

Guide to commissioning for maximum value



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The SROI Network promotes the use and development of the Social Return on Investment methodology internationally, encouraging a community of practice along the way. The SROI Network is a membership organisation and a company limited by guarantee. The objectives of the SROI Network are:

- to ensure the principles and standards of SROI are adhered to
- to develop the methodology
- to disseminate information on indicators and valuations for use in SROI analyses
- to train SROI practitioners and provide peer support.

For more information see www.thesroinetwork.org

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SROI continues to be developed by the SROI Network. This guide applies and extends SROI principles and practices to public sector commissioning.



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About this guide

The context and demands on commissioning are changing rapidly, with pressure on budgets, changes to the structure of the public sector and many new bills and policies on the table. This is a crucial moment to revise commissioning practice in order to make the most of these changes.

This guide is for people involved at all stages in commissioning public services in all public bodies. It is intended to help commissioners allocate resources in ways that make a positive difference and to minimise any significant negative impacts of services they are responsible for.

By applying the framework and principles set out here, you can make a big difference to your understanding of how value is created, for whom and how much value is created – that is, you will be commissioning for maximum value. Even by making a few changes to your practice, in line with this guide, you will be able to improve your understanding of how value is created and support the creation of more value.

The title of the guide is ‘Commissioning for maximum value’. It is about improving results, and some readers may ask: ‘At what cost?’ Certainly, accounting for and controlling cost is important, as illustrated by the wide field of work on valuing inputs and activities¹. Yet the current problems

of reducing budget deficits and tackling entrenched problems can’t be solved by a focus on cost alone. For any area of public expenditure, there are many theories on what constitutes value for money – what will create more value and reduce costs. Commissioners have a crucial role to play in improving those theories, by supporting the development of evidence about them.

Commissioning typically involves colleagues from a range of disciplines, such as policy, research, community engagement, service managers, contract managers and elected members. This guide supports the increasing need for commissioning to take place across the boundaries of one department or public body.

The guide is written with spend on public services and particularly relational services in mind.² However, those with responsibility for other areas of public spend may still find the guide of use.

The model we present on commissioning for value draws on the training, meetings and other interactions the SROI Network has had with commissioners on the subject of value while a partner in the second phase of the National Programme for Third Sector Commissioning³.

¹ See for example the work of the Personal Social Services Research Unit on the unit costs of health and social care, Curtis, L (2010) Unit Costs of Health and Social Care, PSSRU. Available at <http://www.pssru.ac.uk/pdf/uc/uc2010/uc2010.pdf>

² Public sector spend may be categorised into spend on goods, works and services. Services may further be split into public services, and those supporting the public sector to operate (back office services). Within public services there are those that have a high degree of interaction with users ‘relational services’ and others with a lower degree of interaction.

³ Local Government Improvement and Development was the lead partner in this programme, which ran from 2008-2011 and was funded by the Cabinet Office.

This guide applies the principles and practices set out in A Guide to Social Return on Investment, published by the Cabinet Office in 2009⁴ but also revises and extends them in a way that's appropriate to commissioning.

What is Social Return on Investment (SROI)?

Social Return on Investment (SROI) is a framework for measuring and accounting for value; it seeks to reduce inequality and environmental degradation and improve wellbeing by incorporating social, environmental and economic costs and benefits into decision making.

The use of SROI principles and practices supports practitioners to measure change in ways that are relevant to the people or organisations that experience or contribute to it. It tells the story of how change is being created by measuring social, environmental and economic outcomes and uses monetary values to represent their importance. This enables previously unrecognised areas of value to stakeholders to be identified and their relative importance to be better understood.

Principles of planning for value

The concept of value in this guide recognises that people experience change as a result of receiving goods and services and that these changes are of value to the people that experience them. It further recognises that the changes may be positive and negative

and of greater or lesser importance, and therefore than any articulation of value needs to take this into account.

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

Principles of SROI

- Involve stakeholders
- Understand change
- Value the things that matter
- Only include things that are material
- Do not overclaim
- Be transparent
- Verify the result.

This guide takes the first five of the seven SROI principles, summarised in the box above and shows their application at each stage of a standardised commissioning cycle.⁵

The last two principles are: 'Be transparent' and 'Verify the result'. These principles are both reporting principles, rather than principles applied throughout an SROI analysis. 'Be transparent' means reporting on the key judgements made, such as what to analyse, which stakeholders to involve, and so on. We strongly recommend that you keep a record of such judgements, whether

⁴ Nicholls et al (2009) A Guide to Social Return on Investment, The Cabinet Office, London.

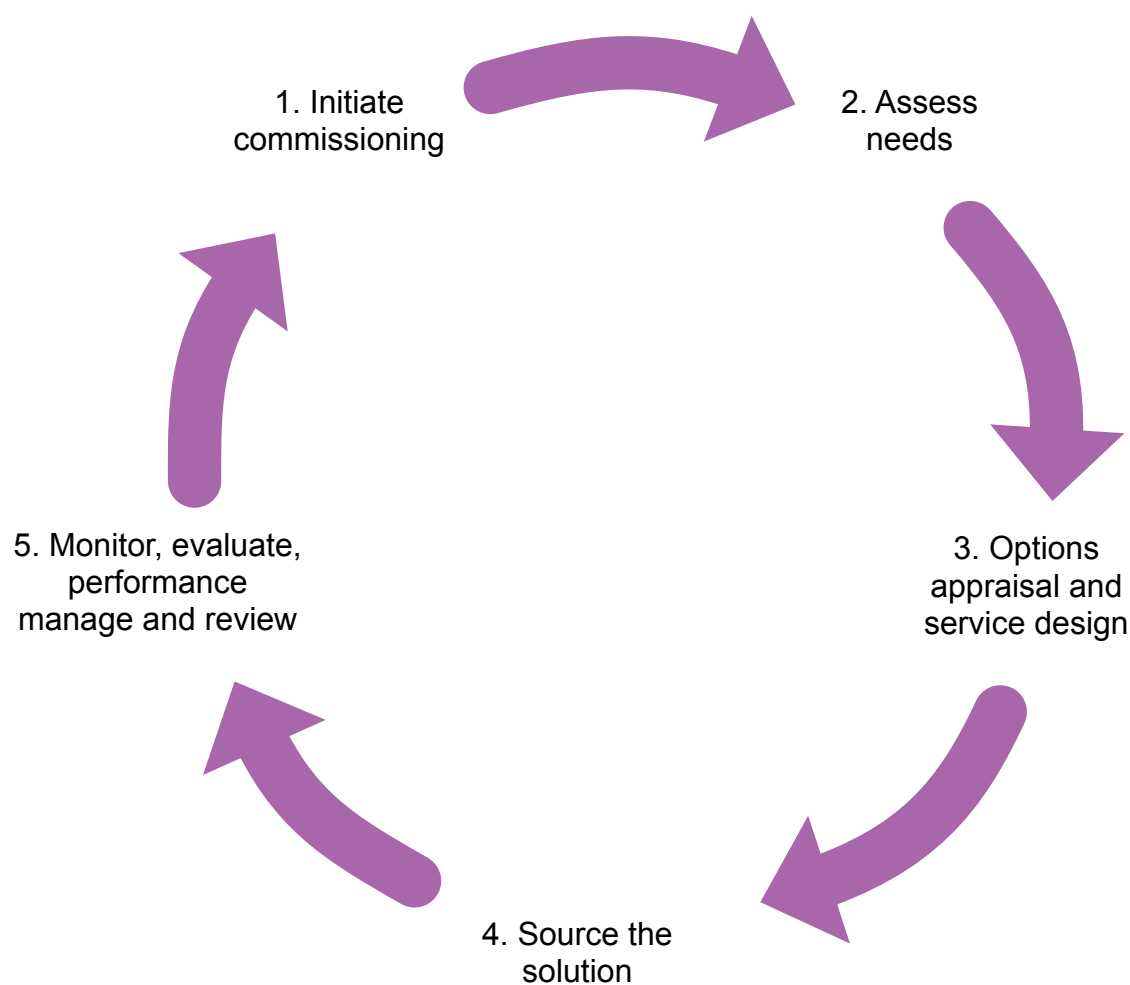
⁵ The full text of the original SROI principles may be found in Nicholls et al (2009) A Guide to Social Return on Investment, The Cabinet Office, London, pages 96 and 97.

or not you choose to publish them for all steps. 'Verify the result' requires that there to be appropriate independent assurance of an SROI analysis There is no system yet available for determining appropriate assurance of commissioning practice against all the steps in the Commissioning for Maximum Value model. However, any forecast or evaluation reports compiled for Step 3 and Step 4 of the cycle could be submitted for assurance.

A model of commissioning

There is no one standard commissioning cycle in use by the public sector. We have used the commissioning cycle illustrated in the diagram below throughout this guide.

Figure 1: The commissioning cycle



The diagram illustrates the different points in the cycle where planning for value and accounting for value take place.

This guide for commissioners is built around five key messages relating to the stages of the commissioning cycle:⁶

1. When initiating commissioning, be open to and seek new ideas and new problem definitions.
2. When carrying out needs analysis, improve your understanding of causes and effects by talking to users.
3. When appraising options, forecast value and base your choice of options on an assessment of value, not just costs.
4. When sourcing, use the assessment of how value may be created and destroyed, generated by the first three steps of the commissioning cycle – initiating commissioning, needs analysis and options appraisal and service design – as described in this guide. This will help you decide how best to specify, judge bids and manage performance.
5. When implementing, delivering and reviewing an intervention, fill in any gaps in your understanding of the value delivered by the solution by carrying out further stakeholder involvement until you have a complete SROI analysis.

⁶ As there is no standard commissioning practice, commissioners may find that the extent to which their practice embraces these five points varies.

When SROI is applied to commissioning, in practical terms, it will entail more stakeholder involvement in the early stages of commissioning. Commissioners will need to ask stakeholders open questions about change and the importance of change, and to follow this up with greater analysis of the relative importance of change. Commissioners will also need to develop systems for monitoring outcomes so that their evidence outcomes that stakeholder involvement suggests are relevant, rather than relying entirely on measures of quality or top-down outcomes frameworks.

Such developments in commissioning practice will also be helpful to deliver policies requiring similar practices. For example, the 2011 Open Public Services White Paper⁷, the introduction of Community Budgets⁸, self-directed care⁹ and Turning Point's Connected Care audits¹⁰ all encourage improvements in stakeholder involvement, as does the wider localism agenda. In particular, the Localism Act 2011 seeks to move power away from the state and put it back into the hands of local people.

⁷ HM Government (2011) Open Public Services White Paper. Available at <http://www.cabinetoffice.gov.uk/resource-library/open-public-services-white-paper>

⁸ From April 2011, 16 areas covering 28 councils and their partners have been put in charge of 'Community Budgets' that pool various strands of Whitehall funding into a single 'local bank account' for tackling social policies. Available at <http://www.communities.gov.uk/news/corporate/1748111>

⁹ See the Department of Health on personal health budgets. Available at <http://www.dh.gov.uk/en/Healthcare/Personalhealthbudgets/index.htm>

¹⁰ The Connected Care audit aims to talk to between 10 and 15 per cent of the local community with complex needs using various research methods, including door-to-door surveys, online surveys, face to face semi-structured interviews, stakeholder groups and events, focus groups with community members and 'have your say' events. See <http://www.turning-point.co.uk/commissionerszone/centreofexcellence/Pages/ConnectedCareSteps.aspx>

The Act has introduced the Community Right to Challenge, a new power that allows a range of stakeholders to submit an expression of interest to run a council service. A successful expression of interest will trigger a procurement exercise, in which any provider can participate. This new right provides a mechanism for voluntary and community bodies, amongst others, to drive changes in public service delivery. The language of ‘challenge’, however, suggests it is likely to be used where stakeholders feel commissioners have failed to adequately involve them. The Community Right to Challenge therefore provides a valuable backstop that those with a stake in public services to have a voice. Through their expression of interest they will be able to identify the desired outcomes and outline the value offered by their proposal.

The Community Right to Challenge process should not be seen as replacing a full commissioning cycle. Instead it should encourage commissioners to start identifying and building relationships with stakeholders as early as possible, whilst using the number of challenges received to run a particular service to assess whether existing commissioning models are sufficiently inclusive and collaborative.

Note: This guide is not a comprehensive guide to commissioning practice; value is only one of the considerations in commissioning services. It is intended to support those who are interested in making a step change in planning to create value, and in assessing that value.

Using this guide

This guide is written in three parts:

Part 1 provides an overview of value as it applies to commissioning and helps to contextualise the model introduced in Part 2.

Part 2 presents a model for commissioning for value. It has five sections covering the five different steps of the commissioning cycle. For each step, the guide presents:

- what needs to be done
- reasons for action
- how SROI principles are applied and the appropriate methods.

Part 3 provides some useful resources:

- a glossary
- sources of support and further information
- an interview guide for use during step 2, Needs assessment
- two case studies –Recommissioning meals on wheels and City of Edinburgh Council care at home services – illustrating the application of SROI principles to the commissioning cycle
- a note on managing outcomes in the public sector.

Language used

We have used the following language throughout this guide:

- ‘Value’ is used to describe social, economic and environmental value, in terms of the importance to stakeholders of change. This value is sometimes called ‘social’ value to clarify that it includes value that may not typically be factored into market transactions, that is, of benefit to society or loss borne by society when value is destroyed.
- An ‘outcome’ is a change that occurs as a result of an action. Possible outcomes therefore include intended positive outcomes (otherwise known as objectives), and also unintended positive and negative outcomes. You can and should plan to achieve or avoid particular outcomes, but also remember that other, unplanned, outcomes may occur in practice.
- Where ‘impact’ is used we mean outcomes after taking into account what would have happened anyway, the contribution of others and the length of time the outcomes last.
- A piece of information is ‘material’ if it is relevant and significant to stakeholders; if stakeholders would arrive at a different conclusion should the information be included or withheld, it will be regarded as ‘material’. SROI deals with the materiality of outcomes in two stages. First, the materiality – as relevance – of an outcome is judged with respect to the organisation’s policies and peers, stakeholders, societal norms and financial impacts. Second, the materiality – as significance – of an outcome is judged overall with respect to quantity and value of the outcome, taking into account what would have happened anyway and what others contributed to the change.
- ‘Social Return on Investment’ is a framework for accounting for value based on seven principles. There are two types of SROI: in a forecast SROI the quantities of anticipated outcomes are forecast rather than being fully evidenced through measurement; in an evaluative SROI the quantities of outcomes are fully evidenced.
- The guide is written for ‘you’ although ‘you’ may be a single person or a team.

Other terms used in this guide are explained in the Glossary in Part 2, Resources.

Part 1

Value in commissioning

Every action has effects, and different people, organisations or groups may experience them differently. Changes may be short or long term, and will differ in importance. These differences are important to the concept of value used in this publication, defined as ‘the relative importance of changes that occur to stakeholders as a result of an activity’.

1 What is the public sector required to do?

Government policy on best value requires each best value authority (this includes local authorities) to ‘make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness’¹¹. Furthermore, ‘this improvement involves consideration of costs, making the most of money spent, and making sure that services meet the needs of communities and authorities’ priorities¹². In 2010, the new government’s spending review framework clearly stated the need for better prioritisation in order to improve value for money¹³.

In September 2011, the government published new statutory guidance on best value¹⁴ which states:

To achieve the right balance – and before deciding how to fulfil their Best Value Duty – authorities are under a Duty to Consult representatives of a wide range of local persons; this is not optional. Authorities must consult representatives of council tax payers, those who use or are likely to use services provided by the authority, and those appearing to the authority to have an interest in any area within which the authority carries out functions. Authorities should include local voluntary and community organisations and small businesses in such consultation. This should apply at all stages of the commissioning cycle, including when considering the decommissioning of services

11 The definition for Best Value is that given for England. Scotland, Wales and Northern Ireland use different definitions.

12 See Local Government Improvement and Development, ‘What is best value?’ <http://www.idea.gov.uk/idk/core/page.do?pagelId=5184420>

13 HM Treasury (June 2010) The Spending Review Framework. Available at http://www.hm-treasury.gov.uk/d/spending_review_framework_080610.pdf (page 8).

14 Communities and Local Government (September 2011) Best Value Statutory Guidance. Available at <http://www.communities.gov.uk/documents/localgovernment/pdf/1976926.pdf>

The approach we take in this guide is consistent with the intention of this new statutory guidance, to promote consultation with stakeholders throughout the commissioning cycle.

Although only best value authorities have a duty of best value, value for money considerations are found across the public sector. The public sector, therefore, is clearly concerned with measuring and managing aspects of value, but systems for addressing the measurement of value vary and are often incomplete. Any measurement system involves choices about what to measure, how to measure it and how to determine the relative importance of what is measured. The public sector has tended towards top-down systems, driven by national and local government, or by professionals and academics. This brings a greater ability to standardise measurement and compare data, but there is also a risk that some important impacts may be missed and complexities ignored, and that data may be produced that is not significant. Furthermore, although valuation techniques are common in some public sector fields, there is little widespread use of any approach to judging relative importance.¹⁵

With a move towards localism, local authorities and other local public sector organisations are re-considering what they measure, how they manage performance and how they are accountable. Markets are opening up and the public sector is increasingly fulfilling role of a commissioning rather than provision. These trends require a rethink of the architecture of the information that is collected and that the commissioner is able to respond to a bigger and more complex picture. The principles and approaches outlined in this guide offer a framework, which can act as a guide to judgements rather than being prescriptive of indicators, and also supports the development of breadth of perspective.

2. Developments in commissioning for value

The 2010 Modernising Commissioning Green Paper¹⁶ devoted a whole section to the subject of value, and it remains a hot topic for commissioning in general and for commissioning affecting civil society in particular¹⁷. There is, then, both a need and an opportunity to consider what should be valued, and the principles that should underpin the identification and interpretation of data.

¹⁵ This point is further developed in the report, Social Return on Investment Working Group (January 2011) Outcome-Based Government: How to improve spending decisions across government, The Centre for Social Justice. Available at http://www.centreforsocialjustice.org.uk/client/downloads/CSJOutcomeBasedGovernment_final2_WEB.pdf

¹⁶ Cabinet Office (2010) Modernising Commissioning: Increasing the role of charities, social enterprises, mutuals and cooperatives in public service delivery. <http://download.cabinetoffice.gov.uk/green-paper/commissioning-green-paper.pdf>

¹⁷ Value in some guise also featured in a Private Members bill (Public Services Social Enterprise and Social Value bill). The January 2011 report Outcome-Based Government from the Centre for Social Justice also talked extensively about SROI and the importance of valuing outcomes. See http://www.centreforsocialjustice.org.uk/client/downloads/CSJOutcomeBasedGovernment_final2_WEB.pdf

Delivering value is most likely to occur by:

- harnessing efforts and inputs towards meaningful objectives
- identifying and managing unintended results which may be negative and positive
- specifying and managing results with an eye on the relative importance of those results.

Value is most likely to be assessed and understood through:

- conversations about change and the importance of change with those who are or will be affected by it
- systems that measure the outcomes that are relevant and significant to stakeholders
- taking account of what would have happened anyway and the contribution of others.

There are many ways in which untapped value can be realised by the public sector. These include:

- asking all suppliers to apply the principles of SROI when making proposals, improving the way value is communicated and understood
- creating more positive change by intervening early and moving resources from addressing symptoms to tackling causes
- changing the objectives of commissioned services from meeting segmented needs to supporting changes in lives
- moving from looking at the capacity of individual providers and contracts to looking at a system of needs arising and opportunities being captured
- avoiding negative outcomes

- creating change for different groups – expanding the impact beyond those people already engaged
- harnessing a greater contribution to change from multiple parties
- Increasing the measurement of outcomes alongside outputs, and identifying and measuring positive, negative and unintended outcomes
- focusing on important change and improving outcomes measurement by using both subjective and objective indicators for each outcome
- taking an interest in the relative importance of all outcomes and not just those that save money in the short term.

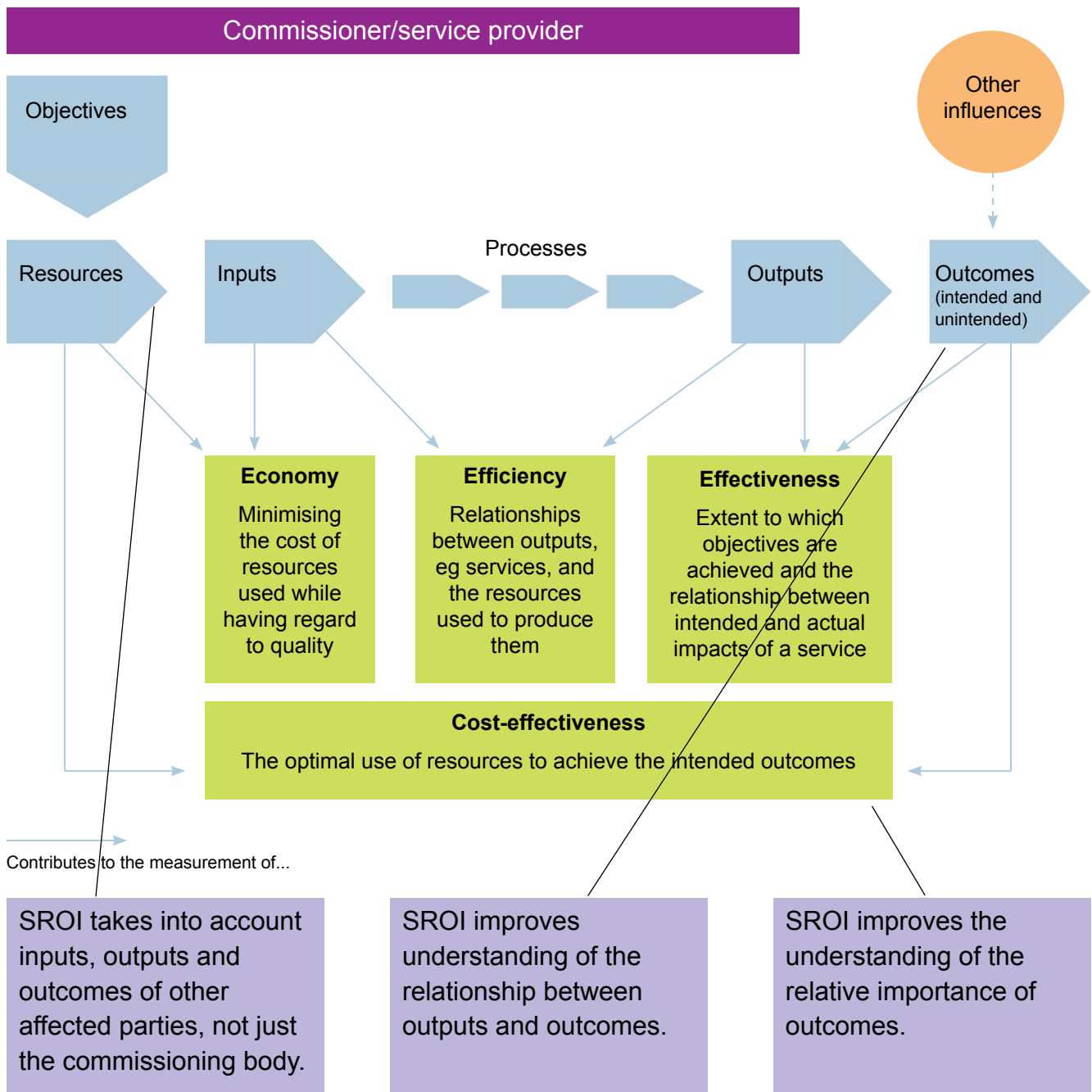
Using the principles and practices of SROI helps to build a picture of value; this may aid decision making in two key ways:

Breadth – By systematically identifying who is affected by activities and how, and making judgements about the materiality of those effects, commissioners can identify opportunities to increase the range of value created and avoid negative consequences.

Depth or importance – By improving how change is understood and its relative importance, commissioners can focus on those things that create the most value.

This may be put in a context of the general view of value for money, as expressed in the diagram from the National Audit Office, overleaf.

Figure 2: Building on the NAO value for money model



Source: Adapted from the National Audit Office, Successful Commissioning guide, an online toolkit available at www.nao.org.uk

The diagram shows how SROI considers multiple stakeholders, considers how change (the relationship between outputs and outcomes) will be understood, and takes into account the relative importance of outcomes. This broadens the account of value in comparison to standard value for money models.

The value ultimately achieved by the delivery of a solution may be influenced by many factors, including:

- how open you are to other parties identifying problems and opportunities
- your understanding of service user needs
- the choices you make about the scope of the requirement, particularly which outcomes are considered most important
- your choice of sourcing mechanism, what you communicate to suppliers who may respond to your requirement, and the contract terms agreed
- how you monitor, evaluate and manage the service.

There has also been some interest from the public sector, mostly from an economic development perspective, but latterly within joined-up government to consider the likely and possible impact of one type of expenditure on areas of interest to other parts of the public sector. Our perspective is that those public services with an explicit social purpose may also (by design or by accident) have impacts on social needs other than the ones they are primarily designed to address. With most public spending channelled through public bodies and departments with different core objectives, collaboration with other departments and public bodies is needed in order to take into account those actual or potential impacts.

Using the Commissioning for Maximum Value model, which is presented in Part 2 of this guide, will support best value, improve relationships with communities and suppliers and deliver a more consistent approach to measuring and understanding value.



Part 2

The Commissioning for Maximum Value model

A model for integrating the principles and practices of SROI into commissioning

There are key points to be taken into account at each stage in a commissioning cycle so that value is maximised. This section describes a model offering practical ways to find and deal with value that has previously not been identified, assessed for significance or acted on.

These are the five elements of the model:

1. **Initiating commissioning.** Recognise proposals from stakeholders and from consultation and survey results as prompts to investigate need, in addition to other prompts, such as new policy or the end of a contract. Put in place systems to prompt proposals from stakeholders about improvement, redesign, and identifying and filling gaps.
2. **Needs analysis.** Understand the relationship between need and change by involving stakeholders. Identify factors that contribute to the existence of the need and other activities that are intended to tackle it. Identify any potential to influence the objectives of other stakeholders who carry out activities relating to this need. Research what would happen without doing anything.
3. **Options appraisal and service design.** Involve stakeholders in generating options. Use forecast SROI as part of appraising options, including consideration of value for, and negative impact on, all stakeholders. Seek solutions that will take important, but previously unrecognised or under-recognised, value into account. Set research agendas in areas where value is unclear. (There is further discussion of forecast SROI in Step 3, Options appraisal and service design.
4. **Sourcing.** Collaborate with public and civil society stakeholders in resourcing and sourcing the solution, bearing in mind possible significant cross-boundary resource or result implications. Take account of opportunities to maximise the value of the service through the sourcing strategy by communicating with providers about the desired positive value and potential negative value. Take account of value in award decisions, contract conditions and performance monitoring.
5. **Implementation, delivery and review.** Design monitoring systems to focus on key areas of value. Incentivise good performance against priority outcomes. Use evaluative SROI as part of service review. There is further discussion of evaluative SROI in Step 5, Review.

Commissioning for maximum value entails covering all five steps outlined in this guide and engaging with the planning and accounting for value principles throughout the commissioning cycle. However, you may wish to get started with one or two stages of commissioning, for example Initiating commissioning and Needs analysis, and to build and improve on this over time. Another option would be to start by carrying out an evaluative SROI on an existing service. Alternatively, you could use the whole model but start by applying it to a smaller project; once comfortable with the approach, you should make the most complex issues your priority.

Note: Suppliers or prospective suppliers will find that carrying out SROI analyses, using the approach described in *A Guide to Social Return on Investment*, is useful, particularly if they wished to demonstrate value created by their approach that has previously not been recognised by commissioners or policy makers¹⁸. Such analyses may be useful to commissioners in considering whether an innovation should be tested further, whether there is an opportunity to develop a new service using that approach or whether there is a case for commissioning something different. A public body that has engaged with the Commissioning for Maximum Value model will be in a strong position to understand and respond to such supplier-driven analysis.

Furthermore, commissioners have an important role to play in encouraging a good analysis and reporting of the impact and value services make. They can promote the use of principles of SROI by all suppliers whether for making speculative or innovative proposals, or for bidding in a procurement exercise. Having an improved understanding of your potential supplier base and the value proposition they offer can help to move beyond thinking about individual services to building an approach to managing a market towards value.

For each of the five steps in the commissioning cycle, this guide explores:

- what needs to be done
- reasons to take action
- the principles underpinning the approach
- methods.

A diagram summarising the principles at each of the five steps in the commissioning cycle can be found in Part 3, Resources, Overview of the Commissioning for Maximum Value Model

¹⁸ If the SROI Network has assured the report, such a report will have been judged to comply with the seven principles.

Step 1: Initiating commissioning

1.1 What needs to be done

Be aware of prompts

When a commissioning cycle starts, be aware of any prompts that might indicate opportunities to increase positive value or reduce negative value.

Set up systems to be open to ideas

Develop systems that can use traditional prompts, such as the end of a contract or a policy change, but also allow spontaneous input from stakeholders to act as prompts. To do this, systems should allow and actively seek views and proposals from a range of stakeholders.

Focus resources

Assess where there is best potential to create value and allocate commissioning resources accordingly.

1.2 Reasons for action

Stakeholders may have innovative ideas or they may notice problems or opportunities that commissioners are not aware of. These observations may indicate where positive or negative value can be created; taking account of them can lead you to identify important opportunities for service improvement, innovation and reconfiguration. It's important to develop a proactive system (to complement other prompts) that encourages a wide range of stakeholder input, bearing in mind that some stakeholders may find it hard to find ways to put forward ideas or concerns.

Commissioning is usually shown as a continuous cycle, implying that the usual prompt to allocate resources to a new commissioning cycle is the review of a previous contract. But this is not a full representation of the process. Many commissioning exercises do start as a result of a previous contract coming to an end – and may be thought of as recommissioning. However, sometimes new commissioning is required– started as a result of new policy, growing recognition of a problem, benchmarking, changes to budgets or changes to the structure of the public sector. Lastly, activities may be decommissioned at the end of a contract period. Decommissioning and recommissioning might also be initiated in response to contractual issues, complaints, or other failures.

The Commissioning for Maximum Value model requires that time is spent on investigating the ideas and problems that are most worthwhile. The commissioning process itself uses resources, so those resources should be focused on better understanding the priorities for what is commissioned.

1.3 Principles and methods

Principles

SROI principles are applied in practice to the initiating commissioning stage of the commissioning cycle in the following way:

Involve stakeholders

Be proactive and systematic in inviting others to define problems and propose ideas.

Understand change

Assess ideas for their potential to lead to options for delivering change.

Value the things that matter

Encourage potential suppliers to include estimates of how their proposals create and destroy value, how much value and for whom, when they make proposals.

Only include things that are material

Communicate what is currently relevant to you and judge ideas and problem definitions from others on the basis of likely significance to stakeholders as well as your own current objectives.

Recognise your contribution as part of a system*

Be open to others' ideas and contributions to problem identification. Make an initial assessment of how commissioning to address problems identified will relate to efforts made by others.

* In Steps 1 to 4 of the commissioning model in this guide, the fifth SROI principle, 'Do not overclaim' is instead expressed as 'Recognise your contribution as part of a system'. This is to reflect that at most steps, such as initiating commissioning, needs analysis and options appraisal, you are not making claims about value, but rather investigating value. The sense of the principle remains, that is, that you should take account of the interventions and activities of others, and recognise that what you do is likely to be only one cause of change.

There are a number of key methods involved in this stage:

1. Define your area of interest
2. Identify your stakeholders
3. Set up systems for stakeholders to identify opportunities and problems
4. Estimate the value of taking action
5. Select what to investigate further

Define your area of interest

At this stage you communicate to stakeholders who you are and what you are responsible for. You may wish to cover:

- your statutory obligations
- your current priorities
- your forward commissioning plans, including timing and resource constraints.

Identify your stakeholders

At this stage in the commissioning cycle, the biggest concern is getting intelligence and good ideas that can lead to identifying problems. Possible sources of information include:

- existing and potential suppliers
- service users and their families
- advocacy groups
- voluntary organisations and other public sector agencies working with the same client group
- academics, think tanks and researchers
- grant-funded programmes where new approaches may have been tested.

Set up systems for stakeholders to identify opportunities and problems

You will get most ideas by having a range of mechanisms for identifying a possible need to start commissioning. These might include:

- community consultations
- employing a specific member of staff to identify new ideas (for example, The Young Foundation's Social Entrepreneur in Residence)
- running open calls for ideas (for example, small and medium enterprise supplier surgeries)
- some mechanisms that may assist with this are being supported by legislation (for example, the Community Right to Challenge, requiring consideration of expressions of interest)
- publishing a named point of contact to receive and respond to speculative proposals

Estimate the value of taking action

Ask stakeholders questions that will focus attention on where important positive change can take place and how important negative change can be avoided. Ask about gaps and problems, about their aspirations and whose current efforts are under-recognised or unrecognised. For example, rather than just asking how services can be improved, ask about any problems caused by lack of services. Ask people about how many people are affected, or for other evidence of the scale of the problem. Responses to these questions may indicate potential for value to be increased.

Have a standardised approach to collecting ideas about both perceived problems and opportunities and proposed solutions. So that you understand better the importance of tackling the problem, ask what the knock-on effects would be if the problem were solved.

Select what to investigate further

As a result of being more open to a range of stakeholders, your systems will have identified new problems and opportunities. Screening at this stage to identify where need is likely to be insignificant can help you to avoid committing unnecessary resources to the next step – needs analysis and setting objectives. In a situation of limited resources, it will also be helpful to prioritise those problems and opportunities to be taken forward to needs analysis, taking into account both the likely significance of the problem and practical issues (such as the end of a previous contract). This will allow your resources to be committed to investigating those problems and opportunities that have transformative potential.

Step 2: Needs analysis and setting objectives

2.1 What needs to be done

Identify how to transform current need

Understand the aspirations of the target user group by involving them. Your understanding of need should not be constrained by a definition of user group ‘problems’. Instead, need should be understood and expressed in relation to the opportunity for your service to achieve a step-change – a movement towards users’ and potential users’ aspirations.

Identify how to prevent future need

Understand how needs arise by involving the existing target user group and potential users at risk. Identify chains of events, triggers and indicators of problems.

Focus on both transformation and prevention

Define how public spending can address needs in terms of both:

- maximising the results for service users with current needs
- avoiding or minimising future needs.

2.2 Reasons for action

Public sector spending on goods, services and works is justified by an assessment either that there is a current need for intervention or that future benefits will reduce a future need to intervene. Such future benefits might result in a reduced need for any type of intervention. They could also constitute an increased capacity by others outside the public sector to meet future needs.

Legislation and policy both influence what is judged as a valid need requiring a public sector response. As a result of financial pressure on public bodies, some are looking to reduce expenditure by providing only statutory services¹⁹, while others are choosing to provide a minimum quality of service. Yet minimising input is only one option for achieving better value for money. Effective needs assessment can contribute greatly to a better understanding of how to intervene wisely, collaboratively and minimally. Indeed, without assessing potential results, there may be unintended consequences.

Transforming current needs

Those planning interventions should recognise that problems may be multi-dimensional and interlinked. Users may not compartmentalise their needs in the way that services do. Furthermore, people have aspirations that go beyond the immediate identified need, problem or deficit; if this is ignored, the opportunity to move them one step closer to their aspirations may be lost. Framing public sector spending as being about meeting immediate needs may encourage or reinforce dependence.

¹⁹ Determining what services a public body has to provide statutorily is not straightforward; the legislation giving rise to statutory requirements is diffuse and the level of service required is often discretionary. In the local authority arena, some have instead sought to define mandatory services – those that the local authority would risk prosecution for not delivering.

Needs assessment models, particularly those relating to ‘person-centred planning’²⁰ have started to define public sector objectives in terms of how they contribute to meeting aspirations, with the expectation that individuals will be empowered or that multiple agencies will contribute to realising those objectives. The use of these models has often been limited to directing resources to individuals through personal budgets, but there is no reason why the results could not be aggregated to inform commissioning of services for a population. Understanding what users and others bring is also developing currency in the form of the ‘asset-based approach’ to needs analysis.²¹

Preventing future demand on public services

The most effective way of reducing costs is to avoid the need arising. Therefore, it is important to consider preventative and early interventions as another opportunity to reduce demand on public services. Spend on meeting the need of the existing population should also be harnessed wherever possible to pre-empting or avoiding that need in future populations. You should also consider how your response to a defined need relates to the responsibilities and activities of other public bodies or departments, since you may be able to influence demand for other services.

Balancing how you address current and future issues

How a given need is defined will influence the scope of what is commissioned and its objectives, and will therefore be an important driver of how value for money is assessed. Broadening the definition of need, or raising the standard of what success looks like, should focus everyone involved on creating more value. In doing so, this does not mean that each service will put more in; rather, it implies more effective collaborative working. Creating more value in this way may in some cases be achieved without affecting costs; in other cases it may increase costs in the short term and reduce them in the longer term.

²⁰ See, for example, the website Understanding Individual Needs.com, which is dedicated to developing understanding of the lives and circumstances of people with learning disabilities. <http://www.understandingindividualneeds.com/page.php?identity=pcp> and information by Kirklees Council on Person Centred Planning for adults with learning disabilities. <http://www.kirklees.gov.uk/community/health-care/learningdisability/PCP/pcp.shtml>

²¹ See the discussion on Foot, J and Hopkins T (2010) A Glass Half-Full: how an asset approach can improve community health and wellbeing, IDEa on [communitycare.co.uk](http://www.communitycare.co.uk). <http://www.communitycare.co.uk/Articles/2010/06/11/114697/An-asset-based-approach-to-community-building.htm>



2.3 Principles and methods

Principles

SROI principles apply to the needs analysis stage of the commissioning cycle as follows:

Involve stakeholders

Involve people in defining objectives.

Understand what changes

Find out what people are really trying to change and define your objective in relation to it. Balance how you focus on transforming existing need and preventing future need.

Value the things that matter

Value both the desired overall change and the likely contribution of your service.

Only include what is material

Resources allocated to involving stakeholders should be focused where there is most potential for learning new things that are both relevant and significant.

Recognise your contribution as part of a system

Find out which other people and organisations want to support the change and/or who is already acting in this field.

The following constitute the main methods to be used at this stage in the commissioning for value cycle.

1. Consult users to collect information about how change happens.
2. Analyse the results of consultation.
3. Assess how other parties contribute to supporting your user group.
4. Define your service's intended contribution to the overall change.

Consult users to collect information about how change happens

At this stage you will investigate what it is that users want to achieve, what they themselves and others can contribute, and clarify how what you can commission might contribute to the desired change.

Groups you should consult include:

- users of any existing, similar service
- people eligible to use a service but who are not yet accessing it
- those at risk of needing the service in future
- organisations that provide related services to the user group.

You may already be planning to consult with your user group. If so, such a consultation may be adapted to ask the types of questions necessary for this exercise. It would be useful to review consultation plans in place and align these to the questions necessary for commissioning for maximum value. It will be in your users' interests to avoid multiple consultations and needs assessments from different services, so it is worthwhile asking their permission to share aggregated data with relevant other parties. Individual care plans are increasingly a source of relevant information as they move to being more person-centred. It will be good practice to review existing consultation data to make sure you don't already have the required information – although you are unlikely to be consulting users in the way recommended by this guide when you first start using the Commissioning for Maximum Value model.

If there is already a service in place, you will need to balance how far you investigate further the needs of service users already receiving the service with understanding the needs of those not yet accessing it, but who would benefit from the service.

The model's approach is to ask open questions of a sample of users. Broadly the questions need to cover how problems arise, the likely consequence of solving them, what users have to bring to solving their own problems, who else helps them at present, and so on.

There is a sample interview guide in Part 3, Further Resources, providing example relevant questions.

Analyse the results of consultation

Gathering information from different stakeholders will have given you a set of data on:

- what users really want to achieve
- their current situation in relation to needs and aspirations
- how the need arises (which may lead to suggestions about how to reduce it)
- what is important to service users.

In order for this data to be used later in the commissioning process it should be analysed with respect to the relevant and significant outcomes and the chains of events it highlights.

Analysing chains of events and judging relevant and significant outcomes

A chain of events is a description of the relationships between outcomes. It is particularly intended to consider those outcomes that are linked causally. For example, someone with a housing need might say that she would like to feel secure in a property and (after exploring further) that this would result in her being able to collect furniture from storage which (following another question) would mean she would be able to regain home contact with her children. If the causal link is strong and the significance to the stakeholder increases, then these items could be linked, with the last link being the one judged to be most significant and therefore the outcome that will be measured using indicators.

Identifying sub-groups of users

Apart from identifying the relationships between outcomes, a second function of analysing chains of events is to identify whether there are any distinct sub-groups of users, defined by the types of outcomes they experience, the logic of chains of events or the importance to them of different outcomes. Looking for such patterns in the data may be particularly instructive in identifying causal relationships and in helping to unlock problems of limited reach or poor results within sections of the user group.

Choosing indicators

Once you have arrived at a judgement about the chains of events reflected in the data collected from users, you can start to look for appropriate indicators of each outcome so that you can describe how you will know (measure) that the change has happened. Where appropriate, try to find both a subjective and a more objective indicator for each outcome. You will not be using them until later in the process, but you will have asked how the user would demonstrate change, so it is worth developing indicators while the consultation data is fresh. There are scales and other tools already in existence using subjective (and sometimes more objective) indicators. Alternatively, you might develop your own indicators. Sometimes this process will cause you to reflect on and revise the way the chains of events and outcomes are described. At Step 4, Sourcing, you will consider how practicable it is to monitor the required indicators.

Assess how other parties contribute to supporting your user group

To start with, compile a list of the other parties, including organisations, friends and family, and other services that users and potential users of your service identify as helping them. Where there is a relevant relationship, these stakeholders should be consulted about how they intervene, or intend to intervene, to help the service user. There are standardised inventories available, such as the Client socio-demographic and service receipt inventory;²² you could use something like this as a survey to collect data about use of services from a wider sample of the user group than your interview sample.

The consultation should identify theories of change held by other parties;²³ this will help you to decide the boundaries of your intervention.

Define your service's intended contribution to the overall desired change

To move to the next step, you now need to state the objective that your service will work towards, balancing meeting existing demand with reducing future demand. You should state your contribution, limiting your intervention, but at the same time respecting people's wider aims and ambitions. You should acknowledge users' desired outcomes even if you are not putting in resources to meet a particular need.

22 Knapp, M and Chisholm, D. (2006) 'Client socio-demographic and service receipt inventory – European version' in Thornicroft, GJ et al (eds.) *International Outcome Measures in Mental Health: Quality of life, needs, service satisfaction, costs and impact on carers*, Gaskell, London, UK, pages 85-91. Available at <http://eprints.lse.ac.uk/8880/>

23 A theory of change is a description of the relationship between inputs, activities (outputs) and outcomes. Using SROI, the relationship between activities and outcomes is established by finding which outcomes are relevant (through consultation with stakeholders) and evidencing outcomes using subjective and objective indicators.

Similarly you should recognise people's broader aspirations even where there are affordability concerns about how you will support these. You might look for opportunities to lever in short-term 'invest to save' type funding or work with others who have a similar interest.

With a focus on how your service can contribute to those broader aspirations, you will have an opportunity to increase value by assessing your own contribution within a wider set of interventions and contributions – seeing users' needs within a wider system. In this way the Commissioning for Maximum Value model supports joined-up services.

Step 3: Options appraisal and service design

3.1 What needs to be done

This guide suggests some practices that may be helpful in improving the generation, analysis and selection of options:

- invite proposals for options, including taking into account novel combinations of objectives
- ensure options include proposals for reducing future demand as well as tackling current demand
- select options to appraise on the basis of likely value
- develop options that look at your own wider objectives and, where appropriate, the local context
- develop designs to bring more innovative options to life, including developing prototypes and pilots

- prepare forecast SROI analyses of the options²⁴
- compare SROI analyses and take into account other factors relevant to business cases (see, for example, the five-case model in the box on page 30).

3.2 Reasons for action

You have decided initial objectives relating to the change that the users' need. You now need to identify the best overall solution by considering novel combinations of objectives and taking into account how to tackle current need and prevent future need.

Inviting potential suppliers, advocacy groups, those in other parts of the public sector and so on to define options will expand thinking about the issues beyond your own department. It will offer insight into others who are interested in the problem or opportunity and also into new potential solutions. Appraising those options by understanding their potential impact on a range of stakeholders, and thus their importance, can help you find the best overall solution. It may highlight a need or opportunity to collaborate or pool resources in order to achieve the best solution.

²⁴ A partial forecast SROI can be done if you have limited resources for analysis.

This is in line with HM Treasury guidance that ‘in principle, any appraisal should take account of all benefits to the UK’,²⁵ and that:

‘Wider social and environmental costs and benefits for which there is no market price also need to be brought into any assessment. They will often be more difficult to assess but are often important and should not be ignored simply because they cannot easily be costed.’²⁶

Options appraisal and service design

Not all commissioning cycles need to include options appraisal. For example, the sustainable commissioning model developed by nef and the London Borough of Camden moves directly from defining needs or objectives (service level and community outcomes) to getting bidders to describe how they would meet those outcomes. In such a model the appraisal of options may effectively occur at tender evaluation since it is at this point that the relative costs and intended benefits may be assessed. Or, at least, commissioners can rate their confidence that suppliers will address desired outcome types as part of the quality score, with more important outcomes given a higher weighting.

Similarly, ‘service design’ tends to imply that commissioners specify a level of type of activities. This may not always be necessary or desirable; for some services it may be better to specify only outcomes and assess the providers’ likelihood of achieving outcomes through method statements. This allows for greater freedom in service delivery models. Step 4, Sourcing, includes further discussion on the definition of outcomes-based specification and its advantages and disadvantages.

You may use outcomes-based specifications even if you are carrying out options appraisal and service design. Firstly, options appraisal may allow you to appraise fundamentally different options (whereas the constraints of any specification are likely to limit the range of potential solutions). Also, if you carry out some service design at this stage, you can improve information about practicable solutions and their likely results; this does not necessarily mean that you issue a detailed specification of the service with the invitation to tender. Potential suppliers will be in a position to comment on how different approaches might be conducive to them creating more value or inhibit them from creating value. They should therefore be included in any options appraisal and service design undertaken.

²⁵ HM Treasury (2006) Value for Money Assessment Guidance, page 7. Available at http://www.hm-treasury.gov.uk/d/vfm_assessmentguidance061006opt.pdf

²⁶ HM Treasury (2003) Green Book, page 2. Available at http://www.hm-treasury.gov.uk/economic_data_and_tools/greenbook/data_greenbook_index.cfm

3.3 Principles and methods

Principles

SROI principles apply to the Options appraisal and service design stage of the commissioning cycle as follows:

Involve stakeholders

Involve stakeholders in generating options and in forecasting and valuing the potential outcomes of options.

Understand what changes

Forecast positive, negative and, as far as possible, unintended changes of each option.

Value the things that matter

If it is necessary to focus the appraisal then value the most resource-constrained outcomes and the negative outcomes.

Only include what is material

If there are insufficient resources to analyse everything then resources should be allocated to involving stakeholders in forecasting outcomes based on assessing the most significant outcomes.

Recognise your contribution as part of a system

The best overall value should be used as the basis for selection of the preferred solution (rather than using a cash savings criterion alone), taking account of all relevant and important outcomes to different stakeholder groups, including other public sector bodies. Where this poses affordability issues, partnerships should be sought.

Assuming options appraisal and service design are going ahead, there is an opportunity to identify and design a solution that is best value for money by using the principles and practices of SROI.

1. Invite proposals for options, including taking into account:
 - a) novel combinations of objectives
 - b) organisation and service area objectives
 - c) the balance between meeting current demand and avoiding future demand
 - d) where applicable, any anticipated difference between delivery using public sector staff and delivery by third parties.²⁷
2. Screen on the basis of a rapid appraisal involving representative stakeholders.
3. Do SROI analyses (or partial analyses) focusing on providing information for key decisions, but not forgetting other factors relevant to business cases.

²⁷ This is sometimes called a 'make or buy' decision. At present there are policies that encourage the public sector towards a buy decision, sometimes requiring externalisation of public sector staff previously employed to deliver the requirement. In such policies, there is an implicit assumption that the buy option will provide better value for money. The Commissioning for Maximum Value model suggests that you test such assumptions at the options appraisal stage.

Invite proposals for options

This is the stage where you may ask for, and consider, proposals to tackle needs in different combinations. These proposals might be put forward by colleagues in other public departments and bodies in order to meet corporate or policy objectives. Doing so is sometimes called ‘policy through procurement’²⁸ and may address sustainable development (sometimes called ‘community benefits’ or ‘social benefits’). It may require targeted recruitment and training, or inclusion of voluntary and community sector subcontractors. Proposals could also be put forward by potential suppliers and by other parts of the public sector (which is sometimes called ‘joined-up service development’). To better meet the principle of involving stakeholders you could develop options together with users and other stakeholders in workshops and drawing on design approaches such as prototyping²⁹.

Screen on the basis of a rapid appraisal involving representative stakeholders

You may have limited resources for options appraisal. But, if you are limiting and selecting the options to be appraised, take care not to exclude proposals purely because they are unusual. When you select the final option, consider how much you already know about the likely effects of each option as well as the significance of the results themselves. Therefore, spend most time investigating options that you currently know least about, but think are likely to create most value.

The extent to which different intervention options are constrained, or might be determined, by your available resources will influence how much effort you put into understanding their value to different groups. For example, if you’ve identified a need to increase social interaction and to increase the quality of food eaten by a target client group, these requirements may both add costs to a service. Understanding the relative importance of outcomes will be crucial when making decisions on scope and selecting bids.

One of the options taken forward to appraisal should be a ‘do nothing’ option. In line with generally accepted good practice, appraising this option will help to find a baseline which will be useful in assessing impact, taking into account what would have happened anyway – the ‘deadweight’. (The concept of deadweight is discussed further in Step 5, Review, in relation to establishing the impact of your intervention.) If the exercise relates to recommissioning then it may also be useful to appraise the ‘continue as before’ option. (A public body using the full approach to commissioning for maximum value, as described in this guide, would already have an evaluation of the impact of this service.)

Screening for negative impact should also take place later in this stage.

²⁸ See Office of Government Commerce (OGC) website http://www.ogc.gov.uk/policy_and_standards_framework/policy_through_procurement.asp

²⁹ There are several organisations that support the public sector to apply design thinking to co-production of services. These include the Design Council who run a support programme for public sector managers called ‘Public Services by Design’ www.designcouncil.org.uk

Prepare forecast SROI analyses of the options

Some approaches to cost-benefit analysis may already bear a resemblance to SROI and so forecast SROIs may be thought of as taking the place of cost-benefit analyses. However, following the steps and principles of SROI as closely as possible will make sure that the analysis offers a fair assessment of the value created.

Approaches to options appraisal in the public sector vary. In central government, and in particular for higher value capital expenditure projects and policy decisions, the use of the Green Book is mandated.³⁰ Government departments have also developed specific guidance interpreting the Green Book for different contexts. However, the Green Book does not specify the exact circumstances in which it is to be used. It is also important to note that assessing costs and benefits (or inputs and social returns) is only one part of making a business case in the public sector. This is shown in the five case model described in the box to the right.

The approach to developing forecast analyses in this context is the same as that set out in A guide to Social Return on Investment and follows the six-step methodology. Ideally, a full forecast should be prepared for each option. If you do this, you will be able to make a fair comparison of options. It requires a full cycle of stakeholder analysis, stakeholder involvement based on understanding what might change if each option were carried out, estimation of quantities of change and development of financial proxies.

³⁰ Local government may set its own standards for options appraisal. One source of guidance is the Commissioning Joint Committee Standing Guide to Local Authority Commissioning, published annually by CIPFA.

The five case business model

The business case is not simply a vehicle for gaining approval for a scheme. The business case is important because it is the planning and management tool that enables stakeholders, customers and delivery personnel to ascertain that schemes are:

- supported by a robust case for change that provides strategic synergy – the ‘strategic case’
- able to optimise value for money – the ‘economic case’
- commercially viable – the ‘commercial case’
- financially affordable – the ‘financial case’
- achievable – the ‘management case’.

Irrespective of whether approval is required, the above components need to be satisfied for all public sector schemes.

Source: HM Treasury Green Book
http://www.hm-treasury.gov.uk/d/greenbook_toolkitguide170707.pdf



There may be circumstances where limited resources available for analysis means you have to restrict the scope of the analyses. In these situations, it may be acceptable to ignore stakeholders that are less directly affected. Another way to limit the scope of analysis might be to focus it on understanding the results and value of areas of the options that are thought to be drivers of cost; this will help you support a decision about whether they are worth that cost.

In developing SROI analyses for each option, you will develop a theory of change for the activities within each option. This theory of the change that is likely to be created will be documented in an Impact Map and supported by evidence. The Impact Map shows the relationship between inputs, activities, outcomes, impact and value for each stakeholder. Evidence includes that the outcomes are likely to be relevant to the stakeholders (from asking stakeholders about change), that the outcomes mapped are significant (from analysis of chains of events and also from financial proxies) and evidence of how important they are (from financial proxies that stakeholders have input to or commented on).

Ways to understand how important changes are

Once you have forecast the likely outcomes, it's necessary to recognise that outcomes are not of equal importance. The importance attached to them is likely to be different within the group experiencing the outcomes; outcomes that are important to one stakeholder group may also be more or less important to other stakeholders. Furthermore, requiring all desirable outcomes may make the solution unaffordable, or different solutions may offer more or less of different outcomes, and so on. Therefore, in most cases it will be important to judge the relative importance of outcomes.

There are many approaches to judging how important outcomes are.³¹ These range from using simple systems such as scoring and weighting, to highly complex statistical analysis. Some advocate involving stakeholders, others leave it to professionals. Some require monetary values to be assigned to all outcomes; others deal with a mixture of monetary and non-monetary values. There is surprisingly little literature on the evidence base for different approaches.³²

The principle in SROI is 'Value what matters – use financial proxies in order that the value of the outcomes can be recognised'. The HM Treasury Green Book also recommends that all benefits (whether there is a market price for them or not) are valued and Annex 2 of the Green Book provides details of recommended approaches to doing so.

³¹ See, for example, Department of Communities and Local Government (January 2009), *Multi-criteria Analysis: a manual*, Chapter 1, available at <http://www.communities.gov.uk/documents/corporate/pdf/1132618.pdf> and the account of a preference study given in Office for National Statistics, *Measuring Outcomes for Public Service Users*, page 43, available at http://www.ncvo-vol.org.uk/sites/default/files/images_mopsufinalreport_tcm77-323711.pdf

³² See for example Health Research Policy and Systems at <http://www.health-policy-systems.com/content/pdf/1478-4505-4-18.pdf%3E>

It's crucial to remember that SROI uses financial proxies in order to reveal outcomes that are important to stakeholders and to support judgement of their relative importance. It's not simply about comparing outcomes with inputs. Relevant stakeholder groups therefore need to be involved when financial proxies are developed.

There are three main types of financial proxies:

- Approximations of real transactions or changes in money, for example where an outcome produces a change in income or expenditure for the relevant stakeholder.
- Approximations of value based on potential changes in money for the relevant stakeholder. For example, where the outcome may result in a lower use of resources but this is insufficient to actually affect the budget, these are often valued using unit costs. This type of proxy tends to relate to outcomes for the public sector.
- Approximations of value based on what a related market reveals about preference for the outcome (revealed preference), or which are based on surveys of stakeholders preferences for the outcome (stated preference). This approach is often required to value outcomes for groups of stakeholders that are not organisations, such as service users, families and other members of the community.

The SROI principle requires that, regardless of the type of financial proxy used, the relevant stakeholder should be involved in some way in order to inform or review the choice. The choice of proxy is never entirely a desk exercise, however the VOIS database (see Part 3 Resources) may be used as a starting point to understand how other people have approached financial proxies for certain outcomes.

The results of conducting the analysis will be an Impact Map for each option (complete or partial) that may then be compared. When choosing the best option to be taken forward to sourcing, a number of considerations apply over and above any summative ratio. These considerations include sensitivity to assumptions, risks to achieving (or avoiding negative outcomes) and the profile of how different types of value are created for different stakeholders. Where there is limited experience of delivering a particular type of services it may be very difficult to estimate the quantities of outcomes that could be expected, the degree of certainty will affect what you do at the next step, Sourcing.

Step 4: Sourcing

4.1 What needs to be done

When advertising, specifying, devising award criteria, determining contractual terms and performance management systems, use the theory of change developed at an earlier stage in commissioning (see the discussion on Step 3, Options appraisal and service design). This will help you decide how to manage different aspects of sourcing, which include, for example:

- deciding which other public sector bodies or departments to commission jointly with
- deciding whether to use grants or contracts
- specifying aspects of an activity where it is known to have an important effect on outcomes
- specifying types of desired outcomes
- considering the duration of outcomes when setting contract duration.

4.2 Reasons for action

At this stage in the commissioning cycle, there are important decisions to be made about what to buy, how to communicate it to potential suppliers, how to assess bids and how to monitor and control the provision. By now you have selected the best overall solution – the one forecast to be the best combination of forecast outcomes, and judged to be practicable.

At the earlier stages of commissioning, using the process set out in this guide, you will have developed a strong understanding of stakeholders, objectives, chains of events, ways to measure things, and the value of outcomes. This understanding can be used to inform:

- the choice of whether to make or buy the requirement
- the approach to contracting or funding
- the best way to communicate with suppliers
- the contractual terms
- monitoring and performance management systems.

4.3 Principles and methods

Principles

SROI principles apply to the Sourcing stage of the commissioning cycle as follows:

Involve stakeholders

Involve stakeholders (except suppliers) in evaluating bids.

Understand what changes

Ask suppliers to explain how they will deliver required outcomes, where they think they can exceed outcomes and any optional outcomes. Ask suppliers how they will manage unintended consequences.

Value the things that matter

Favour proposals with the best overall value of anticipated outcomes.

Only include what is material

Specification, award criteria, contractual terms and proposed performance management systems should focus on managing the most material value.

Recognise your contribution as part of a system

Specification, award criteria, contractual terms and proposed performance management systems should make clear the expectations for harnessing the contributions of others and working with them.

In Step 4, Sourcing, the overall process involves using the information and analysis you developed while working through Steps 1 to 3 to inform various decisions about sourcing and when communicating with suppliers. Step 4 involves four main methods:

1. choose how to source, taking account of the degree of certainty around outcomes and the affordable quantity of outcomes
2. develop a value-oriented specification
3. define the criteria to judge the most economically advantageous tender, using financial proxies for weighting outcomes
4. set up monitoring, evaluation and performance management focused on value.

Choose how to source, taking account of the degree of certainty around outcomes, affordable quantity of outcomes, and need for joint commissioning

In many cases, although not all, you will be able to choose whether to source using a grant or a contract. The National Audit Office offers useful guidance in its Successful Commissioning guide on how to select between these mechanisms, including when they can be used ('contract' is rendered in the NAO's guide as 'procurement').³³ Additionally, the degree of certainty surrounding the chain of events for outcomes should act as a guide to whether a grant or a contract is more appropriate. The less certain you are of how the desired types of outcomes could be achieved, or that potential suppliers can achieve it, the more useful a grant may be, so long as the results achieved by the grant are monitored and evaluated.

³³ The National Audit Office, Successful Commissioning guide available online only at http://www.nao.org.uk/guidance__good_practice/third_sector/successful_commissioning/successful_commission_toolkit/toolkit_home.aspx or visit www.nao.org.uk if the URL changes.

Furthermore, it can be difficult to set targets for quantities of outcomes unless there has been adequate previous measurement of outcomes. If you want to establish what is possible for a service (in terms of quantities as well as types of results) you may be able to grant fund to allow the provider to be flexible and adapt what is delivered to meet the intentions of the service. If you are using such funding for a feasibility test, leading to a possible further requirement, you should also require or plan to carry out an evaluative SROI.

Even where a decision is made to use procurement, there are still opportunities to help develop a better understanding of value with suppliers, e.g. the competitive dialogue process may be used or you could encourage variant bids.

The option selected at step 3, Options appraisal, may also drive a need for working together with other parts of the public sector and even pooling budgets, in order to commission the solution. The analysis you conducted of the chosen option should offer a guide to how important it is to work with others, for example where it would be unaffordable to secure the required outcomes without another public body's support or where there is a particular interest in one or more of the outcomes by another party.

Develop a value-oriented specification

A value-oriented specification is not simply 'outcomes based', nor does it require a particular approach to articulating forecast outcomes³⁴. Instead, it communicates the relevant parts of the theory of change, and the relative importance of different outcomes, to prospective suppliers. This will allow the following:

- It will frame the information to allow a response that can be used to test the likelihood and extent to which a supplier will meet or exceed the positive outcomes. For this, you will need to balance providing lots of information about the picture you have built up of the chosen solution (while carrying out Steps 1 to 3 of this guide) and leaving information gaps such that suppliers may demonstrate their ability to deliver the solution.
- Articulating anticipated outcomes is an important way to focus suppliers on creating value but, as already noted at the end of section 3, Options appraisal, you may be unsure of the quantities of outcomes that it's reasonable to require within affordable limits. Your existing systems may also be limited in their ability to measure outcomes and make it difficult for suppliers to produce evidence that they could provide a particular quantity of any outcome. In these cases, it's better to specify the types of outcomes and ask for evidence of the method for achieving them (method statements), following up with good monitoring systems to improve the understanding of reasonable quantities of outcomes for next time.

³⁴ See Part 3 of this guide, Resources, Managing Outcomes in the Public Sector, for further discussion of different approaches to outcomes-based specifications.

- Highlight any potential negative outcomes and ask suppliers how they will control or minimise these, or set standards for aspects of the activity with a view to controlling negative outcomes.
- Furthermore, if you have strong evidence of the likely relationship between an aspect of an activity and an important outcome (positive or negative) it will be better to specify an aspect of the quality of the activity as well as, or rather than, the forecast outcome. (This is illustrated in Part 3, Resources, Increasing the value of care at home services in Edinburgh case study.)
- Clarify the relative importance of any forecast outcomes that are identified in the specification, based on the assessment of value made using financial proxies. This point is developed further in the section about evaluating tenders.
- Communicate the various aspects of the requirement, in such a way that a suitable contract may be formed with the successful supplier. This should include specifying clauses that any successful supplier would be expected to adhere to; where these concern a particular outcome, the system for measuring the outcome should be stated.
- Consider encouraging variant bids, especially in the case that limited options appraisal and service design has been undertaken.
- Communicate how outcomes will be measured, using the subjective and objective indicators you developed at Step 3. This is covered further when we discuss monitoring and performance management.
- The contract period should be set taking account of when the most significant outcomes are likely to occur and therefore be measurable, and also how long they last. The period of the contract may be different to the period of the activity.
- The requirement should state, wherever possible, that consortium bids would be considered. This allows maximum flexibility on suppliers' parts to build a solutions that are intended to deliver the most value.

Define the criteria to judge the most economically advantageous tender, using financial proxies for weighting outcomes

You developed financial proxies with respect to the chosen solution at Step 3, Options appraisal. These proxies should be used to inform your judgements about the relative weighting of different aspects of the scoring of tenders, that is, the outcomes or activities required or desired. To be clear, the commissioner should remain in control of determining the values used but should consider what the approach of developing financial proxies, including feedback and input from stakeholders, reveals about the relative importance of each outcome to the relevant stakeholder.

Financial proxies could also inform the relative weighting given to the price. For example, a lower overall weighting can be given to the price for delivery where the requirement is forecast to produce significant longer-term savings.

In this way, the scoring system should balance and honour the different types of value for all stakeholders, identified during options appraisal.

The assessment of relative value, informed by financial proxies, should also help to identify any outcomes that are of less significance and do not therefore need to be tested and scored at tender stage.³⁵

Remember that the advertisement of the requirement should reflect its scope (as selected at the end of options appraisal), the salient points of the specification and the award criteria. Therefore you should define the criteria to judge the most economically advantageous tender at the same time that you develop a value-oriented specification.

Set up monitoring, evaluation and performance management focused on value

So that you can measure the forecast outcomes, you may need to develop your existing monitoring systems further, or you may need a new system. These systems should make use of the subjective and objective indicators developed at Step 3, and – where the resource commitment would be disproportionate – may be focused on the most important positive and negative outcomes.

Wherever possible, good performance (in terms of avoiding important negative outcomes and achieving the best quantity of positive outcomes) should be incentivised by using payment by results, bonuses or other mechanisms.³⁶

³⁵ Such outcomes may still be nice to have and be unlikely to add cost, in which case they may still be included in the specification.

³⁶ Linking payment to the results achieved requires a strong measurement system and to take into account attribution (what results can be linked directly to the efforts of the provider), deadweight (what would have happened anyway) and displacement (how much of the outcome has displaced other outcomes). Payment by results therefore often only focuses on one ultimate outcome and measure. However, you don't need to adopt a full payment by results model to be able to incentivise good performance.

You should consider which party is best positioned to carry out different aspects of measurement. It is often the case that objective indicators of outcomes are best collected by the public sector, while subjective indicators may be collected in surveys carried out by either the commissioner or the supplier.

The assessment of forecast outcomes developed at Step 3 for the selected requirement should also be used to identify risks (particularly negative outcomes) that require independent monitoring.

The value delivered may not be the same as that forecast, and in particular there may be unintended positive and negative outcomes that stakeholders did not foresee. Therefore you may need to involve stakeholders further to check for such consequences; you should state who will carry this out and to what standard.

Further detail on these points are provided in Step 5, Review.

Step 5: Review

5.1 What needs to be done

During the Review step of the commissioning cycle, the Commissioning for Maximum Value model requires you to measure and report on the social return on investment of the service that has been commissioned using the standard approach set out in A Guide to Social Return on Investment (Nicholls et al, 2009). Recognise that the scope and purpose of your analysis is likely to affect the standard to which you will carry out some steps in the process.

5.2 Reasons for action

At previous stages you will have identified how value may be created, understood what your user group needs, considered options and designed a sourcing strategy to try to secure as much value for money as possible. This step in the cycle is about finding out the actual results. It is crucial both for public accountability and for improving future provision. It may also be possible to undertake interim reviews and seek improvements during the period of the contract itself.

There are many different systems for evaluating services in use. If you standardise with an approach that is explicit about judgements, offers underlying principles, and builds illustrative practice, you will build a more readily comparable evidence base, as over time there will be a narrower range of judgements made.

5.3 Principles and methods

A Guide to Social Return on Investment offers a more detailed description of SROI practices and a worked example, in the context of forecasting or evaluating the results of a set of actions.³⁷ A few of the key features of this approach are described in this section. However, don't wait until the end of the contract (or grant) to make a start on evaluation.

³⁷ The guide is available for free download at www.thesroinetwork.org

Principles

The standard SROI principles can be directly applied to the Review stage of the commissioning cycle. The full text appears in A Guide to Social Return on Investment; it is summarised below.

Involve stakeholders

Make sure that judgements taken by the analyst about which change to measure, how to measure it and how to value it are informed by the involvement of relevant stakeholder groups.

Understand what changes

Articulate how change is created and evaluate this through evidence gathered, recognising positive and negative changes as well as those that are intended and unintended.

Value the things that matter

Use financial proxies to highlight and express the relative importance of all relevant outcomes, whether those outcomes result in a financial transaction or not.

Only include what is material

Allow stakeholders to draw reasonable conclusions about impact by presenting sufficient information and evidence in a report of the analysis to give a true and fair picture. Judge what is sufficient with reference to your peers, societal norms and short-term financial impacts.

Do not overclaim

Investigate other factors (such as the contribution of others and what would have happened in any case) that influence the value identified in your account and only claim the value that you are responsible for creating.

The methods in the Review stage of the commissioning cycle involve the following:

- review the scope and stakeholders of the forecast SROI prepared for Options appraisal (Step 3)
- map any new outcomes, particularly checking unintended positive and negative outcomes
- review indicators, collect further evidence of change and revise outcome values
- establish the impact of your intervention
- summarise results, including SROI ratios and sensitivity.

Review the scope and stakeholders of the forecast SROI prepared for Options appraisal (Step 3)

The scope of the evaluative SROI may be slightly different from the forecast one. In particular the service may not have been implemented in exactly the same way or may have been adjusted after it started. The timescale for the analysis may be different because of any changes to the contract duration.

The purpose of the forecast analysis was to make a selection between options. The purpose of the evaluative analysis is to report to stakeholders and to review the service with a view to informing future commissioning.

You will already have a good picture of who the stakeholders are but this should be reviewed for completeness before proceeding to the next step.

Map any new outcomes, particularly checking unintended positive and negative outcomes

You may already have interview data about what stakeholders thought would change, which you used to inform decisions about which option to select and also what to monitor. However, this may not reflect what has actually happened.

Therefore you should conduct some further interviews and/or focus groups with each of the relevant stakeholder groups. You should try to go into these with an open mind and compare the data with the forecast data. These sessions will be particularly useful for checking for unintended changes. You will already have some practice at involving stakeholders in valuation, in developing chains of events and identifying outcomes from interview data. At this point, it is a good idea to reflect on financial proxies with stakeholders. Doing so may save you a further round of stakeholder involvement.

You will need to analyse this new data for chains of events and include the significant outcomes in an updated Impact Map. It is possible that some of the intended positive outcomes have not occurred as they were foreseen, so the description of these may need to be revised.

Review indicators, collect further evidence of change and revise outcome values

There are a number of key activities at this stage:

- Any new outcomes or revised outcomes will need to have indicators developed for them. It is also possible that you may wish to revise some outcome indicators; the outcomes may be the same but you may have some new information about how to best measure them.
- Identify the gaps between the data about indicators you've been monitoring during service delivery and the data collection your new stakeholder involvement suggests is necessary.
- Establish a way to collect evidence to fill gaps; this may be through bespoke surveys or by collecting information from databases and other sources.
- Lastly, review the financial proxies used, either through new stakeholder involvement or by using the results of your earlier stakeholder involvement. The VOIS database (See Part 3 Resources) is a useful reference to the ways in which others have valued outcomes.

Establish the impact of your intervention

You should have an estimate of what would have happened anyway – deadweight – from the appraisal of your 'do nothing' option, conducted at Step 3 Options appraisal. However, deadweight needs to be considered separately for each outcome and this analysis may not have foreseen all outcomes.

You will have put in place systems for tracking the duration of outcomes and the extent to which they drop off, so review the data you collected for foreseen outcomes. For unforeseen outcomes you may need to make some estimates and design new ways to capture the information in future.

The approach to reviewing displacement (an assessment of the extent to which the outcome has displaced outcomes that would have otherwise occurred) and attribution (an assessment of the extent to which outcomes were achieved as a result of the actions of others) needs to be based on reviewing data already collected, similarly to the approach for deadweight and duration.

Summarise results, including SROI ratios and sensitivity

You will have made fewer assumptions about quantities of change and will generally be working with better data. However, do test the sensitivity of the evaluative SROI you've developed to changes in assumptions. For further information sensitivity analysis see *A Guide to Social Return on Investment* (Nicholls, J et al, 2009).

By making a comparison between the results of the forecast and the evaluative SROI, you will have a better understanding of how to improve forecasting in future.

Report, use and embed

You should compile a full SROI report and consider appropriate independent assurance. Depending on the importance of the decisions being made as a result, you may also need to get the data audited. The full report and assurance and audit outcomes should be made publicly available. However, it is good practice to have an executive summary to communicate the main findings to stakeholders.

Use of the findings may include:

- deciding to initiate a new commissioning cycle sooner because of problems or later because of success
- identifying other organisations that you should partner with to collaborate on achieving an outcome
- identifying gaps in service due to failure to meet intended outcomes that need to be filled
- improving and streamlining monitoring systems to ask stakeholders fewer questions or to collect data at more convenient points.

Conclusion

The result of applying SROI principles and practices to the commissioning cycle is a process that recognises the following:

- public sector spending is usually only part of a system that can be directed to support change for individuals
- not all change is equally valuable
- there are opportunities to influence the eventual value delivered by a service through decisions made at all stages of the commissioning cycle.

By applying the whole framework and principles, you can make a big difference to your understanding of how value is created and also of how much value is created – that is, you will be commissioning for maximum value. Even if you only make some changes to your practice, in line with this guide, you will be able to improve your understanding of how value is created and support the creation of more value.

The SROI Network's mission is to embed the use of SROI principles across all sectors of the economy. We welcome members from all backgrounds and professions who support the SROI principles and approach. Members are part of a rapidly growing professional network and have access to a wide range of resources to support the development of their practice as well as having the opportunity to contribute to further methodology developments. For further details of membership please visit www.thesroinetwork.org

We welcome feedback on this guide and will always seek to maintain a dialogue with those who wish to implement practices and principles within it. Please do get in touch via commissioning@thesroinetwork.org

Part 3

Resources

1 Glossary

Asset-based approach	An approach that identifies and takes into account the strengths, skills, interests and resources of individuals and social relationships, contrasting with needs assessment approaches that primarily take account of deficits and problems.
Attribution	An assessment of how much of the outcome was caused by the contribution of other organisations or other by people.
Best value, duty of (England and Wales)	The duty to make arrangements to secure continuous improvement in the way that an authority's functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
Best value, duty of (Scotland)	As Best value, England and Wales, except for additional requirements to maintain an appropriate balance between quality and cost, have regard for equal opportunities and to contribute to the achievement of sustainable development.
Commissioning	The process of identifying, investigating, defining, sourcing and reviewing a public service.
Community benefits	Economic, social and environmental benefits that accrue locally.
Cost-benefit analysis	A type of analysis that seeks to identify and compare the value of the inputs to a project, service or activity and the value of the results. There is no standard approach.
Deadweight	A measure of the amount of outcome that would have happened anyway, even if the activity had not taken place.
Discounting	The process by which future financial benefits and losses are recalculated to present-day values, by allowing for the effects of inflation or the cost of capital.
Displacement	An assessment of how much of the outcome occurring has displaced other outcomes.
Drop-off	The deterioration of an outcome over time, such as the annual number of participants who lose a job gained as a result of a programme.
Duration	How long (usually in years) an outcome lasts after the intervention, such as the length of time a participant remains in a new job. (See also Drop-off.)

Evaluative SROI	An SROI analysis prepared with a good standard of evidence that the mapped outcomes have occurred.
Financial proxy	A monetary value used as an approximation of the importance of an outcome to the relevant stakeholder group.
Forecast SROI	An SROI analysis prepared with limited evidence that the mapped outcomes have occurred, because they have not yet occurred and/or because they have not yet been measured.
Impact	The outcome adjusted for what would have happened anyway, the contribution of others and the length of time the outcomes last.
Impact Map	A table that summarises the theory of change developed by an SROI analysis, starting with the stakeholders and showing the relationship between inputs, activities and types and quantities of outcomes.
Indicators (of an outcome)	Well-defined measures of an outcome. There should normally be two selected for each outcome – one more subjective and one more objective.
Inputs	The contributions made by each stakeholder that are necessary for the activity to happen.
Materiality	A threshold test of relevance and importance of information. Information may be judged to be material if its omission has the potential to affect the readers' or stakeholders' decisions.
Monetise	To assign a financial value to something.
Needs analysis	The part of the commissioning cycle concerned with identifying and understanding the rationale for intervention.
Options appraisal	The part of the commissioning cycle concerned with assessing the relative merits of different approaches to meeting the requirement and choosing the best overall approach.
Outcome	The changes resulting from an activity. The main types of change from the perspective of stakeholders are unintended (unexpected) and intended (expected), positive and negative change.
Outcomes-based specification	One of two types of specification; either a specification that sets out the types of desired outcomes or one that requires proposals to meet a quantity or level of outcome, particularly where the activity to be performed is left to the supplier to define.
Outputs	A quantitative summary of the activities delivered within the scope of the analysis.
Payback period	Time in months or years for the value of a benefit to exceed the investment.

Revealed preference method	An approach to approximating the value of an outcome to a stakeholder by inferring the value of an outcome that doesn't have a market price from something that does have a market price. (See also Stated preference method.)
Scope (of analysis)	The activities, timescale, boundaries and type of SROI analysis.
Sensitivity analysis	A process by which the sensitivity of an SROI model to changes in different variables is assessed.
Social Return on Investment (SROI)	A framework for accounting for the value created and destroyed by an activity based on seven principles; the ratio of social returns to investment assessed by use of the framework.
Sourcing	The part of the commissioning process concerned with communicating a requirement to potential suppliers and choosing an offer or solution.
Social return ratio	Total present value of the outcomes divided by the total value of the inputs.
Stakeholders (within the scope of an SROI)	Groups of people, organisations or entities that experience change, whether positive or negative, as a result of the activity that is being analysed, or who make an input.
Stakeholders (in the context of the Commissioning or Maximum Value model overall)	Groups of people, organisations or entities that have an interest in a service area, or who want to, should or do make an input to achieving a result, that may be affected by an option, or that are affected by the sourced activity.
Stated preference method	An approach to approximating the value of an outcome by asking stakeholders directly what it is worth to them; typically by asking how much they would be willing to pay (for a positive outcome) or willing to accept (as compensation for a negative outcome). (See also Revealed preference method.)
Value	The importance of changes to stakeholders directly affected by them.
Value-oriented specification	A specification that is purposeful in its choice of defining the standard of activity and/or desired or required outcomes; it includes consideration of potential negative outcomes, and communicates the relative importance of different results.

2 Sources of support and further information

This section provides links to further information and resources on the following topics:

Commissioning and policy

Commissioning and commissioning from civil society

Value, value for money and best value

Evolving government policy on commissioning

Co-production

The commissioning cycle

Needs assessment

Business cases and cost-benefit analysis

Commissioning for outcomes

Monitoring and Evaluation

Aspects of SROI

General SROI

SROI reporting and assurance

Attribution and joined-up working

Valuing inputs

Materiality

Outcomes tools and indicators of outcomes

Financial Proxies/Monetisation

Stakeholder Involvement

Commissioning and policy

Commissioning and commissioning from civil society

The National Audit Office has published a comprehensive on-line guide called 'Successful Commissioning' covering the basics of commissioning, addressing various misconceptions, for example about value for money and use of grant funding. It is written particularly with a view to improving commissioning from civil society but it is more widely applicable. The introduction is available at: http://www.nao.org.uk/guidance__good_practice/third_sector/successful_commissioning/successful_commission_toolkit/introduction.aspx

Local Government Improvement and Development (formerly the Improvement and Development Agency for Local Government – IDEA) has been the lead partner in two phases of the National Programme for Third Sector Commissioning. The first phase of this programme developed eight principles of good commissioning. A document summarising these, and other resources, is available at <http://www.idea.gov.uk/idk/core/page.do?pageId=6583598>

NHS Commissioning Support for London publishes a comprehensive and frequently updated list of commissioning-related literature. It is aimed at mental health commissioners but is of more general use. Visit <http://www.londondevelopmentcentre.org/mental-health-commissioning/mental-health-commissioning-useful-links/mental-health-commissioning-useful-links.aspx>

The Chartered Institute of Public Finance Accountants (CIPFA) publishes a 'Standing Guide to Local Authority Commissioning' annually. This may be purchased from CIPFA and is dispatched on a CD-ROM. Further details available at www.cipfa.org.uk

new economics foundation (January 2009) A Better Return: Setting the foundations for intelligent commissioning to achieve value for money, Cabinet Office, is a report by the first phase of the National Programme for Third Sector Commissioning on the subject of the value that the voluntary and community sector brings and on developing a model of commissioning for value which is available at: http://www.neweconomics.org/sites/neweconomics.org/files/A_Better_Return_1.pdf

There is some useful background information on what local government buys and what is typically outsourced, from 2006 in the following publication from Communities and Local Government, PWC, Developing the local government services market to support a long term strategy for local government. Download from: <http://www.communities.gov.uk/documents/localgovernment/pdf/152885.pdf>

Value, value for money and best value
Updated Best Value Statutory Guidance for England was published in September 2011. It can be downloaded from <http://www.communities.gov.uk/publications/localgovernment/bestvaluestatguidance>

Further detail on best value in Scotland can be found at: <http://www.scotland.gov.uk/Topics/Government/PublicServiceReform/14838>

The Centre for Social Justice (January

2011) Outcomes-Based Government: How to improve spending decisions across government includes comment on the need to improve valuation of outcomes. Available at http://www.centreforsocialjustice.org.uk/client/downloads/CSJOutcomeBasedGovernment_final2_WEB.pdf

Evolving government policy on commissioning

Recent proposals for improving commissioning may be found in the following Green and White Papers:

Modernising Commissioning Green Paper <http://download.cabinetoffice.gov.uk/green-paper/commissioning-green-paper.pdf>

Open Public Services White Paper
HM Government (2011) Open Public Services White Paper. Available at <http://www.cabinetoffice.gov.uk/resource-library/open-public-services-white-paper>

Co-production

The approach to and possible benefits of increasing the participation of users and others in developing and running services is discussed in the following documents:

Nesta and new economics foundation (April 2010) Public Services Inside Out. Available at: http://www.nesta.org.uk/areas_of_work/public_services_lab/coproduction/assets/features/co-production_makes_significant_savings_in_public_services

Nesta and the Innovation Unit (June 2010), Radical Efficiency: Different, better, lower cost public sector. Available at: http://www.nesta.org.uk/library/documents/Radical_Efficiency_practical_guide.pdf

Leadership Centre for local government Total

Place: A practitioner's guide to doing things differently. Available at:
<http://www.localleadership.gov.uk/totalplace/wp-content/uploads/2010/03/Total-Place-a-practitioners-guide-to-doing-things-differently.pdf>

The commissioning cycle

Needs assessment

The Department of Health published an overview of how data collected from person centred planning may be used in needs assessment. There are some parallels with the recommended approach to needs assessment in the Commissioning for Maximum Value model presented in this guide, although the report does not go as far as suggesting new stakeholder involvement. See Bennet, S and Sanderson, H (2009) Working together for change: using person-centred information for commissioning, Department of Health, available at <http://www.thecbf.org.uk/pdf/commissioning-reviewsstrategy.pdf>

Turning Point have developed the 'Connected Care' approach to improving the public service response to communities, particularly in deprived areas. The approach includes a 'Connected Care Audit' of local services, undertaken by researchers recruited from the local area and trained. Further information and examples of their work is available at:
<http://www.turning-point.co.uk/commissionerszone/centreofexcellence/Pages/ConnectedCare.aspx>

http://www.turning-point.co.uk/commissionerszone/centreofexcellence/Documents/SEPitseaandVangeAuditReport_July_Final.pdf

Business cases and cost-benefit analysis

See http://www.hm-treasury.gov.uk/data_greenbook_index.htm for guidance on the economic assessment of spending and investment and for related guidance, including the preparation of business cases for the public sector.

The CIPFA 'Standing Guide to Local Authority Commissioning' also includes sections on developing business cases and cost benefit analysis.

Local Government Improvement and Development developed a business case tool for community empowerment initiatives. To support those planning to use this tool and SROI, The SROI Network published Making the Case for Community Empowerment: The connection between Social Return on Investment and the Community Empowerment Business Case Tool, available at <http://www.idea.gov.uk/idk/core/page.do?pagelId=23409747>

Commissioning for outcomes

Local Government Improvement and Development have published a short overview of the outcomes-based accountability approach written by Gillian Pugh. It is useful background to understanding the legacy of the previous approach to having National Indicators and there are also parallels with the ideas behind the type of outcomes based specifications used in payment by results.
<http://www.idea.gov.uk/idk/aio/12054819>

Social Finance have written several publications on the development of Social Impact Bonds, which are relevant to the type of outcome based commissioning found in payment by results. See particularly Bolton E and Savell, L (2010) Towards a New Social Economy, Social Finance, available at <http://www.socialfinance.org.uk/sites/default/files/Towards%20A%20New%20Social%20Economy%20web.pdf>

nef and the London Borough of Camden jointly developed an outcomes-focused commissioning model, the Sustainable Commissioning Model. Further details of the SCM can be found on the Sustainable Procurement website <http://www.procurementcupboard.org/>

The IDeA (now Local Government Association) published an overview of different conceptual approaches to improving outcomes in the public sector as an output of the Learning 2 Deliver Programme. See 'New Routes to Better Outcomes' available for download at <http://www.eastmidlandsiep.gov.uk/uploads/Publications/NewRoutestoBetterOutcomes2.pdf>

Monitoring and Evaluation

A new edition of the Magenta Book, Magenta Book, Guidance for Evaluation, 2011, HM Treasury. has recently been published by HM Treasury. This sets out good practice in evaluation in central government. It is available for download from http://www.hm-treasury.gov.uk/data_magentabook_index.htm

For an overview of evaluation in the voluntary sector, see Ellis, J (2009) Practical Monitoring and Evaluation: A guide for voluntary organisations, 3rd edition. See <http://www.ces-vol.org.uk/index.cfm?pg=140>

Aspects of SROI

General SROI

There are a number of online tools that are available to help you document SROI analysis, particularly the social evaluator tool. See www.socialevaluator.eu

SROI reporting and assurance

There are a number of assured reports on the SROI Network website together with information on how to submit a report for assurance. www.thesroinetwork.org

Attribution and joined-up working

new economics foundation (2011) Small Slices of a Bigger Pie: Attribution in SROI is a useful publication on improving calculation of attribution and is available at: <http://www.neweconomics.org/publications/small-slices-of-a-bigger-pie>

Valuing inputs

Further information on valuing inputs is available at:

http://www.esf.gov.uk/_docs/July2006Rules_regs_-_Match_funding_trac.doc

<http://www.volunteering.org.uk/NR/rdonlyres/0F4C3354-82C4-4306-907D-FBC31DCD0B04/0/Calculatingvolunteervalue.pdf>

<http://www.statistics.gov.uk/pdffdir/ashe1108.pdf>

Details of how to value goods in kind can be found at:

<http://www.wefo.wales.gov.uk/resource/Annex%20C%20-%20Guidance%20note%20on%20Match%20Funding%20in%20Kind%20February%2020073414.pdf>

Materiality

A number of reports relating to AccountAbility's work on redefining materiality can be found at: www.accountability.org

The SROI Network has published guidance on materiality in SROI 'Supplementary Guidance on Materiality, March 2011, Version 4'. This is supplementary to Nicholls et al (2009) A Guide to Social Return on Investment, Cabinet Office 2009. Available at <http://www.thesroinetwork.org/organisation/>

Outcomes tools/ indicators of outcomes

Charities Evaluation Services website contains a range of resources on outcomes assessment in the voluntary sector at <http://www.ces-vol.org.uk/>

The Urban Institute centre on non profits and philanthropy has developed an outcomes framework for the non-profit centre. The framework has example outcomes and indicators for many different areas of activity available at <http://www.urban.org>

<http://www.homelessoutcomes.org.uk/> is dedicated to resources for assessing outcomes in the homelessness sector; however, its resources, including outcomes star, are applicable to many organisations in the voluntary sector.

The following publications give guidance on outcomes assessment and outcomes tools:

Burns, S and Cupitt, S (2003) Managing Outcomes: A guide for homelessness organisations, Charities Evaluation Services. See <http://www.ces-vol.org.uk/index.cfm?pg=171>

Cupitt, S with Ellis, J (2007) Your Project and its Outcomes, Charities Evaluation Services. Available at <http://www.ces-vol.org.uk/index.cfm?pg=165>

Parkinson, D and Wadia, A (2010) Assessing Change: Developing and using outcomes monitoring tools, Charities Evaluation Services. Available at <http://www.ces-vol.org.uk/index.cfm?pg=719>

Triangle Consulting (2010) A Review of Outcomes Tools for the Homelessness Sector <http://www.homelessoutcomes.org.uk/centralserviceoutcomes.aspx>

Financial Proxies/ Monetisation

VOIS- the SROI Network's financial proxy and indicator database is online at www.thesroinetwork.org/vois-database

It was initially developed as part of the Scottish Government funded SROI Project and will be expanded to include indicators and financial proxies for outcomes in a range of different sectors, as used in SROI reports.

The 'Value Game' is an approach to involving stakeholders, particularly users, in valuation and was developed by Peter Scholten. An online version of this approach is available, by subscription, at www.thevaluegame.org

The following websites provide more information on approaches to non-market valuation:

http://www.csc.noaa.gov/mpass/tools_nonmarket.html

http://www.ecosystemvaluation.org/contingent_valuation.htm

<http://www.fao.org/DOCREP/003/X8955E/X8955E00.htm>

The major source of information on valuing non-market impacts in the public sector to date has been Annex 2 of HM Treasury (2003) Green Book, http://www.hm-treasury.gov.uk/data_greenbook_index.htm

However, HM Treasury and the Department for Work and Pensions recently published a discussion paper on valuing non market impacts, Fujiwara, D and Campbell, R, (2011) Valuation Techniques for Social Cost Benefit Analysis available for download from http://www.hm-treasury.gov.uk/data_greenbook_news.htm

The following publications focus on valuing social goods:

Snowball, J and Springer, V (2008) Measuring the Value of Culture, Heidelberg DE.

Champ, P (2003) A Primer on Nonmarket Valuation, Kluwer, Dordrecht NL.

Carson, RT and Mitchell, RC(1989) Using Surveys to Value Public Goods; The Contingent Valuation Method, Washington USA.

The following journal article reviews the use of willingness to pay approaches in a Health Care Setting:

Olsen JA and Smith R. (2001) 'Economic evaluation theory versus practice: a review of 'willingness-to-pay' in health and health Care', Health Economics, Volume 10: 39-52.

Stakeholder involvement

The following website <http://www.peopleandparticipation.net/display/Involve/Home> has lots of information on engaging with people.

New economics foundation (1998) Participation Works! Contains 21 community participation techniques. Available at: www.neweconomics.org

AccountAbility have also produced a standard and a manual on stakeholder engagement available from their website, Krick, T, et al, (2006) The Stakeholder Engagement Manual. <http://www.accountability.org/about-us/publications/the-stakeholder.html>



3 An interview guide for use during Step 2, Needs analysis

This section offers some further detail on developing needs analysis with user involvement.

At Step 2 in the Commissioning for Maximum Value model you are recommended to carry out some stakeholder involvement to better inform your definition of needs. At the heart of the model is a better understanding of the likely relationships between inputs, activities and results, an understanding of the links between assets and aspirations and an understanding of what an individual service can contribute. This means starting with questions such as 'What kind of life do you want to lead?' rather than asking 'What do you need?'³⁸

The following interview guide is offered as an example of how these issues may be explored with users and potential users of a service area.

- Who helps you already?
 - Who else could help you?
 - How would someone else know the changes necessary have taken place?
 - To what extent do you feel your need is already met?
 - What difference would it make to you if it was fully met?
 - What, if anything, do you think might have avoided the need arising in the first place?
- What are things like at the moment?
 - What kind of life do you want to live? What does it look like?
 - Which aspects of that life are most important?
 - How far do you feel able to achieve that life?
 - If you achieved that life, how would it affect your need for the service you currently receive?
 - What sort of help do you think you would benefit from?

³⁸ You will also need to remember that aspirations can be low among some groups and that some problems (such as drug and alcohol dependency) may cloud people's judgement, leading them to express a wish to continue problematic behaviour. In all cases you should be informed by what users say rather than be led by them.

4 Case study 1: Recommissioning meals on wheels using the Commissioning for Maximum Value model

This section describes a fictional case in order to illustrate how the Commissioning for Maximum Value model may be applied. The worked example included in A Guide to SROI (Nicholls, 2009) may be viewed as an evaluative SROI of one of the commissioned solutions

Background

A local authority has previously run a service providing frozen meals once a week to 1,000 older and disabled people through one provider and hot meals five days a week to 500 people through another provider. These contracts have been in place for three years and may be extended for up to a further two years at the authority's discretion.

This example illustrates a commissioning cycle for this local authority meals service.

Step 1: Initiating commissioning

Define your area of interest

Each department of the local authority has already published a section on the council website describing their areas of responsibility; these include the functions they are required to perform by law, their current objectives and a list of contracts with renewal dates.

Identify your stakeholders

All departments have identified the organisations that play a supporting role in

achieving their objectives and/or whose work is affected by the department. The commissioning team in adult social services have particularly highlighted the following stakeholders with respect to services for older people: the local hospital; a number of voluntary organisations and charities; GP practices; existing and eligible service users and their families.

Set up systems for stakeholders to identify opportunities and problems

The local authority has implemented a system to take account of problems and opportunities identified by stakeholders. This includes publishing a named contact to receive new ideas and running workshops with stakeholders every quarter with a different theme, to look at specific problems and opportunities. Recently a workshop has been run to look at services for older people.

As a result of this, the local authority has been made aware of a potential opportunity to improve nutrition by NHS colleagues, a trend towards decommissioning of 'meals on wheels' by other local authorities, and an idea for reducing environmental impact submitted by a potential supplier to the named council contact. Furthermore, a locally-run advocacy group has heard a rumour that the meals on wheels service might be decommissioned and has submitted a petition against such action on the basis of the negative effect it might have on service users' wellbeing.

Estimate the value of taking action

Each of the points identified above is considered. NHS colleagues are able to highlight a link between calorific intake, nutrition and the rate of falls, and to show the cost to the taxpayer of falls among older people. Although the information is imprecise, under this model it is deemed to be sufficient to warrant further investigation.

The local authority is having difficulty in meeting its targets for reducing emissions, so the proposal that addresses environmental impact looks particularly interesting. Furthermore, the department is under financial pressure and thinks that decommissioning meals on wheels looks financially attractive; the council instead might provide an information and signposting service to older people, who would purchase their own meals. On the other hand, the petition from the advocacy group suggests important benefits to service users from the service; there is an opportunity to explore whether this value can be created in a less resource-intensive way.

Select what to investigate further

There are many untested possibilities for this service area that look promising or risky in terms of value and costs. It is therefore decided to extend the existing contracts for only one year and to initiate a commissioning cycle using the Commissioning for Maximum Value process to either decommission the service at the end of the further year or to recommission a service designed to deliver maximum value, with a view to having that new service in place to coincide with the end of the extended contract.

Step 2: Needs analysis and setting objectives

Consult users to collect information about how change happens

Four distinct groups of (potential) users are identified:

- Currently receiving hot meals – 500 people
- Currently receiving frozen meals – 1,000 people
- Eligible for meals but not in receipt of them – estimated at 300 people

- Likely to become eligible in the next five to 10 years (future users) – estimated at 500 people.

There is already some information available from care plans about the nutrition required by the existing service users and also about their broader care needs (as most receive home care under another contract from the local authority). Nonetheless, the commissioning team needs to augment this information with an understanding of what the service users' aspirations and assets are. A member of the team with research experience is tasked with consulting these groups using the Commissioning for Maximum Value user needs interview guide.³⁹

The researcher considers how to reach those eligible but not in receipt of meals. The team identifies a voluntary organisation that has good links with older people in this category and older people who may become eligible in future, so they decide to agree a small contract with the organisation to set up interviews. The council employee attends a schedule of one-to-one meetings with the potential users.

Fifteen users are interviewed in each of the four groups; a total of 60 users are interviewed.

Analyse the results of consultation

The researcher brings back the raw data and has a meeting with colleagues to identify chains of events, outcomes and indicators. Three distinct chains of events are identified through the feedback from potential users, illustrated in the following responses:

- a) I'd like to see friends and other people I know on a daily basis so that I don't end up feeling low and lonely. (96 per cent of those interviewed mentioned this type of outcome as important.

³⁹ See Part 3, Resources, An interview guide for use during Step 2, Needs analysis.

- b) I want to have more choice of what I'm going to eat (and the portion size) so I enjoy it and don't throw so much away. (90 per cent of those interviewed mentioned this type of outcome as important.)
- c) I want to have more money available so I can treat my family and enjoy watching them spend it. (45 per cent of those interviewed mentioned this type of outcome as important.) All of those eligible but not currently using the service stated this outcome was important and that the cost of the meals was a current reason for not using the service.

Subgroups of users

A minority of those interviewed (20 per cent) mention problems with general mobility and fitness to undertake day-to-day self care and other tasks; they feel they did not have enough support with this and as a result are afraid of injuring themselves or have already injured themselves.

Opportunities for reducing future need are also investigated. The consultation responses highlight that, aside from deteriorating mobility and stamina, people started needing help when their husband or wife passed away.

Assess how other parties contribute to supporting your user group

The list of stakeholders identified at step one is reviewed in light of the results of the consultation with users. Several service users mention an advocacy group for their carers, so this is added to the list. The organisations and representatives of groups of individuals (such as unpaid carers) are invited to a workshop where the contribution to the lives of the user group and objectives of each party is explored.

Define your service's intended contribution to the overall desired change

The commissioning team then assesses the analysis so far and decides to define their objectives as follows:

Outcomes for users

- All current users will be supported by a new service to feel more included in society.
- Users will be purchasing the quantity and type of food they want with a lower weekly outlay.
- The fitness and mobility of those at risk of falling will improve.
- Demand for the service by future users will be minimised through early intervention. Eligible users will be given appropriate knowledge and information after a life-changing event (such as bereavement or sudden illness) to enable them to eat well and avoid being lonely.

Risked negative outcomes to be avoided

- Current users may find change distressing or disruptive, so this will be minimised

Outcomes for the local Hospital

- Three hospital bed years currently allocated to this user group following falls will be available for reallocation to other purposes.

Outcomes for the environment

- There will be 50 per cent less food waste by those using the services

Step 3: Options appraisal and service design

Invite proposals for options

The lead commissioner publishes a call for outline proposals from all stakeholders

including potential suppliers, public bodies and other departments of the local authority on a standard short form that asks what the stakeholder group considers the important aspects of this service, in terms of how it is delivered and the results it achieves. This call makes clear the overall ambitions of the user groups and the commissioning team's selected area of focus. It also highlights the need to reduce future demand and the trigger point about bereavement that they've identified. It is also made clear that the department would welcome ideas for different combinations of objectives; any such proposals should provide some evidence that these are relevant to the user group, the local authority, the public sector as a whole, or another stakeholder.

The commissioning team receives ten different submissions. There are some similarities in the submissions, so they are able to group them into five options.

Screen using rapid appraisal involving representative stakeholders

The following five options were identified:

1. change home care provision to include preparing meals
2. change all meals to frozen and signpost users to voluntary services
3. carry out business as usual, but adding a befriending scheme to send volunteers into people's homes
4. produce a directory of local food delivery outlets and frozen food delivery options and support people to place orders directly with suppliers

5. as option 4, but take those people with the most need to a daily lunch club where they can be offered additional opportunities and services.

The commissioning team only has sufficient time and resources to investigate two of the five options, so they invite representative stakeholders (not including suppliers, but including service users, family members, voluntary organisations and other parts of the public sector) to be involved in a rapid appraisal which identifies that options 3 and 5 are most likely to be best overall value for money and that option 5 is particularly important to investigate since little is known about its potential effects. They also investigate a 'do nothing' option, where current and future service users would not have any service offered to them by the local authority.

Do SROI analyses focusing on providing information for key decisions

A forecast SROI is started for each of the three options.

Scope: In all cases the scope of the SROI is set at three years, since this is the likely contract duration for any input that the local authority would make. The commissioning team write up an initial outline of how the services might work, including the numbers of users and types and quantities of activities done with them. The objectives of the analyses are to better understand the value that each option would create and destroy; this would inform a decision about the best option.

Stakeholders: An initial list of stakeholders is drawn up for each of the three options. The options present a few differences in terms of likely stakeholders (those groups who would experience a change and/ or who would make an input to change).

Map outcomes: First, the additional costs of option 3's befriending scheme on a full cost recovery basis are estimated with some help from two local charities. The additional costs are low and relate to the overheads of co-ordinating volunteers and compliance with the law and good practice. For option 5 two other local authorities, one who has set up a directory and one who supports a lunch club, are consulted about the costs of such services.

Second, a service design workshop is held with stakeholders representing each of the groups, to model how each of the two services, and how the do nothing option, would work. The intention is to capture information from stakeholders about the outcomes that would occur as a result of each option.

One of outcomes identified is:

As a result of users having a direct relationship with the company providing their meals (rather than purchasing them through the local authority as at present) fewer supply quality and delivery problems may be notified to the local authority, so some users may not receive their choice.

Forecast outcome quantities: Another local authority that has run a similar directory of services is contacted. It has conducted several surveys of the extent to which users receive the quantity and quality of meals

required in a timely fashion over the last few years. Initially there were problems on as many as 10 per cent of orders; it was then identified that two ways to avoid this negative outcome were to instigate a clear complaints system and to screen those companies listed in the directory. As a result, problems were reduced to 0.5 per cent of orders.

Value outcomes: This negative outcome is valued initially by considering how much people in general are prepared to pay to have the food they want when they want it. Average household spend on takeaway food is used to start with but when the user group is consulted about the importance they attach to the outcome of having the food they want when they want it, this value is found to be too low in comparison to the value of other outcomes.

Select the final option: The commissioning team reviews the two Impact Maps, tests sensitivity to various assumptions and considers the profile of value to different stakeholders.

For option 3 the overall ratio is between 3.1:1 and 4.5:1 and for Option 5 it is between 3.7:1 and 5.6:1. The value created in Option 3 is attractive to the commissioning team as much of the value relates to savings to the public sector, especially the local authority. Option 5 has been identified as risking some (important) negative outcomes for service users and their families around reduced social contact; although this has been accounted for in the ratio, the team considers how to avoid such negative outcomes. Given these considerations, the team chooses option 5, but adapts it to include the befriending scheme from option 3. This is selected to avoid the potential negative outcome of reduced social contact while reducing the likely cost of the overall service.

Step 4: Sourcing

Choose how to source, taking account of the degree of certainty around outcomes and affordable quantities of outcome

The team considers each desired outcome and each risked negative outcome in the chosen solution. They consider when it will occur, when it will be measurable and how best to communicate and contract with suppliers to achieve or avoid it. The local authority is trying to support more socialising by all of the users who are eligible and likely to become eligible, and good nutrition and good choice for all users.

They review the information they've already collected about which organisations and agencies are promoting socialising among the target user group and conclude that there is already a well-developed provider base of organisations that are promoting the objectives within the contract.

Therefore they decide to run a procurement exercise rather than to grant fund any aspect of the service.

Develop a value-oriented specification

The team considers what they know about how the value they've identified is created and destroyed. For example, the amount of time that users spend in contact with others during their day is clearly a driver of how lonely or included in society they feel. However, the nature of the contact has an influence too. Therefore they choose to specify the outcome that 'all service users will feel more included in society (to the extent they want to be) as the service progresses'. The measure of this outcome will be the number of service users who move two or more points up on a particular outcome scale. This will be captured by means of a quarterly care plan review.

For the food itself, however, there is strong correlation between the user having choice over the type and quantity of food provided and the amount of waste produced.

Therefore an aspect of activity – that the food on offer will be available in a range of portion sizes – is specified, rather than an outcome of reduced food waste. The specification requires that providers monitor user satisfaction with the portion sizes on offer and provides information about how much food is thrown away annually, based on a users' report.

Define the criteria to judge the most economically advantageous tender, using financial proxies for weightings outcomes

The financial proxies assigned to each of the desired positive and risked negative outcomes are reviewed to assess the weighting that should be given to a solution's contribution to achieving or avoiding them.

A significant opportunity to reallocate hospital resources currently required to treat falls among the user group was identified as a possible outcome at all stages of the commissioning process. This outcome is dependent on a number of other outcomes being achieved, such as improving the wellbeing and fitness of service users through, for example, increased social contact, better nutrition and exercise. Therefore, the weighting given to each of the desired outcomes judged to influence falls requiring hospitalisation are adjusted upwards; this reflects the importance of these outcomes to the hospital as a stakeholder as well as to the service users.

The contract notice (advertisement) states that the local authority wishes to procure a service to support the wellbeing of 1,500 current and 500 future service users.

Twenty tenders are received. The tender that is judged to be most economically advantageous (MEAT) is not the cheapest, but it offers the highest certainty of achieving the most desirable outcomes and avoiding the most undesirable outcomes. The solution offered includes a series of 'wheels-to-meals' lunch clubs for the most vulnerable users and a befriending scheme for those with moderate needs.

Together with this provision, the solution offers a directory of prepared meal providers that users with moderate and lower needs will self-select, with a short training session for home care staff on nutrition and using the directory. It also includes an overall co-ordinator who will provide telephone support to those using the directory.

Set up monitoring, evaluation and performance management based on value

The local authority requires the provider to monitor the intended outcomes, with the exception of the reduction in hospital admissions, which is to be monitored by the hospital and reported via the local authority to the provider.

Step 5: Review

The Wheels-to-Meals worked example in A Guide to Social Return on Investment (Nichols, 2009) should be viewed as an example of an evaluative SROI of part of the service illustrated in this example, that is, one of the lunch clubs set up by the provider for the most vulnerable users.

Review the scope and stakeholders, of forecast SROI prepared for Options appraisal (Step 3)

As a result of reviewing stakeholders, neighbours are identified as a group that experience change as a result of the service.

Map any new outcomes, particularly checking unintended positive and negative outcomes

One outcome that was not mapped in the forecast SROI is highlighted when the neighbours are consulted about what changes for them. A new line is created on the impact map for the evaluative SROI that reflects this.

Review indicators, collect further evidence of change and revise outcome values

The quantity of the outcomes for neighbours is established by a one-off survey conducted by the service co-ordinator.

Establish the impact of your intervention
Information about deadweight, displacement, attribution and duration of outcomes is reviewed.

Summarise results, including SROI ratios and sensitivity and Report, use and embed

The commissioning team identifies from this analysis that the some falls were prevented and the agreed bonus payment is released to the provider. They also identify that the way the provider is currently delivering the service is not maximising the potential input of neighbours. The provider makes some small changes to the way the service operates to be more sensitive to this. The full SROI report is assured and a short report is published on the local authority website.

5 Case study 2: Increasing the value of care at home services in Edinburgh

This section describes a real case study; it is included with the kind permission of City of Edinburgh Council.

Summary

The application of SROI principles and practices was tested on a commissioning exercise for care at home services contracted by City of Edinburgh Council and, as a result, several aspects of the service to be delivered were identified as driving the creation and destruction of value. The analysis required additional consultation with stakeholders and an analysis of consultation results to identify value drivers. The results of the analysis offered a different perspective on what is important by exploring how outcomes are created and how important they might be. It contributed to changes and improvements to the scope and purpose of the contract specification, related work and planned monitoring, including:

- Communicating with providers a planned emphasis on outcomes and considering impact on a wider stakeholder group (beyond service users) from pre-procurement stages – encouraging providers to think about value creation.
- Setting a maximum number of different provider staff required to increase continuity of care, with the aim of improving important outcomes relating to control, trust and independence for service users and their carers. This would create social value in the order of several millions of pounds – requiring a specific action with significant implications for creating value.

- Including in the contract award decision an assessment of providers, based on their plans to deliver the outcomes identified as being important to service users – favouring value creation in choosing solutions.
- Initiating plans for related services to offer further support to unpaid carers – dealing with wider impacts identified but not specifically addressed through this procurement.
- Changing quarterly service-user surveys to focus on outcomes – monitoring the results.

When combined, the improvements for service users and their families achieved by these measures were calculated to be potentially worth several millions of pounds of social value to these groups. They could also have positive implications for other stakeholders, such as a reduced demand on hospital admissions, which would be monitored.

Commissioners were recommended to adopt and build on the approach taken in the pilot by:

- Considering the extent to which outcomes for non-core stakeholders (that is, not direct service users) might be driven by a service
- Developing systems to identify stakeholders who could be affected by any chosen solution
- Introducing conversations about results (negative, positive and unintended) and value (relative importance) into consultations in the early stages of commissioning

- Basing decisions about scope, specification, award criteria and contract monitoring on an understanding of value drivers and how that value could be measured and managed.

Background

The SROI Network, on behalf of the Scottish Government funded SROI project, worked with City of Edinburgh Council to identify ways to increase the value of care at home services, which are delivered by private and voluntary and community sector providers under contract. The council initiated a commissioning process with a view to being in a position to negotiate new contracts before the expiry of the current contracts in October 2011.

In 2010, external care at home contracts delivered 24,000 hours of service per week to around 2,000 people at an annual cost of £16 million. Service users are older people and people with physical disabilities. The council also operates an in-house home care service aimed primarily at reablement; this was not part of the scope of this SROI pilot project.

If value is ignored in decision making, it may result in decisions that reinforce inequality and environmental damage. The purpose of this pilot project was:

1. To apply the principles and practices of SROI as far as possible to a live commissioning process in order to identify and take advantage of opportunities to better manage value
2. To define how the principles and practices of SROI could be used within commissioning public services more widely.

A pragmatic approach was taken, given that the project was operating in a complex environment of other changes to policy, both inside City of Edinburgh Council, in Scotland and in the UK as a whole.

The opportunity

Commissioning

The commissioning cycle offers several opportunities to influence the eventual value that will be created and destroyed by the delivery of the service. These opportunities include:

- setting the scope and purpose of what is to be bought to be broad enough to allow for value creation for non-traditional groups, for example, 'community benefits'
- specifying what is to be bought in order to secure activities that will minimise negative value and maximise positive value that is deemed to be cost effective
- setting award criteria to favour solutions that are projected to create the most value
- monitoring outcomes that drive the most value to encourage providers to focus on value.

Care at home services

Care at home is provided to older people and people with physical disabilities; the Scottish Government has undertaken to provide it free of charge to those with the highest level of need. While it might be possible to reduce the demands on services to some extent, for example through reablement, an underlying need would remain. Therefore, there was a particular opportunity to make sure services were run so in such a way as to maximise positive impact on recipients, as well as considering implications for the wider system

that supports them (for example, voluntary services and hospitals). The new service was intended as an improvement on the previous service rather than a radical redesign. This factor drove the approach of basing the analysis of value creation opportunities on a comparison with the existing service.

What we did

The project involved the following:

- presentations by the SROI Network lead at internal stakeholder and provider meetings and observation of council-run consultations, and input to them
- regular meetings between the key contacts at City of Edinburgh Council and the SROI Network, which debated the current situation of the commissioning process and implications for analysis and for taking account of value in decision making
- reviewing other relevant initiatives (such as the nef/ Camden Sustainable Commissioning model⁴⁰ and Joint Improvement Team's Talking Points approach⁴¹)
- analysis of the Single Outcome Agreement⁴² and internal stakeholders' priorities to identify possible non-traditional areas of value creation

40 nef and the London Borough of Camden jointly developed an outcomes-focused commissioning model, the Sustainable Commissioning model. Further details of the SCM can be found on the Sustainable Procurement website <http://www.procurementcupboard.org/>

41 This is an approach to understanding outcomes in health and social care. For more details see <http://www.jitscotland.org.uk/action-areas/talking-points-user-and-carer-involvement/>

42 Single Outcome Agreements are agreements (similar to a Local Area Agreement in England prior to the 2010 General Election) between the Scottish Government and Community Planning Partnerships (similar to Local Strategic Partnerships in England) which set out how each will work towards improving outcomes for the local people in a way that reflects local circumstances and priorities, within the context of the Government's National Outcomes and Purpose.

- support to providers to conduct research into outcomes, based on asking open questions about what changes had occurred as a result of service provision and looking at the relative importance of those changes
- analysis of consultation responses using an impact mapping logic
- making iterative proposals of how to maximise value
- reflection on, and writing up, the results.

Results for commissioning of care at home services

The results of the pilot project showed how the principles and practices of SROI led to an awareness of the importance of continuity of care in particular. The analysis also showed other aspects of the service that were important to service users, their families and unpaid carers, such as the quality of the food prepared for them and social contact for the most isolated; these could also be considered and taken into account.

Identifying outcomes that are relevant to stakeholders

The SROI principle of 'Involve stakeholders' requires that stakeholders are involved in order to inform what is measured, how it is measured and how it is valued'.⁴³ Rather than making assumptions about which outcomes will occur for stakeholders, they are asked open questions about the results of a service. In this case, given the intention to improve an existing service, stakeholders – clients, their families and unpaid carers – were asked about the change or results (positive, negative and unintended) of the current service.

43 Nicholls, J et al (2009) A guide to Social Return on Investment, Cabinet Office, London.

Understanding outcomes

Many respondents to the wider council consultation and interviews (who included unpaid carers and family members) mentioned that frequent changes to provider staff caused them problems, or that continuity of provider staff had positive results for them. Responses were analysed to try to understand ‘chains of events’, and the most significant point on that ‘chain of events’. For example, as a result of trusting the provider staff more, an unpaid carer might leave the service user alone with the provider staff whereas, if they were less sure of who would be attending, they might stay to explain preferences or pay attention to the delivery of care. The significant point then for carers would be that they were able to get on with different aspects of their lives if they knew and trusted the provider staff. Therefore, a specification of continuity of care would provide an opportunity to drive the outcome of carers having more time to spend as they wish. Similar chains of events describing outcomes for service users were developed. Ways to measure the change that might result from focusing on this aspect of the service were considered and proposed, balancing a subjective and objective indicator for each outcome.⁴⁴

Estimating quantities of change that might be delivered

Estimates of the amount of difference that could be made by focusing on this aspect of the service were made. Judgements about the amount of change that could be created were based on considering both a lower and higher limit on forecast of quantities of change. It would be important to track

eventual results by monitoring the subjective and objective indicators identified.

Valuation

The SROI principle of ‘Value the things that matter’ requires valuation of change using financial proxies. The purpose of doing this is to reveal value that may previously have been ignored and to consider its relative importance. In this case both revealed and stated preference methods were considered as ways to value these outcomes.⁴⁵ For example, the importance to unpaid carers of trust in the provider and ability to spend time doing something other than supporting their relative was estimated by a proxy measure of a range of values of time. In order to report on the value created more confidently and to meet the principle of involving stakeholders, it would be necessary to get some feedback from those affected about these valuations once delivery commenced. Again, a range of values was used in order to make a judgement about the limits of just how important these outcomes were to these stakeholders, rather than basing the decision on a single approach to valuation.

Other factors affecting the outcome

Care would need to be taken in measuring this outcome once the contracts were live to ensure that the proportion of change that related to other factors (such as changes in family circumstances, with other people taking on or leaving an unpaid caring role) was identified.

⁴⁴ A subjective indicator is generally a self-reported feeling; a more objective indicator may relate to observation of change by others or change in behaviour that demonstrates a change in feeling has occurred.

⁴⁵ These approaches are in relatively common use in public sector decision making concerning infrastructure projects and the natural environment but appear to be less widely used in public services.

6 Managing outcomes in the public sector

This section is intended to provide further context on the reason behind the Commissioning for Maximum Value model requiring a 'value oriented specification' rather than an outcomes based specification per se.

Although the term 'outcome' is now in common use, we find it applied in a number of different ways. This paper explores the contexts giving rise to these different applications of the term, the sorts of outcomes identified by commissioners and how they are typically managed. It also describes how the SROI methodology and principles suggest that outcomes should be considered, described and assessed.

Process and results

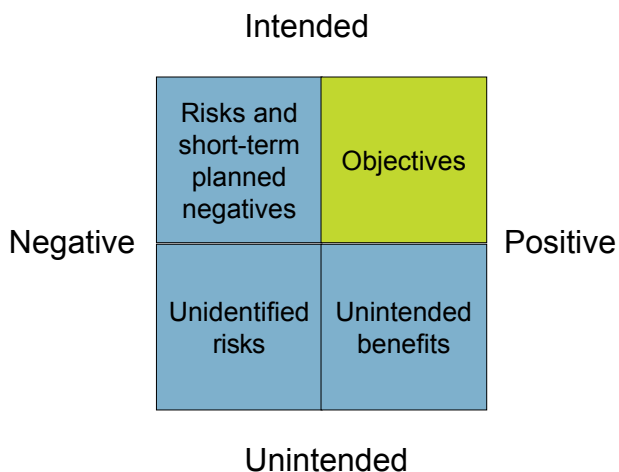
In SROI an outcome is always a change that occurs as a result of the activity within the scope of the analysis. An outcome is therefore a result. Some approaches to measurement, pay attention to 'process outcome' – the standard to which a service is delivered. This is of course important, but these aspects may be thought of as qualities of the activity rather than outcomes. Furthermore, the way a user experiences the service and the feelings that may result from the way the service is delivered (such as feeling respected) may be the cause of a (further) change – an outcome – for that person. SROI questions whether process outcomes are material results in themselves.

Beyond intended positive outcomes

The meaning ascribed to the term 'outcome' often relates to what a commissioner or provider of service hopes to achieve. As the objective of a service would rarely be adequately described by talking about the quality of the service alone, defining the objectives of an initiative in terms of what it intends to change is a sensible practice. So, describing objectives in terms of the intended positive outcomes of an initiative is crucial. However, the objective is not completely synonymous with the outcomes, as the objective is unlikely to capture all the important results of the initiative. The intended positive outcomes may not be achieved in practice and indeed they may not reflect everything important that actually changes. Objectives can be seen as one subset of possible outcomes.

Figure 3 below illustrates other possible domains of outcomes that occur in practice. When commissioners are developing services and planning monitoring prior to any implementation, exploring the bottom half of the diagram – illustrating unintended outcomes – will be hard, but doing this can identify risks and those things that other stakeholders value. Then, when evaluating an activity, it is important to explore all four quadrants of the diagram since intended positive outcomes may not be met, or not met in the way envisaged, so the theory of change may need to be revised.

Figure 3: Types of outcomes



Key

Green: usually explored
 Blue: not usually explored

Different outcomes for different stakeholders

The SROI methodology recommends systematically exploring how activity results in outcomes for different stakeholder groups. This approach is not to be confused with gaining feedback from different stakeholders on how they see the outcome for one stakeholder group, usually the client or user group. Instead it requires each stakeholder group to be asked about how things have changed for them. For some stakeholder groups, outcomes may result from, and be determined by, the extent to which the user group achieves personal outcomes, rather than resulting directly from the activity. For example, a reduction in required spend by a public sector stakeholder could be determined by the change in behaviour of a user group. Therefore outcomes in each of the quadrants mapped above should be explored for each stakeholder.

Hard and soft outcomes

In some discussion of outcomes, harder-to-measure outcomes have been labelled as ‘soft’ outcomes.⁴⁶ SROI challenges this, seeing outcomes as linked in a chain of events, and by seeking to develop a (more) objective and (more) subjective indicator for each outcome that is judged to be material. For example, members of a stakeholder group may feel more confident and get new jobs. An SROI practitioner analysing this would question whether these are two separate outcomes. In fact, those things that are described as hard and soft are often part of the same outcome and it is rather the indicator of the outcome that is more objective (harder) or more subjective (softer).

⁴⁶ See e.g. http://www.biglotteryfund.org.uk/event_well-being_sarahfrost.pdf

Specifying outcomes

'Outcomes-based specification' is becoming a commonly used phrase. However, it can mean different things, as in the following examples:

Example A

Commissioners specify types of outcomes required and providers are asked to say how they will address these types of outcomes. Selection is made on the basis of the quality of the method statements describing the approach to the intervention. This was the type of system in use by the Camden Sustainable Commissioning Model.⁴⁷ This type of system typically does not look at potential negative outcomes, nor require the outcomes achieved in practice to be explored again once delivery starts; lastly it does not distinguish the relative importance of different outcomes in advance. The Sustainable Commissioning Model is, then, effectively a way of broadening the focus of the objectives that are pursued within a single service.

Example B

Commissioners state one or more objectives, both in terms of the types of outcome and their quantities; all or a large part of payment then relies on delivery against those objectives. This is common in payment by results approaches, including Social Impact Bonds. In practice, the objective is usually a single ultimate outcome, and the emphasis is on finding something easy to measure (at least if you have access to public sector databases) in order to create a fair condition for the provider. Defining a focused change, which could be measured by a movement in one indicator (such as reduction in the re-offending rate among short term prisoners), is useful for clear contracting. However, measuring it alone will not capture the full results of the initiative. For a Social Impact Bond, meeting this objective also need to result in a real saving, since it is necessary to pay back investors.

Both approaches leave the solution – the inputs and set of activities – up to the provider and may therefore encourage new approaches. However, in the first example above, there is a risk that results of marginal benefit to anyone are delivered at the expense of increased costs. In the second example, the risk is that intermediate outcomes are not understood and that unintended consequences may occur without being captured.

⁴⁷ See e.g. appendix A of SROI and Commissioning (a supplement to A Guide to SROI) which shows how the Sustainable Commissioning Model sets up a table of desired outcomes which bidders respond to.

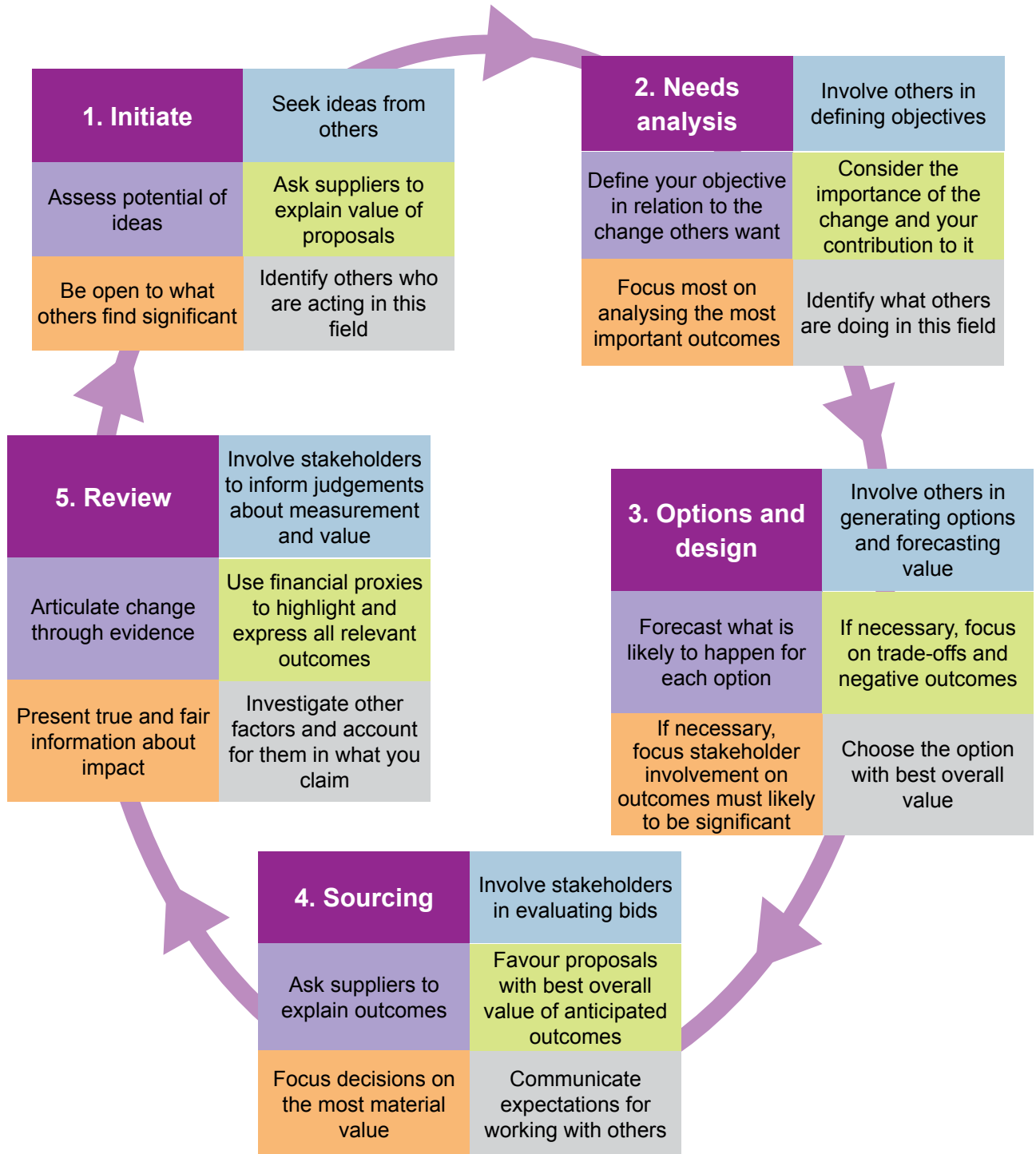
Both of these risks can be managed.

Using the commissioning for maximum value approach outlined in this guide will help manage risks inherent in choosing one of these types of outcomes-based specifications. Using the approach will also develop a greater understanding of potential results and their relative importance; this will not always require an entirely outcomes-based specification, but rather an approach that considers the overall value of outcomes in practice. For example, it is also possible to specify the quality of an activity where there is strong evidence to suggest that delivering it in a particular way produces (or eliminates) a particular type of outcome.

Using the approach in this guide therefore takes greater account of how value may be understood and driven, not just at any single commissioning stage, but also throughout the commissioning cycle.

7 Overview of the Commissioning for Maximum Value Model

This diagram summarises the principles at each step of the commissioning for maximum value model.



Key to diagram

Colour	Principle
Light Blue	Involve stakeholders
Light Purple	Understand change
Light Green	Value the things that matter
Light Orange	Only include things that are material
Light Grey	Understand your contribution as part of a system



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