers as a whole are struggling to make these margins, then it is a sign that the government is underpaying for the market, or that incentives and options to innovate are too weak.

Again, it will be the responsibility of the Regulator to monitor margins across providers, and make recommendations if the total amount of funding to providers needs to be increased to improve the market.

Recommendation 5: Openness and clear rules

5.1 Appoint an independent Regulator

The appointment of an independent Regulator to oversee the system is key to the success of Public Service Licensing. Ministries should focus on the future: setting policies, overall budgets and the outcomes that government wants. The Regulator should focus on how successfully providers are delivering those intentions in practice.

Removing the burden of monitoring the market from policy-makers would remove the conflict of interest for government between stewarding the market in the long term, and the perpetual temptation to make quick savings by forcing unrealistically tough terms on providers in the short term. Parliament would hold the Regulator to account through the Select Committee system, in a similar manner to the National Audit office, Ofsted and HMPI today.

The Regulator would be responsible for:

- Issuing and revoking licences. The Regulator would assess if providers met the basic standards required to deliver public services safely.
- Auditing providers for financial and ethical probity.
- Operating the mystery shopping mechanism.
- Setting prices. Government would set the overall budget available to achieve objectives, but the Regulator should be responsible for how this translates into pricing particular outcomes. The recommendations that follow outline this further. This is a crucial role of considerable complexity, so it is important that the Regulator has access to the best economic and evaluative advice available.
- Enforcing standards of transparency.
- Dealing with complaints from the public.
- Arbitrating in disputes between providers, or providers and the government.
- Monitoring for oligopolies and cartelisation, and if necessary referring providers to the Competition and Markets Authority.
- Monitoring for perverse outcomes and gaming behaviour, and making necessary recommendations to government.

5.2 Transparent reporting of performance

Critics of outsourcing complain that private companies are opaque. They are not subject to the same Freedom of Information (FOI) laws as in-house public sector provision. Independent providers retort that they are held to far higher standards of audit and press-scrutiny than incumbent public sector providers. Therefore:

- Government should take the opportunity to undertake a comprehensive review of the transparency regulations surrounding outsourced provision.
- Providers of all types and sector should be required to publish standardised, open data on their outcomes and profits.

- Providers should not be subject to FOI. It is not necessary for the public to know everything about the inner workings of every provider. It is sometimes felt that providers are in essence an arm of the state. They are not. Should providers of staples, or sandwiches, or fuel or any other product to government be subject to FOI? If so, then almost every organisation in the country would be ‘FOI-able’. Extending FOI to providers is unnecessary, hugely costly and simply an unimaginative response to frustrations with the current model of contracting. It is a classic case of right problem, wrong answer. The objective is to ensure public money is well spent. That objective is best served by sharp incentives on providers to do a good job, and that is best done by improving the strength of market forces to deliver quality outcomes.
- The Regulator should be empowered to crack down on government attempts to enforce secrecy. Government sometimes asks providers not to comment on its actions, or to take the rap for mistakes that are not 100 per cent the providers’ fault, in order to avoid unfavourable headlines. The Regulator should be empowered to investigate allegations of this sort of behaviour.

Recommendation 6: Gear for Innovation

6.1 Experimentation to reduce barriers to entry

An overhauled system should experiment with two techniques to reduce barriers to entry by smaller companies: sliding scale payments and claw back mechanisms.

- **Sliding scale payment structures:** to reduce the risk of entering into a new market with a demanding payment structure, government may wish to introduce a sliding PBR scale. Government could ease new providers into the market by starting on a temporary, more favourable ratio of upfront payment to at-risk payments: a sort of funding equivalent of swimming armbands. After a few months, the payment structure would gradually adjust to its ‘steady state’ form, emphasising the need to deliver the outcomes and an excellent customer experience. The table below illustrates how a sliding scale would work.

Table 1: Sliding PBR Scale

Phase of contract	% upfront	% for outcomes	% on customer satisfaction
0-3 months	100	0	0
3-6 months	90	10	0
6-12 months	60	30	10
12-18 months	40	50	10
18 months +	30	60	10

A sliding scale model like this would reduce the risk that new providers face when entering the market, by giving them time to refine their operating models before being subjected to full outcome commissioning.

- **Claw back:** in addition, to lessen the working capital requirement, the government may wish to experiment with claw back, rather than conventional PBR. Under conventional PBR, government pays providers only when they achieve an outcome (and even then, often only if they can sustain it for a number of years). These sorts of contracts risk turning from a test of quality into a test of balance sheet. Claw back costs the same to the taxpayer, retains the same incentive to perform, but ensures providers are not advantaged or excluded just because they lack initial financial muscle.

In a claw back model, government would pay providers upfront, and claw back payment if the provider fails to deliver its outcomes. This retains the performance incentive, whilst removing the working capital requirement. Of course there is a risk that providers could default on the claw back, but this is not an insuperable difficulty. The risk of default could be easily monitored, or, if the Treasury prefers, the right to claw back could be restricted to high performing providers only. There may need to be some adjustments to current accounting rules, which sometimes compel organisations to ring fence funds which could be clawed back, to enable such a policy. This is an option to explore in further detail.

6.2 Accelerate innovation with a ‘skunkworks’ programme

Most providers of public services, whether currently in-house or independent, have been bred to obey the diktats of their funders. Shaking this habit will take time. However, the press only gives major reforms a short time to show results. Therefore, it is sensible to consider mechanisms to speed up the diffusion of innovation into the market. This is the experience of the successful New York City education transformation of the last decade. Market mechanisms worked, but too slowly. So the City authorities used extra incentives and challenge prizes to accelerate the natural action of the market to bring it to fruition sooner.

Government should learn from this and seek to create a set of small experimental programmes that work alongside, and within, the main Public Service Licensing structure. These skunkworks programmes would work with the same cohort of clients, but under different payment terms.

Providers could choose to be allocated a small proportion of their workload under this different payment structure; and be required to be open about their methods and results. The metric for success would be much tougher, but the outcome payments also substantially bigger. Thus, in the field of employment, for instance, the outcome might be not only employment sustained for two years, but employment sustained for two years without breaks, at or above the median wage. This would create a high bar that providers could not reach without significant innovation, but also offer plenty of incentive to get there.

Providers would be compelled to share the methodologies deployed on this skunkworks payment schedule in full and openly, for all to see and copy as they wish. The intention is to make sure providers do not all settle for just a few tried and tested approaches.

5

Making customer choice work

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Under Public Service Licensing, government does not hand providers a monopoly in a geographic area as is currently the case, nor would it guarantee providers a certain volume of customers. They would have to attract customers. The referral process comes in three stages.

Figure 5: The referral process



Stage 1: Entering the system

Customers would enter the system in one of three ways.

- 1. Life Events:** at certain life events citizens are likely to need help (e.g. at pregnancy, coming up to school, upon losing work, etc.). Government would contact citizens at these points to let them know that help may be available, and explain the sign-up process.
- 2. Referral by public service professionals:** other customers may become eligible for help because they have come into contact with government, such as appearing in court or at mental health crisis services.
- 3. Self-referral:** other citizens could become eligible for help by seeking out assistance, such as visiting their GP, or taking an online assessment voluntarily.

Table 2: Entrance in the System

Contacted at a life event	Referred by professionals	Self-referral
At birth	By social workers	Visit GP
Two years before leaving education	Interaction with police or court system	Choosing to take online self-assessment
Diagnosis with a chronic illness	Approached by street team whilst homeless	Visit councillor or MP
Redundancy or unemployment	Referred by mental health professionals	Contacting help lines like the Citizen's Advice Bureau or the Money Advice Service
Sentencing		

Stage 2: Assessing extent of problems and eligibility for outcomes

Once referred, customers undergo an assessment. This could be online, or it might include recommendations from the professional referring the individual for help. The assessment would seek to build as full a picture as possible of the person's problems, aptitudes, attitude, and the resources they have to draw on. The assessment would cover topics such as physical health, family circumstance, income, wealth, social networks, mood and wellbeing, qualifications, lifestyle, employment history and so on. There is a major opportunity to use big data pattern analysis here, using properly anonymised data. There may be slightly different elements to the assessment required for some individuals, but the aim should be to create a single assessment process across all poverty related public services where at all possible.

The assessment would determine if the customer was eligible for help towards one of the five End Results, and what might be appropriate King Outcomes by which to judge progress (see Recommendation 2 and Annex A). The assessment mechanism would then use the set tariff payments to determine how much government should pay providers for each outcome achieved by this particular person.

Putting it into practice

An unemployed, addicted offender being sentenced to prison would be eligible for at least three End Results: reducing crime, better physical health, and individual prosperity (see Annex A for a list of proposed End Results). That might translate into the following specific outcomes for which government would be prepared to pay: being drug free for two years continuously; not returning to a custodial sentence in the next four years; getting into sustained employment for two years or more; and the percentage of median salary which that person is earning three years after release. The assessment process would then price these outcomes according to the individual's circumstances identified in the assessment. The illustrative figures below demonstrate how this might work for one of the King Outcomes:

Example of tariff payment

King Outcome: employment sustained for two years.

Core outcome payment: £2,000

Extra funding because of the difficulty of issues:

Illiterate: +£1,500

English as a second language: +£1,000

History of abuse as a child: +£3,000

No fixed abode: +£3,000

Dyslexic: +£500

= £11,000 to ensure this person finds employment and keeps it.

A similar process would happen for the other three King Outcomes.

Note, the extra funds in the tariff over the basic £2,000 are to take account of the greater complexity of the individual – in this case the additional and multiple barriers to sustained employment – to prevent 'parking' and ensure those in greatest need are receiving the intensity of help required.

Isn't this assessment a lot of extra bureaucracy?

No, it is actually less bureaucracy. There is a huge amount of assessment activity already, much of it duplication because each fragmented service undertakes its own assessment. Spending a little more time upfront to create one, comprehensive, personal, qualitative and quantitative assessment saves much more time and red tape than ten similar assessments by multiple agencies later.

Stage 3: Choosing a provider

The next stage is to choose the provider to fulfil those outcomes. It is important that there is plenty of help at this stage, as often the people who have the greatest need for public services are the ones least able to choose. Choice can be intimidating if you are vulnerable.

There would be three formats of choice:

- **Free choice**

Customers can choose any licensed provider, as happens with choosing university now for instance. They may seek the advice of professionals, but they are not required to do so.

- **Professional choice**

A professional, such as a clinical psychologist, might make the choice of provider on behalf of the citizen. Providers market to the professional, not the actual user, as happens in the pharmaceutical industry at present, for instance.

- **Assisted choice**

A hybrid. Professionals create a shortlist of suitable providers, from which the customer chooses with the professional's support.

Table 3: Formats of Choice

Settings for free choice	Settings for professional choice	Settings for assisted choice
School leavers choosing who will help them meet the Individual Prosperity End Result	The help offered to offenders as part of the Lower Crime End Result	Job seekers being helped with the Individual Prosperity End Result
Most patients choosing lifestyle related physical health support	Customers with severe mental health difficulties as part of the Better Mental Health End Result	Customers with low level mental health difficulties as part of the Better Mental Health End Result
People in work but on low wages being supported to get a better standard of living as part of the Individual Prosperity End Result	Most customers being referred by social services	Customers choosing a provider to help with their child's development as part of the Fair Start End Result
	People addicted to drugs or alcohol	Customers with complex needs requiring many different outcomes and End Results

Customers would be required to make their choice and register with a licensed provider within a set time period. The Regulator should keep the division under review as Public Service Licensing beds in, and look to expand the numbers of people making a free choice where possible.

Providing information

The Regulator should make sure everyone making a choice has access to the following information about each partner:

- their percentage success rate with similar customers;
- the difference between this provider's performance and the best provider nationally with similar customers;
- the difference between this provider's performance and the best provider in the local area with similar customers; and
- the customer satisfaction score with that provider.

Government may wish to engage third party intermediaries like Which?, The Citizens' Advice Bureau, Patient Opinion or Mumsnet to help convey this data.

Provide mystery shopper data

Customers will not be able to look at providers' past performance in the first few years of the modernised system, because it will take providers two or three years to reach and sustain most outcomes to the point of payment. In this transition period, mystery-shopping data provided by the Regulator will assist customers and professionals.

Auto-choice

The Regulator can set defaults so that the default choice is always a provider from the upper quartile of performance. That way people can still make good choices even if they are not sure which way to go.

311: a single dial number

A bolder choice would be to consider setting up a British version of 311. 311 is a single dial in number for New York City's government. 41,000 New Yorkers call 311 every day, for everything from the number for the dog catcher to reporting an armed robbery. It runs 24 hours a day, 365 days a year, with immediate access to language translation services in over 170 languages. 311 now includes charities and private sector provision too, and answers most calls in under a minute. It does not just handle specific enquiries, like the deadline for tax returns. They can answer open-ended questions too, like "I want to lose weight – what should I do?" 311 operators will tie together all the relevant services for you. A UK version could provide an ideal first point of contact into the system, as well as offering advice or statistics on the most appropriate service for you.

Service design for the most vulnerable

Special support should also be available for people with disabilities or people who are not online to make sure they too have access to advice. Government should commission research from the emerging discipline of ethnographic service design to ensure that the choice process works as smoothly as possible for all groups.

Marketing material

Providers can offer additional marketing material or conduct outreach to recruit customers, just as conventional businesses do. We want

citizens to be aware of the help on offer to them. However, material would have to meet guidelines laid down by the Advertising Standards Authority in collaboration with the Regulator and kept under regular review.

No inducements

The Regulator would not permit providers to use inducements to persuade customers to choose them, at least not at the outset. Although these sorts of bribes might sound like the worst excess of capitalism in the public sphere, they are in fact common already in areas where choice already operates. Many further education colleges offer a free iPod or similar to students who register early. This sort of inducement risks skewing users' decisions away from what is crucial. Therefore, this kind of recruiting would not be permitted at the outset, to be reviewed after a few years of operation by the Regulator if relevant. Inducements would still be permitted to change behaviour to reach outcomes, just not as part of the choice process.

No switching

Once customers have chosen a provider, they would not be permitted to switch. In a normal market, customers can switch. Whilst this would be theoretically desirable in public services, in practice it is simply too complex to administer. If a customer switched provider, how would the first provider be reimbursed for the investment they had already made in reaching an outcome? Again, this could be reviewed by the Regulator at a later date if required, but there is little danger of providers taking them for granted as a captive audience, since they will still only be paid if the customer has a good experience and successful outcome.

Choosing for customers eligible for multiple outcomes

Some customers will be eligible for more than one End Result and many King Outcomes at the same time. This sets up a dilemma. Should people in this situation have one provider to deal with all their problems in the round, or separate providers, who may be specialists, responsible for each End Result? There is no perfect answer. There are two options of how to deal with people who have several needs in a Public Service Licensing system.

1. One provider for each outcome

For instance, an addicted offender would have a Better Physical Health provider, responsible for getting them off drugs, and a Lower Crime provider, responsible for making sure they quit crime, and quite possibly a third Prosperity provider responsible for helping them find work. If new needs emerged – such as depression for instance, which would fall under the Better Mental Health End Result – then government could add new providers and outcomes. Administratively this is simplest, but means the customer is still working with several different public service providers.

2. One provider for all outcomes

In this model, the customer (or their representative professional) would choose a single provider capable of delivering all their needs, most likely a prime organisation to oversee the process, supported by specialist contractors. This would permit a seamless service, and create economies of scope and scale. However, it would drive the creation of super-providers, capable of putting together a wide array of services, which some would see as undesirable. Moreover, if new needs emerge, this single provider would take on those outcomes too, which might be both impossible and create a perverse incentive to allow a customer to slide, in order to become eligible for a new outcome payment.

This report favours the first option. Many providers will offer several outcomes under one roof anyway. A provider working on reducing crime might also have the skills to deliver improved prosperity too, or be able to buy that sort of support off the shelf from another provider. In addition, even if the customer does choose specialist providers who can only deal with one issue, even people with the most complex needs would still have a maximum of five organisations working for them, which is infinitely more streamlined than the dozens of agencies, and charities that work with such individuals at present. So one provider per End Result is preferable at this stage, and the Regulator could review this later.

See Annex B for examples of how this would work in practice.

6

The way forward

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Transitioning to a modern system

A major transformation like this requires a thorough plan for implementation. The full detail of such a plan is outside the scope of this report, but already we can sketch out an indication of how government might go about transitioning to a new system. The five stages of deployment are laid out below.

Stage 1: Mobilisation

The aim in this phase is to secure cross-party support for the principle of reform.

Reform at this scale requires dedicated senior political leadership. There are a number of options here. One would be to create a dedicated Ministry of Social Justice, merging many of the social policy functions around Whitehall. However, this has a number of drawbacks. One is that many services have some use by everyone, and a lot of use by the most disadvantaged, such as many aspects of GP primary care. Leaving out these services means that many of the elements needed to deliver a just society would still be outside the remit of a Department for Social Justice. Including them would make a gigantic ministry, which would simply need subdivisions that recreate the siloes again. A second problem is that wherever the boundaries are drawn, they create other fractures. So it might make sense from a poverty perspective to merge the skills, employment and education ministries, but not from a business perspective, where having a ministry of high growth, business, universities, science, innovation, and skills makes more sense. The third issue is the most compelling: any reform programme that proposes a substantial redrawing of the ministerial boundaries would inevitably face severe opposition from the losing ministers within the Cabinet, and that would likely be enough to sink it.

Public Service Licensing suggests a different approach, which sidesteps these difficulties.

1. Appoint a Secretary of State for Public Service Reform

The Prime Minister should appoint a new Secretary of State for Public Service Reform (SoS PSR). The SoS PSR would need to be a heavyweight member of the government. In addition, the Prime

Minister should chair a Cabinet Committee on Public Sector Reform to oversee the process and lend his or her personal support.

2. Establish a high quality secretariat

A Permanent Secretary for Public Service Reform should support the Secretary of State, heading a new Prime Minister's department for Public Service Reform (PMD PSR), comprising a dedicated team of civil servants, drawn from across Whitehall. The department would last for the duration of the reform programme.

The Treasury should allocate the department an adequate budget to hire in technical experts or consultants as it sees fit. A transformation of this size needs to draw on the very best advice available from across the globe – the government should invest in getting it right first time.

3. Establish Parliamentary oversight

Getting the right cross-party support is crucial to maintaining the momentum for change. Parliament should convene a joint committee of both Houses to oversee the reform programme. The Committee would scrutinise the implementation of Public Service Licensing. The SoS PSR would be required to appear regularly in front of the Committee. Members would be elected to the Committee by their peers. This follows the successful work of the recent House of Lords Select Committee on Public Service and Demographic Change and the House of Commons Public Administration Select Committee.²⁶

4. Establish an NAO 'Commissioning Commission'²⁷

Government should ask the National Audit Office to begin a major investigation into how the current system is failing. People working on the inside of the bidding and commissioning processes are usually full of horror stories of how the system works at present, but their voices are seldom heard. Although there is a great deal of research into commissioning, it usually focuses on the public views of heads of industry bodies, or government departments, who often speak cautiously, fearful of commercial and political repercussions. This masks the unpalatable reality of some commissioning relationships. It

²⁶ House of Lords (2013), *Select Committee on Public Service and Demographic Change – First Report*.

²⁷ A proposal first made by the think-tank Localis; White, L. (2011), *Commission Impossible? Shaping places through strategic commissioning*, Localis.

is difficult for providers to speak out when they need to keep in the good books of their funders. It is difficult for officials to criticise politically contentious reforms. Therefore, this Commission should strive to uncover the direct personal testimony of both service users and those working at the sharp end of delivery, bidding, and commissioning. The report's findings will provide solid evidence to counter the inevitable resistance to a reform of this scale.

5. Convene an Expert Advisory Group

An Expert Advisory Group, drawn from leading public service reform thinkers and doers across the globe, should support the department's work. The group should include Whitehall mandarins, ex-ministers, heads of charities and companies delivering social public services, investors, and frontline staff.

6. Consult widely

The department should consult widely on these recommendations. Major change will inevitably face opposition, but early engagement will help convert critics, understand concerns, and compensate losers. However, government should only consult to improve reform, not to block it. It is important that consultation includes service users, perhaps drawing on ethnography of their current experience.

7. Open conversation with existing incumbent providers

Incumbents may feel they stand to lose from any change. However, as discussed, incumbents are often those most frustrated with the inadequacies of our current contracting model. They are bound to have concerns, which government should understand and address directly, but it should be possible to win many of them over. In addition, a major early task for the department would be to win round incumbents to the prospect that government will terminate their contracts ahead of implementing a new system. That might sound drastic, but it is in fact fairly common (for instance in 2011 when the Work Programme replaced the Flexible New Deal).

8. Open conversations with the financial community

It is important to educate the potential investor base early on. Investors will be crucial to the success of the reforms, but they need confidence that reform will be extensive and stable. They should be positive about Public Service Licensing. It creates a large suite of investment

opportunities, and replaces politicised and ever-shifting contracting with a single, comprehensible, rules-based system. However, many investors are wary of government projects. Too many have had bad experiences of early contract terminations, changing policies, political intervention, and negative media attention. Therefore, the implementation plan should include a careful engagement plan with financial institutions to help them understand the scale of the new opportunity, the detail of the reform programme, and the sorts of returns they might expect. This will take more than a few roundtables with ministers.

9. Debate King Outcomes

A key choice is what King Outcomes and End Results to pursue. The King Outcomes matter for two reasons: firstly, because whatever is chosen will be what the government does (and does not do) in social policy. It is a serious democratic decision relevant to everyone. Secondly, getting a solid consensus on the right social objectives is important because chopping and changing the outcomes will seriously hamper the working of the market. Most of the outcomes will take months or years to achieve, so ideally they need to be altered as infrequently as possible. There are multiple routes to building this consensus: parliamentary debates, crowd sourcing, an expert commission, even a referendum.²⁸ Whatever the mechanism, it is important to reach an agreement on our collective social objectives that can outlast headlines or changes of government.

Stage 2: Detailed design

The PMD PSR should develop a detailed implementation plan for the programme, including:

- setting the payment levels for each outcome;
- seeking European regulatory approval;
- developing legislation where necessary;
- mapping referral mechanisms;
- defining transparency and reporting requirements;
- testing and prototyping the user journey;²⁹

²⁸ See NESTA's recent public vote on the Longitude prize.

²⁹ It may be particularly useful to use the established private sector technique of journey mapping to plot how a new system will work for different kinds of customers.

- identifying risks and creating a response;
- defining detailed roles and accountabilities for all significant players;
- devising plans for specific skills development amongst frontline staff and Whitehall; and
- establishing the Regulator.

Stage 3: Transitional deployment to skills and welfare

It is sensible to begin Public Service Licensing in just one or two test areas first.

1. Select test sectors

The best candidates are employment services and the adult skills sector. Both already make extensive use of independent provision. Both work with a similar cohort of customers. Many providers work in both sectors, so will be well set up to adapt to a more integrated commissioning approach. Employment services probably constitute the most advanced commissioning model of social public services currently available.

2. Select geographies

It would be helpful to begin by implementing Public Service Licensing in certain parts of the country only. Not only will this make it easier to manage the implementation of the test phase, but it will also enable comparison to an approximate control group of areas yet to convert to Public Service Licensing.

3. Decommission existing services

Government would decommission employment and skills providers in those regions, and compensate them for the loss of their contracts.

4. Issue licences to new providers and being referrals

At this stage, providers would elect to be either skills providers or employment providers. The two sectors would remain separate.

At the end of Stage 3, in several regions a modernised licence model of skills and employment provision would exist.

Stage 4: Merge skills and welfare sectors

In this stage, government would merge the two separate markets.

1. Merge licences

Providers holding a skills licence would also be able to offer employment services, and providers holding an employment licence would be able to offer skills training. New entrants to the market would apply for just a single licence, which would permit them to provide either type of service. Providers would be free to work in alliance with other providers or agencies to deliver their outcomes.

2. Work to common outcomes

All providers in the market would be asked to deliver the same outcomes. A good set of outcomes would be employment sustained for two years (the current Work Programme measure), combined with a second payment which is a percentage of the mean wages earned over that same period, to give an incentive to providers to up-skill customers. Funding for the market would come from merging the current Work Programme budget and the Adult Skills Budget.

3. Open the market

No provider would receive a guaranteed caseload or market share.
No provider would receive a guaranteed block grant.

Over time, government would add more regions to the system until it applies to all employment and skills services. At this stage, the full Public Service Licensing model would be in operation, although only for two outcomes/ministerial objectives.

Stage 5: Roll out to wider suite of services

Once Public Service Licensing is up and running successfully, government can add in more outcomes to cover a wider range of social issues. The best candidates for the next round of outcomes are re-offending, mental health, disability care, homeless housing, and drug and alcohol addiction. It makes sense to move to these outcomes next because they very often overlap with the need for employment or retraining, the outcomes from Stages 3 and 4. The model starts to expand from an employment and skills programme to an 'Everything Programme'.

Finally, government can begin experimenting with bolder outcomes: ones that cover longer time periods, less clear outcomes, or groups of people rather than just individuals. Likely candidates include careers advice, debt and financial advice outcomes, relationship advice and counselling, educational and child development outcomes, health inequalities, crime prevention, and public health issues like obesity or smoking cessation. At this point, Public Service Licensing becomes a key piece of flexible infrastructure, into which policy makers can plug new outcomes as needed.

Figure 6: Transition phases

Obvious sectors to start with

Employment services

- > The Work Programme
- > JobCentre Plus
- > Enterprise support
- > The Youth Contract

Skills funding

- > Further education institutions
- > 25+ apprenticeships
- > Other Adults Skill Budget independent provision

Reoffending programmers

- > The forthcoming Transforming Rehabilitation programme
- > Offenders' Learning and Skills Service (OLASS)
- > Youth Offending Teams
- > Young Offender Institutions

Troubled Families

- > Family Intervention Projects
- > The Troubled Families Initiative

Logical extensions in the next phase of reform

Transition to work

- > Careers services
- > 14-25 vocational formats including Studio Schools, Apprenticeships

Homeless support

- > Local authority housing and outreach services

Addiction

- > Local authority DATs
- > Prison addiction services

Mental health

- > The IAPT talking therapies programme

Public health

- > Reducing sexually transmitted diseases
- > Teen pregnancy
- > Obesity

Secondary education

- > Schools
- > Pupil Referral Units

Early childhood programmes

- > Sure Start
- > Health visiting
- > Other early years services such as parenting support

A schematic task list is given at Annex D. There will be difficulties. The aim is not to anticipate and mitigate every single one – though I have tried to anticipate the major ones. It is to create a roadmap to get started, and mechanism to allow adjustment once reform is underway.

Areas for consideration in the longer term

Area based approaches

- > Crime reduction
- > Economic regeneration

Broader economic outcomes

- > Reducing child poverty

Social work

- > Including family and relationship counselling

Resettling ex-serviceman

Disability care

Areas unlikely to ever be in the scope

Child protection

Defense and security

Frontline policing

Annex A: Defining 'King Outcomes'

End Results	Current activities	Currently split between
Lower crime	Policing, probation, prison service, offender learning, substance abuse	MOJ, YJB and YOIs, HO, DWP, BIS, local authorities, housing, DH, youth services, SOCA, 43 police forces
Better physical health [Covering lifestyle health and ageing issues, not serious immediate clinical attention]	Public health drives on diet, lifestyle, addictions, obesity, and substance abuse, attempts to tackle homelessness, child development	Sure start, DH, NHS, local authorities, Health and Wellbeing Boards, MOJ, DCMS
Individual prosperity [For people unemployed, leaving school and not planning to go on to university, or adults in work on low wages receiving universal credit]	Debt and financial advice, employment, skills training, careers advice, apprenticeships, offender learning, PRUs, disability support, enterprise support, work on transport and fuel costs, child care allocations, macroeconomic policy, attempts to tackle homelessness	HMT, BIS, DWP, DfE, DH, JobCentre Plus, local authority services, DfT, DECC
Good mental health and happiness	Talking therapies, substance abuse, ageing population strategies, clinical psychiatry and psychology services, attempts to tackle homelessness	DH, NHS IAPT and CAMHS services, Health and Wellbeing Boards, No. 10 dementia group, Public Health England, devolved administrations, local authorities social care services, DWP

King outcomes	Example Waypoints likely to be reached on the way to reaching King Outcomes
<ul style="list-style-type: none"> > Reoffending rates > Fear of crime > Volume of crime 	<p>Getting housed, overcoming addiction, building supportive relationships, getting trained, overcoming mental health difficulties, finding work</p>
<ul style="list-style-type: none"> > Rates of lifestyle or age-related diseases > At an individual level might include improvements in BMI, cholesterol, equators, or blood pressure, length/frequency of hospital stay, length of time clean from alcohol, smoke, or drugs > At an area level might include improvements to life expectancy, average weight, STI rates or hospital admissions 	<p>Exercising more, eating more healthily, securing permanent accommodation, overcoming addiction, taking relationship and sex education</p>
<ul style="list-style-type: none"> > In work, and stay in work for two years > How close customer comes to achieving median income across two years > Debt reduction/savings built over two years 	<p>Getting careers advice, gaining qualifications, doing work experience, being helped to search for a job, interview preparation, help with childcare, and transport, being supported once in work, paying off debts, becoming more financially savvy, saving</p>
<ul style="list-style-type: none"> > Distance travelled and sustained on clinical assessment scales depression, anxiety, well-being and happiness > Self-perception of improvement in loneliness and quality of life for older people 	<p>Finding work, getting out of abusive relationships, building supportive relationships, undergoing counselling, cognitive behavioural therapy or psychotherapy, learning mindfulness, overcoming addiction, taking up exercise, volunteering</p>

End Results	Current activities	Currently split between
<p>A fair start in life</p> <p>[For children coming from deprivation or otherwise at risk of lower social mobility]</p>	<p>Schooling, parenting classes, health visiting, children's services and social work, government funded programmes on domestic violence and family breakdown, Sure Start, library services</p>	<p>DfE, DH, local authorities</p>

King outcomes	Example Waypoints likely to be reached on the way to reaching King Outcomes
<ul style="list-style-type: none"> <li data-bbox="113 312 540 389">> Educational attainment at 16 relative to parents and children of a comparable deprivation <li data-bbox="113 408 507 432">> Child cognitive development scores <li data-bbox="113 451 376 475">> A metric of child safety <li data-bbox="113 494 303 517">> NEET rate at 18 	<p data-bbox="561 312 992 563">Good early years development, combatting teen pregnancy and truancy, supporting parental or child mental health, improving teacher quality, detecting and stopping dangerous or abusive families, promoting healthy diet, supportive and loving family who stay together, strong academic achievement, enjoy school, no bullying</p>

Annex B: Public Service Licensing – what it looks like in practice

Example types of customer	Entry point	Extent of choice	Relevant end results
19 year old NEET	Referred by JobCentre Plus as condition of claiming benefits	Assisted choice, with professional steering towards providers with the best record of finding work for young people	Prosperity
Overweight man in work, with depression	Referred by GP	Assisted choice, with professional on hand to explain options	Better health Better mental health
Homeless woman, with alcohol problem	Referred by local authority street outreach team	Professional choice, made by local rough sleeping team	Better health Prosperity
Pregnant teen	Referred by prenatal services or GP	Assisted choice, from a shortlist of 3-5 drawn up by health visitor	Fair start
Addicted offender	Referred at point of sentencing	Professional choice, made by the court drawing on probation expertise	Better physical health Lower crime Prosperity

King Outcomes set	Possible activities to reach outcomes
How close get to median wage in three years	Careers advice, return to study, finding and funding appropriate course at a subcontracted training provider, work placements
Reach healthy BMI Stay at healthy BMI for two years Improved and sustained on clinical depression scale	Cognitive behavioural therapy, mindfulness training, personal training sessions, joining a weight loss programme, joining a walking group, set up volunteering opportunities
Sober for three years Find work How close get to median wage in three years	Housed, in alcohol recovery programme, taking resilience, mindfulness and coping strategies programme, volunteering, taking training course at the local college, work placements, start work, financial advice, continued support for alcoholism, befriending service and other efforts to build a friendship network
Child health and cognitive development outcomes at ages three and five	Health and nutrition advice from an FNP trained nurse, parenting advice, effectively managing finances and claiming benefits, childcare in intensive learning pre-school, networking to other parents in the same situation and building a support network, relationship education, setting up a childcare group with other parents, parent returning to work
No return to prison in the next three years Clean from drugs upon release, sustained for two years How close get to minimum wage in three years' time	Drug rehabilitation, careers advice, video conferencing set up so can keep in touch with family, anger management, psychotherapy, retrain in prison, interview with potential employers whilst on the inside, work in prison workshop, gaining qualifications, housing set up for first night of release, mentored by ex-offenders, volunteering, job search, interview preparation, sent to an employer with positive attitude to ex-offenders, on-going drug recovery support

Example types of customer	Entry point	Extent of choice	Relevant end results
Long term unemployed, with low skills	Referred by JobCentre as part of the sign-on process	Assisted choice, from providers specialising in customers like this person	Prosperity
Minimum wage worker	Self-refer online, or contacted by HMRC to let them know help is available	Free choice	Prosperity
14 year old planning to leave school at 16	School explains is a universal service for those leaving education, two years before plan to leave	Free choice, but requiring parental signature	Prosperity
Troubled family	Referred by social services after complaints from neighbours	Professional choice by local social services, choosing a provider specialised in whole family solutions	Prosperity Better health Better mental health Fair start Lower crime

King Outcomes set	Possible activities to reach outcomes
Find work Sustain work How close get to median wage in three years	Literacy and numeracy classes, confidence building, team work exercises, training in growing industry, job search, work placements, volunteering, interview advice, help with managing first few months in the job, provider pays travel costs, help with continued up-skilling to take higher wage job
How close get to median wage in three years' time Change in savings/debt over three years	Financial advice and move on to lower utility tariffs, insulated property, loan from provider on a better interest rate to consolidate debts, careers advice, help with childcare, motorcycle test passed to enable take up of higher wage job
How close get to median wage aged 20	Practical alternative education, work placements, careers advice on which industries are growing, mentor, financial advice, traineeship and apprenticeship, level three qualifications, higher wage job
Find work Quit smoking Quit drinking No complaints from neighbours 100 per cent school attendance Children achieve five good GCSEs 90 per cent reduction in contact with the police All sustained for two years	For parents: parenting classes, confidence building and cognitive behavioural therapy, family and relationship therapy, cookery lessons, retrain for new career, work experience, volunteering For children: one-on-one tuition, sports programme, outward bound

Annex C: The benefits of a modern system

Major reform is hard and can be off-putting, but the prize for bold, serious, system reform is huge. The reforms proposed here would deliver enormous benefits to our society and economy. They are summarised in this table.

For service users	For existing providers	For would-be providers	For business
Better coordinated, seamless support	Less red tape	An open market which they can enter at anytime	Healthier, better trained, more skilful workforce
An easier system to navigate – a dedicated provider on your side	A more honest and straightforward relationship with government	Removes the need to have an in-depth understanding of commissioner preferences to win a share of the market	Opportunities to invest in a major new market
Greater choice over what you get from whom	Payment which more accurately reflects the challenges they face	Much cheaper to enter the market	Tackling entrenched disadvantage which blights economic growth in many regions
More innovative, effective services	Much less risk of catastrophic collapse if fail to win occasional mega-bids	Much easier for small providers to enter the market and participate	
More sensitive customer experience	For good providers, a wider market	No bias towards larger organisations	

For government	For taxpayers	For Britain
Reform can be implemented much faster	Lower cost government	Fewer social problems
Better results, leading to savings	Better value for money	Greater productivity
Obviates need for large parts of Whitehall concerned with commissioning and oversight, allowing those staff and budget to be redeployed	Less need to redistribute wealth to others	Resources freed up to cope with the challenges of ageing and climate change
Slashes commissioning time and cost. Obviates the need to up-skill civil service procurement teams, which is expensive, and unlikely to ever match the sophistication of providers	More money goes towards helping people, less wasted on administration	Better equipped workforce
Better customer experiences and charity involvement mean less controversy and opposition		Potential to build a powerful export business for the UK

For service users	For existing providers	For would-be providers	For business
Much lower risk of being 'parked'	Payment for the holistic work providers do in the round, not currently captured by conventional contracting		
Redirecting the cost of tenders to better services	Easier to enter parallel markets (such as skills from employment services)		
	Less cost from disruption as one contract ends and another is set up		

For government	For taxpayers	For Britain
Easier to sanction and remove poor providers, because easier for others to step in in a more fluid market system		

Annex D: Transitioning to a modern system

Reform is best introduced in phases. The target for the transition is five years, the length of a Parliament.

Stage 1: Mobilisation	Stage 2: Detailed design	Stage 3: Transitional deployment phase 1
(First 9 months)	(Months 9 to 18)	(Completed by month 24)
Cabinet Minister appointed to oversee reforms	Develop implementation plan – will include a list of issues to answer	Begin the Public Service Licensing in just one or two test areas first, shifting to new model in employment and skills services only in first phase
Establish time-limited Cabinet Office cross-departmental secretariat, headed by a Permanent Secretary	European regulatory approval	Issue first licences
Set up All Party Lords and Commons oversight Committee	Develop legislation where necessary	Switch to new payment mechanisms
Establish expert advisory group	Rapid prototype user journey	Establish only in certain geographic regions to provide comparison point
Set up a ‘Commissioning Commission’ to consult widely, with users, frontline professionals, potential providers and budget holders	Calculate tariff to pay for employment and skills outcomes	Decommission existing services in welfare and skills
Open conversation with existing incumbent providers	Continue to consult extensively with providers	Establish mystery shopping inspection routine

Stage 4: Transitional deployment phase 2	Stage 5: Full deployment	Persist, monitor, adjust
(Year 3)	(Years 4 and 5)	(Thereafter)
Establish learnings, adjust	Add in justice, mental health, disability care, homeless housing, and drug and alcohol addiction outcomes	Roll out to wider suite of services. Likely candidates include careers advice, debt and financial advice outcomes, relationship advice and counselling, educational and child development outcomes, health inequalities, crime prevention, public health issues like obesity or smoking cessation
Permit skills providers to be employment providers and vice versa		Formal evaluation process by parliamentary select committee or NAO
Prepare to add in further outcomes shortly		

Stage 1: Mobilisation	Stage 2: Detailed design	Stage 3: Transitional deployment phase 1
(First 9 months)	(Months 9 to 18)	(Completed by month 24)
Begin parliamentary debate and public consultations about what should be the nationally agreed social policy End Results and King Outcomes	Establish the Regulator	Begin thinking through how to price a wider set of outcomes for other social issues
		Launch pricing pilots to test appropriate price levels in other services

Stage 4:
Transitional deployment
phase 2

Stage 5:
Full deployment

Persist, monitor, adjust

(Year 3)

(Years 4 and 5)

(Thereafter)

Annex E: Safeguards

Concern

Small providers will be squeezed out

Those organisations will deliver a bland, delocalised, 'one size fits all' service

It will be a free-for-all for the private sector. Charities will suffer

Providers will put profit ahead of people

This flies in the face of localism

Providers will sacrifice quality to save costs and increase profits

Safeguard

Public Service Licensing puts a premium on quality, not cost competition. Because providers are explicitly banned from competing on price, scale becomes less of an advance than at present. The providers that do best will be those capable of handling complex interlocking social needs, which may well be small local niche providers

The model makes it much easier for new providers to enter the market. New providers at any time, not just in between contracts

A licence model is much easier for new providers to understand. It removes the barrier to entry of needing to understand Whitehall procurement in order to get started

Having large organisations will not necessarily exclude smaller ones. In many industries small providers work hand in hand with larger organisations, such as the automotive or pharmaceutical industries, where a few large organisations rely on tens of thousands of smaller suppliers

Public Service Licensing creates a new Regulator with powers to monitor the market for oligopolies or cartelization

Tailored pricing ends blunt 'one size fits all' funding cohorts

Moreover, PBR makes it unlikely that a 'one size fits all' provider would survive in a Public Service Licensing environment

Public Service Licensing addresses one of charities' biggest dilemmas: finding reliable funding. These reforms set up a stable income streams that charities can plan around for the long-term

Because providers can get paid for more than one outcome, Public Service Licensing makes it much easier for charities to get paid for the full range of value they add, not just what is specified in a narrow contract

The Public Service Licensing payment mechanism explicitly includes a payment component for customer satisfaction. This would be the first time government has built citizens' views into public service so directly

Public Service Licensing is very much more localised than anything in existence today. Not only are prices geared to local economic conditions, but commissioning is also radically decentralised: to the level of the person, not the neighbourhood or region

Moreover, one option for administration is to put local government in charge of setting key outcomes for its local area. This would put local government in charge of all social public services, not only the fragment with which they are currently entrusted

PBR aligns the profit motive with delivering the results government wants. Even if a provider cares nothing for the common good, they will still only survive if they serve it

Concern

This is a huge new system. It will be more unwieldy than current contracting

Private providers never keep their promises

Top down reforms like this never work

Safeguard

Public Service Licensing is considerably more flexible and adaptable than our current model. Government is not stuck with incumbent providers or fixed contract lengths. It can change prices. It can redefine outcomes

Providers will no longer deviate from the detail of a contract because there are no contracts and government will not need to construct complex process specifications. The only 'promise' providers will have to uphold is to deliver the King Outcomes specified. If they fail to do so, that does not mean that the public will be left saddled with a substandard service. Poor providers will go bust and fall out of the market automatically

Public Service Licensing, therefore, makes it much easier for providers to enter the market and move between areas of public service, government is much less likely to be held to ransom by incumbent providers who are too big to fail

There is more top-down effort required at the start, but Public Service Licensing soon permits a much more bottom-up, provider-led approach to improvement

There are careful transition steps to introduce reforms gradually

These reforms may appear more complicated than sticking with what is currently in place. However, for the people it is designed to help, it is much less complex than having to navigate dozens of different agencies, assessment processes, and staff. For providers, it is much less complicated to have clear rules and structures up front, than to have to decipher a complex miasma of unwritten requirements, subtle signals, and second-guessing of the real intentions of commissioners that they currently have to cope with. Equally, for government, is much less effort to get commissioning right from the outset then sticking with an outdated system that is not only unaffordable, but creates huge political difficulties when things backfire

Annex F: Existing best practice

Although this system sounds like a major leap, in fact it is more the systematic implementation of many elements that already exist in different public services here and around the world, such as:

Recommendations advocated here	Where reform is already in use
Licensed providers	Dentistry and general practice medicine
Referral points and tailored advice	General Practitioners, JobCentres, New York's 311 system
100 per cent outsourced provision	Australian employment services
Customer experience as part of the payment and inspection regime	Accident & Emergency care, the London Employability Performance Rating
Payment by results	DWP's Work Programme, The MoJ's Transforming Rehabilitation programme
Regulator and Ombudsman	Prisons, policing, energy, water, rail, health, schools, advertising
Clawback based on performance	Skills funding
Customer choice	Schools, universities, elective surgery, dentists and GPs
Advice to customers on making choice	NHS choices, school choice advisers, The Money Advice Service, Independent Living Services in adult social care
Mystery shopping	Widely used throughout the retail and hospitality sectors
Commissioning for multiple outcomes	The Troubled Families Initiative
Pricing tailored by tariff	NHS elective surgery tariffs, to some extent Australian employment services
Dynamic pricing	Asset sales in Victoria, Australia.

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