

**Payment by results for troubled families**  
**Report on the feasibility and design stage**  
**June 2012**

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## **1. Management summary**

### **1.1 Introduction**

In September 2011 the Social Investment and Finance team within the Cabinet Office (CO) initiated an innovative and exciting project to explore the potential to use payment by results (PBR) and Social Impact Bonds (SIBs) to address the issues faced by troubled families. This report describes the outcome of the design phase of this project which ran until April 2012.

Working with four pilot local authorities (LAs), the primary objective of the project was to support the LAs in putting in place PBR agreements using SIBs or similar investment arrangements in relation to their troubled families. A secondary objective was to test the applicability of PBR /SIBs to complex areas such as families, and learn lessons which could be applied more widely.

### **1.2 Development of PBR for families**

Each of the LAs which took part in the project (Westminster City Council, Birmingham City Council, Leicestershire County Council and the London Borough of Hammersmith and Fulham) have developed outline propositions following feasibility studies to assess whether there is a business case for a PBR approach to troubled families. These propositions fall broadly into two categories:

- relatively narrow propositions, which are based on improved outcomes for families and children in a single area that can be relatively easily measured and where the cost savings that will accrue to the Council are substantial. Both Birmingham City Council and Leicestershire County Council have developed propositions of this type, relating to reducing the risk of children entering care; and reducing the number of out-of County placements of children with special educational needs respectively. These narrow propositions rely mainly on savings which accrue directly to the LA as commissioner, and are in areas where it is easier to decommission or prevent the growth of current services – thereby ensuring that savings are “cashable”; and
- more broadly based propositions which envisage commissioning a range of outcomes that address a much wider range of problems faced by troubled families under a “whole family” approach. Such propositions are being considered by Leicestershire County Council; and by Westminster City Council and the London Borough of Hammersmith and Fulham, which are considering whether to commission services together under the tri-borough initiative through which these two LAs (along with the Royal Borough of Kensington and Chelsea) are working more closely together and have integrated their Children’s Services.

These whole family approaches are much more difficult to make work, and the key lessons we have learnt, in line with the second objective of the project, relate to the challenge of commissioning PBR for multiple, overlapping outcomes of this kind. We summarise our findings and recommendations in this area in section 1.3 below.

The development of the PBR propositions has required intensive work with the pilot LAs, to whom we are grateful for their commitment and support.

We have described in detail in section 3 of this report, how joint LA, CO and A4e Insight project teams assessed the financial case for PBR within each LA and for a number of different propositions, while section 4 discusses in detail the complex issues we have identified and tackled in relation to commissioning services for families on a PBR basis.

Each of the pilot LAs is now thinking carefully about how it might commission interventions on a PBR basis, taking account not only of these issues but also of a number of other considerations, notably:

- how services commissioned externally would interact with existing and planned in-house services;
- how each LA engages the market in a way which maximises competition and provides best value for money; and
- how it makes best use of the resources now available from CLG's Troubled Families Programme, as well as and alongside changes to its own services and external commissioning under PBR.

We have again commented on these issues and challenges, and how they might be addressed, in section 4 of this report.

### 1.3 Lessons for the future

While this project is still in progress, we have already identified a number of issues and challenges, and sought solutions that may be of wider interest. Our recommendations on these issues fall into two parts: those relating to the process of developing a PBR proposition and business case, and those which have wider relevance to the development of PBR, especially in relation to complex and overlapping outcomes and interventions.

With regard to process, **we recommend:**

- **steps to make it easier for LAs and other agencies to share data.** While personal data must be safeguarded, the cultural and legislative barriers to data sharing are a severe impediment to the analysis needed to tackle complex and overlapping problems such as those faced by troubled families. The ideal solution would be to adopt a general presumption in favour of personal data-sharing between public agencies, but a more practicable alternative may be to look for specific areas where data sharing protocols might be relaxed if a strong case could be made for it (subject to appropriate safeguards) to enable service reform.
- **the collection and sharing of better information on service costs.** The joint project teams found it difficult to identify the costs associated with negative outcomes for families, and the potential savings if outcomes improved. Costs relating to outcomes are not generally collected in easily useable ways, and it is costly and time-consuming to collect such data on an ad hoc basis (such as for this project). We recommend that further guidance be provided to LAs on how best to collect outcome-related cost data, and that we develop a national register of actual savings achieved through improved outcomes, building on work already started by Manchester City Council. In the medium term, we should consider requiring LAs and other agencies to collect and publish data on service and outcome costs in the form of standardised management accounts so that

agencies both have greater awareness of their own costs and are quickly able to understand the costs which others are incurring.

- **better information and guidance on the principles of PBR and social investment.** The way that PBR works, especially if supported by social investment, is not widely or well understood. We recommend that government and others do more to explain how PBR works to a wider audience across the public sector and within local government. This will make it easier to move PBR forward, broaden the base of people who understand it well, and hopefully build interest in the use of PBR and SIB-type approaches.
- **the development of a stronger evidence base on the effectiveness of interventions.** The evidence for the effectiveness of intervention in areas such as families is weaker than in other areas where programmes have been in place for many years (such as employability) or data on outcomes is collected more systematically (such as criminal justice). Where detailed information on effectiveness is collected, it may not be widely disseminated or publicly available. This makes it harder to attract investment into such programmes. We recommend that the public sector and external service providers (both private and third sector) start to compile better and more consistent data on outcomes through the collection of a standard data set relating to key social outcomes, across all PBR and other programmes which are funded or sponsored by central government. This will enable the build up, over time, of a much stronger evidence base of both primary and secondary outcomes, which in turn can be used to inform investment cases.
- **the review of local authority accounting rules relating to PBR.** Under current accounting guidance from the Chartered Institute of Public Finance and Accounting (CIPFA) with regard to accruals and resource accounting, there is a risk that LA commissioners may be required to start accruing for the cost of services under PBR/SIB contracts as soon as those services start. We recommend that CIPFA and government review current guidance and determine whether some or all PBR schemes require different treatment.

With regard to the longer term development of PBR and SIB-type arrangements, this project has highlighted the additional challenges which are encountered when aiming to apply PBR or develop SIB-type models in relation to complex, overlapping outcomes and interventions such as are required to turn round troubled families. PBR for families, and similarly complex services, requires:

- the specification and measurement of each outcome the LA wishes to commission;
- payment linked to more than one outcome;
- detailed knowledge of the problems which each family within the cohort faces, and how they relate to the outcomes that are being commissioned; and
- more complex mechanisms for measuring whether outcomes achieved are good value for money and achieve “additionality”, with minimum dead weight compared to what would have happened without PBR (the counter-factual).

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In light of these issues, we believe that a different approach will be needed, compared to PBR for single outcomes, in a number of areas. In particular **we recommend** that:

- **the specification and measurement of the outcomes required needs to be kept as simple as possible**, so as to keep manageable the outcome risk to providers and investors. This may require the specification of a single or low number of outcomes alongside a “basket” of outcomes which link more loosely to payment (or are not included in the payment tariff);
- **the cohort for whom interventions will be commissioned should be pre-selected**. The need for precise information on the characteristics of the cohort and the outcomes that need to be achieved, means that the cohort will need to be pre-selected, with the extent and severity of problems being assessed on entry to the programme;
- **impact and additionality should be measured against an historic or predicted baseline**, at least in the short term. Since impact will have to be measured across a number of potentially quite different outcomes, it is more difficult to measure impact against a physical control group. The use of a synthetic control approach, using techniques such as propensity score matching is possible in the medium to longer term once better data is available on troubled families from which a comparison group could be constructed. In the short term, however, the lack of such data means that baselining methods, possibly linked to assessment on programme entry in order to identify the characteristics of families, will probably have to be adopted; and
- **third parties who benefit from improved outcomes under PBR programmes must contribute to the payments made for interventions**. While there are some examples of third party agencies contributing willingly to programmes which have wider benefit, this project has encountered the same challenge of persuading agencies that they should contribute to programmes which benefit them but are commissioned by others. Provided the evidence of benefit to them is clear, government should consider how third parties could be much more strongly encouraged to make contributions in these circumstances.

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## **2. Introduction**

### **2.1 The project**

This report describes the outcome of a project to explore the potential to use payment by results (PBR) and Social Impact Bonds (SIBs) to address the issues faced by troubled families. This report provides an account of the first and most substantial stage of the project, covering the assessment of the feasibility of using PBR and the design of possible PBR agreements.

The project was initiated by the Social Investment and Finance team within the Cabinet Office (CO) and was carried out by a joint team from the Cabinet Office and A4e Insight, working closely with four local authorities (LAs) in England chosen by the Cabinet Office to take part in the project. These four LAs were Birmingham City Council (BCC), Leicestershire County Council (LCC), the London Borough of Hammersmith and Fulham (LBHF) and Westminster City Council (WCC).

This report has been prepared by A4e Insight, who was engaged as consultants to provide technical support to the project in late August 2011, with input from the Cabinet Office team and the participating local authorities (LAs). Our thanks are due to all those who have contributed to this report and to the project as a whole, which has required significant commitment of time and resources by a large number of people.

### **2.2 Purpose of this report**

The purpose of this report is to:

- document how the project was carried out and the work that was done;
- describe our key findings;
- highlight the key issues which were explored in the course of the project around the application of PBR to complex social outcomes; and
- identify key learning points for the future as regards the use of PBR for family intervention or similarly complex areas.

### **2.3 Approach**

The project was carried out by a joint team from the Cabinet Office and A4e Insight working closely with the four pilot LAs, and reporting to a Steering Group led by the No 10 Policy Unit.

Further details of the project governance and structure, and the approach to the feasibility and design stage, are provided in Appendix A.

### **2.4 Report structure**

The rest of this report is structured as follows:

- Section 3 describes the outcome of the feasibility stage of the project, which focused on financial analysis of the costs and benefits of family intervention, and whether these demonstrated a business case for PBR;



- Section 4 provides detailed discussion of the key design issues which were addressed as part of the project, such as the definition and measurement of outcomes; and
- Section 5 summarises key learning points that might be of wider relevance to future projects.

## 2.5 Terminology

It should be noted that the following generic terms have been used throughout this report and have the meanings explained below:

- “Troubled families” has been used as a catch-all term to refer to the families which this project intended should be the recipients of services and interventions procured using PBR. It should be taken to include alternative terms such as “problem families” and “families with complex needs” and to include significant variations in definition adopted by the participating LAs. The Troubled Families Unit (TFU) within the Department for Communities and Local Government (DCLG) provide a useful description of a typical troubled family as *“one that has serious problems - including parents not working, mental health problems, and children not in school - and causes serious problems, such as crime and anti-social behaviour. All of which costs local services a lot of time and money routinely responding to these problems”*.
- “Family intervention” means any intervention (or series of interventions) which is focused on troubled families and designed to improve outcomes. It is not intended to refer solely to family intervention projects (FIPs) or imply any preference for one type of intervention over another – for example alternatives to FIPs such as Multisystemic Therapy (MST).
- “Payment by Results” or PBR refers to any agreement where services are commissioned from a third party on the basis of the outcomes they achieve and payment is conditional – in whole or in part – on the achievement of those outcomes. The use of the term in this report does not imply a preference for any particular form of PBR since there are many variants which might be applied in practice. The fundamental point is that there must be a commissioning process – that is the outcomes must be commissioned from an independent entity that does not form part of the commissioning body.
- “Social Impact Bond” or SIB has been used as a generic term to refer to any arrangement whereby social or other investment is used to provide working capital for a PBR arrangement. A SIB is one way of providing such working capital through a specific type of financial instrument which was devised by Social Finance. We have found that many policy makers and practitioners are using SIB as a generic term and we have adopted the same convention to avoid unnecessary elaboration. However we believe that it is important to this project - and to the development of PBR and the social investment market – that other models and forms of investment are recognised and understood, and that the commissioning of PBR does not unnecessarily skew the market in favour of one contracting and investment model over another. We have discussed this question in detail in section 4.6 of this report.

### 3. Feasibility and cost benefit analysis

#### 3.1 Introduction

This section describes in detail the work we did with all of the four LAs to assess the feasibility of PBR and SIBs for family intervention. It:

- describes the theoretical framework which lay behind our financial modelling;
- describes the methodology which we used to complete the modelling;
- outlines the key findings from the modelling; and
- summarises the findings from the survey of providers and investors which was undertaken during the feasibility stage.

#### 3.2 The theoretical framework

##### 3.2.1 The principles of PBR and SIBs

In order to understand the way we modelled the business case it is important to understand the basic principles that lie behind the PBR/SIB approach. At the start of the project we found that these principles were well understood by some of those with whom we were working but others needed much more explanation of what are, in many respects, still relatively new concepts. It is therefore worth briefly rehearsing these principles here.

The general principle of PBR is that government and the wider public sector commissions services on the basis that all, or a substantial part, of the payment for those services is withheld unless and until specific outcomes have been achieved.

In its simplest form, PBR can be used solely as a way of transferring risk to, and incentivising good performance from external providers, and giving added assurance that the required (high) level of performance is more likely to be achieved than by traditional input-based or output-based commissioning.

However PBR is now being increasingly widely used to facilitate and underpin the use of an “invest to save” approach, under which the outcomes achieved through PBR reduce the costs incurred by the commissioner and the wider public sector. This means that the savings achieved can be used to fund the outcome payments made. This principle lies behind the Work Programme (where savings from improved employment outcomes fund payments to providers), and the SIB approach (where savings underpin payments made to investors, via a financial intermediary).

However, before a commissioner can use PBR in this way it needs to know that:

- the reductions in cost achieved will exceed the cost of payments made to investors or providers. If this is not the case, the interventions will not be self-financing, and may not be value for money; and
- it will have the funds available to make the payments for outcomes when they are achieved. Importantly, if the commissioner intends such funding to come wholly or partly from the cost reductions achieved by those outcomes, the cost reductions need to be capable of being realised as “cashable” savings.

It is important to distinguish these two conditions: a cost reduction does not have to be cashable if the commissioner simply wants to procure interventions which will improve value for money; they do have to be cashable if those cost reductions are needed to fund the payments.

A further complication arises when the beneficiary of the saving is not the commissioner who has to make the payments - for example if a local hospital benefits from improved health outcomes - and these savings are needed in order to make payments. In this case, one needs not only to know that a cashable saving is achieved but also to persuade a third party to recognise that fact and make a contribution to the outcomes payments.

### 3.2.2 The theory behind the financial model

In order to test the principles outlined above we developed a financial model that would enable us to calculate the extent to which savings might be achieved, the beneficiaries of those savings, and the extent to which they might be cashable. Although the basic principles set out above are simple enough, the complexities of family intervention mean that significant amounts of data were needed in order to develop the business cases, and the financial modelling had to be relatively sophisticated. The main reasons for this are that:

- troubled families face, and cause, a wide range of problems. The costs which they currently incur fall in a wide range of categories, and there are potentially many outcomes which could be impacted by intervention;
- problems are not experienced by all families or to the same degree, and therefore the costs which they currently incur (and the savings which could be achieved if their problems were successfully addressed) vary widely from family to family; and
- the types of costs incurred and their scale also vary widely, from one-off costs to costs which recur over a long period of time.

In light of these complexities, the following information was required in order to complete the modelling and develop the business cases:

- the size of the cohort: how many troubled families might be addressed by interventions commissioned through PBR;
- outcomes: what are the outcomes that could be changed from negative to positive by successful intervention;
- costs: what are the current costs associated with the negative outcomes prior to intervention (including whether they are one off or recurring costs and if the latter over what period are they incurred);
- prevalence: which families (or family members) are currently experiencing each negative outcome;
- impact: to what extent will negative outcomes become positive ones as a result of intervention (i.e. what proportion of the families experiencing the negative outcome see outcomes improve);
- cashability: how much of the cost reduction achieved by improved outcomes is cashable; and
- split of beneficiary: which agency benefits from the reductions in cost, irrespective of cashability.

The methodology used to compile information and data in each of these categories is described further below.

### **3.3 Methodology**

During this stage of the project we developed both a sophisticated financial model and a data input sheet which was used as a checklist for the data needed to support this process and populate the model.

A number of process issues and challenges were encountered during the data collection phase. These are discussed further in section 5 of this report, along with recommendations for the future.

#### **3.3.1 Cohort**

We relied mainly on the LAs' existing analysis of troubled families in order to determine the potential cohort that might be addressed through PBR or SIBs. In view of their previous involvement in the Community Budget pilot (which has itself had a focus on families) all the LAs had some existing data on their troubled families or were in the process of completing it. The quality and depth of this analysis varied, however, and further data gathering and analysis was required in some cases. Where appropriate, we also drew on LA data on existing family intervention projects, such as FIPs in two of the Districts in Leicestershire, and the Family Recovery Programme (FRP) in WCC.

#### **3.3.2 Outcomes**

With the exception of the total cohort, all other data was collected by reference to identified outcomes. The starting point for this was an agreed list of key outcomes which are common to most forms of family intervention (although not all family intervention is aimed at all outcomes). We identified six main groups of outcome which might be impacted by family intervention commissioned under PBR, which were:

- children: the risk of harm to children within the family is significantly reduced. This area focuses in particular on the risk of children being looked after (taken into care) by the LA, and the potential for children already in care safely to return home;
- crime and anti-social behaviour: the behaviour of the family members is significantly improved, as measured by such outcomes as reduced offences, anti-social behaviour and fewer police call outs;
- education: the educational performance of children within the family unit is improved, and in particular there is improved school attendance and fewer exclusions from school;
- housing: the family is in stable housing and is not a nuisance to its neighbours or the wider community, as measured by such outcomes as reduced risk of eviction, fewer noise abatement actions, etc;
- health: the physical and mental health of the family is improved; and
- employment: the family members are in sustainable employment, education or training and family finances are stable.

Below these agreed, high-level outcomes there was substantial divergence within each authority as to the more detailed subsidiary outcomes that they wished to include, based on their own existing policies and practices, the outcomes they viewed to be most important, and the extent to which significant costs were attached to them. In addition and as the project progressed, subsidiary outcomes were added and others dropped according to the view of practitioners on their suitability and, in some cases, the simple practicability of collecting appropriate data.

It is important to note that although these outcomes formed the basis of data collection, it was not at this stage envisaged that all these outcomes would necessarily be reflected in an eventual PBR agreement. There are limits to how many outcomes can be sensibly commissioned in any PBR agreement at the same time, and a key consideration (among others) in selecting appropriate outcomes would be the extent to which they lead to significant reductions in costs.

The challenges of selecting appropriate multiple outcomes for family intervention is addressed further in section 5.2 of this report.

### 3.3.3 Costs

Significant time and effort was expended by the project teams and others within each LA to collect data on current costs. We adopted a number of general principles relating to the collection of costs which were to:

- use local data wherever possible, since this would clearly relate most directly to the actual costs incurred by the authority;
- use national data from recognised government sources (e.g. the NHS tariff for hospital costs and the Home Office cost of crime data) where local data was unavailable or could not be obtained; and
- include only costs and benefits (actual and potential) accruing directly to local authorities and public sector partners. This meant, for example, that the costs of crime to the insurance industry were excluded. We also excluded all subjective “social” costs which are sometimes included in calculations of social return on investment using techniques such as “contingent valuation”.

Our modelling also allowed for any additional costs resulting from an improved outcome to be taken into account as well as any savings. For example, we assumed that the saving achieved by a child no longer being subject to a Child Protection Plan, would be offset by a lower cost as a result of them being “in need” and therefore still subject to Children’s Services’ supervision.

As discussed further in section 5.2 below, data on costs is not routinely collected by LAs in the form needed for this project and the collection of data related to outcomes was often challenging. Cost data is both easiest to collect and most accurate in areas subject to external contracts (e.g. spot contracts for the provision for residential or foster care, usually on a weekly basis) but in other areas we had to use such techniques as allocating staff time to specific activities to derive unit costs.

In order to get a complete picture of current costs we also collected information on how often or for how long the negative outcome occurs. This data typically took one of three forms:

- a one-off event (e.g. a housing eviction);
- a recurring event for which a frequency can be calculated and assigned to the outcome (e.g. the number of crimes committed over a given period); or
- a time-limited event, in which case the duration needs to be calculated (e.g. the average number of weeks a child spends in residential care).

### 3.3.4 Prevalence

A major complexity of family intervention and its impact is that not all families exhibit the same negative outcomes – indeed there is no single definition of which negative outcomes constitute a troubled family. This is a major difference between families and other areas where PBR has been attempted, where programmes tend on the whole to address problems that are prevalent within the entire cohort – e.g. all those entering the Work Programme are unemployed, all those entering the Peterborough SIB pilot are ex-offenders.

It is therefore critical to know how many families (or family members) are currently exhibiting the outcomes and hence incurring the costs. In addition, and since the point of family intervention is often preventative, it is in some areas important to know both how many families or family members are currently incurring the costs (e.g. a child is in care) and how many are at risk of incurring the costs (e.g. a child is at risk of being taken into care). This will affect both the timing of any saving (since the ending of a current outcome will usually happen more quickly than the avoidance of a future one) and also the potential for cashable savings (since a future avoided cost is less cashable than a current cost reduction – see section 3.3.6).

The ease with which we were able to collect this data was in part dependent on the extent to which the LAs had good information on their troubled families' cohort, and had collected data according to the right outcomes. However we were able to get reasonably good data for all the families based on a combination of:

- local analysis of families (using both the LA's own and other data sources);
- historic data on families entering existing programmes; and
- national data on the problems experienced by troubled families – in particular the latest research by the National Centre for Social Research (NatCen) for the Department for Education (DfE) on family intervention projects. This contains useful data on the prevalence of issues faced by more than 12,000 families when entering family intervention.

### 3.3.5 Impact

Data on the potential impact of intervention came from three main sources:

- local data where available, especially from existing family intervention projects;
- the NatCen research for DfE already referred to above; and
- an analysis of other published research in respect of interventions such as Multisystemic Therapy.

The data available from both local and national sources shows wide variation in the effectiveness of intervention against various outcomes and the effect of different assumptions about impact on costs and savings is a key variable that we sought to reflect in our modelling.

### 3.3.6 Cashability

Provided that the prevalence and impact of intervention is known for each outcome, our financial model allows a calculation of the gross cost reduction. However, many of these gross cost savings cannot always or easily be converted into an actual “cashable” savings. As already discussed above, the ability to cash savings is critical if the commissioner expects to fund payments under PBR from those savings.

Factors which affect the level of cashability include such issues as:

- whether the saving reduces current costs (through an immediate drop in service demand) or avoids future costs (by preventing or reducing future demand). For example, interventions which reduce the number of children going into care will avoid cost if they enable the LA to avoid the need to invest in additional capacity. However interventions which enable children currently in care safely to return home, will reduce current costs;
- whether costs are fixed (e.g. a fixed contract for services, or the costs of a fixed asset such as accommodation) or variable (e.g. spot purchased services, or legal fees paid to third parties). For the most part, it is easier to reduce variable costs than fixed ones, although in theory any fixed cost can be reduced if demand reaches sufficient scale;
- whether a service is provided in-house or contracted out. In general, a contracted service can be more directly reduced since it is likely that there will be clauses in the contract allowing for variations in volume. However the threshold at which such changes apply, and other conditions within the contract, may limit both the scope of cashability and its timing, even for contracted services;
- whether a service comprises all or parts of in-house staff. There are obvious challenges in achieving any reduction in the cost of a service which comprises estimates of time from a number of individuals, rather than whole units of staff and other resources. However reductions in staff are themselves hard to achieve, not only because of the obvious challenges of reducing staff but also any such savings, even if achievable, will be eroded by the costs of their achievement (unless they can be achieved by natural wastage);

- the degree of “backfill” and the extent to which it can be controlled. For example, reduced need for health services among a certain population of families may be ‘backfilled’ by previously unmet demand from elsewhere; and
- the political acceptability of decommissioning services.

Our assessment of cashability has relied largely on the judgement of the respective LAs and, where appropriate, partners. We have commented further in section 4.4 on the challenges of achieving cashability and developing strategies to achieving cost realisation, but in general assessments of cashability have been cautious. In particular there has been a strong presumption that reductions in services which mainly comprise in-house staff are near impossible to achieve, and that backfill will always apply in some services, notably health and police.

### **3.3.7 Split of beneficiaries**

In our modelling we also made estimates of the extent to which the LA or others would benefit from any cost reductions (both cashable and non-cashable). In many cases the cost reductions are wholly attributable to one party and the attribution of benefits was obvious. In others it required local judgement, especially where the benefit was divided between partners.

### **3.3.8 Due diligence of initial analysis**

Finally, we would note that time constraints and the challenges of collecting data meant that the business cases were developed in two stages. Initial works was completed, and outline business cases developed, in October – December 2011. There was then a subsequent period of data refinement and further analysis in January – March 2012. In some cases this process significantly changed our initial conclusions about the extent and source of cost reductions

## **3.4 Key findings**

We have not in this report set out in full our findings as to the viability of the business cases for family intervention in each of the four LAs, or included the detailed modelling and business case calculations which have been made available to the participating local authorities.

However a number of key themes emerged from the business cases which are worth recording here, as follows.

Significant reductions in costs (irrespective of cashability) were confined to relatively few outcomes. Significant reductions were confined mainly to reducing the incidence or duration of children being in care; reducing offending and anti-social behaviour; and reducing worklessness.

There were a number of reasons why savings related to other key outcomes were lower than might have been expected, including:

- relatively low prevalence. In some areas, the costs of negative outcomes are potentially high but volumes are low. For example, there are often major costs associated with



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permanent exclusion from school, but in some of the LAs permanent exclusions (across the area as a whole, and still less in relation to troubled families) are virtually unknown; and

- low outcome costs. In some areas the opposite was the case: there were identified savings but they were not substantial in per capita terms, so that even at significant volume the total savings were not substantial. Some aspects of physical health (e.g. reduced hospital admissions) fall into this category, although this was not the case in all areas.

When cashability is also taken into account, the main areas where both high potential for cashability and cost reduction were evident were mainly in outcomes relating to children in care and worklessness. In the former case this is because the costs of children being in care are mostly (but not entirely) variable and procured under spot contracts. In the latter case this is because the DWP and Treasury already recognise the direct cost savings that can be achieved in coming off out of work benefits.

In other areas (notably justice and health) we and the LAs have, as indicated above, taken a cautious view of the extent to which savings which accrue to the relevant parties would be cashable. Furthermore, the extraction of savings relating to employment outcomes would be problematic due to the problem of double counting with existing programmes, notably the Work Programme, DWP ESF for families, and (latterly) the Troubled Families Programme.

While one should be cautious about over-generalisation, since the situation of each of the pilot LAs is different, our overall conclusion is that although the costs associated with troubled families are undoubtedly significant, it is more challenging to identify more than a very few areas where savings are both substantial and cashable.

In the light of these findings, the local authorities have two main options:

- 1 to pursue a more narrowly based approach to PBR, focusing on the outcomes which achieve significant cashable savings, in particular in the children in care area. This is the approach which BCC have chosen to take. A similar approach is being taken by LCC, who are exploring whether PBR could be used to commission services and interventions which reduce the number of children placed out of county as a result of special educational needs; or
- 2 to continue to pursue a more broadly-based approach to commissioning of family intervention, which recognises that a limited range of outcomes will achieve the bulk of the savings required to underpin the commissioning model. Under such a model PBR could be used to part-fund the interventions, supported by funding from other sources. This model is also likely to require contributions from local partners. The possibility of partial PBR as part of a wider redesign of family intervention services is being pursued by both WCC (possibly in partnership with LBHF) and by LCC.

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### 3.5 Survey of providers and investors

During the feasibility stage of the project we also conducted a small survey and market review to gather views from a range of providers and investors on the broad propositions under development by the LAs. The purpose of this was to gauge their appetite for this market, the key risks they foresee in family opportunities, and the way they would like to see the opportunity put to market. It should be noted that some of those we surveyed should be viewed as both potential providers and investors, since under some contracting models (see section 4.6) providers would be self funding either from their own resources or by raising finance directly.

#### 3.5.1 Method

The survey was conducted through meetings and telephone interviews with ten organisations. The organisations and individuals whom we consulted were, in alphabetical order, as follows:

- Action for Children – David Derbyshire, Head of Performance Improvement and Consultancy;
- Bridges Ventures – Skye Heller, Associate;
- Catch 22 – Asi Panditharatna, Assistant Director, Business Development;
- Children’s Society – Orlando Arnold, Deputy Director Business Development;
- CRI – Chris Hill, Director of Finance and Kevin Crowley, Director of Operations;
- Family Action – Jane Stokes, Director of Business Development and Robyn Wilford, Organisation Development Manager;
- The Prince’s Trust – Caroline Taunt, Head of Fundraising (Prime Contractors);
- Shelter – Joanne Marks, Head of Strategy and Development;
- Social Finance – Lisa Barclay, Director; and
- Turning Point– Barry Roberts, Director of Innovation and Sales.

#### 3.5.2 Summary of findings

**Positive feedback** from the survey included the following.

A number of suppliers expressed strong interest in bidding for families PBR contracts and could demonstrate a track record in successful delivery of family intervention.

Some larger providers such as Catch 22 and Turning Point had previous experience of PBR and believed they could fund PBR from their own capital, or by raising new direct capital from investors. They would therefore be able to contract under a prime/sub-contractor model (see section 4.6.2), and there would be no need for a separate SIB or investing entity as a party to the contract.

Financial intermediaries for investors (of whom we interviewed two, Social Finance and Bridges Ventures) are willing to consider both direct involvement as service managers and being providers or raisers of social capital. This is an important point since Social Finance is perceived as being wedded to the SIB model, which it helped devise. However it made clear that this was not the case and that it could be involved simply as a raiser of social finance on

behalf of others who might not be able to find investors easily. Bridges Ventures does not normally act as a financial intermediary, but could provide social finance or “soft” loans direct to providers. Both of these intermediaries emphasised the importance of keeping options open so as not to preclude such models or variants on them (an issue which we discuss in section 4.6 below).

Both these intermediaries (and some providers) thought there would be considerable investor interest in the families’ area as one where the social outcomes are worthwhile. This is important because social investment will be more easily attracted if the investors see such value in the outcomes irrespective of financial return.

**Areas of concern** included the following.

Both providers and investment intermediaries thought that the hard and long-term evidence for the effectiveness of family intervention is weak and may deter investors and/or require much higher returns to compensate for high levels of risk. Some respondents mentioned specific interventions such as Multisystemic Therapy which might be preferred by investors because they are believed to offer stronger evidence of success. However, prescribing specific interventions in order to meet investor concerns about risk would cut across the principles of outcome – based commissioning.

Several respondents were concerned about the complexity of family intervention and the problems it aims to address, and the implications this has for the specification of outcomes. It was pointed out that previous PBR schemes had relied on single measure of outcome, albeit with several layers of additional complexity. The Work Programme essentially measures whether an individual ceases to claim benefit as a proxy for gaining employment, while the Peterborough SIB aims to reduce offending but actually measures reconviction as a measurable proxy for offending. There is no measure which could be devised as a similar single proxy for the success of family intervention, substantially increasing the complexity of any PBR scheme and its measurement. To counter this, respondents suggested that the outcomes specified in contracts needed to be kept as simple as possible and restricted to no more than two to three separate measures of success at most.

There was also concern about the possibility of such complexity leading to multiple parties being involved in commissioning and contributing to payments. Contracts would therefore need to make clear how multiple beneficiaries will contribute to commissioning and payment.

Some suppliers (and investors) were concerned about the use of PBR encouraging entry to the market by private sector providers who have operational and financial strength but a poor cultural understanding of the complex challenges of family delivery. Such entrants might discredit the market and might also squeeze out smaller providers.

### **3.5.3 Subsequent feedback**

During the design phase of the project we held a one day conference with providers and investors from which we gained further feedback. The outcome of this event is described in section 4 below.

## 4. Design and commissioning of PBR

### 4.1 Introduction

This section describes the development work we have done in a number of areas relating to the design of PBR agreements and commissioning of outcomes that will have to be addressed, in addition to the financial case, if PBR is to be made to work in the complex area of family intervention. It should be noted that:

- not all this thinking is new, and we drew, where appropriate, on the experience of others, especially in central government. However in a number of areas we have had to move the debate forward since, for reasons we have already touched on in the previous sections, family intervention is inherently more complex than other areas where PBR is under consideration. It is therefore useful, we believe, to record this thinking as support to further development both in the families area and elsewhere; and
- we have not reached definitive conclusions in all the areas we have considered, and would not argue that such definitive answers necessarily exist (since different approaches to some of the issues touched on here may be appropriate in different circumstances).

The issues discussed below are:

- the definition of appropriate outcome measures;
- measurement of the impact of intervention and “additionality”;
- strategies to realise and cash savings;
- different service models that might be commissioned and their links to existing family services;
- different contracting models that might be used to encourage competition and ensure a level playing field between different models of delivery and investment; and
- consultation with providers and investors on PBR proposals.

This section also comments on the impact on PBR for families of the recently announced Troubled Families Programme.

### 4.2 Outcome measures

#### 4.2.1 Overview

As already touched on in previous sections, the definition of outcome measures to underpin PBR for troubled families is challenging because:

- there is no single outcome which, if achieved, would solve such families' problems. The range of problems which troubled families face varies widely in both nature and severity, and a range of outcomes thus need to be improved to address them; and
- similarly, many of the outcomes which might be commissioned in relation to families do not have easily auditable proxy measures.

In this respect family intervention differs from existing PBR and SIB programmes in government. In the employability area, the Work Programme, notwithstanding its

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undoubted complexities, relies at its most basic level on a single outcome (in work) and an independently auditable proxy measure (off work-related benefits). In relation to the existing Peterborough SIB (and other PBR in the justice area) there is a well recognised single outcome (reduced offending) – albeit that measures of severity, frequency, etc. may also be appropriate – and a recognised and readily auditable proxy measure (reduced convictions).

In developing outcome measures which might be appropriate for family intervention we considered existing measures, such as those used by NatCen to evaluate FIPs, and sought the views of practitioners on our team and in the pilot LAs. In doing so we focused on identifying measures which would meet the broad aims of PBR, including that:

- the outcomes can be measured or reliably proxied;
- the outcomes align with the commissioner's social aims;
- the outcomes result in significant cost reductions of which all (or a high proportion) are cashable;
- the time frame for realising cashable benefits from the outcomes is relatively short, allowing a payment stream and investment horizon that is likely to be acceptable to providers and investors; and
- the outcomes are likely to be susceptible to Interventions with a proven record of improvement.

As we have already explained in section 4, this analysis led to the identification of potential outcomes in six key areas, namely:

- children: the risk of harm to children within the family is significantly reduced;
- crime and anti-social behaviour: the behaviour of the family members is significantly improved;
- education: the educational performance of children within the family unit is improved;
- housing: the family is in stable housing and is not a nuisance to its neighbours or the wider community;
- health: the physical and mental health of the family is improved; and
- employment: the family members are in sustainable employment, education or training and family finances are stable.

We then worked with the LAs to derive subsidiary outcomes and potential proxy measures that could be used both to drive the analysis of costs and benefits and ultimately form the foundation of outcomes and measures that could be specified in contract terms.

This process has raised a number of key issues, including the following:

- is there a consistent set of outcome measures that could be applied to family intervention?
- is there a maximum number of outcome measures that can sensibly be specified? and
- how does multiple outcome specification affect the selection of the cohort?

We discuss these issues further below.

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#### 4.2.2 Is there a consistent set of outcome measures for family intervention?

In deriving specific outcome measures that each LA might want to use we found significant variance in some areas as to what measures might be appropriate. This was particularly the case in the areas of anti-social behaviour, housing and noise nuisance, and physical and mental health. There are a number of reasons for this, including that:

- LAs and their service teams have a number of means at their disposal when addressing problems such as anti-social behaviour, so that what one deems an appropriate outcome would not be useful for another; and
- the data which is available and collected by LAs varies, so that a measure one LA might think practical and capable of being collected, would not be suitable for another; and
- there is a tendency to focus on the outcomes which generate substantial, potentially cashable savings even though they may not be the most appropriate outcomes for family intervention.

In addition, it proved difficult to find any useable measures in some areas, even though they were known to be ones where troubled families experience problems. Examples include:

- the number of police call-outs relating to families. Data on police call outs is collated across each LA area and according to the reason for the call-out, but is very difficult to match to specific families; and
- the improvement of the mental health of family members. This is again a widely recognised problem for troubled families but finding suitable measures of improved outcome is difficult. There is evidence that family intervention significantly improves the well-being of family members, but this is largely based on subjective self-assessment by family members and therefore unsuitable for PBR. Where mental health problems become more severe, the HoNOS (Health of the Nation Outcome Scales) score, is a widely accepted measure of mental illness, but is complex and requires measurement across a number of dimensions, making it impractical for use in a PBR context.

The lack of a consistent view of suitable outcome measures in some areas does not of course prevent LAs developing PBR at a local level that reflects their requirements and preferences. It does however:

- increase the risk of commissioners choosing outcomes which do not match their wider social objectives, simply because they are available and measurable, and/or achieve significant savings; and
- make it more difficult to develop PBR for family intervention on a larger scale, and to find measures acceptable to partners who may be asked to contribute or co-commission outcomes.

#### 4.2.3 Is there a maximum number of outcome measures?

As mentioned above, existing schemes such as the Work Programme and the Peterborough SIB, as well as other offending-related programmes, broadly rely on a single outcome measure. Multiple measures are being attempted in other areas including the substance misuse PBR pilots in the Department of Health, and the financial framework for the Troubled Families Programme (albeit the PBR element of the latter is more limited than that

attempted here). However such schemes rely on a combination of a relatively small number of “binary” measures, and we believe that there will be similar constraints on the specification of multiple outcomes for any families-based PBR which the plot LAs, or others, might consider.

The main reason for this is that there are limits to the complexity which can be built into any PBR programme without losing the confidence of providers and investors. Even where single measures have been used, the variations introduced by assumptions about the impact of intervention, additionality and attribution mean that it is hard for providers and investors to calculate whether outcomes will be achieved at acceptable risk. The clear view that has been expressed to us is that commissioning across multiple outcomes risks introduces too many “moving parts” for any programme to be successful.

A further reason is that both commissioners and providers/investors will need to be confident that the cohort with which they are required to intervene has a high prevalence of the problems that need to be improved. The higher the number of different outcomes, the harder it will be to achieve this (see section 4.2.4 below).

There are three possible ways to address this:

- restrict the scope of any PBR scheme to a limited number of outcomes (perhaps one or two, and certainly no more than three or four) which are known to contribute the bulk of impact and cost reductions. This makes sense in financial terms, but means that commissioned services could exclude many outcomes that are socially desirable and also financially beneficial, albeit at less significant levels. LAs wishing to take a “whole service” approach to family intervention would therefore have to provide additional services to those commissioned, probably in-house;
- commission additional outcomes which are not linked directly to payment. There are many precedents for the commissioning and procurement of outcomes as part of traditional management fee contracts, albeit that such arrangements clearly leave more of the risk of non-performance with the commissioner. A possible approach is for the PBR contract to combine the first option with the commissioning of a “basket” of further outcomes which are not directly linked to payment but are included in the overall contract. This would enable LAs to retain the option of commissioning a whole service approach to families; and
- procure separate PBR contracts for each outcome that the commissioner wishes to address. This gives some of the benefits of the first option (in terms of certainty and ease of measurement) while potentially allowing for commissioning of a wider range of outcomes. However the procurement and contract management processes would be extremely complex (and expensive) and the problem of not being able to procure a “whole family” approach from a single provider would remain.

#### 4.2.4 Selection of the right cohort

As already highlighted above, the multiplicity of overlapping problems faced by troubled families is an issue not only for the specification of outcomes but also for ensuring that those outcomes will have real impact within a given cohort. Again, we would contrast the complexity of families and family intervention with other PBR schemes. All those entering the Work Programme are not in work (albeit that the length of time they have been out of work and the likelihood of them finding work without help will vary); and all those entering the programme of rehabilitation covered by the Peterborough SIB are ex-offenders leaving prison after serving short sentences.

Since there is no such universal prevalence of a single problem across any cohort of troubled families, the LA as commissioner will need to have very accurate, up-to-date information on the cohort for which it is procuring interventions. Depending on whether it wishes to commission PBR for specific outcomes or for a range of outcomes under a whole family approach, the LA will then have to either:

- select a cohort of families all of whom present with the problem it wishes PBR to address (if procuring a single outcome); or
- select a cohort of families which has an appropriate mix of the problems it wishes to address (if procuring multiple outcomes).

In both cases there would need to be high correlation between the LA's estimate of prevalence within the cohort and the actual prevalence encountered by providers when working with the cohort. Since the incidence and severity of issues (especially if they require subjective assessment of risk) will inevitably change, 100% match cannot be guaranteed. But providers and investors would expect a high degree of correlation in order to keep their risk to acceptable levels, and avoid a cohort which has substantially different characteristics to what was expected. There would be much greater risk of this in relation to multiple problems and outcomes across a whole family cohort, since providers and investors would need assurances not only about the overall prevalence, but also about the mix of problems – since addressing some problems will save more money, attract a greater outcome payment and cost more in terms of provider intervention than others.

This in turn creates three issues for LA commissioners. The first is that such data is not easy to obtain, and the experience of our pilot LAs is that it takes a great deal of time and effort to collect. We discuss the issues raised by data collection further in section 6 of this report.

The second is that both the nature and severity of problems changes over time, and we found that LAs and other agencies were unable or unwilling to estimate the prevalence of some problems through historic data alone. Their view was that some issues (such as substance misuse) could only be sensibly assessed on entry to a programme.

Finally, the risk of variation in prevalence has important implications for the measurement of impact and additionality, as discussed in more detail below.



### 4.3 Assessing the impact of intervention

In addition to assessing whether an intervention reduces costs through improved outcomes, the value for money associated with any PBR scheme depends also on an assessment of whether the outcomes would have happened without intervention, and therefore whether the interventions achieve “additionality”.

The commonly accepted way of assessing additionality is to compare the performance after intervention with an assessment of what would have happened without intervention (often referred to as the “counter-factual”).

We considered a number of different ways of assessing or measuring the counter-factual in the course of this project, taking account of best practice, previous experience across government, and the views of the pilot LAs. The note at Appendix A describes the various options which we have considered in detail. The benefits and disadvantages of each approach are assessed below, followed by our broad conclusions. Our assessment is made by specific reference to families and family intervention, but similar considerations apply to other areas where multiple outcomes and their additionality need to be measured.

For the purposes of our assessment the options for assessing impact against a counter-factual can be divided into three main groups:

- comparison of impact with a control group;
- comparison of impact with a synthetic cohort; and
- comparison with an historic or predicted baseline.

#### 4.3.1 Control groups

There are three main types of control group which could be used as a counter-factual.

- a Randomised Control Trial (RCT), under which part of the cohort is randomly assigned to the intervention (the “treatment group”) and the other part does not receive the intervention (the “control group”). Both treatment and control sections of the cohort are defined based on data gathered before the intervention. Monitoring of similar data on both sections of the cohort during and after the intervention provides information about the effectiveness of the intervention;
- a Temporal Control Trial (TCT). This can be used when there is a staggered programme of intervention applied to successive cohorts, e.g. across a number of years. Instead of comparing those who receive intervention with a control group who do not, it compares the first cohort’s post-intervention outcomes with the second cohort’s outcomes before they start the intervention; and
- a Geographic Control Trial (GCT). This option is similar to the Temporal Control Trial but divides families according to where they live rather than across time. The interventions would thus be focused in specific parts of the LA (e.g. districts within a County, or a number of wards within a larger Unitary), using other areas as “control”.

### **Advantages**

The main advantage of a control approach is its robustness and analytical rigour, since results can be objectively measured, and the use of a physical control makes it much more likely that any additional impact achieved within the treatment group compared to the control group will be due to the interventions applied (and therefore there will be acceptance that additionality has been achieved). An RCT is the most rigorous approach of all but both the TCT and GCT offer potentially useful, if slightly less rigorous, alternatives.

### **Disadvantages**

All types of control have significant drawbacks. All are costly in terms of data collection and the evaluation process (though they may be less so in relation to other services and interventions where data is already being collected). More importantly, all rely on good data on the characteristics of families. As already argued above, such data is not easily available and the prevalence and nature of problems varies widely between families. This makes it difficult to compare “whole family “ approaches using any of these methods since it would be very difficult to be sure that any control group (random, temporal or geographical) had the same characteristics as the treatment group. Control-based approaches would therefore work for families only if applied to single outcome measures and contracts.

Any control methodology also depends on there being enough families in the cohort for it to be practicable to divide it in any of these ways. Unless the total cohort is large (or prevalence is very high) any division could create problems of statistical significance.

In addition there are political and ethical considerations to any control methodology which provides interventions to one cohort of families and not to another. This is a major consideration for both RCTs and GCTs, but arguably less so for a TCT provided it was the intention to provide the intervention to all families in due course.

#### **4.3.2 Synthetic cohort**

An alternative to the use of a real control group is to create one synthetically. This would involve putting together a virtual cohort from data on families nationally or regionally. Data on troubled families not going through intervention would be aggregated to form a cohort which has similar outcomes to the treatment group before the intervention. The outcomes of the synthetic group would then be compared to the treatment group.

The SIB in Peterborough effectively uses a synthetic approach, comparing the three cohorts included in the SIB contract with matched control groups. Each control group is drawn from data on all prisoners released from sentences of less than 12 months (the key characteristic of the Peterborough cohorts), within the same time period from other prisons nationally. One-to-many propensity score-matching is being used to select the control group: this means that each cohort prisoner will be matched to up to ten control group prisoners. This approach allows the assessor to control for different characteristics of the offender. It also means that a comparison group could be created which shares a particular characteristic of the treatment group. For example, if the treatment group has been selected from a group who are willing to take part and wish to change their lives, there is a risk of selection bias which will skew the results if this group is compared to others who are more recalcitrant.

Provided good data is available, score-matching enables a comparison group to be built with a similar propensity.

### **Advantages**

The main advantages of this approach over a real control group are that:

- there is no need to split the cohort and give interventions to one group and not another, avoiding the political, ethical and practical issues which this creates; and
- it is easier to identify a control group which has the same or very similar characteristics to the treatment group, since matching techniques using national data can be used to find the “right” families without relying on the relatively small sample of families available locally or regionally. In addition problems of statistical significance can be addressed - indeed a control group much larger than the treatment group can be created if necessary.

### **Disadvantages**

The main problem with the synthetic approach is that reliable national data on families, from which a synthetic cohort could be created, is not available. Whilst criminal justice agencies use standardised risk assessment models, which contribute to significant local and national databases of offender outcomes, this is not the case for family services. This problem would be compounded if multiple outcomes were included in the PBR contract, but reliable national data which is correlated to troubled families is not available for single outcomes.

### **4.3.3 Comparison with an historic or predicted baseline**

These methods compare impact with historic data relating to the same or other families prior to receiving intervention, rather than with control groups not receiving the intervention. We considered three main variants:

- comparison of a cohort against an historic baseline of families in the area. This approach compares outcomes for families receiving intervention with the historic performance of similar families in the same area. For example, if a sample of 50 families historically commits an average of three offences a year per family, the intervention could be viewed as having positive impact if it reduces the incidence among families to two offences per family;
- comparison against the historic performance of the individual family. This compares the future outcomes of the family with what happened prior to intervention. Thus if a family was responsible for seven ASB incidents over the year prior to the intervention, and only three the year after, the reduction could be attributed to the intervention and rewarded accordingly; and
- comparison against the predicted outcomes for the family, based on expert assessment. This approach relies on an assessment by local experts of the current position of the family and what is likely to happen if intervention does not take place. Outcomes following intervention are then compared with what was predicted to occur.

## Advantages

Of these three methods, comparison of a cohort of families against an historic baseline appears to have few advantages over a synthetic cohort, since it requires similarly high quality data, but is less rigorous and reliable.

Both the other baseline methods (comparison of individual families against historic or predicted outcomes) have the advantage that they are in line with current practice in family intervention. Nearly all FIPs rely heavily on assessment of each family on entering the programme (in order to determine suitability for the programme, and how best to intervene) and measure success by reference to whether intervention improves outcomes for that family. The approach sometimes used relies on an assessment similar to the Common Assessment Framework (CAF) for children, which effectively extends the same multi-agency approach to families (i.e. a “Family CAF”).

Since such an assessment is already a feature of many FIPs it could be extended into PBR based schemes relatively easily, although, as argued below, there would need to be much more rigour about the assessment and measurement of outcomes.

The “Family CAF” approach would have the added benefits that:

- it would enable the commissioner to select families which closely matched the problems it wished to target and outcomes it wished to achieve, including identifying problems which are normally assessed in detail only on programme entry;
- it has an in-built methodology which enables the commissioner to measure whether outcomes have been achieved (albeit an imperfect and partly subjective one); and
- if providers were included in the assessment process, it would reduce the risk of subsequent “cherry picking or “creaming and parking” by providers, since there would be common agreement about which families should receive intervention, and what problems should be addressed.

These latter points would enable PBR for family intervention to get round an added problem, which is that there is no easy way to audit independently whether outcomes have been achieved. Other PBR schemes have in-built independent measurement, such as the Work Programme which relies on a proxy measure – the workless person being off benefit – which can be measured and audited independently of providers and commissioners. In the absence of a similar mechanism for measuring the majority of outcomes for families, a process which allows for agreement on outcome achievement between commissioner and provider provides a pragmatic alternative.

## Disadvantages

The main drawback of this approach is that it lacks independent and objective measurement of impact. For example, current FIP assessments are, in many cases, made by reference to levels of risk before and after intervention so that a high risk of e.g. mental health problems is considered to have fallen to low risk following intervention. This clearly involves a degree of subjective interpretation which may lead to disagreement and contract disputes about whether and to what extent agreed outcomes have been achieved.

A further drawback is the risk of selection bias – since any process which relies on assessment may lead to those making the assessment selecting only those families which are willing to participate and positive about doing so.

An added drawback of assessment based on historic data is that it is difficult to make allowance for external factors, such as a teenager who has been responsible for high incidences of ASB leaving the home. A predictive approach is therefore arguably to be preferred, but again has the drawback of relying on subjective, albeit expert, judgement of what might happen. There is thus a significant risk of LA commissioners paying for outcomes which are not additional, e.g. because an expected worsening of families' circumstances did not materialise.

#### **4.3.4 Analysis and conclusions**

In determining which counter-factual to use, the complexity and variability of troubled families' problems and potential outcomes is again a key issue, and creates a direct trade-off between the robustness of evaluation and practicality. While RCT and other control methods are highly robust, they are difficult and potentially expensive to achieve with current data quality and create major challenges as regards the practicality and political acceptability of splitting what may already be a quite small cohort.

The advent of the Troubled Families Programme and growing use of FIPs should mean that in time the national data set on troubled families will improve, which may make it possible in the medium term to use a synthetic approach. This offers a degree of rigour while avoiding the problems of splitting the cohort into treatment and control groups, and also enables a proper comparison against groups with an in-built selection bias. This may therefore be the best option when data that will enable its use becomes available.

The baselining of individual families, and especially the use of a predictive "Family CAF" type approach, overcomes the data issues and can be used with multiple outcomes in a way that should meet the concerns of both local commissioners and providers to keep the risk of perverse incentives, and mismatch between interventions and prevalence, to a minimum. However it could be used only if the outcome measures which are being assessed were objective, rather than relying on subjective factors such as "at risk", and it would be very difficult to prove additionality compared to predicted outcomes in all cases. However it would enable commissioners and providers to reach consensus on the achieve of outcomes, and therefore provide an alternative to the independent audit of family outcomes, which would be hard to achieve.

In practice, we believe that the options for measuring impact chosen by LAs will depend in part on the extent to which it is important to them to prove absolute additionality, as opposed to being sure that the cost reductions achieved by improved outcomes are lower than the cost of payments made for intervention. If the former is critical, then the only acceptable options are a control-based approach or synthetic cohort (neither of which appears practical for multiple outcomes without major improvements in data). If the LA is content to set the bar lower as regards pure measurement of additionality, then a Family CAF approach offers a number of benefits. For many LAs the primary objective will be to achieve improved outcomes at minimum risk and, in such circumstances, a less robust or

theoretically pure baseline may prove more acceptable to both commissioners and to investors and providers.

#### 4.4 Strategies to realise and cash savings

We comment in section 3 on the challenges which all public sector bodies face in realising cashable savings. The challenge of cashability is not of course new, and is familiar to most public sector bodies from both on-going efforts to improve their processes and reduce costs, and specific government initiatives – for example the Gershon initiative, which specifically required the identification and distinction of cashable and non-cashable savings.

As we have already argued in section 3, cashability matters only if LAs and other commissioners intend savings to fund payments for outcomes. If LAs are persuaded that family intervention offers better value for money than the alternatives then it can procure services on that basis, and accept that savings cannot be cashed. This approach may be particularly useful in relation to other local and national agencies who are not the commissioner but who derive benefit from intervention, since it is doubly difficult to ask a third party to take steps to cash savings, but it may be possible to ask them to make a contribution to payments based on the value they receive.

However where cashability is important it will require action and potentially difficult decisions on the part of commissioners. There is substantial literature on the general challenge of realising benefits and reducing costs and we do not propose to repeat such advice here. LAs and others will be aware that the ability to actually reduce costs, as opposed to improve the effectiveness of current spending, is challenging and depends on e.g. political will, willingness to embrace cultural change, etc.

However our work with the pilot LAs in the specific area of families and in relation to the general principle of “invest to save” suggests that some strategies might be especially appropriate in this context. Among the steps we recommend are the following:

- review current and design future contracts to make it easier to cash savings. Although as observed in section 3 it is generally easier to reduce the costs of services procured under a contract, this cannot be done easily or quickly unless contract terms allow it. LAs should aim where possible to design or re-negotiate contracts in relevant areas to facilitate this – for example by linking a high proportion of costs to volume, and building into contracts more thresholds at which changes in volume achieve a reduction in costs;
- redesign services around anticipated demand changes. Some LAs are already redesigning their services around family intervention and in doing so it makes sense to anticipate where improved outcomes might have an impact. For example, there may be opportunities to realign services so that headcount reductions can be achieved without detriment to current services by anticipating where better outcomes will reduce service demand;
- build to scale as rapidly as possible. As we have noted in section 3 where costs are fixed it is difficult to impossible to make cashable savings at small scale. It follows that LAs should aim wherever possible for a larger scale of intervention, with more families or individuals, and to do so as quickly as possible. This has the additional benefit of achieving economies of scale in input costs (including commissioning costs, investment

transaction costs, and providers' intervention costs) as well as enabling variable costs to reach a tipping point where reductions in fixed costs become achievable; and

- plan for reductions in fixed costs. In addition, LAs can plan to reduce fixed costs in anticipation of likely reductions in demand. This applies particularly in areas where accommodation is required, such as residential care homes, pupil referral units, etc. since while fluctuations in demand can be hard to manage, it makes sense for LAs to reduce their reliance on high cost fixed assets wherever they can. Indeed in relation to all such facilities LAs need either to ensure that they are run at maximum capacity (if they conclude that they will still be needed) or are emptied as rapidly as possible (so that they can be taken out of use and where possible disposed of).

Finally, we would observe that it is possible that PBR could be used in the right circumstances to provide a catalyst for change. Given the many challenges of reducing costs and overall bias against change, it may be possible for LAs to pursue PBR as a way of forcing the diversion of resources from late to early (or earlier) intervention.

## **4.5 Different service models that might be commissioned**

Even though we have worked with only a small number of LAs, we have encountered a wide range of views on the scope of services which might be commissioned from the private or third sectors. While in theory each LA will be aiming to commission outcomes rather than services, they will of necessity need to have a clear view about how any provider of those outcomes relates to, and interacts with the existing services which the Council provides, including, but not limited to, existing services for families.

While there are many variants and sub-variants of commissioning models that might be considered, and it will be for each LA to decide which model is most appropriate for its own specific circumstances, we have identified four main commissioning models that might be employed. We describe each of these models and their main advantages and disadvantages below.

### **4.5.1 Option 1 – contracting out of an existing service**

This model assumes that there is an existing service focused on family support in place and that the LA contracts out this service to the private and/or voluntary sector in its entirety (apart, possibly, from a retained client/contract team).

#### **Advantages**

Both those developing and those delivering the contract can build on existing expertise and refocus the work on current needs rather than around historic arrangements. It may enable a number of existing services, including both in-house services and external contracts, to be brought together.

**Disadvantages**

The contracting out of an existing service may be unpalatable to any or all of Council members, officers and staff. In addition the likelihood of a transfer of existing staff being triggered under TUPE regulations may be unfamiliar and off-putting to some potential providers of the service (for example the voluntary sector or financial intermediaries).

**4.5.2 Option 2 – contracting out to a “spun out” service based on the existing provision**

This model also applies where there is an existing service in place. It assumes that the existing service is “spun out” to become a mutual and is then commissioned to provide the service – either alone or with a Joint Venture (JV) partner from the private or voluntary sector.

This option might be combined with Option 1, with the mutual and its JV partner (if appropriate) competing with external providers to deliver the service.

**Advantages**

This option has similar benefits to option 1 in terms of retaining existing expertise, and the added benefits that it may be both more politically acceptable to the LA commissioner and more attractive to staff than TUPE transfer to an external provider.

**Disadvantages**

Mutualisation may be challenging for the current team especially when combined with PBR and this option may still be unpalatable to staff. If run as a non-competitive process, there is a risk that the process will be seen as non-compliant with EU rules, and possibly challenged.

**4.5.3 Option 3 – commissioning additional services to “scale up” an existing service**

Under this option an existing service is retained, but additional services are commissioned to broaden the scope of the existing services – for example to a larger cohort of families, or to families in a different geographical area.

**Advantages**

This option enables an existing service to be retained without threat of competition or staff transfer, while still allowing use of the existing service team’s expertise to develop the service specification, form the client team, etc. It might also offer the option of testing the existing service against alternative, external provision.

**Disadvantages**

There is a risk of different requirements and expectations between current and commissioned services which will need to be managed carefully. In addition, there needs to be a clear referral process as to which families are referred to the existing service and which to the new (unless there is clear delineation by e.g. geographical area).



#### 4.5.4 Option 4 – commissioning of an entirely new service

This is in some ways the “cleanest” and simplest option of all. A Council which has no existing service for families with multiple problems commissions the service from scratch from external providers.

##### **Advantages**

This option potentially enables the LA to move quickly to put in place services for troubled families: provided that it has clear views of the outcomes it wishes to commission, detailed service re-design work should not be required. In addition, this approach should allow for more innovation in service delivery – with no preconceptions based on existing services or staff transfer complications.

##### **Disadvantages**

The flipside of the above argument is that there is greater risk of procuring services which do not meet the council’s needs or perform poorly due to lack of experience and the inability to compare performance with the in-house service. In addition, while staff might not transfer under TUPE there is still a risk that valuable in-house staff (e.g. in Children’s Services) might leave to join the external provider. There is also a risk of lack of coordination between externally provided family services and the internal provision of services that interact with the family.

#### 4.6 Contracting models

As explained in section 3 above there has been a tendency to refer to the SIB model and approach as a catch-all and form of shorthand for different contracting models which might be employed (by which we mean, the entity with which the LA would enter into a contract and how that entity relates to others which provide services or investment). In practice there are a number of different contracting models which might be used, each of which has different strengths and weaknesses. It is important that LAs make informed decisions about which model to use, and, wherever possible, aim to ensure a level playing field between different models so as to encourage open competition and improve their chances of getting the best value for money from a PBR arrangement.

While the social investment market is continuing to develop and new models are likely to emerge, we have identified three main types of potential contracting models, one of which has two variants. All of these models have precedents or are currently being tested competitively, and each of them has pros and cons as discussed below.

It should be noted that the models as shown below are simplified and other entities (for example a Special Purpose Vehicle) may be involved in specific contracting arrangements. There may also be variations on a case by case basis on the models shown.

#### 4.6.1 Model 1 – the Local Authority contracts with a SIB delivery agency

##### Description

This is essentially the model which was used to procure the Peterborough SIB. It is illustrated and described in Figure 4.1 below.

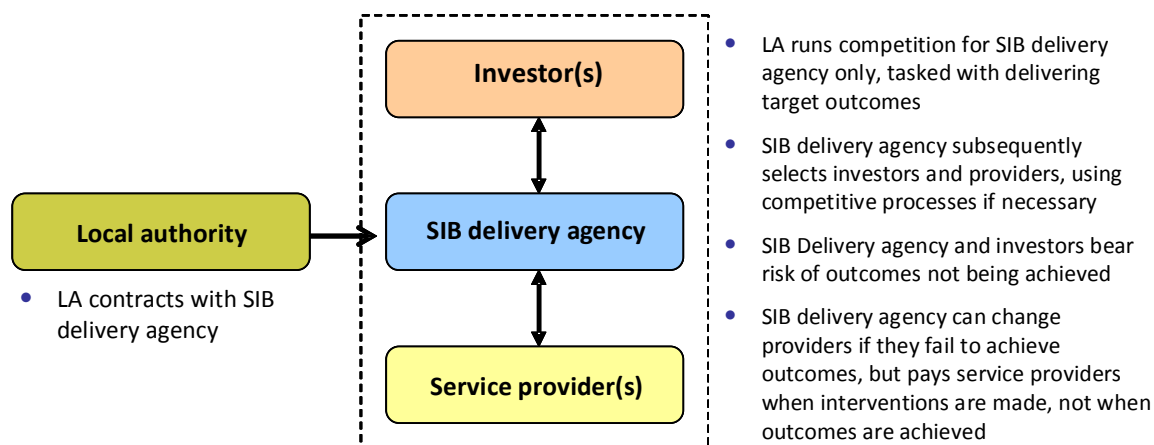


Figure 4.1 – SIB Delivery Agency Model

##### Advantages

This model has been proven in the Peterborough SIB pilot, albeit on a limited scale. It offers a relatively simple procurement process for the commissioner, and has the key benefit that it enables specialist service providers in the voluntary and third sector to be involved in delivery. Such providers tend to have limited access to working capital and may find it difficult to bear the risk of PBR, but once selected by the delivery agency would be able to provide services under conventional payment for service arrangements.

##### Disadvantages

Although this model is used in Peterborough it has not been tested in a competitive procurement environment. In addition there is likely to be a shortage of potential bidders – only Social Finance has ever acted as a SIB delivery agency, and at present few others who could take a similar role have emerged. Furthermore this type of provider may not be comfortable in some types of service provision scenario – for example in taking over an existing service or acting as a JV partner to a service which wishes to pursue mutualisation.

In addition although the model is simple in the form in which it has been used in Peterborough it:

- involves two separate procurement processes, which adds time and complexity;
- does not allow the LA any control over the choice of providers; and
- does not incentivise providers as strongly as would be the case if they were being paid only for outcomes achieved.

Both the latter issues could be addressed by variants on the model which might be encouraged during the procurement process. For example, the LA could require the SIB

delivery agency to seek approval for their proposed providers; and encourage (e.g. through its evaluation criteria) the use of (part) outcome payments to providers.

#### 4.6.2 Model 2 – the local authority contracts with a large prime contractor

This is the model used in both the Work Programme and its predecessor, the flexible New Deal. It is illustrated and described in Figure 4.2 below.

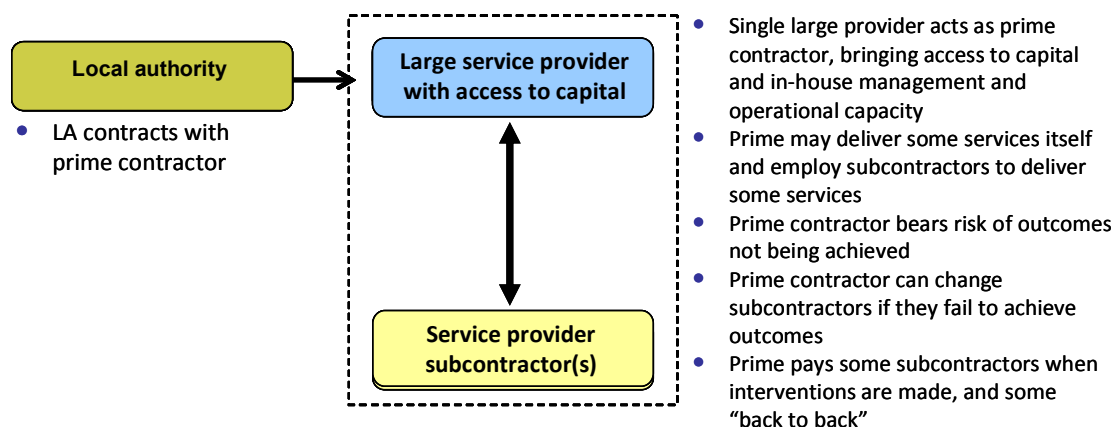


Figure 4.2 – Prime Contractor model

#### Advantages

This is a proven model, and offers the commissioning LA both a relatively simple procurement process and control over the service providers used, since the LA can require the prime contractors to name their sub-contractors during the procurement process. In addition, by requiring prime contractors themselves to provide investment capital (or raise capital externally) it reduces the complexity of the procurement model compared to one which requires both providers and investors to be separately engaged.

This model is also likely to reduce transaction costs since:

- the prime contractor may not need to raise new capital; and
- even if it does, the costs of doing so would normally be met by that contractor, which might not be the case under the other models discussed here.

#### Disadvantages

The main drawback of this approach is that it limits the market to providers who are able to risk their own capital and/or raise investment from third parties. Furthermore even for financially strong providers such investment may not be easy to raise for less well proven services/outcomes like those involved in family intervention. Smaller voluntary and third sector providers are unlikely to be able to compete to provide services, unless they accept the terms offered to them by primes and/or primes are prepared to pay them for interventions made rather than for outcomes.

A further drawback is that this model might be viewed as an unimaginative approach which did not encourage new approaches to social investment as the SIB model has done. It is arguable that this is less important than ensuring that the commissioner achieves the right

result from the procurement – improved outcomes at minimum risk and with low need for additional investment.

### 4.6.3 Model 3 – Procurement from a turn-key consortium or Social Investment partnership

This model represents a hybrid of the two outlined above and has recently been used to procure providers by the DWP under Round 1 of its Innovation Fund. It has two variants depending on whether the contract is with an investment manager, acting for both investors and providers, or is made directly with investors. The two variant models are illustrated in Figure 4.3 below.

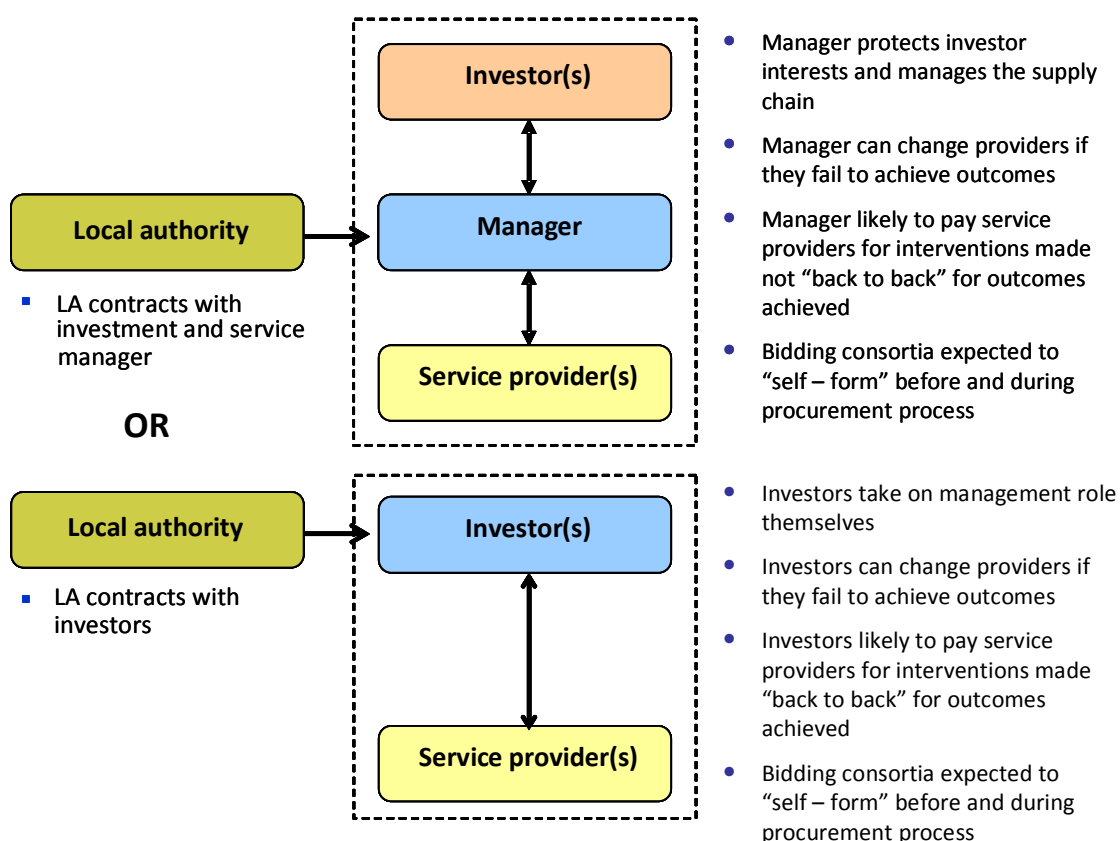


Figure 4.3– Consortium/Social Investment Partner model

#### Advantages

This model has similar benefits to the SIB delivery agency model but allows for contracts direct with investors and therefore might broaden the market of potential providers (overcoming the shortage of financial intermediaries who could act as a delivery manager in Model 1). In addition consortia are likely (or could be required) to form during the procurement process which gives the LAs more control than the SIB delivery model over the providers used.

#### Disadvantages

The immaturity of PBR in family intervention as a proven procurement and delivery model means that it is unlikely that many investors will be prepared to adopt this model, especially

as it involves a potentially complex procurement process. The model which involves an investment manager is not much different from the SIB delivery agency model, but adds additional complexity for the provider and requires them to line up delivery and investment partners at a much earlier stage in the process – which may be difficult to do.

#### **4.7 Consultation with providers and investors**

During the design stage of the project (January – March 2012) we undertook further consultation with providers and investors and held a one-day conference for providers, investors and intermediaries at the Cabinet Office on 13 March 2012. This event set out the developing proposals of the four LAs as well as similar PBR/SIB proposals being developed outside this project by Essex County Council (ECC) and Manchester City Council (MCC).

This enabled the project teams to gain additional insights into the viability of their proposals and the areas where further work would be required. It also enabled providers and investors to understand specific proposals in more detail where they were of interest: more detailed discussion sessions with individual LAs were included in the event for this purpose.

This event was not dissimilar to the type of pre-procurement briefing events which are often held as part of large and/or complex procurement exercises, but with the added dimension introduced by PBR/SIBs that there was direct engagement with those who might invest in the programmes as well those who deliver them.

The event was informative as regards both what it told us about the propositions that the project teams were aiming to develop and the wider value of this sort of consultation exercise.

As regards comments on the proposals themselves, we received much confirmation, from a larger audience, of many of the issues highlighted in our earlier and more focused consultation exercise (see section 3.5). In particular, we received further feedback on the following:

- confirmation that providers and investors would be concerned if there was procurement of too many outcomes, and therefore a process of undue complexity with “too many moving parts”. This would affect their ability both to manage risk and to measure success;
- the need for a multiple tariff if there were multiple outcomes, so that the price per outcome could relate to both the cost of intervention and the potential for savings;
- the need for clarity on how the proceeds of savings would be shared between commissioners and investors;
- concern that cohorts would not be large enough to help providers and investors balance risk of over and under-performance; and
- confirmation of the view that investment and delivery models other than SIBs need to be considered. This is not only to ensure open competition (as argued in section 4.6 above) but also because some investors prefer to invest in provider management teams who can be held to account for delivery. This makes the SIB investment model less attractive to them.

In terms of wider lessons from the event as a whole, the feedback we received was that the event was useful but the proposals were not presented in sufficient detail for investors. This was not entirely surprising feedback since we were aware that:

- we were engaging with the market at a relatively early stage (with the exception of the narrow proposals being developed by ECC, which are close to a formal procurement process); and
- investors generally need to see much more detailed information on e.g. payments, volumes, likely success rates, etc before they can make sensible investment decisions.

This raises the question of whether there is value in this type of early, “open to all” event for investors, and whether and how the views of investors can best be reflected in the commissioning process for PBR. As we argue above, a number of different contracting models are available and the way PBR has worked to date means that this has not been a major issue. Under the prime/sub-contractor model, the detailed modelling work required by investors will be done by the prime providers, and investors will generally be engaged at a later stage. Under existing SIBs the service delivery agency has been directly involved in a process which has not been competitive, and has in turn supported the modelling needed to engage investors.

As PBR develops, commissioners will need to consider how they adapt their “normal” commissioning and procurement processes so that they can successfully accommodate investors and intermediaries, as well as providers, and enable providers and investors better to assess risk and return. Among the options that might be considered are:

- the holding of more detailed discussions with investors once commissioners’ procurement plans are clear, including on a bilateral basis;
- the release of more detailed information on financial assumptions prior to or during the procurement process; and
- basing the procurement on a performance offer only. This would mean fixing the price that the commissioner will pay for outcomes (based on their internal modelling), and inviting bidders to make proposals based only on the performance they will achieve, rather than on price and performance combined.

## 4.8 Impact of the Troubled Families Programme

Finally in this section, it is worth commenting on the impact of the Troubled Families Programme and the work leading up to its announcement in March 2012. This had both a short term impact on this project and, more importantly, has a number of longer term implications for the way all LAs work with Troubled Families that are worth further discussion.

The TFU was formed in the autumn of 2011 as a new unit within DCLG with a remit to “turn around the lives” of the estimated 120,000 troubled families in England. Its formation had a direct impact on this project in a number of ways, including that:

- some of the LAs involved in this project were consulted by the TFU as to the proposals it was developing for part-funding of family intervention; and

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- all the LAs saw the Troubled Families Programme as an important opportunity to strengthen their developing or existing plans in relation to troubled families, including the potential to use PBR/SIBs to commission interventions.

However, the launch of the TFU in November 2011, and the knowledge that a programme of support to troubled families was imminent, inevitably had an impact on the PBR project as the pilot LAs and project teams sought to build its likely impact into their financial modelling and wider analysis of options.

At the time of writing (May 2012) the pilot LAs are still considering how best to build the funding available under the Troubled Families Programme into their wider plans for troubled families. This requires careful consideration because the Troubled Families Programme funding is attached to specific outcomes in relation to troubled families and could lead to some reordering of current priorities.

In the medium to longer term, based on the experience gained by the pilot LAs and project teams in the course of this project, we would make the following observations about how the Troubled Families Programme could impact on PBR and SIBs for families, and vice versa:

- the experience of the pilot LAs is that analysis of data in order to identify troubled families and their characteristics is extremely challenging and time-consuming. Some of what they have learnt could be of wider value to other LAs who now wish to use the funding made available under the Troubled Families Programme and are facing the challenge of analysing the scale and nature of their troubled families for the first time;
- the Troubled Families Programme involves a substantial element of PBR in relation to the funding of key outcomes. While the PBR regime is quite different in scope and intention from the type of PBR we have been exploring through this project, there may be scope for LAs to use PBR-based commissioning to support the delivery of interventions funded by the Troubled Families Programme. In this case, much of what has been learnt in the course of this project about the specification and measurement of outcomes may be of wider interest; and
- perhaps more importantly, the Troubled Families Programme provides only part funding and leaves LAs with the significant challenge of finding the remainder of the funding required (60% of the total costs) to turn round troubled families from other sources. There is therefore the option for LAs to use PBR and SIBs, as explored during this project, alongside the Troubled Families Programme funding in order to generate further savings that in turn can be used to provide the part funding that LAs require.

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## 5. Issues and lessons for the future

### 5.1 Introduction

This section draws conclusions about some of the issues we encountered during the project which have wider implications for the implementation of PBR and SIBs (or similar arrangements) for both family intervention and other areas. It is in two parts:

- Section 5.2 below discusses the main process issues we encountered during the project, and makes suggestions and recommendations on how they might be addressed both locally and nationally; and
- Section 5.3 considers the wider and more strategic lessons that we suggest might be learnt from this project with regard to the future of PBR and SIBs, especially in relation to complex social areas.

### 5.2 Process issues and challenges

#### 5.2.1 Data on troubled families and their problems

As made clear in section 4 the application of any outcome-based approach to troubled families makes it essential to have good data on the diversity and multiplicity of problems which they face. These data are not easy to collect, due to a large number of different data sources and the problems of sharing data from those sources.

The barriers to effective data sharing can be both legislative and cultural. For example, on the legislative side, the Social Security Administration Act 1992 does not provide for DWP to share data with local authorities regarding individual benefit claimants (though anonymised data on the overall prevalence of benefit claiming within a cohort can be shared). This is a long-standing and well known issue. It has been partly addressed during the development of Troubled Families programme, through the creation of a new legal gateway under the regulations of the Welfare Reform Act 2012 to enable sharing of DWP data, without informed consent, for the specific purposes of the programme, but this is clearly only a partial solution to a much wider problem.

On the cultural side, there are a number of issues including:

- data held in forms that render sharing extremely time-consuming – e.g. paper-based records;
- agencies being reluctant to invest time and effort in sharing data because they cannot see the wider public sector benefits; and
- agencies being generally risk averse, and unwilling to share data even when it is legal to do so.

Both the legislative and cultural issues are less prevalent once families enter intervention programmes, since they usually give written consent to the sharing of their personal data at that point. However, some cultural resistance remains and this approach does not solve the issue of how LAs analyse their wider troubled families' population (or other groups with multiple problems) in the first place.



## Recommendations

It is important to recognise that PBR in itself will not answer many of the challenges that face LAS and their partners in working across organisational boundaries or within different legislative or statutory frameworks. The opportunity to draw down additional investment will, however, provide determined LAs with the opportunity and incentive to revisit traditional barriers to find local solutions or accommodations.

At the individual LA level, there is much can be done to break down cultural barriers. In LCC, the families PBR project builds on much good work by the Community Budgets team to analyse and collect data on troubled families. This involved heavy engagement with stakeholders across agencies in the Leicestershire Together partnership, ensuring that there was commitment to the project and that the common benefits of a good understanding of troubled families were widely understood. In LBHF, the local analytics team did much good work to build a database focusing on the problems of troubled families relatively quickly.

In both cases, the cooperation of partners meant that teams were able to make good use of anonymised data to give them enough information on the scale and prevalence of problems faced by their families to be able to design their programmes and build the business cases for PBR: this data can then be built on once families enter programmes and give the necessary consent to sharing of their personal data. Clearly other LAs have scope to do the same.

At national level, one approach would be to adopt a general presumption in favour of personal data-sharing between public agencies. This would clearly be a significant step, and would need to take due account of data protection and other appropriate safeguards. Its purpose would be to see data sharing generally encouraged where it can be shown to lead to better targeting and delivery of public services. However given the failure of previous initiatives of this kind, in the face of concerns about and opposition to the more widespread sharing of data, it is arguably a step too far.

A more practicable alternative may be to look for specific areas where data sharing protocols might be relaxed if a strong case could be made for such relaxation to enable service reform (and still subject to appropriate safeguards). This approach would build on the changes made to enable the Troubled Families programme highlighted above.

### 5.2.2 Availability of costs relating to outcomes

The joint CO/A4e/LA project teams found it very difficult to identify the costs associated with negative outcomes for families, and therefore the potential savings that might be achieved if those outcomes improved. This is because:

- costs are not generally collected in easily useable ways. While LAs collect huge amounts of information on costs, these are usually service based and rarely relate to particular social outcomes or problems. In addition a specific issue for this project was that information is rarely collected at the family level, as opposed to the individual child or adult. A question such as “how much does a troubled family costs the LA” is thus hard to answer at either the general or specific level; and
- the effort needed to collect data can be significant, for example to work out how much staff time, and associated costs, is spent dealing with a problem. Where costs relate to

services provided through an external contract, a defined cost or price for an activity may be available. Where costs are in-house, this is unlikely.

These problems are multiplied in relation to other public sector agencies, since the challenges of collecting data may be compounded by the unwillingness of a third party to share that data, or to see the benefit to them of collecting it.

### **Recommendations**

Again the issue of non-availability of costs is not uniform and we saw examples of good practice as part of this project. BCC have done much work as part of their Community Budget initiative and, before that, work as a Total Place pilot to identify what activities cost, while WCC have much good data derived from their FRP programme. Further guidance to LAs on how best to collect outcome-related cost data, based on these and other examples, would be valuable.

At national level, there are two things that might be considered that would help LAs get more quickly to a view of whether there is a business case for a particular PBR project:

- develop a national register of actual savings achieved (drawing on as many specific real-world examples as possible). Such a register would be built up over time as commissioners gained more experience of developing and contracting on a PBR/SIB basis; and
- encourage LAs and other agencies to keep management accounts in a publicly available form so that agencies have both greater awareness of their own costs and are quickly able to understand the costs which others are incurring. We do not underestimate the difficulties of developing such accounts in an agreed and standard form but it would be a significant advance for both PBR and the general scrutiny of the cost-effectiveness of public services.

However neither of these approaches would be a substitute for scrutiny of local costs in order to build a detailed business case.

### **5.2.3 Understanding of PBR and social investment principles**

As indicated earlier in this report, we found that many of those working on the PBR/SIB project did not understand fully the principles which lie behind such schemes. This slowed the process of development, and made it more difficult to engage stakeholders quickly and effectively. Issues where understanding was poor included:

- why detailed information on current costs is needed;
- why the issue of cashability is critical to a self funding PBR scheme; and
- why the prevalence of problems among the families is critical to understanding the potential for cost savings, and assessment of impact.

## Recommendations

We suggest that government and others could do more to explain the fundamentals of PBR to a wider audience across the public sector and especially within local government. This will make it easier to move PBR forward, broaden the base of people who understand it well, and build interest in the use of PBR and SIB-type approaches and discussion of where they might be appropriate.

### 5.2.4 Evidence for the impact of interventions

The willingness of providers to bid for PBR schemes and their ability to attract investment is critically dependent on evidence as to:

- how much impact is achieved by interventions; and
- which interventions achieve most impact.

The evidence base in both these areas in relation to families is currently patchy, and not of strong enough quality to give providers and investors confidence that the risk they would be assuming in any PBR contract was acceptable and manageable.

The poor quality of data in the families' area reflects the relatively recent development of family intervention compared to other areas, such as employability. Here a stronger (but by no means conclusive) evidence base has developed over a number of years and through the evolution of several forms of input and outcome based contracting. It also reflects the fact that evidence which has been collected (e.g. in relation to the impact of FIPs) has not been gathered with the rigour and consistency required to make it useable in a PBR and social investment context. Data in other areas such as justice is better, so that, although PBR is a relatively recent development, the data collected in areas such as offending and its impact is of high quality and long standing.

There is also disagreement about which interventions are most effective in achieving outcomes. At one level this should not matter since, in theory, commissioning should be on outcome basis, and designed to leave the choice of appropriate interventions to providers and investors. However in practice it matters greatly to providers and investors (who need to be sure that what they are proposing will work) and to commissioners (who are transferring the risk of success under a PBR scheme but would rather pay for results than avoid paying for failure).

Even where detailed information on effectiveness is collected, it may not be widely disseminated or publicly available. And even if it is made widely available, it may not reflect the full range of outcomes, and especially "secondary" outcomes which are not central to the programme. For example, information on the effectiveness of a drug / alcohol treatment programme might include only health outcomes, while ignoring crime and employment.

## Recommendations

This problem cannot be solved quickly, but it is important that the public sector and external service providers (both private and third sector) start to collect better and more consistent data on outcomes. This will enable the build up, over time, of a much stronger evidence base

of both primary and secondary outcomes, which in turn can be used to inform investment cases.

To move towards this we recommend the collection of a standard data set, relating to key social outcomes, across a wide range of PBR and other programmes (e.g. those initiated under the Troubled Families Programme). Such programmes should, as a minimum, include any programme which is funded or sponsored by central government, and irrespective of the primary purpose of the programme.

In addition to developing a broader evidence base this would also help validate whether, and to what extent, programmes have secondary benefits that are currently not well understood. This in turn would inform the development of future programmes in terms of their likely costs and benefits.

Again this will not be an easy approach to implement since it will require agreement on standard measures which might be used (although the work already done by a range of government department to develop PBR schemes provides a useful starting point) and will require agencies across the public sector (and their external providers) to again take an altruistic view – collecting data which may not be needed for their own immediate purposes in order to support longer term change.

### **5.2.5 Local authority accounting rules**

A potential issue encountered during this project is that current local authority accounting rules militate against the principles of PBR and SIB-type approaches. One advantage of a PBR/SIB approach is that, in a resource constrained environment, LAs do not need to make cash payments for services up front and can fund outcome based payments partly or wholly from cashable savings in the future. The time lag intrinsic to a PBR agreement requires others to finance the ongoing interventions and can “buy time” for the commissioners. However, a question remains about how the outcomes based payments of a PBR contract should be treated in LA accounting terms.

Under current accounting guidance from the Chartered institute of Public Finance and Accounting (CIPFA) with regard to accruals and resource accounting, there is a risk that LA commissioners may be required to start accruing for the cost of services under PBR/SIB contracts as soon as those services start. This would clearly undermine the benefit to the LA in being able to delay payment, although the extent of the issue needs to be considered on a case by case basis.

#### **Recommendations**

The accounting issue could be left to individual LAs to determine in the light of their own circumstances, but it would be preferable for the issue to be reviewed by CIPFA and government (predominantly CLG) to determine:

- whether current guidance on the treatment of PBR payments does require their accrual on this basis; and
- if so, whether different arrangements might be considered for some or all PBR schemes.

## 5.3 Wider lessons

### 5.3.1 Introduction

As will be clear from this report and especially from section 4, the key challenge of this project has been the application of PBR and SIBs to interventions which address a complex range of problems and require commissioning of a range of outcomes. This is inherently more challenging, across a number of dimensions, than the application of PBR to a single outcome. Figure 5.1 below summarises (in simplified form) the key differences between family intervention and existing PBR schemes in the areas of employability and justice.

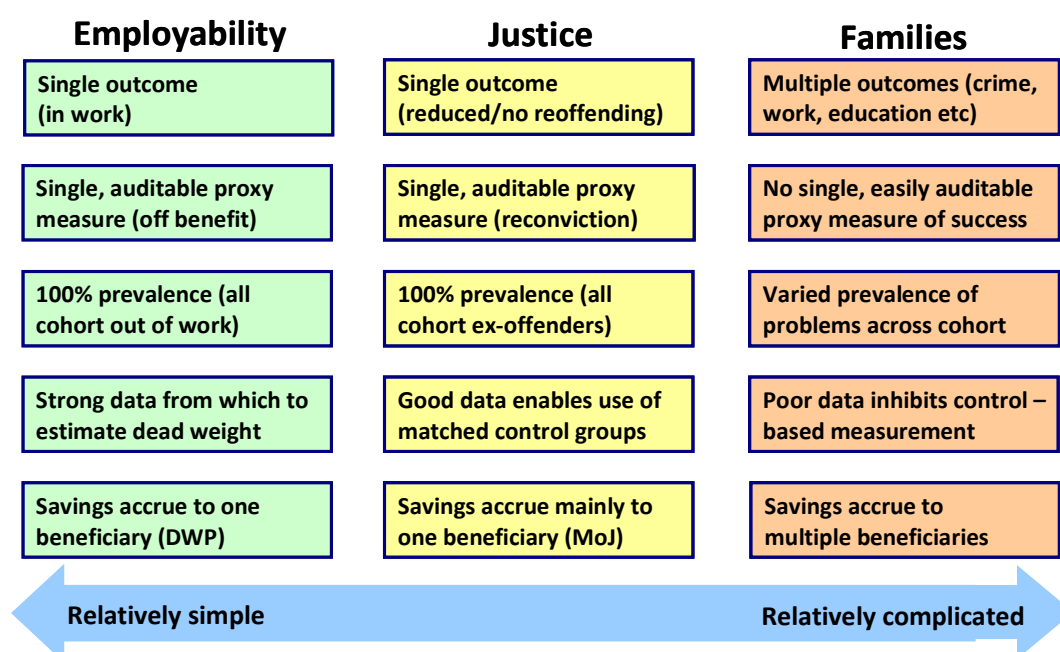


Figure 5.1 – Multi-outcome family PBR versus single outcome programmes

This inherent complexity has been a recurring theme throughout the project and leads in our view to the need for different approaches for single and multiple outcomes.

### 5.3.2 Implementation of PBR in single outcome areas

The practicability of PBR in single outcome areas is demonstrated not only by existing government programmes but also by the development of other potential PBR contracts and SIBs through this project and in parallel with it. It was clear from the comparatively early stages of this project that it would be relatively straightforward to achieve a successful PBR/SIB for what we have referred to in this report as “narrow” propositions – such as those around children in care or at risk of entering care, currently being explored by BCC. LCC’s proposition in relation to older children with special educational needs has similar characteristics and similar approaches are being taken forward outside this project by other LAs. Most notably, both Essex County Council and Manchester City Council are well advanced in the development of SIB type approaches in relation to children on the edge of care or custody.

Narrowly based propositions in these areas have the added advantages (in addition to being based on a single outcome and single measure of success) that:

- the bulk of benefit accrues to the LA, thereby avoiding the challenge of getting significant contributions to payments from other agencies; and
- savings tend to be highly “cashable” since the current services are mainly procured through external, spot contracts with known costs and a high degree of variability.

While many practitioners are cautious about the application of PBR to children in or at the edge of care, we would expect the development of PBR in this and related areas to develop relatively quickly (and without dismissing the significant challenges in implementing PBR in any new area). PBR could, for example, be applied to aspects of adult care, such as the commissioning of services which prevent or reduce the use of expensive residential facilities for both disabled adults and older people.

### 5.3.3 Extending PBR to multi-outcome areas

The extension of PBR to single outcome areas in local government and elsewhere in this way would be an acceptable way forward in the short term. However, it means that the benefits of PBR and use of external social investment will be limited in some of the areas where it could be most beneficial, and address some of the most deep-seated and intractable social problems. Examples of such multi-outcome areas include troubled families, multi-disadvantaged adults, the homeless and rootless and some groups who are misusing drugs and alcohol.

We believe that it is possible to apply PBR to multiple outcomes but it requires innovation and different thinking, and a greater degree of compromise against a “pure” PBR model on the part of commissioners and providers/investors in some key areas. This report has deliberately explored some of these key issues in some detail. Among the areas where we believe multiple outcomes require a different approach are:

- specifying the outcomes which attract payment. There is no single “magic bullet” which will turn around a troubled family. A whole family approach requires either multiple specification and payment for separate outcomes or specification of a single or low number of outcomes alongside a “basket” of outcomes which link more loosely to payment (or are not included in the payment tariff);
- identifying the characteristics of the cohort. Unless commissioners have exceptional and recent data on their chosen cohort, they will need to assess the extent and severity of problems faced on entry to the programme. This reduces the risk to providers and investors, and ensures the right match of current problems and desired outcomes, but means that the cohort will of necessity be pre-selected, and providers will not be working with all families in an area;
- measuring impact. The more robust methods of measuring impact against a physical or even a synthetic control group will be very hard to use when impact has to be measured across a number of potentially quite different outcomes. This means that baselining methods, possibly linked to assessment on programme entry, will have to be adopted. This in turn means that commissioners, and potentially others who contribute to payments, will have to accept a lower level of proof of additionality; and

- encouraging contributions from other agencies. Multiple outcomes will almost certainly entail multiple beneficiaries across local agencies and potentially central government. As we have commented, it is easy for third parties to find ways to argue against making a contribution to PBR schemes, even when the benefits to them of successful outcomes are clear cut. Ways therefore need to be found to encourage or even enforce co-payment for outcomes in these circumstances.

#### **5.3.4 Combining short and long term objectives**

Finally, we would note that the two paths outlined above are not mutually exclusive approaches. PBR on a narrower basis should be encouraged, but alongside the more structured collection of data on primary and secondary outcomes, so that we start to build the wider evidence base which supports and mitigates riskier, multi-outcome approaches.

## Appendix A – Project approach and governance

### Introduction

This section outlines the approach to the project including:

- the organisation of the project, including team working and governance and the innovative way in which the project involved joint working between the Cabinet Office, consultants, and local government;
- the approach taken to the feasibility stage of the project, and especially to the financial modelling of costs and benefits; and
- the approach taken to other aspects of the PBR design.

### Organisation and governance

The organisation of this project was innovative and unusual. Prime responsibility for delivering interventions aimed at turning round troubled families (or commissioning such intervention from third parties) rests with local government, although other agencies (e.g. Jobcentre Plus and Work Programme providers in relation to employment outcomes), have a key role to play.

In general, therefore, it should be for LAs themselves to take the lead in deciding whether and how to pursue PBR as part of their delivery and commissioning strategies in relation to families. However in this case, the Cabinet Office Social Investment and Finance team chose to play a facilitating and catalytic role, initiating a pilot project through which the four chosen LAs would be invited to test the feasibility of PBR for families, with the aim both of implementing PBR where possible and learning wider lessons that could be applied to other LAs.

In this role the Cabinet Office team were responsible for:

- selecting the pilot LAs. The four pilot LAs were all existing participants in the Community Budgets pilot. They were selected after discussion with the Cabinet office at senior level in the summer of 2011;
- engaging consultants to provide technical support to the project. A4e Insight was selected were selected to support the project following an open competition in July/August 2011; and
- committing their own resources to the project. The Cabinet Office committed three people to the project on a near full-time basis and supported these resources with other input at more senior levels.

On a day to day basis, therefore, the project was led by a mixed team from the Cabinet office and A4e Insight working closely with the four pilot LAs, who each assigned their own teams to the project.

In addition the joint team was able to draw on wider experience and expertise from other government departments. This was especially useful in addressing complex aspects of the PBR design, some of which raised new issues and questions (see sections 3 and 4).



All key parties to the project were represented on a Steering Group which was chaired by Paul Kirby of the No 10 Policy Unit and included senior representation from the joint Cabinet Office/A4e Insight team, the four pilot LAs, and other government departments. This Steering Group met to discuss the progress of the project and provide guidance on key aspects on four occasions:

- at project initiation (September 2011);
- after initial exploration of options with the LAs (early November 2011);
- at completion of the feasibility stage (Late December 2011); and
- at completion of the design stage (April 2012).

### **The feasibility stage**

The design phase of the project can broadly be divided into two stages:

- 1 an initial feasibility stage (described further below) during which we examined whether a PBR approach might be feasible and developed an outline business case or cases for each LA. We also carried out a survey of potential providers and investors, in order to get an initial view of appetite and interest in this area. This stage ran from September to December 2011; and
- 2 a subsequent detailed design stage (described in section 3.4) when the initial findings were reviewed and refined, and other key design issues were examined (from January to April 2012).

### **Assessment of costs and benefits**

During the initial feasibility stage the focus was mainly (but not entirely) on determining whether there was a business case which would justify a PBR/SIB approach. At its most simple level, such a business case requires the benefits achieved by improved outcomes (through reduced costs to the public sector) to be higher than the additional costs of intervention.

While there were some variations in approach between the LAs, depending on their own views of how they wished to work with families and the services they might want to commission, we adopted a broadly similar approach across all the LAs to developing each business case. This was to:

- identify the outcomes which might be improved by family intervention;
- calculate the current costs associated with these outcomes (assuming no change);
- calculate the extent to which costs would reduce if outcomes were improved; and
- make estimates of the extent to which such reductions in cost:
  - ~ could be converted into cashable savings; and
  - ~ would accrue to the LA or to another agency.

The methodology used to derive the business cases (and some of the challenges encountered) is explained further in section 3 of this report.

In order to support the business case analysis we developed a number of tools, notably:

- a spreadsheet- based financial model; and
- a data input sheet (also spreadsheet-based)

The key deliverable from this stage was an outline business case for each LA. In some cases more than one business case was developed depending on the specific propositions which the LA wished to test.

## **Review of provider and investor views**

During the feasibility stage of the project we also gathered views from a range of providers and investors on the broad propositions under development in order to gauge their appetite for this market, the key risks they foresee in family opportunities, and the way they would like to see those opportunities put to market.

The findings of this initial market review (covering 10 organisations) were reported to the Project Steering Group on 20 December, and are summarised in section 3.5 of the report.

## **The detailed design stage**

While the focus of the feasibility stage was on costs and benefits, we also considered a number of issues which would need to be resolved if successful PBR agreements were to be developed. These issues were then considered in more depth in the second, detailed design stage between January and March 2012. The range of issues considered and our conclusions are described in detail in section 4 of this report.

Our approach to this work was more centralised, since many of the issues were common to all the LAs. Essentially it involved:

- discussion and debate on options within the Cabinet Office/A4e Insight team;
- meetings to draw on the experience of others, and especially on the experience of other government departments who had developed, or were in the process of developing, similar arrangements; and
- confirmation and refinement of our conclusions with the LAs themselves.

During this detailed design phase we also undertook further consultation with providers and investors and in particular held a one-day conference for providers, investors and intermediaries on 13 March 2012. The lessons learnt from this event are discussed in section 4.7 of this report.