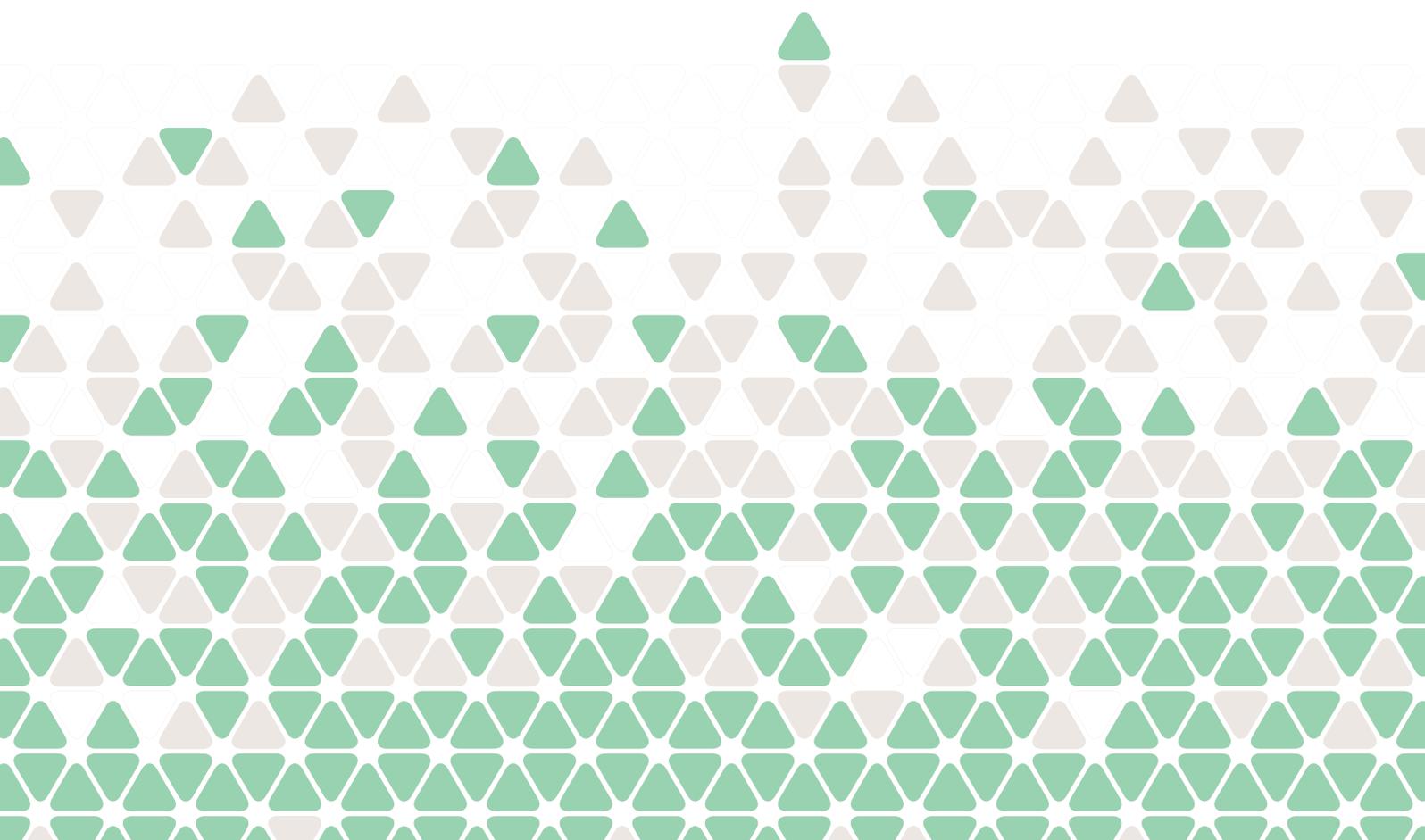

Recommendations on Procurement

A report on the issues of public sector procurement
and the impact for social investment

Prepared by Social Finance



RECOMMENDATIONS ON PROCUREMENT FOR THE G8 TASKFORCE

Publicly procured contracts account for around 19% of the European Union's Gross Domestic Product. The UK Advisory Board to the G8 Social Impact Investment Taskforce were asked to investigate the issue of public sector procurement and its impact on social investment. This was not aimed at understanding or commenting on the effectiveness of procurement generally, rather it was an attempt to analyse procurement in those areas of social service delivery of particular interest to social investment and social investors. Set out below is some background to the issue, the work undertaken by the group, and its recommendations.

Background

In the initial meeting of the UK Advisory Board to the G8 Social Impact Investment Taskforce government procurement practice was highlighted as a key issue that is seen to inhibit the development of social investment.

The issues raised fell into two broad categories of concern:

- Social enterprises and voluntary sector organisations were not perceived able to compete effectively in traditional procurement practices.
- There seemed to be wider concerns in the procurement of innovative services, or where co-development of new service models would be useful. In these instances the traditional distance created between the procuring entity and the service provider were seen to be particularly counterproductive.

Procurement of innovative or preventative human services

Present models of procurement are failing in perhaps the two key areas of interest for social investors in social services: service innovation, and preventative services. This does not appear to be a UK only problem, or an EU problem, but one that affects most developed economies.

Traditional procurement models start with a set of practices and implicit assumptions that are designed for buying objects, such as pencils, roads or schools. They assume that the product is clearly defined and can be clearly specified to a potential provider. They assume there will be providers available as a marketplace to determine the products value. They also assume that the specification of that product will stay stable through the lifetime of its delivery.

These assumptions generally don't hold true when procuring human services, particularly innovative or preventative services. Needs vary from individual to individual and over time. Service models therefore need to be able to adjust accordingly and adapt from what they learn about changing need.

Traditionally procured services can be perceived as "one-size fits all", dehumanised, process oriented services defined to fit the needs of the system and not the users. Effective service redesign needs reasonably rapid iteration, feedback, and adaptation in order to be effective.

Drawing on the experience of agile development in information technology and wider best practice, we sought a different perspective for developing such services. This perspective is one

based on investment and investing rather than procurement. It focuses on taking thought through risk, learning and adapting. We have set out more on this perspective below.

Much of this way of operating is possible under present and incoming procurement rules, but practise on the ground falls disappointingly short of what could be achieved using best practice. This has led to two recommendations:

- Support from the centre to establish good practice and enable change; and
- A pilot fund, part funded by government, to test out this different approach and demonstrate effectiveness

Changing perspective: from procurement to investment for Social Innovation and Prevention

The working group calls on G8 governments to work with social investors, innovators and service deliverers to develop new ways to invest in social innovation and preventative activity. We believe that a different mindset is needed in commissioning these services, that they are something to be invested in, rather than procured. This changed mindset is about testing lines of enquiry, gathering data and using the feedback to increase resources for those elements that appear to be successful and shift other resources to further testing and experiments. It is also about working in partnership with aligned providers and investors in the process of discovery. We highlight key aspects below:

Co-development

Preventative work needs to be carefully integrated in order to be effective. Innovative services need to be developed to fit the local landscape and needs. In both instances the government commissioner and the service provide need to be able to work together in partnership to develop the solution. The commissioner may not fully understand what is possible. The provider may not fully understand the need or the wider service environment. This partnership requires openness and trust for new services to gain traction and to be effective.

Iteration

However carefully planned and developed ideas are, they generally don't go exactly as expected. The issues that social services are designed to tackle are invariably multi-stranded and complex. The original plan therefore needs to be designed and built with the expectation of further change and the commissioner and provider should have built in processes for evaluation and adaptation both of the programme and its integration into the wider context.

Aligned interests

For the trusted partnership described above to work, there has to be a sense of common purpose across the participating entities. We believe social investment has a potentially crucial role to play to enable the investors in a project to be aligned with the social goals and impact of the project, as well as the commissioners and the service providers.

Outcome focus

None of this is going to work without effective and rigorous measurement, and a clear understanding of the outcomes that the project or service change is looking to achieve. These outcomes measures drive the feedback loops and iteration that can ensure the services success.

Too much service innovation and preventative activity is commissioned without effective measurement, leading to considerable uncertainty about their actual levels of success.

Recognition of investment and effort

The co-development and iteration process outlined above requires investment from all parties. It is only reasonably going to be entered into by service provider partners and investors in the event that they are going to be allowed to continue to run any service successfully developed through the process. Thus co-development needs to continue into management without a procurement process lying in-between.

Transparency

Part of the understanding of the difference between social innovation and maybe commercial innovation is that the developed innovation should be a public good. In return for co-development processes and models that recognise the investment and effort of participants could be a recognition that the results of these efforts need to be put into the public domain, both in terms of the outcomes produced and in the cost of production. This would mean that social innovation procured in this way would develop a body of knowledge that would both enable better social services more quickly and allow for more accurate pricing of social outcomes in the future.

Precedents and opportunities

It may sound a difficult proposition to get G8 Governments to change the models of procurement for services in these crucial areas, but precedents are already emerging and demonstrate an acknowledgement of the issue:

- In Europe, new procurement directives allow commissioners to restrict competitions under certain circumstances to being amongst mutual and social enterprises only. So if a commissioner sees the need for interests to be aligned as particularly important for the services they are procuring, for example care services for vulnerable groups, then they will be able to commission those only from socially motivated or responsible providers.
- The new EU procurement directives also create the idea of innovation partnerships “which enable a public authority to enter into a structured partnership with a supplier with the objective of developing an innovative product, service or works, with the subsequent purchase of the outcome”
- EU procurement already provides an exemption for the procurement of research and development services, using a concept of “pre-commercial procurement”.
- The IT sector’s work on agile procurement has sought to solve many of the same issues around co-development and creating governance around more iterative product development models. These are also creating useful frameworks that fit within present rules.

While these amendments give a sense of the opportunity to create change, we have to acknowledge that there is a very significant gap between where we are now and leading edge practice being used on the ground.

Recommendation One: Creation of a Procurement of Innovation and Prevention Hub

We recommend that Governments should work to embed changes to practice in these crucial areas of social innovation and preventative services. In particular that:

- The Government sets up a Procurement of Innovation and Prevention Hub that recommends these emerging procurement practices to commissioners and provides guidance on their use.
- The Hub is accessible to both commissioners and social sector providers for advice and guidance, and to work with procurement officers in local government entities as the need arises.
- The Hub develops explicit guidance on commissioning social innovation and preventative services, and the challenges that traditional procurement methods create in these areas.
- Included in the guidance should be information on alternative routes that can be followed, precedents of good practice and the potential for engaging social investors in the process to improve alignment between the different parties.

Recommendation Two: Social Innovation and Prevention Pilot Budget established to demonstrate investment approach to addressing social problems

We recommend that a pilot budget is established for the purpose of investing in social innovation and prevention (buying long term outcomes), to deliver demonstrably improved outcomes and long term taxpayer savings in comparison to current approaches. This pilot budget would demonstrate new models of buying long term outcomes to act as precedents of more innovative models. Features would include:

- It would be exercised in the context of credible third party research to verify any long term taxpayer value created;
- It would be run as a public/private partnership, joint with foundations or other providers of outcomes, who would also contribute funding;
- It could either be a single area led model with substantial funds in that area, or run a series of pilots in a range of areas.