Evening Seminar

Outcomes based commissioning: Payment by Results and Social Impact Bonds

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Background to the Academy

- The Academy’s mission is to bring people together to share knowledge, skills and practice and to promote excellence in social justice commissioning.
- The Academy was created in 2007 and has over 3800 cross sector members.
- Services are designed to support the development of social justice commissioning and include nationwide events, eLearning and commissioning themed learning groups.
OVERVIEW

What is PbR?

What is SIB?

Findings from our review of published evaluations

Conclusions
THE DEVELOPMENT OF PbR
PAYMENT BY RESULTS

- Payment by results allows the government to pay a provider of services on the basis of the outcomes their service achieves rather than the inputs or outputs the provider delivers.

- In the CJS
  - “The principle of incentivising performance through payment by results, with success based on the absence of re-offending, should be introduced for prisons, the providers of community sentences and the providers of rehabilitation programmes – whether in the public, private or voluntary sector. With devolved responsibilities and new incentives, we can create a revolution in how offenders are managed, and drive down re-offending.” (Conservative Party 2009)
  - “We will introduce a ‘rehabilitation revolution’ that will pay independent providers to reduce reoffending, paid for by the savings this new approach will generate within the criminal justice system.” (Coalition Agreement 2010)
ARGUMENTS FOR PAYMENT BY RESULTS

- **Greater efficiency/better outcomes**
  Focusing reward on outcomes, & providing minimal prescription on how these should be achieved will drive greater efficiency in tackling social problems.

- **Greater Innovation**
  Focus on outcomes and reduced focus on commissioners ‘micro-managing’ delivery processes will encourage greater innovation.

- **Transfer risk / defer payment**
  PbR transfers risk away from the branch of government commissioning the service and towards the service provider. Payment is also deferred.

- **New market entrants**
  Marketisation can provide opportunities for new market entrants (particularly from the private and not-for-profit sectors) to enter the market for provision.
More than 50 schemes containing an element of PbR worth a total of at least £15 billion of public money in the UK (National Audit Office, 2015).

Covers diverse areas including welfare to work, social work, criminal justice and overseas development.
EXAMPLE: THE WORK PROGRAMME (DEPT OF WORK AND PENSIONS)

- Brings together various programmes designed to help people back into work into a single scheme.
- **Providers**: 17 prime contractors, with about 850 subcontractors (public, private and voluntary organisations)
- **Contracts**: 40 across 18 areas - at least 2 providers per area.
  - Each individual contract will be worth £10-50 million per year.
- **Budget**: £3.3 billion over 9 years
- **PbR**:
  - attachment fee paid when a benefit claimant starts on the programme,
  - job outcome fee paid when claimants enter work
  - sustainment payments paid for keeping claimants in work

- PbR proportion of contract: DWP expects 80% of payments to be outcome-based over the life of the programme
EXAMPLE: INTERNATIONAL AID (DEPARTMENT FOR INTERNATIONAL DEVELOPMENT)

- 19 aid projects delivered overseas, covering a range of development issues including water and sanitation, education and health

- Providers: various governments, private sector suppliers and non-governmental organisations

- Budget: approximately £2.2 billion; projects run for between 3 and 12 years

- PbR proportion of contract: varies between 9% and 100%
RESULTS FOR THE 1ST 6 MONTHS OF PbR IN CRCs

- Cohort 1 (Oct–Dec 2015) & Cohort 2 (Jan–March 2016)
- Across the 21 CRCs, for the two completed cohorts:
  - overall reoffending rate was 45% compared to the baseline rate of 47% in 2011
  - average number of re-offences was 4.6 compared to an expected rate of 4.2 – this represents an 11% increase
- Only 2 CRCs (those with better frequency of re-offending figures) are on track for PbR payments.

Analysis by Jack Cattell, Get the Data: http://www.russellwebster.com/crcpbrjan18/
Re-offending rate down

Reoffending rate lower than the 2011 baseline rate at all but 3 CRCs. At twelve CRCs the reduction was large enough for bonus payments to be paid (green bars in chart).

<table>
<thead>
<tr>
<th>Area</th>
<th>Reduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cumbria &amp; Lancashire</td>
<td>-7.9%</td>
</tr>
<tr>
<td>Northumbria</td>
<td>-5.4%</td>
</tr>
<tr>
<td>Hampshire &amp; Isle of Wight</td>
<td>-5.0%</td>
</tr>
<tr>
<td>Kent, Surrey &amp; Sussex</td>
<td>-3.4%</td>
</tr>
<tr>
<td>Derbyshire, Leicestershire, Nottinghamshire &amp; Rutland</td>
<td>-3.2%</td>
</tr>
<tr>
<td>Cheshire &amp; Greater Manchester</td>
<td>-3.1%</td>
</tr>
<tr>
<td>Merseyside</td>
<td>-2.9%</td>
</tr>
<tr>
<td>Essex</td>
<td>-2.7%</td>
</tr>
<tr>
<td>London</td>
<td>-2.4%</td>
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<tr>
<td>Wales</td>
<td>-2.4%</td>
</tr>
<tr>
<td>Norfolk &amp; Suffolk</td>
<td>-2.2%</td>
</tr>
<tr>
<td>Bedfordshire, Northamptonshire, Cambridge &amp;...</td>
<td>-2.1%</td>
</tr>
<tr>
<td>Dorset, Devon &amp; Cornwall</td>
<td>-1.8%</td>
</tr>
<tr>
<td>Durham Tees Valley</td>
<td>-1.5%</td>
</tr>
<tr>
<td>Bristol, Gloucestershire, Somerset &amp; Wiltshire</td>
<td>-1.0%</td>
</tr>
<tr>
<td>Humberside, Lincolnshire &amp; North Yorkshire</td>
<td>-0.5%</td>
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<tr>
<td>Thames Valley</td>
<td>-0.4%</td>
</tr>
<tr>
<td>West Yorkshire</td>
<td>-0.3%</td>
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<tr>
<td>Staffordshire &amp; West Midlands</td>
<td>0.7%</td>
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<tr>
<td>South Yorkshire</td>
<td>1.5%</td>
</tr>
<tr>
<td>Warwickshire &amp; West Mercia</td>
<td>1.6%</td>
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Analysis by Jack Cattell, Get the Data: http://www.russellwebster.com/crccpbrjan18/
FREQUENCY OF RE-OFFENDING UP

At all but 2 of the CRCs’ frequency of reoffending rates are worse than the 2011 baseline.

Analysis by Jack Cattell, Get the Data: http://www.russellwebster.com/crcpbrjan18/
SOCIAL IMPACT BONDS (SIBS)
SOCIAL IMPACT BONDS (SIBs)

- Social Impact Bonds (SIBs) are a form of payment by results which allow the financing of social outcomes via private investment. Key elements (Mulgan et al. 2010):
  - An investor. To date investment has tended to come from social investors but need not;
  - A programme of actions to improve the prospects of a group; and
  - Commitments by a payer (usually national or local Government) to make payments linked to improved social outcomes achieved by the group.
A GOVERNMENT PROMISE IS VALUABLE (Mulgan et al. 2010)

- Finance from local authorities, or
- Foundations, or
- Commercial markets

Raising a sum for investment

A programme of actions

- Implemented by a consortium with a lead organisation or an SPV

A commitment to repay

- Commitment to pay on achieving outcomes
- Benchmarked against control group, and separated from "environmental" risk factors

PERU Policy Evaluation & Research Unit
Typical Structure (Mulgan et al. 2010)

- **Funders** (e.g., private market, philanthropic)
- **Payer** (e.g., central government)
- **Lead Delivery Agency**
- **Sub-contractor** (e.g., NGO)
- Potential sub-contractor
EXAMPLE: THE HMP PETERBOROUGH SIB

- The Ministry of Justice signed a contract with Social Finance to attempt to reduce the reoffending of a cohort of 3,000 adult males who were discharged from HMP Peterborough having served custodial sentences of less than 12 months.
- Investors put £5m in an SIB to fund the rehabilitation work.
- Return of up to £8m from government and Big Lottery Fund if re-offending for specific cohorts falls by 10% or across whole target group falls by at least 7.5%.
- Originally, the period over which returns paid was 8 years, implying a maximum annualised rate of return of 13% (Social Finance 2011:3)
WHAT HAPPENED TO PETERBOROUGH SIB

- Originally 3 cohorts, but 3rd cancelled because of TR.

- Re-offending rate (measured by reconviction) compared to a control group of similar offenders released from other prisons.

- SIB paid out if reconviction for intervention group in one cohort is 10% lower for the control group or 7.5% lower across when the two cohorts are combined.
**Peterborough SIB - Outcomes**

<table>
<thead>
<tr>
<th>1st cohort</th>
<th>2nd cohort</th>
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<tbody>
<tr>
<td>- Independent evaluation found 8.39% reduction in reoffending</td>
<td>- Independent evaluation (Anders and Dorsett 2017) found reduction in reoffending of 9.7%.</td>
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<td>- Insufficient to trigger payment for the first cohort (Jolliffe and Hedderman 2014).</td>
<td>- Reduction across both cohorts was 9.0%, sufficient to trigger an outcome payment</td>
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<td>- Ministry of Justice (2014):</td>
<td></td>
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<td>- ‘This means that the provider is on track to achieve the 7.5% reduction target for the final payment based on an aggregate of both cohorts”.</td>
<td>- Investors received initial capital plus a return of just over 3% per annum for the period of investment (Social Finance 2017).</td>
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ALBERTSON ET AL (2018) REVIEW OF THE EVIDENCE

- Reports findings from a Rapid Evidence Assessment of empirical evaluations of 32 Social Impact Bonds (SIBs) and 35 Payment by Results (PbR) programmes commenced in the UK since 2010.
- A structured search of two academic databases and numerous websites associated with the programmes, their funders, investors and service providers
- Identified 811 papers which were screened.
- 46 papers were retained for full analysis including assessing their methodological rigour.
THE 46 PAPERS REVIEWED

- 30 relate to PbR programmes,
- 15 to SIBs
- One covers both a PbR programme and a SIB.
- Four papers published in peer reviewed journals
- Remainder are ‘grey literature’, most published by UK government departments.
- 37 papers are primarily implementation evaluations – mostly qualitative research.
- 8 papers include a quantitative impact evaluation covering five different programmes, one of which is a SIB.
ADDRESSING THEORETICAL AND IDEOLOGICAL CONCERNS

- We use the review to test the concepts of marketization, incentivisation, innovation and performance management drawn from the New Public Management literature.

- “SIBs shift financial risk of new interventions away from the public sector, towards investors, resulting in innovation and diversification of service provision.” (UK Cabinet Office)

Or . . .

- New Public Management: “deepening of capitalist disciplinary logics into the social fabric”. (Dowling and Harvie 2014: 869)
Markets

A number of PbR evaluations document how the introduction of PbR has made a significant impact upon a market.

- The evaluation of the Work Choice Specialist Disability Employment Programme identified significant changes to the structure of the specialist disability employment provider market.
- In contrast, the evaluation of the Work Programme found that, while there had also been significant change within the market, the market was not concentrated when compared to other markets such as the UK supermarket sector or the UK domestic gas and electricity market.
A few evaluations found mixed effects for PbR on the structure of markets.

- Evaluation of the Youth Contract reported that providers were not typical of those operating in education and would as a result, bring ‘new blood’.
- However, the evaluation also identified a concern that small organisations in the voluntary, community and social enterprise (VCSE) sector were squeezed out of the national model because they were unable to risk upfront investment.
- Suggestion that their exclusion had stifled innovation and the delivery of specialist support.
Incentives

In general, evaluations suggest that providers subject to outcome-based commissioning tend to be risk averse

- Evaluation of the Drugs and Alcohol Recovery PbR Pilot found that taking on increased risk had led to providers looking for bigger financial incentives
- Evaluation of the London Homelessness SIB identified that as a result of having to compensate for the transfer of risk:
  - “There is concern amongst providers and some investors that SIB investment models result in ‘leakage’ of funding away from provision through the payment of return on investment.” (DCLG 2014c: 95)
INCENTIVES

- A number of evaluations consider effect of incentives on organisational performance.
- Some SIB evaluations found that the financial model had driven positive behaviour.
  - The evaluation of SIBs funded under the DWP Innovation Fund found outcome-based commissioning was widely seen to have incentivised the achievement of outcomes with projects being highly dynamic and a 'continuous improvement' approach being incentivised.
- Most PbR evaluations found that incentives had little or no effect:
  - In the Supporting People PbR pilot, both commissioners and providers felt that PbR contract terms had potential to offer value for money. However, in terms of service delivery, most providers said they had not taken any particular steps to achieve value for money.
  - The evaluation of the Local Justice Reinvestment Pilot reported that there were insufficient incentives (the lack of upfront funding and lack of a penalty if the target was not met) for the sites to substantially change practice and invest in new initiatives.
INCENTIVES

- A few evaluations considered the possible effect of outcomes-based payment on the behaviour of individuals within provider organisations
- Most found little effect
  - Evaluation of PbR in Children’s Centres concluded that:
    - "There is some doubt about whether the managers and staff of children’s centres are motivated by financial rewards and would respond to the financial incentives inherent in PbR. Motivation is seen to be driven primarily by a desire to make a difference for children and families". (DfE 2014: 13)
  - Evaluation of the Work Programme found a close link between pay and participant outcomes was rare.
GAMING

- Parking and creaming
- Example: 4 hour waiting targets for hospitals in the UK
  - Hospitals buying more expensive trolleys, designated as beds so patients could be redefined as having been admitted as soon as they were placed on them.
  - Hospitals keeping patients in ambulances outside so that the four-hour target period did not start until patients were brought inside.

Payment by results - a 'dangerous idiocy' that makes staff tell lies

Management based on outcomes makes good people do the wrong thing - and those most in need get a much poorer service

Toby Lowe, Guardian 1st Feb 2013
Some programmes used differential pricing structures to incentivise providers to work with client groups that had more complex needs or that were harder to engage.

A number of evaluations of PbR and SIB programmes explicitly looked for evidence of gaming, but none found evidence that it was taking place.

- The evaluation of the Work Programme suggests that differential pricing had little impact in provider behaviour.
Only two evaluations made strong claims for extensive innovation within the programme they evaluated:

- The Troubled Families Programme encouraged innovation, and the desire to trial new ways of working.
  - Evaluation reported local authorities adopting more evidence-based approaches, experimenting with early interventions and new modes of delivery.
  - However, little evidence offered to demonstrate that innovations observed were the result specifically of the PbR element of the programme.
- The review of the Ways to Wellness SIB suggested that the intervention was truly innovative.

Some SIB evaluations found that while programmes tended to implement well-established, evidence-based interventions, there were sometimes elements of innovation around the mode of delivery.

- The evaluation of the London Homelessness SIB found that service delivered was not particularly innovative but the SIB framework allowed for some innovation in mode of delivery, particularly delivering more individualised solutions.
INNOVATION IN SERVICE DESIGN AND DELIVERY

- Several evaluations explored whether the ‘black box’ approach to commissioning led to innovation.
- Generally, they concluded that it did not.
  - Evaluation of the Work Choice Specialist Disability Employment Programme found that commissioners intended that a ‘black box’ model of commissioning would drive innovation, but providers felt that prescriptions about the amount and intensity of client contact constrained innovation.
  - The Work Programme evaluation found that:
    - "The black box model allows for a provider to innovate within the limits of the contract in order to test out new ways of working, however, there appeared to be limited evidence of innovation in service design and delivery at the prime provider or subcontractor level.”
Several evaluations, mostly of SIBs, report that one of the impacts of introducing a PbR framework was in financial innovation. For example:

- In the Health and Social Care SIBs evaluators found some service providers were highly motivated to take part in a SIB because SIBs were perceived to offer financial freedom from shorter grant-giving cycles and process-measure-driven contracts.
  - Specifically mentioned were SIB projects that focused on preventive interventions and allowed time for interventions to become established.
- Providers reported new investment associated with participation in Work Choice PbR contracts typically focussed on the infrastructure to allow providers to operate the programme effectively including ICT, premises and new staff/staff training.
- Evaluation found that the service created by the Peterborough SIB was perceived to be more flexible and agile than other interventions, allowing for new providers to be commissioned and new ways of working to be implemented throughout the pilot.
Performance Management

- Many evaluations identify a greater focus on performance management as a result of outcomes-based commissioning.
- On balance, more evaluations identified positive effects associated with this increased focus than negative effects.
- SIB evaluations tended to report the most unequivocally positive effects associated with performance
  - The evaluation of the DWP Innovation Fund noted that the amount of data required and the intensity of performance monitoring needed to successfully manage a 100 percent outcome funded project came as something of a 'culture shock' to many deliverers, but also led to direct and ‘hands-on’ involvement in projects from social investors in the areas of performance management, client tracking, and outcomes-profiling systems.
- Some PbR evaluations also identified predominantly positive effects arising from a greater emphasis on performance management
  - The Evaluation of the Troubled Families Programme found that, while the financial framework presented many challenges to local teams this approach was instrumental in raising the quality and capacity of local data management systems.
LESSONS FOR POLICY/PRACTICE
OVERALL

- There is some evidence that PbR and SIBs in the UK have encouraged organisational behaviour change although debate continues about whether behaviour change has always been positive, particularly within PbR programmes.
- Concerns about PbR contracts leading to gaming do not generally seem to have materialised.
- There is evidence that PbR contracts can lead to a re-shaping of markets depending upon the scale of the contracts and the intentions of the commissioners.
- Neither PbR nor SIB programmes in the UK have been strongly associated with innovation in service design.
- Many of the studies reviewed suggest that PbR and SIBs are associated with a greater focus on performance management.
PAYMENT BY RESULTS

- PbR has place in the provision of services
- Transference of risk is attractive to government.
- PbR might be attractive to commissioners where
  - client group is fairly large and homogenous
  - service provision is highly integrated
  - measurement of outcomes is straightforward
  - fiscal return on achievement of outcomes is easy to establish

- Based primarily on the UK experience, a provisional assessment of whether PbR is an efficient way to unlock new capital investment and advance social goods is that the evidence base is not yet sufficiently developed to answer this question and that what evidence there is to date is inconclusive.
SIBs provide opportunities to unlock new capital investment and advance social goods over and above other models of PbR.

The potential to bring in additional, external investment replacing the need for the commissioner or service provider to provide up-front working capital opens up new opportunities for innovation both in the interventions that are implemented and the collaborations between organisations delivering them.

The introduction of social investors together with the potential for SIBs to address misaligned incentives in current service delivery and fund new preventative services that can save costs down-stream raises the prospect of real advances in tackling complex and entrenched social needs.

But, to date, their development has been slow and relatively complex and the evidence-base for their effectiveness is limited.
Any Questions?