

Government and Public Sector

DfES Children's Services

Overarching Report on  
Children's Services Markets

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# 1 Introduction and Purpose

1. The DfES wishes to develop an evidence-based strategy for developing the market in children's services, which are identified as education, social care, health and other services for children, young people and families, including parents.
2. The DfES contracted PricewaterhouseCoopers to produce four separate reports on five children's services markets. The markets are:
  - Children's Homes and Fostering (which are two separate but very closely linked markets)
  - Parental & Family Support Services
  - Positive Activities for Young People
  - Childcare.
3. The research specification for each market was different, and the research findings are contained in four separate reports. This overarching report draws together the themes from the four reports.
4. Our methodology included detailed desk research of all available national data sources, and a case study approach with local authorities. This allowed us to investigate the five markets in six local authority areas, by interviewing local authority officers responsible for children's services, interrogating their databases, researching and interviewing a range of local providers, and conducting qualitative research with users of services. The local authority areas have been anonymised.
5. We are very grateful to the many local authority officers who gave up their time to discuss issues in their local markets, without whom we could not have developed a detailed understanding of the issues.
6. The objectives of this report are twofold:
  - To identify the cross-cutting issues common to the markets;
  - To put forward suggestions for improvement as inputs into DfES policy thinking.

## 2 Executive Summary

### Introduction

7. Since the publication of the 2003 Green Paper, *Every Child Matters* there has been considerable progress in the development of children's services markets.
8. The funding of 35 children's trusts in pathfinder local authority areas, an evaluation of which is due to be completed by the National Children's Bureau in 2007; the establishment of 1000 children's centres by the end of 2006 providing integrated services to children under five and their families; the appointment of directors of children's services within local authorities to drive integration; and improved commissioning practices in local authorities (including in more than one of the six local authorities we interviewed) are all good examples of progress.
9. However, from this study of five children's services markets evidence has emerged that in some cases LAs are not meeting children's, young people's and parents' needs effectively, and are not delivering best value-for-money. Our conclusion is that more could be done to accelerate change, and to enable children's services markets to operate more effectively.
10. We have identified a number of barriers that exist to effective market operation. The barriers that exist in the fostering market are typical of these markets and include: a lack of transparency on costs; limited visibility of markets; a shortage of experienced commissioners; limited dialogue between suppliers and commissioners; inconsistent application of overall national frameworks; and potentially conflicting roles of local authorities acting as commissioner and provider.
11. These barriers need to be addressed to improve the operation of the markets. The DfES can play a significant role in removing the barriers and encouraging effective and strategic commissioning. However, in intervening in the market place, the Department's intentions should be clearly communicated and the impact of intervention monitored for adverse consequences (there is some emerging evidence of unintended adverse consequences in the childcare market).

### Market Characteristics

12. The drivers of demand in the three largest markets, childcare, fostering and children's homes are more established, stronger and sustained than in positive activities or parental and family support services. The markets are larger and better documented, so there is greater visibility of demand and supply to commissioners and providers. The markets for positive activities and parental and family support services are less well established, and are Government-led through funding of the Youth Service, children's centres or grants to voluntary and community sector providers.
13. The structure of supply is similar in the children's homes and fostering markets. The traditional providers are in-house, and there is a voluntary and community sector presence, but in the last five years the private sector has added significant capacity and now has a large market share.
14. The structure of supply is similar in the positive activities and parental and family support services markets; most services are provided in-house or by the voluntary and community sector, with private provision only being present in certain specific sectors.

15. Childcare is a market that is traditionally a private sector market, with a significant voluntary and community sector presence, but one in which Government is now playing a greater role not only through supply side interventions, such as the funding of places for 3 and 4 year olds, and the 1000 children's centres that will be established by the end of 2006, but also through the demand side, through Tax Credits.
16. Provision in all of these markets is very fragmented at a national level, with no large providers having a share of the market more than in single figures. Children's service markets are local markets, however, and at a local level choice and competition can be limited.

### **Suggestions for Improvement**

17. We have put forward six overarching suggestions on how the DfES could further develop children's services markets in line with its policy on contestable markets.
18. The first suggestion is that the DfES should

***Articulate a vision for market provision,  
based on best practice.***

19. The evidence from the six case study areas suggests that many commissioners do not have a strong sense of what the vision for their local market could, or should, be. In our view it would be helpful for DfES to provide a degree of guidance on what local authorities should expect diverse provision to look like in children's services markets, based on its knowledge of best practice. Our research suggests that there is no "one-size-fits-all", and that a vision for market provision should be a guideline only.
20. The second suggestion is that the DfES should

***Encourage a level playing field***

21. The need to create a level playing field is paramount, as the evidence suggests that markets such as children's homes and fostering are distorted by the local authority dual role of commissioner and provider. All six of the case study local authorities preferred to commission in-house services in children's homes and fostering in preference to using the external market.
22. Our interview programme confirmed the perception of the private sector that more work needs to be done to create a level playing field. Private providers of children's homes, or independent fostering agencies, made the observation noted in the paragraph above, but many accept it as a characteristic of the market place. Private providers in these markets also commented upon the perception held by many local authorities that private provision is more expensive than in-house provision. The evidence is that this was "perception" and was not substantiated by analysis of like-for-like data.
23. Encouraging greater separation between the local authority commissioning function and in-house provision is essential, and will help overcome the mistrust that frequently exists between local authority commissioners and private providers. The DfES could encourage this separation by providing alternative organisational models for local authorities to follow, with practical testing through local authority pilots.

24. We have made several suggestions to assist local authorities to develop more professional procurement practices, but also to remove constraints on in-house providers to enable them to compete effectively on a more level playing field.
25. The third suggestion is that the DfES should

***Encourage the development of regional markets***

26. Local markets can be relatively small, choice can be limited, and sometimes there is no effective competition at a local level. In a single local authority area, for example, the demand in the children's homes market is frequently as low as for 40 beds. Although a joint commissioning framework exists, our research suggested that a limited amount of joint commissioning is happening. DfES could work through the DfES Centre for Procurement Performance with regional centres of excellence to encourage the development of regional commissioning. We have suggested funding of pilot schemes to demonstrate the benefits to local authorities.
27. The fourth suggestion is that the DfES should

***Assist local authorities to manage local markets***

28. There is a great deal of evidence from the six case study areas that local authorities find it difficult to manage their local children's services markets effectively, although there are exceptions where successful market management is providing some useful lessons (one authority in particular).
29. There are several reasons why local authorities find it difficult to manage markets; the markets are opaque and difficult to size with any degree of precision; demand is insufficiently visible to providers, and commissioners have limited market intelligence on suppliers; commissioners do not have good quality pricing and costing data, so cannot make proper comparisons and choices; commissioners rarely have the time or the experience to engage in a proper dialogue with independent providers and manage their markets; and the necessary skills and capabilities to commission successfully are in short supply.
30. Our interview programme with voluntary and community sector providers raised the issue of how their provision is commissioned and funded. Interviewees commented upon how service level agreements were being drawn up as part of competitively tendered contracts, often by inexperienced commissioners, with inappropriate performance measures in them. Designing appropriate performance measures for voluntary and community sector providers needs to be a feature of improved commissioning and procurement practices for it to become a viable alternative to grant funding and partnership working.
31. We have made several suggestions for actions the DfES could implement to assist local authorities in managing their markets. These suggestions include providing templates, disseminating best practice, encouraging and sponsoring forums, and so on.
32. The fifth suggestion is that the DfES should

***Encourage reduced complexity and increased transparency of funding***

33. Funding characteristics follow similar patterns across positive activities and parental and family support services; the majority of funding is not through the core local authority budget, but from targeted, time-limited central Government grants (some of these are provided by the DfES such as the Extended Schools Standard Fund or the Children's Fund, but others are provided by the Home Office or the DCLG, for example The Neighbourhood Renewal Fund or the New Deal for Communities Fund).
34. The fragmentation of this funding and its time-limited nature makes strategic planning difficult, and raises questions over whether the service can be sustained in the long-term. This provides difficulties for both commissioners and providers in how they distribute and access funding, as well as in long-term planning. One case study example we encountered was a voluntary and community sector provider of positive activities that financed its £2m of Youth Service support through seventeen different grants through different parts of the same local authority.
35. We have made several suggestions to the DfES to reduce this complexity, but we recognise this will require the cooperation of at least the DCLG and the Home Office.
36. The sixth and final suggestion is that the DfES should

***Improve visibility of DfES policy and market strategy***

37. There was evidence from our interview programme with external market providers that they did not understand Government policy and strategy, and were confused regarding Government intentions in the long-term. There is evidence emerging in the childcare market that the strategy to provide free places for 3 and 4 year olds, and to provide provision for under fives and their families in children's centres is causing concern among private providers; government intentions are not fully understood.
38. Similarly, the time-limited nature of central Government grant funding for positive activities and parental and family support services means that Government's intention for these markets beyond the current time-horizon (often three years) is not well communicated. While markets can change significantly in a three year period, and the Government cannot be seen to provide assurances of unlimited funding, it is nevertheless desirable to offer greater levels of assurance where possible to market participants.
39. We have made the suggestion that the DfES develops a communication strategy to provide assurances to in-house, private and voluntary and community sector providers that it understands their concerns and is addressing them through its market development programme.

# 3 Policy Context

## *Background to Every Child Matters: Change for Children*

40. This research was commissioned by the DfES following key changes in the way children's services are planned, managed, commissioned and delivered. The 2003 Green Paper, *Every Child Matters*, built on existing plans to strengthen the role and remit of preventative services for children by:
- Increasing the focus on supporting families and carers - the most critical influence on children's lives;
  - Ensuring necessary intervention takes place before children reach crisis point and protecting children from falling through the net;
  - Addressing the underlying problems identified in the report into the death of Victoria Climbié – including weak accountability and poor integration;
  - Ensuring that the people working with children are valued, rewarded and trained.
41. Following extensive debate and consultation, *Every Child Matters: Change for Children* was developed as a new approach to the well-being of children and young people, from birth to age nineteen.
42. The Government's aim is for every child, whatever their background or their circumstances, to have the support they need to:
- Be healthy;
  - Stay safe;
  - Enjoy and achieve;
  - Make a positive contribution;
  - Achieve economic well-being.
43. This has resulted in the creation of children's trusts, which bring together all education, health, social care and other services for young people and their families, and ensure that organisations involved with providing services to children are working together.
44. Further information on *Every Child Matters: Change for Children* and children's trusts can be found on the DfES website at [www.everychildmatters.gov.uk](http://www.everychildmatters.gov.uk).

## *DfES policy on contestable markets*

45. Following this overall change in the commissioning and delivery of children's services, the DfES, together with other Government departments, wishes to encourage and sustain contestable markets. In particular there are concerns that the range and quality of supply of children's services is not always sufficient to meet the level of demand, both at national and at local levels.



46. In addition to adding capacity by encouraging a diversity of quality supply, the DfES would also like to see markets improved in terms of:
- Quality of services delivered;
  - Range of suppliers;
  - Competitive pricing structures;
  - Innovative working practices;
  - Choice of alternatives where existing provision is failing.
47. In addition to a breadth of quality supply, other conditions are seen as necessary to encourage effective markets in children's services. This review has considered the relative importance of the following areas:
- Commissioning and procurement practices, including the skills required to optimise buying power;
  - Understanding how commissioners can best manage their markets;
  - Understanding the barriers to creating and sustaining contestable markets.
48. It is recognised that these aims can create certain tensions. These have also been considered in the context of the markets considered, notably the aims to:
- Improve efficiency and costs while also improving availability of high quality provision;
  - Promote quality and safeguard children while also seeking to stimulate innovation;
  - Encourage individual choice while achieving benefits from managing the market;
  - Encourage small providers who can offer innovation while benefiting, where possible, from larger providers able to offer economies of scale through block or bulk purchasing.

### ***Role of the Voluntary and Community Sector***

49. This research has also considered current thinking on the role of the voluntary and community sector (VCS) and Social Enterprises (which together comprise the "third sector"). In encouraging an effective market, consideration should also be given to the barriers that limit the role of the VCS.
50. In some cases, capacity building or other infrastructure support offered to VCS providers, co-operation to promote their participation and consideration of the regulatory burdens placed on suppliers have also been considered.
51. In undertaking this work, we have also considered the policies of other government departments, in particular Department for Communities and Local Government (DCLG) as regards local government policy and the efficiency agenda, Home Office and Treasury as regards the Third Sector, DTI as regards social enterprise organisations, OGC as regards cross government market management and the IdeA and Regional Centres of Procurement Excellence as regards local government procurement practice and the efficiency agenda.

# 4 Market Characteristics

## Description of Demand

### *Demand side characteristics*

52. Our four detailed reports provide considerable amounts of information on the demand side of the five markets, including quantitative data where available. Where we use the term “clients” we mean the users of services.
53. In drawing up comparisons of the demand side of these markets, high quality demand side information is typically not available. Some quantitative data are available on market size and growth, and numbers of clients, but primarily for the three markets that are better documented (ie, children’s homes, fostering and childcare). The table below summarises the main characteristics of the five markets researched;

**Demand Side of the Markets: Key Characteristics**

Market	Clients / Number	Client Segments	Market Size Estimates	Market Growth Estimates	Market Drivers
<b>Children’s Homes</b>	<ul style="list-style-type: none"> <li>5,900 children in homes (2004)</li> <li>5,700(E) children in homes (2005)</li> </ul>	<ul style="list-style-type: none"> <li>By age (10 to 15 yrs largest segment)</li> <li>By need</li> <li>By ethnicity</li> <li>UASC**</li> </ul>	<ul style="list-style-type: none"> <li>£850m net expenditure by local authorities*</li> </ul>	<ul style="list-style-type: none"> <li>7.1% CAGR on spend 2000/01 to 2003/04</li> <li>(1.1)% CAGR on numbers of children</li> </ul>	<ul style="list-style-type: none"> <li>Preference for fostering</li> <li>Cost</li> <li>Increasing need and challenging behaviour</li> <li>Use of other care settings</li> </ul>
<b>Fostering</b>	<ul style="list-style-type: none"> <li>41,600 fostered children (2004)</li> </ul>	<ul style="list-style-type: none"> <li>By age (10 to 15 yrs largest segment)</li> <li>By need</li> <li>By ethnicity</li> <li>UASC**</li> </ul>	<ul style="list-style-type: none"> <li>£800m net expenditure by local authorities *</li> </ul>	<ul style="list-style-type: none"> <li>13.4% CAGR on spend 2000/01 to 2003/04</li> <li>2.8% CAGR on numbers of children</li> </ul>	<ul style="list-style-type: none"> <li>Growth driven by 10 to 15 yr segment</li> <li>UASC**</li> <li>Increasing need and challenging behaviour</li> </ul>
<b>Childcare</b>	<ul style="list-style-type: none"> <li>4,600,000 children 0 to 7***</li> <li>1.522m daycare placements (2005), but NAO indicates unmet demand (2002)</li> </ul>	<ul style="list-style-type: none"> <li>By age (1 to 2, 3 to 4, 5 and above)</li> </ul>	<ul style="list-style-type: none"> <li>£6,685m (2005) *** of which ...</li> <li>➤ £3,465m private sector including £315m Tax Credit funding</li> <li>➤ £3,220m direct govt provision</li> </ul>	<ul style="list-style-type: none"> <li>Growth in Ofsted registered places from 1.415m (Q1 04) to 1.522m (Q2 05)</li> </ul>	<ul style="list-style-type: none"> <li>Increasing numbers of mothers returning to work</li> <li>GDP growth</li> <li>Population of children aged 0 to 7 (increasing to 2011)</li> </ul>
<b>Positive Activities for Young People</b>	<ul style="list-style-type: none"> <li>Young people 13 to 19 yrs (4.3m)</li> </ul>	<ul style="list-style-type: none"> <li><i>Low particip. from. ...</i></li> <li>16-19yrs</li> <li>Less affluent white young men</li> <li>Pakistani / Bangl. young women</li> <li>LGBT</li> <li>Disabled</li> <li>Young carers</li> </ul>	<ul style="list-style-type: none"> <li>4.3m 13 to 19 year olds</li> <li>Participation rate of 70% of young people 13 to 19 yrs in Positive Activities</li> <li>Youth Service total spend of £305.7m and 8,410 FTE delivery staff in 03/04</li> </ul>	<ul style="list-style-type: none"> <li>Youth service spend grew 10.7% between 02/03 and 03/04</li> </ul>	<ul style="list-style-type: none"> <li>Demographic trends</li> <li>Government stated aim in Youth Matters Green Paper that every young person should benefit from access to 2 hrs of sport, 2 hrs of other constructive activities and opportunities to volunteer</li> </ul>

Market	Clients / Number	Client Segments	Market Size Estimates	Market Growth Estimates	Market Drivers
Parental & Family Support Svcs	<ul style="list-style-type: none"> <li>Parents of children aged 0-19</li> </ul>	<ul style="list-style-type: none"> <li>By need ... <ul style="list-style-type: none"> <li>Preventative tiers 1 and 2</li> <li>Remedial tiers 3 and 4</li> <li>Hard to reach groups ...</li> <li>BME</li> <li>Fathers</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>£642m LA spend 2004/05</li> <li>6,000 service providers in England &amp; Wales identified by NFPI</li> </ul>	<ul style="list-style-type: none"> <li>11.7% CAGR on LA spend 00/01-04/05</li> <li>Significant unmet and latent demand exists at lower tiers of need</li> <li>Market at higher tiers relatively flat</li> </ul>	<ul style="list-style-type: none"> <li>Changing public attitudes and rising awareness of services available at lower tiers of need</li> </ul>

\* *These market size estimates, by value, are likely to be conservative (due to local authority reporting underestimating the full cost of in-house provision)*

\*\* *Unaccompanied Asylum Seeker Children*

\*\*\* *GAD 2004 based projections*

\*\*\*\* *NAO 2004: Early Years: Progress in developing high quality childcare and early education accessible to all. Laing & Buisson estimate the total PVI nursery market by value is £3,360m, of which £2,600m (77%) is estimated to be private purchases by parents. Our work focused on the PVI nursery sector.*

*Note: CAGR is Compound Annual Growth Rate, which is the year on year percentage growth rate*

54. There are a number of observations that can be made:

- The drivers of demand in the three largest markets, childcare, fostering and children's homes are more established, stronger and sustained than in positive activities or parental and family support services. The markets are larger and better documented, so there is greater visibility of demand and supply to commissioners and providers.
- The markets for positive activities and parental and family support services are less well established, and are Government-led through funding of the Youth Service, children's centres or grants to voluntary and community sector providers.
- Market sizes vary substantially across these markets. Market sizes for positive activities and parental and family support services cannot be reliably estimated due to the fragmentation of the markets. The market sizes for fostering and children's homes are estimated as £800m and £850m respectively, while the childcare market is estimated by NAO as £6.7bn. These three are clearly large markets with sufficiently strong demand drivers to attract significant private sector provision.
- Based on available indicators, all markets appear to be growing in value terms at or close to double-digit rates, much of which is driven by Government funding. A key observation on children's homes and fostering is that expenditure on these markets is growing at a much faster rate than the number of children needing to be looked after. In children's homes the number of looked-after-children has been declining at 1.1% pa while expenditure has been growing at 7.1% pa; the number of children being fostered has been growing at 2.8% pa, while expenditure has grown at 13.4% pa.

55. Our case studies of six local authorities describe the variations in the markets across a mix of urban and rural authorities in the North and South of England. Local authorities have to deal with often very different profiles of clients in terms of their demographics (age, ethnic profile, income levels and deprivation and so on), and consequently in terms of their needs. The impact of this on local provision is shown in the case studies.

## Funding

56. The sources of funding for the markets are a defining characteristic of each market. The table below describes what we have found in terms of how these markets are funded, which can be a mixture of local authority core budget, central Government grants, voluntary and community sector funding or, notably in the case of the childcare market, a traditionally consumer funded market where parents pay in private transactions with private and voluntary and community sector providers.

### Funding Sources

Market	Funding
Children's Homes	<ul style="list-style-type: none"> <li>• Almost all funding from Personal Social Services budget (core local authority budget)</li> </ul>
Fostering	<ul style="list-style-type: none"> <li>• Almost all funding from Personal Social Services budget (core local authority budget)</li> </ul>
Childcare	<ul style="list-style-type: none"> <li>• Consumer payments, including Government indirect subsidies, such as Working Tax Credit support make up the majority of funding (52% of sector funding in 2004)</li> <li>• Private companies support employees with funding, often supported by the Government's Employer Voucher system.</li> <li>• Dedicated Schools Grant supports free places for 3 and 4 year olds</li> <li>• Grant support to settings delivered through local authorities, aimed at the private and third sectors, children's centres and Extended Schools.</li> </ul>
Positive Activities for Young People	<ul style="list-style-type: none"> <li>• Minimal core local authority funding</li> <li>• Majority of funding from time-limited central Government grants, including: <ul style="list-style-type: none"> <li>➢ Extended Schools Standard Fund (DfES)</li> <li>➢ Music Services Standards Fund (DfES)</li> <li>➢ Positive Futures (HO)</li> <li>➢ Positive Activities for Young People Fund (HO)</li> <li>➢ New Opportunities Fund (DCLG)</li> <li>➢ The Neighbourhood Renewal Fund (DCLG)</li> <li>➢ New Deal for Communities Fund (DCLG)</li> </ul> </li> </ul>
Parental & Family Support Services	<ul style="list-style-type: none"> <li>• Minimal core local authority funding</li> <li>• Majority of funding from time-limited central Government grants and Lottery funding, including: <ul style="list-style-type: none"> <li>➢ Extended Schools Standard Fund (DfES)</li> <li>➢ The Children's Fund (DfES)</li> <li>➢ The Parenting Fund (DfES)</li> <li>➢ The Neighbourhood Renewal Fund (DCLG)</li> </ul> </li> <li>• Wide range of other funds including VCS funding</li> </ul>

57. We note in particular the differences between the funding for the different markets:
- Children's homes and fostering are funded primarily through core local authority budgets.
  - Childcare is primarily a private sector market, (although with increasing amounts of public sector funding through various routes).
  - Funding characteristics follow similar patterns across positive activities and parental and family support services; the majority of funding is not through the core local authority budget, but from targeted, time-limited central Government grants.

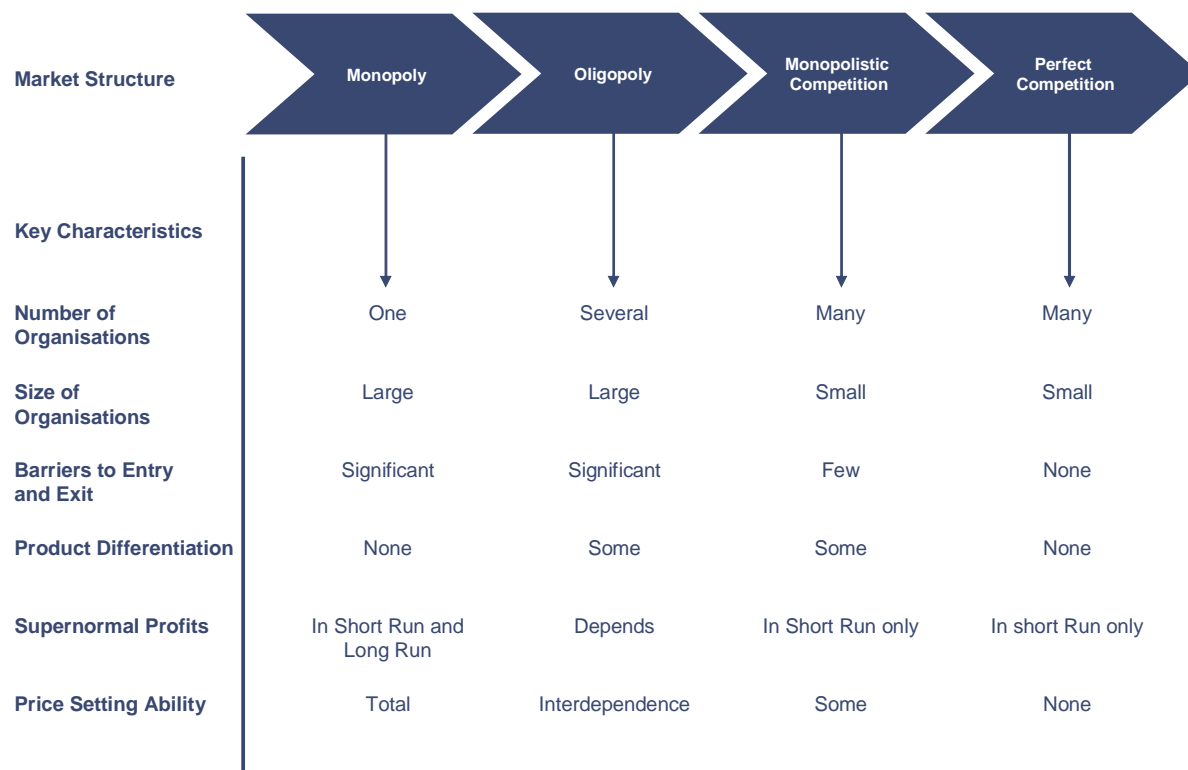
- The fragmentation of this funding and its time-limited nature makes strategic planning difficult, and raises questions over whether the service can be sustained in the long-term. This provides difficulties for both commissioners and providers in how they distribute and access funding, as well as in long-term planning.

### *Commissioning*

58. Commissioning approaches fundamentally reflect the type of funding and the nature of provision, but also vary within each market.
59. We found that all of the case study local authorities we met were working towards the DfES' key aims for effective commissioning, which are:
- Better planning and choice;
  - Raising quality;
  - Improving partnership working;
  - Building a supply of local provision.
60. We observed a number of different commissioning strategies. In children's homes and fostering, the commissioning strategies of the case study authorities fell into two groups of three. The key characteristic of both groups (all six authorities) is that they prioritise in-house provision over the external market; the difference between the groups was that the first encouraged the external market by entering into a dialogue with them to develop local supply, while the second did not.
61. Our observation is that these strategies are driven by political disposition and the atmosphere of mistrust that exists between local authorities and the private sector. The perception is also held by many local authorities that private provision is more expensive than in-house provision. Our conclusion is that this is perception only, and is not substantiated by a consistent analysis of like-for-like data by local authorities.
62. We identified several issues in local authority commissioning, which are noted more fully in Section 5. These include; the dual role of commissioner and provider, which gives rise to the behaviour noted in the paragraphs above; limited demand management at local authority level; demand which is insufficiently visible to providers; supply which is insufficiently visible to commissioners; poor market intelligence data; a lack of skills and capabilities in commissioning; and commissioning processes that are poorly developed and often disjointed across local authorities.
63. These issues are most apparent in the commissioning of children's homes and fostering services. We observed instances in the six local authorities we interviewed where good commissioning practices resulted in discounts from the external market that were otherwise not available, suggesting that best value-for-money is not being achieved everywhere.
64. Our interview programme with voluntary and community sector providers raised the issue of how their provision is commissioned and funded. Interviewees commented upon how service level agreements were being drawn up as part of competitively tendered contracts, often by inexperienced commissioners, with inappropriate performance measures in them. Designing appropriate performance measures for voluntary and community sector providers needs to be a feature of improved commissioning and procurement practices for it to become a viable alternative to grant funding and partnership working. This issue was raised more commonly by voluntary and community sector providers in positive activities and parental and family support services.

## Description of Supply

65. Our detailed reports of the five markets provide considerable amounts of information on the supply side.
66. In assessing the common characteristics of the five markets we have used a classical economic model of market contestability to assess the degree of competition within the market place:



67. We have drawn up the table below based on this economic model to make a comparison of competition in the market place.

### Supply Side of the Markets – Key Characteristics

Market	Number of Orgs.	Size of Org.	Barriers to Entry and Exit	Product Differ.	Supernormal Profits	Price Setting Ability
<b>Children's Homes</b>	<ul style="list-style-type: none"> <li>• 2,040 homes</li> <li>• c.480 Private providers and c.60 voluntary</li> </ul>	<ul style="list-style-type: none"> <li>• Largest £28m turnover</li> <li>• Typically below £10m</li> </ul>	<ul style="list-style-type: none"> <li>• Medium</li> </ul>	<ul style="list-style-type: none"> <li>• Limited</li> </ul>	<ul style="list-style-type: none"> <li>• In short run only</li> </ul>	<ul style="list-style-type: none"> <li>• Limited</li> </ul>
<b>Fostering</b>	<ul style="list-style-type: none"> <li>• 385 agencies</li> <li>• c.30,000* carers</li> </ul>	<ul style="list-style-type: none"> <li>• Largest £70m turnover</li> <li>• Typically below £10m turnover</li> </ul>	<ul style="list-style-type: none"> <li>• Low to medium</li> </ul>	<ul style="list-style-type: none"> <li>• Limited</li> </ul>	<ul style="list-style-type: none"> <li>• In short run only</li> </ul>	<ul style="list-style-type: none"> <li>• Limited</li> </ul>

Market	Number of Orgs.	Size of Org.	Barriers to Entry and Exit	Product Differ.	Supernormal Profits	Price Setting Ability
<b>Childcare</b>	<ul style="list-style-type: none"> <li>• 105,000 registered settings (c.25,000 settings excluding childminders)</li> <li>• c.1,870 orgs**</li> </ul>	<ul style="list-style-type: none"> <li>• For the PVI nursery sector: <ul style="list-style-type: none"> <li>➢ Largest £52m turnover</li> <li>➢ Typically £1m to £10m turnover</li> </ul> </li> <li>• The child-minding sector is dominated by low income micro businesses</li> </ul>	<ul style="list-style-type: none"> <li>• Low to Medium</li> </ul>	<ul style="list-style-type: none"> <li>• Limited</li> </ul>	<ul style="list-style-type: none"> <li>• In short run only</li> </ul>	<ul style="list-style-type: none"> <li>• Limited</li> </ul>
<b>Positive Activities for Young People***</b>	<ul style="list-style-type: none"> <li>• c.320 Youth Services</li> <li>• Multitude of VCS and private providers</li> </ul>	<ul style="list-style-type: none"> <li>• Small</li> </ul>	<ul style="list-style-type: none"> <li>• Low</li> </ul>	<ul style="list-style-type: none"> <li>• By activity</li> <li>• By tier of need</li> </ul>	<ul style="list-style-type: none"> <li>• Limited to some private sector niches</li> </ul>	<ul style="list-style-type: none"> <li>• None</li> </ul>
<b>Parental &amp; Family Support Svcs****</b>	<ul style="list-style-type: none"> <li>• c.6000 providers</li> <li>• c.1000 children's centres</li> </ul>	<ul style="list-style-type: none"> <li>• Small and medium VCS orgs</li> <li>• Small private sector orgs</li> </ul>	<ul style="list-style-type: none"> <li>• Low</li> </ul>	<ul style="list-style-type: none"> <li>• By tier of need</li> </ul>	<ul style="list-style-type: none"> <li>• Limited to some private sector niches</li> </ul>	<ul style="list-style-type: none"> <li>• None</li> </ul>

\* Based on the assumption that an average carer has 1.4 children placed with them.

\*\* Estimated by Laing & Buisson for providers with 3 or more settings. Our work focused on the PVI nursery sector.

\*\*\* Data in the table is representative of Positive Activities excluding Leisure (leisure is the only market segment with significant private sector provision within the definition)

\*\*\*\* Data in the table is representative of preventative services provided in Parental & Family support in tiers 1 and 2 only. Tiers 3 and 4 are statutory services that local authorities must provide.

Note: Supernormal profits are profits that can be generated in excess of expected shareholder returns.

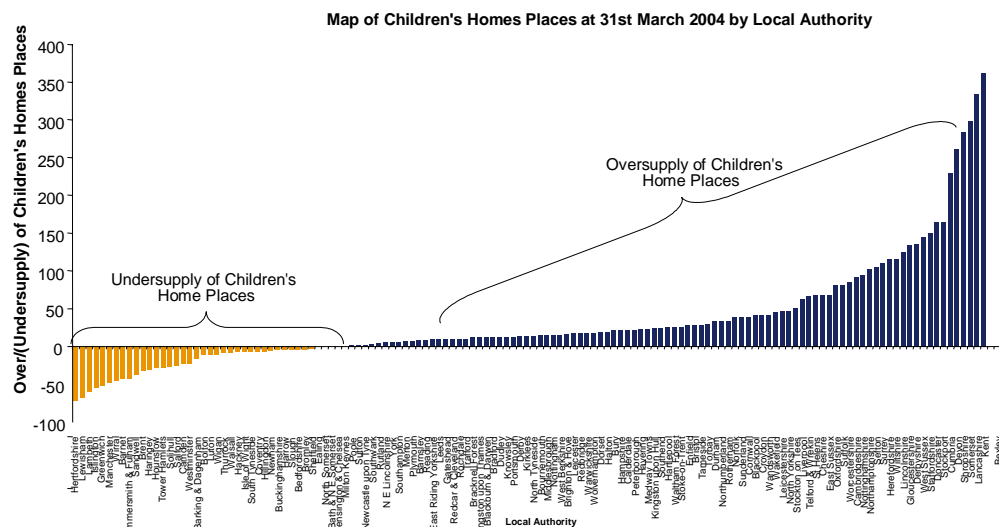
68. There are several conclusions that can be drawn:

- The markets are all very fragmented at a national level, and there are very few large organisations (eg, there are only one or two with an annual turnover over £50m in markets that range from £800m in value to over £6bn). The opportunity to set price at a national level is very limited.
- Barriers to entry and exit can typically be described as low to medium, with the highest entry barriers being in children's homes, where the set up costs can be substantial. Regulation was not cited during our interviews as being a barrier in itself, but starting up a new children's home in line with regulation is a costly exercise. In some areas, at present regulation is also heavily subsidised.

- There is some opportunity for product or service differentiation, but it is limited. An example of service differentiation is independent fostering agencies developing additional wrap-around and support services for high-need, challenging teenagers, which increases cost and therefore drives prices higher.

69. This analysis suggests that the markets are contestable, but there are two further observations that we would make. Firstly, while the markets are contestable at a national level, commissioning is done at a local level, which raises the question of local contestability. Secondly, these markets are public sector markets with diverse provision and local authority commissioning (with the exception of childcare), which raises questions of competitive neutrality (ie, a level playing field).
70. Taking the issue of local contestability first; at a local level, choice can be very limited. An example of this is the market for children’s homes, where it is not uncommon for demand to be as low as 20 to 40 beds, enough to fill only half-a-dozen homes. The variation of the balance of demand and supply by local authority area is demonstrated by our analysis of over and undersupply of children’s homes places in 2004. In spite of national oversupply, some areas are still undersupplied and not fully served by the market.

### Under / Over Supply in Children’s Homes

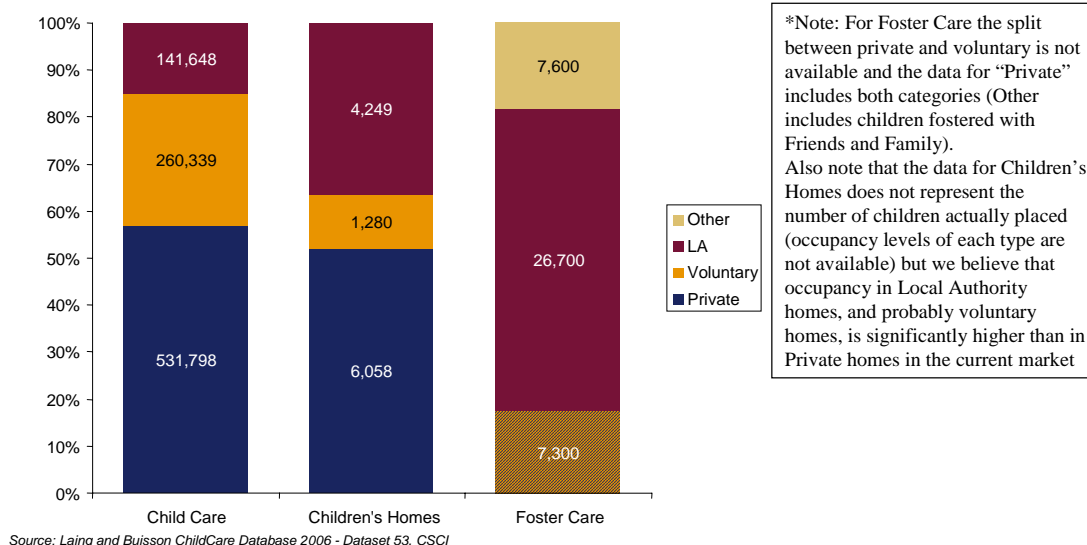


Source: CSCI, Children Looked After by Local Authorities Year Ending March 2004, Table A, DFES Research and Statistics Gateway, PwC Analysis

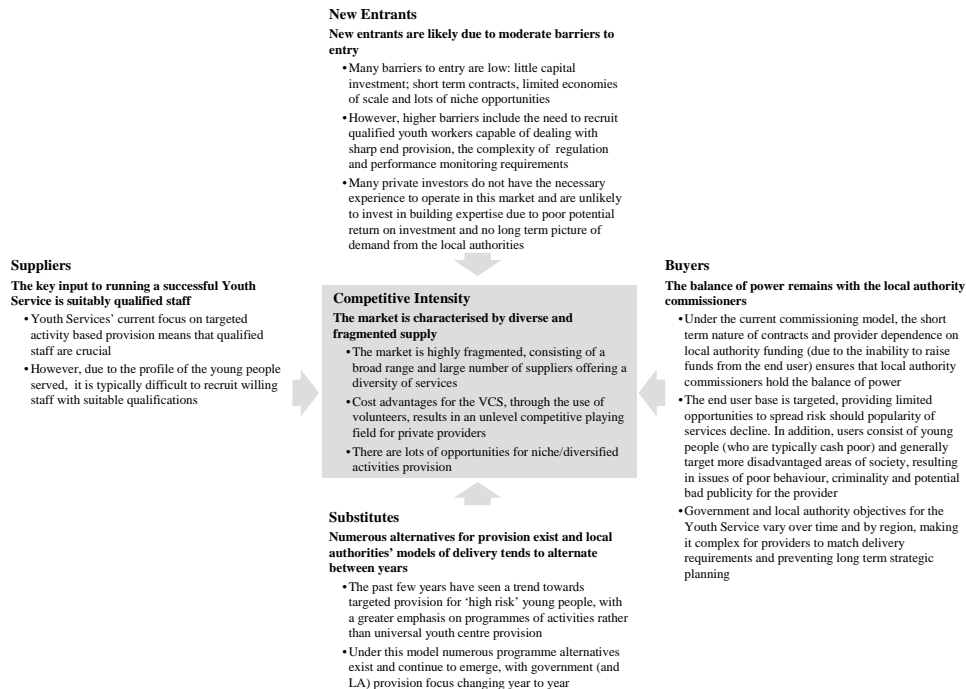
71. The implication of this is that, even in a market like children’s homes that is in oversupply nationally, the market is not necessarily in oversupply locally. The opportunity therefore still exists for providers to charge higher prices in undersupplied areas. Combined with ineffective commissioning this can and sometime does result in poor value-for-money.
72. On the second issue, that of competitive neutrality, in-house, private sector and voluntary and community sector providers all have significant market shares in children’s homes, fostering and childcare. Market shares are shown below:



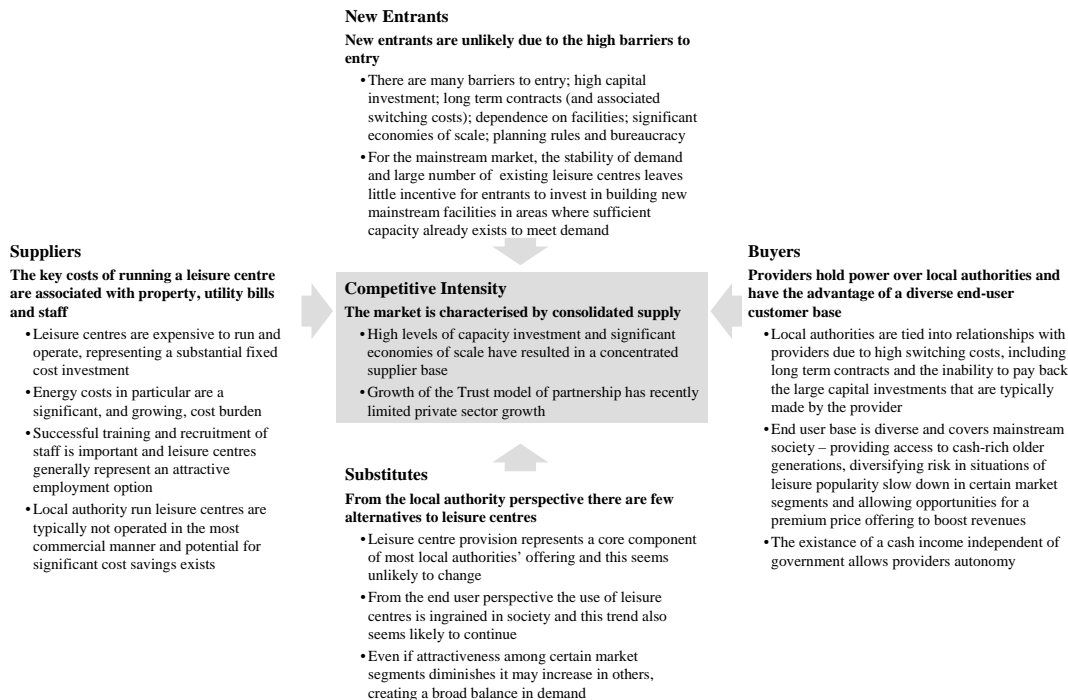
**Supply of Places for Looked After Children and Child Care in 2005/2006 by Private\*, Voluntary\* and Local Authority**



73. The market with the largest and most established private sector provision is the childcare market. Our interviews indicated that the Government strategy to provide free places for 3 and 4 year olds, and to provide provision for under fives and their families in children's centres, is causing concern among private providers; government intentions are not fully understood.
74. Private sector provision in children's homes and fostering has grown significantly in the last five years. As the private sector has grown and introduced new capacity and additional services it has become important to ensure that a level playing field exists for all providers.
75. There is evidence that a level playing field among diverse providers is not always present in these markets. Issues we have identified in the fostering market are typical and include; a lack of transparency on costs; limited visibility of markets; and a shortage of experienced commissioners, all of which mitigate against good procurement practice. In addition, inconsistent application of overall national frameworks and potentially conflicting roles of local authorities as commissioner and provider can lead to preferential treatment of in-house providers.
76. At the same time, in-house providers are constrained from managing their operations in a competitive market, as they have limited access to finance, accounting systems that do not give good visibility over costs, and are without certain skills and experience. Again, these issues are discussed more fully in Section 5.
77. The private sector evaluates market attractiveness, and market barriers, with a view to understanding the likely competitive intensity; if competitive intensity is relatively low and a position can be defended then it offers a private sector supplier the opportunity to make attractive returns.
78. A classical and widely accepted framework for understanding market attractiveness and barriers is the Five Forces framework from Michael Porter. We have conducted a Five Forces analysis for two segments of the positive activities market; Youth Services, where there is no private sector, and leisure services where the private sector is present. Firstly for the Youth Service:



79. And secondly for leisure services:



80. The lack of a level playing field can dissuade private sector entrants, but where a market is sufficiently attractive, it is not an insurmountable barrier to entry.

81. Within children's services markets the lack of a level playing field does need to be addressed to ensure effective operation of markets. Our conclusion is that the DfES can play a significant role in removing the barriers as well as in encouraging good commissioning.

# 5 Common Issues for Market Development

82. We have identified a wide range of issues common to these markets, which are impacting upon their development and their ability to respond to demand. These issues in general are barriers or inhibitors to the smooth operation of the markets, and need to be addressed to improve the market efficiency.
83. *Firstly, there is no common understanding or appreciation among local authorities of what a vision for their local markets could, or should, look like.* This is perhaps not surprising since it requires considerable experience, capability and familiarity – and data - to develop a sense of what would be a satisfactory diversity of provision.
84. *Secondly, where local authorities are both providers and commissioners, there is evidence that there is not a level playing field.*
85. Local markets can be distorted by the local authority dual role of commissioner and provider. All six of the case study local authorities preferred to commission in-house services in children’s homes and fostering to using the external market, as long as a placement matches the child’s needs. Some private providers believe that local authority commissioner expectations of external provision are not the same as those they have for in-house provision, for example on the quality of properties, the range and quality of services they provide, and their CSCI inspection reports.
86. There is a lack of transparency on cost and price. More than one of the local authorities we interviewed indicated that the full cost of in-house provision is significantly higher than that returned in PSS expenditure forms. Local authorities consider that in-house services are cheaper, but this view is not supported by analysis of like-for-like data.
87. *Thirdly, local markets can be too small to be contestable, limiting choice and preventing commissioners from gaining value for money.*
88. We cite the example in Section 4 of the market for children’s homes, where it is not uncommon for demand to be as low as 20 to 40 beds, enough to fill only half-a-dozen homes, and in spite of national oversupply, some areas are still undersupplied and not fully served by the market.
89. *Fourthly, local authorities need assistance to manage local markets.* There are many issues that currently present local authorities with difficulties as they consider how best to commission or provide services.
90. All of the children’s services markets are opaque and difficult to size with any degree of precision, even at a local level. This is less true of childcare, but a real issue with positive activities and parental and family support services.
91. There is limited demand management carried out by local authorities, and as a result demand is often not very visible to providers. The ability to predict demand varies across authorities and presents them with a significant challenge. One of the local authorities we researched is conducting a demand assessment at a street by street level for childcare, but this takes time and resource.

92. The lack of demand forecasting means that commissioners do not have the data they need to put together an appropriate commissioning strategy, to plan for capacity in-house, to involve external agencies in planning, to offer secure occupancy levels to external agencies or to explore block contracts for predictable demand.
93. Local authorities have low visibility of supply side market intelligence, and limited data, although this is improving. Several of the case study authorities are in the process of mapping markets:
- Arrangements such as the pan-London contract offer some visibility on price, likewise preferred supplier arrangements
  - Some authorities are building databases of suppliers showing external capacity, prices that are being charged and quality indicators
94. The necessary skills and capabilities to commission successfully are in scarce supply. In one authority we interviewed, the commissioning and contracting role for external agency work was carried out by an individual with an extensive social work background in looked-after-children, *and* all the necessary commercial and interpersonal skills to successfully procure. This combination of skills, experience and personal qualities was not widespread among local authorities interviewed.
95. Commissioning processes are poorly developed and often disjointed across local authorities. Particular issues that this gives rise to with commissioning of voluntary and community sector provision in positive activities and parental and family support services are:
- Commissioning decisions are typically made by multiple stakeholders across multiple departments;
  - A strong culture of grant giving still remains in the majority of local authorities, but there is a shift towards competitive tendering and formal contracting for services;
  - Where formal contracts are in place, local authorities are finding it difficult to define appropriately and monitor the outcomes they require providers to deliver;
  - Many voluntary sector organisations are also finding it challenging to adequately monitor and measure their performance against the targets being set for them.
96. Local authority approaches to market management are heavily influenced by political disposition. The culture within a majority of the local authorities we interviewed is negative towards the private sector, with a feeling that the profit motive is inappropriate for children's services. The mistrust is mutual, and it limits the ability of commissioners and private providers to work together.
97. *Fifthly, sources of funding are not transparent, can be disjointed, and introduce cost into the system.* Again, this is particularly the case in positive activities and parental and family support services. The majority of services in these markets are funded from targeted, fragmented and time-limited central Government Funds and grants;
- The majority of funding sources are time-limited and fragmented in nature. This exacerbates still further the fragmented and complex nature of service delivery within these two markets.
  - This raises questions on the sustainability of the "market intervention". If it is covering for a market failure how will it be sustained long-term?

98. *Sixthly, the market needs greater visibility of DfES policy and market development strategy.* There was evidence from our interview programme with external market providers that they did not understand Government policy and strategy, and were confused regarding Government intentions in the long-term. There is evidence emerging in the childcare market that the strategy to provide extended free places for 3 and 4 year olds, and to provide provision for under-fives and their families in children's centres is causing concern among private providers.
99. Similarly, the time-limited nature of central Government grant funding for positive activities and parental and family support services means that Government's intention for these markets beyond the current time-horizon (often three years) is not well communicated. While markets can change significantly in a three year period, and the Government cannot be seen to provide assurances of unlimited funding, it is nevertheless desirable to offer some greater levels of assurance to market participants.
100. It is our view that these barriers, or inhibitors, need to be addressed to improve the operation of the markets. The DfES can play a significant role in removing the barriers and encouraging effective and strategic commissioning.

# 6 Independent Provision

101. We have drawn on our research of the five markets to make some observations on the role the voluntary and community sector is playing, and can play in the future.

## *Voluntary and Community Sector (VCS)*

### *Conditions that attract market participation*

102. The voluntary and community sector is present to a greater or lesser extent in all the markets researched and plays a significant role. For example, in the fostering market large national voluntary and community providers such as NCH or Barnardos compete alongside large private providers in a well established market. In other markets such as parental and family support services, a range of smaller providers has pioneered the local development of services in the sector, while the private sector does not take a significant share of the market.

103. Parental and family support services is an interesting example:

- The market is not large and established, but at an early stage of development (if indeed it does develop);
- Target clients are not necessarily in a position to pay, for example if they are socially disadvantaged, unemployed and so on;
- A gap in need is being filled that is not being met by statutory service provision, or by the private sector.

104. There are other examples where voluntary and community provision has been able to respond to this gap; some of the case study local authorities described rural areas where the population is too dispersed for a private provider to justify a business case, and the voluntary and community sector is able to fill the gap in a different form.

### *Value added*

105. We see many areas of added value that the voluntary and community sector brings to children's services, some of which resonate with other reviews of voluntary and community sector added value of which we are aware. These include:
- The ability to provide specialist niche provision, often supported by unsurpassed local knowledge;
  - Flexibility and responsiveness; unconstrained by statutory obligations or by shareholder requirements;
  - The ability to innovate where others are constrained;
  - Highly motivated, passionate and altruistic organisational and personal objectives. As a result they are perceived as "doing it for the right reasons";
  - Independence. The ability to work in partnership with local authorities rather than as a contractor;

- Cost effectiveness;
- Funding, to address a need other models or resources cannot bring;
- Advocacy and lobbying.

### *Private Sector*

#### *Conditions to attract market participation*

106. The private sector has a significant market share of several of the markets we researched; children’s homes, fostering and childcare. Clearly the private sector is present in positive activities, but catering very much to the more affluent “can pay” population rather than the population targeted by current Youth Service provision; while in parental and family support services the private sector has a relatively small presence.
107. We would make the following observations on the conditions that attract the private sector to children’s services markets, based on what we have seen:
- The market is sufficiently large and growing to offer a significant revenue opportunity and a satisfactory profit;
  - The ability to improve services through efficiency and innovation;
  - Strong drivers of demand; customers who are willing and able to pay; and selling costs that are manageable;
  - The ability to access the skills and capabilities it needs to deliver services successfully;
  - Barriers to entry are manageable.

#### *Value added*

108. We see many areas of added value that the private sector can bring to children’s services, although we are conscious that there are sensitivities around private sector involvement in some children’s services markets. The extent of the private sector’s involvement in the fostering market in particular, and the fact that independent fostering agencies are able to make a satisfactory level profit in a growing market, has been the subject of considerable discussion during our local authority interviews.
109. Areas of potential added value we have observed include:
- The ability to raise investment capital, justified by a business case;
  - Efficiency (driven by the need to generate a profit to survive);
  - The ability to raise quality and standards (if the market can stand the price increase that may accompany it);
  - The ability to innovate (driven by the need for competitive advantage);
  - Responsiveness (examples appear to be how quickly the private sector has added capacity in fostering, but also the enthusiastic response of the private sector to many Extended Schools as a channel to market).

# 7 Suggestions for Improvement

## Introduction

110. We have drawn out some learning points from our research on these markets and have put forward six overarching suggestions on how the DfES could further develop children's services markets in line with its policy on contestable markets.
111. The first suggestion is that the DfES should *articulate a vision for market provision, based on best practice*.
112. The evidence from the six case study areas suggests that many commissioners do not have a strong sense of what the vision for their local market could, or should, be. In our view it would be helpful for DfES to provide a degree of guidance on what local authorities should expect diverse provision to look like in children's services markets, based on its knowledge of best practice. Our research does suggest that there is no "one-size-fits-all", and that a vision for market provision should be a guideline only.
113. The second suggestion is that the DfES should *encourage a level playing field*.
114. The need to create a level playing field is paramount, as the evidence suggests that markets such as children's homes and fostering are distorted by the local authority dual role of commissioner and provider.
115. Encouraging greater separation between the local authority commissioning function and in-house provision is essential, and will help overcome the mistrust that frequently exists between local authority commissioners and private providers. The DfES could encourage this separation by providing alternative organisational models for local authorities to follow, with practical testing through local authority pilots.
116. We have made several suggestions to assist local authorities to develop more professional procurement practices, but also to remove constraints on in-house providers to enable them to compete effectively on a more level playing field.
117. The third suggestion is that the DfES should *encourage the development of regional markets*.
118. Evidence suggests that local markets can be relatively small, that choice is limited, and that there is no effective competition at a local level. DfES could work through the DfES CPP with regional centres of excellence to encourage the development of regional commissioning. We have suggested funding of pilot schemes to demonstrate the benefits to local authorities.
119. The fourth suggestion is that the DfES should *assist local authorities to manage local markets*.
120. There is a great deal of evidence from the six case study areas that local authorities find it difficult to manage their local children's services markets effectively, although there are exceptions where successful market management is providing some useful lessons.
121. We have made several suggestions for actions the DfES could implement to assist local authorities in managing their markets. These suggestions include providing templates, disseminating best practice, encouraging and sponsoring forums, and so on.



122. The fifth suggestion is that the DfES should *encourage reduced complexity and increased transparency of funding*.
123. Funding characteristics follow similar patterns across positive activities and parental and family support services; the majority of funding is not through the core local authority budget, but from targeted, time-limited central Government grants (some of these are provided by the DfES such as the Extended Schools Standard Fund or the Children’s Fund, but others are provided by the Home Office or the DCLG, for example The Neighbourhood Renewal Fund or the New Deal for Communities Fund).
124. The fragmentation of this funding and its time-limited nature makes strategic planning difficult, and raises questions over whether the service can be sustained in the long-term. This provides difficulties for both commissioners and providers in how they distribute and access funding, as well as in long-term planning.
125. We have made several suggestions to the DfES to reduce this complexity, but we recognise this will require the cooperation of at least the DCLG and the Home Office.
126. The sixth and final suggestion is that the DfES should *improve visibility of DfES policy and market strategy*.
127. We have made the suggestion that the DfES develops a communication strategy to provide assurances to in-house, private and voluntary and community sector providers that it understands their concerns and is addressing them through its market development programme.
128. We have summarised below a set of detailed suggestions, actions, rationale and issues in support of these overarching suggestions.
129. We have further highlighted the implementation risks at the end of this section.

## Suggestions for Improvement

### *Articulating a vision for market provision, based on best practice;*

Suggested Improvement	Possible Actions	Rationale	Issues and Risks
<ul style="list-style-type: none"> <li>Develop a quantified picture of market demand and supply</li> </ul>	<ul style="list-style-type: none"> <li>Carry out market mapping of each children’s services market, including both demand and supply, at both a national level and local authority level.</li> <li>Work with local authorities and regional centres of excellence to generate the market maps at a local or regional level.</li> </ul>	<ul style="list-style-type: none"> <li>Critical to develop some visibility of demand and supply and how they vary by local authority area.</li> <li>Provides the evidence base to enable DfES to begin to articulate supply side market “models” that deliver good outcomes and value for money</li> </ul>	<ul style="list-style-type: none"> <li>Skill sets may limit implementation</li> <li>Substantial task requiring significant local knowledge and resource</li> </ul>

Suggested Improvement	Possible Actions	Rationale	Issues and Risks
<ul style="list-style-type: none"> <li>Identify models of provision that can be considered good practice, ie, where the market is delivering good outcomes and value for money; and those where there appears to be some market failure</li> </ul>	<ul style="list-style-type: none"> <li>Work with local authorities, regional centres of excellence, to collate a range of models.</li> <li>Identify the drivers of success or failure, and the outcomes different models deliver.</li> <li>Develop a shortlist of models.</li> </ul>	<ul style="list-style-type: none"> <li>There are (as we know from our case studies) different models that work in different local authority areas for different reasons.</li> <li>Helps spread best practice and market understanding among commissioners so they can make more informed decisions</li> </ul>	<ul style="list-style-type: none"> <li>Models may not be easily characterised or the drivers of their specific advantages readily understood</li> <li>Outcomes difficult to measure or find data on</li> </ul>
<ul style="list-style-type: none"> <li>Develop a range of models for market provision, as outline guidance for local authorities</li> </ul>	<ul style="list-style-type: none"> <li>Develop different models to be discussed at appropriate forums.</li> <li>Develop web-based documentation that provides models and supporting analysis</li> <li>Post details in “commissioners newsletters”</li> </ul>	<ul style="list-style-type: none"> <li>A range of models at a local or regional level is better than a single vision; there is no “one-size-fits-all”.</li> <li>Range of models gives local authority commissioners the ability to develop a vision for the market place that is informed by local environments not “imposed from above”</li> </ul>	<ul style="list-style-type: none"> <li>Range of models may be too disparate to be of value to local authorities – could cause confusion</li> <li>Only of value if a local authority has visibility of its own market</li> </ul>

*Encourage a level playing field;*

Suggested Improvement	Possible Actions	Rationale	Issues
<ul style="list-style-type: none"> <li>Create greater institutional separation between the local authority commissioning function, and in-house provision</li> </ul>	<ul style="list-style-type: none"> <li>Develop alternative practical models for LAs to follow, based on successful case studies (case studies would need to be located – this has not been achieved by our case study authorities)</li> <li>Develop a national forum for disseminating best practice in organisational separation</li> <li>Describe the organisational requirements in detail to authorities – i.e. identify key roles that must be separated</li> <li>Consider funding and delivering in a pilot area, DfES led, if this practice is not already in place</li> </ul>	<ul style="list-style-type: none"> <li>Current market is “distorted” by the conflict of interest between LAs that commission and provide (the majority).</li> <li>Institutional separation will provide a structural incentive for greater transparency and a level playing field</li> <li>Will provide an incentive for in-house providers to generate greater clarity on their full operating costs.</li> <li>Will begin to generate reduced costs through more explicit competition</li> </ul>	<ul style="list-style-type: none"> <li>What is the long term incentive for the LA to incur the cost of this?</li> <li>Does DfES need to fund a transition?</li> <li>This must go hand in hand with better accounting – i.e. the skill sets to account for, view and monitor in-house provision in the way a business would</li> <li>Political will is likely to be a considerable barrier</li> <li>The costs / process of change may be high or prohibitive. Need to be understood before the process starts</li> </ul>

Suggested Improvement	Possible Actions	Rationale	Issues
<ul style="list-style-type: none"> <li>Facilitate the separation of “owner” and “provider” functions for in-house provision.</li> </ul>	<ul style="list-style-type: none"> <li>Pilot scheme based on other markets where this has been done, i.e. property company to set up, provider to manage (prop co/op co)</li> <li>Centrally led activity to deliver this</li> </ul>	<ul style="list-style-type: none"> <li>Removes the barrier of property investment for providers or potential providers (new entrants)</li> <li>Provides greater clarity and transparency on property and infrastructure investment vs. operating costs</li> <li>Will enable in-house providers to focus on service provision rather than property management</li> </ul>	<ul style="list-style-type: none"> <li>Political will could be a barrier</li> <li>Cost / process of change (as above)</li> <li>Demonstrating the benefits of this to LAs may be a challenge</li> <li>Separating owner and provider may not always be practicable</li> <li>May dis-incentivise investors who consider ownership of property some security against financial failure – i.e. this may raise barriers to entry</li> </ul>
<ul style="list-style-type: none"> <li>Develop procurement practices that enable the management of proper competitions</li> <li>Conduct competitions at a regional level if necessary to increase contract size and attract sufficient bidders</li> <li>Create common requirements for in-house, 3rd sector and private providers</li> <li>Conduct transparent bid assessments</li> </ul>	<ul style="list-style-type: none"> <li>DfES sponsored procurement training for LAs that apply</li> <li>DfES developed template models showing which type of approach suits which type of authority</li> <li>Set out strict guidelines for core requirements from tender process – e.g. the inclusion of outcome monitoring reports – regardless of provider</li> <li>Inspectors to review tender processes</li> <li>Consider split contract types depending upon the market</li> </ul>	<ul style="list-style-type: none"> <li>Competitions need to be “plausible” (e.g. have characteristics of attractiveness to sufficient bidders, offer enough size and profit potential to attract quality providers, but be sufficiently flexible to offer scope for innovation)</li> <li>Will provide an incentive for in-house providers to generate greater clarity on their full operating costs.</li> </ul>	<ul style="list-style-type: none"> <li>Long timeframe for improvements to come through</li> <li>People with the right capabilities still difficult to find</li> <li>Pilots required to prove the business case – may well require funding to attract authorities to the pilot</li> </ul>
<ul style="list-style-type: none"> <li>Remove constraints on in-house providers to enable them to properly manage and innovate: <ul style="list-style-type: none"> <li>➢ Improve skills and capabilities</li> <li>➢ Assistance with cost accounting</li> <li>➢ Access to finance if justified by a business case</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Not guidelines but specific annual reports from in-house providers to include all costs, costs per child, savings, outcomes – as commissioners would expect from private bidders for any contract.</li> <li>Give in-house providers control (as well as visibility) over their full cost base. May involve changing local authority organisational structures.</li> <li>Consider more flexible approaches to employee terms and conditions.</li> </ul>	<ul style="list-style-type: none"> <li>They need to be allowed to compete in markets where LA political will exists to develop the market</li> <li>Current constraints and structures prevent in-house providers from being able to compete effectively even where conditions allow.</li> </ul>	<ul style="list-style-type: none"> <li>Other conditions need to be in place for a level playing field before this can be implemented (a long way off?)</li> <li>May need to supplement local authority team with commercial operators</li> <li>Risk of failure</li> </ul>

Suggested Improvement	Possible Actions	Rationale	Issues
<ul style="list-style-type: none"> <li>Reinforce performance monitoring; <ul style="list-style-type: none"> <li>➤ Monitor outcomes</li> <li>➤ Set out performance expectations and benchmarks</li> <li>➤ Introduce national standards and forms of accreditation in newer, developing markets</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Identify where possible the indicators of good outcomes for children (or parents)</li> <li>Work with local authority commissioners to identify ways that outcomes can be monitored, over time if necessary.</li> <li>In newer less established markets encourage regulating bodies to work with local authorities to get services accredited</li> <li>Similarly consult with the regulating bodies regarding the possible approaches to setting and monitoring performance benchmarks</li> </ul>	<ul style="list-style-type: none"> <li>Data on outcomes has been missing in our research; exploring ways that data on outcomes or indicators of good outcomes can be gathered over time would be valuable.</li> <li>Benchmarking, and expanding the role of regulating bodies to collate evidence on performance may improve visibility of quality and incentivise all providers to deliver better quality</li> </ul>	<ul style="list-style-type: none"> <li>Outcomes and other indicators not easily identified</li> <li>Could act as a barrier to eg, VCS providers if not “light touch”</li> <li>Could overformalise.</li> </ul>
<ul style="list-style-type: none"> <li>Increase visibility and awareness of any unintended consequences of market development actions or investments</li> </ul>	<ul style="list-style-type: none"> <li>Tap into forums or communication channels in regional centres of excellence, local authorities and commissioning networks (eg, CPP Champions) to raise DFES awareness of emerging unintended consequences of market development action</li> </ul>	<ul style="list-style-type: none"> <li>Government actions in one part of a market may have a knock-on effect in another part of the market that is detrimental to other clients or consumers</li> </ul>	<ul style="list-style-type: none"> <li>Need to handle sensitively to get a balanced view</li> <li>How to get an unfettered view from independent market providers without it being “filtered”?</li> </ul>

### *Encourage the development of regional markets;*

Suggested Improvement	Possible Actions	Rationale	Issues
<ul style="list-style-type: none"> <li>Develop approaches to facilitate the aggregation of demand between local authorities and to encourage the development of regional commissioning</li> </ul>	<ul style="list-style-type: none"> <li>Develop in the context of the joint commissioning framework</li> <li>Work with regional centres of excellence where possible to begin to “scale up” and drive out greater benefits</li> <li>May require funding of pilots or other initiatives to “underwrite” the costs that will be incurred to prove the business case</li> <li>Initially drive understanding of demand <ul style="list-style-type: none"> <li>➤ Detailed, clear list of what LAs need to know to drive a required needs assessment</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Greater aggregation of demand (combined with regional market management) will enable supply to better match demand.</li> <li>This should provide greater choice and, in due course, better value-for-money.</li> </ul>	<ul style="list-style-type: none"> <li>Developing model – could be significant data challenges, some work is already underway regionally, but data are currently limited</li> <li>Need a complete understanding of demand aggregation across authorities in current market – i.e. ask each LA to provide detail</li> <li>Pilot model – may be best to use a current example as a pilot</li> <li>Demonstrate incentive benefit</li> <li>Trust (will supply-side deliver?)</li> <li>Political will – LAs need</li> </ul>

Suggested Improvement	Possible Actions	Rationale	Issues
	<ul style="list-style-type: none"> <li>➤ Performance indicators to include robust demand assessment</li> <li>➤ Assessment should be collated by DfES</li> <li>➤ Recommended regional aggregations that map against where supply is focused (full, geographical supply map required)</li> <li>• Set out examples of demand aggregation currently underway to demonstrate the scale of the benefits</li> </ul>		to be prepared to work together
<ul style="list-style-type: none"> <li>• Develop best practice models for dissemination for joint commissioning by a group of local authorities</li> </ul>	<ul style="list-style-type: none"> <li>• Work with CPP, regional centres of excellence and local authorities to identify joint commissioning examples (none identified by our research)</li> <li>• Evaluate the benefits, and the practical steps necessary to make it work effectively</li> </ul>	<ul style="list-style-type: none"> <li>• Disseminating best practice will encourage other local authorities to investigate the business case for moving to a regional model.</li> </ul>	<ul style="list-style-type: none"> <li>• Each authority faces a different market, so it may be challenging for them to apply learning from other LAs</li> <li>• Requires resources to do this effectively</li> </ul>

*Assist local authorities to manage local markets;*

Suggested Improvement	Possible Actions	Rationale	Issues
<ul style="list-style-type: none"> <li>• Improve demand forecasting</li> </ul>	<ul style="list-style-type: none"> <li>• Implement a clear demand forecasting analytical framework for LAs, including data requirements to form part of an annual return to DfES</li> <li>• Develop and implement a software based tool for forecasting to homogenise approach, based on best practice, and give to LAs. The tool may only be able to predict certain segments of demand.</li> <li>• Incentivise recruitment of skills into LAs</li> </ul>	<ul style="list-style-type: none"> <li>• Improved demand forecasting, based on historical trends and an assessment of future drivers of demand, will provide LAs with greater clarity on market capacity needed at a local level to service future needs.</li> <li>• Enables LAs to begin to anticipate further ahead, and avoid “crisis purchasing” (and in due course improve value-for-money).</li> <li>• Provides a basis for a dialogue with providers.</li> </ul>	<ul style="list-style-type: none"> <li>• Can be perceived as a specialist technical area</li> <li>• LA skills sets may limit implementation</li> <li>• Required level of detail on drivers and trends to make forecasts robust may be prohibitive – particularly where volumes are low or the required in-house data are not available</li> <li>• Needs to demystified and clarified – i.e. suggests should be specific not broad indications</li> <li>• Issue of trust – can the forecasts be relied on by the market?</li> </ul>

Suggested Improvement	Possible Actions	Rationale	Issues
<ul style="list-style-type: none"> <li>Standardise demand analysis to include an understanding of key drivers of demand</li> </ul>	<ul style="list-style-type: none"> <li>Clarify all the demand factors that must be considered.</li> <li>Show LAs a clear, standardised means of carrying out the analysis by disseminating best practice, software and, if necessary, skill sets</li> <li>Require that the demand analysis be collated (and therefore regularised) centrally and regularly updated to ensure that it is done and that analysis can be continuous</li> </ul>	<ul style="list-style-type: none"> <li>Regardless of intentions, LAs cannot deliver additional capacity without impacting the local market unless demand analysis is robust and detailed</li> <li>Robust analysis can be achieved, as seen by our case studies. When it is done, it can change pre-conceived assumptions about demand and resource allocation</li> </ul>	<ul style="list-style-type: none"> <li>Resource intensive exercise, and time consuming. LAs are faced with a high work load.</li> <li>Misinterpreted or incorrect analysis could have significant consequences</li> <li>Needs must be taken in the context of supply – it is the gap between demand and supply that is key</li> </ul>
<ul style="list-style-type: none"> <li>Develop supply side market intelligence (i.e. on providers)</li> </ul>	<ul style="list-style-type: none"> <li>Provide templates / databases for storing information – share examples, eg, the database in development by East Anglia/South East on LAC</li> <li>Templates to include useful quality markers, on outcome performance (vs. expectations, not just national averages)</li> <li>Could use these databases as a form of returns to the DfES for internal use and to encourage consistency</li> <li>For cost transparency – consider regulatory guidance</li> <li>Share a template generic model as a way to encourage both in-house and external providers to provide data on the same basis</li> <li>Encourage LAs to review in-house provision in terms of outcomes, quality and price (value for money) on a 2 or 3 yearly basis</li> </ul>	<ul style="list-style-type: none"> <li>Visibility of supply in terms of capacity, vacancy and development will enable greater competition and greater choice</li> <li>Commissioners also need to be aware of any providers that are struggling to deliver quality or a sustainable performance</li> <li>Comparison on price and quality will enable commissioners to focus on value for money – in-house services should be included</li> <li>An understanding of cost base is essential</li> </ul>	<ul style="list-style-type: none"> <li>Resources may be limited in LAs. There may not be a commissioner in the right role with the time or desire to do this</li> <li>First step to a dialogue may not be clear to LAs, e.g. is it a phone call or an open day?</li> <li>There will be challenges in segmenting supply</li> <li>Providers need to be trusted, in-house capacity fully understood</li> <li>Getting up to date information on occupancy will be a challenge. Should be possible to get in-house providers to run a data base, but trusting private and voluntary providers to do so may be more challenging</li> <li>Data burden on private and third sector providers</li> </ul>

Suggested Improvement	Possible Actions	Rationale	Issues
<ul style="list-style-type: none"> <li>Engage in dialogue with market providers</li> </ul>	<ul style="list-style-type: none"> <li>Illustrate the benefits of dialogue by showing case studies to those in commissioning roles</li> <li>DfES sponsored open days</li> <li>Requirement for launch day with new commissioning strategies for children’s services, once produced, bringing all provision, including in-house</li> <li>DfES sponsored training, in which private providers are included</li> <li>Provide facilitation resource for initial discussions to limit risk of breakdown or the sense of mistrust driving the outcome of the dialogue</li> <li>Encourage willingness to engage – i.e. relationship building activities</li> <li>Initial dialogue should be directed at discussion around strategy for managing volumes and delivering visibility of future requirements – this will incentivise providers to engage and offset their suspicions that dialogue is ultimately about price negotiation</li> </ul>	<ul style="list-style-type: none"> <li>In the absence of dialogue with the providers the market cannot be developed according to need</li> <li>Dialogue with the market will begin to identify any unintended consequences of Government interventions in a market place</li> <li>Where providers do not have visibility over LAs intentions regarding demand management they have no security – this results in speculation over where to build capacity, and high pricing to cover the risk of uncertain occupancy</li> <li>It also sustains the level of mistrust and limits the likelihood of engaging in useful tendering or preferred supplier processes</li> </ul>	<ul style="list-style-type: none"> <li>Issue – the level of trust is poor between many authorities and providers in both directions. The suspicion around motives is mutual and is a significant barrier to initiating constructive dialogue</li> <li>Political will and strategic positioning are also potential barriers. If the intention is to avoid private providers, barriers will be higher and dialogue may rapidly break down</li> <li>Willingness to engage at an individual level may also be a barrier in both providers and LAs</li> <li>Private provider strategies could prevent good dialogue. In under-supplied areas providers may see dialogue simply as the start of moves to bring price pressure into the market</li> </ul>
<ul style="list-style-type: none"> <li>Develop a common commissioning framework that: <ul style="list-style-type: none"> <li>contains preferred supplier arrangements</li> <li>considers how to use block contracts</li> <li>enables flexibility so that the LA can adapt to its local environment</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Need a framework that provides incentives for LAs to adhere to a common commissioning framework</li> <li>Incentives to include resources and assistance</li> <li>Clear, explicit examples – e.g. “how to set up a preferred provider list”, “things you must ask providers to deliver and or explain”, and so on. Show evidence for savings achieved in other providers</li> <li>Clear examples of</li> </ul>	<ul style="list-style-type: none"> <li>Creating savings from external providers will in many cases require some improved revenue security for them</li> <li>Increasingly seen as best practice – a good signal to the market place / generally</li> <li>Will raise quality by increasing bidder interest</li> <li>Has the potential to improve value-for-money through better local capacity utilisation – but has to be coupled with professional competitive</li> </ul>	<ul style="list-style-type: none"> <li>Key challenge in bringing together the breadth of current activities</li> <li>A number of tools and guidance notes are already available, but not always being used. Understanding why this is and adapting the approach may be needed</li> <li>Use of these arrangements is premised on having a large enough market for external providers in each location</li> <li>Block contracts risk fixing the market and fixing the price so need to be</li> </ul>

Suggested Improvement	Possible Actions	Rationale	Issues
	<p>tendering process for block contracts, disseminate knowledge from regional contracts, and explanations of when tendering is appropriate</p> <ul style="list-style-type: none"> <li>Block contracts can be useful, but to set these up effectively requires very good quality demand analysis and prediction, and a high degree of flexibility.</li> </ul>	tendering processes.	managed very carefully if used
<ul style="list-style-type: none"> <li>Develop best practice models for dissemination for local authority commissioning</li> </ul>	<ul style="list-style-type: none"> <li>Newsletter for commissioning and contracting with examples</li> <li>Annual review of – “Who generated the most savings, without dropping quality and how?” or “Most innovative approaches to driving quality from providers”</li> </ul>	<ul style="list-style-type: none"> <li>Some areas are aware of what other authorities are doing to improve commissioning</li> <li>Best practice is not always disseminated</li> </ul>	<ul style="list-style-type: none"> <li>Each authority faces a different market, so it may be challenging for them to apply learning from other LAs</li> <li>Requires resources to do this effectively</li> </ul>

*Encourage reduced complexity and increased transparency of funding;*

Suggested Improvement	Possible Actions	Rationale	Issues
<ul style="list-style-type: none"> <li>Reduce funding complexity: <ul style="list-style-type: none"> <li>➢ Consolidate funding streams</li> <li>➢ Join up decision making processes</li> <li>➢ Make different funds more distinct</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Liaise with other Government departments with a view to: <ul style="list-style-type: none"> <li>➢ consolidating funding streams</li> <li>➢ developing joint decision making processes</li> <li>➢ reviewing funding lifetimes</li> </ul> </li> <li>Likely to involve discussions with DCLG and Home Office</li> </ul>	<ul style="list-style-type: none"> <li>Greater co-ordination of funding and fewer funds will help drive co-ordination of service delivery in local authorities</li> <li>Reduce overlap in current spending across certain programmes</li> <li>Reduction in funding complexity will reduce associated transaction costs for local authorities and VCS providers</li> </ul>	<ul style="list-style-type: none"> <li>Cannot be done by DFES alone – securing the co-operation of other Government departments is essential</li> <li>Will take time</li> <li>Need to evaluate the impact of doing this on currently funded programmes</li> </ul>
<ul style="list-style-type: none"> <li>Make funding available on a longer term basis</li> </ul>	<ul style="list-style-type: none"> <li>Liaise with other Government departments with a view to encouraging longer timeframes where possible, or alternative mechanisms to encourage or sustain matched VCS or private sector funding to allow programmes to be mainstreamed</li> </ul>	<ul style="list-style-type: none"> <li>Longer time frames will facilitate more strategic planning of service delivery</li> <li>It will also enable greater investment in building capacity of services on the ground</li> </ul>	<ul style="list-style-type: none"> <li>Cannot be done by DFES alone – securing the co-operation of other Government departments is essential</li> <li>Will take time</li> <li>Need to evaluate the impact of doing this on currently funded programmes</li> </ul>



### *Improve visibility of DfES policy and market strategy;*

Suggested Improvement	Possible Actions	Rationale	Issues
<ul style="list-style-type: none"> <li>Where possible, give assurances about longer term strategies</li> </ul>	<ul style="list-style-type: none"> <li>Setting out the long term strategy, as above, may give some certainty over intentions at least</li> <li>Ministerial support for the long-term strategy would also help reassure</li> </ul>	<ul style="list-style-type: none"> <li>Much of the uncertainty in the market relates to sustainability of new capacity in the longer-term</li> <li>The expectation within the DfES and LAs is that some means of sustaining capacity will be developed, but they cannot act on this expectation</li> <li>This uncertainty may prevent private and voluntary providers from taking part in LA/centrally funded schemes</li> <li>Planning for new capacity may be carried out with a short-term mind set</li> </ul>	<ul style="list-style-type: none"> <li>There is no option, currently, to guarantee levels of funding in the long-term</li> <li>Many people in the market and public sector have experienced frequent changes in policy in the past and may not trust assurances</li> <li>Expectations need to be carefully managed and care must be taken over any commitments made</li> <li>Need to avoid LAs and others making the assumption that funding will be unlimited</li> </ul>
<ul style="list-style-type: none"> <li>Develop a communication strategy to target market participants</li> </ul>	<ul style="list-style-type: none"> <li>Develop a communication programme, with key messages via different media, to ensure that a variety of market participants are aware of Government intentions</li> <li>Coordinate with other Government departments</li> </ul>	<ul style="list-style-type: none"> <li>Government interventions in different markets can be misinterpreted</li> <li>To avoid unintended consequences</li> </ul>	<ul style="list-style-type: none"> <li>Cost and resource necessary</li> <li>How to target a wide range of market participants</li> <li>Clarity of message</li> </ul>

### **Implementation Risks**

130. The tables above with suggestion also include a set of issues and risks. There are some common themes running through these that to some extent can be mitigated. We have sought to summarise below the key themes and some mitigating actions.

### *Implementation Risks and Mitigating Actions*

Implementation Risk	Possible Mitigating Actions
<ul style="list-style-type: none"> <li>Political disposition, and continuing mistrust of the private sector, a barrier to the development of diverse provision</li> </ul>	<ul style="list-style-type: none"> <li>The benefits of diverse provision (including private sector) need to be demonstrated, probably through some pioneering local authorities and pilot schemes, with DfES and other Government departments' encouraging and funding</li> <li>Gradual process – only the development of real transparency in local authorities or regional centres of excellence will enable trust to be established</li> </ul>

Implementation Risk	Possible Mitigating Actions
<ul style="list-style-type: none"> <li>Risk of creating bureaucracy</li> </ul>	<ul style="list-style-type: none"> <li>Consultation within appropriate forums on what constitutes a “light touch”</li> <li>Two way communication channels need to be opened between all parties involved</li> <li>Appropriate incentives and mechanisms need to be put in place; local authorities cannot be mandated</li> </ul>
<ul style="list-style-type: none"> <li>The change necessary to create a level playing field is too slow, and meanwhile costs continue to escalate</li> </ul>	<ul style="list-style-type: none"> <li>Pilots needed to demonstrate the benefits to local authorities</li> <li>Continued messages and support to local authorities to focus on professional procurement practices where possible while structures and processes change</li> <li>Focus on “quick wins” as well as longer term strategies</li> <li>Encourage use of children’s trusts, regional centres of excellence, CPP and so on to coordinate and accelerate change</li> </ul>
<ul style="list-style-type: none"> <li>The organisational change necessary in local authorities to create a level playing field is disruptive to services – and in-house service quality and commissioning suffers as a result</li> </ul>	<ul style="list-style-type: none"> <li>Plan carefully for organisational change – first 100 days planning under new structures</li> <li>Encourage proper risk assessment</li> <li>Disseminate best practice on organisational change</li> <li>Establish a forum of organisation change practitioners in local government</li> </ul>
<ul style="list-style-type: none"> <li>Experienced people with the right skills to improve local authority commissioning remain difficult to find</li> </ul>	<ul style="list-style-type: none"> <li>Encourage wider search for people with the right commissioning skills (eg, procurement specialists from outside children’s services)</li> <li>Flexible terms and remuneration to attract top quality people from the private sector</li> <li>Encourage schemes to retrain suitable in-house practitioners into commercial commissioning specialists</li> </ul>
<ul style="list-style-type: none"> <li>DfES-led interventions to address market failures cause unintended consequences</li> </ul>	<ul style="list-style-type: none"> <li>Tap into consultation forums with local authorities, regional centres of excellence, and other networks of market participants</li> <li>Two-way communication channels need to be established so that DfES can communicate its strategy – but also be made aware of emerging issues in the market place</li> </ul>
<ul style="list-style-type: none"> <li>Data on outcomes, demand and supply difficult to find or generate</li> </ul>	<ul style="list-style-type: none"> <li>Consider commissioning longer term research to investigate outcomes</li> <li>Encourage forums and networks to share market data between local authorities</li> <li>Build on CPP and regional centres of excellence to collate market data and disseminate</li> <li>Develop market development specialists as data champions, and build and own databases. Monitor and keep up to date constantly.</li> </ul>

131. We are in no doubt the DfES can and should play a key role in developing children’s services. While many of our suggestions carry implementation risk we believe that risk can be mitigated and that the DfES should consider in more detail how to take them forward.

*In the event that, pursuant to a request which DfES has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. DfES agrees to pay due regard to any representations which PwC may make in connection with such disclosure and DfES shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, DfES discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.*

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