



IS 'PAY FOR SUCCESS' AN EFFICIENT WAY TO UNLOCK NEW CAPITAL INVESTMENT AND ADVANCE SOCIAL GOODS?

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OVERVIEW

What is 'Payment by Results'?

Social Impact Bonds

The current evidence base

Lessons for policy/practice

Conclusions





PAYMENT BY RESULTS

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What is it?

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

Why do it?

- Improve outcomes or service quality
- Reduce costs or improving value for money
- Stimulate innovation or transformational change
- Transfer risk

(Audit Commission 2012, Batty and Sunderland 2011, Fox and Albertson 2012)



EXTENT OF PBR IN UK

- More than 50 schemes containing an element of PBR worth a total of at least £15 billion of public money in the UK (National Audit Office, 2015).
- Covers diverse areas including welfare to work, social work, criminal justice and overseas development



EXAMPLE: THE WORK PROGRAMME (DEPT OF WORK AND PENSIONS)

- Brings together various programmes designed to help people back into work into a single scheme.
- **Providers:** 17 prime contractors, with about 850 subcontractors (public, private and voluntary organisations)
- **Contracts:** 40 across 18 areas - at least 2 providers per area.
 - Each individual contract will be worth £10-50 million per year.
- **Budget:** £3.3 billion over 9 years
- **PbR:**
 - attachment fee paid when a benefit claimant starts on the programme,
 - job outcome fee paid when claimants enter work
 - sustainment payments paid for keeping claimants in work
- PbR proportion of contract: DWP expects 80% of payments to be outcome-based over the life of the programme





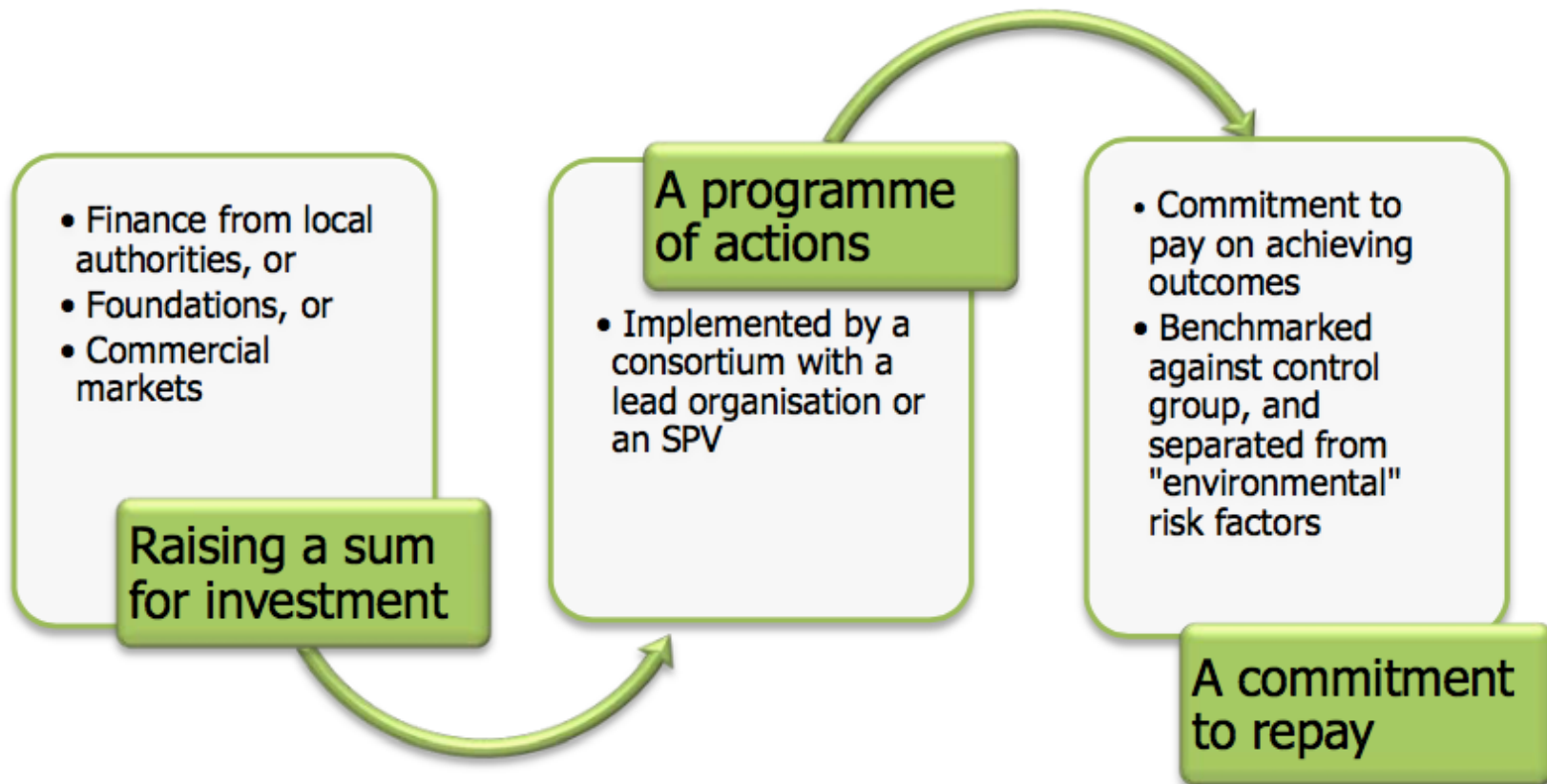
SOCIAL IMPACT BONDS (SIBS)

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- Social Impact Bonds (SIBs) are a form of payment by results which allow the financing of social outcomes via private investment. Key elements:
 - An investor. To date investment has tended to come from social investors (Ronicle et al. 2014), but need not (Mulgan et al. 2010, Social Impact Task Force 2014);
 - A programme of actions to improve the prospects of a group (Mulgan et al. 2010); and
 - Commitments by a payer (usually national or local Government) to make payments linked to improved social outcomes achieved by the group (Mulgan et al. 2010).



A GOVERNMENT PROMISE IS VALUABLE (MULGAN ET AL. 2010)

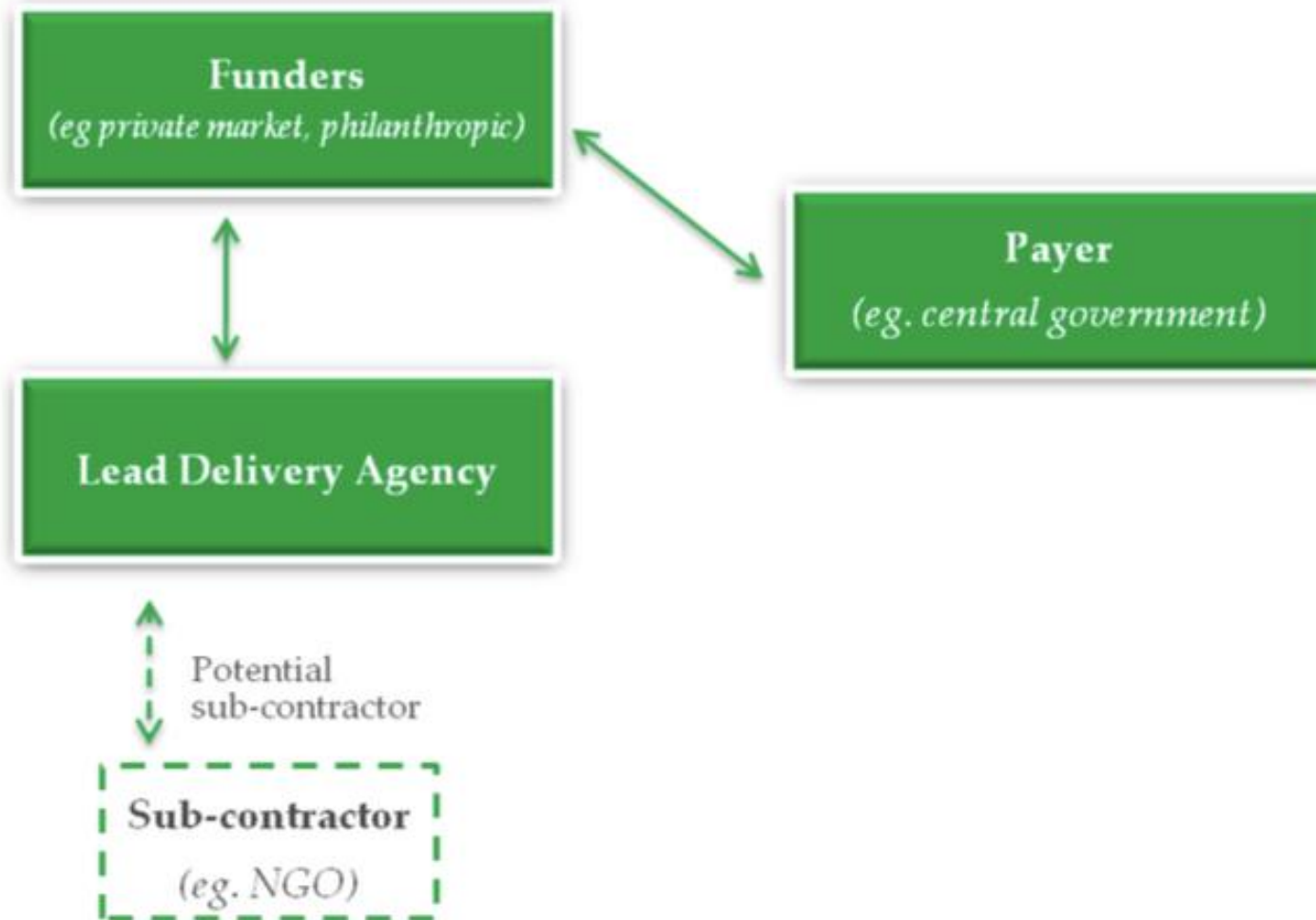


HOW DO SOCIAL IMPACT BONDS WORK?

- A branch of national / local government will agree to pay for a measurable, social outcome
- This prospective income is used to attract new funds to meet the up-front costs of the activity (Mulgan *et al.* 2010).
- New funds could come from the public sector, private sector or a social investor (*ibid*).
 - In the first instance finance is most likely to come from ‘venture philanthropists’.
 - Mulgan et al. (2010) suggest that private finance for SIB is 5 – 10 years away.



TYPICAL STRUCTURE (MULGAN ET AL 2010)



EXAMPLE: THE HMP PETERBOROUGH SIB

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





THE EVIDENCE BASE

PAYMENT BY RESULTS

Outcomes

- Currently no strong evidence for PbR delivering better outcomes.
- Example: Work Programme delivers comparable outcomes to previous programmes with some very small reductions in cost, but not working well for people with complex needs.

Innovation

- Evidence suggests that the financial risks associated with PbR contracts do not encourage innovation.

New Market entrants

- PbR as a marketization strategy can encourage new market entrants, but terms of contract are crucial.

NATIONAL AUDIT OFFICE REVIEW (2015)

- Major review of PbR in UK highlighted limited evidence on effectiveness
 - “While supporters argue that by its nature PbR offers value for money, PbR contracts are hard to get right, which makes them risky and costly for commissioners. If PbR can deliver the benefits its supporters claim – such as innovative solutions to intractable problems – then the increased cost and risk may be justified, but this requires credible evidence. Without such evidence, commissioners may be using PbR in circumstances to which it is ill-suited, with a consequent negative impact on value for money.” (National Audit Office 2015: 8)



WHY IS THE EVIDENCE BASE POOR? (WEBSTER 2016)

- Some substantial PbR pilots were cancelled or modified before being completed
 - e.g. Probation Innovation Pilots, Peterborough SIB
- Evaluation plans which intended to compare PbR pilot areas with other areas became undone because of wider public service reform
 - e.g Supporting People PbR pilot, Justice Reinvestment pilot
- Many new initiatives not yet mature enough for a full evaluation
- Many schemes in health care (such as the Quality and Outcomes Framework) were implemented nationally, making it difficult to attribute change to PbR.



CHALLENGES FOR SOCIAL IMPACT BONDS (BASED PARTLY ON RONICLE ET AL. 2014)

- Achieving the right balance of risk
- The complexity of SIBs and consequent time and cost of development
 - Multiple actors
 - Avoiding perverse incentives
 - Gaming
- Limitations in the evidence about ‘what works’
- Evidence that outcomes have been achieved
- Identifying financial benefits



ADDRESSING THEORETICAL AND IDEOLOGICAL CONCERNS

- “SIBs shift financial risk of new interventions away from the public sector, towards investors, resulting in innovation and diversification of service provision.” (UK Cabinet Office)
- “deepening of capitalist disciplinary logics into the social fabric”. (Dowling and Harvie’s 2014: 869)





LESSONS FOR POLICY/PRACTICE

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DEFINING SERVICE SUITED TO PBR (NATIONAL AUDIT OFFICE 2015)

Characteristics

Clear overall objectives, capable of being translated into a defined set of measurable outcomes

Clearly identifiable cohort/population

Ability to clearly attribute outcomes to provider interventions

Data available to set baseline

An appropriate counterfactual can be constructed

Services are non-essential and underperformance or failure can be tolerated

Providers exist who are prepared to take the contract at the price and risk

Providers are likely to respond to financial incentives

Sufficient evidence exists about what works to enable providers to estimate costs of delivering services

Relatively short gap between provider intervention and evidence of outcome





CONCLUSION

PAYMENT BY RESULTS

- PbR has place in the provision of services
- Transference of risk is attractive to government.
- PbR might be attractive to commissioners where
 - client group is fairly large and homogenous
 - service provision is highly integrated
 - measurement of outcomes is straightforward
 - fiscal return on achievement of outcomes is easy to establish
- Based primarily on the UK experience, a provisional assessment of whether PbR is an efficient way to unlock new capital investment and advance social goods is that the evidence base is not yet sufficiently developed to answer this question and that what evidence there is to date is inconclusive.



SOCIAL IMPACT BONDS

- SIBs provide opportunities to unlock new capital investment and advance social goods over and above other models of PbR.
- The potential to bring in additional, external investment replacing the need for the commissioner or service provider to provide up-front working capital opens up new opportunities for innovation both in the interventions that are implemented and the collaborations between organisations delivering them.
- The introduction of social investors together with the potential for SIBs to address misaligned incentives in current service delivery and fund new preventative services that can save costs down-stream raises the prospect of real advances in tackling complex and entrenched social needs.
- But, to date, their development has been slow and relatively complex and the evidence-base for their effectiveness is limited (Ronicle et al. 2014, Tan et al. 2016).



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