

Payment By Results and Social Investment

Briefing from NCVYS
August 2011

About NCVYS

The National Council for Voluntary Youth Services (NCVYS) is the independent voice of the voluntary youth sector in England. A diverse and growing network of over 280 national voluntary youth organisations and regional and local youth networks, NCVYS has been working since 1936 to raise the profile of youth work, share good practice and influence policy that has an impact on young people and the organisations that support them. Our mission is to work with our members from voluntary and community organisations to build thriving communities and sustainable networks that help all young people achieve their potential.

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About This Briefing

This briefing is provided on behalf of the Department for Education's overarching strategic partnership which aims to support the evolving economy and infrastructure of the whole voluntary, community and social enterprise sector serving children, young people and families. It will also share the best practice, expertise, learning and concerns of the sector with the DfE.

Led by Children England, and working with Community Matters, NCVYS, NAVCA, The Race Equality Foundation and the Social Enterprise Coalition, the partnership will use its extensive combined member networks and stakeholder groups to shape and deliver activities with the sector, and gather the perspectives of thousands of organisations and community groups. The programme will include information, learning resources and opportunities, and peer support networks. The aims being to offer practical help to support the sector's sustainability and explore the potential for growth from a range of funding mechanisms and service models.

Introduction

This briefing sets out details of Payment By Results (PBR) and Social Investment, a Government approach to funding services. At the end is a list of questions intended to stimulate thinking on the implications of the approach for the voluntary, community and social enterprise sector (VCSES).

It explores the concept of PBR, examines the increasing use of it over the last few years, and sets out areas where the Government is introducing PBR. This includes employment, rehabilitation and drug programmes, as well as children's services. It concludes with some questions for the VCSES which are posed by PBR.

What is Payment By Results?

Payment By Results (PBR) is part of a wider shift towards outcomes-based commissioning. This is where a commissioning body agrees to fund a provider on the basis that they will achieve particular agreed outcomes, rather than deliver particular outputs. PBR refers to a system in which public service commissioners pay providers according to specified outcomes as opposed to paying for services at the start of a contract.

It is intended to create incentives to drive improved performance from providers and to ensure commissioners use resources more efficiently.¹ The theory is that because providers will get funding for each extra service user they benefit, they will become more efficient at delivering the desired outcomes. This enables a more devolved and flexible approach with less interference from Government in asking providers to meet centralised targets. It should enable organisations to deliver the results in the way that they've chosen, with the ability to innovate, in the knowledge that they will be held accountable for the results.

History

The concept of PBR became more widespread following the NHS Plan published by the Labour Government in July 2000.² The Department of Health paper *NHS Financial Reforms: Introducing Payment by Results*, published in October 2002, introduced the Government's intention to link the allocation of funds to hospitals to the activity they undertook. The aim of this reformed financial system was to "offer the right incentives to reward good performance, to support sustainable reductions in waiting times for patients and to make the best use of available capacity."

Since then the concept of PBR has spread to other public services. The Labour Government's Department for Work and Pensions' 2008 *Commissioning Strategy* introduced a "much greater focus on payments by results when awarding welfare-to-work contracts".³ The Coalition Government's Commissioning Green Paper, *Modernising Commissioning: Increasing the role of charities, social enterprises, mutuals and cooperatives in public service delivery* confirmed that the Government "intends

¹ *Payment by results enters adult social care field: The results business*, Community Care (23 January 2011) <http://www.communitycare.co.uk/Articles/2011/01/23/116149/Payment-by-results-enters-adult-social-care-field.htm>

² *Payment by Results*, Department of Health http://www.dh.gov.uk/en/Managingyourorganisation/NHSFinancialReforms/DH_077259

³ *Specialists must help the long-term unemployed not just find work but stay in work*, The Department for Work and Pensions (28 February 2008) <http://www.dwp.gov.uk/previous-administration-news/press-releases/2008/february-2008/emp063-280208.shtml>

to identify particular opportunities to expand the use of payment by results across particular service areas.”⁴ Projects using PBR in areas such as reducing reoffending and tackling drug addiction are already underway. Lord Wei, former Government Adviser on Big Society, estimated in March 2011 that the value of payment-by-results contracts to VCSE groups could grow to £60bn.⁵

The Green Paper recognises that to underpin the Government’s commitment to PBR, commissioners must have a full understanding of the value of potential results. “Understandings of value should be driven by citizens and communities, wherever appropriate. This will enable commissioners to focus services on the social, environmental and economic priorities of the people they serve. This may include issues relating to the promotion of equality, diversity and meeting the needs of disadvantaged groups.”

How is government proposing to use PBR?

The *Open Public Services* White Paper sets out how the Government will improve public services, based on the five principles of choice, decentralisation, diversity, fairness and accountability.⁶ It says that “open commissioning and payment by results are critical to open public services. This is not just about opening up services to competition; it is also about empowering all potential providers, from whichever sector, with the right to propose new ways to deliver services, and linking payment to results so that providers are free to innovate and eliminate waste.” It recognises that “Some outcomes take such a long time to deliver, such as the impact of early years family interventions in cutting crime, that a payment by results model may need proxy outcomes to be set that are deliverable more quickly.”

Early Intervention

PBR has been welcomed by Government as an opportunity to focus spending on early intervention. Graham Allen MP’s Government-commissioned reports on early intervention set out an ambition to avoid costly and damaging social problems by investing in evidence based early intervention programmes. The reports argue for investment in “well-tested programmes, low in cost, high in results, which have a lasting impact on all children, especially the most vulnerable.” They state that we have been focused on tackling the symptoms of social problems and ignoring the causes, yet by intervening early, we can give children the social and emotional foundation to keep them happy, healthy and achieving throughout their lives.⁷

⁴ *Modernising Commissioning: Increasing the role of charities, social enterprises, mutuals and cooperatives in public service delivery*, Cabinet Office (December 2010) <http://download.cabinetoffice.gov.uk/green-paper/commissioning-green-paper.pdf>

⁵ *Social investment and contracts will compensate for council cuts, says Lord Wei*, Third Sector Online (28 March 2011) <http://www.thirdsector.co.uk/news/Article/1062403/Social-investment-contracts-will-compensate-council-cuts-says-Lord-Wei/>

⁶ *Open Public Services White Paper*, HM Government (July 2011) <http://www.cabinetoffice.gov.uk/sites/default/files/resources/open-public-services-white-paper.pdf>

⁷ *Early Intervention: The Next Step*, Graham Allen MP (January 2011) <http://www.dwp.gov.uk/docs/early-intervention-next-steps.pdf> and *Early Intervention: Smart Investment, Massive Savings*, Graham Allen MP (July 2011) <http://www.cabinetoffice.gov.uk/sites/default/files/resources/earlyintervention-smartinvestment.pdf>

Allen's second report, *Early Intervention: The Next Step*, argues for the increased use of "pioneering financial ideas, such as PBR for outcomes and social impact bonds" to reduce the number of children and young people getting into difficulties. It believes that "outcome-based payments can help to encourage delivery providers to focus on programmes or interventions that have a proven evidence base and ensure fidelity in the way those programmes are implemented" and hopes that PBR systems are at the heart of the government's public service reform agenda.

It also details the importance of having outcome measures against which progress can be judged. It notes that benchmarks for later intervention (e.g. the number of prisoners who do not repeat offend and return to jail) are often easier to find and define than those for early intervention (for example, the number of babies who are not developing social and emotional skills effectively). It proposes ways to put monetary values on the consequences of making or not making effective early interventions. The Government's Child Poverty Strategy also outlines how it intends to use PBR to implement approaches "that aim to capture social returns and incentivise early intervention."⁸

Children's services

In June 2011, the Department for Education wrote to Directors of Children's Services to set out its plans to commence trials to explore the introduction of PBR for Sure Start Children's Centres. The letter said, "the Government wants to use payment by results to incentivise a focus on the proposed core purpose of children's centres: to improve child development and school readiness among young children and to reduce inequalities. This includes identifying, reaching and supporting the most disadvantaged families to improve their parenting aspirations and skills and to promote family health and life chances. It will be crucial to explore the potential to join up with other payment by results schemes being developed across Government."⁹

In July, the Department for Education announced that it had made £3million available this year for up to 30 local areas to trial payment by results in children's centres. "The trials will look at how to reward local authorities and centres on how well they reach and support the most vulnerable families to narrow gaps in child development, raise attainment at the end of the foundation years and improve family health and wellbeing."¹⁰

The Department for Education has since confirmed that nine local authorities will be the first to trial PBR for children's centres. It added that "the experience of the trial areas will help the Government and local

⁸ *New Approach to Child Poverty: Tackling the Causes of Disadvantage and Transforming Families' Lives*, Department for Work and Pensions and the Department for Education (April 2011)

<http://www.education.gov.uk/publications/eOrderingDownload/CM-8061.pdf>

⁹ *Payment by results for Sure Start Children's Centres - local authority trials*, Department for Education (09 June 2011)

<http://media.education.gov.uk/assets/files/pdf/t/tom%20jeffery%20letter%20to%20dcss%209%20june%202011.pdf>

¹⁰ *Government sets out reform of early learning and children's centres*, Department for Education (6 July 2011)

<http://www.education.gov.uk/childrenandyoungpeople/earlylearningandchildcare/a00191829/government-sets-out-reform-of-early-learning-and-childrens-centres>

authorities develop a final set of measures so payment by results can be rolled out nationally from 2013-14.”¹¹

Measures to be tested by the trial areas include:

- Early Years Foundation Stage Profile assessments – to narrow the gap in attainment at age five so more children start school achieving the expected level.
- Breastfeeding prevalence at 6-8 weeks – to be developed in partnership with the Department of Health’s plan for a Health Premium for public health outcomes.
- Parenting/home learning environment – for example, completion of evidence based parenting programmes by vulnerable families.
- Sustained contact with families in greatest need – so that children’s centres are targeting families most in need of their services effectively.

Additionally, Social Finance, an organisation created to develop a social investment market in the UK, has been “undertaking detailed feasibility studies in Essex, Liverpool and Manchester to assess the opportunities for establishing Social Impact Bonds to address the problems of some of the most vulnerable young people and their families.”¹² These Social Impact Bonds, a form of PBR, will fund services targeted at vulnerable children, young people and their families. The project will try to prevent time spent in care by adolescents experiencing behavioural problems or family breakdown through initiatives including intensive family support and therapeutic approaches.¹³

Work Programme

The Work Programme, the new Government’s employment programme, is described by the Government as “the first major move into a system of payment by results for the public sector”.¹⁴ The programme aims to support around two and a half million people back to work in the next five years. Payments to providers will be based primarily on the results they achieve, with challenging minimum performance levels and year-on-year price reductions to drive improved performance continuously.¹⁵ It will provide much higher payments to help those groups who are furthest from work – with fees for the

¹¹ *Government sets out vision to support parents and families*, Department for Education (18 July 2011) <http://www.education.gov.uk/childrenandyoungpeople/earlylearningandchildcare/a00191829/government-sets-out-reform-of-early-learning-and-childrens-centres>

¹² *Services for Young People: Written Evidence Submitted by Social Finance*, Education Select Committee (May 2011) <http://www.publications.parliament.uk/pa/cm201011/cmselect/cmeduc/writev/744/syp156.htm>

¹³ *Councils pilot payment-by-results*, CYPNow (05 April 2011) http://www.cypnow.co.uk/bulletin/cypnow_daily/article/1063519/councils-pilot-payment-by-results/

¹⁴ *Biggest back to work programme in decades will be built on payment by results*, Department for Work and Pensions (22 December 2010) <http://www.dwp.gov.uk/newsroom/press-releases/2010/dec-2010/dwp184-10-221210.shtml>

¹⁵ Further information on the Work Programme can be found in: *Preparing for the Work Programme: what does recent research tell us about outcome based contracting?*, LVSC (August 2010) http://www.ncvo-vol.org.uk/sites/default/files/LESPN_Outcome_based_commissioning_and_the_Work_Programme-2.pdf

hardest to help groups a maximum of £14,000. 508 VCSES organisations will be involved in delivering the Work Programme, after private and VCSES organisations were invited tender for contracts.¹⁶

Rehabilitation

The Ministry of Justice is developing a number of pilots to test the principles of PBR. At HMP Doncaster, Serco will operate the first of the new PBR pilots announced in the Justice Green Paper, which will see them working with VCSE organisations including Turning Point and Catch 22.¹⁷ They will work with other providers to enable them to meet the specific needs of each individual offender, including areas such as employment, training and education, family links and accommodation. The PBR element means that 10 per cent of the contract price will only be payable if the operator reduces the one-year reconviction rates of offenders discharged from the prison by five percentage points.

The Ministry of Justice's Competition Strategy for Offender Services emphasises that it is keen to develop and expand PBR models.¹⁸ The Youth Justice Board's Corporate and Business Plan 2011/12 – 2014/15 also includes proposals to launch PBR for youth offending teams.¹⁹ The Ministry of Justice is also exploring Social Impact Bonds, with a pilot scheme at HMP Peterborough (see below for further details).

Drug recovery

The Home Office's Drug Strategy set out plans to introduce "pilots to explore how Payment by Results (PBR) can work for drugs recovery for adults, which will also provide evidence on affordability and value for money as part of the evaluation of these pilots."²⁰ The Open Public Services White Paper confirmed that eight PBR drug recovery pilot areas have been working with independent experts and the Government since April to co-design local PBR models that the areas will be implementing locally from October of this year.

The PBR pilots are part of an approach to delivery which involves working with wider services, including education, training, employment, housing, family support services and health services. The Government "will encourage local areas not to commission services in isolation, but to jointly commission and deliver 'end to end' support... We will therefore encourage local areas to make the most of increasingly pooled

¹⁶ Grayling launches a revolution in back to work support as the Work Programme rolls out nationwide, Department for Work and Pensions (10 June 2011) <http://www.dwp.gov.uk/newsroom/press-releases/2011/jun-2011/dwp062-11.shtml>

¹⁷ Prisons competition outcome, Ministry of Justice (31 March 2011) <http://www.justice.gov.uk/news/press-releases/moj/press-release-310311b.htm>

¹⁸ Competition Strategy for Offender Services, Ministry of Justice (July 2013) <http://www.justice.gov.uk/downloads/publications/policy/moj/competition-strategy-offender-services.pdf>

¹⁹ Corporate and Business Plan 2011/12 – 2014/15, Youth Justice Board (July 2011) <http://www.justice.gov.uk/downloads/publications/corporate-reports/yjb/yjb-business-plan-2011-15.pdf>

²⁰ DRUG STRATEGY 2010. Reducing Demand, Restricting Supply, Building Recovery: Supporting People to Live a Drug Free Life, HM Government (December 2010) <http://www.homeoffice.gov.uk/publications/alcohol-drugs/drugs/drug-strategy/drug-strategy-2010?view=Binary>

funding to jointly commission recovery services.”²¹ The Department of Health has published draft outcome definitions for the PBR drug and alcohol recovery pilots, showing that the pilots involve outcomes across four domains: getting people free of drugs of dependency, reducing offending or ‘continued non-offending’, sustained employment or full-time education; and ‘health and well-being’.²²

The Drug Strategy also stated that “the work to implement PBR for drugs recovery will provide lessons that will help set the future direction for all commissioning of drug services under Public Health England (PHE), including assessing the value for money evidence of the pilots. Whilst there will be elements of the approach that are specific to the pilots, we believe the underlying principles fit well with the increased levels of pooled funding, that will take place from April 2011, and that offer greater opportunities for local areas to take advantage of joint commissioning and reduced duplication of systems.”

One of the organisations involved in the pilots, drug and alcohol treatment charity Addaction, is also “seeking to roll out its Breaking the Cycle (BtC) programme across the UK on a payment-by-results basis.”²³ The programme is designed to help families with drug and alcohol problems, and Addaction are looking for more councils to fund their work.

Vulnerable people

The Open Public Services White Paper also includes proposals to include PBR to support vulnerable people. “Ten local authorities will be testing out a range of innovative payment by results models with their providers in relation to Supporting People services. These models will be tested during the latter part of 2011 until 2013.”

Social Impact Bonds

Even where PBR models include some funding before outcomes are achieved, many VCSE organisations may struggle with upfront costs and be unwilling to take on the risk of financing their work with loans or other financial instruments.²⁴

Social Impact Bonds (SIBs) are one method by which PBR could be implemented where VCSE organisations aren’t exposed so much to the financial risks. The Young Foundation summarises their aim

²¹ Reducing demand, restricting supply, building recovery: supporting people to live a drug-free life, Home Office (8 December 2010) <http://www.homeoffice.gov.uk/publications/alcohol-drugs/drugs/drug-strategy/drug-strategy-2010?view=Binary>

²² *Views sought on outcome definitions for ‘payment by results’ drug and alcohol recovery pilots*, Department of Health (13 July 2011) http://www.dh.gov.uk/en/Aboutus/Features/DH_128259

²³ Addaction seeks payment-by-results commissioning, CYPNow (31 March 2011) <http://www.cypnow.co.uk/Health/article/1063416/Addaction-seeks-payment-by-results-commissioning/>

²⁴ See: *A way ahead for the Big Society Bank and young people*, The Unclaimed Assets Group (February 2011) http://ncvys.org.uk/UserFiles/A_way_ahead_for_the_Big_Society_Bank_and_young_people_Spring2011.pdf

as: “to encourage an investor to fund new initiatives to reduce social problems, so reducing future public expenditure and freeing up resources to pay back the original investor.”²⁵

The Young Foundation identifies three elements to SIBs:

- Upfront monetary investment (e.g. from local authorities, commercial investors, philanthropists or foundations);
- A service which improves the prospects of a group (e.g. a support and mentoring service to those leaving prison with the aim to reduce re-offending); and
- Commitments by national or local Government, or foundations, to make payments linked to improved social outcomes achieved by the group (e.g. re-payment of the original investment and an extra percentage agreed return, sustained by reduced costs for the Ministry of Justice through reducing re-offending and numbers in prison).²⁶

The first Social Impact Bond is being piloted at HMP Peterborough. Social investors will be rewarded for reducing reoffending amongst 3,000 short-sentenced offenders discharged from the prison over six years. Social Finance, a financial intermediary, obtained approximately £5 million of investment funding from private individuals and charities. A number of VCSE organisations, including the St Giles Trust and the YMCA, will be funded to deliver services to the prisoners to prepare them for release. Investors will receive a return if reoffending drops by more than 7.5% within the six years.²⁷ The total cost of the project will be capped at £8m.

Social Finance suggested in its evidence to the Education Select Committee’s Inquiry into Services for Young People that SIBs “potentially offer a mechanism to pay for improved youth outcomes.”²⁸ But the submission also highlighted that SIBs are just one of a range of social investment instruments, and will not replace revenue from grants and contracts.

Questions for the VCSES

The Government hopes that PBR methods will offer the VCSES an opportunity to fund its services. However many VCSE organisations have expressed concerns about PBR. Particular issues include:

1. Are VCSE organisations ready for PBR?

²⁵ *Social Impact Bonds*, The Young Foundation (accessed on 25 July 2011) <http://www.youngfoundation.org/our-work/advising-public-service-innovation/social-impact-bonds/social-impact-bonds>

²⁶ *Social Impact Investment: the challenge and opportunity of Social Impact Bonds*, The Young Foundation (revised March 2011) http://www.youngfoundation.org/files/images/11-04-11_Social_Impact_Investment_Paper_2.pdf

²⁷ *Investors in rehabilitation: social impact bond launched*, Directgov (10 September 2010) http://www.direct.gov.uk/en/N11/Newsroom/DG_190725

²⁸ *Services for Young People: Written Evidence Submitted by Social Finance*, Education Select Committee (May 2011) <http://www.publications.parliament.uk/pa/cm201011/cmselect/cmeduc/writev/744/syp156.htm>

Kathy Evans, Deputy Chief Executive of Children England, has said that the idea of receiving payment after costs are incurred will be new to many organisations.²⁹ VCSES, especially smaller ones, may be unsure about paying for infrastructure costs (such as staff and premises) on the expectation of getting paid in the future for the results they deliver. NCVYS's response to the Ministry of Justice's consultation *Breaking the Cycle: Effective Punishment, Rehabilitation and Sentencing of Offenders*, argued for transitional funding, perhaps in the form of some seed-corn grants, to develop sustainability around PBR for smaller VCSES.³⁰ This reflected evidence from the Young Foundation on the capacity of the voluntary and community youth sector to deal with PBR, which has found that the majority are not ready for social investment, and that those organisations most able to deal with PBR will be larger organisations with capital.³¹

Ravi Chandiramani, editor of *Children & Young People Now*, has expressed concern that "small charities are struggling to survive as it is without waiting until the results of their work are out to be paid. What is more, they may lack the resources to evaluate what they do to the level demanded. The unintended consequence could be to deny some of the most innovative programmes by small groups that are close to communities."³² This problem is particularly acute for VCSES organisations doing work which may take years for the outcomes to be evident – they will need funding before this. The model of the social finance retailer, such as the one NCVYS hopes to establish before the end of 2011, is to provide working capital (cash flow) to organisations to enable them to carry out the work needed before results are achieved and can be evidenced for payment. NCVYS Director of Service Development, Beth Parker says that 'such a retailer needs to be confident that the investment being made is a valuable one so an evidence based approach to social investment is what we are looking at'.

Minister for the Cabinet Office Francis Maude has recognised that many organisations will not have the working capital to finance their way to the end of PBR, and has called for further social investment, supported by charitable foundations.³³ A mixed approach, where some funding is activity-based and the rest depends on results, may also offer solutions to smaller VCSES organisations.

2. Are VCSE organisations capable of measuring results?

VCSES organisations are getting better at evidencing their outcomes, but often the work they do makes it difficult to collect strong evidence of long-term impact. The recent Education Select Committee's inquiry into youth services highlighted the complexity of measuring outcomes and attributing successful

²⁹ *Payment-by-results could drive out smaller charities, say leaders*, CYPNow (6 July 2010)

<http://www.cypnow.co.uk/Education/article/1014099/Payment-by-results-drive-smaller-charities-say-leaders/>

³⁰ *Consultation response to Breaking the Cycle: Effective Punishment, Rehabilitation and Sentencing of Offenders*, NCVYS (February 2011) http://www.ncvys.org.uk/UserFiles/NCVYS_response_to_Breaking_the_Cycle.pdf

³¹ *Growing Interest*, Young Foundation (To be published)

³² *Hidden costs of payment-by-results*, CYPNow (6 July 2010)

http://www.cypnow.co.uk/Social_Care/article/1014080/Hidden-costs-payment-by-results/

³³ *Help social enterprises with payment by results, says Maude to foundations*, Social Enterprise (18 January 2011)

<http://www.socialenterpriselive.com/section/news/money/20110118/help-social-enterprises-payment-results-says-maude-foundations>

outcomes to a particular service when individuals or families have multiple needs and receive services from multiple agencies. It can be relatively straightforward to measure outcomes in areas such as welfare-to-work or rehabilitation, with numbers of people who are found jobs or who do not reoffend. In other areas, such as family services, outcomes may be less obvious and only evident in the longer-term. For example, in Early Years, nine areas are due to trial PBR schemes under the government's "foundation years" strategy. The measurements by which centres will be judged include: early years foundation stage (EYFS) profile assessments, breastfeeding prevalence, completion of evidence-based parenting programmes, and sustained contact with families in greatest need. However, the Social Market Foundation has warned that these measures could distort the achievements of children's centres by failing to take into account the role other agencies have played, such as schools and health visitors.

Even where VCSES organisations are showing their impact, they are often developing individual approaches. Tris Lumley, Head of Strategy at New Philanthropy Capital, has noted that doing so makes it difficult for funders to decide between competing organisations when their professed outcomes may not be comparable.³⁴ In addition, as the social investment market matures, and particularly as private investors finance SIBs for profit, it is possible that investors will seek quick wins and the provider market will become less diverse, with only those with established and measurable track records gaining investment and little innovation or risk funding of unproven methodologies.

3. Over what period should a project be evaluated?

The impact of interventions made by organisations working with children and young people may not be fully realised until their adulthood. This is particularly difficult for preventative services whose outcomes and intentions are not easy to value in the short-term. Even with services that seem easier to value, how long do you wait before concluding that a particular intervention has been effective in preventing re-offending or drug taking?

Children England's consultation response to the Modernising Commissioning Green Paper, argued that "there are currently few longer term interventions funded through this method [PBR] which have been independently evaluated and assessed for effectiveness."³⁵

4. Which outcomes should be paid for?

If the outcomes which lead to payment are not given adequate consideration, organisations may be encouraged to design services which produce short-term results. They may also find that they are delivering a number of wider positive outcomes as a result of their work which have not been accounted for in payment terms. Indeed, short term results on which payment have been agreed may not be those

³⁴ *Charities must collaborate on measuring social impact*, Guardian Professional (11 May 2011)

<http://www.guardian.co.uk/voluntary-sector-network/2011/may/11/charities-collaborate-measuring-social-impact>

³⁵ *Consultation response to Modernising Commissioning Green Paper*, Cabinet Office, Children England (January 2011) <http://www.childrenengland.org.uk/upload/Commissioning%20Green%20Paper%20Response.pdf>

outcomes which are ultimately the most beneficial. The best results are where services have a transformative long-term impact on children, young people and families. For example, short term results where young people are driven into ‘dead-end’ jobs (and possibly soon back on welfare) do not reflect the quality of the service or its longer term impact on the young person in question. The key here is to get potential investors to understand the long term value of the public services they are being asked to invest in. This needs to be about more than just how short term impact is measured. NCVYS is working with the Young Foundation to develop an outcomes framework which will build consensus across practitioners and funders in youth services and of course young people themselves around what those outcomes should be and how they should be shown.

5. How providers are paid for achieving outcomes?

Providers may suffer from incentives to ‘cherry pick’ or ‘cream-off’ clients. This can happen if organisations are only paid when service users move into employment, housing etc. meaning that providers will be discouraged from working with those with the greatest needs, and will only work with those who are nearest to achieving the specified outcomes. An evaluation of the previous Government’s Pathways to Work programme, a PBR employment scheme for people on sickness benefit, found that it provided only a “bare minimum” service to the hardest to help, with “perverse incentives” for private providers.³⁶ It suggested that PBR contracts needed to pay providers for a “wider range of outcomes”.

Similarly the Prince’s Trust’s submission to the Work and Pensions Select Committee’s inquiry into the Work Programme suggested that a PBR model may lead to organisations failing to work with the most disadvantaged groups, “further deepening their culture of worklessness.”³⁷ It suggested that outcome targets for those young people furthest from the labour market need to be realistic, as they will need multiple interventions to progress to employment. It argued that there should be recognition and payment for achieving steps along that journey, progression and achievement rates must be not be uniform but need to reflect the increased barriers certain groups of clients will face.

One way of dealing with ‘cherry picking’ could be to pay services a premium for achieving results with the most challenging clients. Alternatively services could be paid in terms of ‘distance travelled’, i.e. how far they move service users towards the ultimate goal. Yet these solutions lead to further questions – when should a premium be payable, who decides this, which factors determine how far a user has travelled, what about those whose starting point on the ‘recovery journey’ is different to the norm etc. This in turn could lead to a complex system where Government tries to answer these questions, giving greater direction to providers and discouraging them from innovating.

In addition to issues surrounding ‘cherry picking’, there are further concerns around payment for outcomes using SIB with VCSE organisations. The SIB pilots have so far only funded VCSE organisations for the marginal costs of delivering a contract with any surpluses or bonuses going to the investor. This may make it very difficult for third sector providers to grow, develop new services or even achieve full

³⁶ *The influence of outcome-based contracting on Provider-led Pathways to Work*, The Department for Work and Pensions (March 2010) <http://research.dwp.gov.uk/asd/asd5/rports2009-2010/rrep638.pdf>

³⁷ <http://www.publications.parliament.uk/pa/cm201012/cmselect/cmworpen/718/718we03.htm>

sustainability. In extreme cases where investors are seen to be making large bonuses from over-performing charities, who then don't share in the rewards, there could be a sector or even a public backlash against the model.

6. Which organisations have been responsible for outcomes?

In many circumstances a number of different organisations will work with individuals and families, and it will be difficult to judge how many outcomes each organisation has been responsible for. Many people that services support have multiple needs which require holistic approaches and cooperation between services. It is important that PBR encourages collaboration between sectors and services, and is not simply a spur to competition between them.

Furthermore, external conditions, such as local job opportunities, may also be beyond the scope of the VCSES's influence, but will impact on whether VCSES organisations are able to fulfil the stated outcomes. Another impact of external conditions has been raised by Michael Dugher MP, who expressed concerns that the Work Programme providers will focus their work in areas where it is easier to get young people into jobs, further disadvantaging those in the most deprived areas.³⁸

Children England's consultation response to the Modernising Commissioning Green Paper added that "the commonly agreed definition of a "successful outcome" needs much work, especially in areas where multiple interventions have been required by several agencies."

7. Further questions include:

The overarching partnership would welcome your views on the following questions. Please contact Dominic Weinberg at NCVYS at Dominic@ncvys.org.uk with your views.

- Can the views of service users on outcomes be developed further to empower them to own and contribute to the definitions of success?
- How can the VCSES be involved in the design of PBR models?
- Will there be an appropriate apportionment of risk between the commissioner and VCSES providers?
- Will PBR focus too much on outcomes, and therefore remove focus from the means by which the outcomes are achieved?
- Will customer choice, expected to drive PBR, work if clients choose services that are not the most effective in delivering the outcomes set by the Government?
- How can PBR pay for VCSES investment in staff and infrastructure?
- Will PBR mean that organisations focus on delivering measurable outcomes at the expense of their mission?
- Should results be measured at the individual or the cohort level?

³⁸ *Youth Unemployment, Oral Answers to Questions — Work and Pensions, They Work For You* (13 June 2011)
<http://www.theyworkforyou.com/debates/?id=2011-06-13a.483.2>

- Can PBR work for services which increase the social and emotional development of young people?
- Can PBR recognise the broader spectrum of outcomes and development needs of the most disengaged?
- Does PBR really provide a more devolved and flexible approach if outcomes become the new centralised targets?
- What will be the mechanism for the successful engagement of citizens and communities with commissioners to understand value and priorities of the people that they are serving?

Key Documents

Modernising Commissioning: Increasing the role of charities, social enterprises, mutuals and cooperatives in public service delivery, Cabinet Office (December 2010)

<http://download.cabinetoffice.gov.uk/green-paper/commissioning-green-paper.pdf>

Open Public Services White Paper, HM Government (July 2011)

<http://www.cabinetoffice.gov.uk/sites/default/files/resources/open-public-services-white-paper.pdf>

Early Intervention: Smart Investment, Massive Savings, Graham Allen MP (July 2011)

<http://www.cabinetoffice.gov.uk/sites/default/files/resources/earlyintervention-smartinvestment.pdf>

Slides from NCVYS Youth Strategy Board meetings, including Young Foundation – *Social Finance for the Youth Sector*, and Paul Cheng – *Impact Investing* (2011)

<http://www.ncvys.org.uk/YouthStrategyBoard.html>

A way ahead for the Big Society Bank and young people, The Unclaimed Assets Group (February 2011)

<http://ncvys.org.uk/UserFiles/A way ahead for the Big Society Bank and young people Spring 2011.pdf>