

LONDON BOROUGH OF SUTTON MARKET DEVELOPMENT STRATEGY 2016-2021



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Our Approach

Key Drivers

The past three decades have witnessed an onward march towards the marketisation of public services. According to Price-Waterhouse-Coopers, local authorities are no longer seen solely as vehicles to execute social policy mandated by legislation, but often as another provider whose services must meet a standard that, broadly speaking, equates with public expectations in any given epoch. In a competitive marketplace the imperative is to increase the quality of public services, provisioning in a more differentiated way than in the past which reflects more sophisticated consumer demand. Another important driver is the need to reduce cost in an environment of significant public sector funding constraint.

To further widen the scope of introducing markets to public services, in 2010 the coalition government began increasing the use of 'black box commissioning', the tendering out of entire service areas to the private and third sectors. At the same time Sutton's commissioning approach affords external providers and consumers the opportunity to play an active role in shaping service design through early engagement as part of a market consultation process.

Implications

Key message

The scope of commissioning is widening and with it the skillset required of an effective commissioner who has the task of using markets simultaneously to manage demand, improve quality, and control cost.

The role of Local Authorities as lead commissioners in their local areas is increasing in scale and complexity. Alongside the existing range of services that councils offer, the responsibility for public health transferred from the NHS in April 2013. The responsibility for health care has moved to both Clinical Commissioning Groups (CCGs) and Local Authorities from Primary Care Trusts. Health & Wellbeing Boards, established by upper tier and unitary local authorities, comprising of members from the Council, the CCG, HealthWatch, NHS Commissioning Board and any other appropriate representatives, are forums where key leaders from health and care system work together to improve the health and wellbeing of their local population and reduce health inequalities. There are also fundamental drivers for commissioners that result from the current financial climate, as well as other national initiatives, which can be broadly summarised as:

- Commissioning and integration to reduce costs
- Commissioning to meet evidenced need rather than perceived demand
- Commissioning for personalisation – both in terms of new markets and new solutions.

In Sutton, we have agreed to a council-wide commissioning approach that asks officers, residents and stakeholders to think through what assets are available, what needs are we

aiming to meet, what outcomes are important to the local population and how we can best meet those needs and deliver against those outcomes whilst reducing resource demands.

A smarter council has to commission a wider variety of provision but also needs to assert itself as the strategic commissioning lead for the local area. In doing so, it has to understand its whole population, the market from which providers emerge that deliver services to that population and how that picture is changing, even where the duty to provide those services does not rest with the council. In short, we will not “do everything” but we will need to be much clearer about what needs to be done and ensure those that should be meeting a need are doing so.

Our Vision

We have a vision for the contribution that market development will make to Sutton's Future.

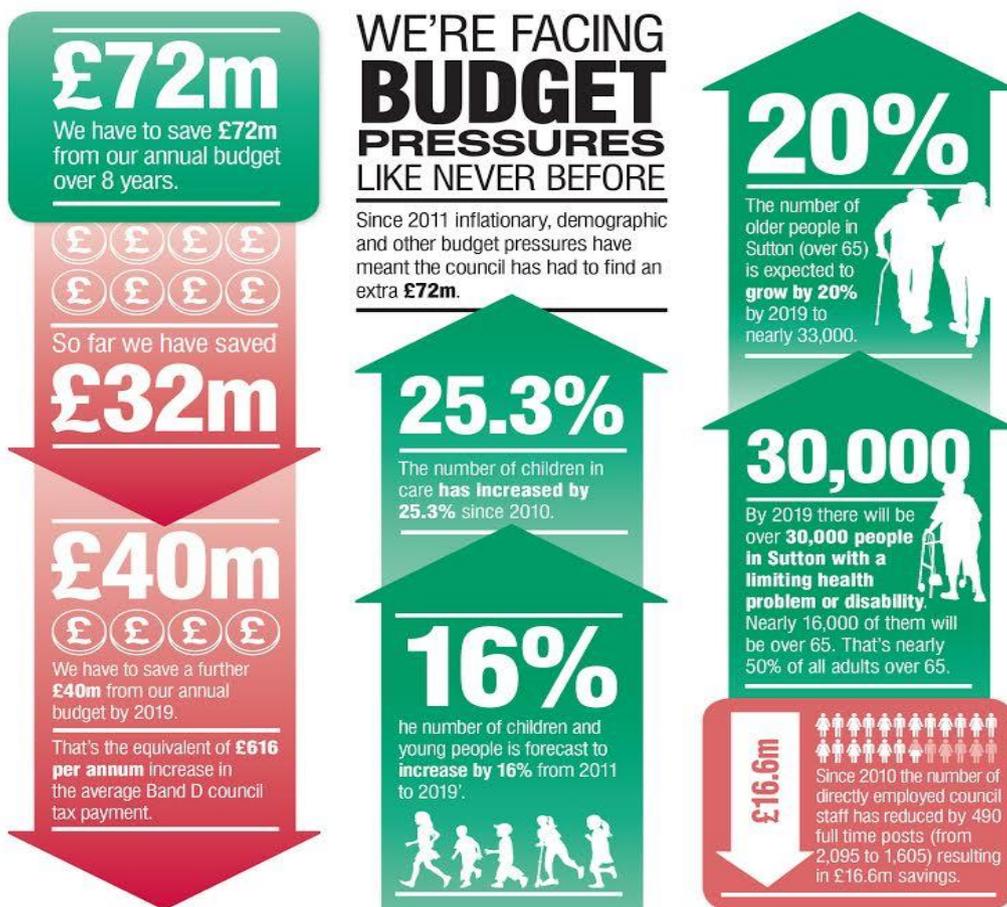
“Sutton will lead the conversation with our partners, gaining insight to manage demand; shaping the market so that we deliver high quality, efficient and responsive public services.”

Our Challenges

Mapping supply and demand of Sutton services

Key message

Driven by inward migration from other London Boroughs and greater longevity, demand for our services is increasing, becoming more segmented, nuanced and complex. We need to draw upon the dynamism of the market to keep up with public expectations.



(Sources: population and forecast data - ONS and Census)

As the above graphic shows, demand for our services overall is expected to increase. There is evidence ¹that the issues people are dealing with are becoming more challenging as they live longer, sometimes with particularly complex health needs. In many cases our older residents are also facing a financially insecure future.

¹ <http://www.bild.org.uk/information/ageingwell/background/> & <http://www.parliament.uk/business/publications/research/key-issues-parliament-2015/social-change/ageing-population/>

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The table below lists responses from Sutton's commissioners to questions regarding the current demand and supply profiles for different Council Services, pinpointing areas of significant challenge in the future.

Health and Social Care				
Q's	Prevention Services - Adults	Prevention Services - Children's	Targeted Community Support	Complex Needs
1. What is the aggregate level of demand for health and social care?	High	High	Medium	Medium
2. Is demand set to increase over the next 5 years?	Yes	Yes	Yes	Yes
3. Are the above areas facing a supply crunch?	No	No	Yes	Yes
4. What are the reasons behind this supply crunch?	Large number of providers within the market. Although an emerging trend re ability to recruit and retain staff. Supplier market in some instances reliant on public sector funding.	A diverse marketplace that is somewhat reliant on public sector funding via grants or small scale commissioning activity.	Diverse market, but local recruitment and supply issues starting to emerge	Diverse market place, but competing demands for local supply from other public sector organisations. In some instances accommodation in the market may not meet requirements.
Environment, Housing and Regeneration				
Questions	Parks	Waste Collection	Regeneration	Planning
1. What is the aggregate level of demand for Environment, Housing and Regeneration markets?	High	High	Medium to High	High
2. Is demand set to	Yes ²	Yes ³	Yes ⁴	Yes ⁵

² Playgrounds and public space

³ All aspects of waste collection & street cleaning

increase over the next 5 years?				
3. Are the above areas facing a critical supply crunch?	Yes ⁶	No	Yes ⁷	Unknown
4. What are the reasons behind this supply crunch?	Very complex area of demand.		Greater competition with other borough to attract more residents and businesses leading to more complex projects and desired outcomes.	Unknown

Red = Critical
 Amber = Medium alert
 Green = Less critical

As the above table shows, critical areas for the Council's future market involvement revolve around affordable housing provision and different aspects of adult social care. This presents a challenge to the Council as the market prepares for an increase in capacity that could be volatile and a change in capability that will be more responsive to changing customer expectations. Taking an example from the affordable housing market, there commissioners have highlighted the difficulties of equipping young people with the necessary skills to enter the building trade and signalled a need for SME builders to develop small scale brownfield sites for residential housing. Collaboration with other local authorities is likely to be important here and will require coordination and buy in to Sutton's Market Development Strategy from our neighbours, Merton, Kingston, Surrey and Croydon.

More broadly, shaping markets will require better intelligence, more collaborative relationships with our partners, for example through the South London Partnership and the voluntary sector Compact, and a system of clearer rewards & penalties. Shaping the market will also need a more strategic approach from the Council. We start by seeking to understand our influence on markets before looking in greater detail at where our priorities for market development should be over the next five years, markets where we believe we are likely to face a supply crunch as detailed in the table above and markets considered ready for future development.

Understanding our markets and how we influence them

⁴ Increased infrastructure development which supports population growth and economic development.
⁵ Planning applications for new build and other development control aspects.
⁶ Adequate provision of bailiffs services for Traveller incursions.
⁷ Provision of complex projects incorporating design, economic analysis, resident engagement, partnership working, etc.

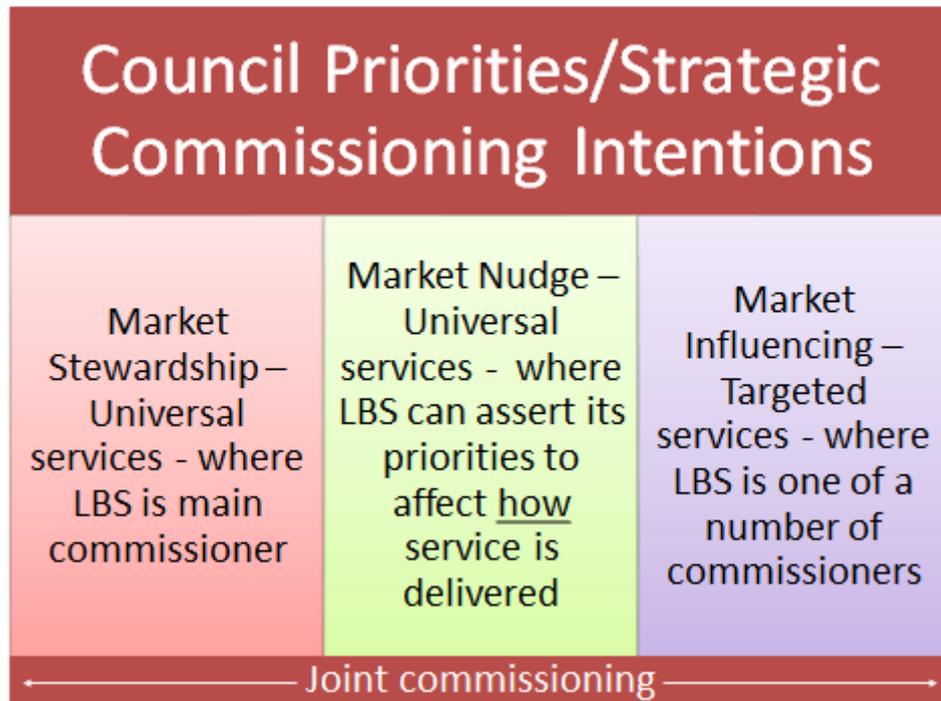
Key Message

Commissioners move beyond telling the market what they want, to actively growing, strengthening and shaping the market

To respond to these challenges, Sutton needs to understand the markets where our direct buying power will enable us to leverage certain outcomes and those where our role is that of facilitator to support local people to shape future delivery. Sutton's total annual budget of approximately £145m is small compared to £1.9 billion of overall public sector spend in the Borough. One important challenge is to ensure that the authority leverages further investment through active partnerships across the public, private and voluntary sectors. With a wide set of skills, local knowledge and capacity in areas like transport, housing and infrastructure, Sutton is well placed to lead local growth initiatives through partnership vehicles like the Opportunity Sutton Economic Growth Programme.

Through pooled budgets like the Better Care Fund, co-managed with Sutton's Clinical Commissioning Group, more investment can be shifted from hospitals into the community. Through the targeting of prevention with public health initiatives like smoking cessation and childhood obesity campaigns the authority will be challenged by new sectors working in different ways.

At a local level Sutton is well placed to generate more economic activity and social reciprocity by building on projects like Sutton Shares, the Borough's time-banking currency that rewards local volunteering. Sutton will also be well advised to learn from community schemes like the Brixton Pound, a local currency that local SMEs use alongside £ sterling to increase local trade, business diversity and economic dynamism. There are early discussions with our voluntary sector to consider implementing something similar in Sutton as well as exploration of a Local Giving model.



Regardless of the services that the council commissions (and whether internally or externally provided) they should align to broader priorities and corporate strategy. However the 3 types of market intervention outlined in the table above suggest a subtly different approach to influencing the market depending on; spending power, market maturity/competitiveness and corporate priority. The challenge for the Council is to commission across the market and, therefore to develop an approach that is flexible enough to take account of these differing characteristics. This is, of course, further complicated when commissioning jointly with other organisations who may deploy other approaches when trying to influence the market.

The first column, Market Stewardship could be applied to waste collection where the market is driven by efficiency and profit and commissioners need to use formal arrangements to affect what the market delivers.

The second column, Market Nudging is more about how a service is delivered, for example it could be a leisure service situated somewhere that has a relatively high number of older people. In this case the commissioner could use intelligence to refocus the service offer, looking for opportunities to integrate their work with partners in order to meet public health obligations. Similarly this could apply to social care provision that is directly commissioned by the council but needs a negotiated approach to ensure provider insight and innovation is harnessed.

The third column focuses on influencing the market, of vital importance in social care where a large majority of providers may not rely on the council for business. This is particularly germane to Sutton where the Council signals to the market that it does not intend to purchase residential/nursing care placements, preferring supported living accommodation instead. In this case, it will be important for commissioners to make clear to the market

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what their intelligence is suggesting. Commissioners will then have to think how providers can be encouraged rather than obliged to meet local need. The sections are permeable. Over time it may be that localism/devolution changes the balance of provision within each for example, leading to fewer instances of councils directly commissioning services.

The emerging landscape therefore, is one where services will be commissioned at a variety of spatial levels whilst accommodating significant population 'churn' (as cited by the Office for National Statistics in recent years). This will require commissioning in partnership to meet a wider range of need without necessarily having sufficient resources to purchase a bespoke solution. If Local Authorities are to fulfil their commissioning obligations they will need to do the following:

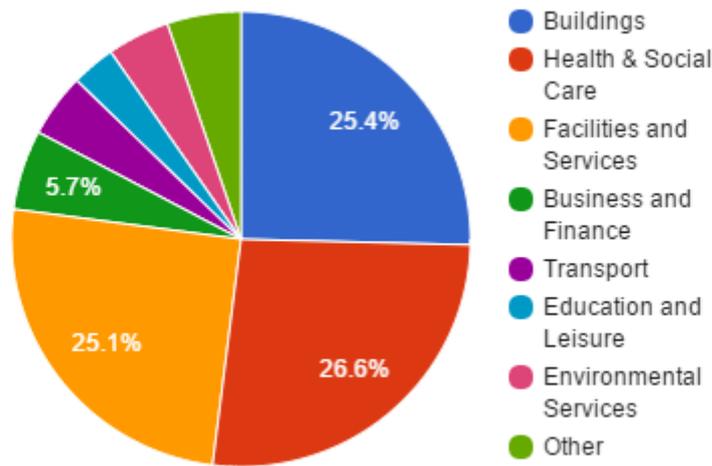
- Share with current potential providers the intelligence we have on population trends, current and projected demand and supply patterns for the services we commission
- Make known how we think the market needs to change over time in response to changing expectations and other drivers
- Ensure partner organisations deploying services in their local areas help shape and then understand and own the strategic commissioning priorities in that area.
- Facilitate greater (and more mature) discussion with local people so that need is met rather than perceived demand.
- Work proactively with providers about how we will intervene in the market encourage new solutions and new entrants, explaining why we may need to disinvest in some areas and increase spending in others..

These activities do not solely rely on purchasing and contracting but on using and sharing data more effectively, engaging more meaningfully and negotiating confidently.

In order to achieve these objectives we start by analysing our current market status before going on to determine strengths and areas for future development.

The market sectors within which the London Borough of Sutton operates are shown below together with their relative scale based on size of budget. A more detailed list of market sector sub-categories is provided in Appendix B.

London Borough of Sutton Market Sectors (£) 2015



Knowing our strengths and potential areas for development

Key message

Sutton has made progress in collaborating with neighbouring Councils to deliver services in a more cost-effective way (£8.5M savings 2015/16). However, market development including the introduction of fully fledged businesses, in many cases run by staff, will be equally important in the future.

The London Borough of Sutton has made a public commitment⁸ to developing an increasingly mixed economy of provision rather than continuing to be the main provider of local services. In practice this means using different models to deliver services. Sutton now has:

- 14 Shared services with public sector partners of various sizes and configurations and more being explored.
- An Arms Length Management Organisation (ALMO) looking after the Council's housing stock.
- Its first fully mutualised service ([Cynet IT Services](#)) with more planned over 2016/17.
- A new Housing Development Company (Sutton Living) that will enable the Council to build housing to meet changing need.
- A commercial vehicle under our Opportunity Sutton programme that will enable a Local Authority Trading Company (LATC).

⁸ Sutton Residents First: Implementing the Smarter Council, 2012

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These initiatives are geared towards ensuring residents needs are met by the most appropriate people and as efficiently as possible. They are at the furthest end of market development in the authority. However, as part of the work behind this strategy we have researched where local markets are strongest, prioritising those with the potential to innovate adapt and develop the market further. This will shed light on, and bring clarity to how it will use diminishing resources and make savings in the medium term.

Key message

We build on the strengths of our services, ensuring that they evolve to meet the challenges of more sophisticated demand in a climate of constrained public resources. We must commission in partnership with users, drawing also on provider insight to influence the market delivering the quality services our residents expect.

Health and Social Care - Market Strengths and Development Areas				
Q's	Prevention Services - Adults	Prevention Services - Children's	Targeted Community Support	Complex Needs
Mature Market?	Yes in specific areas	Yes in specific areas	Yes ⁹	Yes
Market development potential??	Yes	Yes	Yes	Yes
Role in managing supply and demand?	Yes	Yes ¹⁰	Yes ¹¹	Yes ¹²
Environment, Housing and Regeneration				
Qs	Parks	Waste Collection	Regeneration	Planning
Mature market?	Yes, in specific areas. ¹³	All aspects of service.	Yes, in specific areas ¹⁴	More research needed
Development potential?	Medium, in specific areas ¹⁵	Under continual review	Medium, in specific areas ¹⁶	More research needed
7. Role of	Some development	Market play significant role.	Some development made ¹⁷	More research needed

⁹ Diverse market of national organisations; service model easily taken up by local businesses

¹⁰ Key role - helping to maintain carer health and wellbeing, and by extension reduce needs of cared for (however, lack of empirical evidence about impact)

¹¹ Role in preventing development of needs - but lack of empirical evidence about impact

¹² Key role - but lack of empirical evidence about impact

¹³ Provision of play equipment.

¹⁴ General management consultancy

¹⁵ Resident management and involvement in public spaces and parks.

¹⁶ Consortium and partnership working



Red = Market development weak or not known
Amber = Market development moderate and/or possible in specific areas
Green = Market present and/or further development desirable

¹⁷ Continued development of these markets to encourage a more collaborative approach and better understanding of the Council's aims and needs.

Our Opportunities

Building on our strengths

The key challenge is now to begin the process of developing markets in the above areas. A number of different Sutton strategies and policies so far add up to provide a partial picture explaining how this can be done. The sections below bring all these together in one place and, drawing upon insights from the Institute for Government, provide commissioners with tools to analyse and develop their markets further.

The Institute for Government (IfG) Public Service Markets Tool

Key message

We have a piloted tool to guide commissioners through the process of understanding the markets in which they operate, where and how they can make further development possible, the attendant risks, ways to mitigate them, and what the likely outcomes will be.

According to the IfG, services have inherent properties which make market mechanisms easier or difficult to use. The point is to understand what these properties are and identify some of the risks attached to the use of market mechanisms in these public services. In conducting the assessment it is important not to rule out using market mechanisms simply because of the presence of risk but to consider ways in which it can be identified, mitigated, or controlled, for instance through co-commissioning in cases where risks are co-dependent across different services.

A tool, developed by the Institute for Government and piloted in Sutton set out below provides practical support to commissioners seeking to confirm their hypotheses regarding which markets can be strengthened. The tool also assists commissioners in identifying and managing risk in developing markets.

Understanding your market through the Public Service Markets Diagnostic Tool

A Word from The Institute for Government (IfG)

The public service markets diagnostic tool is aimed at anyone in central or local government involved with public service delivery which includes an element of choice or competition. It was developed from our extensive research on how to make public service markets work more effectively. The diagnostic tool is a practical way for commissioners to identify risks and possible remedies within the markets they manage.

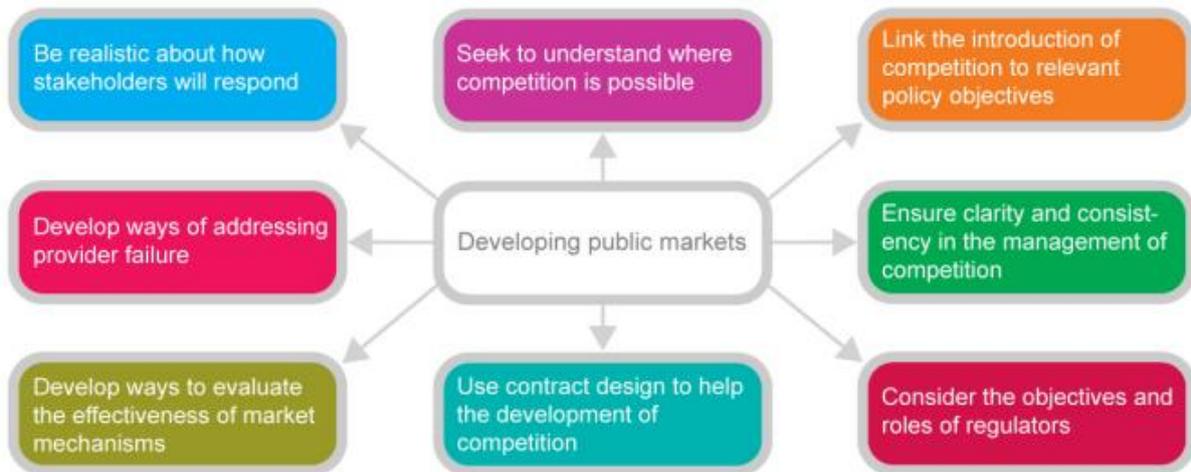
The tool analyses a particular public service market in depth by asking multiple-choice questions on the following:

- the characteristics of the service (for example how predictable demand is)
- the way in which the market is set-up (for example the number of providers and the length of contracts)
- the capacity in the organisation to manage the market (for example in monitoring performance and identifying potential problems).

When the tool has been completed it produces a tailored report with practical suggestions for addressing the risks identified. The tool takes most people about 15 minutes to complete. We hope it will be used by commissioners to help identify risks at an early stage of market development, and help them consider how to make systems flexible and responsive to changing conditions¹⁸.

Applying Insights from the Office of Fair Trading (OFT) Model

Now that we have examined market strengths and areas for development and tested our hypotheses with the IfG market analysis tool, it is necessary to refine and optimise our approach, improving outcomes for residents and using competition to manage rising demand and cost pressures. For this purpose, we have considered our performance against a model developed by the Office of Fair Trading¹⁹ (OFT).



It is expected that we will achieve 3 key outcomes by working with the OFT model and the Institute for Government (IfG) tool. We will:

1. Have captured and shared market intelligence across the Council and with our key partners.
2. Be clear about what we need from the market to help us achieve our corporate priorities.
3. Set out how we will intervene in order to lead market development where required.

Understanding where competition is possible

As an organisation that commissions over 800 services, the Council operates in a number of different market sectors, each of which has its own dynamics and conventions that impact on how commissioners engage with them. The provision of waste collection, as noted earlier, is a mature and dynamic market where costs have been driven down through competition.

¹⁸ Please give us feedback on the usefulness of the tool so that we can continue to support its future development

¹⁹ Office of Fair Trading Developing Public Service Markets, 2013

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Healthcare is very different as the NHS continues to have a [monopoly](#) over the provision of health services. Competition is therefore minimal despite successive national Governments attempting to increase this. Although many commentators believe this monopoly is weakening, it remains for now.

Linking competition to policy objectives

The Members' [vision](#) for Sutton as set out in 2012 makes clear our desire to develop both the range of provision on offer and innovation within the market.. This is further supported by our [Commissioning Framework](#) and our [Procurement Strategy](#), both of which confirm the Council's collaboration with private and voluntary providers to meet the needs of our residents and stakeholders. Each Commissioning Directorate also publishes an annual Market Position Statement linking to the Council's [Strategic Commissioning Plan](#) signalling to potential providers what we may be seeking to achieve during any specific financial year. These are often complemented by regular provider forums to discuss in further detail. It is our intention to build future plans on a 3 year cycle to give the market reassurance over our medium term aims.

Council commissioners are also expected to run market consultation sessions to test what can be done (and at what price) during any significant commissioning exercise. Sometimes these are early stage discussions before a service specification has been agreed (often called soft market testing) and sometimes these are more detailed conversations once a specification has been written. We recognise that we do not have all the answers and therefore encourage anyone who wants to do business with us to register on the London Tender [Portal](#) so that they receive information about our upcoming commissioning activity and, specifically, invitations to market testing events.

Ensuring clarity and consistency in management of competition

Sutton Council abides by the principles of a well established approach to fostering competition. Formulated as part of a Council-wide competition policy, the reasoning behind the approach is as follows:

- As a public body the Council is bound by the legislative requirements of the principles of cross border trade and the Public Contracts Regulations 2015.
- The increasing financial restraints on the Council mean that it needs to obtain more for every pound spent.
- Competition is recognised as a method which is successful in achieving reductions in price and achieving value for money.
- Competition facilitates the market to put forward commercial and innovative solutions to achieve the specified outcomes
- The open tendering of, in particular, smaller contracts is a major contributor to providing opportunity for local small organisations to participate and strengthen the local economy.

Sutton's Competition Policy is included as appendix A of this document.

Objectives and roles of regulators

The table below matches the most important market sectors for the London Borough of Sutton to the regulators operating within it and any relevant targets, powers and purpose of their regulatory responsibility:

Market Sector ²⁰	Regulator(s)	Regulatory Target	Stated Rationale
Buildings	Homes and Communities Agency	Social landlords	Creates successful communities by making more homes and business premises available. Regulates social housing providers in England
Health & Social Care	Care Quality Commission	Health and Adult Social Care Services	Monitor, inspect and regulate services to meet quality and safety standards. Publish findings to help people choose care
Facilities & Services	Health and Safety Executive	Employers and Staff	Matters which may affect the health and safety of anyone at work or the public as a result of work activities
Business & Finance	National Audit Office The Pensions Regulator Office of Fair Trading	Local Government	Proper conduct of public business, value for money, fraud and corruption in local government Matters relating to occupational pension schemes Sale of goods or provision of services that might adversely affect the consumer
Transport	Transport for London Rail Franchises		The provision of transport services Matters relating to rail services
Education & Leisure	OFSTED		To maintain and improve quality of teaching
Environmental Services	OFGEM OFWAT		

²⁰ See APPENDIX B - Service Sub-Categories Pie Chart 1

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	Environment Agency	All organisations	Acts or omissions that have an impact on the environment
Other	Information commissioner	Public Bodies	Ensuring compliance with the Freedom of Information Act

It is expected that commissioners will consider the impact of sector regulators when testing the market initially and then build in appropriate performance indicators into any subsequent contract management arrangements.

Designing contracts to develop competition

Effective contract design plays a key role in developing competition by providing clear, transparent rules to achieve tangible outcomes. The clarity of corporate and sectoral policy therefore remains important as a framework guide to would be providers. Sutton's Corporate Plan and the Council's Commissioning Framework both fulfil the high level requirement, with related strategies used at an operational level. Spelling out outcomes and objectives for a particular service to deliver, whilst leaving scope for innovation and the delivery of added value is key. Sutton's use of Developmental Assets provides scope for imaginative providers to build on individual and community assets, stretching the scope of their contribution to add social value in the Borough.

According to the Institute for Government, effective contract design, built on firm foundations should then enable a market that facilitates the following pre-conditions for further development. We expect to see commissioners adopting that approach in Sutton.

- New providers to enter the market

We carefully consider how any specification we publish encourages or discourages new organisations to bid. Significant upfront investment relative to the size of the interested provider is one such potential entry barrier. This can refer to both 'hard' physical infrastructure such as specialised equipment, or buildings but also 'soft infrastructure' such as market knowledge or special access rights that may have been captured and guarded by an incumbent. Insider knowledge could be costly for a new provider to obtain especially when it involves the collection of data or information accrued from personal interviews or networks of contacts. Successful contract design makes this information available to any provider beyond the lifetime of the first contract period and considers ways to minimise up front building or infrastructure costs for new providers. However, in the case of knowledge acquisition, effective contract design should incentivise the incumbent to systematise the collection of information and data, making it available as a public resource for future providers beyond the duration of their contract.

In Sutton we are aware that long and complex bidding processes can likewise create entry barriers to new providers, especially those from the SME sector who are competing with large suppliers or incumbents. We learn from the experience of public service contracts. In the case of NHS dental contracts, for example, the majority are indefinite and only a very small volume are put out to tender each year. The tendering process is lengthy and places

significant weight on past experience, insulating dental practices with an existing NHS dental contract from fair competition. The Office of Fair Trading recommended in this case that contract payment for dentistry should follow the patient so that any licensed dentist can compete for NHS funding. In Sutton, the procurement team provides bid guidance to SMEs that simplifies qualifying criteria to reduce the administrative burden associated with submission. As far as possible contracts are broken down into smaller packages to allow a wider range of suppliers to participate, especially SMEs and we welcome consortium and partnership bids. There may also be a requirement to vary contracts in response to either the provider or the commissioner's wishes. It is our expectation that all contracts will allow for this and that a collaborative approach be taken unless specifically stated otherwise during the contract award phase.

- Vigorous competition

The Council stays abreast of the market beyond the incumbent and encourages interest at an early stage in the tendering process through market consultation. This usually involves a facilitated event providing the commissioner with an opportunity to test the market, to understand its possible capacity and capability whilst seeing how the tender can maximise social value by building on market strengths. For the supplier, the event provides an opportunity to understand more concretely what the commissioner is looking for, identify possible contract collaborators, and survey market competition. A better quality submission is typically the outcome of early communication, albeit arranged in a structured way to ensure that attendees do not receive an unfair market advantage. Using the London Tenders [Portal](#) helps to do this by extending the reach of potential suppliers as widely as possible. A level playing field is further created, generating wider interest through a system that formalises an auditable, staged approach restricting opportunities for side communications between the commissioner and certain suppliers that can bestow an unfair advantage. Local Authorities are required to publish new procurement opportunities above £25,000 on Contracts Finder, in addition to the local portal used. This complies with the transparency obligations placed on local authorities. For below EU threshold contracts, the requirement to publish does not apply where a contracting authority is making an opportunity known to a closed group who have already been selected.

Moving on from market consultation the next step is to specify and design the contract, making sure that it does not last too long and, in some cases unwittingly provide incumbents with a monopoly position and excessive financial security. There should be sufficient provisions to further challenge poor performance if it does not reach required levels. In 2005 the Home Office awarded 9 year contracts to Serco and G4S to provide and install electronic tagging equipment, monitor compliance with prisoner release curfews and report any breaches. Short term incentives to improve service quality were absent, as were those to work with local partners or respond to technological innovation in prisoner tagging. In 9 years, significant technological advancement took place in tagging. Although replacing obsolescent tags would have saved money, neither Serco and G4S had an incentive to make a switch to new technology as the requirement to do so was not specified in the contract.

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The Council welcomes appropriate dialogue in order to test what the market can offer in a way that encourages objectivity during tender evaluation and also offers some contracts divided into smaller 'lots' to allow SME's or new suppliers who may prefer an incremental entry into a new market.

- Competition on desired outcomes

A preference for the delivery of tangible 'things' or 'outputs' over often more esoteric and hard to measure outcomes can lead to bias in contract design towards meeting a set of quantifiable targets. This can create perverse incentives for providers to 'game the system' or to undervalue elements of a contract that deliver unquantifiable characteristics. There are plentiful national examples to draw upon from home care to road maintenance where actions are monitored (someone is visited or a pothole is repaired) but the outcome is not (that person needed a bath but had a meal cooked instead or the pothole repair disintegrated in cold weather). There can also be tendency to overlook or ignore altogether targets that are not easily quantifiable and yet highly valuable, for instance around levels of kindness and sensitivity exhibited in caring for someone.

In Sutton the possibility for bias is addressed through a clear set of corporate priorities that are delivered through a robust commissioning framework. The framework requires interpretation of these corporate outcomes at service level, setting out a contracting methodology that delivers them in practice. Further scope for service innovation from the potential supplier is encouraged through a list of community and individual assets that can be built into bid submissions to win a competitive advantage. The Council aligns performance indicators with the outcomes that the service is commissioned to achieve. In the case of Sutton's Healthwatch contract which provides support to people wishing to access or complain about health and social care in the Borough, more emphasis has recently been placed on capturing feedback from the service about whether it is meeting their needs than on for example the number of people who received information, complained or the number of Boards on which Healthwatch sits. Where there is a constellation of providers delivering similar services (e.g. homecare or information/advice), we now assess competence by balancing the number of people seen against the outcome delivered and are finding this can challenge more traditional methods of service delivery. In this example commissioners are then able to consider conversion rates when evaluating provider performance.

- Providers exit in an orderly way

Although it may feel counterintuitive to think about an exit strategy at the start of a relationship, it is important to consider how the contract will enable an effective incumbent to withdraw - either through contract expiry or termination. In so doing Sutton facilitates service continuity and minimises possible disruption to our customers. One possible recourse is to consider forming partnerships in contract delivery to ensure that the risks of one provider failing are mitigated by others being available to fill the gap. Keeping contracts as short as possible enables providers to remain 'market ready' on standby.

One of the world's largest providers of early years education, ABC Learning in Australia expanded its portfolio on the basis of dubious accounting practices and was unable to pay down rapidly accumulating debts. Going into receivership in 2008, ABC Learning left nearly 120,000 children and 16,000 child care workers without a functioning education system and required the Australian government to step in with an £81M subsidy to keep centres open for a further two months until an alternative provider was found. In the UK, the failure of Southern Cross care homes was similarly problematic. In these circumstances government is likely to retain an obligation as provider of last resort should there be a provider failure on this scale. In both instances, due consideration was not given to the possibility of the contract failing. By contrast Sutton insists that all services must have a clear exit strategy that, in instances of irretrievable failure, takes into account the impact on customers, the wider community, the provider and the market itself. That exit strategy ensures that the transition of service provision from one supplier to another is done smoothly and with minimal impact on Sutton's residents.

Evaluating market mechanisms

The term 'market mechanism' is used to cover a set of rules and institutions of a market economy (and, in this instance, applied to the public sector). Market mechanisms can work to influence the delivery of either services that are supplied to the public through arrangements such as tendering a contract, or they can influence the demand for those services directly through such instruments as user choice, 'vouchers' and other forms of use and performance related funding. According to the OECD market mechanisms can increase the efficiency of public service delivery in three distinct ways²¹.

1. Improving productivity by raising the quality and lowering the cost of providing publicly funded services
2. Improving welfare by making public providers more responsive to users preferences, for example by devolving budgets directly to social care clients
3. Improving budget management efficiency through increased awareness of the resource costs associated with providing public services

Currently the Council uses the following mechanisms to inform and shape the market so that it can provide the services needed:

- Market Position Statement - these have enabled the provider to improve productivity, focussing on the outcomes sought after by the Council and reducing unnecessary costs spent delivering non-essential parts of the service.

An important demand led market shaping example from Sutton revolves around Personalised Social Care Budgets. Sutton used to have a block contract with a care company that provided home-based support to those in need in the Borough. Sutton decommissioned the service, channelling money instead directly to service users who were henceforth able to choose whether to spend with the caring company or contract their own

²¹ Market Mechanisms in Public Service Provision, H Blochliger, Organisation of Economic Cooperation and Development (OECD), 2008

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personal care. The majority opted to commission their own care, reporting higher levels of satisfaction than when they were catered for by a one company providing a standardised caring product. Higher levels of satisfaction combined with a reduction in overall expenditure and a more diverse and resilient set of care options in the marketplace demonstrate an effective intervention built on learning from other areas.

The OECD have found that economies of scale are often important factors in achieving efficiency improvements. Central government support or inter-jurisdictional co-operation, such as sharing services between Boroughs may provide the institutional size necessary to make market mechanisms economically viable.

A more recent study by the Institute for Government²² examined the use of market mechanisms in central and local authorities, forming the background to the development of Sutton and IfG's collaborative Market Development Tool outlined in Section 5(i). Another important insight from the IfG paper in addition to the practical capability of the tool in analysing markets, is the need to clarify our role in Sutton as market stewards as a precursor to deploying the appropriate market mechanism to achieve our desired outcomes. The concept of stewardship is important as we move towards creating a framework that facilitates interaction between service users, providers and commissioners actively engaged in shaping and developing the market. It is by definition dynamic, constantly in flux and requires us to perform a number of different roles

- Engaging closely with users, provider organisations and other interested parties across the system to understand needs, objectives and enablers of successful delivery
- Setting the 'rules of the game' and allowing providers and users to respond to the incentives this creates constantly monitoring the ways the market is developing and how providers are responding to these rules, and the actions of other providers
- Adjusting the rules of the game in an attempt to steer the system (much of which is, by design, beyond their immediate control) to achieve their high-level aims.

By applying the tool to provision of the government's Work Programme, markets for social care, and school academies, the IfG found that the choice of market mechanism was dependent first and foremost on historical imperatives associated with each sector. Employment and social care were driven fundamentally by cost control considerations, academies by quality requirements. An important lesson in an environment of reducing budgets, where cost control was the overriding factor, the use of market mechanisms appeared to make little difference to overall outcomes and was no substitute to adequate funding. In all cases a clear understanding of the multiple functions of the commissioner as a market steward with clear lines of accountability to each was more a more important factor in achieving outcomes than any particular market mechanism. The graphic below shows the different roles and responsibilities for commissioners in Sutton to perform in deploying any market mechanism.

²² Making Public Sector Markets Work, Institute for Government, 2013

Addressing provider failure

Sometimes public service providers fail. In the context of public service provision failure is taken to mean the provider:

- not delivering service for financial reasons (financial failure);
- not governing itself according to public expectations (governance failure);
- not meeting an expected minimum performance standard (performance failure)

Considering failure is more important now. As we seek greater innovation in public service delivery, the provision of better public services at lower costs, we also face concomitantly higher risks of failure. How failure will be dealt with needs to be transparently outlined in any contract, providing examples of instances typifying a gradual escalation and sudden, all encompassing failure incidents and full blown crises.

When failure occurs it may often be a price to pay for innovation or it may emerge out of effective competition, keenly priced contracts or robust contract management. At the same time failure can bring in its wake serious consequences for services and their users especially when they are disrupted.

The most important lesson from past failures is the need for effective contingency planning, deciding at the outset how commissioners will respond to a failure. How will that service be delivered if an incumbent suddenly withdraws from the contract? Is a public sector body available in the wings to pick up the reins or another provider who will quickly assume a new contract? Are measures in place to counteract incumbent privilege, making it viable for competitors to step in at short notice to take over the contract? In considering which vehicle might be deployable in reserve it is important to assess the risks associated with each option and to understand whether the risk tolerances fall within the commissioner's comfort zone. Failure to do so is evident in the case of the introduction of Police and Crime Commissioners (PCCs) in 2011. PCCs replaced unelected police authorities with elected commissioners. Only once police and crime panels had been set up did the Home Office realise that PCCs lacked the powers to act on information they received and lacked access to information from police forces up and down the country. In one high profile case, Shaun Wright Police Commissioner for Rotherham was found negligent in safeguarding children prior to becoming commissioner. Requests for Wright to stand down could not be followed through as the Home Office had no powers to remove him.

Risk assessment plays an important role in the inception of any contract. In considering the likelihood of failure it is important not to assume that the new provider will shoulder all identified risks no matter how far it is possible to have them covered in the specification. Providers can walk away, governments cannot. In other words it is important not to be seduced by a contract that seems to offer cast iron guarantees at unrealistically low levels of cost. Hinchingbrooke Hospital provides a lesson in over-optimistic commissioning where the provider Circle which won the contract to run the hospital in 2012 offered projected savings that, as a proportion of turnover were unprecedented in the history of the NHS! It is more often the case that, in an effort to avoid failure at any cost and the reputational damage that

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will surely follow, provider performance gradually slips below acceptable levels generating demands for instant, unrealistic improvement in complex situations.

One way to reduce failure risk is to specify at the outset the 'must haves' in any contract and take practical steps to introduce flexibility so that changes can be introduced as the contract develops, and environments change in unpredictable ways. Over-specifying outputs can impair contract compliance or lead to complex re-negotiated deliverables providing poor value for money or, worse still the initiation of a complaints process, trust breakdown and deteriorating motivational performance on the part of the provider. Likewise it is important to put in place a transparent structure of performance measurement and oversight with clarity over processes to escalate issues and problems, apply penalties and, in instances of challenge, follow a course of arbitration. It is insufficient in most cases to rely upon regulators to provide monitoring and evaluation functions to ensure contract compliance as the failure of the Department of Health and the CQC to pick up severe problems with patient care, quality and safety at Mid Staffordshire Hospital in 2011 showed.

Monitoring and oversight mechanisms must have built in an understanding that we are operating in a dynamic environment.

- Performance may change over time so expected minimum and maximum service levels may change
- Commissioner risk appetites may change with the need to build flexibility into a contract
- Provider failure can change incentives amongst other providers in the delivery chain, in turn requiring a change in the type of monitoring applied
- Changes in the economic environment may require different levels of monitoring intensity to pick up on raised levels of service demand for instance.

Observations from the National Audit Office show that government has been particularly poor in learning from failure. It is therefore important to document experiences of provider failure starting in Sutton itself and build in ways to manage the risk of this happening again through a more coordinated approach to delivery models. Failure may also indicate changing levels of risk for other providers, or at the other extreme, a healthy market. In the case of the Department for Work and Pensions Troubled Families project, the DWP was able to determine quickly that the programme was not receiving a sufficient number of referrals to warrant the level of spending provided by the European Social Fund. Early intervention and project closure led to the re-allocation of funding enabling the UK government to continue benefiting from EU support.

Stakeholder responses

In order to develop markets in Sutton services it is important to apply a number of principles to our relationship with suppliers.

- Sutton must create a level playing field where all potential providers no matter how big or small are guaranteed equal and fair treatment as they consider supplying services to the Borough.

- Without prejudicing one potential supplier over another it is important to be as open and transparent as possible in setting out our expectations and in preparing to challenge and be challenged over ways of meeting them.
- We have set out our approach in this document, through market consultations for example and the involvement of service users in designing our specification, emphasising the importance of planning in the development process.
- We value early engagement with providers and service users to stretch our ambitions before going out to tender.

Our Plan

We are committed to the following actions in order to help develop the market in a way that best meets local need:

- Ensure an Elected Member has responsibility for commissioning as part of their portfolio.
- Keep social value at the heart of our commissioning approach.
- Enable local people to genuinely shape service design, including talking to suppliers.
- Develop our relationship with business through our Opportunity Sutton Programme.
- Encourage consortium/partnership bids for our contracts, particularly where this enables SME's and/or local organisations to bid.
- Subject the provision of internal services to similar commissioning process and performance management to those used when commissioning externally.
- Promote the use of sustainable solutions wherever possible in our commissioning activity and ethical initiatives such as Fairtrade.
- Actively share information about the needs of our population and our commissioning intentions with the market.
- Use early market consultation to help shape provision.
- Actively encourage staff to consider spinning out their service from Council control where there is a business case to do so.
- Provide opportunities to talk to the market outside of formal tending opportunities.
- Publish a council-wide Market Position Statement as part of the Sutton Plan.
- Draft a Communications and Engagement Plan to disseminate the key messages in this document to our stakeholders

The table below sets out our plans to develop markets in each relevant sector:

Market Sector	High Level Outcome	Objectives	Action(s)	Date
Cross Market	Innovative initiatives to exploit the market for the benefits of Sutton's residents.	Work with partners to explore the benefits of a local currency.	Develop Outline Business Case.	Q.3 2016
		Testing the feasibility for use of social investment.	Submit expression of interest for Pan-London Edge of Care project	March 2016
		Develop an approach to Local Giving	Develop Outline Business Case.	Q.3 2016

Buildings	Good quality accommodation/premises for people who want to live/work in Sutton	Ensure there is sufficient affordable housing in Sutton	<p>Create a new development company for house building to compete with the private sector.</p> <p>Monitor applications for housing developments for affordable accommodation.</p>	<p>Q.4 2015/16</p> <p>Ongoing</p>
		Raise the profile of Sutton as a place to do business	Using our Opportunity Sutton Programme, market Sutton's commercial potential.	Ongoing
	Promote Council owned facilities available for rent.		Ongoing	
	<p>Collaborate with partners to stimulate interest amongst SMEs to develop small brownfield sites</p> <p>Work with local education partners to ensure young people have necessary skills to enter the building trade</p>		<p>Q4 2018/19</p> <p>Q4 2018/19</p>	
Health & Social Care	People in Sutton are informed about choices available and can access the health and social care they need.	People are supported to live at home for as long as possible.	<p>Continue our focus on commissioning home care and supported living solutions rather than residential/nursing care placements.</p> <p>Training available to paid carers is accessible and promoted to unpaid carers.</p>	<p>Ongoing</p> <p>Ongoing</p>
		People are able to manage their own care..	<p>People are supported to manage their personal budgets and can choose a Direct Payment if they wish.</p> <p>Capacity remains within the market to support</p>	<p>Ongoing</p> <p>Ongoing</p>

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			<p>people to manage their own care.</p> <p>Capacity (including workforce capability) is developed locally to offer increased choice not just of provider but of solution.</p>	Ongoing
		<p>Health & social care interventions are integrated with our partners and are complementary.</p>	<p>Services are commissioned jointly with Sutton Clinical Commissioning Group as part of our Better Care Fund project.</p> <p>There will be a focus on prevention and early intervention and suppliers will be incentivised where they can demonstrate short term intervention leading to long term stability.</p>	Ongoing
		<p>Demand for services tracked and informs market consultation</p>	<p>Information on specific areas where demand is likely to increase is shared with the market and kept under review.</p>	Q.4 2016/17
Facilities & Services	<p>The Council has all the services it needs, provided at a sufficient level of quality for the minimum possible cost. Opportunities are grasped to market in house services where it is prudent to do so.</p>	<p>Council uses buying power to reduce costs and bring in revenues .</p>	<p>We will seek to share services with other public sector organisations where it makes sense to do so.</p> <p>We will explore opportunities for joint ventures for the transactional element of these services.</p>	Ongoing
Business & Finance	<p>Business and Financial services provided as above</p>	<p>Council uses buying power to reduce costs and bring in revenues</p>	<p>We will seek to share services with other public sector organisations where it makes sense to do so.</p>	Ongoing

			We will explore opportunities for joint ventures for the transactional element of these services.	Ongoing
Transport	People in Sutton can make journeys they want whilst doing so sustainably	Council maintains the road network and works with stakeholders to design and implement integrated schemes that facilitate sustainable transport choices	Ensure alignment between the Council's various Transport ²³ and Market Development Strategies Continue to lobby Transport for London for improvements to Sutton's public transit services (including tramlink) through the Public Transport Liaison Committee, the London Councils Transport and Environment Committee.	Ongoing
		The Council uses a fleet of vehicles meeting the highest environmental standards at the least cost	Embed sustainability as a fundamental principle in our commissioning framework	Complete
Education & Leisure	Pupils in Sutton enjoy and achieve, and people have the opportunities they need to play sport and exercise.	Schools in Sutton maintain their reputation as some of the best in the country.	Work innovatively with local schools to create a new delivery model for school improvement services that enables those schools to have a more direct role in the provision of those services. Review the traded services offer to schools to ensure it meets their needs as they move to academy/free school models.	Q.3. 2016 Q2. 2016

²³ Sustainable Transport , Cycling and Parking Strategies

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		Sutton's residents have access to affordable leisure facilities.	<p>Develop our public health role, integrated with partners in the NHS for example, to ensure the current provider of leisure services continues to deliver a high quality service.</p> <p>Ensure that the authority's forthcoming Sports Strategy aligns closely with this Market Development Strategy and contributes to part of the work of the South West London Partnership and the Wandle Valley Regional Park</p>	<p>Ongoing</p> <p>Q3 2016/17</p>
Environmental Services	A high quality living and working environment	Waste and pollution are dealt with appropriately at lowest cost.	<p>Waste collection and parts of the Park service to be procured through the South London Waste Partnership</p> <p>Waste disposal will continue through this partnership and will include the use of the new energy recovery facility (that then enables the Council to sell affordable energy to local residents).</p>	<p>April 2017 (tbc)</p> <p>Ongoing</p>
		The 'street scene' is attractive and valued by residents.	Services responsible for maintaining an appropriate street scene will be commissioned through the SLWP	Ongoing

Our Message

Over the coming year, we will draft details market position statements for our main Commissioning Directorates:

- People - which includes services to vulnerable adults and children as well as educational services.
- Environment, Housing & Regeneration - which includes our universal services.

However the Council's strategic position is summarised below:

- We will apply a commissioning approach to any decision that considers how to meet the needs of our residents
- Our commissioning approach fundamentally assumes that Sutton's people and communities have assets that can be maintained or built upon.
- We will usually commission for best value rather than lowest cost.
- We welcome partners who share our commitment to co-production, sustainability and social value.
- We believe in early and ongoing engagement but we also recognise that, ultimately, it is for the Council to decide how to best meet the needs of its residents.
- We will build on our strong track record of exploring shared services or staff-led delivery models where there is a business case to do so.
- All procurement activity will be conducted through the London Tender Portal to ensure fairness and transparency.

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Appendices

APPENDIX A - Sutton Competition Policy

Sutton Council is fully committed to securing all supplies, works and services through a thorough process of competitive tendering in order to obtain best value. The Council will, subject to the exceptions set out below or reasons of extreme urgency require all contracts to be publicly advertised and tendered.

The exceptions to this policy are:-

- Where the Council already has an extant compliantly procured contract or framework agreement.
- Where supply can be obtained through an EU compliant framework agreement established for use by public bodies by another council or public sector buying organisation.
- Contracts below £10,000. (However it is expected that officers will subject many of these small contracts to quotation in order to prove the duty of value for money and open more of the Council business to SME's.)
- The exemptions set out in Contract Standing Orders relating to:
 - where effective competition is prevented either by government control or by the supplies or services being proprietary and/or are sold only at a fixed price; or
 - solely in connection with repairs to or parts for existing vehicles, machinery, plant or systems.

Reasoning behind the Competition Policy

The Council has adopted this policy for the following reasons:-

- As a public body the Council is bound by the legislative requirements of the principles of cross border trade and the Public Contracts Regulations 2015.
- The increasing financial restraints on the Council mean that it needs to obtain more for every pound spent.
- Competition is recognised as a method which is successful in achieving reductions in price and achieving value for money.
- Competition facilitates the market to put forward commercial and innovative solutions to achieve the specified outcomes
- The open tendering of, in particular, smaller contracts is a major contributor to providing opportunity for local small organisations to participate and strengthen the local economy.

The details of the Council's Competition requirements are set out in Contract Standing Order 62.

Implementation

The Council has adopted an electronic procurement system and all tenders and referral for quotations will be administered through this e-tendering portal. The use of electronic tendering has the following advantages:-

- Tender timescales are reduced
- Clarity, transparency and consistency in competition
- Easy electronic access for tendering for suppliers large and small.
- Automatic advertising through the London tenders Portal and contracts finder sites.

And for small tenders and Referrals for Quotation (RFQs) :-

- Pre registered suppliers for most requirements
- “Quick Quotes” for small purchases to obtain best price.

APPENDIX B - Service Sub-Categories Pie Chart 1

Buildings

- Construction materials
- Housing management
- Construction repairs and maintenance
- Horticultural

Health and Social Care

- Healthcare
- Social and Community Care
- Supplies of health and social care services

Facilities and Services

- Facilities and management services
- Human resources
- ICT
- Utilities
- Catering
- Consultancy
- Cleaning
- Mail
- Legal
- Stationery
- Clothing
- Domestic goods
- Furniture and soft furnishings
- Health and Safety

Business and Finance

- Payment to individuals
- Financial services

Transport

- Public transport
- Vehicle management
- Street and traffic management

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Education and Leisure

- Education
- Arts and Leisure
- Sports
- Playground equipment and maintenance

Environmental Services

- Environmental services
- Cemetery and Crematorium

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