Payment by Results: Learning from the Literature

A review prepared for the National Audit Office

The views expressed in this paper are not necessarily those of the National Audit Office

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Payment by Results

Learning from the Literature

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Executive Summary

This literature review was commissioned to support the National Audit Office (NAO) in the development of an analytical framework for evaluating effective use of payment by results (PbR). The review focused on four themes, which are used to structure the summary below.

Defining outcomes and payments

There are a range of approaches taken to outcome definition and no consensus about how outcomes should be measured. Segmenting means that target groups are clearly defined and different tariffs can be associated with them. Co-production of outcomes with providers and service users is recommended. Good data is required and defining and pricing outcomes is widely recognised as being time consuming and complex. There should be clarity about the purpose of the PbR and consideration given to how payments are proportioned and thus how risk is transferred. There is no clear evidence of what works best in structuring outcome payments. The need for progression outcomes is one theme to consistently emerge.

Provider capacity

It is essential that commissioners understand the provider market, the landscape of provision and provider's appetite for the risk inherent in PbR. PbR requires new skills from both commissioners and the provider market. Co-production and competitive dialogue commissioning are both processes that can strengthen PbR development and commissioning. Commissioners should be clear about expectations for prime providers' supply chains when tendering and contracting, to ensure smaller organisations are appropriately involved. It is important to achieve the right balance of risk transfer and both large and small organisations can find the costs of PbR difficult to bear. In funding PbR, the full costs should be accounted for (and this is rarely achieved). Efficiencies may take time to become established and there may need to be a 'safety net' of provision for the most vulnerable.

Performance management

Commissioning and performance managing PbR requires new skills and capabilities of both commissioners and providers. How supply chains are managed by primes must be a consideration. A range of measures support effective performance management but a balance must be reached so that providers are free to innovate and they, and other stakeholders, are not overburdened by monitoring requirements. There should be flexibility built into contracting so that amendments can be made in light of learning. Transitional arrangements may be required whilst new models are established and understood. New roles require training and support; new performance management requires new systems. Long term contracts can provide stability for a collaborative approach; yet they may limit market supply and fail to drive performance and value for money improvements if not well structured and without adequate provision for managing poor performance.

Accountability and value for money

Promoting best practice in service delivery is key to ensuring value for money and holding providers to account in meeting service users' needs. Yet, what was previously good practice can become commercially sensitive in PbR and thus provision for this should be included in contracts. Good governance increases accountability but brings additional costs. The lack of understanding of full costs in PbR programmes reported to date suggests it is essential that in the future they are collected and reported so that value for money can be assessed.

Private sector and international comparisons

Most likely reflecting their commercial nature, there is little available on the detail of PbR in the private sector. Those available reflect the same drivers for PbR – such as increased efficiency – and a range of payment models. Most international examples are in their earliest stages with little learning from implementation available. The PbR model is predominantly used within a social investment structure.

Further consideration should be given to learning from international comparisons as it becomes available; and, to further investigation of private sector models.

1 Introduction

Payment by Results (PbR) is a model for delivering public services where government or the commissioner pays providers for the *outcomes* they achieve rather than the activities they deliver. PbR is being used across government in the UK and is a cornerstone of the *Open Public Services*[1] agenda that:

- Aims to create incentives for, and promote innovation amongst, providers to improve outcomes; and,
- Seeks to reduce government's direct involvement in the delivery of social outcomes by increasing the provision by the private and social sectors.

Under PbR, the commissioner only pays for those results demonstrably achieved. This is in contrast to more traditional service delivery, whereby government either 'makes' in-house, or has a contract that pays regardless of success. The PbR contract is held by a provider, or by a supply chain of sub contracted providers led by a 'prime provider'.

The National Audit Office (NAO) commissioned ICF to undertake a literature review to support the development of an analytical framework for evaluating effective use of PbR. This report presents the findings of the review. The review is part of a wider study by NAO to explore and establish the features of effective PbR that provides value for money for UK government.

Reflecting the brief, this report does not set out the generic features of PbR schemes in any detail and assumes a working knowledge of the key national examples. The report is not a guide to PbR, but identifies the key lessons learned from the literature to date.

1.1 Method

1.1.1 Scope

A search was undertaken to identify sources from the following three broad groups:

- Official literature – from across government and government agencies;
- Commentators and stakeholders – from policy areas where PbR is in place, under-discussion or planned; or those involved in policy analysis such as academics, voluntary sector bodies, think tanks and consultancies; and,
- Evaluation and performance data.

The primary focus was sources that provided learning from PbR schemes in the UK. The review focused on exploring four questions:

- What is the learning from UK and international PbR, in relation to:
  - Defining outcomes and payments?
  - Provider and market capacity?
  - Performance management?
  - Accountability and value for money?

A secondary strand sought to identify international and private sector comparisons as wider context for UK programmes.

[1] The *Open Public Services* white paper was published in July 2011 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/255288/OpenPublicServices-WhitePaper.pdf

1.1.2 Approach

1.1.2.1 Stage One

There were two stages to the review. The first was a search for literature sources following a protocol developed by ICF and agreed with NAO. The protocol is included in Annex 1. The protocol established:

- The search terms to be used (including PbR, outcomes based contracts and impact investment);
- The inclusion and exclusion criteria (including prioritising sources published since 1995);
- The databases to be searched (including the academic library database EBSCO); and,
- The 'grey literature'[2] sources to be explored (including voluntary and community sector (VCS) bodies, think tanks and professional bodies).

Stage One identified 138 UK sources and 116 international sources. The sources were listed in a spreadsheet, including a high level summary of their content. The list was reviewed and each source categorised according to priority for inclusion. UK government and official documents were prioritised. SIBs were agreed to be of secondary interest. For some programmes, more recent documents were superseded by later ones (for example, final evaluation reports).

At the end of Stage One, for UK sources:

- 58 were identified as priorities for review;
- 39 were categorised as secondary priority to be included if time allowed; and,
- 26 were excluded; and,
- An additional search around the Transforming Rehabilitation programme, with contracts awarded during the review period, was undertaken and 25 sources identified for review.

1.1.2.2 Stage Two

UK sources

Stage Two involved scanning the content of each priority source. Those with content that addressed one or more of the review questions were subject to a full review. 24 were identified as suitable for inclusion in the review and 34 were excluded. The review involved extracting relevant information into a 'data extraction template', developed by ICF and agreed with NAO (completed examples are included as Section 3 of this report).

When first priority sources had been reviewed, due to the low proportion identified as suitable for inclusion, all second and third priority sources were scanned. The Transforming Rehabilitation sources were also scanned and some additional searches were undertaken to explore emerging outcome based contract models in health.

In total, 35 sources were identified for inclusion in the review. The Transforming Rehabilitation sources were consolidated into a single template. A number of sources relating to outcome-based commissioning of different forms, particularly within health and social care were also identified. However, the relatively early design and implementation status of these models limits the learning available. It was therefore agreed that a summary of PbR in health would be provided by the review team rather than a set of partially completed templates.

Social Impact Bonds (SIBs) are a form of outcomes contract where 100% of payment is linked to the outcomes achieved by the provider. Because this transfers all of the risk from the commissioner, social investors provide funding for operating costs, which is paid back to

[2] Grey literature refers to sources that are not official (government) or academic peer-reviewed publications.

them by the provider, with a return, from the outcome payments received. SIBs have a PbR structure at the centre and are growing in use both nationally and internationally. SIBs were a secondary priority and those sources providing the most insight were reviewed in depth.

International and private sector comparisons

The international sources were scanned to identify examples which provided the most useful information. NAO is undertaking a review of international PbR schemes funded by the Department for International Development (DfID) as part of the wider study and other than one example, these were excluded. The majority of the international sources related to programmes in development. The most informative were identified and organised by theme as comparative examples. Sixteen were included, across four themes: crime; employment; family support and foster care; and, results-based aid.

Detailed information about private sector schemes was difficult to identify. The review team drew on their existing knowledge of these schemes to seek additional information about them and six were included.

1.2 Reporting

The primary focus of the review was to complete templates summarising the literature from the three sources that were the subject of the study:

- PbR literature, primarily from the UK and across a range of sources (the central focus) with a single template summarising the Transforming Rehabilitation programme;
- International comparisons of PbR schemes (provided by thematic summary); and,
- Private sector comparisons of PbR schemes (provided as a summary table).

A high level summary of the key issues to emerge is also provided.

1.3 The structure of the report

The following sections present the findings of the review.

- Section 2 provides a high level summary of key learning for each of the four review questions;
- Section 3 provides the templates completed for each of the included sources;
- Section 4 provides international comparisons;
- Section 5 provides private sector comparisons; and,
- Annex 1 presents the Literature Review Protocol.

2 Learning for UK PbR

This section provides a summary of the key findings from the literature review in relation to the overarching aim and four questions that structured the study:

- What is the learning from UK and international PbR, in relation to:
  - Defining outcomes and payments?
  - Provider and market capacity?
  - Performance management?
  - Accountability and value for money?

2.1 Overview

The literature search identified a wide range of potential sources for inclusion. As outlined in section 1.1.2 above, from the 138 UK sources, 33 were included in the review. The review found that the vast majority of the sources did not provide useful learning for the study questions. This was because they were primarily:

- Descriptive of the scheme in question rather than providing any insights for learning; or,
- Sources rehearsing overarching themes in relation to PbR that are widely acknowledged (and indeed are part of the background to the commissioning of the review as part of the wider study by NAO) without providing lessons learned directly from designing and implementing schemes in practice.

The most useful sources were primarily, though not solely, evaluation reports. Some of these reports focused upon delivery of the intervention rather than the development and design of the PbR scheme. There was limited detail available about these aspects of PbR schemes and about performance management in many of the sources. Nonetheless, across the included sources the review identified useful material for the NAO's wider study and key messages are discussed in this section. Where sources provided useful learning for part of the review questions, they were included. Almost all the PbR schemes, including SIBs, are in their early stages and results in terms of outcomes achieved are inconclusive.

The templates provide an overview of the available detail about the programme being reported on. Detail on the precise design and detail of metrics and other features was often missing from the sources. Because of this and the partial coverage of the review questions, many of the templates have key sections that are blank or contain descriptive material that is useful for understanding but provides limited insights for future schemes.

As noted in section 0, this report does not set out the features of PbR schemes in any detail and assumes a working knowledge of the key national examples and the features of PbR design.

2.2 Defining outcomes and payments

2.2.1 Developing and measuring outcomes

There are a range of approaches taken to outcome definition across PbR schemes, with both cohort (or population) and individual measures included in some designs and one chosen in others. There is a consensus that outcomes must be simple and appropriate, but both approaches are chosen to achieve this in different schemes. A 'binary' measure of cohort reoffending was chosen for simplicity in the MoJ HMP Doncaster prison pilot and of reduced reoffending in the HMP Peterborough SIB; a range of individual measures each with an associated target levels of performance that needs to be achieved are used in most other programmes with differing levels of complexity and some schemes include a mix of both. A review of 'SIBs: the state of play' for the Big Lottery Fund (BLF) reported that **there is no consensus** to outcome measurement. .

Segmenting within PbR is a key theme for effective design. It means that target groups are clearly defined and different tariffs can be associated with them, widely seen to mitigate cherry picking (although with limited success reported in the early stages of the Work Programme). They are widely used in health to recognise differing levels of need. With good data a good understanding of target groups and appropriate outcomes can be developed. NCVO undertook a review of PbR contracts and highlight how poor outcome design leads to poor contracts which in turn risk the viability of providers.

Although precise details are not always clear, **one theme to emerge from the literature is the amount of time required** to develop outcome metrics. The PbR in Children's Centres pilots (DfE) was informed by a detailed feasibility study (one of the few to be publicly available and identified through the review) and the subsequent pilot to test the few outcomes deemed appropriate found that they were not practical in operation. Whilst the HMP Peterborough SIB took the equivalent of 2.5 person years (someone working full time) to develop, reflecting its status as the first ever SIB, the length of time is identified as an issue for several of the PbR schemes.

There are examples of **different approaches to outcome definition being used within a single national programme**. The Supporting People pilots (DCLG) included a range of different, locally developed delivery and payment models. The Innovation Fund (DWP) is also trialling different approaches to provision and outcome definition but there is little information available. The evaluation of Supporting People highlights the need for simple outcomes that are not defined by time input (number of hours of support provided) nor are time limited (must be achieved within a certain limit), as these are too restrictive on providers. It also describes how outcomes that were developed with service users and or providers were more likely to be seen as appropriate by local stakeholders.

This **co-development or co-production approach to defining outcomes is recommended** by a number of sources. Sector body the National Council of Voluntary Organisations (NCVO) argue that without this approach and the involvement of users, outcomes will be 'systems-led'. It is a feature of approaches in health: it is suggested as best practice and has featured in the design of COBIC (Commissioning for Outcome-Based Contracts) approaches, and was used in the Drug and Alcohol Recovery Pilot (DoH). In this latter example, the time taken to work through this process is highlighted as a key learning point from the development of the scheme. Through this process, one of the planned outcomes was dropped from the scheme (Employment) as it was identified as problematic for attribution. In addition, a gaming exercise was undertaken to explore the ways in which providers might behave and to test perverse incentives.

Issues in outcome attribution were not widely reported in the sources reviewed, although sector body CLINKS raise the wide range of local circumstance that can impact upon individuals' outcomes as a concern for Transforming Rehabilitation's focus on reducing reconviction. Their concern being that factors outside providers' control could impact upon the outcomes achieved. In other schemes providers were broadly happy with the attribution of outcomes, seemingly reflecting the predominant approach to PbR design as a range of outcomes linked to individual pathways rather than binary or cohort measures. Whilst control groups bring rigour, baseline approaches mean that no groups are excluded from an intervention. There are resource and cost implications too, as cohort analyses bring data collection and analytical costs. These considerations echo long-standing debates in policy evaluation: what is an acceptable level of analytical rigour within available resources; what approaches to impact measurement are possible? In a PbR approach, the outcome attribution must be to the satisfaction of all stakeholders given the centrality to payments and thus value for money.

Nonetheless, one theme identified by providers and commentators on PbR is **the need for progression outcomes** or proxies for progression that reflect individuals' journey towards final outcomes. They bring payment for resources committed to achieving this progress; they also enable better performance management. It is a criticism of Transforming Rehabilitation

raised by sector body CLINKS. Providers in the Youth Contract highlight how the structure of attachment fee, ETE entry and sustainment failed to reward work undertaken and progress made. In Supporting People they were introduced in some of the areas and reported as mitigating cherry picking. In the Drug and Alcohol pilots they are seen as necessary to reflect the non-linear recovery journey of addicts. A review of US and Australian schemes for the UK Commission for Employment and Skills found them to be widely used.

When developing, defining and measuring outcomes **the availability of data is crucial**. In the Youth Contract (DfE), the data used was problematic and providers found the resultant targets to be unrealistic or unrepresentative of the target populations. The review of SIBs highlights the lack of available data to be a barrier to design. In reporting measured outcomes, **new data systems** are likely to be required and these **bring additional costs** and this is highlighted in the Supporting People and Drug and Alcohol pilots evaluations. Problems with data availability also impact upon provider's viability where they delay payments; and upon providers' ability to deliver interventions. In the HMP Doncaster pilot, the intended case management system was delayed and impacted upon providers' ability to assess and monitor caseloads and individual support. The administrative burden of reporting outcomes is highlighted in the evaluation of the Work Programme. (The issue of partners' data sharing is returned to below, see 2.3.1.)

2.2.2 Pricing outcomes

There is not always detail about the process of outcome pricing in the sources reviewed, with findings linked to the definition of outcomes above in that it is: **time-consuming and complex**; **requires good data**; **benefits from stakeholder involvement**; **segmenting target groups mitigates creaming** by enabling tariffs to be set; and **values progress made** towards final outcomes where intermediate ones are used.

The **purpose of the PbR is important in pricing outcomes and establishing what proportion of payment will be attached to them**. The purpose may be to: improve outcomes; reduce costs; improve value for money; stimulate innovation; or, incentivise integration. The Audit Commission note that it is likely to be too ambitious to achieve all of them together in one scheme. The proportion of payment attached to outcomes is central to the transfer of risk to the provider. All PbR schemes aim to transfer risk for non-performance and to incentivise an outcomes focus. But there is not a consensus about how this is best achieved; one size will not fit all. SIBs provide 100 percent of payment once outcomes are achieved (with social investors providing funds for delivery costs until these are achieved); but how this is proportioned across schemes from initial assessment or other outcomes to final ones within an individual scheme varies. In UK PbR, there is a huge variety of pricing structures. Within the Drug and Alcohol pilots it varies from 5-100 percent of payment linked to outcomes; in the Children's Centre pilot a 'reward fund' provided additional payments for outcomes achieved; in the DoH's mental health PbR programme, prices are set locally between providers and commissioners; in US and Australian schemes included within this review, the proportion of payment linked to outcomes was found to be low (10-20 percent in the US).

How much of the service pricing is associated with outcomes is linked to whether or not the commissioner is seeking to: drive performance through additional reward for outcomes; transfer risk and promote innovation; or, most often in UK PbR schemes, achieve a balance across these dimensions resulting in a range of approaches. NCVO's review of contracts found that **the drivers of PbR are not always clear**, resulting in poor contracts which defer too much payment for organisations who are unable to subsidise the resultant gaps in funding and thus limiting the provider market.

A review by the Audit Commission in 2012 found that **the evidence was not conclusive in terms of what works best in structuring outcome payments**; the review reported here echoes this finding, more than two years later.

2.3 Provider capacity

2.3.1 Market capacity and commissioning

The **importance of commissioners understanding the provider market and appetite for the risk inherent in PbR** is a prominent theme in the literature. Critical commentary argues that this is not always established. NCVO argue that commissioners often do not consider the impact on the market of provision when introducing a PbR scheme: that they fail to take account of how **good existing provision may be lost** and that the need to absorb the risks inherent in scheme design limit the providers able to compete. If PbR comes to dominate markets, there is a risk that there will be a limited concentration of providers as a result. This **counters arguments for PbR increasing market supply and driving innovation**. The Audit Commission identified this in their 2012 review. By transferring too much risk to providers the incentives to innovate are reduced. Driving improvements in practice requires providers to share evidence of best practice, but commercial sensitivities associated with delivering PbR mean that these can take precedence. **Data sharing protocols are suggested** by a number of sources as a feature of effective commissioning.

Similarly, the review of current SIBs identified a lack of small voluntary and community sector (VCS) providers' current models and suggest this 'apparent contradiction' with the rationale for SIB design requires further investigation. In the Youth Contract, local authorities were able to bid for contracts but most did not. There were just nine days for PQQs to be developed and they did not consider themselves to be able to compete with large, primarily private sector, providers in the market. **Co-production approaches** – referred to above – can assist with market understanding and market development. **Competitive Dialogue** commissioning is one approach to co-production with the market that has been used in some of the UK PbR schemes. It is highlighted as effective in the evaluations of the London Homelessness SIB and Supporting People (where there were examples of it being used). It is being used in the emerging outcome based commissioning models in health. **A lack of market understanding limits both the available market for the PbR and fails to recognise the longer-term impacts that might result**.

Securing adequate involvement of (smaller) VCS organisations is a recurring theme in the literature. One suggestion is for **commissioners to be clear about** expectations for prime providers' **supply chains when tendering and contracting**. The DWP's 'Merlin Standard' is referred to as good basis for this but it is not clear that it is always required nor when it is how adherence to it in contract delivery is then ensured in performance management. Despite the requirement to comply with the standard in the commissioning of the Work Programme, small providers are found to have received lower volumes of flow and to have often been subject to the same terms of risk as primes themselves.

Commissioning PbR requires new skills and capabilities for commissioners themselves and this is highlighted in some sources. The Supporting People evaluation also highlights how the retention of 20 per cent of budget for future outcome payments also challenges traditional (local authority, but the message transfers to other levels of government) budget planning, **cutting across fiscal conventions**. PbR **also requires new skills and capabilities in the provider market**. For example, DoH's PbR in mental health programme has involved a training programme for clinicians to build capability in allocating service users to the new care clusters (the unit of care against which payment is made). Whatever the intervention, as well as the analytical and financial abilities required to develop and then performance manage them, new delivery models require investment in staff and other resources and this up-front investment adds to the burden of PbR risk for providers and is an aspect that can limit the market to those able to resource this without negative effects on cash flow.

As with other elements of PbR, effective market engagement and commissioning are reported to be **time-consuming and resource intensive.**

2.3.2 Funding and risk sharing

Closely related to understanding and supporting a provider market are issues emerging to funding PbR and how risk is transferred and shared in PbR designs. As outlined above, **transferring too much risk can both limit the provider market and stifle innovation**. As with other aspects of PbR, there is no consensus about an ideal or effective model but rather learning about the principles to consider. It is worth noting that the **complexity of achieving the right balance** is reflected in the review of current SIBs, which notes that each SIB must be tailored to the requirements of each programme stakeholder and the issues that it intends to address.

Whilst the problems for (smaller) VCS organisations when risk is transferred to them are frequently discussed, **large organisations and primes can also find the costs of PbR difficult to bear**. Although **progression payments help to support cash flow**, this burden is reported in the evaluation of the Work Programme. Youth Contract primes are reported to be unlikely to tender for future contracts unless they are substantially different. **One way in which primes account for risk is be sharing it with their supply chains**. There is a wide range of practice in current PbR, including variety within single programmes. The Work Programme evaluation identifies that half of primes were exposing their supply chains to the same terms of risk as they held in their contract with the commissioner.

The Supporting People evaluation reports that the 20 per cent of contract value associated with PbR was considered too high for smaller VCS organisations to bear in the future. NVCO highlight how VCS organisations need to subsidise operating costs through assets or reserves and how this both limits their ability to invest in other provision and places them at risk when there is no guarantee of payment. In the Peterborough SIB, VCS providers are paid their costs up front with the investors taking the risk. It is not clear how common this is in other SIB models from the literature reviewed, as not all have these supply chains; the review identified **six risk transference models in current SIB structures and there is no comparative evaluation of them**.

In some models, including with the Work Programme and the Youth Contract, **prime providers act as contract managers** in the way that a commissioner would in traditional models. This is part of the transference from the commissioner in PbR and primes subtract a management fee from subcontractor payments to perform this function. In Supporting People this was reported to be as high as 50 per cent. In the Work Programme it is reported to be in the range of 10 to 20 per cent. Therefore, in common with the findings relating to the commissioning of PbR, the literature suggest that **effective PbR commissioning takes account of and actively monitors supply chains** to ensure that there is no inappropriate transference of risk once delivery is underway.

Understanding the full costs of PbR is one issue highlighted by the reviews of PbR schemes undertaken by the Audit Commission and NCVO. The suggestion is that **there is a lack of understanding of full costs in PbR development and commissioning**; indeed it is not an issue referred to in the evaluation and policy documents reviewed for this report. The Audit Commission note that in addition to delivery and outcome costs, funding must cover not only the design and development costs referred to above but also the costs associated with: contingency plans should there be service failure; and, residual liabilities - anything beyond the direct costs of the contract itself. NCVO argue that PbR costing must take account of the costs incurred whilst new efficiencies are established, as these will take time to accrue. There may need to be a 'safety net' of provision for the most vulnerable and statutory duties may be affected in some service areas. Both these sources also identify the **reputational risk** for both commissioners and providers, which requires planning including exit strategies for failure.

2.4 Performance management

Performance management is closely related to the way outcomes are evidenced and issues relating to definition and data availability are outlined above. **Good performance management of primes and by primes of their supply chains relies on accurate, timely data**. The evaluation of the Youth Contract highlights how stakeholders may be reluctant to provide necessary data when they're outside of contractual agreements. Several sources highlight the burden monitoring outcomes can place on providers and commissioners. NCVO also highlight how this can place a burden on programme beneficiaries, who can be required to provide a wealth of data. The Supporting People evaluation found that many commissioners were not continuing with the PbR contracts developed in the pilot due to their lack of capacity to monitor them. Whilst progression payments address the time lag before outcomes are achieved, delays in submitting the required data lead to delays with payment and this causes problems for providers' cash flow and associated sustainability.

The Audit Commission note that alternative systems based upon claiming repayments or withholding payments for poor performance are often not considered when deciding upon outcomes based approaches, but can be an effective incentive for providers. The review of literature for the UKCES notes that **in the US the employment programmes studied use a blended approach of outcomes payments and broader performance management metrics** including 'return on investment' standards. These seek to provide a measure of the net costs, impacts and social returns which inform contracts and are used to steer provider behaviour. **Minimum delivery standards** are one way in which performance can be managed within an outcomes based approach. In the Youth Contract these were not set by the national programme but were set by primes in managing their supply chains. **Such systems can create a tension** however, with NCVO one source highlighting how **commissioners can be reluctant to allow providers the freedom to innovate** in their delivery and to adjust to their new role in allowing a 'black box' approach. In the Drug and Alcohol pilots it was reported that commissioners were reluctant to 'let go' of their usual approach to contract, and delivery, management. **Whilst monitoring requirements might develop as adjustments are made, the burden this places on stakeholders and the disruption caused must be recognised and changes agreed in collaboration**.

Reflecting the new interventions, support pathways commissioned and the new structures involved in PbR contracting as it emerges, **the need for flexibility in contracts is a common theme** in the literature. This enables commissioners and providers to work together to recognise issues in the design and to make adjustments to metrics and payments accordingly. The Youth Contract evaluation suggests that **the scope for this could be limited by the risk of legal action from unsuccessful providers** should the terms change significantly. Close collaboration between commissioners and providers is suggested by a number of sources and where this was not in place in the Drug and Alcohol pilots it led to a breakdown of trust. NCVO argue that whilst necessary, **working with commissioners and amending contract terms brings additional costs to providers** that are often not recognised. BLF's overview of SIBs found that the SIB contract drives close working between commissioners, providers and investors with a common cause.

The evaluations of Supporting People and the Drug and Alcohol pilots suggest that **transitional arrangements may be necessary whist new PbR structures become established**. Vulnerable groups are therefore supported alongside new interventions through 'shadow' programmes (suggested by the Drug and Alcohol pilots evaluation); or a 'contract mobilisation period' (Supporting People) that allows referral and delivery to develop.

Quite **substantial changes have been made to the performance management structure of the Work Programme**. New roles have been created by DWP to monitor provider performance, with a new data system designed and introduced. This, along with a necessary training programme for those in new roles, has brought additional costs. Providers have been categorised and benchmarked by performance rating and a more intensive regime has been introduced for those performing badly. To address providers concerns about tariffs, a

new segmentation of target groups was underway at the time of the evaluation report (December 2014). **In Australia, employment programmes reviewed for the UKCES were found to use a star rating system in a 'dynamic' performance management regime** that provides more work for successful contractors and less work for those performing badly; **in the US a system of rewards and sanctions is commonly used** to steer performance and those performing badly receive a range of support to address this.

In the Work Programme, **one prime has had their contract terminated** and although they recognise the importance of commercial confidentiality, **providers are reported to be confused about the reasons for the termination and its implications for them** in the future. The Youth Contract evaluation states that some primes were changed but no detail is provided. NCVO's review of PbR contracts found that break clauses were often not clear.

2.5 Accountability and value for money

Promoting best practice in service delivery is key to ensuring value for money and holding providers to account in meeting service users' needs. As referred to above in discussing market capacity, providers can be reluctant to share information about performance and practice. NCVO argue that **what was previously good practice becomes commercially sensitive in PbR**. This is reported in the Youth Contract, the Homelessness SIB and the Drug and Alcohol evaluations. The Audit Commission suggest that public reporting of performance is not popular with providers but should be a feature of their contracts. As referred to above, data reporting regimes are necessary but bring costs that must be recognised.

In addition to the performance management structures and roles that PbR creates for commissioners, primes and providers, effective governance structures are required to promote effective practice and support collaboration. **Programme boards are a common feature of effective governance** and should include a wide range of stakeholders so that issues can be identified and addressed in agreement. Good governance also brings a cost.

There is little available in the literature reviewed about the full costs of the programmes discussed. The costs for development and design, commissioning, governance and performance management are not quantified and value for money is not explored in detail in terms of full cost. The Drug and Alcohol Pilots evaluation notes that it is easier to establish the direct costs of the programmes rather than the wider costs (including other service costs) or the benefits beyond the costed outcomes. The Supporting People evaluation notes that costs beyond outcome payments were not recorded and stakeholders were unable to quantify them. It also notes that **to achieve programme outcomes a range of other provision is required locally**, and the implications for this wider landscape should be recognised in PbR design. The issues relating to costing programmes beyond the outcomes are outlined above (2.3.2). Performance lag means that genuine efficiencies can take time to achieve. **It is essential in future PbR programmes that full costs are understood and reported so that value for money can be assessed**.

2.6 Private sector comparisons

Most likely reflecting their commercial nature, **there is little available on the detail of PbR in the private sector**. The review identified six useful examples, presented in summary in section 4. They demonstrate **the same drivers for PbR as in the public sector** – a focus on greater value for money through improved efficiency and a structure that incentivises delivery on outcomes. They also demonstrate **a range of different payment structures**. The examples include structures that have a percentage of payment linked to performance standards, new models providing outcome rather than process payments, and full outcome-based models. In 'no win no fee' legal services, it is noted that only asset-rich companies can provide this.

Private Finance Initiatives (PFI), performance based contracting and more recently 'no win no fee' services provide examples of how the private sector has engaged with and used PbR schemes.

Early examples of performance based contracting trace back some thirty to forty years and have been typically used for:

- Maintenance, support and repair contracts and equipment based services, particularly in the defence sector, and the automotive and aerospace industries; and,
- Business-to-business services such as IT solutions.

Performance-based logistic (PBL) contracting is an increasingly common model for the services highlighted above. In such a contracting model, the contractor is accountable for both the delivery the product (for instance an engine, military weapon systems and photocopier) and the on-going performance of the product with respect to 'readiness for use', availability and reliability. For example, under Rolls Royce Corporate Care (previously known as Power by the Hour), the continuous maintenance of aircraft engines is paid by how many hours the customer obtains power from the engine (i.e. payment is linked to the number of hours the engines are in the air) rather than by the provision of spares and repair activity provided.

Various pricing models underpin PBL contracting. However, the majority are based on a 'cost plus' model of some sort, including: cost plus fixed fee; cost plus incentive fee; and, cost plus award fee. The latter two models include outcome-based performance incentives other than cost or customer assessments of performance (for example, customer satisfaction), respectively.

PBL contracts are typically long in duration, for example the Rolls Royce Corporate Care contracts are set at 10 years. Furthermore, the pricing model can vary over the duration of the contract. It is typical for contracts to transition from a cost plus fixed fee model towards a cost plus award structure over the lifetime of the contract. For example, a cost plus fixed fee is likely to be put in place during the early production stages of the product, when product and maintenance testing and training occur. The contract could then transition into a cost plus incentive fee model as the contractor and commissioner develop a more detailed understanding of actual costs and the baseline. Costs and baselines are then refined to reflect learning as the actual costs for the service provision stabilise. At this point, performance outcomes can be accurately defined and risks to delivery lowered – enabling the development of a cost plus award fee model.

2.7 International comparisons

Sixteen examples were identified for inclusion in the review, across four thematic areas of: crime; employment; family support and foster care; and, results based aid. This latter category excluded most DfID schemes, which are the subject of an internal review by NAO, although one example is included. They are presented in section 5. Across all of the themes, **the models are almost all in the early stages of implementation and several remain at the design stages**. There is therefore little learning available about effective designs and value for money. A US example of PbR in welfare to work is reported to have achieved poor results. Recommendations include the provision of progress payments to move away from a full PbR to reward work undertaken and to recognise the high barriers to work the target group face (echoing findings outlined in the discussion above).

Within each theme of crime, employment and family support, **there are differences in approach despite a commonality of focus**. There are **both individual and cohort measures of performance** and impact. There are also **a range of approaches in delivery models**, providing both holistic support and evidence-based interventions. **The PbR is predominantly used within a SIB financing structure**, with outcome metrics modelled on

predicted savings. In results based aid there is a similar variety of evidence requirements, with payments linked to results rather than delivery.

2.8 A note on PbR in health

PbR in the NHS has, until recently, taken the form of activity-based and/or payment for performance systems. For example, activity-based PbR in secondary care (for instance, for elective operations) and the Quality and Outcomes Framework (QOF) in general practice (through which GPs earn extra payments if they provide specified levels of service in addition to their capitated payments) have been in place for over ten years. These payment systems have undergone various changes to reflect both new data availability and learning regarding the impact of the payment models on the NHS.

Other services, including community health care, are typically commissioned using block contracts based on locally negotiated values calculated from predicted activity. Mental health services are also predominately commissioned using block contracts, but significant changes to their pricing services have and continue to be implemented as a result of the development of a mental health PbR payment model.

Despite being activity-based the PbR models in use within acute care and being implemented within mental health highlight the long lead-in times required to develop and implement new national payment models. These have been associated with the time taken to: define the 'currency' – the unit against which payment is made; collect reference costs (the schedule submitted to the Department of Health by providers detailing how much it costs them to provide each unit of activity or care for the care clusters); establish systems for collecting data; training; and, establishing the tariff.

The implementation of these acute and mental health activity-based PbR systems has involved establishing transitional arrangements to support providers and commissioners as they adapt to new pricing structures. The model in acute care adopted a phased approach to implementation that began in 2003/4 and included a three year transition plan, which commenced in 2005/6. Similarly, the development of the mental health PbR commenced with the introduction of a new 'currency' (care clusters that define clinically meaningful ways of grouping patients according to their characteristics and care needs) in 2010/11. The new currency was mandated for use in 2012; specifically, all mental health patients were to be assessed and allocated to a given care cluster. Nonetheless, providers and commissioners were not required to use the new currencies as the basis for contracting services until 2013/14. The current proposals regarding the use of PbR in mental health set out the intention that: *"By April 2017 there will be a wholesale shift to outcome-focused contracting."*[3]

2.8.1 A shift towards outcome based commissioning

In the context of rising demand for health and social care coupled with increasing financial constraints, many Clinical Commissioning Groups (CCGs) are developing and implementing new contracting and commissioning models – including outcome based commissioning models. These models aim to drive greater transformational change and service integration across local health and social care economies, as well as increasing value for money. The emerging contracting models vary. However, the majority include some degree of risk-sharing through the contract, with a proportion of the budget being dependent on achievement of outcomes. The current models being developed or implemented are common in their aim to:

- "*Hold providers to account for outcomes*
- *Hold providers to account for streamlining the delivery of patient care across the gaps between service providers*

[3] NHS England, Background to the 2015/16 proposals for the mental health payment system (2014) (p8) (http://www.england.nhs.uk/wp-content/uploads/2014/07/dev-mental-health-pay-syst.pdf)

- *To shift the flow of money between providers*."[4]

The relative early status of these new contracting and commissioning models limits the amount of evaluative evidence regarding how these models work 'on the ground'. Nonetheless, consistent with the insights gained from PbR schemes implemented elsewhere in the public sector, common lessons learned are emerging. These are summarised below.

2.8.2 Key lessons learned

2.8.2.1 Defining outcomes

Common to all of the health PbR schemes (which incorporate an element of payment for outcomes) being developed or implemented is the segmentation or risk stratification of target patient groups, according to their characteristics and health care needs. For example, current UK models focus on a specific population (for example, frail elderly), a disease or treatment pathway (for example, musculoskeletal care, sexual health, mental health, cancer and end-of-life care), rather than a whole population (i.e. the whole population within a local health and social care economy). Segmenting patients has helped to define in detail the outcomes sought, establish risk stratified approaches, the scope and boundaries of the contract, as well as the pricing structure.

Increasingly, definition of the outcomes has involved the consultation with patients, carers and the public, in addition to the involvement of providers and clinicians. This helps to ensure that contracting and procurement considerations do not drive the design and development of new models of care.

The outcomes sought through the existing schemes include:

- Improved patient experience and satisfaction;
- Early detection and prevention to help people recover and stay well;
- Improved self-management of conditions;
- Improved patient outcomes (including survival rates);
- Reduced use of acute care (e.g. reduced emergency admissions to hospital;
- Improved co-ordinated and patient-centred care; and,
- Improved information-sharing across health care professionals, including use of technology.[5]

2.8.2.2 A collaborative approach

Developing and implementing new contracting and commissioning models requires on going partnership working between commissioners, providers and other stakeholders within the local health and social economies. Significant time and resource from both commissioners and providers is needed – to establish the boundaries and scope of the contract, the transfer of risk, as well as the design of services. For example, CCGs have typically spent up to two years planning and engaging with other local stakeholders in order to agree a contractual model and meaningful outcomes prior to implementation of the new contracting arrangements.

2.8.2.3 Provider capacity and governance arrangements

The new contracting and commissioning arrangements drive a need for new organisational models – no one provider will be able to deliver a pathway of care for the given target population. A variety of organisation models are emerging, including the prime / lead provider, accountable care organisations and alliances. The contracting arrangements for

[4] Addicott R. (2014) *Commissioning and contracting for integrated care,* The Kings Fund

[5] Adapted from Addicott R. (2014) *Commissioning and contracting for integrated care,* The Kings Fund

these models take various forms, including legal contracts, agreements and memorandum of understanding.

These new models necessitate robust provider side governance arrangements, often involving multiple partners from across local health and social care economies. The greater accountability afforded by the new contracts leads to more explicit interdependences across different service providers, and therefore more risk. Providers are establishing various governance arrangements and processes to support decision making, develop and monitor services, manage the flow of money, as well as hold each other to account for their contribution to meeting outcomes and other terms of the contract.

2.8.2.4 *Size and duration of contracts*

A trend for larger contract size is emerging from the new contracting and commissioning models, in part arising from a focus on integrating care along a patient pathway, rather than a setting of care (for example, in a community or acute setting). However, several examples have noted the challenges associated with establishing a contract value due to lack of information about actual costs and demand associated with a given component of social and community care (for example, the costs of end of life care are often hidden in block contracts). This has led, in some instances, to the some commissioners building into new prime contractor models an initial one to two year period during which the contractor is required to establish appropriate information systems as well as to test new models of care.

Service contracts within the NHS have traditionally been short-term (typically 12 months). These short-term contracts present a risk to provider investment in new models of care. Increasing contract value and length of contract are common features of the new contracting and commissioning models. For example, the Staffordshire cancer and end-of-life prime contract has an estimated contract value of £1.2billion of a ten year period (with a value of approximately £120 million per year); Bedfordshire musculoskeletal care prime contract has an estimated contract value of £130 million over a five year period, with approximately £160 million being awarded in the first year. Greater contract value and length of contract has the potential to incentivise providers by offering stability over a long term, if this can be balanced with clear outcomes expectations and performance management around these.

2.8.2.5 *Adopting a transitional approach to implementation*

The majority of the current examples of PbR in health approach are adopting a transitional approach to implementation. Several transition approaches are apparent within the prime contractor models, where a lead provider manages a pathway of services:

- The service providers will initially hold short-term activity based contracts with the prime provider based on current contract value, with the expectation to transition to outcome based approaches over the longer term (Staffordshire Cancer and End of Life contracts).
- Outcome payments will be introduced during year two and then rise The first year of the service contracts' operation will be managed use existing contracting arrangements (specifically using the NHS standard contract) to allow the new model to be embedded. The outcome based payments will be implemented in year two, initially accounting for 10% of the contract, and then rising to 15%.

2.9 Summary

The key learning points identified by the review are:

- There is no consensus in approaches to outcome definition and impact measurement, although segmentation is a key theme of effective design. Whatever approach is taken, developing a PbR scheme is time consuming and complex. This requires resources that are not always recognised in planning PbR development nor in recognising the costs of PbR.

- Segmenting target groups and designing appropriate tariffs address creaming. Progression payments recognise and reward progress towards outcomes, preventing gaming and ensuring the hardest to help receive support. They also support a wider provider market as they reduce financial risk.
- Co-development and co-design, with both providers and users, in the development of PbR schemes will lead to better design; collaboration between commissioners and providers throughout design and delivery supports better intervention models and better contracts. There should be flexibility in contracting, and planning by commissioners for failure, so that poor performance can be addressed and unforeseen problems acknowledged and accounted for.
- Working with the market during PbR development brings costs but provides for a better understanding of the appetite for contracts as well as supporting the design of workable pricing structures. Commissioners must understand the impact that PbR can have on a market and the wider landscape provision, including any cumulative effects.
- Data availability is central to PbR. Data is required for outcomes and metrics design; and, for the performance management of contracts. New systems may be required. Data sharing protocols should be included in contracts and established with wider stakeholders prior to delivery beginning.
- In commissioning PbR, the purpose of its introduction must be clear and consideration should be given to alternative incentive-based designs. PbR schemes that fail to understand the market, are based on poor data or transfer too much risk can stifle innovation and reduce market capacity in the future. Competitive dialogue enables a collaborative approach and can support better scheme and contract design.
- Commissioning and performance managing PbR requires new skills and capabilities of both commissioners and providers. New roles require training and support; new performance management requires new systems. A range of measures support effective performance management but a balance must be reached so that providers are free to innovate and they, and other stakeholders, are not overburdened by monitoring requirements.
- In developing new markets or schemes targeting the most vulnerable, transitional arrangements may be required. These can both account for the development of new interventions and performance management structures, and ensure that those in need of support are not placed unduly at risk. Long term contracts can provide stability for a collaborative approach; yet they may limit market supply and fail to drive performance and value for money improvements if not well structured and without adequate provision for managing poor performance.
- Effective performance management is active, ongoing and responds flexibly to change. When contracting prime providers, commissioners must take account of how supply chains have been formed and how risk is managed with particular consideration given to smaller VCS organisations. How primes manage their supply chains in delivery must also be managed on an ongoing basis – with clarity about how this will be achieved provided to all from the outset – and the skills and resources for this identified as part of the scheme design.
- To support best practice, open book reporting provides transparency and forums for sharing what works drives improvements in delivery. Both should be given consideration in contract design so that commercial sensitivities do not override the development and understanding of best practice in the delivery of publicly-funded services.
- Effective PbR scheme design, commissioning and management require resources but there is a lack of understanding of full costs. There is a lack of understanding of the full costs of PbR contracts, including the costs of failure and the wider costs, in PbR design,

evaluation and therefore value for money assessment. Future schemes should record and account for these costs.

- Further consideration should be given to learning from private sector models of PbR so that success and failure can be explored in detail. Although it will take time to emerge, international models should be kept under review to capture learning from the growing use of PbR in SIB structures in different countries.

3 PbR Literature Review

This section presents the completed templates to collate data from sources included in the review. They are organised alphabetically by author. The final template provides a summary of the Transforming Rehabilitation programme currently being introduced by the Ministry of Justice.

3.1 Completed review templates, by publisher

1. Audit Commission (2012) Local Payment by Results Briefing
2. Big Lottery Fund (2014) Social Impact Bonds: The State of Play
3. Clinks (2013) Response to the Ministry of Justice Consultation: Transforming Rehabilitation: A revolution in the way we manage offenders'
4. Collaborate (2014) Beyond Big Contracts: Commissioning public services for better outcomes
5. Department of Communities and Local Government (DCLG) (2014) Qualitative Evaluation of the London Homelessness Social Impact Bond: First Interim Report
6. DCLG (2014) Supporting People Payment by Results pilots: Final Evaluation
7. Department for Education (DfE (2011) Feasibility study for the trials of Payment by Results for children's centres
8. DfE (2014) Payment by Results in Children's Centres Evaluation
9. DfE (2014) The Youth Contract for 16-17 year olds not in education, employment or training evaluation
10. Department of Health (DoH) (2012) Drug and Alcohol Recovery Pilots: Lessons learnt from Co-Design and commissioning with payment by results
11. DoH (2013) Key steps for successful implementation of Mental Health Payment by Results
12. DoH (2013) Mental Health Payment by Results Guidance for 2013-14
13. Department for Work and Pensions (DWP) (2010) The influence of outcome-based contracting on Provider-led Pathways to Work
14. DWP (2012) Work Programme Evaluation: Findings from the first phase of qualitative research on programme delivery
15. DWP (DWP) (2013) Work Programme Evaluation: Procurement, supply chains and implementation of the commissioning model
16. DWP (DWP) (2014) Innovation Fund pilots qualitative evaluation: Early implementation findings
17. DWP (DWP) (2014) Work Programme Evaluation: Operation of the commissioning model, finance and programme delivery
18. DrugScope/the RSA (2013) Drug and Alcohol Recovery Payment by Results (PbR) pilots – National Service Providers Summit
19. House of Commons Library (2013) Work Programme Evaluation: Procurement, supply chains and implementation of the commissioning model
20. Kings Fund (2014) Commissioning and contracting for integrated care
21. Ministry of Justice (MoJ) (2011) Lessons learned from the planning and early implementation of the Social Impact Bond at HMP Peterborough

22. MoJ (2012) Findings and lessons learned from the early implementation of the HMP Doncaster payment by results pilot
23. MoJ (2013) The voluntary and community sector in criminal justice: a capacity building action plan
24. MoJ (2014) Process evaluation of the HMP Doncaster Payment by Results Pilot: Phase 2 findings
25. MoJ (2014) Phase 2 report from the payment by results Social Impact Bond pilot at HMP Peterborough
26. National Council of Voluntary Organisations (NCVO) (2013) Payment by Results contracts: a legal analysis of terms and process
27. NCVO (2014) Payment by Results and the voluntary sector
28. NHS Right Care (2012) What organisation is necessary for commissioners to develop outcomes based contracts? The COBIC case study
29. The Nuffield Trust (2011) Commissioning integrated care in a liberated NHS
30. Oxfordshire Clinical Commissioning Group (2013) Outcomes Based Commissioning Phase One Report: Developing the outcomes for better patient care and better value (executive summary)
31. Policy Innovation Research Unit (PIRU) (2011) Payment by Results (PbR) Drug & Alcohol Recovery Pilot Programme: a note of advice to the Department of Health (DH) on the proposed evaluation
32. UK Commission for Employment and Skills (UKCES) (2010) Outcome Based Commissioning Lessons from contracting out employment and skills programmes in Australia and the USA
33. University of Manchester (2012) Drug and Alcohol PbR Pilot Evaluation: Scoping & Feasibility Report
34. University of Manchester (2014) Evaluation of the Drugs and Alcohol Recovery Payment by Results Pilot Programme: Interim Summary Report
35. MoJ (2013-2014) A summary of Transforming Rehabilitation: produced for this report

1

Title			
Local Payment by Results Briefing			
Author			
Audit Commission			
Year			
2012			
Publisher			
Audit Commission			
Web address			
Document Type			
Policy document	Expert publication	Performance data	Evaluation
X			
Other:			
High Level Summary			
Provides an overview of the issues arising from using PbR locally – local authorities and other non-national commissioning. Draws on UK and international research. Few rigorous evaluations and no complete, systematic analysis of effectiveness was found. "*The document does not therefore make a recommendation for or against PbR but instead sets out the issues that commissioner should consider if they are to use it successfully.*" (p3). It provides the background to PbR, the benefits when used effectively, the risks in securing value for money and the higher level commissioning skills required. Five principles for a successful PbR scheme are identified: a clear purpose; a full understanding of risks; a well-designed payment and reward structure; sound financing for the whole scheme; effective and robust measurement and evaluation.			
Purpose of Document			
Guidance for local commissioners.			
Sector Author, Publisher			
Government Agency			
Key issues			
Defining outcomes and payments			
Evidence base for outcomes			
Defining outcomes	Use a small set of performance measures from a wider range of input, process and outcome measures. Setting a baseline requires enough reliable evidence. Robust information must be used when shaping a PbR scheme. The metrics need to be broad enough to give a rounded picture without overcomplicating matters or diluting the intended impact. A lack of data to use when modelling outcomes brings increased risks for both providers and commissioners.		
Agreeing outcome definitions			
Using proxies	Process measures can sometimes be used as effective proxies for outcomes or can		

	be important in their own right. Proxies must be genuine and reasonable for the outcomes they are intended to represent. E.g. Peterborough prison using reconviction rather than reoffending (which are difficult to measure reliably). Proxies and process measures can ensure providers are behaving in the right way before outcomes are achieved.
Measuring outcomes	
Attributing outcomes	Commissioners need to be clear about how the will attribute success and share out reward payments to different providers. They need to be aware of situations where thy pay for results when other organisations benefit and seek to share some of the costs. Control groups can allow understanding of effectiveness. A study of a seemingly successful scheme to reduce hospital admissions showed it fared no better than existing services (Nuffield Trust, 2011). Peer groups can help judgements of performance – reward payments linked to where a provider scores in relation to their peers. It requires a mature approach to sharing performance data and high levels of coordination between commissioners. But It has worked in pay-for-performance schemes with 250 providers and 24 commissioners.
Intermediate outcomes and distance travelled	
Data sharing/data availability	Differences between information and finance systems can be a barrier to joint working; at the planning stage, specify and agree information sharing requirements including quality assurance and reporting arrangements. Openness with data is important so that performance is visible, building trust between providers and commissioners. There may be different data available to them but both need access to the same data used to decide payments. Data must be robust and auditable to minimise disputes and associated costs. Unreliable data increases risks including of gaming.
Service pricing: ■ Incentivising long-term outcomes ■ Addressing skimming/cherry picking ■ Ensuring efficiency ■ Reviewing costs and pricing	Any PbR scheme has three main elements, combined in different ways: ■ Balance between ore payments and reward payments that depend on outcomes ■ How and when to pay ■ The incentive for providers Evidence is not conclusive in terms of what works best in structuring the proportion of payments to outcomes. ■ A scheme linking all payments to results places large risks on the provider which may discourage some from bidding. ■ Small financial incentives can have large positive effects so it may not be necessary to put all the payment at risk. Some existing schemes have as little as 1.5 per cent related to performance. But these may not transfer enough risk or incentivise outcomes sufficiently. Early investment or other market entry costs may be high and the payment structure should give both assurance and incentive – by getting the balance right between core and reward payments. Commissioners need to be confident that improvements can be delivered beyond the contract term, where payments are linked explicitly to expected savings. Clarity about groups and sub groups and the data collected about them helps to address 'cherry-picking'. Commissioners need to understand the likelihood of

	different groups achieving outcomes in structuring payments for the right groups and right outcomes. Without this providers may 'park' the most challenging. Input and process data helps align payments with progress. Projections when planning help account for changes in context, for example increased general employment or socio-demographic factors. A balanced view of performance is required to address gaming and perverse incentives. "*What is measured and paid for is what gets done*" (p25). Conversely, overly complex requirements may be a disincentive to providers, because of high administration costs. A hierarchy can encourage providers to focus on those that bring higher rewards than those important to users or commissioners.
Provider capacity	
Market capacity: ■ Market making ■ Market testing ■ Commissioning and competitive tendering ■ Market capacity	Commissioning PbR is more complex. PbR requires technical skills to negotiate and deal with the financial and legal issues around contracts, including the design and handling variation and disputes. The extra work and higher levels of expertise may add to costs. Commissioners, providers and investors need to be clear who is taking on the risks associated with a scheme and that any transfer of risk is contractually sound. Commissioners need the skills to: ■ Understand customers and their needs for outcomes rather than service delivery; ■ Understand the market capacity and willingness to deliver the requirements, including the available skills and expertise and the degree of competition; and ■ Procure effectively – getting the scope and scale right to attract bidders; creating a clear, fair and accessible process; balancing risk, reward, affordability, accountability and clear outcomes in the contract specification. The nature of risks depends on the capacity and readiness of the market to provide competitive offers to deliver the contract. It is essential to have enough provider with the capacity, capability and desire to make competitive bids for the work. The payment and reward structure can help or hiner market entry for smaller enterprises. Commissioners must understand market behaviours. Providers may be tempted to seek claim credit for outcomes that are the results of others actions. Clarity about target population, cause and attribution are important. The timing of payments can affect the incentive for providers to bid. The initial investment needed to set up and the expected payback time for savings from improved outcomes should be considered together. Research (not cited) suggests that competitive schemes provide a greater incentive to providers than one-on-one contracts.
Funding and risk sharing: ■ Modelling whole life cost ■ Funding sources and addressing short falls ■ Understanding risk – provider views ■ Pricing risk and competitive pricing	It may take a long time to show how successful the scheme has been in achieving the aim of the scheme: the financial aims and planning for PbR need to take account of this timescale. "*The required outcomes influence how the scheme needs to be commissioned and by whom. If the outcomes are affected by other public, private or voluntary services, then those bodies may need to be joint commissioners. There are several ways of approaching joint commissioning, but it will be important to make sure the rewards can be shared equitably, as well as the costs and risks*." (p6)

■ Allocating risk – where does the risk sit: commissioner/prime; prime/supply chain	Because there can be a significant delay before outcomes are measured, impacting upon payments schedules, provider cash flow and market entry, process proxies should be used and the proportion of payment attached to outcomes considered. Sources of financing such as SIBs or claw back mechanisms can help with provider cash flow and market entry. Better outcomes can increase demand for services. Be clear about the role of prevention in the new service and monitor its impact over time. Input and process measures should be monitored and contract mechanisms should be in place to control these. Rather than leave allocation of payment to primes, commissioner should clarify how contributions and rewards will be shared and build this into formal agreements. Improving value for money: ■ Poor scheme design or unanticipated over performance can result in higher payments than planned: Model different scenarios with varying levels of performance and reward. ■ Identify and understand costs over the full life of the project including residual liabilities. Reflect these in financial planning to account for late deferred outcome payments. ■ Set out clearly at the start who has the final authority to decide on levels of achievement. Consider the use of a neutral third party. This will avoid disputes, protracted negotiations or expensive litigation. ■ Plan for significant failure and the costs of service reinstatement or compensation/litigation costs: consider asking providers for a bond to underwrite their performance; have a plan for continuity in case of failure. ■ Take a whole life view of the impact of decommissioning services. Model the costs of both decommissiong and changes in the volume of service users. Involve service users in design and commissioning. ■ Savings for one organisation can lead to extra costs for another – involve other stakeholders in decision =-making about how to share savings and productivity gains. Commissioning outcomes rather than delivery can allow providers to innovate. Good scheme design allows commissioners to take on less risk in trying something new. Pooling resources across organisations shares the risk and benefits and creates space for schemes that may have been considered too high risk. ■ The greater the degree of innovation, the greater the risk to providers who will expect a larger reward: Consider providers' track records of innovating successfully; think about reducing the knowledge gap through piloting and evaluation. ■ Sometimes it is adherence to best practice rather than innovation that is required: process and input measures may be important; but commissioners can still attach rewards to performance as in payment for performance schemes. ■ Budget appropriately for the impact of moving from reactive to preventative action: model changes in demand; be realistic about the scale of reduction in demand needed to close facilities and release costs; monitor changes and adjust financial planning accordingly. ■ Plan for the costs of joint governance: consider cultural/priority differences; be clear about how partners will work together. It is not possible to transfer all risk – reputational, practical or financial. Commissioners must understand the risks that remain and how to mitigate them, including the risks of negative impacts for service users if services fail. Local authorities may be at risk of not fulfilling legal responsibilities if some services fail. There are a range of funding options. If using existing or pooled budgets, they must reflect when payments are due. Strong financial planning needs to include

	assumptions about reward payments and cover the range of circumstances form very low to very high performance and include contingency plans for changes in the external context, which may affect results. If using external funding or self-funding providers, payments will need to reflect a balance between risk and potential return on investment to make the offer attractive. Funding needs to cover: ■ Early costs of commissioning and continuing monitoring and review; ■ Start up or investment costs or decommissioning costs include eventual close-down costs; ■ Continuing running costs and reward payment; ■ Contingency plan for failure; ■ Residual liabilities. Baselines need to include costs and other inputs. The need for good data may create additional costs. Robust performance management brings additional costs.
Performance management	
Measuring performance: ■ Evidencing outcomes ■ Adapting metrics ■ Auditing arrangements ■ Dispute resolution	
Performance management arrangements: ■ Incl. adjustments to correct/improve operation of PbR contracts/arrangements	
Service failure: ■ Penalties for failure ■ Mechanisms for addressing failure ■ Contract termination ■ Re-contracting ■ Redress for service users	Repayments or withholding planned funding are considered les often than extra payments for performance, but can have strong motivational effects on providers. Caps on total payment and floors for minimum payment can be helpful where there is doubt about the likely level of achievement.
Accountability and value for money	
Arrangements must be clear and robust. There must be: ■ appropriative controls and assurance including financial and governance arrangements, and means of redress ■ clear, independent audit and scrutiny ■ accountability arrangements that fit the context and reflect funding arrangements ■ have clear outcome measures. Pooling resources and accountabilities requires clear legal powers and responsibilities. Public reporting can encourage providers to perform well. If used, this needs to be a contractual requirement. This may not be popular with providers but is in line with current expectations of greater transparency and accountability of publically funded services.	
Roles and responsibility of	

accounting officer	
Monitoring beyond PbR contracts	
Monitoring cost	
Governance arrangements	
Promoting effective practice	
Intervening in delivery	
Evaluating value for money of the entire PbR scheme	New funding such as SIBs allow commissioners to keep existing services going until the benefits of the PbR are realised. The savings will then offset the return on investment paid.
Other	
There must be a clear purpose to the PbR. Improving outcomes, reducing costs/improved value for money, stimulating innovation – are all aims of PbR but it may be too ambitious to try and achieve them all in one scheme.	

2

Title			
Social Impact Bonds: The State of Play			
Author			
Ecorys and ATQ Consultants			
Year			
November 2014			
Publisher			
Big Lottery Fund			
Web address			
http://www.biglotteryfund.org.uk/-/media/Files/Programme%20Documents/Commissioning%20Better%20Outcomes/SIBs_The%20State%20of%20Play_Summary%20Report.pdf			
Document Type			
Policy document	Expert publication	Performance data	Evaluation
Other: Review of SIBs as part of the Commissioning Better Outcomes Evaluation			
High Level Summary			
A literature review and research study (e-surveys of commissioners, providers and investors; and interviews with key national stakeholders) to identify key features of SIBs, benefits and challenges and to consider what needs to be done to grow the market. Tracing their history, the report highlights how there are different SIB models in place both within the UK and internationally. The benefits of SIBs are identified (rehearsing those already detailed in the literature for PbR with the additional ones of: bringing in external investment; aligning the interests of commissioners, providers, investors); and the challenges (again rehearsing those already present in the literature). The report finds that there are varied understandings of SIBs and varied drivers for involvement in them across the different stakeholders. Therefore tailored models will need to be developed for different topics and contexts. Transaction costs remain high. Those involved in SIBs were broadly positive about them. But it is early days in their development and there is a lack of comprehensive evaluation. Supporting SIBs will require: continued support for local commissioners; stakeholders need to be supported to come together; innovation needs to be encouraged; a 'one size fits all' approach will not work.			
Purpose of Document			
Literature review and research to inform the Commissioning Better Outcomes Fund and as part of the Commissioning Better Outcomes Evaluation.			
Sector Author, Publisher			
Consultant authors; VCS (SIB stakeholder) publisher.			
Key issues			
Defining outcomes and payments			
Evidence base for outcomes	Much of the literature discusses the importance of an evidence base in developing a SIB – what outcomes could be achieved, what would the costs be, are there providers able to deliver? A strong evidence base mitigates the risk for investors. But other stakeholders see prescription as limiting innovation. Investors place particular importance on the evidence base and this is a challenge for SIBs of other contracts, including other PbR.		
Defining outcomes	There is debate in the literature about the relative benefits and challenges of a single outcome which is easily measurable and creates certainty for investors, versus a basket of outcomes.		
Agreeing outcome			

definitions	
Using proxies	
Measuring outcomes	There is not a consensus about measuring outcomes – control approaches bring greater rigour but benchmarks do not exclude a group from receiving the intervention. Some SIBs have no comparator.
Attributing outcomes	
Intermediate outcomes and distance travelled	
Data sharing/data availability	
Service pricing: ■ Incentivising long-term outcomes ■ Addressing skimming/cherry picking ■ Ensuring efficiency ■ Reviewing costs and pricing	'In practice a complex financial model is usually required to test the viability of the SIB at different levels of impact or outcome achievement' (p.29, quoting Social Finance guidance). Two issues are particularly important: the costing of current services, which is challenging; and, whether or not savings have to be 'cashable',
Provider capacity	
Market capacity: ■ Market making ■ Market testing ■ Commissioning and competitive tendering ■ Market capacity	Commissioners are less positive than providers and investors. Development has been slow and complex. Breaking down barriers and building relationships and links between the different SIB stakeholders is crucial: - support for local commissioners should be continued; - investors, commissioners and services providers need to brought together; - innovation needs to be encouraged so different SIB models are tested; - over-prescription should be avoided. There is no 'one size fits all'. The Social Outcomes Fund (SOF, Cabinet Office) and Commissioning Better Outcomes Fund (CBO, Big Lottery Fund) are making up to £60m available to pay for a portion of outcomes payments and support the development of robust proposals. Five development grants have been awarded by CBO. They are paying for legal support, MI systems development and other feasibility aspects. The value ranges from £63,000 to £150,000 (average £131,000). Although one rationale for SIBs is that they encourage the involvement of smaller providers than a PbR contract (as the investors take the risk), the report found little evidence of their involvement in current SIBs. There was also concern expressed by providers who participated in the survey that SIBs presented to high a financial risk. The authors conclude that this apparent contradiction requires more investigation. Learning for providers: - be flexible to the delivery and management models required by SIBs; - keep it simple and prepare well; - understand time will be taken to adapt to new models; - managing SIBs can be complex and there are different stakeholders to involve; - strong outcome measurement is important. Developing SIBs is complex and costly. Peterborough has six different contracts within it. They take at least 18 months and up to three years, on current evidence. Given the high transaction costs, there appears to be a consensus that a SIB must have a minimum value of £1m to justify these.

	Agreeing a contract that commissioners, providers and investors are happy with is difficult. The time taken to do this creates a further challenge as things happen during their development that can derail them. This includes suggestions of policy uncertainty, for example changes to GCSE structures where education outcomes are involved.
Funding and risk sharing: ■ Modelling whole life cost ■ Funding sources and addressing short falls ■ Understanding risk – provider views ■ Pricing risk and competitive pricing ■ Allocating risk – where does the risk sit: commissioner/prime; prime/supply chain	A SIB is a PbR where the working capital needed to fund the interventions made by providers comes from external (usually social) investors. Investors are able to achieve a blended return of social and financial outcomes. It is not a 'bond' in the usual financial sense (as these carry lower risk and guaranteed returns). Key investors are: Charitable Foundations and Trusts; and specialist fund managers. There are five investment models identified: - Special Purpose Vehicle (SPV); - single investor; - provider subsidiary; - direct provider investment; - spot purchase. The report notes that there has been no comparative evaluation of these different models. International SIBs have tended to be funded by institutional rather than social investors. In part this is because they have been constructed to 'de-risk' the investment to encourage the market. In these models the investment is under-written and returns guaranteed. Factors that encourage investors: - early involvement with commissioners; - removing caps on return and ensuring positive return if social impact is achieved; - provision of early and continuous data, to analyse risk; - filtering during commissioning so only a small number of bids are invited (so investors don't spend a lot of time with bidders who may be unsuccessful); - adjusting contracts terms, for example avoiding short notice termination clauses. 'The development of each SIB will likely need to be tailored to the wants and needs of all those involved and the nature of the problems the SIB is trying to address' (p.68)
Performance management	
Measuring performance: ■ Evidencing outcomes ■ Adapting metrics ■ Auditing arrangements ■ Dispute resolution	The performance of most SIBs is encouraging although there is little conclusive data available given their lack of delivery maturity.
Performance management arrangements: ■ Incl. adjustments to correct/improve operation of PbR contracts/arrangements	A SIB creates a novel and strong alignment of interested between commissioners, providers and investors. This comes to the fore when reviewing performance and adjusting delivery.
Service failure: ■ Penalties for failure	

■ Mechanisms for addressing failure ■ Contract termination ■ Re-contracting ■ Redress for service users	
Accountability and value for money	
Roles and responsibility of accounting officer	
Monitoring beyond PbR contracts	
Monitoring cost	
Governance arrangements	
Promoting effective practice	
Intervening in delivery	
Evaluating value for money of the entire PbR scheme	There has been very little independent and objective evaluation of SIBs and their impact on which to base firm conclusions.
Other	
There are 15 SIBs live at the end of June 2014. Five more are planned. There are more internationally but it is difficult to know how many due to their differing stages of development. Why a SIB – a SIB should only be pursued where it is the right or best solution to a social issue. Is outcomes commissioning right for the service; and whether external social investment is needed and cost effective? The Cabinet Office recommends a feasibility study is undertaken and this appears to have been done by most commissioners.	

3

Title			
Clinks response to the Ministry of Justice consultation: 'Transforming Rehabilitation: A revolution in the way we manage offenders'			
Author			
Clinks			
Year			
2013			
Publisher			
Clinks			
Web address			
http://www.clinks.org/sites/default/files/FINAL%20Clinks%20response%20to%20Transforming%20Rehabilitation%20consultation%20%281%29.pdf			
Document Type			
Policy document	Expert publication	Performance data	Evaluation
	X		
Other:			
High Level Summary			
This document is based on submissions to Clinks from their members and feedback from consultation events, as well as the MoJ's Reducing Reoffending Third Sector Advisory Group, which they chair. The response highlights a number of concerns within the sector about the proposed programme. These include concerns about the outcomes and associated payments, seen as failing to recognise the complexity of desistance from offending; and, the implications of supply chains and their management by prime providers for the voluntary and community sector (VCS).			
Purpose of Document			
Inform development of Transforming Rehabilitation contracting and design. Clinks is the national infrastructure organisation supporting VCS organisations working with offenders and their families.			
Sector Author, Publisher			
VCS			
Key issues			
Defining outcomes and payments			
Evidence base for outcomes			
Defining outcomes	Clinks stress that 'cherry picking' is not the only potential hurdle posed by the binary measure of reoffending. 'The binary measure does not take into account the wide body of academic literature on desistance, which has repeatedly found that relapse is common in the journey away from crime, though this if often marked by a reduction in the frequency or severity of offending behaviour. Desistance research has also found that a number of intermediate outcomes are good proxy indicators of the likelihood of eventual desistance from offending services provided by VCS organisations are closely associated with the achievement of intermediate outcomes, such as improved family relations, access to accommodation and improved employability. The most recent version of NOMS' Commissioning Intentions recognised the		

	importance and value of a wide range of intermediate outcomes in rehabilitation services and indicated willingness to commission services which could deliver these. MoJ and NOMS should consider whether the use of the binary reoffending measure could be relaxed for organisations which specialise in delivering intermediate outcomes that are closely associated with eventual desistance from crime. A set of acceptable leading and lagging indicators is needed to guide providers and help them to develop and present evidence that will be acceptable to commissioners.' (p4)
Agreeing outcome definitions	
Using proxies	Following from the arguments made above, Clinks encourage NOMS to consider drawing upon the available evidence base to design a range of proxy outcome measures, tailored to offending 'triggers' and need profiles of the group receiving the intervention.
Measuring outcomes	
Attributing outcomes	Clinks argue that 'even when statutory data on reoffending and other outcomes are made available to non-statutory partners, it will remain extremely difficult to attribute success to one particular intervention.' (p5). This links to their reference to desistance research that highlights how 'a number of services working in combination have a cumulative effect on an offender's think and circumstances, but that the individual themselves has ultimate control over their patterns of offending behaviour.' (ibid). They also raise that it is unclear how the role of services not included in the particular PbR contract will be accounted for– the example given is health interventions in the community or in prison.
Intermediate outcomes and distance travelled	
Data sharing/data availability	Clinks welcome the proposals to give non-statutory providers access to high-quality re-offending data through the nationwide Justice Data Lab. This is identified as an historic barrier for VCS organisations attempting to evidence outcomes to commissioners. 'However, while access to aggregate re-offending data for their cohort will enable VCS providers to measure their success against the binary outcome measure, it does not allow organisation to evidence their success in achieving the intermediate outcomes outline above. Clinks would therefore encourage MoJ and NOMS to continue to explore the possibility of combining access to reoffending data with information held by other governmental departments on employment benefits, and access to certain health services.' (p5)
Service pricing: ■ Incentivising long-term outcomes ■ Addressing skimming/cherry picking ■ Ensuring efficiency ■ Reviewing costs and pricing	
Provider capacity	
Market capacity: ■ Market making ■ Market testing ■ Commissioning and competitive tendering ■ Market capacity	Clinks argue that: 'the majority of potential VCS providers will not have resources to bid as primes, particularly if commissioning takes place across large geographical lots. Unless the opportunity arises to bid as part of a VCS led consortium then the majority of providers from the sector will enter PbR arrangements as a sub-contracted partner to a private prime or larger sub-contractor. If the government is committed to a truly mixed market in the provision of supervision and rehabilitation services, then it must implement measures to ensure that supply chains are built and maintained in a fair,

	transparent and sustainable manner. Clinks endorses the recommendation of the RR3 paper Competition, Commissioning and the VCS that commissioners and primes should not view VCS partners purely in a delivery capacity and instead seek to engage with them as strategic partners from the earliest possible stages of planning. The involvement of VCS partners of all sizes from the earliest possible design stages of the commissioning process will be vital in commissioners' analyses of local need and provision, particularly if NOMS adopts its proposed model of commissioning across sixteen geographical lots. These activities precede the specification and procurement stages of the commissioning cycle and it should therefore be possible to involve the sector without giving any competitive advantage. Access to information and guidance about the tendering process should be widely disseminated and made more easily accessible to the sector.' (p5) They recommend that NOMS should make full use of its links with local and national VCS networks and infrastructure organisations to advertise capacity building and bidding opportunities as soon as they arise. Clinks 'urges' MoJ to 'publish a procurement framework and associated set of standards for competed services detailing processes to be implemented for the fair and transparent treatment of VCS organisations, along the lines of the refreshed Compact and DWP Merlin standards. These should also form part of the contract monitoring criteria applied by NOMS contract management staff, to ensure good stewardship of supply chains.' (p7) Clinks state that the preferred PbR contracting model for VCS organisations would require the prime (or external social investor) to bear the full outcomes based risk of the contract. Where this is not possible, there should be requirement for primes to evidence a diverse supply chain and be open and transparent in detailing the level of risk and the estimated number of referrals which they intend to transfer to subcontracted partners. It is suggested that a minimum contract value is attached to sub contracted work so that providers are not disadvantaged by lower than anticipated referral rates. 'Clinks therefore endorses Social Finance's recommendation that, if risk is to be shared by all providers in the chain, the potential payment for the rehabilitation part of the contract needs to be sufficiently generous to incentivise prime providers to hold on to this risk. The procurement scoring process should also reward primes who have committed to a higher minimum spend on outcomes based services. Procurement officials should give preferential weight to bids in which potential providers can demonstrate experience in front line delivery of services to the groups they are working with.' (ibid) This should reduce instances where good work already being carried is displaced by providers who are less expensive, but have little local knowledge or prior experience. 'The availability of experienced, skilled providers is particularly important in relation to certain groups of offenders such as women, young adults, and offenders from Black, Asian, Minority or Ethnic (BAME) communities. Safeguarding experienced local providers in this way would help to overcome the potential loss of local capacity and responsiveness to local need threatened by the plan to commission services centrally through large geographical lots.' (ibid) Instances of supply chain mismanagement 'could be addressed by a robust procurement framework which emphasises transparency and quality over price in assessing bids. Such a framework could then be overseen and enforced by an independent arbiter, separate from Government. It is crucial that there is an anonymous mechanism for VCS and other subcontracted partners to report instances of poor procurement practice and supply chain mismanagement. This could take place through the existing Cabinet Office Mystery Shopper Scheme or a similar program which is specifically tailored to offender services.' (p9)
Funding and risk sharing:	Clinks would recommend a PbR model in which subcontracted VCS partners

■ Modelling whole life cost ■ Funding sources and addressing short falls ■ Understanding risk – provider views ■ Pricing risk and competitive pricing ■ Allocating risk – where does the risk sit: commissioner/prime; prime/supply chain	receive 100% of their delivery costs upfront, with the outcomes risk borne by the prime or an external investor. 'Where it is not possible to implement the social investment model, contracts for offender services should pay the service fee/delivery costs upfront with a scalable amount at risk, proportionate to the size of the provider and its position in the supply chain. The upfront fee should be adequately priced to cover the cost of sentence or licence delivery, including any rehabilitative services included within these arrangements, and any TUPE obligations. Clinks would recommend that no more than 20% of the total contracted fee should be left at risk, subject to a percentage of the cohort reaching particular outcomes at pre-agreed intervals in the contract.' (p3) Nonetheless, even 20% is seen to 'represent an unfeasible level of risk for many VCS organisations. Wherever possible, Clinks would recommend that subcontracted VCS partners carrying out discrete pieces of work should receive 100% of their delivery fee upfront and all outcomes based risk should remain with the prime contracted partner.' (ibid)
Performance management	
Measuring performance: ■ Evidencing outcomes ■ Adapting metrics ■ Auditing arrangements ■ Dispute resolution	
Performance management arrangements: ■ Incl. adjustments to correct/improve operation of PbR contracts/arrangements	
Service failure: ■ Penalties for failure ■ Mechanisms for addressing failure ■ Contract termination ■ Re-contracting ■ Redress for service users	
Accountability and value for money	
Roles and responsibility of accounting officer	
Monitoring beyond PbR contracts	
Monitoring cost	
Governance arrangements	
Promoting effective practice	
Intervening in delivery	
Evaluating value for money of the entire PbR scheme	
Other	

4

Title			
Beyond Big Contracts: Commissioning public services for better outcomes			
Author			
Crowe, D., Gash, T. and Kippin, H.			
Year			
2014			
Publisher			
Collaborate (London Southbank University)			
Web address			
http://www.instituteforgovernment.org.uk/publications/beyond-big-contracts			
Document Type			
Policy document	Expert publication	Performance data	Evaluation
	X		
Other: based on research with commissioners, providers and a range of stakeholders.			
High Level Summary			
The paper reviews the moves under 'open public services' focusing on: what is changing on the ground; and how ready are those who are implementing the reforms. The report's research found that: - commissioners have doubts about their ability to measure outcomes, to engage with communities to develop them, and to measure and reward providers appropriately. - commissioners are transferring risk to encourage innovation, but the opposite is happening as providers concerned about financial survival are reluctant to take risks by doing things differently. - relationships between commissioners and smaller providers are breaking down, and providers are becoming reliant on primes resulting in 'lopsided partnerships'. The report recommends that: - commissioners invest time in developing outcomes with communities and users, so that they are coproduced and user satisfaction is embedded in contracts. - risk to the social sector is more balanced, with less payment at risk in PbR and longer term contracts that provide stability and thus supporting innovation. - that different investment partnerships are developed to experiment at scale; - that relationships are fostered – between commissioners and providers and providers and their users. The costs of disruption are often under-estimated; PbR may be too simplistic for complex needs and outcomes in some cases.			
Purpose of Document			
Sector Author, Publisher			
Key issues			
Defining outcomes and payments			
Evidence base for outcomes			
Defining outcomes	Greater involvement of communities and users, and greater collaboration, would		

	help define better outcomes. It will help achieve a genuinely user-centred approach.
Agreeing outcome definitions	
Using proxies	
Measuring outcomes	
Attributing outcomes	
Intermediate outcomes and distance travelled	
Data sharing/data availability	
Service pricing: ■ Incentivising long-term outcomes ■ Addressing skimming/cherry picking ■ Ensuring efficiency ■ Reviewing costs and pricing	
Provider capacity	
Market capacity: ■ Market making ■ Market testing ■ Commissioning and competitive tendering ■ Market capacity	Reduced budgets and focus on cost limit innovation. The financial requirements of PbR limit market entry of smaller providers, further compounding the lack of capacity for innovation. A focus on cost threatens quality and/or limits the focus on the most vulnerable groups with the most complex needs. PbR is fracturing relationships between commissioners and providers and service users. Supply chains introduce new relationships, built around commercial obligation and contractual arrangements. This can limit collaboration, negatively impacting on the most vulnerable and most complex community needs. The public sector has a minimal role in supply chain management. Some organisations are therefore coerced under new relationships with primes. Commissioners focus becomes scrutiny of primes' contracts with a more distant and formal relationship with providers. Central government contributors to the research reported being more distant from 'social sector' providers due to their reliance on primes. Collaboration amongst providers is increasing, but as contractor/subcontractor and small organisations are involved in these new relationships by necessity.
Funding and risk sharing: ■ Modelling whole life cost ■ Funding sources and addressing short falls ■ Understanding risk – provider views ■ Pricing risk and competitive pricing ■ Allocating risk – where does the risk sit: commissioner/prime; prime/supply chain	National commissioners emphasise PbR as transferring risk; local commissioners as being focused on improving outcomes and driving innovation to be cost effective. Providers questioned whether current PbR adequately cost for risk transference. Contracts are seen to limit small organisations participation and restrict contracted providers' innovation. PbR is 'disincentivising' innovation. Transferring risk, simplifying contracts and reducing costs are all central to commissioners views of the new environment. "In practice, it means paying to delegate the management of that supply chain, and paying for services in full only when agreed outcomes are met. Smaller social sector providers are more cautious of this approach. They want to be free to innovate because they feel they have a lot to contribute to achieving improved outcomes, but they need the right condidtions. More flexible contract and payment regimes could encourage these smaller social sector providers to be more innovative." P39 involving users in defining outcomes could focus resources on the outcomes that

	matter, thus improving outcomes and reducing costs. Collaboration would also drive cross boundary working: "Real opportunities in risk and innovation do not come from supply chains and payment mechanisms that reward providers for innovation. They come from systemic change in how public sector organisations pool their resources and funding, and how they work with social sector organisations and communities to commission against outcomes. A more equitable distribution of risk and reward can be achieved through future savings that result from a service re-engineering to focus on prevention rather than reaction. This approach to collaborative commissioning relies on developing and maintaining strong and trusted relationships between organisations from across the public, private and social sectors. " (p40) There are differences in understanding between commissioning and procurement departments. Problems arise in transferring outcomes into contract specifications. A better mix of outputs and outcomes may help address this. Providers are concerned about the risks in PbR and whether pricing is adequate. As outlined above, this inhibits innovation. Small organisations feel they are not being supported to understand and manage risks. This excludes them from the market. This, in turn, can deny users the best services. Collaboration in subcontracting or through merging can bring benefits but can also threaten mission and (user) voice. Consortium or partnership agreements that set out roles and responsibilities can address this. But they may be dominated by primes' concerns. Longer term contracts, some up front funding, payment for partial outcomes, flexibility in risk sharing – are all suggestions to counter the risks for smaller providers.
Performance management	
Measuring performance: ■ Evidencing outcomes ■ Adapting metrics ■ Auditing arrangements ■ Dispute resolution	The proportion of provider income that is dependent on PbR is increasing. This increases the risks that funding is tied to proxies that are measureable rather than users needs. There is not a consensus over what an outcome is (as opposed to an output). Attributing outcomes is difficult. Greater collaboration in commissioning – defining and paying for outcomes through pooled budgets – may help address this.
Performance management arrangements: ■ Incl. adjustments to correct/improve operation of PbR contracts/arrangements	
Service failure: ■ Penalties for failure ■ Mechanisms for addressing failure ■ Contract termination ■ Re-contracting ■ Redress for service users	
Accountability and value for money	
Roles and responsibility of accounting officer	
Monitoring beyond PbR	

contracts	
Monitoring cost	
Governance arrangements	
Promoting effective practice	
Intervening in delivery	
Evaluating value for money of the entire PbR scheme	
Other	

5

Title			
Qualitative Evaluation of the London Homelessness Social Impact Bond: First Interim Report			
Author			
ICF			
Year			
September 2014			
Publisher			
Department of Communities and Local Government (DCLG)			
Web address			
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/357785/Qualitative_Evaluation_of_the_London_Homelessness_SIB.pdf			
Document Type			
Policy document	Expert publication	Performance data	Evaluation
			X
Other:			

High Level Summary
This is the first of three qualitative evaluation reports. It focuses on the development, design and commissioning of the SIB, and the first year of delivery. The SIB was commissioned using a competitive dialogue process, following extensive stakeholder engagement during the design phase. There are two providers each delivering a key worker ('Navigator') intervention to a named cohort of entrenched rough sleepers in London – which has been split equally between them according to need, with Westminster a shared Borough and other Boroughs allocated to a single provider. The development and commissioning stage is seen by all stakeholders to have worked well. The intervention was based on a review of good practice rather than a modelled intervention trialled elsewhere. The data from the first year is mixed, but overall performance is good. The structure of the PbR appears to be working well with no evidence of perverse incentives.

Background Information (PbR Schemes)	
Name of scheme	London Homelessness Social Impact Bond (SIB)
Policy area	Homelessness, housing
Target group(s)	The cohort is rough sleepers who on 31st October 2012 had been: ■ Seen sleeping rough in the last three months and/or have stayed in a London rough sleeping hostel in the last 3 months; and, ■ Seen rough sleeping at least 6 times over the last 2 years. Data comes from the CHAIN database maintained by all providers in London, keeping a record of rough sleepers locations and support needs.
Rationale	A long term flexible, personalised intervention is required to move entrenched rough sleepers from the street into stable accommodation and sustained outcomes. A SIB model enables voluntary and community sector providers to deliver a PbR that transfers risk from commissioners to social investors.
Description of scheme	The Navigator model provides flexible, personalised support. The PbR is structured to incentives long term outcomes – stable accommodation, or for non-UK Nationals with no right to remain, reconnection to the home country. Navigators coordinate and support access existing provision as well as providing tailored support and resources (travel, clothing, deposits, etc.)
Geography	London
Commissioner and intermediaries	Developed by Social Finance and the Young Foundation. Funded by DCLG. Commissioned and managed by the GLA.

Type of PbR	PbR					
Incentives structure	25% reduced rough sleeping; 40% sustained accommodation; 25% reconnection; 5% employment, training and education; 5% reduced A&E admissions.					
Total budget	£5m PbR, additional development budget.					
Portion assigned to PbR						
Number of prime contracts	2					
Timescale (development)	One year					
Development budget	Not known					
Development process	Feasibility study including literature review. Informal and when the model was developed formal market testing. Provider and stakeholder events. PQQ stage followed by investor event with short-listed providers.					
Timescale (delivery)	Three years – November 2013-October 2016					
Current status	Report is end of year one.					
Supply chains (prime & sector; subs & sector)	Each prime is VCS provider. No formal supply chain but some partnerships and focus on partnership working.					
Social investment	Two models. One provider (St Mungo's) has an SPV. £250,000 of their own funds is at risk before the investors. Thames Reach has unsecured loans, plus their own £250,000 investment which is also at risk before the investors'.					
Detail of PbR						
Summary: (or complete template below)						
Indicators	Reduced rough sleeping	Sustained stable accommodation	Sustained reconnection	Employability and employment	Better managed health	
Metrics	Reduction in the number of individuals recorded in CHAIN as seen rough sleeping each quarter	Confirmed non-hostel tenancy sustained for 12 and 18 months. No more than two rough sleeping incidents recorded in CHAIN in the first 12 months and no more than one between 12 and 18 months.	Confirmed reconnection outside of the UK with no rough sleeping incidents recorded in CHAIN in the following 6 months.	NQF Level 2 or equivalent Sustained volunteering or self-employment 16+ hours per week. Sustained employment 8-16 hours per week. Sustained employment 16+ hours per week	Reduction in average number of Accident and Emergency episodes per head per year.	
Evidential requirements	Outcome payments according to progress beyond baseline of expected	Payment on written confirmation of entry to accommodation.	Payment on confirmed reconnection (range of evidence accepted).	Payment for completion when commencement is after contract start date.	Annual payments for reduction in average A&E episodes per head	

	reduction. Paid in arrears each quarter. Paid according to baseline.	Payment after 12 months. Payment after 18 months. Paid by individual outcome.	Payment after 6 months. Paid by individual outcome.	First payment when sustained for 13 weeks. Second payment when sustained for 26 weeks. Paid by individual achievement.	against baseline at start of contract. Paid according to baseline	
PbR allocation	25%	40%	25%	5%	5%	
Timing of payment						
Performance rewards						
Payments made to date						
Counterfactual/baseline	Baseline	Individual outcomes	Individual outcomes	Individual outcomes	baseline	
Key issues						
Defining outcomes and payments						
Evidence base for outcomes	Literature review and detailed feasibility study modelling and testing different outcomes. Crime initially included but dropped due to difficulties with accessing data (low level crime being the most common by this group but not recorded consistently).					
Defining outcomes	Developed through feasibility study of a definable pathway from the street to sustained accommodation and stable lifestyle. Tested with stakeholders through engagement events. Research with rough sleepers to inform and test.					
Agreeing outcome definitions	A competitive dialogue process was undertaken to commission the SIB. There were refinements to the metrics during this stage.					
Using proxies	A baseline measure of A&E admissions was used for health as lack of reliable indicator. Plus this has high costs.					
Measuring outcomes						
Attributing outcomes						
Intermediate outcomes and distance travelled	The non-baseline metrics (ETE, reconnection, accommodation) all include an initial payment and ETE and accommodation include interim payments but the weight of payments is on sustained outcomes. In the sustained accommodation metric, there is allowance for occasional rough sleeping. This then contributes to the rough sleeping metric. The providers see the rough sleeping metric as problematic.					
Data sharing/data availability	Despite being undertaken for the feasibility study and agreed prior to contracting, the Health and Social Care Information Centre has not provided the data required					

	for the health outcome and there is a dispute about data protection that was not raised at the time.
Service pricing: ■ Incentivising long-term outcomes ■ Addressing skimming/cherry picking ■ Ensuring efficiency ■ Reviewing costs and pricing	Detailed modelling identified costs and savings. The weight of payment comes with sustained outcomes. There is a 12 month payment period beyond the end of the contract so that sustained outcomes can be paid from support provided up to the last day of the contract.
Provider capacity	
Market capacity: ■ Market making ■ Market testing ■ Commissioning and competitive tendering ■ Market capacity	There was soft market testing – asking providers in existing forums and meetings what they would think about a SIB and PbR; and formal market testing once the model was designed – to consult with providers and stakeholders (e.g. London Boroughs). There was then a competitive dialogue process – PQQs were submitted that were similar to full proposals. A short list of providers was selected (four). There was then a process of refinement with them to develop the metrics and scheme design. Once providers had been shortlisted there was an investor event where each provider 'pitched' to investors. After the event they then entered into discussions. There was reportedly a lot of interest but few took this forward to consider an investment proposition.
Funding and risk sharing: ■ Modelling whole life cost ■ Funding sources and addressing short falls ■ Understanding risk – provider views ■ Pricing risk and competitive pricing ■ Allocating risk – where does the risk sit: commissioner/prime; prime/supply chain	The SIB is not premised on cashable savings, as these accrue across government. One aim of the SIB is to provide evidence about rough sleeping, costs and savings. Modelling of costs per person and for the cohort were modelled at £37,000 and £24m for the length of the contract. The maximum value of the contract is £5m. Modelling was undertaken of different outcomes that could be achieved by different services – high to low intensity. A SIB was used to enable risk to be transferred without VCS taking the risk. Market engagement confirmed an appetite amongst providers and investors to take the risk. But there was a long process once contracts were awarded to investors to undertake due diligence. One investor withdrew. Although both providers were credible, neither had performance data for supporting the cohort and that made the risk difficult to price. But investors invested to learn about SIBs. St Mungo's used an intermediary to negotiate with investors and to establish their SPV. Thames Reach decided this was not a good use of resources but on reflection it would've saved time and costs. The development costs were high in terms of senior staff time and legal costs. Investors spent a long time and lot of resources undertaking due diligence. It included undertaking shifts with outreach workers. Investors are generalists not sector specialists and in the end the decision to invest was a matter of judgement. Investors agreed 'in principle' at the tender stage (post-PQQ) and would've preferred to be involved once contracts were awarded and they could be certain of what they were investing in. The market event where shortlisted organisations presented to investors was a mixed success – there was little time for questions. Investors and providers would've preferred something more detailed and interactive.
Performance management	
Measuring performance: ■ Evidencing outcomes ■ Adapting metrics ■ Auditing arrangements ■ Dispute resolution	Rough sleeping uses a baseline measure of when anyone in the cohort is seen sleeping out ('bedded down contacts'). The providers view this as problematic because some of those who are in accommodation still sleep out occasionally for recreational reasons – their friends and connections may still be on the street – so although their trajectory is positive they may be seen out and counted.
Performance management	There have been various adjustments to some of the evidence requirements –

arrangements: ■ Incl. adjustments to correct/improve operation of PbR contracts/arrangements	primarily reconnection where proof of reconnection was difficult to gather and now the initial payment is not made without evidence but is included with sustained reconnection if the individual is not recorded on CHAIN in 6 months (the sustained metric0.
Service failure: ■ Penalties for failure ■ Mechanisms for addressing failure ■ Contract termination ■ Re-contracting ■ Redress for service users	Unsuccessful bidders were kept on a warm list in case either provider failed to raise the investment or struggled with delivery.
Accountability and value for money	
Roles and responsibility of accounting officer	The GLA is the commissioner. The monitoring burden is high and a single officer is responsible, whereas another is responsible for all other rough sleeping contracts
Monitoring beyond PbR contracts	There is a 12 month payment period beyond the end of the delivery contract, so that support is incentivised up to the last day of the contract.
Monitoring cost	
Governance arrangements	Monthly monitoring meetings with providers; quarterly project group – sharing practice and raising issues; quarterly project board – addressing issues.
Promoting effective practice	Through the project group. Initial caution of providers.
Intervening in delivery	
Evaluating value for money of the entire PbR scheme	DCLG will be undertaking an impact analysis internally.
Other	

6

Title			
Supporting People Payment by Results pilots: Final Evaluation			
Author			
Ekosgen for DCLG			
Year			
October 2014			
Publisher			
DCLG			
Web address			
https://www.gov.uk/government/publications/supporting-people-payment-by-results-pilots-final-evaluation			
Document Type			
Policy document	Expert publication	Performance data	Evaluation
			X
Other:			
High Level Summary			
This is the final evaluation report, pulling together learning from across earlier phases and the full scheme from 2011-2014. The report provides learning for the NAO's core themes but the overall evaluation is inconclusive. An aim of the pilots was to test PbR in housing support services for vulnerable people. Contracts were predominantly 80% core payment and 20% outcome-based. The PbR pilots used different indicators and an impact and value for money analysis was not possible. Some of the ten pilot areas dropped out so that there were six at the end. None of the pilot areas were continuing with the pilots although there was learning about focusing contracts on outcomes. One issue identified is the impact of local authorities' budget cuts and the lack of resources to commission and manage PbR. There is little evidence of innovation in delivery but reportedly improved outcomes compared to non-PbR contracts in place previously. Performance management and monitoring emerge as key challenges the pilots faced.			
Background Information (PbR Schemes)			
Name of scheme	Supporting People Payment by Results Pilots		
Policy area	Housing support		
Target group(s)	Vulnerable people – differences across the different pilots		
Rationale	Government rationale not reported. Pilot sites' (commissioners') rationale: - encourage an outcomes focus - test whether PbR drives cost effectiveness - encourage innovation - obtain robust evidence about outcomes and impacts of housing support interventions		
Description of scheme	Local authorities were invited to take part in the pilot when Supported People funding was awarded (and was changed from ring-fenced to part of overall funding settlement). Commissioners had the flexibility to adopt their own PbR models but the predominant one was 80% core funding and 20% outcomes based. There was lots of variation across the pilots in payment terms, outcomes and indicators, commissioning approaches and target groups. There were changes to these across the pilots during the period. Supporting People services are non-statutory housing support services, commissioned by local authorities, to help vulnerable people, including older people, homeless families, ex-offenders, young people at risk and people with disabilities.		

Geography	Ten local authorities across England (reducing to six by the time of the final evaluation report).
Commissioner and intermediaries	Supported by DCLG but commissioned by local authorities.
Type of PbR	Payment by Results
Incentives structure	20% outcomes based ('predominant model' p10; others not specified)
Total budget	Not known
Portion assigned to PbR	Not known
Number of prime contracts	Not applicable
Timescale (development)	Not known
Development budget	Not known
Development process	Some of the local authorities worked with providers to develop the scheme metrics and a small number worked with service users to define and refine outcomes. Where providers were involved they were reported to be happier with the final terms. Some commissioners gave a transition period for providers to move from previous contracts to the new PbR ones and this gave everyone an opportunity to test the model of reporting and performance management.
Timescale (delivery)	2011-2014
Current status	Ended – 38 of 421 contracts across the Las will end in 2014. 'No firm plans to continue to introduce payment by results' to other contracts although some non-pilot areas may.
Supply chains (prime & sector; subs & sector)	Commissioner (LA) – provider ('primarily third sector' p11).
Social investment	None
Detail of PbR	
	Huge range, not detailed in the report. Issues emerging from outcomes design, metrics etc. are provided below in the relevant sections.
Indicators	
Metrics	
Evidential requirements	
PbR allocation	
Timing of payment	
Performance rewards	
Payments made to date	
Counterfactual/baseline	
Key issues	
Defining outcomes and payments	
Evidence base for outcomes	
Defining outcomes	Target groups: some are too vulnerable or complex in some LA's views. Outcomes – were often time-specific and this limited providers' ability to work with clients or to claim outcomes for that work (e.g. time taken to move into work). Outcomes were too broad and complex – one recommendation is to use a limited number that reflect the core aims of the scheme.
Agreeing outcome	One LA cited as using a competitive dialogue process in commissioning; another as

definitions	working closely with potential providers. A couple of examples of involving service users. One cited as using 'planning for real'. As a result outcomes, indicators and their measures were seen to be appropriate to users (by stakeholders in those pilots).
Using proxies	
Measuring outcomes	
Attributing outcomes	
Intermediate outcomes and distance travelled	Progression measures were introduced in some of the areas. Seen to mitigate cherry picking – ensuring target group are moved on. Two areas specified targets for subgroups. Challenges in evidencing progress measures referred to but not detailed.
Data sharing/data availability	Reliance on other agencies for data brought time and resource implications. Clear protocols need to be in place from the outset. Online monitoring tools improve MI but have a heavy upfront resource requirement.
Service pricing: ■ Incentivising long-term outcomes ■ Addressing skimming/cherry picking ■ Ensuring efficiency ■ Reviewing costs and pricing	Predominant model was 80% core payment and 20% outcomes based. Four non-pilot authorities were delivering PbR models. Three used a 90/10% split. The other was an enhanced payments scheme were providers were paid per service user moving to a less supported service.
Provider capacity	
Market capacity: ■ Market making ■ Market testing ■ Commissioning and competitive tendering ■ Market capacity	
Funding and risk sharing: ■ Modelling whole life cost ■ Funding sources and addressing short falls ■ Understanding risk – provider views ■ Pricing risk and competitive pricing ■ Allocating risk – where does the risk sit: commissioner/prime; prime/supply chain	20% risk reported to bring difficulties for providers. Smaller organisations found this risk challenging. Impacted upon financial planning. Insecurity for staff. With increased monitoring resources required. All with a low financial reward. Commissioners tended to understand these challenges but less provided flexibility. Some open to reviewing terms. Planning created uncertainty of commissioners themselves – retaining 20% of budget for potential outcomes cut across usual financial planning procedures.
Performance management	
Measuring performance: ■ Evidencing outcomes ■ Adapting metrics ■ Auditing arrangements ■ Dispute resolution	Monitoring more intensive for both providers and commissioners – higher quality and volume of MI required of providers; higher verification and audit of providers; more senior time required on both sides. Commissioners not continuing PbR due to their lack of capacity to monitor.
Performance management	Ongoing communication between commissioners and providers enables issues to

arrangements: ■ Incl. adjustments to correct/improve operation of PbR contracts/arrangements	be identified and adjustments made. Contract mobilisation period 'widely recommended to form part of future PbR contracts' p17 – a transition period to start reporting without financial adjustments being made. Some instances of outcomes indicators being refined and guidance clarified.
Service failure: ■ Penalties for failure ■ Mechanisms for addressing failure ■ Contract termination ■ Re-contracting ■ Redress for service users	
Accountability and value for money	
Roles and responsibility of accounting officer	
Monitoring beyond PbR contracts	There is no monitoring of outcomes beyond the contract and this is needed to understand value for money.
Monitoring cost	Commissioners and providers unable to quantify the cost of establishing and running the PbR, but all agree it is higher than usual contracting.
Governance arrangements	
Promoting effective practice	
Intervening in delivery	
Evaluating value for money of the entire PbR scheme	Because pilots were able to develop their own indicators within a broad suite of outcomes, it was not possible to undertake an impact analysis nor a value for money analysis. A comparator group could not be drawn. A uniform approach to understanding performance and value for money could not be taken. The final evaluation report focuses upon stakeholders from commissioners and providers and does not involve service users. Limited progress believed to have been made in achieving value for money and efficiency savings. No baseline – no preparatory work undertaken in LAs to establish this. Nonetheless 'commissioners report that they are typically securing more for their money' than pre-PbR. (p.30)
Other	
Context: local budget changes and organisational changes during the pilots had an impact on the schemes. Some concluded early. Others won't continue. Budget cuts have been reported to restrict some authorities' abilities to offer the level of monitoring and audit required. A lack of wider provider capacity to move clients on in some areas (e.g. lack of bed space) means some weren't developed or were ended. 'supporting independence within a [PbR] service is also at times only effective if other support services are in place to support progression' p36. Innovation: little evidence of innovation.	

7

Title			
Feasibility study for the trials of Payment by Results for children's centres			
Author			
C4EO's, National Children's Bureau and the National Foundation for Educational Research			
Year			
2011			
Publisher			
NCB (commissioned by Department for Education)			
Web address			
http://www.ncb.org.uk/media/899292/pbr_evaluation_final_feb_2012.pdf			
Document Type			
Policy document	Expert publication	Performance data	Evaluation
			x
Other: Feasibility Study			
High Level Summary			
The document presents a review of: possible measures for running PbR in Children's Centres; local authority views on establishing a PbR scheme; and early plans for doing so. It found that: few measures were appropriate (using criteria such as policy relevance, data quality, attribution); local authorities wanted measures that were locally appropriate and linked to existing performance regimes (e.g. as used by Ofsted); and that local plans tended to reflect local concerns / data availability, but that there were still sufficient links to national priorities such that a national scheme was, with 'careful trialling', feasible.			

Background Information (PbR Schemes)	
Name of scheme	Not completed: this was a feasibility study, so no scheme existed.
Policy area	
Target group(s)	
Rationale	
Description of scheme	
Geography	
Commissioner and intermediaries	
Type of PbR	
Incentives structure	
Total budget	
Portion assigned to PbR	
Number of prime contracts	
Timescale (development)	
Development budget	
Development process	
Timescale (delivery)	
Current status	
Supply chains (prime & sector; subs & sector)	

Social investment						
Detail of PbR						
Summary: (or complete template below)						
Indicators						
Metrics						
Evidential requirements						
PbR allocation						
Timing of payment						
Performance rewards						
Payments made to date						
Counterfactual/baseline						
Key issues						
Defining outcomes and payments						
Evidence base for outcomes						
Defining outcomes	Five outcome domains were proposed for the scheme and were examined during the feasibility study: ■ Contact with families/families in greatest need ■ Child development and school readiness ■ Family health and wellbeing ■ Parenting aspirations, self-esteem and skills ■ Cross-cutting measures. With 20 associated measures. These measures were assessed using views from local authority representatives and tests applied by the research team. Local authorities wanted measures that were locally relevant, aligned with Ofsted frameworks, focused on the most vulnerable families, based on outcomes, and stable. Tests applied by the research team were to see whether measures are: ■ Aligned with policy objectives ■ Measurable ■ Attributable ■ Robust ■ Economically coherent. By these tests, just two measures were assessed as being suitable: ■ Take up of the free entitlement for disadvantaged two year olds ■ The Early Years Foundation Stage Profile.					
Agreeing outcome definitions						
Using proxies						
Measuring outcomes	The likely costs of collecting data are considered: 'Developing a national PbR scheme based mainly or entirely on outcome based measures would be very expensive, and the complexity and cost of the data collection were taken into account in our recommendations for suitable measures.' (p10)					
Attributing outcomes						
Intermediate outcomes and distance travelled						
Data sharing/data availability						
Service pricing: ■ Incentivising long-term	The research found no consensus as to how outcomes could be best measured or valued.					

outcomes ■ Addressing skimming/cherry picking ■ Ensuring efficiency ■ Reviewing costs and pricing	
Provider capacity	
Market capacity: ■ Market making ■ Market testing ■ Commissioning and competitive tendering ■ Market capacity	The proposed design of the scheme operates at two levels: ■ 'National: with the Department for Education (DfE) paying trial authorities by results ■ Local: with local authorities developing schemes to incentivise children's centre providers locally.' (p16) There was therefore no process of market making.
Funding and risk sharing: ■ Modelling whole life cost ■ Funding sources and addressing short falls ■ Understanding risk – provider views ■ Pricing risk and competitive pricing ■ Allocating risk – where does the risk sit: commissioner/prime; prime/supply chain	
Performance management	
Measuring performance: ■ Evidencing outcomes ■ Adapting metrics ■ Auditing arrangements ■ Dispute resolution	
Performance management arrangements: ■ Incl. adjustments to correct/improve operation of PbR contracts/arrangements	
Service failure: ■ Penalties for failure ■ Mechanisms for addressing failure ■ Contract termination ■ Re-contracting ■ Redress for service users	
Accountability and value for money	
Roles and responsibility of accounting officer	
Monitoring beyond PbR contracts	

Monitoring cost	
Governance arrangements	
Promoting effective practice	
Intervening in delivery	
Evaluating value for money of the entire PbR scheme	
Other	

8

Title			
Payment by Results in Children's Centres Evaluation			
Author			
Frontier Economics & the Colebrooke Centre			
Year			
2014			
Publisher			
DfE			
Web address			
https://www.gov.uk/government/publications/payment-by-results-in-childrens-centres-evaluation			
Document Type			
Policy document	Expert publication	Performance data	Evaluation
			X
Other:			
High Level Summary			
The document reports the evaluation of the Payment by Results in Children's Centres (CCs) trial. Overall, the trial did not work and was stopped. Several reasons are given for this: lack of clear, attributable measures; too little time to establish trials; PbR not being applied at local level and so not affecting behaviour; and the rewards available being too small.			

Background Information (PbR Schemes)	
Name of scheme	Payment by Results in Children's Centres (CCs)
Policy area	Early years / education
Target group(s)	CCs / their users
Rationale	'Encouraging a local focus on the importance of early intervention in the early years and the role of children's centres Encouraging local investment in early intervention and children's centres Encouraging evidence-based decision-making which takes account of the results for families' (p9)
Description of scheme	National government provided incentives under a PbR arrangement to selected Local Authorities (LAs); these LAs then had discretion about how (and whether) they then established PbR arrangements with CCs.
Geography	27 LAs
Commissioner and intermediaries	National commissioning of LAs, then local commissioning of CCs
Type of PbR	
Incentives structure	Varied: national payments made to LAs, but then within the LAs: "Almost all areas had selected local PbR measures by the end of 2012 and most areas reported that they had a real or virtual reward scheme in place. However, many of these reward schemes did not have a complete payment structure and very few trial areas reported that they were likely to have completely developed local PbR models by the end of the trial period"
Total budget	
Portion assigned to PbR	'The total funding available for rewards for 2012-2013 was £2 million (an average of almost £77,000 per trial area which is approximately one percent of the average LA annual budget for children's centres across the trial areas). The bulk of the reward

	fund (£1.8 million) was allocated to "standard performance rewards" which were fixed rate payments to LAs for improvements within "standard performance" thresholds. The remaining £200,000 was allocated for "exceptional performance rewards" to be divided among LAs who achieved above the higher threshold for the standard performance.' (p28)
Number of prime contracts	
Timescale (development)	September 2011 - March 2012, reported as: 'Insufficient time was allowed for the setting up of the national scheme which hindered the development of local PbR. The timeframe for the development of local PbR was also generally regarded as too short.' (p10)
Development budget	LAs were given an average of £65,000 for 2011-12 to set up systems for PbR. Support also provided by Serco under a separate contract (value not given).
Development process	Feasibility study to look at possible measures (reviewed separately) and LA views on a possible scheme. LAs submitted proposals to be selected as part of the trial.
Timescale (delivery)	September 2011 - March 2013
Current status	Ended
Supply chains (prime & sector; subs & sector)	
Social investment	
Detail of PbR	
Indicators	
Metrics	
Evidential requirements	
PbR allocation	
Timing of payment	
Performance rewards	
Payments made to date	
Counterfactual/baseline	
Key issues	
Defining outcomes and payments	
Evidence base for outcomes	
Defining outcomes	National measures seen as being insufficiently related to the stated aims of the programme, with no clear ability to attribute to CC activity. Set of measures made available for local selection: 'The national scheme …included a suite of six national measures with reward payments based on the achievement of improvement targets for one or two national measures from a choice three for each trial area.' (p45)
Agreeing outcome definitions	
Using proxies	
Measuring outcomes	Highly varied at local level: 'The choice of local measures was primarily driven by local priorities or the need for measures which could meet the requirements of a PbR mechanism.'(p12) A blend of output and outcome measures were used in local schemes: 'Around two thirds of local measures could be categorised as output-based and about one third as outcome-based.' (p91)
Attributing outcomes	A significant problem: 'Attribution of changes in measures to individual or groups of centres…is inherently problematic because many services are delivered in

	conjunction with other agencies; other agencies deliver similar services or services with similar objectives; children and families often use more than one centre; and there may be considerable time lags between the use of centres and outcomes.' (p92)
Intermediate outcomes and distance travelled	
Data sharing/data availability	
Service pricing: ■ Incentivising long-term outcomes ■ Addressing skimming/cherry picking ■ Ensuring efficiency ■ Reviewing costs and pricing	National payments not seen as being high enough to affect local actions: 'the payment mechanism element of national PbR had very little impact on local thinking and behaviour.' (p54)
Provider capacity	
Market capacity: ■ Market making ■ Market testing ■ Commissioning and competitive tendering ■ Market capacity	
Funding and risk sharing: ■ Modelling whole life cost ■ Funding sources and addressing short falls ■ Understanding risk – provider views ■ Pricing risk and competitive pricing ■ Allocating risk – where does the risk sit: commissioner/prime; prime/supply chain	The PbR element was not fully developed at local level: 'Although most LAs reported having a monetary reward scheme (real or virtual) in place, many of these schemes did not have a complete payment structure and LAs were undecided on important dimensions' (p33); the report goes on to suggest that "most LAs require two to two-and-a-half years or even longer to fully implement local PbR'(p35) 'An indicative cost of the trial is that each area received, on average, £188,000 in grant funding. This is likely to have understated the cost of the time given by LA and centre staff' (p41)
Performance management	
Measuring performance: ■ Evidencing outcomes ■ Adapting metrics ■ Auditing arrangements ■ Dispute resolution	High degree in variation in the local arrangements, but some common elements picked out by the evaluation: 'most would apply PbR to directly-run and commissioned centres most would apply PbR to groupings of centres rather than individual centres where structured this way… most would fund rewards through the withholding of centre funds… most would subject a small proportion of the budget to PbR… most would set thresholds and payment amounts in agreement with centre' (p92)
Performance management arrangements: ■ Incl. adjustments to correct/improve operation of PbR contracts/arrangements	
Service failure:	Concern expressed in the LAs that PbR might run contrary to the ethos of CCs:

■ Penalties for failure ■ Mechanisms for addressing failure ■ Contract termination ■ Re-contracting ■ Redress for service users	'There is an ethos of support rather than penalty for poorly performing centres …in many areas. This is driven by the views that responsibility for centre performance may not be entirely within the control of centres … and that centres would be unable to deliver essential services within reduction or withholding of funding.' (p92)
Accountability and value for money	
Roles and responsibility of accounting officer	
Monitoring beyond PbR contracts	
Monitoring cost	'Initial evidence from the trial indicated that the implementation of PbR had been extremely costly in terms of both time and money' (p40)
Governance arrangements	
Promoting effective practice	Neither the national or local schemes appeared to have much impact, with improvements in data collection being the main benefit cited
Intervening in delivery	
Evaluating value for money of the entire PbR scheme	
Other	
The report presents a broad set of conditions needed for PbR to work: 'In essence, an effective PbR scheme requires three things. First, a clear set of objectives which can be expressed in a set of target measures and also considers other processes to guard against unintended adverse consequences. Second, a set of measures which the provider has a reasonable ability to influence in an observable manner and which also permit providers the flexibility to choose and diversify the method used to achieve targets. Finally, a payment scheme which transfers sufficient financial risk to create financial incentives for the provider but which also maintains the capability of the provider to remain financially sound under most reasonable scenarios.' (p19)	

9

Title
The Youth Contract for 16-17 year olds not in education, employment or training evaluation
Author
IES, University of Warwick, PRI Leeds Metropolitan
Year
'Revised September 2014'
Publisher
DfE
Web address
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/354706/RR318A_-_The_youth_contract_for_16-_to_17-year-olds_not_in_education__employment_or_training_evaluation.pdf

Document Type			
Policy document	Expert publication	Performance data	Evaluation
			X
Other:			

High Level Summary
The Youth Contract was announced in 2011 and ran from September 2012. It will continue to recruit to March 2015 but this is the final evaluation report covering October 2012-March 2014. The Youth Contract was to test the use of PbR in a re-engagement programme using tight criteria that focused support on the hardest to help. A number of themes emerge: a problematic commissioning process; failure to engage key stakeholders (local authorities); problems with data used to model and price outcomes; changes to target groups; a perception of price of quality amongst primes (although the scoring criteria for tenders was 70% quality 30% price); lack of new provision as primes relied on established networks; a general consensus that the contracts were not financially viable in the long run as structured. Nonetheless, outcomes were achieved for young people compared to a comparator group, although the achievements were not transformative.

Background Information (PbR Schemes)	
Name of scheme	Youth Contract
Policy area	Young people, NEETs
Target group(s)	Initially – NEET young people (16-17) with no GCSEs A*-C; Extended – January 2013 to include those with: 1 GCSE; young offenders released from custody and from August 2013 serving community sentences with one or more GCSEs; young people in care/leaving care with one or more GCSEs.
Rationale	Stakeholders agreed that it had been: to test the use of PbR in a re-engagement programme using tight criteria that focused support on the hardest to help. Eligibility was extended due to lower costs in procured contracts than planned (primes bid at low cost).
Description of scheme	To provide key workers support to these young people to support them into full-time education, employment or training sustained for five of six months.
Geography	England wide, across 12 contract areas. With three core cities also included, using a different model (broadly non-PbR).
Commissioner and intermediaries	Two levels – Education Funding Agency (EFA) commissioned national YC; local authorities in core cities commissioned their own models.
Type of PbR	
Incentives structure	- Initial payment when attached and action plan agreed.

	- reengagement payment when yp enters specified outcome (originally couldn't be claimed until three months had passed but this was removed in January 2013 as it was holding some yp's progress back) - sustainability when in outcome for five of six months. Outcomes – full time education leading to qualification' part time education at least 7 hours a week; apprenticeship; full time employment with training (or just employment when turned 18). Breakdown not shared with evaluators but broadly: 20 attachment and action plan; 30% reengagement; 50% sustained. But rates changed in the second year to focus on engagement.
Total budget	£126million
Portion assigned to PbR	Not known
Number of prime contracts	12
Timescale (development)	Not known – announced in November 2011, began in Sept. 2012. But only 9 days for PQQ stage.
Development budget	Not known
Development process	Not known
Timescale (delivery)	2012-2015
Current status	Recruitment ends March 2015
Supply chains (prime & sector; subs & sector)	Primes (3 large VCS, 9 independent/private sector); subs (some VCS, not always clear, little small VCS).
Social investment	None.
Detail of PbR	
	See above

Indicators						
Metrics						
Evidential requirements						
PbR allocation						
Timing of payment						
Performance rewards						
Payments made to date						
Counterfactual/baseline						

Key issues	
Defining outcomes and payments	
Evidence base for outcomes	Modelling for commissioning: the data used was unreliable and took a snapshot. When primes began delivery they found that there were not the eligible NEETs in the target areas.
Defining outcomes	
Agreeing outcome definitions	
Using proxies	
Measuring outcomes	
Attributing outcomes	
Intermediate outcomes and distance travelled	Providers, primes, and core cities commissioners all thought there should be progression payments in the future and this was a core recommendation from the evaluation.

Data sharing/data availability	
Service pricing: ■ Incentivising long-term outcomes ■ Addressing skimming/cherry picking ■ Ensuring efficiency ■ Reviewing costs and pricing	Target groups: intentionally tight, to avoid cherry picking and to incentivise a focus on effective delivery. Primes saw the targets as overly ambitious, particularly in light of problems with data used in modelling; national stakeholders saw them as rightly challenging for providers. Providers saw incentives as too heavily based on sustainment and not recognising delivery costs and distance travelled. Tenders were judged 70% quality, 30% price. But the perception amongst primes was that price was key. They all priced their bids low. This limited the resource for support. They required the cheapest subcontractors in their chains. The space in tender applications to describe implementation was criticised. A page was insufficient to demonstrate and thus for commissioners to be sure of quality.
Provider capacity	
Market capacity: ■ Market making ■ Market testing ■ Commissioning and competitive tendering ■ Market capacity	Local authorities were able to bid but many did not. They didn't think they would be competitive. They didn't have the resources to develop their bids. They were uncertain of staffing levels in the future due to funding cuts and couldn't guarantee levels of service (or take risk). It meant that when primes went to work with LAs, they weren't always cooperative. Although this improved over time. Primes who worked with LAs in developing their proposals and models had better relations. Some LAs were subcontractors. Some primes saw taking public money and giving it back to LAs minus a management fee as philosophically wrong. National stakeholders thought that the PbR was bringing in 'new blood'. Others saw lack of 'big names' as indicative or problems with the structure/contract. There were only nine working days for PQQs to be developed. This limited supply chain engagement by Primes – so primes went with who they knew. National stakeholders thought the PbR had brought new supply into the market but Primes reported the opposite. There was little involvement of smaller VCS organisations. Primes needed suppliers who could both deliver the provision required and take the risks associated with PbR (non and delayed payment). But then some 'major national organisations' were then allowed to enter the commissioning process after the PQQ stage. Core Cities were able to commission as they wanted to – they devolved funding to providers and there was greater involvement of smaller VCS. Many didn't use PbR as they didn't want to put these providers at risk or to incentivise support that wasn't focused upon yp's needs. Others did use PbR but provided more upfront/process funding and less on sustainment (30%).
Funding and risk sharing: ■ Modelling whole life cost ■ Funding sources and addressing short falls ■ Understanding risk – provider views ■ Pricing risk and competitive pricing ■ Allocating risk – where does the risk sit: commissioner/prime; prime/supply chain	Most primes transferred the risk down to their supply chain. So, providers in the chain received payments in line with the PbR structure (20%, etc). This was minus a management fee of between 20% and 50% taken by the prime. Some primes did provide a fixed payment to suppliers to mitigate their risk. Core cities, with their alternative models, tended to offer more flexibility and lower risk. Low numbers of young people on the programme led providers to question the financial viability of the contracts. It was common for primes to say they would not bid if they had their time again. 'to be viable you need to be at your profile (prime, p71). In the second year there was no attachment fee paid, to focus on sustainment and

	this was widely criticised.
Performance management	
Measuring performance: ■ Evidencing outcomes ■ Adapting metrics ■ Auditing arrangements ■ Dispute resolution	Difficulties evidencing outcomes led to payment delays. This introduces additional risk, not accounted for in financial planning. Stakeholders were required to cooperate and were not always forthcoming.
Performance management arrangements: ■ Incl. adjustments to correct/improve operation of PbR contracts/arrangements	There were no minimum delivery standards set by commissioners. But these were set by primes, to manage their supply chains. Some of this was intensive – minimum expectations for key workers, key principles of delivery; but also, daily monitoring of outputs and outcomes. From the evaluation reporting the Primes appeared to act as de facto commissioners. EFA as national commissioners seen as broadly responsive to primes' concerns. But, the extent to which they could change the terms was limited because if they did so beyond certain limits then unsuccessful bidders would have had grounds for legal action.
Service failure: ■ Penalties for failure ■ Mechanisms for addressing failure ■ Contract termination ■ Re-contracting ■ Redress for service users	There were a couple of instances of primes changing but no information is provided in the report about how this was handled. There is also discussion of how primes managed their supply chains to ensure they had providers who were effective and the challenges when there was a lack of local provider capacity (compounded when a provider closed). Delays in reconfiguring supply chains 'could create a delivery hiatus'. (p66)
Accountability and value for money	
Roles and responsibility of accounting officer	
Monitoring beyond PbR contracts	
Monitoring cost	
Governance arrangements	
Promoting effective practice	National workshops were held by EFA to facilitate sharing between primes (no views on whether effective are supported; primes themselves did a lot to encourage sharing across their own supply chains.
Intervening in delivery	
Evaluating value for money of the entire PbR scheme	
Other	
Delivery: there was time taken to 'bed in' and problems engaging sufficient yp to enter the programme (linked to problems with data used in planning). This affected flow through the programme and financial return to primes but the PbR reduced the risk that the department was exposed to. Context: negative media portrayal identified and general confusion about YC reported by stakeholders as negatively affecting programme. There needs to be the provider landscape required – education courses started at standard times (terms) and not flexibly for those seeking engagement when they were ready (and thus mitigating against ability to claim for payments). Incentives: young people were paid an incentive to sustain their reengagement.	

10

Title			
Drug and Alcohol Recovery Pilots: Lessons learnt from Co-Design and commissioning with payment by results			
Author			
Department of Health			
Year			
2012			
Publisher			
Department of Health			
Web address			
http://webarchive.nationalarchives.gov.uk/20130802095348/http://media.dh.gov.uk/network/342/files/2012/07/drug-alcohol-recovery-pilots-lessons-learned.pdf			
Document Type			
Policy document	Expert publication	Performance data	Evaluation
Other: Slide pack of reflections on design process of Drug and Alcohol Recovery Pilots			
High Level Summary			
The document sets out a set of lessons from the design stage of the pilots. Its intention is to document these lessons such that others (predominantly local commissioners) may build upon them in designing their own schemes. It shows that, despite high levels of local variety, it is possible to pick out general themes and lessons for the design of PbR programmes.			

Background Information (PbR Schemes)	
Name of scheme	Drug and Alcohol Recovery Pilots
Policy area	Public health / crime
Target group(s)	People misusing drugs / alcohol
Rationale	'The intention is that by on the basis of the outcomes we expect to see – recovery – we help free up providers to innovate rather than follow target-driven processes, and encourage them to support more people to full recovery' (p5) Plus range of local reasons: '•To put the principle of outcome-based payment at the heart of a re-designed and re-commissioned new recovery system •To challenge historic performance and attract new providers •To build on a developing recovery system already in place •To create a more efficient and effective recovery system •To take a broad "whole world" approach to recovery •To support clients in their recovery ambitions •To achieve a measurable increase in the number of people exiting the services in a successful and planned way' (p6)
Description of scheme	'Generic' national model is that: services paid for outcomes achieved in relation to drug use, crime and health; users are assessed by a Local Area Single Assessment & Referral Service (LASARS), then referred to providers; LASARS also assign tariff payment. This model has been altered in the local pilots, such that there are some very different approaches (e.g. some don't have an independent LASARS).
Geography	Eight pilots: Bracknell Forest, Enfield, Lincolnshire, Oxfordshire, Kent (west Kent only), Stockport, Wakefield and Wigan
Commissioner and	Local commissioners

intermediaries	
Type of PbR	
Incentives structure	
Total budget	
Portion assigned to PbR	Varies greatly by local area: 'Each pilot area has placed very different percentages on outcome payments. The percentage of the budget being paid on outcomes ranges from 100% (with an attachment fee) to 5% in the first year.' (p23) Strong central steer on 'free from drugs' outcomes: 'As the focus on payment by results is on improving recovery outcomes it was agreed between the pilot areas and ministers that the reliable change outcome could account for only 20% of the money made available for the free from drug(s) of dependence outcome domain. 80% or more must be on sustained recovery' (p25)
Number of prime contracts	
Timescale (development)	December 2010 – April 2012
Development budget	
Development process	
Timescale (delivery)	
Current status	In delivery
Supply chains (prime & sector; subs & sector)	Primes used in three of the areas; others a mix, but mainly different providers working with different target groups.
Social investment	
Detail of PbR	
Summary: (or complete template below)	

Indicators						
Metrics						
Evidential requirements						
PbR allocation						
Timing of payment						
Performance rewards						
Payments made to date						
Counterfactual/baseline						

Key issues	
Defining outcomes and payments	
Evidence base for outcomes	
Defining outcomes	Done using a co-design approach, with local areas and national government agreeing domains and measures. Then local flexibility given to tweak measures / payments etc. Done to manage risks and address complexity – and given local areas ownership in design process. The original invitation to tender set out 4 outcome domains: •Recovery •Health and Wellbeing •Reduced offending •Employment **Recovery**: considered paying for only for abstinence and successful completion outcomes; ended up paying for some "in-treatment" improvement measures **Offending**: wanted to incentivise providers to address offending behaviour / link more with local support services; chose a cohort, frequency measure.

	Health: opted for a housing measure, alongside measures on injecting and Hep B immunisation. **Employment**: dropped as a measure, seen as too expensive for providers to achieve this.
Agreeing outcome definitions	One lesson provided is on the need for simplicity – keeping to a few clear measures, and making sure these are aligned to user needs and local priorities
Using proxies	
Measuring outcomes	Costs associated with measurement were greater than expected. This was a major focus of the design stage – challenges of data quality, availability and staff skills in using them.
Attributing outcomes	
Intermediate outcomes and distance travelled	Intermediate and final outcomes within the agreement. For example, under 'Free from Drug(s) of dependence' intermediate measures of 'Successful completion of treatment' alongside final measure of 'Does not re-present in either the treatment or Criminal Justice System for 12 months'.
Data sharing/data availability	
Service pricing: ■ Incentivising long-term outcomes ■ Addressing skimming/cherry picking ■ Ensuring efficiency ■ Reviewing costs and pricing	All reported as taking longer / more resources than expected; staff skills and capacity reported as a key constraint here Tariffs arrived at using analysis of current service and outcome data, accounting for different levels of intervention needed for 'more complex' groups. So final tariffs reflect need for more effort to achieve outcomes for these groups. 'Caps and floors' also used to contain uncertainty 'about the likely level of achievement within a fixed budget.' (p24) Specific approaches used to test incentives for / means of fraud: 'Government set up a temporary Gaming Commission to look at the possible gaming opportunities in the pilots and how we can mitigate against them.' (p26) Approaches to addressing this included: audit, ongoing monitoring, and asking service users about their experience.
Provider capacity	
Market capacity: ■ Market making ■ Market testing ■ Commissioning and competitive tendering ■ Market capacity	Involve providers early / test likely competition
Funding and risk sharing: ■ Modelling whole life cost ■ Funding sources and addressing short falls ■ Understanding risk – provider views ■ Pricing risk and competitive pricing ■ Allocating risk – where does the risk sit: commissioner/prime; prime/supply chain	
Performance management	
Measuring performance: ■ Evidencing outcomes ■ Adapting metrics ■ Auditing arrangements	Audit cited as vital given incentive for gaming Independence of LASARS also seen as important – again because the design heightens the incentive for gaming / fraud

■ Dispute resolution	
Performance management arrangements: ■ Incl. adjustments to correct/improve operation of PbR contracts/arrangements	
Service failure: ■ Penalties for failure ■ Mechanisms for addressing failure ■ Contract termination ■ Re-contracting ■ Redress for service users	
Accountability and value for money	
Roles and responsibility of accounting officer	
Monitoring beyond PbR contracts	
Monitoring cost	
Governance arrangements	
Promoting effective practice	
Intervening in delivery	
Evaluating value for money of the entire PbR scheme	
Other	
Need for clarity on the purpose of using PbR and the means by which it is expected to work. Involve service users at the outset. Need for broad local stakeholder understanding of the approach	

11

Title			
Key steps for successful implementation of Mental Health Payment by Results			
Author			
Department of Health			
Year			
28 February 2013			
Publisher			
Department of Health			
Web address			
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/214914/09-Key-steps-for-successful-implementation-of-mental-health-PbR.pdf			
Document Type			
Policy document	Expert publication	Performance data	Evaluation
Other: Effective practice guidance			
High Level Summary			
The document sets out effective practice guidance to help organisations understand the key steps that should be undertaken to continue with the implementation of Payment by Results for Mental Health services in 2013-14. The new mental health currencies (the unit for which a payment is made), for working age adults and older people, were mandated in 2012 – 13. Providers and commissioners were required to use the new currencies as the basis on which contracting for services during 2013-14. The currency relates to 'clusters' we define service user characteristics and needs. Further information about the currencies is summarised in template mental health PbR.			
Background Information (PbR Schemes)			
Name of scheme	Mental Health PbR		
Policy area	Health – Mental Health		
Target group(s)	Mental Health		
Rationale	The introduction of mental health PbR is to 'Improve the way in which services are commissioned and are paid for, and most importantly to support improved outcomes for service users and delivery of the mental health strategy.' (p3) 'The overall aim of the future mental health payment system is to understand the relationship between needs, price and outcomes, and make this transparent across local and national health economies.' (p9) Additional benefits are also identified: • A better understanding the needs of service users to ensure high quality and value for money services • Improvements in the data and evidence required to support improved commissioning decisions • Clustering patients according to their characteristics and needs can facilitate the integration of care delivered by multiple providers.		
Description of scheme			
Geography	England		
Commissioner and intermediaries	NHS England		

Type of PbR	Payment for activity
Incentives structure	
Total budget	
Portion assigned to PbR	
Number of prime contracts	Varies – applicable to providers of NHS services for mental health service users.
Timescale (development)	
Development budget	
Development process	
Timescale (delivery)	
Current status	Development and implementation – with 2013-14 being the first the operation of the mental health PbR (see mental health PbR template for further information).
Supply chains (prime & sector; subs & sector)	
Social investment	
Detail of PbR	
Summary: (or complete template below)	

Indicators						
Metrics						
Evidential requirements						
PbR allocation						
Timing of payment						
Performance rewards						
Payments made to date						
Counterfactual/baseline						

Key issues	
Defining outcomes and payments	
Evidence base for outcomes	
Defining outcomes	
Agreeing outcome definitions	
Using proxies	
Measuring outcomes	
Attributing outcomes	
Intermediate outcomes and distance travelled	
Data sharing/data availability	
Service pricing: ■ Incentivising long-term outcomes ■ Addressing skimming/cherry picking ■ Ensuring efficiency ■ Reviewing costs and	Payments is linked to the clusters, with prices set locally through discussions between providers and commissioners. 'Some providers have worked with their main commissioners and agreed as a group, a single set of cluster prices from 2013.' (p9) Where this hasn't been possible, prices have been established by using the prices within the existing contracting agreements and rebase them against the activity defined in the new clusters. The DH has requested that commissioners submit indicative prices in April 2013. To understand the emerging payment models, the guidance recommends that

pricing	'contract plans are re-based on a six monthly basis and re-submitted.' (p7)
Provider capacity	
Market capacity: ■ Market making ■ Market testing ■ Commissioning and competitive tendering ■ Market capacity	The introduction of the mental health PbR has required significant effort from providers and commissioners. "During 2013 – 14: 'From the provider perspective, it has involved a huge training programme so that clinicians are able to allocate service users to the clusters. It has involved looking at the way services are described and delivered, working with service-users, commissioners and other stakeholders, and making changes to IT and costing systems.' An addition action presented was the need for further development of the mental health PbR, and its implementation to adopt a collaborative approach between commissioners and providers. The guidance recommends that 'Clear terms of engagement around information sharing should be set out at the start and it is recommended that an open book relationship should be used wherever possible.' (p7)
Funding and risk sharing: ■ Modelling whole life cost ■ Funding sources and addressing short falls ■ Understanding risk – provider views ■ Pricing risk and competitive pricing ■ Allocating risk – where does the risk sit: commissioner/prime; prime/supply chain	
Performance management	
Measuring performance: ■ Evidencing outcomes ■ Adapting metrics ■ Auditing arrangements ■ Dispute resolution	
Performance management arrangements: ■ Incl. adjustments to correct/improve operation of PbR contracts/arrangements	
Service failure: ■ Penalties for failure ■ Mechanisms for addressing failure ■ Contract termination ■ Re-contracting ■ Redress for service users	
Accountability and value for money	
Roles and responsibility of accounting officer	The authors note that commissioners need to develop the new capabilities to support accountability: 'From the commissioner perspective, the ability to understand the information recorded in Mental Health Minimum Data Set (MHMDS)

	and to interrogate is now required.' (p3) Senior leadership is essential, commissioners and providers must 'Ensure there is a senior PbR lead individual within your organisation that has responsibility for delivering this work, and that they are supported by key stakeholders.' (p6) Key roles for providers also include financial and informatics leads 'a financial lead who can take responsibility for identifying the costs of providing care to individuals within the different cluster.' (p6)
Monitoring beyond PbR contracts	
Monitoring cost	
Governance arrangements	
Promoting effective practice	
Intervening in delivery	
Evaluating value for money of the entire PbR scheme	
Other	

12

Title			
Mental Health Payment by Results Guidance for 2013-14			
Author			
Department of Health Payment by Results team			
Year			
28 February 2013			
Publisher			
Department of Health			
Web address			
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/232162/Mental_Health_PbR_Guidance_for_2013-14.pdf			
Document Type			
Policy document	Expert publication	Performance data	Evaluation
Other: Guidance to support the implementation of Mental Health Payment by Results in 2013 -14.			
High Level Summary			
The document sets out guidance for the implementation of the mental health PbR during 2013 -14. Information from additional documents is also presented in the template so as to provide a more complete picture of the development and current status of the payment system. in these instances, the documents have been foot noted.			

Background Information (PbR Schemes)	
Name of scheme	Mental health PbR
Policy area	Health
Target group(s)	Patients with mental health needs
Rationale	The overall aim of the mental health payment system is to understand the relationship between needs, price and outcomes, and make this transparent across local and national health economies
Description of scheme	Currently the scheme is paying for activity. However the payment is based on packages of care for different 'clusters' of patients, rather than a single care intervention (as is the case with acute care PbR). The clusters form the currency (the unit of payment) for the mental health PbR. Despite the focus, for 2013 -14, the DH proposed that 'Commissioners may wish to consider the use of Commissioning for Quality and Innovation (CQUIN) payment framework to incentivise data quality improvements and the outcomes measures.' (p15)
Geography	National
Commissioner and intermediaries	Clinical Commissioning Groups
Type of PbR	
Incentives structure	
Total budget	
Portion assigned to PbR	
Number of prime contracts	

Timescale (development)	
Development budget	
Development process	
Timescale (delivery)	Ongoing development – commenced before 2010
Current status	(From additional material) Phased implementation: The new currencies were introduced in 2010 -11, and mandated for use in 2012. During 2013-14, providers and commissioners were required to use the new currencies as the basis for contracting services during 2013-14. The current proposals regarding the use of mental PbR are: • *'By April 2015 all contracts will be underpinned by an understanding of need, evidence-based responses to need and expected outcomes* • *By April 2016 all contracts will include clear incentives for the delivery of outcomes and outcome-driven payment models will have been introduced in a limited number of areas* • *By April 2017 there will be a wholesale shift to outcome-focused contracting.'* [6]
Supply chains (prime & sector; subs & sector)	NHS providers (including Foundation Trusts, private sector providers, and the third sector)
Social investment	
Detail of PbR	
Summary: (or complete template below)	In 2010-11, a new national currency for mental health services was introduced – the care clusters. These clusters (21 in total) define clinically meaningful ways of grouping patients according to their characteristics and care needs. Psychiatric disorders with similar levels of severity are grouped within the same clusters. The clusters are linked to care packages and form the unit of healthcare for which payment is made. They reflect patient need over specific periods of time that range from four weeks to 12 months, and apply to both admitted patient and community care. In this respect, the payment is still linked to activity. However, in contrast to acute care PbR, the 'unit' captures a complete care pathway, rather than a single episode of care for which the costs are relatively stable. While there is no prescription about which packages of care should be associated with each cluster, providers and local commissioners are expected to work towards delivering care that meets any appropriate diagnosis specific NICE guidance and other best practice. At the moment care packages and tariffs are set locally The clusters we mandated for use, by the DH, from April 2012 for working-age adults and older people. Patients are assessed, allocated to cluster and rated on a scale of one to four with respect to seriousness using the Mental Health Clustering Tool (MHCT), and based on their characteristics and need. ***Outcomes*** Initial quality and outcome measures were proposed for 2012-13 to accompany the Clusters (although payment was not attached to these outcomes). In 2013-14 the DH mandated the use of some of these outcomes in contracts. These include: - A Clinician Rated Outcome Measure (CROM) The measure is based on established MHCT/ Health of the Nation Outcome (HoNOS) Scales (from which a score is derived to measure the health and social functioning of people with severe mental illness). The proposed future metric calculates the percentage of service users that meet the criteria for reliable

[6] NHS England, Background to the 2015/16 proposals for the mental health payment system (2014) (p8) (http://www.england.nhs.uk/wp-content/uploads/2014/07/dev-mental-health-pay-syst.pdf)

	improvement or deterioration in their health and social functioning. Data collected from April 2013 will be used to establish a baseline for the future outcome measure. - Patient reported outcome measures (PROMS) No single PROM has been identified that adequately reflects the priorities for all of the clusters, although the use of Warwick & Edinburgh Mental Health Well Being Scale is (based on a patient questionnaire) is being tested - Patient experience Consideration is currently being given to the use of the Care Quality Commission (CQC) service user survey as part of the PbR approach, as well as the friends and family question. As with PROMs there is no universally or agreed way to assess and report patient experience.

Metrics						
Evidential requirements						
PbR allocation						
Timing of payment						
Performance rewards						
Payments made to date						
Counterfactual/baseline						

Key issues	
Defining outcomes and payments	
Evidence base for outcomes	
Defining outcomes	
Agreeing outcome definitions	
Using proxies	
Measuring outcomes	
Attributing outcomes	
Intermediate outcomes and distance travelled	
Data sharing/data availability	
Service pricing: ■ Incentivising long-term outcomes ■ Addressing skimming/cherry picking ■ Ensuring efficiency ■ Reviewing costs and pricing	**Establishing the tariff** Currently there is no national fixed tariff associated with the clusters and care packages. Defining the national tariff has therefore be delayed due to variation in the maturity with which different providers and commissioners are embedding PbR. Reference costs for mental health services have been collected by the DH from NHS providers for each cluster since 2010–2011. Costs are collected for three types of activity: admitted (in-patient) and non-admitted (out-patient) care, and initial assessments. The DH then calculates the national average cost for each cluster across all provider trusts. Over time, this will be turned from a retrospective cost into a prospective fixed price – a fixed price national tariff. The DH has produced guidance for providers on calculating costs. Currently, prices and tariffs are set locally. As a minimum, in 2013-14 and for working age adults and older people that fall within the scope of the mental health, the clusters were to be used. Local prices should be agreed for each cluster based on the current contract value. To support this, the DH has issued a set of indicative cluster costs, based on 2011-12 reference costs. These indicative cluster costs

	were intended to be used as a comparator rather than to set contract price. To date, there is evidence of very wide variation in costs at cluster level both within and across providers. *More recently, Monitor and NHS England has set out the intention to "To publish local payment examples that commissioners and providers can use with our support. We will also establish a programme to evaluate how well these examples work."*[7] **Incentives** The clusters are designed to be independent of setting, thus providing an incentive to treat people in the most cost-effective setting. This approach is intended to incentivise providers to shape pathways of care and to keep patients out of hospital. Providers will only be able to make a surplus if they minimise the more expensive inpatient costs relative to treating more patients in an out-patient setting. The payment for each care cluster will reflect an average payment. The DH highlight the 'need for local pricing decisions to acknowledge that some patients might need additional support (for example patients with communication difficulties may have a requirement for a translator or a signer). It therefore considered that additional top-up payments or alternative funding arrangements could be required to ensure the cost of these additional services is recognised.' (p24) The payment structure takes account of the need to undertake an initial needs assessment with the patient in order and to allocate the patient to a given are cluster. Specifically, the initial assessment of an individual is funded as a separate activity to subsequent care. The separation of the payment aims to remove the incentive to reduce thresholds and allocate people to inappropriate clusters. It also acknowledges that some patients are referred and assessed, and then found not to need specialist mental health services, so are not allocated to a care cluster – no payment would be made in these circumstances. Commissioners and providers are required to negotiate local prices for initial assessments. The DH published process for pricing assessment activity for 2013-14 to support local pricing.
Provider capacity	
Market capacity: ■ Market making ■ Market testing ■ Commissioning and competitive tendering ■ Market capacity	
Funding and risk sharing: ■ Modelling whole life cost ■ Funding sources and addressing short falls ■ Understanding risk – provider views ■ Pricing risk and	

[7] Monitor and NHS England, 2015/16 National Tariff Payment System: Tariff engagement documents overview (2014) (https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/332133/NationalTariff2015-16_EngagementOverview.pdf) (p11)

competitive pricing ■ Allocating risk – where does the risk sit: commissioner/prime; prime/supply chain	
Performance management	
Measuring performance: ■ Evidencing outcomes ■ Adapting metrics ■ Auditing arrangements ■ Dispute resolution	Contracts should include the quality metrics from a list of output measures. The quality metrics define a variety of output measures. In 2013-14, providers and commissioners were required to select at least one quality indicator for each cluster and monitor these on a quarterly basis using a recommended methodology set out by the DH. The DH also required providers and commissioners to assess, on a shadow basis, how these could be used as a part of the local tariff **Auditing and quality of data** *Additional material: An independent audit has been undertaken of the reference costs submitted by provides. "Evidence from a national data assurance audit of the reference costs submitted by providers found that 40% of the clusters audited had at least one error."*[8] *The main reasons for errors were: failure to follow the Mental Health Clustering tool guidance; poor quality of the medical records used to justify cluster decisions; and inaccurate recording of the dates that patients start care, change clusters or are discharged. "Thus, continued efforts should be made to train and retrain clinical teams in the effective use of the MHCT, and regular audit of the process is needed."*[3]
Performance management arrangements: ■ Incl. adjustments to correct/improve operation of PbR contracts/arrangements	
Service failure: ■ Penalties for failure ■ Mechanisms for addressing failure ■ Contract termination ■ Re-contracting ■ Redress for service users	
Accountability and value for money	
Roles and responsibility of accounting officer	
Monitoring beyond PbR contracts	
Monitoring cost	
Governance arrangements	
Promoting effective practice	
Intervening in delivery	

[8] R. Jacobs, Payment by results for mental health services: economic considerations of case-mix funding. Advances in psychiatric treatment (2014), vol. 20, 155–164 doi: 10.1192/apt.bp.113.011312 (http://www.york.ac.uk/media/che/documents/APT-2014-Jacobs-155-64.pdf) (p157)

Evaluating value for money of the entire PbR scheme	
Other	

Title
The influence of outcome-based contracting on Provider-led Pathways to Work
Author
Hudson, M. et al (Policy Studies Institute)
Year
2010
Publisher
Department for Work and Pensions
Web address
http://www.psi.org.uk/pdf/2010/rrep638.pdf

Document Type			
Policy document	Expert publication	Performance data	Evaluation
			X
Other:			

High Level Summary
This reports is based upon qualitative research to explore findings from the evaluation of DWP's Provider Led Pathways that the outcomes based contracts were encouraging creaming and parking. The research explored the impact of targets and outcomes contracting arrangements (in the programme) on providers.

Background Information (PbR Schemes)	
Name of scheme	Provider-Led Pathways
Policy area	Employment support (incapacity benefits)
Target group(s)	Jobcentre Plus clients on incapacity related benefits
Rationale	
Description of scheme	This scheme is no longer in place. When it was: Prime providers from private and voluntary sector hold outcomes based contracts with DWP, to deliver work focused interviews and support them into work. They are paid for attachment, job entry and job sustainment.
Geography	England – though not clear from report. Report includes 4 contract areas.
Commissioner and intermediaries	DWP
Type of PbR	PbR
Incentives structure	30% on attachment; 50% on job entry; 20% sustained (16 hours a week for at least 13 of the previous 26 weeks)
Total budget	Not known (from the report).
Portion assigned to PbR	Not known (from the report).
Number of prime contracts	Not known (from the report).
Timescale (development)	Not known (from the report).
Development budget	Not known (from the report).
Development process	Not known (from the report).
Timescale (delivery)	Not clear – 2007-2009? (final evaluation report is cited as 2009; some additional research suggests that initial 'pathways to work' were piloted 2003-2007 when the national rollout was announced, as an outcomes based contract scheme. The Provider-Led Pathways then ended in 2011).
Current status	Ended.

Supply chains (prime & sector; subs & sector)	Private sector and voluntary sector primes; smaller specialist providers from both sectors in supply chains.					
Social investment	None.					
Detail of PbR						
Summary: (or complete template below)	30% on attachment; 50% on job entry; 20% sustained (16 hours a week for at least 13 of the previous 26 weeks). Further detail not available.					
Indicators						
Metrics						
Evidential requirements						
PbR allocation						
Timing of payment						
Performance rewards						
Payments made to date						
Counterfactual/baseline						
Key issues						
Defining outcomes and payments						
Evidence base for outcomes						
Defining outcomes						
Agreeing outcome definitions						
Using proxies						
Measuring outcomes						
Attributing outcomes						
Intermediate outcomes and distance travelled						
Data sharing/data availability						
Service pricing: ■ Incentivising long-term outcomes ■ Addressing skimming/cherry picking ■ Ensuring efficiency ■ Reviewing costs and pricing						
Provider capacity						
Market capacity: ■ Market making ■ Market testing ■ Commissioning and competitive tendering ■ Market capacity						
Funding and risk sharing: ■ Modelling whole life cost ■ Funding sources and						

addressing short falls ■ Understanding risk – provider views ■ Pricing risk and competitive pricing ■ Allocating risk – where does the risk sit: commissioner/prime; prime/supply chain	
Performance management	
Measuring performance: ■ Evidencing outcomes ■ Adapting metrics ■ Auditing arrangements ■ Dispute resolution	
Performance management arrangements: ■ Incl. adjustments to correct/improve operation of PbR contracts/arrangements	There was a complex set of arrangements for performance management and governance. Contract Managers were employed by DWP, based in Supply Relationship Teams, with input from Third Party Provision Managers. CMs were responsible for monitoring, TPPMs were responsible for the customer journey. Supply chain management was left to primes. Some felt that oversight of this would've made primes 'more inclusive'. Primes performance managed their supply chains through regular (weekly) monitoring returns, regular reporting and site visits. Sub-contractors often had outcome targets and were closely managed around these. Client feedback played a minor role.
Service failure: ■ Penalties for failure ■ Mechanisms for addressing failure ■ Contract termination ■ Re-contracting ■ Redress for service users	Performance was poor. This was associated, primarily, with the economic downturn limited prospects for work and the new Employment Support Allowance being introduced (although not clear why) and low numbers of voluntary referrals. There were system level problems – referrals in – and data problems – identifying and reporting. DWP offered to provide more service fee upfront. There were various changes to targeting and profiles, including some reported to be informally agreed. There were quarterly performance reviews. But the concerns were not always addressed at a high enough level within DWP. It was not always clear to providers where responsibility lay. Bringing providers together with stakeholders was reported to be important to sharing information and driving practice. But subcontractors and delivery partners were rarely involved. Monitoring of service quality was underdeveloped. Everyone had problems meeting their targets. This led to creaming and parking as primes and their providers focused on those easiest to help. Innovation was limited to cost savings. Targets were lowered but still seen as unrealistic. Advisers were frustrated with pressures on them to spend less time on the hardest to help. It is not clear from the report precisely why the contracts allowed creaming and parking or how they failed to contain provisions to address it. Instead, some recommendations are made to address this in the future (and therefore presumably were missing in the contracting): - there should be a better division of labour between primes and their supply chains: there must be an expectation that providers will work with the hardest to help across the chain and not allow primes to cream and leave the remainder for their supply chain. Progress measures would also recognise the work done, particularly by smaller organisations with their partners, to support people towards employment. - there should be strong client feedback mechanisms: as part of monitoring so that client experiences are tracked and helping to identify cherry picking and parking. - resources need to be adequate to work with the hardest to help, particularly in a

	challenging economic climate. Many providers reported concerns about financial viability. Providers were relying on partners. Primes were focusing on efficiency savings. There needs to be monitoring of the supply chain and thought given to how contracts can be linked to the wider economy. - administrative processes must be improved. There were problems checking eligibility, evidencing outcomes and monitoring flows. - learn from different approaches to outcomes based contracting. There was a strong view that a wider range of progress measures should be included. Soft outcomes would recognise the confidence building activities necessary. This could include completed training courses, voluntary work or work trials. The implications of mandation should also be reflected upon – those who are willing to engage rather than mandated to are more likely to succeed. - relatedly, different outcomes for different groups [tariffs] should be considered. But issues would be: categorising clients and the impact on their self-esteem; considering how a rating of job readiness relates to a client's willingness to engage and their distance from the labour market and complexity of condition.
Accountability and value for money	
Roles and responsibility of accounting officer	
Monitoring beyond PbR contracts	
Monitoring cost	
Governance arrangements	
Promoting effective practice	
Intervening in delivery	
Evaluating value for money of the entire PbR scheme	
Other	

13

Title			
Work Programme Evaluation: Findings from the first phase of qualitative research on programme delivery			
Author			
Becci Newton, Nigel Meager, Christine Bertram, Anne Corden, Anitha George, Mumtaz Lalani, Hilary Metcalf, Heather Rolfe, Roy Sainsbury and Katharine Weston (Institute for Employment Studies, Social Policy Research Unit and the National Institute of Economic and Social Research)			
Year			
2012			
Publisher			
Department for Work and Pensions			
Web address			
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/193323/rrep821.pdf			
Document Type			
Policy document	Expert publication	Performance data	Evaluation
			X
Other:			
High Level Summary			
This report gives an overview of preliminary findings from the initial phase of qualitative research for the official evaluation of the Work Programme. It draws on fieldwork in six of the 18 Work Programme contract package areas (CPAs). It explores: who provided support; the stages of support provided; creaming and parking; and next steps for the evaluation.			

Background Information (PbR Schemes)	
Name of scheme	The Work Programme
Policy area	Employment support
Target group(s)	People who are at risk of becoming long term unemployed
Rationale	It was designed to address concerns raised about the performance and cost-effectiveness of existing employment programmes targeted at unemployed and inactive people. Thus, for example, the National Audit Office examined Pathways to Work and noted: 'Pathways has turned out to provide poor value for money and the Department needs to learn from this experience.' (National Audit Office (NAO))
Description of scheme	'How do claimants enter the Work Programme? Jobcentre Plus refers claimants to Work Programme providers through the Provider Referral and Payments System (PRaP), which gives the provider basic details of the claimant with each referral. At this point the provider takes over, making the initial contact with the participant, and agreeing the action(s) that the provider and participant will undertake through the programme. This agreement should be recorded in an 'action plan', which will also incorporate any mandatory activity which the provider requires the participant to undertake. If a participant fails to comply with any mandatory activities, the provider notifies Jobcentre Plus in order that possible sanctions can be considered. How long do participants stay on the Work Programme? Each participant remains on the Work Programme for up to two years: • or until the provider claims the final eligible outcome payment for that participant; • or until the participant leaves benefit for a period of time which takes them beyond

	the two years of 'allotted time' on the programme; or • unless Jobcentre Plus decides that a referral to Work Choice13 is more appropriate for that participant. Participants who return to benefit without completing their allotted time on the programme are directed back to the relevant provider to complete the programme. If, however, they return to benefit after the allotted time is complete, or when the provider has claimed a final outcome payment for them, they will return to Jobcentre Plus provision.' (p12)
Geography	
Commissioner and intermediaries	
Type of PbR	
Incentives structure	
Total budget	
Portion assigned to PbR	
Number of prime contracts	England, Wales and Scotland have been divided into 18 'contract package areas' (CPAs) for the purposes of the Work Programme.
Timescale (development)	
Development budget	
Development process	
Timescale (delivery)	
Current status	Launched in 2011, at time of this document it had been running for one year
Supply chains (prime & sector; subs & sector)	Pre-employment support All of the prime providers operated a model in which most delivery was through end-to-end providers (in some cases, this was the prime itself, in others it was one or more subcontractors). This was supplemented by the use of (subcontract) spot or specialist providers where necessary. (adapted from pp21-22) End-to-end providers End-to-end providers aim to support participants from the point of referral and attachment to the Work Programme and into employment (ideally). There was, however, some variation between the models adopted according to whether: • all the end-to-end providers used to deliver a Work Programme contract were generalist, with participants allocated solely on a geographical basis; or • specialist end-to-end providers were also used. In the first of these variants, all generalist end-to-end providers were expected to have the expertise to provide general support for all types of participants. In the second, specialist end-to-end providers offered support for certain types of participants (e.g. young people, ethnic minorities, offenders and ex-offenders, lone parents, participants with mental health issues, substance abusers) or for those seeking particular types of work (e.g. self-employment, care work). However, it should be noted that where specialist end-to-end providers were used, they did not in all cases operate across the entire CPA. In these instances, mixed models were observed, involving some generalist providers dealing with all types of participants and needs, and specialist end-to-end providers assisting specific groups in specified localities. The referral route to specialist end-to-end providers varied: • in some models referral was by the central administration of the prime contractor on entry to the Work Programme; • in others referral was by the generalist end-to-end (subcontract) providers, and was their decision. (adapted from p22) In-work support There was also variety in the models for the support of participants who had successfully moved into work. The variations were:

	a) in-work support was provided by the end-to-end provider; b) in-work support was provided centrally for the whole CPA; c) in-work support was provided by a number of specialist in-work providers; d) in-work support was provided by a mixture of end-to-end providers and specialist in-work providers; in these cases, participants remained with their end-to-end providers if they offered in-work support; if they did not, participants moved onto specialist providers on entry to work. Overlapping the separate provision of in-work support in some areas was a policy established by the prime for personal adviser support to continue to be provided by the pre-employment end-to-end provider for a set period after work entry. (p24) 'The primes operate some variations in their supply chain models. The most distinct is the use of specialist end-to-end providers in addition to generalist end-to-end providers. The method of contracting with other specialist and spot providers also varies; some end-to-end providers have autonomy to commission this type of support, while others have support commissioned on their behalf through centralised teams at prome provider level. Although all primes had been contracted to deliver minimum service delivery standards, and these, frequently, were very similar in scope, not all subcontractors in the supply chain seemed fully aware of their prime's minimum standards. This raises a concern that participants may not be receiving the expected service.' (p28)
Social investment	
Detail of PbR	
Summary: (or complete template below)	
Indicators	
Metrics	
Evidential requirements	
PbR allocation	
Timing of payment	
Performance rewards	
Payments made to date	
Counterfactual/baseline	
Key issues	
Defining outcomes and payments	
Evidence base for outcomes	
Defining outcomes	
Agreeing outcome definitions	
Using proxies	
Measuring outcomes	
Attributing outcomes	
Intermediate outcomes and distance travelled	
Data sharing/data availability	
Service pricing: ■ Incentivising long-term outcomes	The evaluation cannot at this stage provide firm conclusions about the extent of creaming and parking. Nevertheless, the authors do identify 'some broad consistency in the views and experiences of the different stakeholders collated and

■ Addressing skimming/cherry picking ■ Ensuring efficiency ■ Reviewing costs and pricing	reported so far.' (p111) 'What can be said at this point, is that – frequently intentionally – those participants considered most job-ready are seen more frequently by many Work Programme providers. In contrast, those with high or multiple barriers are likely to experience infrequent meetings. However, further evidence about the quality (and length) of meetings is required before this can be seen as definitive evidence of creaming and parking, rather than appropriate variation of approaches to different participant groups. What may be of concern is that less frequent meetings for those with multiple barriers may also be linked to a lack of referral to additional support and training activities, and this is also an issue which requires further tracking across the course of the evaluation.' (p111)
Provider capacity	
Market capacity: ■ Market making ■ Market testing ■ Commissioning and competitive tendering ■ Market capacity	Following a competitive tendering process, two or three Work Programme providers (drawn from the private, voluntary and public sectors) were contracted as prime providers in each of the CPAs. Within each CPA, providers compete with each other. However, claimants entering the Programme are not given a choice of provider. Rather they are randomly allocated to one of the primes operating in their Jobcentre Plus district and CPA, with the consequence that provider performance can be directly compared. The primes may deliver services directly to Work Programme participants, or they may do so through a network of subcontractors, or both.
Funding and risk sharing: ■ Modelling whole life cost ■ Funding sources and addressing short falls ■ Understanding risk – provider views ■ Pricing risk and competitive pricing ■ Allocating risk – where does the risk sit: commissioner/prime; prime/supply chain	
Performance management	
Measuring performance: ■ Evidencing outcomes ■ Adapting metrics ■ Auditing arrangements ■ Dispute resolution	
Performance management arrangements: ■ Incl. adjustments to correct/improve operation of PbR contracts/arrangements	
Service failure: ■ Penalties for failure ■ Mechanisms for addressing failure ■ Contract termination ■ Re-contracting	

■ Redress for service users	
Accountability and value for money	
Roles and responsibility of accounting officer	
Monitoring beyond PbR contracts	
Monitoring cost	
Governance arrangements	
Promoting effective practice	
Intervening in delivery	
Evaluating value for money of the entire PbR scheme	
Other	

14

Title			
Work Programme Evaluation: Procurement, supply chains and implementation of the commissioning model			
Author			
Pippa Lane, Rowan Foster, Laura Gardiner, Lorraine Lanceley and Ann Purvis (Centre for Economic and Social Inclusion)			
Year			
2013			
Publisher			
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https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/197710/rrep832.pdf			
Document Type			
Policy document	Expert publication	Performance data	Evaluation
			X
Other: Article/Blog			
High Level Summary			
Report presenting findings from first phase of research from the official evaluation of the Work Programme Commissioning model. The report is based on research with six of the 18 contract package areas (CPAs) and explores: how supply chains were constructed; the use of subcontractors when bidding; the programme start-up; supply chain operation; performance management; the payment model; the impact of the economic climate.			
Background Information (PbR Schemes)			
Name of scheme	The Work Programme		
Policy area	Employment support		
Target group(s)	People who are at risk of becoming long term unemployed – in order to improve support for them and help them find and keep jobs.		
Rationale	'The use of payment by results (PbR) in employment programmes is part of a wider, long-term shift towards the contracting out of public services to the private sector and to paying for services on the basis of their outcome rather than their outputs. This 'outcome-based commissioning' approach encourages commissioners to focus on ends, not means, and is seen as a way of promoting improvements in public services. PbR aligns funding arrangements with this outcomes focus, paying for services, at least in part, on the basis of the outcomes that they achieve.' (p5) Compared to predecessor programmes, the introduction of the Work Programme is intended to bring: higher performance expectations; larger contract areas with fewer prime contractors; a more fully outcome-based payment model; opening up eligibility to Employment and Support Allowance (ESA) claimants; and even less prescription.		
Description of scheme	'The key elements of the Work Programme commissioning model can be summarised as: • A prime-provider model – The Department contracts with a small number of prime contractors who commission and manage a supply chain of delivery organisations. Under FND [Flexible New Deal], the Department facilitated the development of the Merlin Standard to support the development of successful supply chains and champion positive behaviours and relationships within supply chains, in line with the Commissioning Strategy Code of Conduct. • Outcome-based funding – The Work Programme model goes further than previous		

	models, incorporating several new elements, in particular: —Emphasis on sustained outcomes – The up-front 'attachment payment' (when the participant enters the programme) will be a relatively small part of the total and will reduce to zero over the course of the contract. Participants will remain attached to the Work Programme provider for two years, irrespective of whether they have entered work, and the bulk of the funding will be triggered for achievements later during these two years. In particular, a 'job outcome' payment will be triggered after a participant has been in work for a number of weeks (13 to 26 weeks, depending on the claimant group), which aims to reduce payments to providers for deadweight.11 Further 'sustainment' payments are payable (on a regular four-weekly basis) when the participant has been in work for a longer period (17 to 30 weeks, dependent on the target group). —Differential pricing – Providers are paid at different rates for outcomes achieved by different claimant groups, with outcomes for the harder-to-help groups being paid at higher rates than those for groups closer to the labour market. This change to the incentive structure for providers attempts to address concerns that providers concentrate effort and resources on those participants for whom they believe they can achieve an employment outcome most quickly and/or cheaply. • Ongoing performance competition – Providers are able to compete for market share to reward high performance. This will manifest itself through a process known as 'market share shifting', an innovation adapted from the Australian model, under which better-performing providers will, over time, be rewarded by being allocated a larger number of claimants, while the poorer-performing providers (who remain, nevertheless, above the minimum performance threshold) will receive fewer claimants. A key feature of this is that within any area, individual claimants are assigned to one of the two or three providers operating in that area entirely at random, so that performance comparisons can be readily made. • Minimum service prescription – Unlike under FND, there are no mandatory service components. Providers are completely free to decide which interventions to offer to help participants into sustainable employment. In their bids, each prime was able to propose its own delivery model supported by its own minimum service delivery standards. Whilst DWP monitors primes' adherence to minimum service delivery standards, contracts are managed against minimum performance levels (relating to outcomes achieved rather than services delivered) which are set by the Department. • Larger, longer contracts (up to five years in length with payments up to seven) – The intention here is that the greater market stability offered by this contractual framework will facilitate the development of provider capacity and expertise and encourage investment to support innovation in service delivery.' (pp8-9)
Geography	UK
Commissioner and intermediaries	DWP
Type of PbR	Payment by Results
Incentives structure	Providers are paid at different rates for outcomes achieved by different claimant groups, with outcomes for the harder-to-help groups being paid at higher rates. This incentive structure attempts to address concerns that providers concentrate effort and resources on those participants for whom they believe they can achieve an employment outcome most quickly and/or cheaply. *Full evaluation template provides further details.*
Total budget	
Portion assigned to PbR	
Number of prime contracts	Fifteen of the 18 prime contractors are private sector organisations, with one VCSE sector organisation, one public sector organisation and one mixed private/VCSE organisation. Almost half (49 per cent) of all subcontractors are VCSEs.
Timescale (development)	'With just six months between the Invitation to Tender and go-live, the Work Programme procurement process was substantially quicker than procurement of

	previous programmes. This rapid process, in particular the time between the award of contracts and go-live, was seen by providers (and DWP) as a significant achievement, but also as a pressure on start-up.' (p2) The procurement of the Work Programme took place between July 2010 and June 2011 'The invitation to tender for the mini-competitions was published in December 2010 and the Programme went live on 1 June 2011. This was substantially quicker than the procurement of previous programmes. The rapid procurement, in particular the time between the award of contracts and go-live, was also seen as a challenge because this was reduced to around one month' (p15)
Development budget	
Development process	'The procurement of the Work Programme took place between July 2010 and June 2011. This was a two-stage process where potential providers first bid to join DWP's Employment-Related Support Services (ERSS) Framework and then took part in 'mini-competitions' for Work Programme delivery within 18 contract package areas (CPAs). To qualify for the framework, potential providers had to demonstrate: a track record of delivering large and complex contracts; capacity to deliver across the region(s) for which they had bid; and the financial strength to deliver primarily payment by results contracts (including a minimum £20 million per annum turnover).14 The mini-competitions attracted 177 bids, with between nine and 17 bids in each CPA.' (p14)
Timescale (delivery)	'Just six months after the change of government and the termination of Flexible New Deal (FND) contracts, the Department published the Invitation to Tender for the Work Programme. It was only a further six months later, on 1 June 2011, that the Work Programme went live.' (p54)
Current status	
Supply chains (prime & sector; subs & sector)	'All primes subcontract to Tier One providers which deliver end-to-end support. There are also Tier Two providers that deliver specialist or discrete services on a spot-purchase basis. There may be additional ad-hoc suppliers beyond these tiers. In mid-2012 all prime contractors passed the 'Merlin Standard' assessment which regulates positive behaviour in supply chain management. It was common for Tier One subcontractors to report higher levels of referrals than they had originally expected. When taken alongside the quick start-up of the programme, this had caused pressure on services and in some cases led to greater use of group sessions and less one-to-one support than planned. Some Tier One specialist providers with guaranteed referrals were also required to diversify their services in order to provide mainstream support. By contrast, few Tier Two subcontractors had guaranteed referral volumes and these providers commonly reported receiving few, if any, referrals. As a result, many Tier Two providers received very little income from the Work Programme. In some cases, lower than expected referrals had led to staff being laid off or kept on zero hours contracts. Many of these organisations were from the voluntary and community sector. Lack of referrals was explained as the result of a different profile of participants having been referred, requiring less specialist provision. Where there were referrals of this type often primes or Tier Ones chose to support participants themselves. This may lead to fewer specialist organisations involved the Work Programme in future. A contraction in the specialist market has been observed in other employment programmes.' (p2) 'Primes may deliver services directly to Work Programme participants (known as Prime Delivery Agents or Delivery Primes), or they may deliver no services themselves and instead use a network of subcontractors (Prime Managing Agents). Delivery primes are the most common in the current supplier landscape, making up

	14 of the 18 Work Programme primes. The percentage of Work Programme referrals that 'delivery primes' directly support tends to range from 80 per cent to 60 per cent. All primes subcontract to Tier One providers that deliver end-to-end support and to which primes will often guarantee specific volumes of referrals. These referrals are typically assigned on a geographical basis or by participant characteristic or need, ex-offenders for example. There are also Tier Two providers that deliver specialist or discrete services on a spot-purchase basis (either direct to a prime or to a Tier One subcontractor). Definitions of what these tiers incorporate vary from prime to prime, and there may be additional suppliers beyond these tiers providing largely ad-hoc or specialist services.' (p14) 'During the mini-competitions, prime contractors were responsible for forming their own supply chains and identifying potential subcontractors. DWP did not specify sub-contracting arrangements but did require that: 'the level of community involvement is commensurate with the needs of Work Programme participants'; and that primes adhered to the Merlin Standard on treatment of their supply chains. To construct their supply chains primes solicited Expressions of Interest (EOIs) from potential subcontractors, promoting tendering opportunities through industry networks, for example via their websites and by using road shows in CPAs where they intended to bid for contracts with DWP.' (p17) 'In response to feedback from its members involved in Work Programme procurement the Employment-Related Services Association (ERSA), the trade association for the welfare-to-work sector, has been working with providers to streamline the process of constructing supply chains for future procurement exercises.' (p18) 'The survey of current subcontractors found that almost half (49 per cent) were small organisations, with 50 employees or fewer in the UK. Twenty-two per cent were medium-sized enterprises (between 51 and 250 employees), and the remaining 29 per cent were large organisations with over 250 employees.' (p22) 'All prime contractors had dedicated staff to manage the relationships with their supply chain, variously called Supply Chain Managers or Partnership Managers. Relationship management took a number of forms including regular face-to-face meetings, emails and newsletters, but varied through the supply chain.' (p35) 'The research found that whilst Jobcentre Plus randomly allocated Work Programme participants to one of the two or three prime contractors operating within each contract package area, prime contractors did not operate a random system when passing participants on to subcontractors within the supply chain. Allocation was done largely on the basis of geography, participant need and claimant characteristic (e.g. age). Most subcontractors did not have an agreement to receive a set or minimum number of referrals, although Tier One suppliers were much more likely to have such an agreement than Tier Two suppliers. It was common for Tier One subcontractors to report higher levels of referrals than expected while common for Tier Two subcontractors to report few if any referrals.' (p35)
Social investment	
Detail of PbR	
Summary: (or complete template below)	See description of scheme.
Indicators	
Metrics	
Evidential requirements	
PbR allocation	

Timing of payment						
Performance rewards						
Payments made to date						
Counterfactual/baseline						

Key issues	
Defining outcomes and payments	
Evidence base for outcomes	Many primes reported frustration at requirements around evidencing sustainment outcomes, but this issue had been resolved since fieldwork for the report took place.
Defining outcomes	
Agreeing outcome definitions	
Using proxies	
Measuring outcomes	'The up-front 'attachment payment' (when the participant enters the programme) will be a relatively small part of the total and will reduce to zero over the course of the contract. Participants will remain attached to the Work Programme provider for two years, irrespective of whether they have entered work, and the bulk of the funding will be triggered for achievements later during these two years. In particular, a 'job outcome' payment will be triggered after a participant has been in work for a number of weeks (13 to 26 weeks, depending on the claimant group), which aims to reduce payments to providers for deadweight. Further 'sustainment' payments are payable (on a regular four-weekly basis) when the participant has been in work for a longer period (17 to 30 weeks, dependent on the target group).' (pp8-9)
Attributing outcomes	
Intermediate outcomes and distance travelled	
Data sharing/data availability	
Service pricing: ■ Incentivising long-term outcomes ■ Addressing skimming/cherry picking ■ Ensuring efficiency ■ Reviewing costs and pricing	'Differential pricing is intended to act as a safeguard against providers 'parking' those who are harder to help (and for whom they are less likely to receive an outcome payment) and 'creaming' those who are closest to the labour market (and who may have found work on their own).' (p47) 'Along with differential pricing, robust performance management is a mechanism by which commissioners can ensure that black box provision meets participant needs (and limit the scope for creaming and parking).' (p49) 'Providers are paid at different rates for outcomes achieved by different claimant groups, with outcomes for the harder-to-help groups being paid at higher rates than those for groups closer to the labour market. This change to the incentive structure for providers attempts to address concerns that providers concentrate effort and resources on those participants for whom they believe they can achieve an employment outcome most quickly and/or cheaply.' (p9)
Provider capacity	
Market capacity: ■ Market making ■ Market testing ■ Commissioning and competitive tendering ■ Market capacity	'The procurement of the Work Programme took place between July 2010 and June 2011. It was a two-stage process where potential providers first bid to join DWP's Employment Related Support Services Framework. Thirty providers then chose to take part in 'mini-competitions' for Work Programme delivery within 18 contract package areas. Those potential primes that chose not to bid primarily cited concerns about financial risk as their rationale. These included the untested nature of payment-by–results on this scale; the high level of performance required to realise financial rewards; the fixed pricing structure which did not take inflation into account; and the expectations of discounting.

	To construct their supply chains, primes actively solicited EOIs from potential subcontractors. It was common for subcontractors to submit large numbers of EOIs. Providers have identified ways in which this process could be streamlined for future procurement including standardised EOI templates. ERSA, the welfare-to-work trade body, is working to address these issues. Eighteen prime contractors and their supply chains were successful, many in more than one CPA. Some primes are acting as subcontractors in other CPAs.' (p23) 'The original intent for the Work Programme was that it would be attractive to large, well-capitalised prime contractors who would be awarded long-term and larger contracts which would provide the conditions for investment in resources and delivery. These providers would be able to afford to bear the up-front costs of delivery in the expectation of profitability later in the contract term. However, the reality has been that many primes were finding the up-front costs hard to bear. Primes reported that they had designed their delivery models based on the modelling of likely performance among different payment groups and the expected flow of referrals. When, in practice, the flow of referrals differed from forecasts primes reported that had affected their financial position.' (p45)
Funding and risk sharing: ■ Modelling whole life cost ■ Funding sources and addressing short falls ■ Understanding risk – provider views ■ Pricing risk and competitive pricing ■ Allocating risk – where does the risk sit: commissioner/prime; prime/supply chain	'The expectation within the commissioning model was that prime contractors would be sufficiently large and well-capitalised to bear the up-front costs of delivery, with an expectation of profitability later in the contract term as participants begin to move into work. Although the prime providers were bearing these costs, many found it harder to finance operations than they anticipated. The explanation given was that increased referral volumes required greater up-front investment at a time when job outcomes were harder to achieve, rather than the impact of the outcome payment model per se. It will be important to explore over time how primes respond to more stable referral patterns and the phasing out of up-front attachment payments. Almost all Tier One subcontractors were paid on roughly the same outcomes-based funding model as primes or on a modified version of this model. The risk in outcome based commissioning is therefore, to a large extent, being passed down and shared by Tier One subcontractors. Although most were aware of these terms from the start, a number admitted that they were struggling to balance their finances under this model. Some were funding their provision through attachment fees and acknowledged that this was not sustainable. Tier Two subcontractors tended to be paid a set fee for a service or per referral rather than on an outcome basis. Therefore the impact of the outcome payment model on this group was indirect and related to the willingness of prime or Tier One providers to pass on specialist referrals or buy in specialist interventions at a time when finances were constrained.' (p3) 'One of the features of a Payment by Results (PbR) model is that it transfers the risk of paying for services from the commissioner to the provider who only receives payment for successful outcomes. This research found that almost all Tier One subcontractors were paid on roughly the same outcomes basis as primes or a modified version of this model (such as a higher attachment fee or ongoing attachment fees once these finished for the prime). Primes typically deducted a 10 to 20 per cent 'management fee' from payments made to Tier One subcontractors. It seems that the risk in the outcome-based funding model is to a large extent being handed down the supply chain and shared by Tier One subcontractors. Tier Two subcontractors were typically paid a set fee for a service or per referral. These up-front fees both protect Tier Two providers from bearing the risk of an outcome-based payment model, but may also lead to fewer referrals being made when primes and Tier Ones feel cash flow is tight.' (p35)
Performance management	

Measuring performance: ■ Evidencing outcomes ■ Adapting metrics ■ Auditing arrangements ■ Dispute resolution	'In terms of the data that Performance Managers access to monitor providers' performance, the key source is the Work Programme referrals and attachments from DWP's Provider Referrals and Payments (PRaP) system. Because customers are randomly referred to a prime contractor it is possible to directly compare performance between providers.' (p29) A range of DWP staff are involved in performance management, including Performance Managers, Compliance Monitoring Officers and Provider Assurance Teams. There is some evidence to suggest that Performance Managers would like real-time PRaP performance data to enable them to better monitor providers against contracts 'Performance Managers hold monthly performance reviews with primes. At these reviews Performance Managers use evidence collected by Compliance Monitoring Officers to determine whether providers are delivering the minimum service delivery standards they promised in their bids.' (p49)
Performance management arrangements: ■ Incl. adjustments to correct/improve operation of PbR contracts/arrangements	'DWP performance managers were in regular (at least fortnightly) contact with primes and held monthly contract performance reviews to monitor Performance Development Plans (PDPs). Relationships were considered to be good, but some performance managers felt their work was hampered by poorly defined minimum service delivery standards in contracts and by a lack of real-time performance data. Primes identified a fundamental difference in understanding between themselves and DWP performance managers about how much flexibility providers were allowed in their delivery models. Performance managers generally viewed the 'black box' as having only applied during contracting whilst many providers believed they had the freedom to flex delivery during live running to meet participant needs. This led to frustrations on both sides. Primes also reported receiving conflicting messages from staff within DWP on the level of flexibility allowed to them and requested greater consistency and clarity on this point.' (p3) 'Contact was frequent between Performance Managers and primes, in some cases daily, but more commonly weekly or fortnightly. Performance Managers told us that their main formal mechanism for managing performance was to hold monthly contract performance reviews with primes. These involved a range of relevant staff, often including Third Party Provision Managers or other Jobcentre Plus staff who were able to raise local, operational issues. At the time of the research, Performance Managers were working on transferring primes from Performance Improvement Plans (PIP), which were initiated at the start of contracts, to Performance Development Plans (PDP) for live running. While similar in content, PIPs will in future be reserved for primes that are underperforming. PDPs are smaller documents than PIPs and focus more on performance issues; PIPs included premises, staff and other resource issues. Performance Managers do not directly monitor the quality of provision. Compliance Monitoring Officers (CMO) visit providers to ensure that minimum service delivery standards are being met and this should include the quality of provision. Where primes have given less detailed minimum service standards, performance teams have found it difficult to manage primes against them.' (p28) 'Minimum service delivery standards were proposed by prime contractors in their bids, then subsequently agreed and built into contracts to ensure that providers deliver a service that is consistent with the delivery model for which their bid was selected and to ensure that a minimum standard of service is provided to all participants. Within the black box model they are a key lever, alongside the minimum performance levels, that DWP can use to hold providers to account. However, Performance Managers felt that some minimum service delivery standards were insufficiently specific, measurable or meaningful to enable them to hold providers to account. Although it was always agreed that providers could change their minimum service delivery standards, the policy intent was that they still

	needed to be consistent with the delivery model for which their bid was selected. In some cases, changes were made which, in the opinion of DWP officials, were not consistent with the provider's delivery model. Furthermore, providers did not always consult their Account Manager to agree changes.' (p55)
Service failure: ■ Penalties for failure ■ Mechanisms for addressing failure ■ Contract termination ■ Re-contracting ■ Redress for service users	
Accountability and value for money	
Roles and responsibility of accounting officer	
Monitoring beyond PbR contracts	
Monitoring cost	
Governance arrangements	
Promoting effective practice	
Intervening in delivery	
Evaluating value for money of the entire PbR scheme	
Other	

15

Title			
Innovation Fund pilots qualitative evaluation: Early implementation findings			
Author			
Insite Research and Consulting			
Year			
July 2014			
Publisher			
Department for Work and Pensions			
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https://www.gov.uk/government/publications/innovation-fund-pilots-qualitative-evaluation-early-implementation-findings			
Document Type			
Policy document	Expert publication	Performance data	Evaluation
			X
Other:			
High Level Summary			
The Innovation Fund (IF) pilot initiative, aimed at supporting disadvantaged young people, comprises ten Department for Work and Pensions (DWP) awarded Social Impact Bond (SIB) contracts. The model is 100 per cent payment by results (PbR) based on the achievement of specified social outcomes including jobs, improved behaviour and attendance at school, and qualifications. Commissioned via two separate procurement rounds, six pilots went live in April 2012 and a further four were launched in November of the same year. this report focuses upon set and early delivery. It is based on 210 interviews with project managers, staff and key partners and young people. The main focus of the report is the delivery of the interventions and their features. There are 15 SIBs in the UK and ten are DWP IF SIBs.			

Background Information (PbR Schemes)	
Name of scheme	Innovation Fund Pilots
Policy area	Young people, NEETs, ETE (education, training, employment)
Target group(s)	Disadvantaged young people, aged 14 years and over,testing the effectiveness of early intervention approaches for dis with multiple risk factors ranging from truancy to learning difficulties.
Rationale	Testing the effectiveness of early intervention approaches for disadvantaged young people; to build the capacity of the social investment market and the effective development and implementation of SIBs.
Description of scheme	Ten different SIBs all offering a form of tailored support to NEET young people.
Geography	England, Scotland, Wales
Commissioner and intermediaries	DWP. Nothing on SIB structures. Mention of IF benefiting from involvement of those involved with other SIBs, namely Social Finance and Big Society Capital.
Type of PbR	100%
Incentives structure	Not stated
Total budget	Not stated

Portion assigned to PbR	100%					
Number of prime contracts	Not stated					
Timescale (development)	Announced 'in 2011', first six launched in April 2012 and 4 more in November.					
Development budget	Not stated					
Development process	Not stated					
Timescale (delivery)	Two waves (see above) – end dates not stated					
Current status	Live at time of report					
Supply chains (prime & sector; subs & sector)	Not clear					
Social investment	Not detailed					
Detail of PbR						
Summary: (or complete template below)	Not clear					
Indicators						
Metrics						
Evidential requirements						
PbR allocation						
Timing of payment						
Performance rewards						
Payments made to date						
Counterfactual/baseline						
Key issues						
Defining outcomes and payments						
Evidence base for outcomes						
Defining outcomes						
Agreeing outcome definitions						
Using proxies						
Measuring outcomes						
Attributing outcomes						
Intermediate outcomes and distance travelled						
Data sharing/data availability						
Service pricing: ■ Incentivising long-term outcomes ■ Addressing skimming/cherry picking ■ Ensuring efficiency ■ Reviewing costs and pricing						
Provider capacity						
Market capacity: ■ Market making						

■ Market testing ■ Commissioning and competitive tendering ■ Market capacity	
Funding and risk sharing: ■ Modelling whole life cost ■ Funding sources and addressing short falls ■ Understanding risk – provider views ■ Pricing risk and competitive pricing ■ Allocating risk – where does the risk sit: commissioner/prime; prime/supply chain	
Performance management	
Measuring performance: ■ Evidencing outcomes ■ Adapting metrics ■ Auditing arrangements ■ Dispute resolution	
Performance management arrangements: ■ Incl. adjustments to correct/improve operation of PbR contracts/arrangements	'Performance management has been intense and there has been a high level of demand from intermediaries and investors for performance data and progress reporting' (p70). Monitoring has been active, hands on and a high degree of commitment has been required from all partners – from delivery staff to SPV board members. This is seen to have 'pushed up' performance and is expected to yield results in the future. But there is evidence that delivery was too slow for some projects, who failed to meet their delivery plans and financial projections. The providers have done a lot of adapting and remodelling, focusing on younger groups and more time limited interventions to increase the chance of outcomes, including interim outcomes. Older NEETs who are harder to access and work with appear to being neglected. The report suggests exploring how the two cohorts are faring in later years should be a focus of the evaluation. The report states but does not explore that to ensure there was cash flow, investors ensured that there was what might be termed 'creaming' in order to generate outcomes and payments. "To avoid underperformance against targets, this meant exercising clear judgement in the selection of participants to ensure that projects did not later run into cash flow difficulties. Investors were quite open that this was justified to prevent projects from effectively running out of money. 'We definitely need to make sure we're in a position where … this thing stays afloat – and actually we need to protect our capital … I mean we're not going to say, OK fine go and work with the hardest kids … spend all your time on them … generate no outcomes – and you know we're bankrupt within a year.' (Investor) Some form of participant selection was thus seen by many investors and intermediaries as perfectly legitimate, and indeed as an economic necessity, because their primary focus had to be keeping projects successfully running." (p46)

	But it doesn't talk about it in these terms and cautions against it: "In a programme such as this, it is inappropriate to use terms such as 'cherry-picking' or 'creaming' to describe any of the processes of selection or support, given that participation is voluntary and that the eligible population of young people at risk of becoming NEET is relatively large and diverse" (p48)
Service failure: ■ Penalties for failure ■ Mechanisms for addressing failure ■ Contract termination ■ Re-contracting ■ Redress for service users	
Accountability and value for money	
Roles and responsibility of accounting officer	
Monitoring beyond PbR contracts	
Monitoring cost	
Governance arrangements	
Promoting effective practice	
Intervening in delivery	
Evaluating value for money of the entire PbR scheme	
Other	

16

Title
Work Programme Evaluation: Operation of the commissioning model, finance and programme delivery
Author
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High Level Summary
This is the evaluation and summary of the Work Programme evaluation 2013 and 2014; it explores the commissioning model, financial model and programme delivery. The findings in this report are drawn from qualitative interviews, Work Programme Provider market data and national provider surveys.

Background Information (PbR Schemes)	
Name of scheme	The Work Programme
Policy area	Employment support
Target group(s)	People who are at risk of becoming long term unemployed – in order to improve support for them and help them find and keep jobs. Benefits claimants – JSA, ESA.
Rationale	The programme is designed to address concerns raised about the performance and cost-effectiveness of existing employment programmes targeted at unemployed and inactive people.
Description of scheme	The Work Programme (WP) is an integrated welfare-to-work programme, implemented across Great Britain in June 2011. It replaces a range of back-to-work programmes for unemployed and economically inactive people, including Pathways to Work and the Flexible New Deal. Providers are expected to deliver an individually-tailored service for each participant, regardless of their benefit category. The nature of that service, and how it varies between participants and groups is not specified by DWP, in line with the programme's 'black box' principles. When tendering, prime providers indicated the level and nature of the support they would offer each participant group. Minimum service standards were specified in their contracts and any revisions made are publicly available through the DWP website. Jobcentre Plus advisers explain the minimum service standards to participants on referral to the programme. 'The rationale is that both DWP and participants will be able to hold the providers to these standards.' (p40) Jobcentre Plus refers claimants through the 'Provider Referral and Payments

	System' (PRaP), giving the provider basic details of the claimant. At this point the provider makes initial contact with the participant, and agrees the action(s) that the provider and participant will undertake through the programme. This 'action plan', also incorporates any mandatory activity which the provider requires the participant to undertake. 'If a participant fails to comply with any mandatory activities, the provider notifies Jobcentre Plus in order that sanctions can be considered. Once Jobcentre Plus refers a participant to the Work Programme, the provider is expected to deliver two years (104 weeks) of continuous support regardless of whether the participant changes benefits or moves into employment.' (p41)
Geography	Great Britain
Commissioner and intermediaries	DWP (commissioner)
Type of PbR	Payment by results with differential payment model
Incentives structure	A 'differential pricing' structure means that providers are paid at different rates for outcomes achieved by different target groups, with outcomes for 'harder-to help' groups being paid at higher rates than those for groups closer to the labour market. 'This incentive structure aims to discourage providers from concentrating effort and resources on those participants for whom they can achieve an employment outcome most quickly or cheaply.' (p38)
Total budget	
Portion assigned to PbR	
Number of prime contracts	18 prime providers awarded 40 separate contracts – delivering service in 18 large contract package areas
Timescale (development)	
Development budget	
Development process	
Timescale (delivery)	Launched June 2011
Current status	In progress
Supply chains (prime & sector; subs & sector)	Out of the 18 prime providers: 15 are private companies; one is not-for-profit; one is a third sector special purpose vehicle; and one is a public, private and voluntary company. The majority of providers were either voluntary, community or social enterprise organisations (40%) or private organisations (46%). Fourteen per cent were public sector organisations. Two different models of prime provider delivery practice have developed. The first comprises a prime managing agent that provides no direct services but sub-contracts all activities through a supply chain of contractors. This is the model chosen by two of the largest for-profit primes (Serco and G4S) and by 'Rehab Jobfit'. 'The added value of these organisations lies in their expertise in building and managing supply chains and in organising finance and synergies with their other corporate activities.' (p51) The other is that of a prime delivery agent that combines direct delivery of varying levels and subcontracting with a supply chain. Variants of this are used by the other 14 prime providers, most of which directly deliver a wide range of employment programmes in both the UK and in other countries. About half of these organisations also act as key subcontractors in the supply chains of primes in other contract areas (CPAs). Prime providers were free to design their own delivery systems and supply chains but had to do so in compliance with a set of safeguards that were introduced after

	significant lobbying by third sector organisations. These are intended to protect the position of third sector providers, which have been associated with a record of innovation and of working with the 'hardest to help' populations and localities. Primes were expected to manage sub-regional markets and ensure that their supply chains were effective and delivering to high standards. Primes were free to deliver services themselves or to outsource some or all to subcontractors. They were also free to manage competitive supply chains or to work more collaboratively. During the bidding process, Primes were asked to provide assurances of how they would maintain balance in their supply chains in terms of size and type of subcontractor. Some supply chains remained relatively consistent between 2011 and 2014, whereas others either reduced or increased in concentration. 'Advantages to contracting with more than one prime were reported as twofold: financial benefits due to an increased volume of referrals and the ability to learn from good practice from different supply chains.' (p73) 'When prime providers were asked about the factors which influenced their decisions to outsource delivery the managing agent primes tended to refer to their organisational expertise in outsourcing, building and managing supply chains, and in organising finance. One prime managing agent noted that they were not 'distracted' by delivery which allowed them to focus on performance, compliance and quality. In contrast to this some prime delivery agents suggested that it was important that they delivered a proportion of the service themselves so that they had a good understanding of the programme and the challenges it presented.' (p75) In both the 2013 and 2014 qualitative research, some subcontractors reported both a lack of referrals and a lack of appropriate referrals. 'For example, some providers that left a supply chain believed their prime providers (who were also directly delivering the programme) were keeping participants that were considered to be more likely to move into work and passing on those that were considered to be 'harder to help'.' (p81) 'Generalist end-to-end providers dominate Work Programme delivery, and the majority of these delivered all support in-house with low levels of onward referral to specialist support, particularly where this involved formal contracting arrangements. An increase in onward referrals was only reported in the signposting of participants to providers outside supply chains. With around half of subcontractors being small organisations (with fewer than 50 employees) the impact on the organisation of not receiving referrals can be significant and had resulted in some subcontractors choosing to leave their supply chains. There were also cases of prime providers terminating contracts or coming to mutual agreements for providers to leave a supply chain as a result of under performance by the subcontractor.' (p95)
Social investment	
Detail of PbR	
Summary: (or complete template below)	There are four elements to the payments made: - A payment when an individual referral to the Work Programme provider results in a successful 'attachment', usually triggered by the first meeting with an adviser. The attachment fee diminishes over the duration of the contract and was reduced to nil at the start of the fourth year of the contract. The programme is now solely funded by outcome payments. Fieldwork took place in the summer of 2013 and 2014, when providers would have experienced a reduction in attachment fees to half their original value (2013) and then to zero (2014). - A job outcome payment paid when a participant has been in work for either a continuous or cumulative period of employment, as defined by the payment category they are in. Job outcome payments are only paid once for a participant over a two-year period. No payment is made for an initial 'job entry'. - A sustainment payment for each individual successfully retained in employment.

	This is paid every four weeks after a job outcome payment has been made. The maximum number of sustainment payments differs between payment groups, with up to 26 sustainment payments possible for those facing the most complex barriers to work ('harder-to-help' groups). - An incentive payment: This flat rate fee is paid only for jobs sustained by JSA participants above a given performance level, defined as 30 percent above the non-intervention rate (NIR) (where the NIR is the number of participants who would have found employment without assistance from the Work Programme). The differential payment amounts for each group were determined by DWP which set the maximum prices for each category by assessing the benefit savings of placing a participant in sustained employment combined with their estimates of the cost to the provider of delivering an outcome (based on evidence from earlier programmes). 'In addition, for the largest group of expected participants, i.e. JSA claimants unemployed for over 9 or 12 months, the Department reduced the maximum 'Job Outcome Payment' from year three of the contract as they wanted to secure a share of the benefits expected as providers learned 'what works and how to deliver efficiencies'.' (p133) Based on end-to-end providers' reports, by 2013, the percentage of participants entering work appeared to have increased compared to the previous evaluation wave. On average, end-to-end providers estimated that 50 to 59 per cent of their participants would return to the Jobcentre Plus for support at the end of their two years on the Work Programme. The attachment fee reduced over the first three years of the contract to nil from 1 April 2014 – the start of year four. The profile for this payment is: Yr 1 = 100%, Yr 2 = 75% of the original amount, Yr 3 = 50% of the original amount, Yrs 4 and 5 = 0%. (p 65) There are nine Work Programme 'payment groups'*, most of which are based on an individual's benefit type which is used as a proxy for their level of need. Providers are paid at different rates for outcomes achieved by these nine groups, with outcomes for the 'harder-to-help' groups being paid at higher rates than those for groups deemed to be 'closer to the labour market'. (p133) * JSA claimants aged 18-24, JSA claimants aged 25+, JSA easy access groups, JSA ex-IB, ESA Volunteers, New ESA claimants, ESA Ex-IB, IB/IS (England only) and JSA prison leavers
Indicators	
Metrics	
Evidential requirements	
PbR allocation	
Timing of payment	
Performance rewards	
Payments made to date	
Counterfactual/baseline	
Key issues	
Defining outcomes and payments	
Evidence base for outcomes	
Defining outcomes	
Agreeing outcome definitions	

Using proxies	
Measuring outcomes	The ability to claim payment for outcomes achieved was identified by many prime providers and some subcontractors as impacting upon the financial viability of the programme. There were two areas of concern. The first was the administrative burden of providing evidence for sustainment payments and issues with the validation process. The ITT for the programme stated: 'DWP will validate payments on a regular basis by conducting a series of pre and post payment checks. These checks will be performed at the optimum time to allow DWP systems to be updated. This will include an off benefit check for outcome payments in all cases which matches participant benefit records with the information held on PRaP. The off benefit check will be supplemented by a post payment check using Her Majesty's Revenue and Customs (HMRC) records and/or direct contact with the participant or employer on a sample basis.' (quoted on p153) 'In practice the HMRC checks are used only to validate job outcomes and providers have had to submit auditable contact with participants to claim sustainment payments. This requires cooperation from employers and participants. In line with findings from the previous wave, many providers reported that there were limits to the extent and level of cooperation that could be expected from participants and employers. This meant that providers were sometimes unable to claim for outcomes which they knew had been achieved but struggled to collect evidence against.54 The administrative costs of this process for providers were judged to be fairly high, particularly for subcontractors.' (p154) The second concern was the 'extrapolation' rule. In the payment system, once the provider is satisfied that they have evidence for a job outcome or sustainment payment they make the claim through PRAP and receive payment. DWP validates the claim through an automatic check that the participant has not received an out of work benefit for the period. 'The Department subsequently undertakes a further check of a sample of claims made in a certain period to verify that the participant was actually in employment for the period claimed. If the sample check finds, for example, that five percent of such claims cannot be verified the Department extrapolates this to five percent of the whole cohort from which the sample was selected and then retrospectively recovers this overpayment from the prime provider. Whilst prime providers understood the need to protect the public purse, they suggested that the verification process was more complex than expected and to some extent further discouraged them from claiming outcomes that they were certain of but for which they had only limited evidence. Several prime providers reported that to avoid being overpaid and having monies clawed back, they had become more conservative in claiming job outcomes.' (p154) The extent to which subcontractors are subject to extrapolation depends on the model passed down by the prime provider. There were three main models: - to apply the extrapolation rate evenly across the supply chain, irrespective of which provider had unverified claims. This model makes delivery more viable for smaller subcontractors, however it can cause irritation amongst subcontractors which did not have unverified claims. 'Since the time of fieldwork DWP has announced that it will publish monthly, automated on and off benefit scans by employment provider for Work Programme participants.' (ibid) - for the extrapolation rate to be apportioned to subcontractors on the basis of the proportion of the contract that they deliver, ensuring that smaller organisations are not heavily penalised. 'One subcontractor explained that one failure in the previous round had cost £11,500 which equalled half a salaried post; 'it doesn't take much to actually go bust with extrapolations'.' (ibid) - the extrapolation passed down only to the subcontractors that have had errors identified, which one prime felt was positive for performance monitoring.

Attributing outcomes	
Intermediate outcomes and distance travelled	
Data sharing/data availability	
Service pricing: ■ Incentivising long-term outcomes ■ Addressing skimming/cherry picking ■ Ensuring efficiency ■ Reviewing costs and pricing	Participants remain attached to the provider for two years, and their investment in services is rewarded from placing and sustaining participants in jobs. The payment system (outlined above) is intended to give providers a strong incentive to ensure a match between jobseeker and vacancy, encourage retention, and to quickly intervene with re-engagement services where a participant leaves or loses employment before the payment points. The pricing model was influenced also by the Department's estimate of performance and of the 'non-intervention rate' -the estimated percentage of participants that would have got work if they had only undertaken fortnightly signing at Jobcentre Plus (derived from historical benefit off-flow and job entry rates). Linking payment to defined results, DWP ensures that it does not pay for poor performance. This transfers much of the financial risk of setting up a new programme from the taxpayer to the provider market.
Provider capacity	
Market capacity: ■ Market making ■ Market testing ■ Commissioning and competitive tendering ■ Market capacity	'Analysis of Work Programme attachment data found that the provider market is not 'concentrated' by conventional measures (for example it is considerably less concentrated than the UK supermarket sector or domestic UK electricity and gas supply market). At prime provider level, using attachment data from June 2011 to March 2014, the top four prime providers delivered around 54 per cent of the Work Programme. The market could therefore be described as an unconcentrated, competitive oligopoly, which has remained fairly stable over time, with a slight increase in concentration following the implementation of market share shift in August 2013.' (p24)
Funding and risk sharing: ■ Modelling whole life cost ■ Funding sources and addressing short falls ■ Understanding risk – provider views ■ Pricing risk and competitive pricing ■ Allocating risk – where does the risk sit: commissioner/prime; prime/supply chain	Linking payment to defined results transfers much of the financial risk of setting up a new programme from the taxpayer to the provider market. Around half of prime providers were exposing their supply chains to the same incentives and financial risks as their own contracts with DWP. However there was also evidence that prime providers saw a need to offer modified versions of the outcome payment model to certain subcontractors. They may decide to hand down the full outcome-based model or they may retain more of the risk themselves and operate a fee-based model with subcontractors. The results of a 2014 provider commissioning survey show that prime providers were often passing down the differential payment model to their subcontractors. Primes appear to be largely passing the financial risk down the supply chain with half of subcontractors surveyed currently paid on outcomes to some extent. However the extent of this has changed over time. In 2013 over half of subcontractors reported that their prime provider(s) paid them on the basis of either sustained job outcome fees alone or on a combination of attachment fees and job outcomes (56 percent). 17 percent were paid by service fees only and 11 percent were paid by a combination of service fees and outcome payments. 'Interviews with subcontractors confirmed the view expressed by prime providers that some were experiencing difficulties with Work Programme funding. However, some providers agreed with the payment by results model and actually found it preferable to other forms of programme funding where money was granted upfront but then could be clawed back. Nonetheless, in general, subcontractors tended to be smaller or less cash-rich organisations than prime providers, without the reserves to meet the upfront costs of delivery. Therefore the level of risk involved in upfront investment in 'harder-to-help' groups was seen to reduce their capacity to

	get these participants into work.' (p138) Most primes reported that by the start of year four of the programme they were able to manage the costs of delivery. 'This was usually through a combination of outcome and sustainment payments, attachment fees (until they tapered off entirely) and some use of reserves. The capacity of the prime providers to manage the deficits accumulated in the earlier phase of delivery varied but most had been able to draw on reserves, the support of parent companies and the larger corporate groups they were part of.' (p134) 'Among providers in 2013 who reported any kind of negative impact, a very common reason was the gap between what they saw as the investment and time required to help participants to overcome the labour market barriers they faced and the funding they were able to draw down from the Department. The cessation of attachment fees and the subsequent lack of any up-front funding were seen to contribute to the problem, as was a growth in the number of ESA participants, who tended to be much further from the labour market. The financial model was viewed as placing a great deal of risk on providers in terms of the participants in whom they choose to 'invest'.' (p157)
Performance management	
Measuring performance: ■ Evidencing outcomes ■ Adapting metrics ■ Auditing arrangements ■ Dispute resolution	DWP has, 'over the last few months, been renegotiating some aspects of the Work Programme contracts. Central to these changes are amendments to the validation system and performance metric. Our core principles when designing these changes have been fairness, transparency and programme neutrality. By introducing these changes the Department is seeking to ensure that we more accurately capture programme and provider performance.' (p19)
Performance management arrangements: ■ Incl. adjustments to correct/improve operation of PbR contracts/arrangements	'In 2013 a review was undertaken to address the major commercial challenges in the Department and to meet significant savings targets whilst at the same time improving the service we provide. To meet this challenge our commercial functions were restructured into end to end category manager and supplier manager roles. The category manager role provides accountability for each category of contracts to deliver savings and continuous improvement. The supplier manager role is to manage the end to end performance of the Work Programme and other providers. Our ability to use both market and supplier intelligence, across categories, is crucial in taking out cost in our contracts, managing demand and obtaining lower cost contracts.' (p19) A new 'robust performance management regime (PMR)' has been introduced, 'to consistently manage the performance of Work Programme contracts, particularly those in the bottom 25%, with the aim of driving up performance and reduce variation.' (p20) 'The Department now uses cohort and profiled-cohort performance metrics to understand performance. These metrics provide the clearest measure of performance, and profiled-cohort metrics enable us to do this in real time. DWP has also introduced a new performance dashboard that provides performance transparency across all Work Programme contracts and brings together all performance data in one product. The Department has reviewed the PMR as we have learnt lessons from its operation and in response to feedback from the NAO. The Department is also looking at how it can make effective use of improved data sources on employment from HMRC to both understand and drive performance and to make further improvements to its validation regime.' (p20) At the outset, DWP's role in contract and performance management was focused at the prime provider level. As the contract progressed, there were developments and changes to the processes and systems used to manage provider performance and contracts. There was a restructure in 2013 and as part of this there were changes made to some contract and performance management roles, including a move to a

	100 per cent focus on the Work Programme contract for Performance Managers. 'The Department has been building capacity within the performance manager role via an externally developed two day performance management training event, internal workshops on PMR, data analysis, and ensuring appropriate senior manager support through the senior performance manager and a national Work Programme performance manager. Performance manager's hold monthly provider operations forums (for all providers) to review key performance areas and share best practice and ideas. We are further driving the quality of contract performance reviews through a new performance manager quality assurance framework. This has been piloted and a final version will be rolled out in the New Year.' (p25) At the time of the research, providers were being monitored on both the Minimum Performance Level measures and new measures. The new measures gave a target rate for the whole life of the contract and depended on actual referrals rather than forecasts. 'From Spring 2014, DWP also introduced a new performance dashboard that brought together all relevant DWP performance information for each contract into one place and shared performance information for all contracts with all providers. On the whole DWP contract and performance management staff welcomed the new performance measures.' (p100) From summer 2013, primes were classified into three groups – higher, middle and lower performing contracts – based on how many of the payment group minimum performance levels targets they have met. Lower performing contracts were subject to a more structured and intensive performance management regime including Performance Improvement Notices and weekly telephone conferences. One of the aims of the commissioning model was to boost efficiency by stimulating competition between service providers. One key performance management mechanism utilised was 'market share shift', adapted from the Australian model and intended to intensify competition. It gave DWP the flexibility to move five per cent of new referrals within each CPA from lower to higher performing primes. The first shift occurred in summer 2013 and was explored during the 2014 research with DWP managers in the CPAs where this was implemented. At this time the DWP contract and performance management staff reported that they had not noticed any impact on provider performance. From summer 2013, DWP Performance Managers were due to start undertaking quality checks. 'In the 2013 research, many Performance Managers believed that the introduction of quality checks had the potential to be beneficial and help address the perceived gap in quality management but recognised a need for further training to fully equip staff for this role.' (p104) 'In the 2013 research, some prime providers also raised issues over how DWP measured performance. For example, some felt the DWP's Minimum Performance Level targets were problematic as they were highly affected by referral patterns. Others felt that the focus by DWP on performance in just three payment groups encouraged providers to prioritise support to these groups over others.' (p105) There was also concern expressed by some primes about a perceived lack of clarity from DWP about the way performance would be measured and decisions taken on market share shift in future. 'Most commonly reported was the use of: 1.monitoring through management information (62 per cent in 2013, 66 per cent in 2014); 2. a contractual performance framework with penalties/ potential contract termination for underperformance (54 per cent in 2013, 49 per cent in 2014); and 3. monitoring of service delivery and quality through inspection (52 per cent in 2013, 49 per cent in 2014).

	Other mechanisms reported included the relative assessment of performance amongst subcontractors, e.g. through league tables (44 per cent in 2013, 42 per cent in 2014) and opportunities for increased volumes of referrals based on good performance in relation to competitors (15 per cent in 2013, 11 per cent in 2014). Many of these reported mechanisms match provider reports of the use of a competition based approach to performance management.' (p115)
Service failure: ■ Penalties for failure ■ Mechanisms for addressing failure ■ Contract termination ■ Re-contracting ■ Redress for service users	'In the early part of 2014 DWP reviewed the performance of the bottom 25 per cent of Work Programme contracts and put them under an enhanced performance management regime. Notice of a contract termination was also given to one prime provider. Views from prime providers on the contract termination were mixed. Some prime providers were supportive of DWP's decision to terminate a contract. However, other prime providers were confused as to why this particular contract had been chosen for termination, leading to some uncertainty and concern over how future contract termination decisions would be made. Overall views from prime providers on DWP's approach to contract and performance management varied, with some positive and some negative.' (p108) Whilst contract termination is a commercially confidential process the confusion expressed by some prime providers in relation to this decision had left a number of them feeling more uncertain and concerned about how future DWP decisions in relation to contract and performance management would be made. Providers reported that they found the broad benefit type categories quite a poor way of segmenting client needs and that it was not feasible to develop specific services for the low number of referrals in some of the payment groups. (p142). In due course, these categories will be redefined in light of the new unified system of benefit payment known as Universal Credit, being implemented in stages from 2013. (p39) 'The Department acknowledges the findings regarding the current payment groups and will review the payment group structure for future contracts.' (p21)
Accountability and value for money	
Roles and responsibility of accounting officer	
Monitoring beyond PbR contracts	
Monitoring cost	
Governance arrangements	
Promoting effective practice	
Intervening in delivery	
Evaluating value for money of the entire PbR scheme	
Other	

17

Title			
Drug and Alcohol Recovery Payment by Results (PbR) pilots – National Service Providers Summit			
Author			
DrugScope/the RSA			
Year			
2013			
Publisher			
DrugScope/the RSA			
Web address			
http://www.drugscope.org.uk/Resources/Drugscope/Documents/PDF/Policy/RSADrugScopePbRMeetingNote.pdf			
Document Type			
Policy document	Expert publication	Performance data	Evaluation
Other: Document of views from providers within the drug and alcohol pilots			
High Level Summary			
It is very difficult to attribute change to 'PbR' relative to other approaches to commissioning. Policy / institutional changes further complicate this. PbR increases transactions costs and there is some evidence of gaming. Some staff and voluntary sector organisations are 'suspicious' of PbR; cash flow can also be problematic for these organisations. Relationships with commissioners are an important determining factor; commissioners struggled to be more 'hands-off'. There is a need to share lessons as implementation progresses.			
Background Information (PbR Schemes)			
Name of scheme	Drug and alcohol pilots		
Policy area	Public health / crime		
Target group(s)	People misusing drugs and alcohol		
Rationale	Increase focus on recovery		
Description of scheme			
Geography	Pilots in pilots in Bracknell Forest, Enfield (London), Lincolnshire, Oxfordshire, Stockport, Wakefield, West Kent and Wigan		
Commissioner and intermediaries			
Type of PbR			
Incentives structure			
Total budget			
Portion assigned to PbR	Some of the contracts are '100 per cent payment by results'		
Number of prime contracts			
Timescale (development)			
Development budget			
Development process			
Timescale (delivery)			
Current status			
Supply chains (prime &			

sector; subs & sector)						
Social investment						
Detail of PbR						
Summary: (or complete template below)						
Indicators						
Metrics						
Evidential requirements						
PbR allocation						
Timing of payment						
Performance rewards						
Payments made to date						
Counterfactual/baseline						
Key issues						
Defining outcomes and payments						
Evidence base for outcomes						
Defining outcomes	Seems to have been done nationally, but then with scope for local negotiation					
Agreeing outcome definitions						
Using proxies						
Measuring outcomes						
Attributing outcomes						
Intermediate outcomes and distance travelled						
Data sharing/data availability	Highlighted as a key point: 'A recurring issue was the development and management of data systems for PbR' (p2) as a transition cost.					
Service pricing: ■ Incentivising long-term outcomes ■ Addressing skimming/cherry picking ■ Ensuring efficiency ■ Reviewing costs and pricing	Some evidence of gaming: 'particularly inheriting data from previous providers that recorded people as 'in treatment' who had not been in contact with services for some time.' (p3)					
Provider capacity						
Market capacity: ■ Market making ■ Market testing ■ Commissioning and competitive tendering ■ Market capacity						
Funding and risk sharing: ■ Modelling whole life cost ■ Funding sources and addressing short falls ■ Understanding risk –						

provider views ■ Pricing risk and competitive pricing ■ Allocating risk – where does the risk sit: commissioner/prime; prime/supply chain	
Performance management	
Measuring performance: ■ Evidencing outcomes ■ Adapting metrics ■ Auditing arrangements ■ Dispute resolution	Local Area Single Assessment and Referral Service (LASARS) plays a central role in initial assessments, allocation to services and validation of results. This is highlighted as a problem in that: LASARS' performance is variable; the first interaction a user has is affected by it being 'part of payment validation.' (p3)
Performance management arrangements: ■ Incl. adjustments to correct/improve operation of PbR contracts/arrangements	Pilots set up nationally, then developed locally. Relationships with commissioners seen as vital to getting local schemes right, e.g.: 'an open dialogue and willingness to be flexible and change initial assumptions/tariffs when the data suggests models are not working seems to be key to effective PbR implementation.' (p4) But 'flagship' nature of the scheme seen as making this more difficult, because commissioners were reluctant to: 'loosen control over delivery or acknowledge and address problems identified by providers.' (p4)
Service failure: ■ Penalties for failure ■ Mechanisms for addressing failure ■ Contract termination ■ Re-contracting ■ Redress for service users	
Accountability and value for money	
Roles and responsibility of accounting officer	
Monitoring beyond PbR contracts	
Monitoring cost	Having transitional arrangements / building in time to establish systems would have eased burdens (especially on data collection) on providers. Proposal made that: 'PbR could operate in 'shadow' form for an initial phase (for example, the first 12 months) to support co-design, development and fine-tuning of systems before operationalisation of the payment system.' (p5) Also, choosing fewer outcomes would help: 'there were lower transitional and data costs where PbR arrangements had a manageable number of clear and 'easy to measure' outcomes.' (p5)
Governance arrangements	LASARs part of PbR arrangements to mitigate problems associated with gaming and the need to validate outcomes / payments. Alternative proposed is that providers would do assessments etc, and be subject to audit to address this potential.
Promoting effective practice	The need for 'local mechanisms and forums to support on-going co-design underwritten by constructive relationships between commissioners, providers and service users' (p6) was cited as fundamental to developing effective practice.
Intervening in delivery	The high profile of the scheme made it difficult to commissioners to 'let go' of the detail of delivery
Evaluating value for money of the entire PbR scheme	There are many confounding factors that make this difficult to assess on the benefits side of the equation. There is some evidence of increased focus of providers and commissioners, but none on what this might have displaced – or that

	this could not have been achieved outside of a PbR arrangement. The strongest evidence is on costs. Here PbR seems to have increased transaction costs associated with data gathering and outcome / payment validation; this has also affected the mode of delivery through the use of the LASARs.
Other	
Need for careful implementation and space for learning as schemes develop: 'The political interest in PbR was welcome, but it was felt that it could make it more difficult for providers and commissioners to identify and address implementation problems, given the political capital invested in the 'success' of PbR.' (p4)	

18

Title			
Delivering public services: The growing use of payment by results			
Author			
Gabrielle Garton Grimwood with Tim Edmonds, Feargal McGuinness, Thomas Powell, Nerys Roberts and Wendy Wilson			
Year			
2013 (April)			
Publisher			
House of Commons Library			
Web address			
Document Type			
Policy document	Expert publication	Performance data	Evaluation
Other: Review for Members of Parliament			
High Level Summary			
PbR is not new and was announced by the Labour government more than a decade ago in their plans for NHS reform. This note examines some of the arguments for and against PbR and looks at current and planned projects in rehabilitation, welfare to work, the NHS, children's social services, rough sleepers and vulnerable young people. It provides a useful overview but little learning for the review key issues.			
Purpose of Document			
Review for Members of Parliament in support of their parliamentary duties.			
Sector Author, Publisher			

Key issues	
Defining outcomes and payments	
Evidence base for outcomes	
Defining outcomes	
Agreeing outcome definitions	
Using proxies	
Measuring outcomes	
Attributing outcomes	
Intermediate outcomes and distance travelled	
Data sharing/data availability	
Service pricing: ■ Incentivising long-term outcomes	The National Association of Probation Officers has argued that Peterborough results will be skewed as only the most motivated prisoners will join the scheme.

■ Addressing skimming/cherry picking ■ Ensuring efficiency ■ Reviewing costs and pricing	Activity-based funding has been introduced since 2003/4 in the NHS for hospital services is referred to as PbR but this has been criticised as hospitals are paid a fixed price regardless of outcome. The tariff is based on the average cost of each type of care. Currencies are the unit of healthcare for which a payment is made and take a number of forms covering different time periods. Tariffs are the set prices paid for each currency. It accounts for 30% of NHS spending and approaching 50% of expenditure for acute hospital care. It is intended to pay for patients rather than block contracts where patients seen over and above the numbers specified do not attract payment. Whilst the NHS Confederation has argues that PbR has incentivised investment in services, critics claim it has increased transaction costs, encouraged hospitals to generate activity to increase income, and made it more difficult to move healthcare into the community. The Kings Fund reviewed national and international evidence and argued that: payment systems are only one way of promoting health policy objectives and may not be as effective as other means (e.g. public, preventative health); different services require different systems and different payment systems may be required across the NHS; payment systems need to be flexible so they can adapt to changing policy and local context; high quality standards and low prices could limit supply; the systems are not well researched and data is limited – good information and data analysis is required.
Provider capacity	
Market capacity: ■ Market making ■ Market testing ■ Commissioning and competitive tendering ■ Market capacity	CentreForum argued that the move to PbR in the 'rehabilitation revolution' is happening too quickly and risks discrediting the policy by running the risk of provider failure, poor value for money and frustrating the development of a diverse range of providers. NAO report quoted, in relation to cost propositions required by DWP making it highly likely one or more primes will struggle. TSRC report on lack of referrals to VCS organisations in supply chains by primes referenced.
Funding and risk sharing: ■ Modelling whole life cost ■ Funding sources and addressing short falls ■ Understanding risk – provider views ■ Pricing risk and competitive pricing ■ Allocating risk – where does the risk sit: commissioner/prime; prime/supply chain	The background to the introduction of SIBs as an idea in 2008 under the previous (Labour) government and then developed by the Coalition government is reviewed. The arguments reviewed have been well rehearsed: bringing new finance into public services; transferring risk in PbR; the limited market of social investors; that a SIB can only be marketed as a financial instrument by an authorised person, which requires a £150,000 in costs, limiting access as an investment. The document then reviews the structure of SIBs in operation (Peterborough) or planned (rough sleepers, adoption, DWP innovation fund) and the (then) PbR in children's centre pilot in its earliest stages.
Performance management	
Measuring performance: ■ Evidencing outcomes ■ Adapting metrics ■ Auditing arrangements ■ Dispute resolution	
Performance management arrangements: ■ Incl. adjustments to	DWP has set minimum performance levels for provider; if they don't meet them and fail to make improvements they face contractual action. For jobs delivered above specified levels, providers will receive outcome payments. High performing providers will receive a greater share of referrals.

correct/improve operation of PbR contracts/arrangements	
Service failure: ■ Penalties for failure ■ Mechanisms for addressing failure ■ Contract termination ■ Re-contracting ■ Redress for service users	
Accountability and value for money	
Roles and responsibility of accounting officer	
Monitoring beyond PbR contracts	
Monitoring cost	
Governance arrangements	
Promoting effective practice	
Intervening in delivery	
Evaluating value for money of the entire PbR scheme	
Other	
Reviews the arguments for PbR presented by KPMG and various think tanks. Then presents criticisms from: Toby Lowe in the Guardian – PbR incentivises the collection of data and the fabrication of fictions about achievements; NCVO highlighting how many services have outcomes that are difficult to measure and include the prevention of other costly outcomes; and also, that these services could lose funding or be moved to other outcomes that are not those required by their users; Howard League, that desistance from crime is complex and could entail engagement by a user with multiple PbR providers raising the question of who would receive payment. Reviews the arguments for and against 'transforming rehabilitation' including debates about the role of piloting in providing evidence (TR is not being piloted; there is learning from other PbR including the Work Programme).	

19

Title
Lessons learned from the planning and early implementation of the Social Impact Bond at HMP Peterborough
Author
RAND
Year
May 2011
Publisher
Ministry of Justice
Web address
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/217375/social-impact-bond-hmp-peterborough.pdf

Document Type			
Policy document	Expert publication	Performance data	Evaluation
			X
Other:			

High Level Summary
Report from findings of interviews with 22 individuals involved in the development and implementation of the SIB, launched in Sept. 2010. The SIB is a £5m fund to pay for outcomes for short-sentenced adult offenders. An independent assessor will measure whether the cohort supported are reconvicted less than a matched cohort from other prisons. Social Finance raised £5m to pay for the intervention. Outcome payments will be made by MoJ and the Big Lottery Fund. If the provider reduces reconviction by 7.5% overall, and 10% for each cohort, payments will be made. The report concludes that: - interviewees perceived contractual relationships as complex. - there was an appetite for 'mission aligned' investment and trust in Social Finance as an intermediary facilitated this. - the SIB is seen to successfully transfer risks away from government and small providers to social investors. - the ability of Social Finance to act as an intermediary was important – if SIBs are competitively tendered this role will need to be taken by a non-tendering body with the requisite skills (technical, financial, policy expertise, stakeholder negotiation). - the intermediary is the commissioner of providers, not government. Intermediaries and their investors require evidence of effectiveness. Future SIB interventions may not have this evidence base. - the development of a robust measure that all can have confidence in was time consuming and analytically complex. Future SIBs should consider the time and skills needed to do this. A focus on all offenders mitigates cherry picking. Frequency of conviction rather than a binary measure of conviction or not is used. But if the pilot was in other prisons then there may be incentives to cherry pick by prison or area. - the payment model was complex to establish and agree. Robust cost data is required if payments are to be based on savings. Savings could accrue to different stakeholders and SIBs should consider how these can be shared.

Background Information (PbR Schemes)	
Name of scheme	HMP Peterborough SIB – 'The One Service'
Policy area	Prisons, offenders, reoffending
Target group(s)	Short-sentenced offenders at HMP Peterborough – those sentenced to less than 12 months. There is no statutory provision for this group. HMP Peterborough was chosen as it has sufficient volumes to be viable for a matched comparison group to provide statistically significant change. The prison also has high volumes of local releases, which is important for the delivery of post-release support (through the gate) and monitoring of outcomes.

Rationale	To test a SIB (this group chosen over other potential ones including children in care and NEETs); to test a new intervention to reduce offending.
Description of scheme	Early engagement, through and beyond the gate proactive, individualised support in the community to address needs and prevent reoffending. St Giles Trust – with previous experience of providing through the gate support – was commissioned to provide this. Ormiston Children's and Families Trust was commissioned to support families of the offender.
Geography	
Commissioner and intermediaries	Social Finance is commissioner and intermediary. MoJ and BLF are funding outcome payments.
Type of PbR	SIB – 100% PbR
Incentives structure	Payment for reduction in reconviction below 10% per annum and below 7.5% overall.
Total budget	
Portion assigned to PbR	
Number of prime contracts	Two primes (St Giles Trust; Ormiston). There are six contractual arrangements. These are between: ■ Ministry of Justice and Social Impact Partnership – the limited partnership set up ■ by Social Finance which is the contracting entity in the SIB ■ Social Impact Partnership and investors ■ Social Impact Partnership and providers (for example, St Giles Trust) ■ Ministry of Justice and independent assessors ■ Ministry of Justice and Peterborough Prison Management Limited ■ Social Finance and the Big Lottery Fund
Timescale (development)	18 months.
Development budget	Not given. Social Finance estimate they invested 2.5 person-years, 300 hours of legal advice plus tax advice. Considerable MoJ in-kind contributions – no value estimated.
Development process	Complex development – securing policy support; developing contracts; designing an operating model and securing commitment to this; structuring the deal; investor awareness raising and negotiation. (Appendix E)
Timescale (delivery)	2010-2016 [nb. Now ended as superseded by 'Transforming Rehabilitation' which introduces national short-sentence support thus meaning no comparator group is available beyond the first cohorts].
Current status	Live – at time of report (now ended see above)
Supply chains (prime & sector; subs & sector)	Voluntary and Community Sector (VCS) primes, working with various local providers.
Social investment	Yes - £5m from investors including the Barrow Cadbury Trust, Esmée Fairbairn Foundation, Friends Provident Foundation, The Henry Smith ChJohansson Family Foundation, LankellyChase Foundation, The Monument Trust, Panahpur, Paul Hamlyn Foundation and the Tudor Trust plus 'some high net worth individuals'.

Detail of PbR						
Summary: (or complete template below)						
Indicators						
Metrics						

Evidential requirements						
PbR allocation						
Timing of payment						
Performance rewards						
Payments made to date						
Counterfactual/baseline						

Key issues	
Defining outcomes and payments	
Evidence base for outcomes	
Defining outcomes	
Agreeing outcome definitions	Detailed analytical work undertaken by MoJ and an iterative process with SF. A number of reconvictions rather than reconvicted or not is seen to be a better measure. It avoids cherry picking by ensuring there is not a focus on likely to offend or not. 'a balance between operational feasibility and measurement' (SF, p36) An RCT was not used because this would mean splitting offenders at Peterborough between SIB and non-SIB and thus denied the support.
Using proxies	A reconviction measure is used as a proxy for reoffending. The mean number of conviction events is subtracted from the mean in a matched cohort to establish the difference.
Measuring outcomes	There are two targets – a reduction of 10% in each cohort (annual); a reduction rate across the three cohorts (if the 10% is not achieved) of 7.5%. These were chosen statistically significant.
Attributing outcomes	
Intermediate outcomes and distance travelled	
Data sharing/data availability	
Service pricing: ■ Incentivising long-term outcomes ■ Addressing skimming/cherry picking ■ Ensuring efficiency ■ Reviewing costs and pricing	A number of reconvictions rather than reconvicted or not is seen to be a better measure. It avoids cherry picking by ensuring there is not a focus on likely to offend or not.
Provider capacity	
Market capacity: ■ Market making ■ Market testing ■ Commissioning and competitive tendering ■ Market capacity	Contracting: the contracts were complex to establish and agree. There are six contracting arrangements. MoJ wanted to undertake this 'proof of concept' pilot. They contracted with Social Finance who then commissioned providers. There was not a consensus at MoJ that this was the best way to ensure value for money (ie without competitive tendering). The SIB was funded as SF were proposing a model offering value for money if successful and transferring risk if not. This was the first SIB and stakeholders expect a market to develop for the delivery of SIB interventions and this would enable competitive tendering:

	"Developing such a market for delivery agencies may have implications for the wider commissioning landscape, since it means government contracts with intermediaries (rather than providers), and commissions for outcomes rather than processes. In doing so, the government delegates a role and relationship that it formerly held with service providers through which it might be able to direct and control service delivery more closely. This was commented on by an interviewee from the Ministry of Justice and the Big Lottery Fund." (p15) The contracts with Social Finance and the prison stipulate that SF must work with the prison to develop the model. There was considerable concern amongst local providers about the entry into the market of the SIB intervention. But brokerage helped address concerns about potential overlaps and how providers can work together effectively to support the group. The research for the report was undertaken very early in delivery and the authors recommend that the impact on the local market is monitored.
Funding and risk sharing: ■ Modelling whole life cost ■ Funding sources and addressing short falls ■ Understanding risk – provider views ■ Pricing risk and competitive pricing ■ Allocating risk – where does the risk sit: commissioner/prime; prime/supply chain	The analytical work was extremely resource intensive. Social Finance estimate they invested 2.5 person-years, 300 hours of legal advice plus tax advice. The SIB is seen to transfer risk. But there was not as much room for negotiation on terms as under usual contracts, as SF had developed the model with costs, payments and savings within it. Some in MoJ saw the value of payments as high and thus MoJ retaining some risk. St Giles Trust did not consider the SIB to place them at risk. The contract value is 6-75 of turnover/value. Risk to Social Finance weren't discussed – as commercially sensitive. There are reputational risks to all stakeholders. Investors were approached in the early stages of SIB development. SF seen as a trusted partner. There were existing relationships between SF and the investors, and between some of the investors and the commissioned providers. The costs of capital is high because SIBs are new. SIBs have no track record as a financial product. The ability of investors and markets to deal with social outcome risk is also new. There is no secondary market to sell on the investment. Social investments may conflict with some trusts trustees fiduciary obligations to maximise return (although SF think this is a misunderstanding). There are tax complications and SF established a mechanism to address this which brings additional complexity (p31). There is a time-lag of three to four years for payments due to the time needed to recruit a cohort (two years) and for the 12 months reconviction plus processing time to play out. This is seen as the maximum that investors will wait to receive a return. They would prefer shorter term payments so that they can use the capital to reinvest. The report notes that this may drive a focus on shorter term outcomes in the future. There was a long and complex process for pricing the reconviction events and arriving at a tariff that provided a return to investors and value for money for HM Treasury.
Performance management	
Measuring performance: ■ Evidencing outcomes ■ Adapting metrics ■ Auditing arrangements ■ Dispute resolution	An external assessor of impact has been appointed to undertake the matched comparison group analysis. There is a SIB data group – MoJ, assessor, SF. This group deals with issues arising around collection and recording of management data and how this relates to

	outcome measures or cohort definitions. "This group has already agreed upon a number of proposed contractual clarifications or amendments which aim to ensure that the contracts describe accurately and precisely the data that will be extracted from recording systems in calculating outcomes. The need for such a group to resolve these measurement issues, and ensure that these arrangements are accurately reflected in the contracts, may be a learning point for future SIBs." (p23) SF is developing a bespoke database as a case management tool.
Performance management arrangements: ■ Incl. adjustments to correct/improve operation of PbR contracts/arrangements	
Service failure: ■ Penalties for failure ■ Mechanisms for addressing failure ■ Contract termination ■ Re-contracting ■ Redress for service users	
Accountability and value for money	
Roles and responsibility of accounting officer	There is regular and ongoing reporting. - 'regular' meetings between MoJ and SF - 'similarly' BLF receives updates - Advisory Group – independent of MoJ and including experts - SF has 'regular' meetings with NOMS, the prison, prison/staff/One staff multiagency meetings, local provider meetings, SF have places on local partnership boards. - investors receive quarterly updates. MoJ Procurement and Legal teams monitor the contract and make amendments if necessary.
Monitoring beyond PbR contracts	
Monitoring cost	
Governance arrangements	
Promoting effective practice	
Intervening in delivery	
Evaluating value for money of the entire PbR scheme	"The investors' funds within Social Impact Partnership Limited [the vehicle set up by Social Finance to hold investors' funds], used to fund the interventions, do not count as government debt. The outcomes risk and control of the funds lie solely with Social Impact Partnership Limited, and this accounting treatment was approved by HM Treasury. The possibility of making outcome payments may be disclosed as a contingent liability in the Ministry of Justice accounts, if such treatment becomes appropriate. After the three cohorts have been followed up, the Ministry of Justice will know whether or not it will be making the outcome payments, and can adjust its accounting accordingly." (p42)

Other

20

Title
Commissioning and contracting for integrated care
Author
Rachael Addicott
Year
November 2014
Publisher
Kings Fund
Web address
http://www.kingsfund.org.uk/sites/files/kf/kings-fund-commissioning-contracting-integrated-care-nov14.pdf

Document Type			
Policy document	Expert publication	Performance data	Evaluation
	X		
Other:			

High Level Summary
The report describes how clinical commissioning groups (CCGs) in England are innovating with two broad models – the prime contract and alliance contract – to commission and contract to incentivise greater integration of care. It draws on experiences from five geographical areas, covering different population and disease groups (cancer, end-of-life care, musculoskeletal services, mental health rehabilitation, and older people's services). It concludes by highlighting four lessons that CCGs, other commissioners and providers should keep in mind as they embark on new models of commissioning and contracting to support integrated care.

Background Information (PbR Schemes)	
Name of scheme	Various schemes
Policy area	Health care
Target group(s)	Cancer, end-of-life care, musculoskeletal services, mental health rehabilitation, and older people's services
Rationale	Varying rationales but all include a focus on driving integration of care (see summary table below for further information)
Description of scheme	
Geography	England
Commissioner and intermediaries	CCG
Type of PbR	
Incentives structure	
Total budget	
Portion assigned to PbR	
Number of prime contracts	Varies (see summary table)
Timescale (development)	Varied
Development budget	
Development process	
Timescale (delivery)	
Current status	Various stages of design and implementation

Supply chains (prime & sector; subs & sector)						
Social investment						
Detail of PbR						
Summary: (or complete template below)						
Indicators						
Metrics						
Evidential requirements						
PbR allocation						
Timing of payment						
Performance rewards						
Payments made to date						
Counterfactual/baseline						
Key issues						
Defining outcomes and payments						
Evidence base for outcomes						
Defining outcomes	Developing and agreeing outcomes takes time and is resource intensive and likely to require continual consultation. 'Agreeing outcomes in consultation with patients, careers and the wider community is vital for developing and communicating the focus and ambition of the programme, rather than being driven by contract and procurement technicalities.' (p37)					
Agreeing outcome definitions	While outcomes can be specified at the outset to support contract design and/or procurement purposes, the more detailed definition of indicators and thresholds of performance required should be developed in partnership with providers					
Using proxies						
Measuring outcomes						
Attributing outcomes						
Intermediate outcomes and distance travelled						
Data sharing/data availability						
Service pricing: ■ Incentivising long-term outcomes ■ Addressing skimming/cherry picking ■ Ensuring efficiency ■ Reviewing costs and pricing	'In order to stimulate continual improvement, the thresholds might become more ambitious over time, the proportion of the budget that is at risk might increase, and/or the outcome measure themselves might change over the life of a contract to reflect longer term ambition.' (pp36-37)					
Provider capacity						
Market capacity: ■ Market making ■ Market testing ■ Commissioning and competitive tendering						

■ Market capacity	
Funding and risk sharing: ■ Modelling whole life cost ■ Funding sources and addressing short falls ■ Understanding risk – provider views ■ Pricing risk and competitive pricing ■ Allocating risk – where does the risk sit: commissioner/prime; prime/supply chain	
Performance management	
Measuring performance: ■ Evidencing outcomes ■ Adapting metrics ■ Auditing arrangements ■ Dispute resolution	
Performance management arrangements: ■ Incl. adjustments to correct/improve operation of PbR contracts/arrangements	
Service failure: ■ Penalties for failure ■ Mechanisms for addressing failure ■ Contract termination ■ Re-contracting ■ Redress for service users	
Accountability and value for money	
Roles and responsibility of accounting officer	
Monitoring beyond PbR contracts	
Monitoring cost	
Governance arrangements	
Promoting effective practice	
Intervening in delivery	
Evaluating value for money of the entire PbR scheme	
Other	

Table 1: Overview of case studies (reproduced from page 9 of the report). The table has been supplemented with additional information presented within the publication relating to payment models, status, governance and co-production, and additional information

	Staffordshire	Bedfordshire	Cambridgeshire
Focus of contract	Cancer and end-of-life care (separate procurements)	Musculoskeletal (MSK) care Older people	Older people and adult community services
Contract type	Prime contract – Prime contractor will manage care services across the whole pathways of cancer and end of life care	Prime contract - Prime contractor will manage care services across the MSK care pathway	Prime provider contract – prime contractor will manage the co-ordination of emergency hospital care, mental health services and end of life care for older people and community health services for adults
Main partners in contract development	Cannock Chase CCG North Stafford CCG Stafford & Surrounds CCG Stoke-on-Trent CCG NHS England (cancer only) Public Health England Macmillan Cancer Support	Bedfordshire CCG Circle (appointed prime contractor)	Cambridgeshire and Peterborough CCG Uniting Care Partnership – comprised of Cambridgeshire and Peterborough Foundation Trust and Cambridge University Hospitals Foundation Trust (appointed prime provider)
Motivation for change	Fragmentation Poor access, outcomes and patient experience	Fragmentation Value for money Access problems Variable expenditure and quality of care	Population growth Constrained finances Fragmentation of existing pathways and provision Desire to focus on outcomes rather than activity
Estimated contract value	£1.2 billion (approx £120 million per year)	£130 million (approx £26.5 million in the first year)	£800 million (approx £160 million in first year)
Length of contract	10 years, Macmillan has financed the programme an estimated £860,000 to date)	5 years	5 years (option of additional 2 years)
Payment model	In the first instance the commissioners will appoint a prime contractors to management the end of life and cancer care services. The prime contractors will receive a fee for managing the contracts. Macmillan will finance the prime contractors' management costs for the first two years. Thereafter it is expected that the prime-contractor will be self-funding – meeting the costs through efficiency	The prime-contract agreement is underpinned by a capitation-based funding formula including risk/gain-share and additional financial incentives for delivering improved patient and clinical outcomes. Circle receives 95% of the contract value up front, an additional 2.5% is paid to cover management costs. Circle can retain the first 5% from the 95% upfront payment at the end of the	Adopts a population based approach – focusing on people aged 65 and adopting a 'year of care' capitated approach in addition, up to 15% of the total contract payment will outcome based. The contract's financial value includes a QIPP (Quality, Innovation, Productivity and Prevention) saving requirement, and a forecast of population growth. If the actual annual population growth varies from locally agreed projections by more than a set tolerance, a financial adjustment will be made.

	Staffordshire	Bedfordshire	Cambridgeshire
	savings The actual care service costs initially be commissioned using short–term contracts (there will be no change in the payment model to providers in the first two years). There will be a shift move to outcome-based contracting in the longer term.	year, Anything over 5% is split 50:50 with the CCG. The remaining 5% of the contract is at risk and dependant on achievement of five performance measures developed by the CCG including: innovative use of technology, delivery of high-quality patient experience, delivery of improved patient outcomes, delivery of truly integrated care, production of an annual report that includes stakeholder feedback and plans. In year 1 the five outcome measures are measured but not applied (but circle take the full 2.5% as a mobilisation fee), in year two they increase quarter by quarter.	The CCG has developed an outcomes framework based on seven domains relating to: ■ Patient experience ■ Patient safety ■ Developing organisational culture to support patient-centred care ■ Early intervention ■ Treatment and support during episodes of ill health ■ Long term recovery and sustainability of health ■ End of life care The first 12 months of the of the contract will be a 'bedding in' period and performance will be managed using the standard NHS contract, The outcome based payments will be implemented in year two, initially accounting for % of the contract, and then rising to 15%
Status	The programme commenced in 2012 and is now in the procurement phase, with the PQQ phase completed in November 2014. Successful bidders are now participating in competitive dialogue Preferred bidders for both contracts are likely to be selected in mid-2015.	Prime contractor appointed in April 2014	The prime contractor was announced in October 2104. The new service is expected to start in April 2015.
Governance and co-production	Involved extensive co-production with the public, patients and clinicians to design and develop the outcomes. An outcomes framework has been developed - success indicators will be discussed and developed with potential providers through the competitive dialogue phase		The CCG established an Older People Programme Board, chaired by its clinical lead for older people. The board includes patient and local authority representations and local clinicians. The board's role is to oversee delivery of the service transformation. Patient representatives were also involved in the evaluation of final bids for the prime contractor role.

	Staffordshire	Bedfordshire	Cambridgeshire
Additional information	The CCGs and prime contractors will spend the first two years of the contract testing and delivering a range of approaches and developing the information systems and metrics. The subsequent three to four years will involve refinement of the approaches and implementing new pathways There will be no gain share with the prime contractors while the information systems and the clinical financial risks understood.	In practice, the CCG has continued to play a brokering role with local providers as the prime contractor has established sub-contracts The prime contractor is not a statutory NHS body so it cannot issue NHS standard contracts. It is instead starting with a contract that resembles the terms and conditions set out in the NHS standard contract.	While the focus was initially on older people, separating out older people's community health services from 'adult' services was not feasible, hence the contract includes community health services for both groups.

21

Title
Findings and lessons learned from the early implementation of the HMP Doncaster payment by results pilot
Author
GVA
Year
November 2012
Publisher
Ministry of Justice
Web address
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/217388/hmp-doncaster-payment-by-results-pilot.pdf

Document Type			
Policy document	Expert publication	Performance data	Evaluation
			X
Other:			

High Level Summary
This report reviews the development and delivery of the HMP Doncaster pilot. It gives some information about the history of the pilot and how a partnership led by Serco (with Catch22 and Turning Point) – 'the Alliance' – developed a new service model and proposed a PbR option when re-tendering for the contract to run the prison. Turning Point dropped out as substance misuse – their speciality – will be provided by existing interventions already funded. The PbR was subsequently agreed as a single measure of 'the percentage of offenders reconvicted across the cohort for an offence or offences committed with a period of one year from the date of discharge' where each cohort across four years from October 2011 will be compared to an historic reconviction rate. If the baseline is not beaten, MoJ will reclaim 10% from Serco; if it is reduced by 5% point Serco will receive the full contract value; if the baseline is beaten by more than 5% Serco will receive additional payments up to 10%. The evaluation reports that a new end-to-end case management approach has been developed by the Alliance, with caseworkers supporting offenders to access existing interventions inside and outside prison. Community based support post-release is a new feature. The cohort has been modelled by the Alliance to focus support on those offenders most likely to reoffend and respond to support; i.e. high end offenders unlikely to remain in the prison to be released are identified at triage. There is no evidence of cherry picking or gaming as the whole cohort must be supported. There is little detail on the commissioning or performance management and the main focus of the report is the delivery model.

Background Information (PbR Schemes)	
Name of scheme	HMP Doncaster payment by results pilot
Policy area	Prisons, offending and reoffending
Target group(s)	All sentenced offenders discharged within a 12 month period with the following exceptions: - foreign nationals who will be deported on release; - offenders sentenced to time already served on remand; - offenders serving sentences for breach of court orders. The group was subsequently amended to include remand prisoners in an

	immediate triage assessment. This was in recognition by Serco that as these prisoners were not receiving support from any source under the new contract there was a risk of reoffending.
Rationale	To test PbR in prisons, in line with the 'Breaking the Cycle' Green Paper (MoJ 2010). To tackle offending and reoffending in new and innovative ways. 'The key aim of the pilot is to test the impact of replacing a multitude of process and output targets and performance monitoring with a single outcome-based target (to reduce the reconviction rate) with a strong financial incentive to achieve this.' (p3)
Description of scheme	See high level summary.
Geography	HMP Doncaster (a local prison) and surrounding community.
Commissioner and intermediaries	MoJ – commissioner.
Type of PbR	Payment penalty and reward.
Incentives structure	A baseline of reoffending is used. If the baseline is not beaten, MoJ will reclaim 10% from Serco; if it is reduced by 5% point Serco will receive the full contract value; if the baseline is beaten by more than 5% Serco will receive additional payments up to 10%.
Total budget	Not known.
Portion assigned to PbR	10% with additional 10% for high performance.
Number of prime contracts	One.
Timescale (development)	Not clear. Contract was due to expire in July 2011. It was awarded to Serco in April 2011. Delivery began in October 2011. Implication is development of the PbR model from April to October at least (it was included as an option in Serco's tender).
Development budget	Not known.
Development process	Not known.
Timescale (delivery)	Four years from 1 October 2011.
Current status	Live at the time of the report.
Supply chains (prime & sector; subs & sector)	Serco lead 'the Alliance' with Catch22. Several Serco staff were moved to Catch22 under TUPE – described as demonstrating that the Alliance is a partnership not a supply chain. The risk is not transferred to Catch22 but the performance rewards are. 60 local organisations are reported to have attended a suppliers fare but it is not clear how many of these are involved in delivery.
Social investment	None.
Detail of PbR	
Summary: (or complete template below)	A bespoke historical baseline of reoffending is used – measuring the proportion of offenders who are convicted at court in the 12 months following release from prison with an additional six months to allow for cases to progress through the courts; it excludes those who receive an out-of-court disposal only. If the baseline is not beaten, MoJ will reclaim 10% from Serco; if it is reduced by 5% point Serco will receive the full contract value; if the baseline is beaten by more than 5% Serco will receive additional payments up to 10%.

Indicators						
Metrics						
Evidential requirements						
PbR allocation						
Timing of payment						
Performance rewards						
Payments made to date						

Counterfactual/baseline						
Key issues						
Defining outcomes and payments						
Evidence base for outcomes	Historical cohort.					
Defining outcomes	'the five percentage point reduction target was agreed after analysis of historic reconviction rates and establishing that this would illustrate a demonstrable difference which could be attributed to the new system and not just natural variation' (p4)					
Agreeing outcome definitions						
Using proxies						
Measuring outcomes						
Attributing outcomes						
Intermediate outcomes and distance travelled						
Data sharing/data availability	Collection and management of data has been more complex than anticipated. A new system has been purchased – MegaNexus, used in the Peterborough pilot – but there were delays in implementing it (not detailed). Paper-based records were used for nine-months. This created a backlog of case files and also impeded delivery – information sharing, progress tracking, case management, assessments.					
Service pricing: ■ Incentivising long-term outcomes ■ Addressing skimming/cherry picking ■ Ensuring efficiency ■ Reviewing costs and pricing						
Provider capacity						
Market capacity: ■ Market making ■ Market testing ■ Commissioning and competitive tendering ■ Market capacity	The Alliance was developed in 2006 and was thus well developed. HMP Doncaster was the first prison to start delivering the model; before this it was conceptual. More than 60 local providers were reported to have attended a market event. The model is reported to rely on appropriate intereventions in the community – there is a set menu in the prison to access as appropriate (and away from the previous 'tick box' approach). 'Raising awareness among existing partner agencies operating in community settings should not be overlooked to maximise buy-in and understanding of the model' (p37)					
Funding and risk sharing: ■ Modelling whole life cost ■ Funding sources and addressing short falls ■ Understanding risk – provider views ■ Pricing risk and competitive pricing ■ Allocating risk – where does the risk sit: commissioner/prime; prime/supply chain						

Performance management	
Measuring performance: ■ Evidencing outcomes ■ Adapting metrics ■ Auditing arrangements ■ Dispute resolution	The binary measure of reconviction was chosen as the simplest measure. The rationale for using it was linked to the complex nature of other measures considered. It is reported that other measures linked to distance travelled could be explored when more data is available (from the case management tool now in place (see data below). By implication, MoJ are open to this.
Performance management arrangements: ■ Incl. adjustments to correct/improve operation of PbR contracts/arrangements	Although there is no evidence of gaming, it is theoretically possible that transfers could be used to manipulate the prisoner cohort. There are measures in place to monitor this and practical barriers to it taking place. Nonetheless MoJ have developed a methodology that allows them to control for changes in the case mix and to retrospectively adjust the baseline to account for this.
Service failure: ■ Penalties for failure ■ Mechanisms for addressing failure ■ Contract termination ■ Re-contracting ■ Redress for service users	10% claimed back for failure to beat the baseline.
Accountability and value for money	
Roles and responsibility of accounting officer	
Monitoring beyond PbR contracts	
Monitoring cost	
Governance arrangements	The Alliance is considered an exemplar of good practice by stakeholders in term of its governance. There is a Partnership Board that provides a highly functional and formal structure with very senior representation and commitment from all stakeholder organisations. This has contributed to excellent relationships between MoJ and NOMS and Serco and Catch22.
Promoting effective practice	Readjustments made by the Alliance to ensure resources are focused in the right way – different pathways developed to ensure the right groups of offenders get the right models of support.
Intervening in delivery	
Evaluating value for money of the entire PbR scheme	
Other	

22

Title
The voluntary and community sector in criminal justice: a capacity building action plan
Author
Third Sector Research Centre (with contributions from Candour Collaborations, Clinks, Common Capital and Social Spider) for 3SC
Year
2013
Publisher
Ministry of Justice
Web address
http://www.justice.gov.uk/downloads/rehab-prog/3sc-action-plan.pdf

Document Type			
Policy document	Expert publication	Performance data	Evaluation
Other: Prepared for MoJ as capacity building plan; not clear what the status is (i.e. if accepted in full)			

High Level Summary

Sets out steps that the voluntary and community sector (VCS) need to be supported to take in order to be able to compete in PbR markets in the justice sector; and, the ways in which the VCS can overcome barriers that stop it from entering this market, discussing the approach and challenges, policy context behind the Transforming Rehabilitation programme and a brief review of existing capacity building initiatives. Finally, the document explores research findings and concludes with costed recommendations.

This document is an action plan for how best to develop community and voluntary organisations to participate in PbR programmes in the justice sector. The aim is to enable the expansion of involvement of the VCS in developing a market which is full of diverse providers for criminal justice programmes – particularly PbR.

The document provides some background to the Transforming Rehabilitation programme, included below.

Background Information (PbR Schemes)	
Name of scheme	Transforming Rehabilitation
Policy area	Crime - offending
Target group(s)	Low and medium risk offenders
Rationale	Reducing reoffending rates among low and medium risk offenders. 'The Ministry of Justice has identified a need to promote the involvement of the voluntary, community and social enterprise sector (VCS) in the development of a diverse market of providers in the Transforming Rehabilitation agenda.' (p7)
Description of scheme	In January 2013, the Ministry of Justice published a document concerning the future of the Probation Service and offender supervision in England and Wales. 'Transforming Rehabilitation: A revolution in the way we manage offenders' addresses many of Secretary of State's key policy aims: tacking high reoffending rates, improving rehabilitation interventions for offenders, and making use of a PbR mechanism to reward success. 'The Coalition Government has stated its commitment to tackling high reoffending rates, particularly among offenders leaving prison. Interventions delivered by contracted providers should therefore include 'through the prison gate' mentoring support and attempt to tackle the root causes of offending behaviour, joining up with

	other services such as accommodation, mental health and substance misuse services. Statutory supervision and rehabilitative provision will be extended to offenders released from short custodial sentences of less than 12 months. The vast majority of these offenders currently have no statutory licence or rehabilitation provision but have the highest reconviction rates. Also included in the competition will be services for offenders with protected characteristics, including female offenders.' (p8)
Geography	UK
Commissioner and intermediaries	MoJ
Type of PbR	Payment for results/Fee for service (FFS)
Incentives structure	Payment by results - Contracted providers will only be paid in full if they achieve sufficient reductions in reconviction rates for their cohort of offenders. The proposal does not suggest 100% of the contract will be subject to PbR – but a proportion will. The preferred measurement of success is binary, but the department will consider how this can be adapted to avoid creating perverse incentives for providers to 'park and cream' offenders to maximise income.
Total budget	The provision of most rehabilitative services for low and medium risk offenders in the community, including community orders and licence requirements, representing an approximate annual caseload of 265,000 offenders and £1bn of services.
Portion assigned to PbR	
Number of prime contracts	
Timescale (development)	
Development budget	
Development process	
Timescale (delivery)	
Current status	
Supply chains (prime & sector; subs & sector)	Primes expected to include private and VCS; supply chains to include private and VCS.
Social investment	
Detail of PbR	
Summary: (or complete template below)	
Indicators	
Metrics	
Evidential requirements	
PbR allocation	
Timing of payment	
Performance rewards	
Payments made to date	
Counterfactual/baseline	
Key issues	
Defining outcomes and payments	
Evidence base for outcomes	
Defining outcomes	
Agreeing outcome	

definitions	
Using proxies	
Measuring outcomes	To support the measurement of outcomes, the document refers to the launch of the Justice Data Lab in April 2013, which will give providers access to reoffending data specific to a cohort of offenders.
Attributing outcomes	
Intermediate outcomes and distance travelled	The MoJ ran 20 market engagement events: 'as well as general dissatisfaction with a solely binary measure of success, many VCS providers suggested considering intermediate outcomes such as progress in employment, accommodation and drug treatment to support a reoffending outcome, as well as measures of frequency and severity of offending.' (p9)
Data sharing/data availability	
Service pricing: ■ Incentivising long-term outcomes ■ Addressing skimming/cherry picking ■ Ensuring efficiency ■ Reviewing costs and pricing	'Contracted providers will only be paid in full if they achieve sufficient reductions in reconviction rates for their cohort of offenders. The proposal does not suggest 100% of the contract will be subject to PbR – but a proportion will. The preferred measurement of success is binary, but the department will consider how this can be adapted to avoid creating perverse incentives for providers to 'park and cream' offenders to maximise income. To support the measurement of outcomes, the document announces the launch of the Justice Data Lab in April 2013, which will give providers access to reoffending data specific to a cohort of offenders.' (p8)
Provider capacity	
Market capacity: ■ Market making ■ Market testing ■ Commissioning and competitive tendering ■ Market capacity	The authors identify 'an apparent and perceived gap between many VCOs [voluntary and community organisations] on the one hand, and the world of contracts, PbR, Primes (predominantly, although not exclusively, larger private sector organisations), and social investment, on the other.' (p6) This is identified as VCS deficit, 'but a realistic appreciation of the challenges faced by all participants in a changing public services environment.' (ibid) The 'gap' relates to three dimensions: - different capacities and resources to participate; - different languages, understanding and culture; and - different core competencies. 'For example, Primes may have expertise in bidding, commercial processes and supply chain management, but lack expertise in frontline delivery, whereas for many VCOs to varying degrees the situation is reversed. Greater understanding and learning is required from both sides of this gap; for example the private sector learning about the VCS as much as the VCS learning about the private sector.' (ibid) Not all VCOs are in the same position. 'Some have existing experience and capacity from which to draw. Some will have experience of Prime contractor status and will be interested in taking on this role here. However, the direction of policy, with its focus on measurable outcomes and payment by results, appears to be raising the entry requirements for work in criminal justice, while setting demanding and aspirational outcomes. There is a risk, without further action, that it might damage existing VCS delivery, especially for smaller and specialist VCOs, and may limit the VCS's potential involvement in criminal justice work.' (ibid) A competitive procurement process will seek to both drive down the unit costs of services and create opportunities for private and voluntary and community sector

	organisations to tender for contracts. There are different types of capacity building identified: 'Market-agnostic, VCS capacity building relating to relevant issues such as commissioning and procurement or partnerships and consortia, for example provided by NCVO (Sustainable Funding, Public Service Delivery, bespoke support), ACEVO, DSC and NAVCA (Local Commissioning and Procurement); Market specific capacity building e.g. NCVYS (youth sector) and SEUK; Issue specific capacity building e.g. Ability Net (IT - professional matching programme), Charities Evaluation Service (evaluation, quality and compliance) and Charity Finance Group (charity finance and investment); Mentoring/coaching to VCS organisations, in which volunteers from the private sector are matched with VCS organisations requesting support e.g. Pilotlight, Business in the Community (e.g. Business Connectors) and The Cranfield Trust; Central government schemes such as UKCES' Links Service (not yet operational) and Cabinet Office programmes including Commissioning Academy Masterclasses; and Social investment programmes e.g. Investment and Contract Readiness Fund managed by the Social Investment Business.' (p10) 'The recommendations in the Capacity Building Action plan are based on consideration and review of all research and engagement activity conducted during the course of the project. They address and will achieve what we identify as the key success criteria of any capacity building activity; namely that participating voluntary and community organisations (VCOs) are able to: Understand what PbR is, how it works, and the potential implications for their organisations; Make informed and intelligence decisions about participating in PbR contracts; Articulate, evidence and cost their service provision, their offering and their success rates; Demonstrate performance and social impact of services; Get investment ready for and access social investment; Get contract ready for commissioners and Primes; and Deliver successful, sustainable and financially viable contracts which fit with their organisational mission and values. (p24)
Funding and risk sharing: ■ Modelling whole life cost ■ Funding sources and addressing short falls ■ Understanding risk – provider views ■ Pricing risk and competitive pricing ■ Allocating risk – where	'Contracting will be with entities capable of bearing the financial and operational risks. This should open up service delivery to a more diverse range of providers and achieve efficiencies.' (p7) VCS organisations are recognised as providing valuable interventions for the success of the programme and their involvement in supply chains is to be encouraged and expected. Lead providers will be expected 'to manage supply chains fairly (to DWP Merlin Standard principles) so that smaller organisations are neither excluded nor exposed to disproportionate levels of risk.' (p8) At market engagement events, 'attendees were keen to talk about what supply

does the risk sit: commissioner/prime; prime/supply chain	chain governance arrangements would be implemented, often referring to the DWP's Merlin Standard. Concerns centred on the transfer of risk down the supply chain and the importance of diverse and sustainable supply chains, especially for niche groups of offenders such as women.' (p9)
Performance management	
Measuring performance: ■ Evidencing outcomes ■ Adapting metrics ■ Auditing arrangements ■ Dispute resolution	For 'delivery and performance measurement' the main capacity building priorities suggested are: 'Support for evidence gathering and reporting. Meeting the costs of proving/evidencing impact – who meets the costs of training or employing new staff for monitoring and reporting requirements, and for re-training and continuing development as and when circumstances/measures change? Impact measurement. Support for the VCS to develop appropriate outcome tools, for example quick tools to aid data collection and show impact; increase understanding of impact within organisations. Co-producing an evidence framework. It was suggested that there might be a role for the sector's voice in arguing for, and helping to develop – co-produce – a national framework for intermediate outcomes, in contrast to binary metrics.' (p21)
Performance management arrangements: ■ Incl. adjustments to correct/improve operation of PbR contracts/arrangements	
Service failure: ■ Penalties for failure ■ Mechanisms for addressing failure ■ Contract termination ■ Re-contracting ■ Redress for service users	
Accountability and value for money	
Roles and responsibility of accounting officer	
Monitoring beyond PbR contracts	
Monitoring cost	
Governance arrangements	
Promoting effective practice	
Intervening in delivery	
Evaluating value for money of the entire PbR scheme	
Other	
The authors suggest 'that the solution to creating the right behaviours in the supply chain is to demand greater transparency, not least in contractual terms (including clarity around expected volumes and revenues) between Primes and sub-contractors, responsible market stewardship on behalf of Primes, and open book accounting	

and open data, as well as whistle blowing mechanisms and complaints advocacy. Equally important will be adherence to the principles of the Compact and to the Social Value Act. Nonetheless, the capacity building actions proposed here may help lever additional resources or bend existing initiatives to widen the reach of the plan.' (p23)

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Title			
Process evaluation of the HMP Doncaster Payment by Results Pilot: Phase 2 findings			
Author			
Evelyn Hichens and Simon Pearce (GVA)			
Year			
April 2014			
Publisher			
Ministry of Justice			
Web address			
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/305786/hmp-doncaster-pilot-evaluation-report.pdf			
Document Type			
Policy document	Expert publication	Performance data	Evaluation
			X
Other:			
High Level Summary			
This is a short summary based on 16 interviews with stakeholders. The focus is on the delivery of the 'through the gate' support of the pilot. There is some learning for the review questions, relating to: data availability – how collecting data is time consuming; and the binary outcome measure – stakeholders feel it doesn't reflect work undertaken and progress made.			

Background Information (PbR Schemes) detail taken from first, full report	
Name of scheme	HMP Doncaster payment by results pilot
Policy area	Prisons, offending and reoffending
Target group(s)	All sentenced offenders discharged within a 12 month period with the following exceptions: - foreign nationals who will be deported on release; - offenders sentenced to time already served on remand; - offenders serving sentences for breach of court orders. The group was subsequently amended to include remand prisoners in an immediate triage assessment. This was in recognition by Serco that as these prisoners were not receiving support from any source under the new contract there was a risk of reoffending.
Rationale	To test PbR in prisons, in line with the 'Breaking the Cycle' Green Paper (MoJ 2010). To tackle offending and reoffending in new and innovative ways. 'The key aim of the pilot is to test the impact of replacing a multitude of process and output targets and performance monitoring with a single outcome-based target (to reduce the reconviction rate) with a strong financial incentive to achieve this.'
Description of scheme	The PbR focuses on a single measure of 'the percentage of offenders reconvicted across the cohort for an offence or offences committed with a period of one year from the date of discharge' where each cohort across four years from October 2011 will be compared to an historic reconviction rate. If the baseline is not beaten, MoJ will reclaim 10% from Serco; if it is reduced by 5% point Serco will receive the full contract value; if the baseline is beaten by more than 5% Serco will receive additional payments up to 10%.

	The evaluation reports that a new end-to-end case management approach has been developed by the Alliance, with caseworkers supporting offenders to access existing interventions inside and outside prison. Community based support post-release is a new feature. The cohort has been modelled by the Alliance to focus support on those offenders most likely to reoffend and respond to support; i.e. high end offenders unlikely to remain in the prison are identified at triage.
Geography	HMP Doncaster (a local prison) and surrounding community.
Commissioner and intermediaries	MoJ – commissioner.
Type of PbR	Payment penalty and reward.
Incentives structure	A baseline of reoffending is used. If the baseline is not beaten, MoJ will reclaim 10% from Serco; if it is reduced by 5% point Serco will receive the full contract value; if the baseline is beaten by more than 5% Serco will receive additional payments up to 10%.
Total budget	Not known.
Portion assigned to PbR	10% with additional 10% for high performance.
Number of prime contracts	One.
Timescale (development)	Not clear. Contract was due to expire in July 2011. It was awarded to Serco in April 2011. Delivery began in October 2011. Implication is development of the PbR model from April to October at least (it was included as an option in Serco's tender).
Development budget	Not known.
Development process	Not known.
Timescale (delivery)	Four years from 1 October 2011.
Current status	Live at the time of the report although not clear.
Supply chains (prime & sector; subs & sector)	Serco lead 'the Alliance' with Catch22. Several Serco staff were moved to Catch22 under TUPE – described as demonstrating that the Alliance is a partnership not a supply chain. The risk is not transferred to Catch22 but the performance rewards are. 60 local organisations are reported (in first full report) to have attended a suppliers fare but it is not clear how many of these are involved in delivery.
Social investment	None.
Detail of PbR	
Summary: (or complete template below)	A baseline of reoffending is used. If the baseline is not beaten, MoJ will reclaim 10% from Serco; if it is reduced by 5% point Serco will receive the full contract value; if the baseline is beaten by more than 5% Serco will receive additional payments up to 10%.
Indicators	
Metrics	
Evidential requirements	
PbR allocation	
Timing of payment	
Performance rewards	
Payments made to date	
Counterfactual/baseline	
Key issues	
Defining outcomes and payments	
Evidence base for outcomes	
Defining outcomes	

Agreeing outcome definitions	
Using proxies	
Measuring outcomes	
Attributing outcomes	
Intermediate outcomes and distance travelled	
Data sharing/data availability	
Service pricing: ■ Incentivising long-term outcomes ■ Addressing skimming/cherry picking ■ Ensuring efficiency ■ Reviewing costs and pricing	
Provider capacity	
Market capacity: ■ Market making ■ Market testing ■ Commissioning and competitive tendering ■ Market capacity	
Funding and risk sharing: ■ Modelling whole life cost ■ Funding sources and addressing short falls ■ Understanding risk – provider views ■ Pricing risk and competitive pricing ■ Allocating risk – where does the risk sit: commissioner/prime; prime/supply chain	
Performance management	
Measuring performance: ■ Evidencing outcomes ■ Adapting metrics ■ Auditing arrangements ■ Dispute resolution	Case management system is important to reliably record, monitor and analyse the needs and progress of the cohort. But other lead agencies use different systems and Alliance staff are required to manually update it, which takes time away from offender support. Those who have been reconvicted have support withdrawn, to focus resources on those who will contribute to the outcome measure (and payment). Some delivery staff were frustrated about this. There is no one point of information for reconvictions and staff spend time checking on their case-loads reconvictions and this is time that could be spent on support. Thus, this measure disincentivises work with this group of offenders. Stakeholders felt that the binary outcome measure does not reflect wider outcomes such as reductions in the severity and frequency of offending.

Performance management arrangements: ■ Incl. adjustments to correct/improve operation of PbR contracts/arrangements	
Service failure: ■ Penalties for failure ■ Mechanisms for addressing failure ■ Contract termination ■ Re-contracting ■ Redress for service users	
Accountability and value for money	
Roles and responsibility of accounting officer	
Monitoring beyond PbR contracts	
Monitoring cost	
Governance arrangements	
Promoting effective practice	
Intervening in delivery	
Evaluating value for money of the entire PbR scheme	
Other	
First cohort data shows a reconviction rate of 52.6% which is a reduction of 6.9% compared to 2008-9 and 4.4% compared to 2009-10. These are not full cohort figures but are positive indications of impact.	

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Title			
Phase 2 report from the payment by results Social Impact Bond pilot at HMP Peterborough			
Author			
RAND			
Year			
June 2014			
Publisher			
Ministry of Justice			
Web address			
https://www.gov.uk/government/publications/phase-2-report-from-the-payment-by-results-social-impact-bond-pilot-at-hmp-peterborough			
Document Type			
Policy document	Expert publication	Performance data	Evaluation
			X
Other:			

High Level Summary

See first report template for details on the scheme.

This report is based on 39 interviews. It notes that full impact data is yet to be provided but amongst the cohort reconvictions are reduced by 11% whilst nationally they have increased by 10%. But those statistics do not use the methodology that will be used in the impact assessment.

There is more detail about the intervention model in this report. New partners are named who were not in the first (e.g. MIND). Much of the report focuses on the intervention model.

In terms of the PbR and investment model: having a Director in place drove early implementation and addressed implementation risk; there was no evidence of cherry picking or parking; investors consider the 'bottom up' design to be the right one and are motivated to invest in offenders' outcomes.

The SIB model was seen to be flexible – fewer procurement restrictions and no time limitations (ie annual spend).

PbR contract benefits – flexibility over the delivery model/lack of specification. There is no contract between the SPV and the prison – that has advantages (good for working relations) and disadvantages (no obligation to do so).

Background Information (PbR Schemes)	
Name of scheme	
Policy area	
Target group(s)	
Rationale	
Description of scheme	
Geography	
Commissioner and intermediaries	
Type of PbR	
Incentives structure	

Total budget						
Portion assigned to PbR						
Number of prime contracts						
Timescale (development)						
Development budget						
Development process						
Timescale (delivery)						
Current status						
Supply chains (prime & sector; subs & sector)						
Social investment						
Detail of PbR						
Summary: (or complete template below)						
Indicators						
Metrics						
Evidential requirements						
PbR allocation						
Timing of payment						
Performance rewards						
Payments made to date						
Counterfactual/baseline						
Key issues						
Defining outcomes and payments						
Evidence base for outcomes						
Defining outcomes						
Agreeing outcome definitions						
Using proxies						
Measuring outcomes						
Attributing outcomes						
Intermediate outcomes and distance travelled						
Data sharing/data availability						
Service pricing: ■ Incentivising long-term outcomes ■ Addressing skimming/cherry picking ■ Ensuring efficiency ■ Reviewing costs and pricing						
Provider capacity						

Market capacity: ■ Market making ■ Market testing ■ Commissioning and competitive tendering ■ Market capacity	
Funding and risk sharing: ■ Modelling whole life cost ■ Funding sources and addressing short falls ■ Understanding risk – provider views ■ Pricing risk and competitive pricing ■ Allocating risk – where does the risk sit: commissioner/prime; prime/supply chain	Providers are paid up front by the SPV so do not bear any risk. The contracts with three providers are only for one year but with the expectation of renewal. Some investors reported that removing risk from VCS providers was important in their decision to invest.
Performance management	
Measuring performance: ■ Evidencing outcomes ■ Adapting metrics ■ Auditing arrangements ■ Dispute resolution	The PbR contracts with providers do not specify the intervention model, allowing the providers to focus on individual need. There are not many metrics linked to performance and targets, but delivery is closely monitored by the One Service Director.
Performance management arrangements: ■ Incl. adjustments to correct/improve operation of PbR contracts/arrangements	A 'One Service Director' has been appointed and they monitor performance, work with stakeholders, etc on behalf of the SPV. There have been two contract amendments - one to clarify the definition of eligibility for the cohort, and another to clarify an aspect of the payment mechanism. Social Finance and the Ministry of Justice agreed that greater clarity in the contract would have been helpful in relation to identifying the cohort and the data systems from which this information would be extracted, and by whom.
Service failure: ■ Penalties for failure ■ Mechanisms for addressing failure ■ Contract termination ■ Re-contracting ■ Redress for service users	
Accountability and value for money	
Roles and responsibility of accounting officer	
Monitoring beyond PbR contracts	
Monitoring cost	
Governance arrangements	
Promoting effective practice	There is evidence of learning through the use of the monitoring/case management tool. SF are not obligated to share any data but they do provide MoJ with quarterly updates.
Intervening in delivery	

Evaluating value for money of the entire PbR scheme	
Other	

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Title			
Payment by Results contracts: a legal analysis of terms and process			
Author			
David Hunter (BWB) and Ruth Breidenbach-Roe (NCVO)			
Year			
October 2013			
Publisher			
National Council of Voluntary Organisations (NCVO)			
Web address			
http://www.ncvo.org.uk/images/documents/practical_support/public_services/payment_by_results_contracts_a_legal_analysis_of_terms_and_process_ncvo_and_bwb_30_oct_2013.pdf			
Document Type			
Policy document	Expert publication	Performance data	Evaluation
	X		
Other:			
High Level Summary			
This paper is by BWB (charity law specialists) and NVCO (voluntary sector umbrella body). It reviews the terms and design of PbR contracts. It is based on a review of contracts and subcontracts provided in confidence, and confidential interviews with voluntary, community and social enterprise (VCSE) organisations (VCSEOs) engaged in PbR. It looks at the ways in which risk is articulated and managed, allocated and the wider management of risk throughout the commissioning process. There are two parts. - Contractual terms in PbR contracts – provides a step by step analysis of key contract terms and of how risk is being allocated within contracts; and gives recommendations about how these can be avoided. - Improving the contracting process – looks at the whole of the contracting and commissioning process as experienced by VCSEOs so far, suggesting ways in which these processes could be improved and adverse impacts of PbR avoided.			
Purpose of Document			
Recommendations to commissioners, prime contractors and VCSEOs.			
Sector Author, Publisher			
Voluntary sector; NCVO			
Key issues			
Defining outcomes and payments			
Evidence base for outcomes			
Defining outcomes	Engaging with providers and users will identify appropriate outcomes and the interventions likely to achieve them. Failure to base PbR in actual experience leads to substandard contracts, which promote gaming by focusing on targets disconnected from the desired outcome. In practice, most contracts are amended in light of learning but it would clearly be preferable to get this right from the outset.		
Agreeing outcome definitions			
Using proxies			
Measuring outcomes			
Attributing outcomes			

Intermediate outcomes and distance travelled	
Data sharing/data availability	
Service pricing: ■ Incentivising long-term outcomes ■ Addressing skimming/cherry picking ■ Ensuring efficiency ■ Reviewing costs and pricing	The drivers for a PbR contract are not always clear or are conflicting, resulting in poor implementation and inappropriate application of PbR. Sometimes it is used purely as an alternative way of paying for the same service rather than improving outcomes or developing new forms of delivery. This can result in poor contracts that don't take account of PbR and are overly prescriptive, limiting innovation. Commissioners can have a linear view of outcomes without recognising the complexity of systems and how successful outcomes do not happen in isolation. Achieving a substance misuse outcome, for example, involves housing, mental health and criminal justice. PbR programmes that don't recognise this complexity fail to take account of delivery and can treat services provided, that don't achieve end outcomes, as worthless. This encourages cherry picking and gaming. There are various issues with metrics identified. Some have too many targets, making it difficult for the commissioner to monitor and ensure payment for achievements; targets that are beyond providers control, where subcontracts don't receive volumes; payments being deferred, which can threaten providers viability and thus the performance of the contract itself; late payments, which providers can not be aware of and which can have a cumulative affect; payments for the wrong targets, which provide perverse incentives. Some subcontracts specify that subcontracts will not be paid until the prime has been paid. This should be avoided. Collaboration between commissioners, primes and subcontractors can inform better contracts for all parties. Contracts can make assumptions about the cooperation of public bodies, which is not forthcoming, or other contextual factors. Collaborating in design helps identify and mitigate these factors.
Provider capacity	
Market capacity: ■ Market making ■ Market testing ■ Commissioning and competitive tendering ■ Market capacity	The impact of PbR on the market is often not considered. A lack of dialogue with the market means that cash flow considerations and constraints are not recognised. "The failure of commissioners to acknowledge the cumulative impact of PbR on providers means that over time they run the risk of adversely affecting the diversity of the market of providers they can access; the quality of the services being delivered to the public; and the value they are managing to secure from their commissioning activity" (p8) Commissioning PbR does not take place in a vacuum. Commissioners should understand and recognise the existing landscape of provision and the relationships between providers and their users. They should consider how they can protect what works and prevent local knowledge and relationships being lost. These can be threatened by new approaches that favour economies of scale. Understanding the market is also important so that commissioners understand what commercial and financial pressures providers are already under. Providers currently cross-subsidise PbR but this is not an option for smaller organisations and will not be for larger ones either if more and more of their business is delivered through PbR arrangements. Commissioners need to understand the systemic impacts of PbR and the negative impacts of aggregation on diversity and quality. They may find that they cannot attract good service providers or that when they recommission the market has

	shrunk. Commissioners may find providers are trying to meet contradictory, rather than complementary, targets if related PbR contracts in existence or planned are not taken account of. Commissioning does not allow for meaningful relationships built on trust to be developed between primes and their supply chains. Relationships develop during the contract. Procurement should allow the best chains to develop.
Funding and risk sharing: ■ Modelling whole life cost ■ Funding sources and addressing short falls ■ Understanding risk – provider views ■ Pricing risk and competitive pricing ■ Allocating risk – where does the risk sit: commissioner/prime; prime/supply chain	There is evidence that some VCSEOs bid for contracts in order to continue to deliver to their user groups, without understanding the risks they are taking on and the implications for their ongoing viability. There are 'numerous' examples of Primes passing down the terms of the head contracts in full to their supply chain with no mediation of the risks involved and no scrutiny by commissioners. VCSEO primes tend to be more flexible. There are some positive examples: - Innovation Fund Round 2 template contract anticipates that: services will be performed bv delivery bodies; who shall be named in the contract; and that the commissioner is induced to enter into the contract by their inclusion. The report suggests that these are further amended to include: the prime is required to say how it will work with the chain (not just who is in it); the nature of the work of those in the chain (to avoid cherry picking); obligations on the prime to manage the contract in a manner consistent with these commitments and for the commissioner to intervene if they do not. - Cabinet Office template SIB contract includes: provisions requiring the prime to conform to its tender submission in terms of use of the supply chain; specifying how additional subcontractors can be procured; specifies some terms for subcontracts. Contracts should contain a commitment to review volumes and their implications and for primes to take steps to preserve anticipated volumes to their supply chain. Subcontractors may be offered a shortened version of a full contract and may not review the full terms and conditions. Primes should be encouraged to assist providers in understanding their full obligations and liabilities in support of a long term relationship. Commissioners should ensure that supply chains are able to negotiate terms with primes; or that there is discussion across the chain and with the prime to develop a contract that is appropriate for all (including the commissioner). Commissioners should ensure that primes are an entity managing service provision across a diverse supply chain in a sustainable way. Liabilities and indemnities should be limited and proportionate. For instance, annual and aggregate limits. The liability of providers should not be unlimited.
Performance management	
Measuring performance: ■ Evidencing outcomes ■ Adapting metrics ■ Auditing arrangements ■ Dispute resolution	Confidentiality restrictions can limit comparative understanding between providers and the understanding of what does and does not work and appropriate benchmarks. A more constructive approach is to start with the presumption that information relating to the contract shall be capable of disclosure, save where it has been agreed to be commercially sensitive. Restrictions on sharing data limit the scope for lessons to be learnt around best practice and the ability to implement improvements.
Performance management	Contracts often contain clauses allowing for alterations. This can expose providers

arrangements: ■ Incl. adjustments to correct/improve operation of PbR contracts/arrangements	to having to change delivery without reflecting price implications. Variations need to ensure that they don't leave providers materially better or worse than when the contract was signed. Contracts should formalise the flexibility to review, given the speculative nature of much of the practice being commissioned and in recognition that there may be trial and error in making interventions effective. Commissioners, primes and supply chains have a shared mutual interest in a successful contract and delivery. Evidence suggests that commissioners find 'black box' commissioning hard to do and bureaucratic burden should be limited. There are examples of service users having to complete surveys and other monitoring burden to account for delivery when this is not appropriate for PbR contracts paying for outcomes and allowing providers to innovate. PbR needs to learn from poor contracting practice. Providers should be involved in a collaborative approach at the design, commissioning and negotiation stages of contracting. The need to be flexible and proportionate to the strengths and requirements of a diverse provider market should be prioritised.
Service failure: ■ Penalties for failure ■ Mechanisms for addressing failure ■ Contract termination ■ Re-contracting ■ Redress for service users	Contracts are not always clear about the different types of breaches that might occur and the rights to intervene that they incur. Primes may exploit these terms if it is commercially expedient. Contracts also fail to make provision for termination if there are material breaches on the part of the commissioner. It is important that rights attaching to breaches are proportionate. There should be a clear relationship between potential remedies and the level of default. Termination may deny providers the opportunity to make a return. It is likely to have made an investment in bidding for the contract and setting up delivery. They should be compensated for losses and payments for future outcomes that they may be entitled to taken account of. Costs claimed by commissioners should be limited to their direct costs.
Accountability and value for money	
Roles and responsibility of accounting officer	
Monitoring beyond PbR contracts	
Monitoring cost	
Governance arrangements	
Promoting effective practice	A common problem is over prescription of delivery, as commissioners fail to develop PbR appropriate contracts. If the commissioner requires a high level of involvement in monitoring delivery rather than leaving providers to innovate, they should provide up-front fees. Clauses permitting monitoring and inspection throughout contracts can create confusion about the extent and purpose of these rights. It can lead to costly disruption for providers and unnecessary expense for commissioners.
Intervening in delivery	
Evaluating value for money of the entire PbR scheme	There is a lack of learning from PbR. VCSEOs report pressure not to acknowledge problems with huge political pressure to declare the contracts a success. There are commercial pressures for organisations to show they are able to cope with emerging market structures. This is masking problems. Evidence about what is working and not working needs to be analysed and learnt from.
Other	
Using PbR to purley change payment terms within contracts, to shift risk away from commissioners, will not deliver on the potential to stimulate service innovation and delivery quality outcomes.	

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Title
Payment by Results and the voluntary sector
Author
Fiona Sheil and Ruth Breidenbach-Roe, NCVO
Year
April 2014
Publisher
National Council of Voluntary Organisations (NCVO)
Web address
http://www.ncvo.org.uk/images/documents/about_us/media-centre/payment-by-results-and-the-voluntary-sector-april-2014.pdf
Document Type

Policy document	Expert publication	Performance data	Evaluation
	X		

Other:

High Level Summary
This paper is based on discussions at NCVO's PbR Working Group, interviews with voluntary sector (VS) providers involved in local and national PbR and two expert round tables with commissioners and providers. The paper explores the viability of PbR as an effective method for procuring public services and in particular for harnessing the innovation and service quality which his delivered (and consistently cited in policy documents and discussions) by the VS. There are three chapters, one on each of three challenges: - finance and governance implications; - driving performance through innovation; - PbR outcomes and personalisation.
Purpose of Document
Recommendations to policy makers and commissioners on the use of PbR and on mitigating risks to the VS and their ability to innovate, delivery outcomes for service users, and the sustainability of the market.
Sector Author, Publisher

Key issues	
Defining outcomes and payments	
Evidence base for outcomes	Service users can contribute to outcome definition and to understanding pathways to outcomes. Without service user involvement, metrics will be systems-led. There can be difficulties in measuring user outcomes, but there are tools available.
Defining outcomes	
Agreeing outcome definitions	
Using proxies	Proxies are important for recognising the costs and importance of progress achieved when this doesn't reach a final outcome.
Measuring outcomes	Essential that what is being measured creates a clear pathway to the final outcome and that the final outcome itself can be measured.
Attributing outcomes	
Intermediate outcomes and distance travelled	

Data sharing/data availability	The data collection requirements of PbR can be high, including placing a burden on service users.
Service pricing: ■ Incentivising long-term outcomes ■ Addressing skimming/cherry picking ■ Ensuring efficiency ■ Reviewing costs and pricing	Failure to pay for progress through proxies and process indicators can promote under investment in some groups, parking and creaming. Attaching payment to progress measures releases cash flow for providers but also gives value to progress towards an end result. Commissioners should value the support provided towards final outcomes; or run services alongside PbR programmes to provide a safety net and fund preventative provision.
Provider capacity	
Market capacity: ■ Market making ■ Market testing ■ Commissioning and competitive tendering ■ Market capacity	The VS has a key role in the delivery of public services. PbR risks the trajectory of growing income and provision by the VS. Many VS are cautious about taking on PbR contracts. But they are 'mission led' and may find it problematic to decline a PbR contract when it is the only source of funding for supporting their beneficiaries. Many VS organisations involved in PbR describe it as 'taking a punt' or 'gamble'. This is concerning within markets seeking to drive sustainability and quality. Many organisations are highly localised by geography and specialism, meaning that contracting opportunities are limited. Deciding not to bid for PbR can destabilise core activity, front line services and staffing. Commissioners must have a thorough and evidenced case for using PbR. They should undertake a market analysis to understand impact on composition. A collaborative approach to contract design involves stakeholders and users and provides a basis for sharing learning. It also counters gaming as potential risks are identified and addressed. Upfront payments and grants can be included within PbR models to prevent the exclusion of quality providers from the VS. Innovation comes from new market entrants and market diversity. PbR can limit both of these. A collaborative approach identifies the problem, and solutions. But there should be ongoing structures to share learning between providers and commissioners. Competition for outcomes limits this and good practice becomes commercially sensitive. Shared understandings help understand and account for risk.
Funding and risk sharing: ■ Modelling whole life cost ■ Funding sources and addressing short falls ■ Understanding risk – provider views ■ Pricing risk and competitive pricing ■ Allocating risk – where does the risk sit: commissioner/prime; prime/supply chain	PbR can demand that funds are tied up over long periods until a surplus is achieved (not guaranteed). It may also tie up assets that could be invested elsewhere. Reserves in the VS are typically limited. Charity Commission practice is that organisations should keep reserves easily accessible in the short-to-medium term so that they can be used swiftly to meet user and organisational needs. "Furthermore, as the voluntary sector receives a third of its income from the state through contracts and grants, voluntary sector providers are particularly affected by funding cuts, top slicing of contract value, instability in the market, or loss of contractual income through competition. Voluntary sector providers are more likely to look to retain their reserves for covering these risks and shoring up funding gaps in incumbent contracts, rather than investing those reserves in the additional risks of new PbR contracts which offer no guarantee of payment." (p11) Trustees are required to be prudent. And Boards may lack the skills required to

	manage PbR – e.g. risk modelling. This may limit the appetite for PbR. PbR requires new skills – improved understandings of costs, margins and pricing; complex modelling tools; understanding the cost and process of acquiring capital, and so-on. Investing in these skills may be disproportionate for VS organisations. Social investment is one option. But it is in its infancy and difficult when both social investment and PbR are unproven. PbR is commissioned in timescales that don't allow organisations time to engage with intermediaries and investors. Commissioners shouldn't assume that VS organisations have access to social investment. Context affects risk – the availability of other services, which commissioners often don't account for or manage. Modelling risk against different scenarios is difficult and complex. Commissioners need the skills and confidence to influence and engage other parts of the system. Primes often transfer the risk down the supply chains disproportionately. Commissioners should account for this. Process payments can address this.
Performance management	
Measuring performance: ■ Evidencing outcomes ■ Adapting metrics ■ Auditing arrangements ■ Dispute resolution	
Performance management arrangements: ■ Incl. adjustments to correct/improve operation of PbR contracts/arrangements	
Service failure: ■ Penalties for failure ■ Mechanisms for addressing failure ■ Contract termination ■ Re-contracting ■ Redress for service users	Few VS organisations have additional funds to invest to address failure. Commissioners may have to intervene with renegotiated payments or thresholds. Flexibility is important but raises questions over the viability of PbR where only set outcomes should be paid. There needs to be collaboration between commissioner and provider. PbR may counter this. There are costs and wastage associated with contract failure. Performance failure is not cost neutral for the public sector. "Commissioners must be prepared for failure given that its likelihood is increased by the greater risk, disruptive nature, and newly conceived results of many PbR programmes. Commissioners must understand their own organisation's appetite for failure, including the attendant political and reputational risks. Practical planning is also required so that exit strategies from a provider contract have been set out in advance and there are multiple providers available who may be interested and able to step into the PbR contracts." (p18)
Accountability and value for money	
Roles and responsibility of accounting officer	
Monitoring beyond PbR contracts	
Monitoring cost	
Governance arrangements	
Promoting effective	The transference of risk can limit innovation. The need to certainty of results limits

practice	the scope for innovation through failure and learning. What was formerly promoted and shared as good practice becomes commercially sensitive. PbR is potentially disruptive. It can create job insecurity. This limits both innovation and can impact negatively on service users. PbR can require interventions with no or a limited evidence base. This increases risks.
Intervening in delivery	
Evaluating value for money of the entire PbR scheme	PbR schemes need to account for performance-lag. Services may take one or two years to develop. Where PbR models are driven by a need for efficiencies in the market, commissioners must recognise that these will take time to be realised and build this into contract design.
Other	

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Title			
What organisation is necessary for commissioners to develop outcomes based contracts? The COBIC case study			
Author			
Professor Paul Corrigan and Dr Nick Hicks			
Year			
2012			
Publisher			
NHS Right Care			
Web address			
http://www.rightcare.nhs.uk/downloads/RC_Casebook_cobic_final.pdf			
Document Type			
Policy document	Expert publication	Performance data	Evaluation
Other: Case book			
High Level Summary			
Provides an overview of the context for Commissioning for Outcome-Based Contracts (COBIC) in health care, the lessons learned from existing COBIC schemes, and a case study setting out how a COBIC contract can be developed to bring about patient centred integrated care			

Background Information (PbR Schemes)	
Name of scheme	
Policy area	Health – integrated care, substance misuse and sexual health
Target group(s)	
Rationale	To improve outcomes for patients and value for money, and incentivise integration of services across a pathway of care to better meet patients' needs
Description of scheme	
Geography	
Commissioner and intermediaries	Milton Keynes PCT
Type of PbR	Capitated outcome based
Incentives structure	
Total budget	
Portion assigned to PbR	
Number of prime contracts	
Timescale (development)	
Development budget	
Development process	
Timescale (delivery)	
Current status	Implemented
Supply chains (prime &	Substance Misuse: CRI (a national charity)

sector; subs & sector)	Sexual Health					
Social investment						
Detail of PbR						
Summary: (or complete template below)	The first COBIC contract was let in April 2011 by Milton Keynes PCT for substance misuse services, and as a retender its substance misuse service. The previous was delivered by multiple fragmented providers and focused on activity – primarily to ensure that people who misused substances were referred to services and for outpatient appointments. Milton Keynes PCT gave notice on the existing substance misuse contracts and issued an outcome orientated contract. Capitation and rewards for improved outcomes. Milton Keynes PCT gave notice on the existing substance misuse contracts and issued an outcome orientated contract. The detail of the contract and the selection of the provider were managed by in a process of competitive dialogue. 40 expressions of interest and 10 real bids from public, voluntary and private sectors were received. The service was let to a third sector organisation. The service was transformed, providing measurably better quality and experiences than before (although no detail or evidence base is provided) and the annual spend on the service has reduced by 20% compared to the previous contract. The PCT also let a second COBIC contract for sexual health services. Other COBIC contracts are currently at developmental or implementation stage, for example: Oxfordshire are developing COBICS for the frail elderly, maternity services and mental health services; Bedfordshire CCG have developed a COBIC-style contract for musculoskeletal services and Northumberland CCG is considering the COBIC approach for continuing care and potentially other groups					
Indicators (for substance missue)	Keeping people in housing	Increasing the % of substance misusers in employment	courts access to a treatment service as an alternative to imprisonment			
Metrics						
Evidential requirements						
PbR allocation						
Timing of payment						
Performance rewards						
Payments made to date						
Counterfactual/baseline						
Key issues						
Defining outcomes and payments						
Evidence base for outcomes						
Defining outcomes						
Agreeing outcome definitions	Milton Keynes PCT and the local authority worked with patients and providers and partners to establish the outcomes sought					

Using proxies	
Measuring outcomes	
Attributing outcomes	
Intermediate outcomes and distance travelled	
Data sharing/data availability	
Service pricing: ■ Incentivising long-term outcomes ■ Addressing skimming/cherry picking ■ Ensuring efficiency ■ Reviewing costs and pricing	
Provider capacity	
Market capacity: ■ Market making ■ Market testing ■ Commissioning and competitive tendering ■ Market capacity	The authors highlight the need to think about the demands competitive dialogue places on providers: 'If we were doing it again, would think more about the demands we placed on providers – as some dropped out half way through the process.' (p9) The authors set out an approach to running competitive dialogue for a COBIC contract for integrated care services based on the lessons learned from Milton Keynes. This approach is summarised from the detail presented on p12 of the case study: 1. Prepare existing and other possible providers of the intent to ensure that there is a market of interesting existing or other potential providers and subsequently issue an initial specification to start the dialogue. 2. Commissioners should then run an initial explanatory session for all of those who express and interest in the tender, including discussion of how the process will be different to previous tendering processes and that it is likely that different providers will almost certainly need to bid in partnership to respond to the service needs across a pathway of care. 3. Providers submit an expression of interest, and Local authority and NHS commissioners form a joint panel to select the best four or five expressions to engage in the rest of the dialogue 4. There are three or more rounds of meetings with the selected bidders to discuss possible outcomes. The first focusing the service delivery model and how the providers and commissioners will agree and develop the health care outcomes; the second exploring how providers will work together to deliver integrated service – and how new value will be created and incentivised by that service. The specification is then refreshed by the commissioners and goes out to existing bidders for a new submission. There is then a third round of discussions with each bidder which discusses their refreshed bid. This discussion looks at how the service delivery model will deliver the specified outcomes and at how new forms of value are incentivised in the contract. 5. After this dialogue a new detailed specification is drawn up by commissioners and is then put out to tender for the formal legal process. The new tender is

	replied to and the normal form of legal contracting takes place leading to an award of the contract. Mobilisation of a COBIC contract will be different to previous contracts, and therefore the commissioner and provider will need to work together to address any problems during the mobilisation phase.
Funding and risk sharing: ■ Modelling whole life cost ■ Funding sources and addressing short falls ■ Understanding risk – provider views ■ Pricing risk and competitive pricing ■ Allocating risk – where does the risk sit: commissioner/prime; prime/supply chain	
Performance management	
Measuring performance: ■ Evidencing outcomes ■ Adapting metrics ■ Auditing arrangements ■ Dispute resolution	
Performance management arrangements: ■ Incl. adjustments to correct/improve operation of PbR contracts/arrangements	
Service failure: ■ Penalties for failure ■ Mechanisms for addressing failure ■ Contract termination ■ Re-contracting ■ Redress for service users	
Accountability and value for money	
Roles and responsibility of accounting officer	
Monitoring beyond PbR contracts	
Monitoring cost	
Governance arrangements	While the development of the COBIC contracts commenced as a PCT led initiative, over time a COBIC Developmental Board was established. The board included membership from across the local health and social care economy, independent experts in, for example, contract regulation and procurement and working with the voluntary sector, and national representation.
Promoting effective practice	

Intervening in delivery	
Evaluating value for money of the entire PbR scheme	

Other
When to use COBIC contracts The authors suggest that when thinking about moving to a COBIC contract for integrated care, rather than starting with a large contract, 'It may also be sensible to start with a specific contract that has clearly failed to develop as an integrated service and would gain from so doing. As we have suggested in the body of the case study to deliver integrated health care that will drive towards outcomes health care providers will have to change the way in which they organise service provision radically.' (p16)

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Title
Commissioning integrated care in a liberated NHS
Author
Chris Ham, Judith Smith and Elizabeth Eastmure
Year
2011
Publisher
The Nuffield Trust
Web address
http://www.nuffieldtrust.org.uk/sites/files/nuffield/commissioning-integrated-care-in-a-liberated-nhs-report-sep11.pdf

Document Type			
Policy document	Expert publication	Performance data	Evaluation
	X		
Other:			

High Level Summary
The report sets out the findings of research that sought to understand how NHS commissioners can develop services that are better integrated for patients, and deliver for the NHS. The research comprised a national survey of primary care trusts (PCTs) in England, a survey of the strategic health authorities, a review of international research literature on payment approaches in health, and input from several national organisations with expertise in the area of commissioning and integrated care. A number of case studies of innovative practice in commissioning integrated are identified – including payment for success models of commissioning. Those involving a PbR approach are detailed below.

Background Information (PbR Schemes)	
Name of scheme	Several schemes are mentioned – each are summarised in the PbR summary box.
Policy area	Health and social care, integrated care.
Target group(s)	
Rationale	To improve efficiencies and value for money, and to support the integration of care.
Description of scheme	
Geography	
Commissioner and intermediaries	
Type of PbR	
Incentives structure	
Total budget	
Portion assigned to PbR	
Number of prime contracts	
Timescale (development)	The timescale for development and delivery is not clear – however examples presented below were either being designed or had been implemented during 2011.
Development budget	
Development process	
Timescale (delivery)	

Current status	
Supply chains (prime & sector; subs & sector)	
Social investment	
Detail of PbR	
Summary: (or complete template below)	**Tower Hamlets** *Description of the service:* A package of care for diabetes patients developed by a GP, consultants, community care specialists and public health experts. The care package was rolled out across a network of GP practices. The network was also encouraged to roll-out immunisation / vaccination care packages. *Providers* The diabetes package is delivered by eight networks of GP practices– with the commissioner holding a single contract with each network. *Payment structure, outcomes and incentives* 70% of the contract is provided upfront, with 30% of the payment dependent on the achievement of outcomes which includes patient experience, care planning and the proportion of patients whose diabetes is actively managed and controlled. *Performance management* Networks use automated call and recall systems for patients and the PCT draws on real-time performance data for peer review and monitoring. The PCT has found that reporting results motivates the networks, and provides an opportunity for recognition among peers. The indicators used to track performance were developed and agreed by clinicians (however it is not clear from the information provided whether these relate to the outcome indicators for which payment is made, or additional indicators for performance management). The report states that data is obtained by "an honest broker", suggesting an independent mediator is involved in collecting the data. **Knowsley PCT** *Description of the service* An integrated cardiovascular service commissioned by the PCT on behalf of it practice-based commissioners. The service includes consultant clinics within community settings offering diagnostics, treatment and management plans; collocated nurse-led community heart failure clinics; community-based cardiac and stroke rehabilitation; strong links into health and wellbeing services; and a single administrative hub which manages all referrals and enquiries. The service model was approved in early 2009 and procured via competitive tender. *Providers* The service is led by a specialist provider (Liverpool Heart and Chest Hospital NHS Foundation Trust). However, it is not clear whether subcontracting arrangements are in place, and if so, who the subcontractors are. *Payment structure, outcomes and incentives* Based on the service specification, the three year contract is part block and part performance-based. Between 20 – 40% of the contract value was proposed to be performance related, with performance payments rising from 20% in the first year, up to 40 per cent in the third year. Outcomes include: The number of patients upon completion of cardiac rehabilitation able to return to work or take up voluntary activity should increase year on year, Patients and their families/carers have a positive experience of the service, and perceive they have been treated courteously and with respect. **Milton Keynes PCT** *Description of the service* Urgent care services. The established NHS Map of Medicine was used to define care pathways to be delivered by the service (the Map provides referral management, care pathways and health care management guidance to support

	service design). At the time of publication, planning was taking place (during 2010/11) and most of the new contracts were expected to be in place from 2011/12. *Providers* At the time of publication, it was expected that a lead provider model would be deployed. Potential options for the lead provider included a joint venture between the local acute foundation trust and an out-of-hours organisation run by a group of GPs. The service was to be contracted through a process of local negotiation rather than an open tender. *Payment structure, outcomes and incentives* At the time of publication, the PCT had proposed to construct the contract from a core capitation-based budget plus incentives payments. It was expected that provider would deliver approximately 90 per cent of the current expenditure, with an additional 5 per cent based on performance against health, inequality and user experience outcome measures. *Performance management* Developing the contract and commissioning model also aimed to establish secure arrangements for the sharing of clinical records and information among the professionals involved in a patient's care.

The information presenting in the following rows relates to the **Tower Hamlets Diabetes PbR only**

Indicators	Undertaking all activity required by the care package	Accurate and timely data coding	Patient satisfaction	Management of HbA1c (a marker of long-term blood glucose control), blood pressure, cholesterol	All patients have individual care plans	
Metrics						
Evidential requirements						
PbR allocation	70%	10%	5%	5%	5%	
Timing of payment	Quarterly	Year end	Year end	Year end	Year end	
Performance rewards						
Payments made to date						
Counterfactual/baseline						

Key issues	
Defining outcomes and payments	
Evidence base for outcomes	
Defining outcomes	
Agreeing outcome definitions	
Using proxies	
Measuring outcomes	
Attributing outcomes	
Intermediate outcomes and distance travelled	
Data sharing/data availability	
Service pricing: ■ Incentivising long-term outcomes	

■ Addressing skimming/cherry picking ■ Ensuring efficiency ■ Reviewing costs and pricing	
Provider capacity	
Market capacity: ■ Market making ■ Market testing ■ Commissioning and competitive tendering ■ Market capacity	The development of the integrated care commissioning models involved extensive engagement with providers, other stakeholders, patients and the public. The authors noted that while this was beneficial to the development of the models, it extremely time-consuming and costly. Specifically, the authors highlight the 'Need for commissioners to identify capacity to addressing issues such as: • Data collection and integration • Detailed costing • Collaborative design of a new care pathway with professionals, carers and patients.' (p15)
Funding and risk sharing: ■ Modelling whole life cost ■ Funding sources and addressing short falls ■ Understanding risk – provider views ■ Pricing risk and competitive pricing ■ Allocating risk – where does the risk sit: commissioner/prime; prime/supply chain	
Performance management	
Measuring performance: ■ Evidencing outcomes ■ Adapting metrics ■ Auditing arrangements ■ Dispute resolution	
Performance management arrangements: ■ Incl. adjustments to correct/improve operation of PbR contracts/arrangements	
Service failure: ■ Penalties for failure ■ Mechanisms for addressing failure ■ Contract termination ■ Re-contracting ■ Redress for service users	
Accountability and value for money	
Roles and responsibility of accounting officer	
Monitoring beyond PbR	

contracts	
Monitoring cost	
Governance arrangements	
Promoting effective practice	
Intervening in delivery	
Evaluating value for money of the entire PbR scheme	

Other

The commissioners involved in the case studies highlighted challenges of going from development to implementation (including market capacity and establishing whole life time costs). In addition to costs, the PCTs faced challenges in other aspects of the contracting process, including:
• Costing the overall pathway in an accurate and comprehensive manner
• Identifying organisations with the capacity and capability to manage such a contract

Despite these challenges, the authors conclude 'It is important to note that contracting did prove to be a powerful mechanism through which funders can lever change within providers.' (p17)

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Title
Outcomes Based Commissioning Phase One Report: Developing the outcomes for better patient care and better value (executive summary)
Author
Oxfordshire Clinical Commissioning Group
Year
November 2013
Publisher
Oxfordshire Clinical Commissioning Group
Web address
http://www.lgcplus.com/Journals/2013/12/04/p/m/c/13.59-Maternity-Business-Case.pdf

Document Type			
Policy document	Expert publication	Performance data	Evaluation
Other: Report of the initial phase of the development of an outcome based commissioning contract.			

High Level Summary
The report details the business case for the development of an outcome based commissioning approach for maternity services. It also introduces outcome based commissioning in the context of the NHS. The report captures phase two of a multi-staged process. Stage one comprised of preparatory work to establish governance arrangements and a stakeholder engagement plan, identification of the three services on which to focus the development of outcome based contract and for each defining the outcomes and segmenting the populations in scope for each service and options for contracting arrangements. Following this stage, the CCG prioritised maternity services for further development in the first instance.

Background Information (PbR Schemes)	
Name of scheme	Oxfordshire CCG mental health services
Policy area	Health
Target group(s)	Maternity services
Rationale	To support innovation and improvement of maternity services, and cost savings
Description of scheme	
Geography	England
Commissioner and intermediaries	Oxfordshire CCG
Type of PbR	
Incentives structure	
Total budget	
Portion assigned to PbR	
Number of prime contracts	
Timescale (development)	Not specified, but implied that development has been taking place over an 18 month period, using a phased approach.
Development budget	
Development process	

Timescale (delivery)						
Current status	The contract was due to go live in June 2014.					
Supply chains (prime & sector; subs & sector)						
Social investment						
Detail of PbR						
Summary: (or complete template below)	The detail was under development at the point of publication of the report. However, four outcomes have been agreed: • Health mother; • Health Baby; • Fit and capable to be the you want to be; and • Experience of continuous and seamless through pregnancy and birth and throughout the postnatal period. Each outcome is underpinned by eight or four indicators.					
Indicators						
Metrics						
Evidential requirements						
PbR allocation						
Timing of payment						
Performance rewards						
Payments made to date						
Counterfactual/baseline						
Key issues						
Defining outcomes and payments						
Evidence base for outcomes						
Defining outcomes	The outcomes have been defined in partnership with multiple stakeholders – a unique feature has been engagement with services users and the public. 'Over the past 18 months there has been a rigorous process for describing, testing and checking the outcomes that matter for women and their partners…. There has been a huge consensus from users, the public, clinicians and others that the following outcomes are right for maternity services.' (p32).					
Agreeing outcome definitions						
Using proxies						
Measuring outcomes						
Attributing outcomes						
Intermediate outcomes and distance travelled						
Data sharing/data availability						
Service pricing: ■ Incentivising long-term outcomes ■ Addressing skimming/cherry picking ■ Ensuring efficiency ■ Reviewing costs and						

pricing	
Provider capacity	
Market capacity: ■ Market making ■ Market testing ■ Commissioning and competitive tendering ■ Market capacity	
Funding and risk sharing: ■ Modelling whole life cost ■ Funding sources and addressing short falls ■ Understanding risk – provider views ■ Pricing risk and competitive pricing ■ Allocating risk – where does the risk sit: commissioner/prime; prime/supply chain	
Performance management	
Measuring performance: ■ Evidencing outcomes ■ Adapting metrics ■ Auditing arrangements ■ Dispute resolution	
Performance management arrangements: ■ Incl. adjustments to correct/improve operation of PbR contracts/arrangements	
Service failure: ■ Penalties for failure ■ Mechanisms for addressing failure ■ Contract termination ■ Re-contracting ■ Redress for service users	
Accountability and value for money	
Roles and responsibility of accounting officer	
Monitoring beyond PbR contracts	
Monitoring cost	
Governance arrangements	
Promoting effective practice	
Intervening in delivery	

Evaluating value for money of the entire PbR scheme	

Other

Contracting arrangements:
The document acknowledges the need to adapt existing standard contract when adopting a PbR approach: 'The contract form will be based on the latest NHS Standard Contract, however, to reflect the incentivised, outcome approach, several additional components will be included.' (p47). The components relate to:

- Contract duration: 'A contract length of 5 years with a potential extension of up to 2 years is proposed. There will be appropriate break clauses during the contract period to facilitate a change in provider if required due to unsatisfactory performance.' (p47)
- A change mechanism: 'To enable flexibility for both the commissioner and provider so that as the service is developed, the indicators reported and feedback from patients is received, changes can be made as appropriate in a non-cumbersome manner.' (p47)
- A gain share agreement: 'To ensure that providers look for efficiencies as well as meeting patient outcomes….Whilst the principles of this can be set out upfront, the details will need to be subject to negotiation with the successful provider.' (p47)
- Greater emphasis on patient / carer feedback: 'Direct patient and where appropriate carer feedback on the service being delivered will form part of the incentivised performance framework to ensure satisfaction and provide an on-going opportunity for improvement suggestions.' (p47)
- Incentivised performance framework: 'To ensure the focus remains on outcomes.' (p47)
- Back to back arrangements: 'Where there are material subcontractors (in terms of value and or contribution), the contracting provider will be required to have in place back to back legal arrangements to provide… further assurances that the contract will be delivered as expected.' (p47)
- Conditions Precedent: 'Prior to the contract going live and at appropriate stages of the implementation process, there will be check points….. For the provider to continue with the implementation of the clinical service, they will have to demonstrate to OCCG that they have satisfied agreed preconditions for service commencement.' (p47)

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Title			
Payment by Results (PbR) Drug & Alcohol Recovery Pilot Programme: a note of advice to the Department of Health (DH) on the proposed evaluation			
Author			
Policy Innovation Research Unit (PIRU)			
Year			
2011			
Publisher			
Policy Innovation Research Unit (PIRU)			
Web address			
http://www.piru.ac.uk/assets/files/Drugs%20Recovery%20PbR%20Note%20of%20Advice.pdf			
Document Type			
Policy document	Expert publication	Performance data	Evaluation
	X		
Other:			
High Level Summary			
The paper sets out to 'to provide advice on the design of the pilots (eg, on the outcomes used for performance payments) and on their evaluation.' (p1)			

Background Information (PbR Schemes)	
Name of scheme	
Policy area	
Target group(s)	
Rationale	'to explore how providers can be incentivised to deliver on recovery outcomes' (p1)
Description of scheme	
Geography	
Commissioner and intermediaries	
Type of PbR	
Incentives structure	
Total budget	
Portion assigned to PbR	'For the PbR Drugs Recovery pilots, the government's goal is for 100% of provider income to be based on meeting the outcomes' (p2)
Number of prime contracts	
Timescale (development)	
Development budget	
Development process	
Timescale (delivery)	
Current status	
Supply chains (prime & sector; subs & sector)	
Social investment	

Detail of PbR						
Indicators						
Metrics						
Evidential requirements						
PbR allocation						
Timing of payment						
Performance rewards						
Payments made to date						
Counterfactual/baseline						

Key issues	
Defining outcomes and payments	
Evidence base for outcomes	
Defining outcomes	Payments will depend on providers achieving outcomes in four domains that have been identified by the government: 1 free from drugs of dependence 2 employment 3 offending 4 health & wellbeing.
Agreeing outcome definitions	
Using proxies	
Measuring outcomes	**1 Free from drugs of dependence** Initial outcome: Abstinent from all presenting substances (opiates, crack, cocaine, alcohol, cannabis, amphetamines) recorded on last two TOP reviews, and still in treatment. Final Outcome: Planned discharge from structured treatment and no re-presentation to either treatment or CJ systems in following 12 months **2 Employment** Initial outcome: Planned discharge from structured treatment – ongoing substance misuse no longer a barrier to employment. Final outcome: No firm measure proposed yet. [Note: later in the paper, this domain is reported as having been dropped] **3 Offending** Initial outcome: Reduction in proven offending for either a group (measured either by number of proven offences or number of offenders), or for each individual in first 6 months in structured treatment. Final outcome: Reduction in proven offending for either a group (measured either by number of proven offences or number of offenders) in the 12 months from beginning structured treatment, or for each individual over a period of 12 months (initially from the beginning of structured treatment, but with opportunity to 'restart the clock'). **4 Health & wellbeing** Injecting Initial outcome: For those injecting at start of treatment, a recording of 0 days injecting at last 2 TOP reviews in last 12 months NFA/Housing Problem Initial outcome: Of those NFA or with a housing problem at start of treatment, recording of NO housing problem at last 2 TOP reviews Hep B Initial Outcome: Those who, having been assessed as requiring it, complete a course of Hep B vaccinations in last 12 months. HWB Initial Outcome: Client achieves a norm of health and social functioning in the last 2 TOP reviews. (p2)
Attributing outcomes	'Tying 100% of income to performance is most likely to have perverse

	consequences when the outcome is not fully under the control of the provider.' (p4) Problems noted with: • Self-report nature of abstinence and health outcomes – could lead to providers asking users to lie and fraud would be difficult to detect; and • Extent to which effects on crime are within the gift of the programme.
Intermediate outcomes and distance travelled	
Data sharing/data availability	
Service pricing: ■ Incentivising long-term outcomes ■ Addressing skimming/cherry picking ■ Ensuring efficiency ■ Reviewing costs and pricing	Because payments are 100% on outcome, the paper notes that this increases incentives for gaming; this then has a significant effect on the design of the service – e.g. on choosing outcomes that can be affected by the intervention, and ensuring that gaming is detected. Incentive for cream skimming also noted – even where Local Area Single Assessment and Referral System (LASARS) makes the referral, the provider could supply a sub-standard service to someone they see as not likely to achieve specified outcomes.
Provider capacity	
Market capacity: ■ Market making ■ Market testing ■ Commissioning and competitive tendering ■ Market capacity	
Funding and risk sharing: ■ Modelling whole life cost ■ Funding sources and addressing short falls ■ Understanding risk – provider views ■ Pricing risk and competitive pricing ■ Allocating risk – where does the risk sit: commissioner/prime; prime/supply chain	Cash flow cited as a problem, especially for smaller providers: …likely to be a tension between the cash-flow needs of the providers and the measures of the scheme's success…could lead to pilot sites loading payments on the interim outcomes.' (p3)
Performance management	
Measuring performance: ■ Evidencing outcomes ■ Adapting metrics ■ Auditing arrangements ■ Dispute resolution	
Performance management arrangements: ■ Incl. adjustments to correct/improve operation of PbR contracts/arrangements	
Service failure:	

■ Penalties for failure ■ Mechanisms for addressing failure ■ Contract termination ■ Re-contracting ■ Redress for service users	
Accountability and value for money	
Roles and responsibility of accounting officer	
Monitoring beyond PbR contracts	
Monitoring cost	
Governance arrangements	
Promoting effective practice	
Intervening in delivery	
Evaluating value for money of the entire PbR scheme	The paper comments widely on the evaluation of the pilots, including VFM. For example: • The need for comparator area data to assess impact, but problems with fidelity (e.g. comparator area starts using PbR approach). Localised nature of the pilots also affects ability to disentangle confounding factors; • The need to trace implementation such that potential problems – e.g. cash flow, cream-skimming – inherent in design are examined in practice; • PbR may work well for some, badly for others – how to net out this effect and say something about 'PbR' overall? • VFM needs to be examined by looking at costs and benefits from a broad societal perspective; • Effects on the provider market should also be examined.
Other	

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Title			
Outcome Based Commissioning Lessons from contracting out employment and skills programmes in Australia and the USA			
Author			
UK Commission for Employment and Skills (UKCES)			
Year			
2010			
Publisher			
UKCES			
Web address			
http://eprints.port.ac.uk/6318/1/5.PDF			
Document Type			
Policy document	Expert publication	Performance data	Evaluation
	X		
Other:			
High Level Summary			
This document assessed the processes in which employment and skills provision is procured in both the US and Australia, specifically in relation to contracting and commissioning. It also seeks to identify issues that have arisen in the two countries and how this may have implications for the reforms being introduced in the UK.			
Purpose of Document			
To identify potential lessons and areas for learning from examples of contracting and commissioning processes in Australia (concerning vocational and education and training/employment services) and the US (concerning welfare to work and workforce development programmes with programmes incentivising getting people back to work).			
Sector Author, Publisher			
UKCES			
Key issues			
Defining outcomes and payments			
Evidence base for outcomes			
Defining outcomes			
Agreeing outcome definitions			
Using proxies			
Measuring outcomes	US schemes In the USA performance and outcome standards that apply to training and employment services typically include job placement rates, earnings, retention in employment and, for training programmes, skills and qualifications obtained. 'There would be value in swiftly reviewing the many contrasting outcome requirements that exist within the British employment and skills system, and in how they are measured, with a view to developing 'common performance' or 'return on investment' measures, similar to those being developed in the USA. Such agreed common measures would help minimise different performance, outcome and reporting requirements and facilitate co-commissioning and the alignment of skills		

	and employment funding. They also would help facilitate greater coherence in the performance and outcome standards that providers have to meet.' (p6) In the US the Department for Health and Human Services (HHS) utilises a range of performance measures to monitor and assess state progress. There is particular emphasis on the work participation rate, as legislation requires states to enrol 50 per cent of all families and 90 per cent of two parent families in work or work related activities for specified hours per week. HHS assesses state progress on moving Temporary Assistance for Needy Families (TANF – giving assistance to needy low income parents with a time limited cash entitlement) recipients into work through outcome measures on job entry, job retention, and earnings gain; and monitors any increase in children living in married, two-parent families. The US evidence 'suggests that performance standards that measure levels of, and changes in earnings as well as employment and skills acquisition should play a role in outcome based commissioning.' (p22) Labour Market Results for Participants: ■ Short-term Employment Rate: The percentage of participants who are employed during second quarter after exit. (For youth, enrolment in education counts as well as employment.) ■ Long-term Employment Rate: The percentage of participants who are employed during the fourth quarter after exit. (For youth, enrolment in education counts as well as employment.) ■ Earnings Level: Median earnings during the 2nd quarter after exit among all exiters with earnings ■ Skill Gains: The percentage of exiters who have completed a certificate, degree, diploma, licensure, or industry-recognized credential during participation or within one year of exit. (p 40) <u>Australian schemes</u> Each state or territory then manages the flow of contestable funds and desired outcomes in their training markets using a range of policy levers, such as pricing differentials, geographic restrictions, and capping of commencements (Skills Australia, 2009, p.57) (p 25) Skills Australia proposed that individual providers should publish data on their outcomes – in terms of student and employer satisfaction, job outcomes, course completion – in "consistent, easily understood and accessible ways" (2009, p. 63) (p 26) The comparative rating formula gives most value to full time employment outcomes sustained for 13 weeks or more, secured as soon as possible after service users access assistance. The methodology includes regression adjustments for labour market conditions and participant characteristics (p 28). The second proposal concerns enhancements in the assessment of employment outcomes from skills programmes and of the qualifications gained. This should involve the use of enrolment and destinations data, collected administratively or through leavers' surveys, to establish the employment and wage rates of participants. Such data could be used to establish whether individuals improved their employment position as a result of their participation and the extent to which they utilise any skills gained in their current employment. Such data could be combined into a measure of workforce quality, as suggested by Tom Karmel (2008) from the Australian National Centre for Vocational Education Research (p 35)

	Outputs The following outputs will act as a proxy to measure progress towards outcomes: (a) Number of enrolments in vocational education and training. (b) Number of course completions in vocational education and training. (c) Number of unit/module completions in vocational education and training. (d) Number of course completions by Indigenous Australians in vocational education and training. (e) Number of enrolments by Indigenous Australians in higher level vocational education and training qualifications. Progress measures (a) Proportion of the working age population at literacy level 1, 2 and 3. (b) Proportion of 20-64 year olds who do not have qualifications at or above a Certificate III. (c) Proportion of graduates employed after completing training, by previous employment status. (d) The percentage of graduates with improved employment status after training. (e) The number of hard to fill vacancies. (f) Proportion of people employed at or above the level of their qualification, by field of study (pp 41-42).
Attributing outcomes	
Intermediate outcomes and distance travelled	
Data sharing/data availability	
Service pricing: ■ Incentivising long-term outcomes ■ Addressing skimming/cherry picking ■ Ensuring efficiency ■ Reviewing costs and pricing	<u>US schemes</u> There is evidence that minimising cream-skimming, creaming and parking are significant challenges in both public and private sector incentive and target driven delivery systems. Such risks may be reduced through contract design and oversight. The inclusion of measures related to job retention, wages and benefits, and earnings gains, for example, all help diminish any incentive to place participants into poor quality jobs. Measures indicating completion of assessments and activities and regular surveys of participant and employer experience help limit the ability of providers to service clients differently. The challenge is to design such process and outcome measures in ways that do not create unnecessary administrative burdens and allow providers flexibility in how they secure outcomes. (p5) If a state meets or exceeds their performance targets they are eligible to receive incentive grants ranging between $750,000 and $3 million (Nataraj Kirby, 2004, p. 58). (p15) It is important to note that in most parts of the USA the proportion of provider income dependent on employment outcomes tends to be relatively low, ranging between 10 and 20 per cent. The key incentives in the US system concern the requirement that service providers meet a range of performance and outcome standards to remain eligible for funds or face the risk that a purchaser will choose not to renew a contract in an environment where annual contracts or renewals are the norm. In Wisconsin, for example, a provider will be given a 'Right of First Selection' if they meet required performance standards with the contract only put out for competitive tender if the existing provider fails to meet such standards. It appears that the US performance system for skills training and welfare to work has, as with the earlier JTPA (Job training partnership act – targeted at the unemployed and disadvantaged youth), tended to rely "more on procedural sticks than [outcome] carrots" (Felstead, 1998, p. 47) (p16). There are exceptions with some states and cities who have designed contracts

	where provider income is far more dependent on securing job outcomes. New York City (NYC), for example, is a useful comparator because it has made extensive use of pay-for-performance contracts and lets some of the largest value welfare to work contracts in the USA. This partly reflects its use of prime contractors, who are awarded three year contracts, and the fact that the city has one of the largest welfare caseloads in the country. The 'Back to Work' (trying to get people on welfare back to work) programme, implemented in 2006, redesigned earlier incentives partly in response to such criticisms. Revisions were made to the outcome payment system, designed in part to improve access to skills training and place greater emphasis on employment retention and advancement (Egglestone, 2006). The contractor now, for example, must develop a 'Job Retention and Career Plan' for each participant and document their efforts to 'advance' the individual through skill development and financial planning. Contractors receive only a nominal administrative payment for clients who are not placed in jobs, and only partial payment for short term job placements. The contractual incentives continue to be targeted at sustained jobs and career pathways (p17) A study of outsourced welfare to work provision reported that there was no evidence, at least at the time of the site visits, that creaming or parking were significant problems (McConnell et al, 2003, p. 42). Providers pointed out, for example, that it was difficult to favour participants who were more likely to become employed because they could not identify those people easily, and most of their participants faced significant employment barriers. Moreover, by typically including outcome and process measures in the contracts they designed, purchasers mitigated perverse selection incentives. The inclusion of measures related to job retention, wages and benefits, and earnings gains, for example, diminished the incentive to place participants quickly into poor quality jobs. Programme enrolment measures increased the providers' incentive to engage all service users referred to them. Measures indicating completion of assessments and activities also limited the ability of providers to service participants differently. The challenge was to balance such process measures in ways that kept the provider focused on transitions into employment and allowed them some flexibility for innovation (p21). <u>Australian schemes</u> By 2009 the provider payment system comprised service and job placement fees, the Jobseeker Account, and outcome payments for 13 and 26 week job placements weighted towards difficult to- place job seekers. The redesigned incentive system was intended to ensure that providers would put greater emphasis on income earned from outcomes rather than service fees. At the same time a more prescriptive delivery model combined with the Jobseeker Account sought to prevent 'parking', ensuring that all participants were more likely to receive services. The comparative rating formula gives most value to full time employment outcomes sustained for 13 weeks or more, secured as soon as possible after service users access assistance. The methodology includes regression adjustments for labour market conditions and participant characteristics. A speed of placement weighting was introduced in 2006 to serve as a counterweight to a fees system that gave relatively little incentive to providers to place people until they had actually become long term unemployed when they would attract higher job outcome payments (p28). The level of resource per participant, and outcome incentive for the provider, increases in relation to duration of unemployment and the severity of the barriers faced, as indicated by the service stream to which the participant is referred. Other refinements included financial recognition for securing limited 'social' outcomes for highly disadvantaged stream 4 job seekers and enhanced outcome payments for sustained jobs that JSA providers 'broker' with employers or which are preceeded by participation in a 'qualifying training course' (p30)

Provider capacity	
Market capacity: ■ Market making ■ Market testing ■ Commissioning and competitive tendering ■ Market capacity	Australian schemes The JN (Job network – involving assistance for the unemployed; basic job placement activities and short 'Job Search Training' courses) was designed to promote competition for market share, through the tender process, and intra-market competition, by allowing unemployed people and employers to choose their preferred provider (p28)
Funding and risk sharing: ■ Modelling whole life cost ■ Funding sources and addressing short falls ■ Understanding risk – provider views ■ Pricing risk and competitive pricing ■ Allocating risk – where does the risk sit: commissioner/prime; prime/supply chain	
Performance management	
Measuring performance: ■ Evidencing outcomes ■ Adapting metrics ■ Auditing arrangements ■ Dispute resolution	US schemes The terms of such contracts differ widely, with varying amounts of provider income dependent on securing agreed outcomes or performance standards. Only in some welfare to work and employment programmes is a major part of provider income dependent on securing sustained job outcomes. It is important to note that these contracts are not exclusively outcome based and typically have other performance and process requirements embedded within them (p4) Several states have taken their own approach to developing integrated performance standards which may also deserve consideration. These 'return on investment' standards seek more accurate measurement of the net costs, impacts and social returns of employment and skills programmes, which may be used to design contracts and steer provider behaviour. The most advanced system has been developed by Washington State which over a long period has required its WIB (Workforce Investment Board) (and its predecessors) to undertake regular quasi-experimental outcome evaluations and cost benefit analyses of all its workforce programmes. The results have been used to develop a 'return on investment' system of performance measurement for all its state and federally funded workforce development programmes (Rubinstein and Mayo, 2007). On the basis of this experience Washington worked with a number of other 'best practice' states to propose a 'next generation' performance management system for US workforce development programmes (p20). Australian schemes The first proposal concerns how to better integrate skills provision within DWP employment programmes for the unemployed. It concerns adapting the redesign of job focused outcome payments within the Job Services Australia payment system for use with FND (Flexible new deal) and other contracted out DWP programmes. It would involve giving incentives to providers to broker training places and rewarding them when participants they have trained are placed in jobs that make use of the skills developed. Such differential payments could be adapted quickly rather than await the longer term DWP ambition that may eventually see job outcome payments paid over a much longer time frame. The second proposal concerns enhancements in the assessment of employment outcomes from skills programmes and of the qualifications gained. This should involve the use of enrolment and destinations data, collected administratively or

	through leavers' surveys, to establish the employment and wage rates of participants. Such data could be used to establish whether individuals improved their employment position as a result of their participation and the extent to which they utilise any skills gained in their current employment. Such data could be combined into a measure of workforce quality, as suggested by Tom Karmel (2008) from the Australian National Centre for Vocational Education Research (p35).
Performance management arrangements: ■ Incl. adjustments to correct/improve operation of PbR contracts/arrangements	US schemes A review of New York's employment placements and skills system highlighted the fragmentation of the system. In total the review found five different city agencies delivering over thirty separate programmes, albeit HRA and Workforce 1 Centers were the largest providers (Thompson, 2008). Whilst there was much innovation in 'advancement', sector based and targeted group training and employment programmes the review commented on the pervasive lack of coordination and collaboration throughout the system. This was exacerbated by federal requirements which meant that even where programmes were delivered by the same contractors they had to operate with different payment milestones and satisfy different requirements to verify performance. The report suggested that New York needed to develop a coherent strategy and pointed to the progress made in other cities and states in coordinating their systems (p18) Australian schemes The Department estimated that within two years of introducing fully comparable star ratings 13 week job outcomes increased from 15 per cent to 35 per cent. In this context, star rating performance was used by the Department to further steer provider behaviour in that high performance could increase the amount of business a provider was allocated and enable them to secure future contracts. By contrast under-performance would result in loss of business and possible non-renewal of a contract (p28). The findings from the studies reviewed reveal that the implementation of performance and outcome based commissioning and contracting has been dynamic and that government agencies and 'purchasers' frequently have had to revise performance standards and contractual terms as problems have arisen and conditions have altered. In both countries there has been much 'learning by doing' and constant adaptation as officials have sought to establish performance management and payment structures that now aim to increase the duration of job outcomes, reduce creaming, integrate skills provision, improve service quality, and control any potential for perverse incentives or 'gaming' of systems (p34).
Service failure: ■ Penalties for failure ■ Mechanisms for addressing failure ■ Contract termination ■ Re-contracting ■ Redress for service users	US schemes The agency has a number of incentives and penalties to steer state performance. Incentives include a 'High Performance Bonus' system, where states may be paid up to a maximum of 5 per cent of their annual federal TANF award. Penalties apply only, however, to work participation rates, which give these standards a higher priority. Where participation rates are unmet HHS will send a penalty notice to the state concerned. The state then has the opportunity to avoid a penalty by providing reasonable cause or submitting a compliance plan indicating how it will ensure that parents receiving cash benefits will meet the required work participation requirements (p13). A state that fails to meet its agreed level of performance for one year is given 'remedial' support and assistance. After two years of failure it may be subject to a five per cent reduction in its annual WIA (Workforce investment act - securing more effective connections between workforce and economic development) grant. Similar conditions often apply to state contracts with providers where some states may impose financial penalties for continued failure but where more generally weak "performance on required measures appears to be more important in contract re-competitions and exercise of subsequent-year options" (Dunham et al, 2006, p. III-12).

	Each of the nearly 600 local WIBs is responsible for administering the WIA programmes in their area and for contracting with local organisations to provide services. Most WIBs subcontract programmes, services and 'one stop' centres to a wide range of public, for-profit and non-profit organisations, which also may include local secondary school districts and community colleges. Local delivery areas and providers usually are held accountable for their performance against a combination of process and performance standards that include job placement rates, earnings, retention in employment and skills and qualifications obtained. Failure to meet these standards may result in financial sanctions whilst high performance is rewarded (p15).
Accountability and value for money	
Roles and responsibility of accounting officer	
Monitoring beyond PbR contracts	
Monitoring cost	
Governance arrangements	US schemes Different patterns of coordination and integration have emerged at state and local levels in response to the flexibility given by TANF and the one-stop systems established by WIBs. In contrast to New York City, several states, such as Utah and Texas, merged their welfare and workforce development programmes into a single agency at state level. Other states use a variety of contracts, financial agreements, memoranda of understanding, and other formal agreements to coordinate services and activities between state welfare and workforce development agencies. Such coordination may include co-location of or electronic linkages between welfare and workforce development services in 'one stops' (as in much of Wisconsin); blending of separate funding streams; and the development of more seamless service delivery through common application processes, integrated intake and case management (Ranghelli, *et al*, 2003; Noyes and Corbett, 2005). (p19) Australian schemes Karmel (2008) suggests that the approach marks a significant change from earlier strategies with states and territories now held accountable for strategically important outputs and outcomes whilst enjoying greater flexibility in how they secure them (p 24). Skills Australia identifies what it considers to be another systemic weakness. Much of the performance and accountability framework for VET has been targeted at the whole system, with much less emphasis on transparency of performance at the provider level and "scant public insights into the outcomes realised by individual private providers" (2009, p. 64). Skills Australia proposed that individual providers should publish data on their outcomes – in terms of student and employer satisfaction, job outcomes, course completion – in "consistent, easily understood and accessible ways" (2009, p. 63). On receiving the report from Skills Australia the Deputy Prime Minister acknowledged that VET sector performance was 'opaque' indicating that later in 2010 the federal Government would be announcing 'steps' that will help "shine a light on the performance and effectiveness of the sector" (Gillard, 2010). Other commentators conclude that the levers for holding states, territories and providers accountable for their performance and outcomes remain weak, with "little pressure on states and providers receiving public funds to improve their efficiency" (Knight and Mlotkowski, 2009, p. 9) (p26).
Promoting effective practice	US schemes There are specified federal performance measures associated with WIA for which states and WIBs are held accountable. These incorporated many of the JTPA

	standards such as entry into unsubsidised employment, retention and earnings after six months, but they also now explicitly included skills attainment and 'customer satisfaction'. States were required to test satisfaction ratings by both individuals seeking employment and employers looking for qualified workers 'Performance goals' are negotiated with each state and based on historical data, economic conditions and services provided. When agreed the goals are incorporated into a five-year workforce development plan. Programme delivery is the responsibility of the state which has some latitude to modify and augment federal performance standards (p14). <u>Australian schemes</u> A number of states have their own contract monitoring, compliance, expected performance and evidence standards in addition to those required by AQTF accrediting bodies (p25).
Intervening in delivery	
Evaluating value for money of the entire PbR scheme	
Other	

32

Title			
Drug and Alcohol PbR Pilot Evaluation: Scoping & Feasibility Report			
Author			
University of Manchester (PbRDR Evaluation Team)			
Year			
2012			
Publisher			
University of Manchester			
Web address			
http://www.population-health.manchester.ac.uk/epidemiology/NDEC/newsandevents/news/PbR_Report.pdf			
Document Type			
Policy document	Expert publication	Performance data	Evaluation
			x
Other:			
High Level Summary			
The report covers early implementation issues, but focuses mainly on providing a framework for the evaluation itself (this review does not cover the latter). Early issues raised mainly concern the co-design approach used to set up the pilots – notably the challenges of defining and measuring outcomes, and associated national-local differences. Other points include the role of smaller providers (seen as excluded) and the speed of implementation (seen as too quick).			

Background Information (PbR Schemes)	
Name of scheme	(see other templates for details on this scheme)
Policy area	
Target group(s)	
Rationale	
Description of scheme	
Geography	
Commissioner and intermediaries	
Type of PbR	
Incentives structure	
Total budget	
Portion assigned to PbR	
Number of prime contracts	
Timescale (development)	
Development budget	
Development process	
Timescale (delivery)	
Current status	
Supply chains (prime & sector; subs & sector)	
Social investment	

Detail of PbR						
Summary: (or complete template below)						
Indicators						
Metrics						
Evidential requirements						
PbR allocation						
Timing of payment						
Performance rewards						
Payments made to date						
Counterfactual/baseline						

Key issues	
Defining outcomes and payments	
Evidence base for outcomes	
Defining outcomes	Local pilots cited previous work to increase the focus on recovery, and attempts to make services more outcome focused. PbR was therefore seen as a means of continuing / accelerating this by changing providers' incentives.
Agreeing outcome definitions	A co-design approach was used to arrive at the outcomes for the pilots. This appears to have been welcomed by the local sites – accepting that there were central-local tensions to be negotiated: 'As it transpired the co-design phase was more protracted than originally envisaged for a range of reasons relating to the complexities of negotiating often contentious outcomes between ministers, government departments and local areas, and identifying appropriate measurements and data sources.' (p38'
Using proxies	
Measuring outcomes	
Attributing outcomes	
Intermediate outcomes and distance travelled	
Data sharing/data availability	
Service pricing: ■ Incentivising long-term outcomes ■ Addressing skimming/cherry picking ■ Ensuring efficiency ■ Reviewing costs and pricing	The challenge of balancing short- and longer- term outcomes is noted – especially in relation to chronic / relapsing drug use. This led to a balance of intermediate and final outcomes being selected.
Provider capacity	
Market capacity: ■ Market making ■ Market testing ■ Commissioning and competitive tendering ■ Market capacity	Delays in the co-design process affected engagement with the market: 'One of the three pilots that had re-commissioned their services found that the late provision of outcome measures for PbR meant they could not inform prospective bidders about how much they would be paid and for which activities, reportedly resulting in less interest at the tendering stage and a reduction in competition.' (p39) But, overall, the co-design process was seen as an effective means of securing providers' involvement. The effect on smaller providers was also noted: 'There was a perceived danger expressed by this interviewee and others that PbR would in effect 'de-stabilise the system' and in particular exclude smaller providers who would not have the capital

	and resources to take on the risks associated with a system of funding linked to performance and (longer-term) outcomes…Attachment fees for clients, interim payments and sub-contracting/ partnership bidding were proposed as possible ways of encouraging smaller providers to continue to be involved in PbR contracts and service delivery' (p42)
Funding and risk sharing: ■ Modelling whole life cost ■ Funding sources and addressing short falls ■ Understanding risk – provider views ■ Pricing risk and competitive pricing ■ Allocating risk – where does the risk sit: commissioner/prime; prime/supply chain	
Performance management	
Measuring performance: ■ Evidencing outcomes ■ Adapting metrics ■ Auditing arrangements ■ Dispute resolution	
Performance management arrangements: ■ Incl. adjustments to correct/improve operation of PbR contracts/arrangements	
Service failure: ■ Penalties for failure ■ Mechanisms for addressing failure ■ Contract termination ■ Re-contracting ■ Redress for service users	
Accountability and value for money	
Roles and responsibility of accounting officer	
Monitoring beyond PbR contracts	
Monitoring cost	
Governance arrangements	
Promoting effective practice	The speed of implementation was cited as being too quick, causing problems in early delivery: 'timescales for establishing the drugs recovery pilots were invariably described as 'challenging' and 'tight', and were considered not to adequately reflect the complexities inherent in commissioning and delivery processes.' (p43)
Intervening in delivery	
Evaluating value for money of the entire PbR scheme	

Other

33

Title			
Evaluation of the Drugs and Alcohol Recovery Payment by Results Pilot Programme: Interim Summary Report			
Author			
University of Manchester			
Year			
2014			
Publisher			
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High Level Summary			
This is an early evaluative output from the Drugs and Alcohol pilots evaluation. It focuses on process issues relating to: '(i) the Local Area Single Assessment and Referral System (LASARS); (ii) variations in funding models; (iii) implementation and delivery of recovery-orientated treatment systems under PbR; and (iv) exit strategies.' (p3) Early findings are very mixed, even accepting the variation in local models. Challenges relate to the costs and practicalities of measuring outcomes and avoiding gaming. More substantively, there are questions about whether PbR is suitable given the nature of drug use. Positive findings relate to the increased focus on aftercare; moreover, participants expressed a desire to continue with PbR.			

Background Information (PbR Schemes)	
Name of scheme	(see summaries of this programme on other templates)
Policy area	
Target group(s)	
Rationale	
Description of scheme	
Geography	
Commissioner and intermediaries	
Type of PbR	
Incentives structure	
Total budget	
Portion assigned to PbR	
Number of prime contracts	
Timescale (development)	
Development budget	
Development process	
Timescale (delivery)	
Current status	

Supply chains (prime & sector; subs & sector)						
Social investment						
Detail of PbR						
Summary: (or complete template below)						
Indicators						
Metrics						
Evidential requirements						
PbR allocation						
Timing of payment						
Performance rewards						
Payments made to date						
Counterfactual/baseline						
Key issues						
Defining outcomes and payments						
Evidence base for outcomes	Challenges noted here: • 'the chronic, relapsing nature of dependency being at odds with the notion of a PbR outcome focused on re-presentation; and • some established barriers to recovery, including access to appropriate forms of accommodation and offending behaviour, being beyond the influence or control of providers.' (p6)					
Defining outcomes	Seen as being the most effective element within the scheme: that attention has been focused on the needs of users and that throughcare and aftercare has been given greater consideration: 'PbR funding models may have helped bring about a sharper focus on better identifying the needs of local treatment populations.' (p5)					
Agreeing outcome definitions						
Using proxies						
Measuring outcomes	The cost of modelling and evidencing outcomes was far higher than anticipated					
Attributing outcomes						
Intermediate outcomes and distance travelled						
Data sharing/data availability						
Service pricing: ■ Incentivising long-term outcomes ■ Addressing skimming/cherry picking ■ Ensuring efficiency ■ Reviewing costs and pricing						
Provider capacity						
Market capacity: ■ Market making ■ Market testing ■ Commissioning and competitive tendering	Two challenges noted by the report are: • 'risk aversion shown by (both statutory and non-statutory) providers within the market; • lack of engagement and dialogue with providers prior to design and implementation' (p5) Large organisations are cited as being more able to engage as providers; related to					

■ Market capacity	risk appetite and cash flow.
Funding and risk sharing: ■ Modelling whole life cost ■ Funding sources and addressing short falls ■ Understanding risk – provider views ■ Pricing risk and competitive pricing ■ Allocating risk – where does the risk sit: commissioner/prime; prime/supply chain	This has varied by local pilot, with views on existing provision being a determining factor, e.g.: 'Funding models with a smaller PbR component reflect the desire not to destabilise existing treatment systems.' (p5)
Performance management	
Measuring performance: ■ Evidencing outcomes ■ Adapting metrics ■ Auditing arrangements ■ Dispute resolution	The Local Area Single Assessment and Referral System (LASARS) are seen primarily as a means of counteracting gaming, so are fundamental to the PbR model. Within the pilots, LASARS are arranged very differently. There is clear debate about their value (whether they are preventing gaming) and performance (whether their staff have the right skills to assess users' needs).
Performance management arrangements: ■ Incl. adjustments to correct/improve operation of PbR contracts/arrangements	Relationships with commissioners cited as fundamental: 'The experience from one of the pilots in particular, illustrates how performance deteriorations caused by the system change required for PbR can significantly erode trust and destabilised the relationship between commissioners and providers.' (p7)
Service failure: ■ Penalties for failure ■ Mechanisms for addressing failure ■ Contract termination ■ Re-contracting ■ Redress for service users	
Accountability and value for money	
Roles and responsibility of accounting officer	
Monitoring beyond PbR contracts	
Monitoring cost	
Governance arrangements	
Promoting effective practice	Early evidence of some effects on provider behaviour: 'A number of sites described a greater emphasis now being placed on promoting the staged reduction of opioid substitution dosage to both new and existing service users under PbR' (p6 Other elements of effective practice cited: • 'a clearer framework which encourages both service users and providers to consider recovery-orientated goals; • clearer expectations of service users around issues like continued use of illicit substances whilst in receipt of opioid substitution treatment (OST); • a stronger emphasis on engaging with psycho-social forms of support to enhance the benefits of OST and aid recovery; and • a renewed focus on reviewing progress towards meeting client goals.'

	(ibid)
Intervening in delivery	
Evaluating value for money of the entire PbR scheme	Main area of comment here is on increased costs associated with data and monitoring
Other	

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Title
A Summary of Transforming Rehabilitation, Produced for this Report.
Author
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Transforming Rehabilitation: A Strategy for Reform, MoJ - https://consult.justice.gov.uk/digital-communications/transforming-rehabilitation/results/transforming-rehabilitation-response.pdf Abbreviated to TR in this document Target Operating Model Rehabilitation Programme, MoJ - https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/387795/target-operating-model-3.pdf Abbreviated to TOM in this document Clinks briefing on the competition stage of the Transforming Rehabilitation reforms, Clinks - http://www.clinks.org/sites/default/files/basic/files-downloads/Members%20Briefing%20-%20Competition%20stage%20of%20the%20TR%20reforms%20FINAL.pdf Abbreviated to Clinks in this document

Document Type			
Policy document	Expert publication	Performance data	Evaluation
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Other:			

High Level Summary
'This paper sets out how we will transform the way we rehabilitate offenders, to make progress in driving down reoffending rates. We are clear that the level of reoffending by offenders who have already passed through the justice system has remained unacceptably high for too long.' (p6 - TR)

Background Information (PbR Schemes)	
Name of scheme	Transforming Rehabilitation
Policy area	Crime - offending
Target group(s)	Low and medium risk offenders
Rationale	Reducing reoffending rates among low and medium risk offenders 'Last year, around 600,000 crimes were committed by those who had broken the law before. Nearly half of those released from prison went onto reoffend, in many cases not just once but time and again. Despite increases in spending under the previous Government, reoffending rates have barely changed.' (Ministerial Foreword, p3)

	'Our reforms are designed to stop offenders passing through the system again and again, creating more victims and damaging communities.' (p6)
Description of scheme	The intention of the scheme is to reduce the way in which offenders are managed in the community with the ultimate aim of reducing reoffending rates in low and medium risk offenders. The scheme has opened up the market to a range of private, social and voluntary providers with a focus on innovative ways to reduce reoffending, paying providers by results delivered (in relation to reduction in reoffending rates). 'By fundamentally reforming the system, and finding efficiencies to extend rehabilitation to more offenders, we can start to make a difference. The reforms we will implement include: for the first time in recent history, new statutory rehabilitation extended to all 50,000 of the most prolific group – offenders sentenced to less than 12 months in custody; a fundamental change to the way we organise the prison estate, in order to put in place an unprecedented nationwide 'through the prison gate' resettlement service, meaning most offenders are given continuous support by one provider from custody into the community; opening up the market to a diverse range of new rehabilitation providers, so that we get the best out of the public, voluntary and private sectors, at the local as well as national level; new payment incentives for market providers to focus relentlessly on reforming offenders, giving providers flexibility to do what works and freedom from bureaucracy, but only paying them in full for real reductions in reoffending; a new national public sector probation service, working to protect the public and building upon the expertise and professionalism which are already in place.' (p6) 'We will put in place services which work to rehabilitate offenders 'through the prison gate' from custody into the community; we will extend rehabilitation to the most prolific group of re-offenders – those who are released from short custodial sentences; we will open up delivery of rehabilitative services to a wider range of providers, including experts in the voluntary and community sector; we will give providers flexibility to do what works and ability to ensure offenders engage with rehabilitation requirements, introducing legislation where necessary; and we will pay providers according to the reductions in reoffending they achieve.' (p8 - TR) 'In custody, our commissioned providers will: offer a resettlement service for all offenders in custody before their release. This may include support in finding accommodation, family support, mentoring and financial advice. be able to engage further with, and offer further services to, offenders who will be in their caseload on release in order to reduce their likelihood of reoffending once released. These services in custody will be underpinned by changes to the way the prison estate is organised. We describe below how we will join rehabilitation in custody and the community together through a new designation of 'resettlement prisons', so that in most cases the same provider can work with offenders in custody and continue their rehabilitation work in the community. In the community, for offenders within their caseload, providers will: deliver activities which they judge will be most effective to reform offenders. This might include signposting offenders to accommodation, education, or health services or offering a mentor. Providers will have responsibility for the day to day

	management of the majority of offenders. be responsible for delivering the requirements of a community order, suspended sentence order or licence, so that they have full responsibility for individual offenders. They will deliver these requirements under specifications which are clear about 'what' the service outcomes are, but which give providers flexibility to determine 'how' services should be delivered. This will enable providers to deliver the rehabilitative aspects of the sentence or licence requirements in the way they believe is most likely to reduce reoffending.' (p10 - TR) The Transforming Rehabilitation programme is the Coalition Government's plan to reform the Probation Service in England and Wales by replacing existing Probation Trusts with a National Probation Service to manage high risk offenders, and forming Community Rehabilitation Companies that will manage low to medium risk offenders (pg 1 – Clinks) The majority of probation services are currently delivered by 35 Probation Trusts under contract to NOMS on behalf of the Secretary of State.1 Once the reforms are fully implemented, there will be 21 CRCs, each of which will provide services in its Contract Package Area (CPA). The CRCs will be owned and run by successful bidders in the present competition and will deliver services under contract to NOMS. The NPS will be a delivery arm of NOMS and will deliver services under a service level agreement (SLA). CRCs will manage the majority of offenders (those who pose a low or medium risk of serious harm) in the community sentenced to Community Orders (COs), Suspended Sentence Orders (SSOs) and those subject to licence conditions or supervision requirements and will deliver innovative rehabilitative support and mentoring to offenders. The NPS will directly manage offenders who pose a high risk of serious harm to the public (including those whose risk has escalated to high during the course of their sentence) or those released from custody who have committed the most serious offences and will have a key role at certain stages of the process for all offenders, for example in advising the courts on sentencing, determining allocation and dealing with enforcement action, working closely with CRCs. (Pg 6 - TOM)
Geography	UK
Commissioner and intermediaries	UK Government -MoJ
Type of PbR	Payment for results/Fee for service
Incentives structure	Contracts combine payment by results and fee for service; providers need to achieve a reduction in the number of offenders who commit further offences and also achieve a reduction in the number of offences committed by each offender worked with. The level of payment for tier one offenders is dependent on the reduction achieved in reoffending. 'Our payment structure will incentivise providers to reduce reoffending by combining 'fee for service' elements, where we need to see services in place for all offenders to make the system work in practice, with 'payment by results' elements linked to success. Our payment mechanism will be built around financial incentives for providers to deliver agreed reoffending reductions across the whole offender cohort.' (p14 - TR) CRCs will be paid for managing the cases allocated to them, and a proportion of their payment will be at risk and dependent on their performance in reducing reoffending. Where requirements have been placed on CRCs under contract in relation to the delivery of services, these will be monitored through NOMS contract management; this will include penalties for services not delivered to time or to quality. The payment mechanism for services provided to the offender allocated to the provider is comprised of two elements: Fee For Service (FFS) and Payment by Results (PbR). The FFS is primarily paid for mandated activities that deliver the

	sentence of the court and licence conditions and includes Through the Gate (TTG) services and Rehabilitation Activity Requirements (RAR). PbR is paid for the achievement of statistically significant reductions in reoffending against the baseline historical level. The total available funding in any year, known as the Maximum Annual Payment (MAP), has been set on a Contract Package Area (CPA) basis for each year of the contract. Providers are required to bid a FFS for each year of the contract. The difference between the FFS bid and the MAP will form the basis of the amount available for PbR, relating to the quarterly cohorts and annual cohort that are established in that year. FFS covers the delivery of sentence requirements and includes TTG and RAR. • Providers will bid against a predicted annual volume range, weighted for sentence type and, in the case of Unpaid Work, the length of the requirement. This is known as the Weighted Annual Volume (WAV). • Providers' FFS bids are expected to include a 'learning curve discount' to drive continuous improvement. • The FFS for the predicted WAV will be an annual amount paid in twelve equal payments made monthly in arrears. • At the end of each contract year, the FFS paid on the predicted WAV is reconciled to the actual WAV recorded, with a retrospective payment or deduction applied if the actual WAV is shown to have been outside of a set tolerance range around the predicted WAV. Service credits will be applied for failure to deliver the mandatory services to a specified time and quality, in line with the performance framework. The NPS will purchase delivery of certain services from providers for offenders that the NPS manages. Payment will be made on a Fee for Use (FFU) basis. Prices for these services will be governed by a rate card. Prices for any elective services (i.e. those not already included on the rate card) will be agreed between the MoJ and the provider. The same approach will be taken by commissioning bodies, such as other government departments, which also wish to purchase services from CRCs. Payment for senior attendance centre provision for fine defaulters will be made by charging the MoJ by reference to the rate card attendance centre price. Fine defaulters given an Attendance Centre order will not form part of the PbR cohort. (Pg 55/56 – TOM)
Total budget	
Portion assigned to PbR	
Number of prime contracts	21 areas
Timescale (development)	'Phase One – to summer 2013 In spring 2013, we intend to introduce primary legislation to enact a rehabilitation bill to extend statutory rehabilitation support to short sentenced offenders, to give providers greater flexibility under rehabilitative requirements, and to make changes to the Responsible Officer role to support our new system. By beginning to legislate early, we can give potential providers clarity over the service offering which will be required, allowing them to prepare bids, form partnerships between larger and smaller organisations and begin to gear up new services for delivery. During this phase we will also complete the final details of our system design. We will also test robustly some of the details of our plan. We will learn lessons from those trusts who have moved earlier to the new operating model. We will also test

	the commercial model with potential market providers. Phase Two – to spring 2014 In summer 2013, we will commence the competitive process for our new providers. This will involve both competitions to award contracts across package areas to lead providers, and also our supply chain partner process to identify and provide information on smaller providers. This will be taken forward through a standard Expressions of Interest process so that lead providers are able to assemble diverse supply-chains in each geographic area. We will work with existing trusts to reorganise the current probation service, dividing it into retained public services and services ready for market providers to take on as going concerns. We will also move towards the new national structure for the public sector probation service. By taking this reorganisation forward in advance, we will minimise any risks of disruption to business as usual as market providers take over delivery of services. Phase Three – to autumn 2014 From summer 2014 our new public probation service and going concerns to be taken on by market providers will continue live operation. We will complete the final stages of our competition to select lead providers. The results of competitions will be put through final approvals, outcomes will be announced and contracts will be signed by autumn 2014.' (pg 34-35 TR) Contracts for Tier 1 providers will be for 7-10 years with an option to extend for a further 3 years. Sub contracts and grants are likely to be for shorter periods and the intention for transparency around refresh and retendering of service and the requirement to comply with the Compact gives some reassurance for VCSE organisations around this (pg 4 – Clinks)
Development budget	
Development process	
Timescale (delivery)	'Phase Four – into live operation From autumn 2014 services will be delivered under new contracts, by the successful bidders who will take over going concerns. Cohorts of offenders will be built up to be assessed against 'payment by results' payment metrics.' (p35)
Current status	
Supply chains (prime & sector; subs & sector)	'As we move into competitions to deliver services: the MoJ will instigate a process to engage with potential supply chain partners through a single Expressions of Interest form. This process will result in a database of organisations who will self-declare their areas of expertise and the geographical locations of most interest to them and evidence their experience and quality. Taking this central process forward once will reduce the burdens that would fall to smaller providers in negotiations with individual lead organisations. We know that the due diligence required to prepare multiple expressions of interest can be extremely time consuming, and that smaller and VCSE organisations will often not have the capacity to do this. Once assembled and approved for publication by MoJ this database will be made available as part of a networking process to all organisations engaging in the competition. It will also assist lead organisations so that they are better able to assemble diverse supply-chains in each geographic area. lead organisations will be expected to provide evidence of how they would build and sustain local partnerships with local and community sector organisations as part of the bidding process as well as in ongoing governance through the agreed market

	stewardship principles which will extend throughout the whole supply chain – this is discussed further in Section 3. the MoJ will ensure that the Compact Principles are used to inform the development of the competition process, the service specifications and contractual terms and conditions. These principles set out an agreement between the VCSE sector and the Government on how best to work together. the MoJ will also work with the emerging social investment market to ensure available capital can be directed to facilitate VCSE providers' involvement in service delivery and will also continue to engage with Trust Funders who play an important role in supporting innovation in this sector.' (p18 TR) Tier 1 providers, likely to be mainly from the private sector, will be contracted directly by the MoJ to run Community Rehabilitation Companies (CRC) which will have responsibility for the provision of all supervision and rehabilitation services for low to medium risk offenders in each CPA. Tier 2 and Tier 3 providers are likely to be made up principally of VCSE Sector organisations. They will be sub contracted or grant funded directly by Tier 1 providers. It is likely that most organisations will be sub contracted but there is potential for some grants. MoJ envisage that Tier 3 will be small, local organisations, with low annual turnover. However MoJ will not be defining the exact size or turnover that will define an organisation as Tier 2 or Tier 3. Potential Tier 1 providers will have to include details in their bids of how contracts and grants will work in the CPA. (Pg 2 – Clinks) it is expected that in entering into contractual agreements, there should be understanding between Tier 1 and Tier2/3 providers of what is important to both parties and that this should form part of the contractual agreement. (Pg 3 - Clinks) The newly established CRCs will manage low and medium risk offenders in the community and deliver resettlement services in resettlement prisons. The National Probation Service (NPS) will manage high risk offenders in the community. (Pg 5 – Clinks)
Social investment	'To ensure smaller and VCSE organisations can be involved in delivering rehabilitation, using their local expertise in working with offenders, we are taking a number of practical steps. In particular, these will ensure that these providers can form part of fair and sustainable supply chains as sub contractors.' (p15)
Detail of PbR	
Summary: (or complete template below)	'We will create incentives for providers to focus relentlessly on driving down reoffending rates. Competing services will allow us to use innovative payment mechanisms which drive a focus on reducing reoffending. Providers' level of payment will therefore be dependent on the reductions in reoffending they achieve.' (p14) 'We have refined our 'payment by results' approach in response. Our payment mechanism will incentivise providers to focus resources on all offenders, including the most prolific and the hardest to help, and will ensure that they are not able to 'game' the system. Providers will be rewarded with success payments primarily when they achieve an offender's complete desistance from crime for a 12 month period. However, our payment mechanism will also take into account the total number of re-offences committed by the cohort of offenders providers are responsible for rehabilitating, so that providers are incentivised not to neglect the most difficult offenders and those who have already reoffended. Every victim of crime matters and we need to ensure this is reflected in providers' payments.' (ibid) 'The combined payment mechanism, including 'fee for service' and 'payment by results' elements will mean that providers need to work successfully with all

	offenders including the most prolific, and deliver minimum service standards for all offenders, in order to be paid in full. To be fully rewarded, providers will need to achieve both an agreed reduction in the number of offenders who go on to commit further offences, and a reduction in the number of further offences committed by the cohort of offenders for which they are responsible. This will encourage providers to make continuous support available to all offenders, will counteract the risk of providers ignoring the most difficult cases, and will introduce an incentive to design packages of support tailored to the needs of the individual, taking account of their situation and their protected characteristics where this is relevant. To achieve success under our payment mechanism and to deliver reoffending reductions providers will need to work closely with other local partners and in particular local Integrated Offender Management arrangements. The benefits of engaging effectively will be reflected in provider contracts and we will discuss with practitioners and potential providers the final details of our payment mechanism. These details will include how we maintain cash-flow for providers by minimising the time lag between a provider beginning work with an offender and being awarded a final success payment – we will consider shortening cohort forming periods and the possibility of making interim success payments on the basis of a shorter reoffending window. Alongside this payment mechanism structure we will use our contract structure to incentivise continuous improvement over time.' (p15)
Indicators	
Metrics	
Evidential requirements	
PbR allocation	
Timing of payment	
Performance rewards	
Payments made to date	
Counterfactual/baseline	
Key issues	
Defining outcomes and payments	
Evidence base for outcomes	
Defining outcomes	
Agreeing outcome definitions	
Using proxies	
Measuring outcomes	'Currently many providers, particularly in the voluntary sector, struggle to access re-offending data relevant to the offenders they work with. This means organisations often struggle to measure the effectiveness of their rehabilitation work. The Justice Data Lab will address this by providing organisations with re-offending data specific to the offenders they have been working with. MoJ analysts will match data from organisations working with offenders with national records to produce reoffending rates for that group of individuals. Where possible, we will also produce a comparable reoffending rate for a control group of offenders with very similar backgrounds so the organisation can better assess the effectiveness of their particular work in reducing reoffending. This will allow them to focus only on what works, better demonstrate their effectiveness and ultimately cut crime in their area.' (p19)
Attributing outcomes	

Intermediate outcomes and distance travelled	
Data sharing/data availability	
Service pricing: ■ Incentivising long-term outcomes ■ Addressing skimming/cherry picking ■ Ensuring efficiency ■ Reviewing costs and pricing	'At the centre of our commissioning approach is our commitment to putting in place providers who will deliver a high quality rehabilitative service which achieves reductions in reoffending. Our contracts will be of sufficient duration for providers to invest in developing innovative services which will tackle offenders' needs. We will work to finalise contract lengths on the basis of discussions with providers regarding investability. Those providers who perform well should have the confidence to embed their delivery structures and work to improve them over a sustained period.' (p26)
Provider capacity	
Market capacity: ■ Market making ■ Market testing ■ Commissioning and competitive tendering ■ Market capacity	'We remain of the view that commissioning contracts on the proposed scale and on a 'payment by results' basis will be most effectively and efficiently carried out by a national function. We have worked to design a commissioning function which is responsive to local priorities. The MoJ/NOMS will be responsible for commissioning our rehabilitation services. So that commissioning is responsive to the needs of other CJS partners including at the local level, we will ensure that the commissioning process is informed by engagement with co-commissioning partners at a national, Police and Crime Commissioner and local authority level. Contracts will be responsive to changing demands and priorities at local and national levels, new legislation and the wider commissioning context. Probation service local delivery units will support the gathering of intelligence on needs and priorities at a local level, including from key partners (e.g. local authority needs assessments) to feed into the MoJ/NOMS commissioning process. Through MoJ/NOMS contract management we will require providers to be responsive to changing demands and priorities at local and national levels, new legislation and the wider commissioning context. Where commissioning priorities need to be adjusted, this will be done in consultation with relevant stakeholders. It remains our intention, however, that our approach to contract management will not be overly-prescriptive and restrict providers' ability to innovate.' (p27 - TR) Competition and market stewardship principles The MoJ has published principles of competition that are intended to ensure fair, transparent and sustainable behaviour within the competition process and supply chain. They have identified core market stewardship principles. Potential Tier 1 providers will be required, in their bids, to evidence how they will meet their obligations with regards to these principles. The MoJ have also committed to managing contracts to ensure they underpin and enforce these principles on an on-going basis (Pg 3 – Clinks) Currently, it is intended that the market share will be restricted to 25% of the total contract value across all CPAs, with Tier 1 providers able to win multiple contracts up until this point (Pg 4 – Clinks)
Funding and risk sharing: ■ Modelling whole life cost ■ Funding sources and addressing short falls	'Many consultation respondents pointed out the potential difficulties in allocating risk management responsibilities for different groups of offenders to different sectors, in particular in maintaining continuous provision when risk levels changed. We have listened carefully to those concerns, and have designed a system which will effectively handle changing risk levels, through a strong public sector role

■ Understanding risk – provider views ■ Pricing risk and competitive pricing ■ Allocating risk – where does the risk sit: commissioner/prime; prime/supply chain	managing those offenders who pose a high risk of serious harm and through contractual guarantees from providers, with respect to risk management. Both the public sector probation service and the contracted providers will have responsibilities for day to day management of the risk of harm to the public in relation to the cases on their respective caseloads.' (p21 - TR) 'Some respondents to the consultation were concerned about the potential for perverse incentives for providers in breach decisions. We have decided that the public sector will decide on action in relation to all potential breaches beyond a first warning, and will advise the courts or Secretary of State on sanctions or recall to custody. This will mitigate any risk that commercial interests play a part in contracted providers' decisions on whether to instigate breach or recall proceedings.' (p22 – TR) Risk The Principles of Competition document states that all contractual risk 'should be appropriately managed', within the supply chain. This should extend to not passing disproportionate levels of risk down to Tier 2 and Tier 3 providers. Also, volume fluctuations in referrals and intellectual property rights of providers should be appropriately managed. It is not clear, however, what 'appropriately managed' will mean in practice and how the MoJ is defining 'disproportionate' levels of risk. Previously, Clinks has called for all risk entailed by PbR to be borne by Tier 1 providers and for VCSE organisations to have all delivery costs paid up front. Where this is not possible we have argued that no more than 20% of the risk should be passed down. We will continue to monitor how disproportionate levels of risk are defined.(Pg 3 – Clinks)
Performance management	
Measuring performance: ■ Evidencing outcomes ■ Adapting metrics ■ Auditing arrangements ■ Dispute resolution	For the NPS there will be measures to assure delivery of the services they are commissioned to deliver. Again there will be a series of service requirements against which performance will be measured. Some of these measures will mirror those used for the CRCs but for their own cohort of offenders (Sentence Delivery and Enforcement) and some will reflect their differing responsibilities on Public Protection, court work and working with victims. (Pg 53 – TOM)
Performance management arrangements: ■ Incl. adjustments to correct/improve operation of PbR contracts/arrangements	'Our contracts will contain a minimum of bureaucracy and will allow providers flexibility to tackle individual offenders' specific needs. We also consulted on whether there was sufficient flexibility in the community sentencing framework for effective rehabilitation. We have decided to introduce legislation to amend the community sentencing framework to provide greater flexibility in how rehabilitation is delivered, as follows: The current supervision requirement and activity requirement will be combined into a new single rehabilitation activity requirement. There will continue to be a separate accredited programme requirement, but the legislation will make clear that providers can also choose to deliver accredited programmes as part of the rehabilitation activity requirement. We will also amend accredited programme requirements and attendance centre requirements to allow for greater flexibility as to where they take place.' (p14 - TR) 'As many consultation respondents also stressed, we need to ensure that the contracts we award are effectively managed, to provide assurance that the overall system performs in line with strategic priorities set out by ministers and the MoJ/NOMS. We are of the view that this contract management function can be best fulfilled by MoJ/NOMS, which will contract manage providers through an account management structure. The MoJ/NOMS will also agree the delivery responsibilities captured within an SLA with the public sector probation service.' (p27 - TR) Contract management of the services commissioned by the Rehabilitation

	Programme will be delivered by a new Rehabilitation Services Contract Management (RSCM) function being established within NOMS. This function will be developed in line with the MoJ/NOMS response to the cross Government and MoJ Reviews of Contract Management, and will be responsible for commissioning and contract management of the CPA contracts in England, the setting of NPS SLAs (performance management for NPS will be via the Director of Probation and the Director of NOMS in Wales), and engagement with stakeholders at national and local levels. The contract management function is an essential component of the new system as it will be responsible for ensuring that the objectives of the reforms are delivered, and that year on year improvements in value for money are achieved through the new supply chain. The new contract management function will be led at NOMS Board level by a Director and supported by the MoJ Director Procurement for the commercial contract management function. The NOMS Director will be supported by three Deputy Directors each responsible for a geographic area covering a number of CPAs and aligned with the NPS Divisions. They will lead the new Community Contract Management teams covering each of the CPAs, while the Director of NOMS in Wales will deliver contract management in Wales. Contract management teams will have a highly developed understanding of the management and delivery of offender services (community and custody) and of the challenges involved in managing large commercial contracts. They will be experienced in building and maintaining strategic partnerships with other Government departments, agencies, suppliers and other stakeholders. Contract management will involve multi-disciplinary teams provided by the relevant corporate functions across the department such as finance, commercial contract management, legal, audit and performance analysis. The dedicated commercial contract management function will work closely within the operational contract management teams and may be resourced with capability and capacity from external partners (Pg 51 – TOM)
Service failure: ■ Penalties for failure ■ Mechanisms for addressing failure ■ Contract termination ■ Re-contracting ■ Redress for service users	Service credits will be applied for failure to deliver the mandatory services to a specified time and quality, in line with the performance framework.(Pg 56 – TOM)
Accountability and value for money	
Roles and responsibility of accounting officer	
Monitoring beyond PbR contracts	The system will be regulated through a combination of independent inspection, audit and NOMS contract management of CRCs and SLA oversight. • An inspection function will be provided by HMI Probation – an independent body. HMI Probation will inspect service across the NPS and contracted sectors. Inspection findings and recommendations will be followed up through contract management, and may inform decisions about the application of remedies; • An audit function will provide assurance that reported data is accurate. CRCs will be contractually obliged to develop their own internal audit processes that they will share with NOMS. NOMS will also have the right to audit CRC delivery and will utilise external audit to examine elements of service delivery where appropriate. The National Audit Office (NAO) may also require access to CRCs' financial systems where there is a need for public assurance, and this will be reflected in the contract (Services Agreement). • It is envisaged that commercial contract management at national level will be supported by operational contract management at CPA level. Operational contract management will differentiate between the need for NOMS to have higher levels of

	assurance about delivery of sentences of the court and public protection, where there will be specific minimum standards and metrics, compared to the substantial freedom providers will be given to determine how they rehabilitate offenders and reduce reoffending. NOMS will adopt a proactive risk-based approach to checking how local systems are working. NOMS will be able to analyse management information to identify inconsistencies between areas, for example in the profiles and volumes of cases being allocated, escalated, transferred, and breached or recalled, and will use this to address any potential problems. (Pg 50 – TOM)
Monitoring cost	
Governance arrangements	'Several responses to the Transforming Rehabilitation consultation emphasised the need to ensure that our system was effectively governed and assured in practice. We will take steps to ensure that contracted providers and the public sector probation service should adhere to a set of national minimum standards and that providers have internal quality assurance processes. The contract management will be carried out by MoJ/NOMS under the arrangements set out above. We are clear that in doing so we must both protect the public and ensure that providers have sufficient flexibility to innovate in order to maximise impact on crime through reducing reoffending. Very many respondents were supportive of a continuing role for HM Inspectorate of Probation under our new system. Many suggested that the role should be extended to include oversight of new market providers and we will take this forward. There will continue to be an independent Inspectorate of Probation with the same statutory remit as now. The Inspectorate will be expected to inspect the system as a whole, covering both the public sector probation service and the contracted providers, though minimising bureaucratic burdens, and to liaise with HM Inspector of Prisons in relation to pre-release provision. We envisage that the inspectorate will shine a light on and spread best practice across the system, giving providers the best opportunity to reduce reoffending.' (p32 - TR) Several responses to the Transforming Rehabilitation consultation emphasised the need to ensure that our system was effectively governed and assured in practice. We will take steps to ensure that contracted providers and the public sector probation service should adhere to a set of national minimum standards and that providers have internal quality assurance processes. The contract management will be carried out by MoJ/NOMS under the arrangements set out above. We are clear that in doing so we must both protect the public and ensure that providers have sufficient flexibility to innovate in order to maximise impact on crime through reducing reoffending. Very many respondents were supportive of a continuing role for HM Inspectorate of Probation under our new system. Many suggested that the role should be extended to include oversight of new market providers and we will take this forward. There will continue to be an independent Inspectorate of Probation with the same statutory remit as now. The Inspectorate will be expected to inspect the system as a whole, covering both the public sector probation service and the contracted providers, though minimising bureaucratic burdens, and to liaise with HM Inspector of Prisons in relation to pre-release provision. We envisage that the inspectorate will shine a light on and spread best practice across the system, giving providers the best opportunity to reduce reoffending. (Pg 32 – TOM)
Promoting effective practice	
Intervening in delivery	
Evaluating value for money of the entire PbR scheme	
Other	

4 Private Sector Comparisons

4.1 Six private sector comparisons

Provider (and name of service if available)	**Lockheed Martin Skunk Works: Total System performance responsibility contract**	**Rolls Royce: Corporate Care (previously known as Power by hour)**	**Boeing – C-17 Globemaster III, F/A-18E/F Integrated Readiness Support Team and U.K. Through Life Customer Support**	**Non-Revenue Water (NRW), example of Bangkok, Thailand**	**Siemens - Energy Performance Contacting (EPC) – example of UniCredit Group, Milano**	**No Win, No Fee – legal settings**
Description of service	Modification, integration and sustainment requirements for 52 aircraft in a specified Air Force Base.	Engine maintenance. Repair and overall programme to commercial airlines.	Boeing's role includes managing the supply chain, being involved in design and engineering support and giving support service reliability and availability.	A specialist NRW contractor will provide skills to reduce the amount of NRW. They select the most appropriate and useful new technology for the specific circumstances and at the end of the contract this technology along with the infrastructure around it, is handed over to the customer. Examples cited from Canada, Malaysia, Brazil, Bahamas and Thailand.	Implementation of technical measures and equipment to reduce energy usage and provide energy savings- utilises design and technical resources to improve energy efficiency.	'No win no fee' offerings are a variant of outcome-based contracts, for example they are often used in asset rich firms such as legal settings where the customer only pays the legal firm if the required outcome is provided.
Type of contract	Performance based logistics	Performance based logistics	Performance based logistics	Performance based contracting	Energy performance contracting	Outcome based contracting
Rationale		To improve availability of the product (the engine) and to reduce the cost of ownership.	To reduce costs, improve fleet support and increase aircraft and fleet readiness.	To reduce the volume of global non-revenue water.	To reduce the amount of energy and CO2 usage and provide energy savings.	'No win no fee' outcome based contracting provide incentives and

			The use of PBL meets client needs which have shifted from piecemeal logistical support to complete life-cycle services which are more integrated in nature. PBL enables full life cycle support for weapons which is cost effective and enables immediate readiness. The PBL benefits for Boeing include a reduction in overhead costs and fewer high priced contracts. The ultimate rationale is delivering an integrated solution at the lowest possible costs for everyone with maximum weapon readiness.	Using performance based contracting gives utilities an alternative. The rationale behind this being that many utilities struggle to achieve at least an initial reduction in NRW. A specialist NRW reduction contractor can undertake this work reliably, using specialist know how and achieve significant reductions.	A rationale behind using EPC is involving a company such as Siemens who have experience in energy efficiency as well as reducing the need for upfront investment for customers and thus reducing financial risk.	disincentives for the service provider to achieve results. In legal settings, the provider can often recover a 'success fee' in addition to their regular fees if they are successful, providing incentive to provide the desired outcomes – this often more than covers the losses for cases which are not successful.
Overview of PbR	Cost plus incentive fee with an award fee (based on FY 1999 contract) ■ Award fee (3%) – given if all of the performance incentive metrics are met; ■ Performance incentive fee (7%)	Payment of the service is linked to the number of hours the engines are in the air (the engine flight hour rate), rather than according to the provision of spares, parts or servicing provided. The engine flight hour	A fixed-price contract sets out the responsibilities of Boeing and the customer alongside a set of performance requirements. Payment methods are determined and defined for meeting the requirements. An	Performance is measured against a detailed and accurate baseline to determine savings made to NRW. The method of PBC can differ slightly but in Thailand; three four year PBCs were created to reduce NRW. Contract	Six year amortization project for 2.2 million Euros. Under the guaranteed savings contract model – the company assumes the design, installation and savings performance risks; the performance guarantee	Outcome based contract where providers are paid only if, and when, the desired outcomes are achieved.

	based on seven metrics, including non-mission capable supply9; ■ Cost incentive share with the US Air Force (50/50).	rated is established through what is currently called a "Corporate Care". Rolls Royce paid monthly for actual hours flown.	example of a performance requirement would be guaranteeing 27 aircraft will be available to the Royal Air Force for operations. The customer makes payments to Boeing in return for fleet/aircraft readiness rather than for parts or services needed across the life cycle.	payments were based on three elements – a performance based management fee for overheads profits, a fixed fee covering local labour and reimbursable payments for outsourced services/materials. The contractor is incentivised to use new technologies and creative solutions to design and implement the project delivering a reduction in NRW and sustain this reduction across the contract life. Their contracts have performance objectives to meet.	is the level of energy saved across the contract life. Guaranteed savings are based on facility improvement measures. The energy savings are ensured through Siemens Energy Services monitoring and controlling. Payment is directly related to the energy savings achieved.	
Other	Contract duration: seven years Contract value: FY 99-06 Contract ceiling price ranges from $223M per year in FY 99 to $234M per year in FY 06, for a total of $1.97B.	Contract duration is currently set at 10 years.	Boeing's PBL contracts include C-17 Globemaster III with the US Airforce, F/A-18E/F Integrated Readiness Support Teaming with the US Navy (for 30+ years) and a Through Life Customer Support (TLCS) partnership for the 40 U.K. Chinook helicopters with the	In some instances, contractors can arrange funding for all/some of the project costs so that a portion of the savings made over the contract life helps recover the investment.	In many EPCs- Measurement and verification plans often used to determine the savings achieved by the Energy Efficiency Programme. The most accepted measurement of energy savings is the 'Avoided Energy Use' – reduction in energy use measured by comparing to baseline period.	This type of contract can make the delivery of results imperative to ensure that fees are received given the 'no win no fee' basis of the contract.

[9] The percentage of time a system (e.g. the aircraft system) is not mission capable due to the lack of critical parts

			RAF (for 34 years).			
		Rolls Royce website: http://www.rolls-royce.com/civil/services/corporatecare/ I.Ng, J.Williams and A.Neely, 'Outcome-based contracting: changing the boundaries of B2B customer relationships', 2009 http://www.aimresearch.org/uploads/file/Publications/Executive%20Briefings%202/Outcome_based_contracting.pdf	Boeing website, Ready to Go, Katherine Soprianos: http://www.boeing.com/news/frontiers/archive/2007/august/i_ids01.pdf	Paul Fanner Non-Revenue Water reduction: Contracts and illustrated examples.	Energy Performance Contracting in the European Union (2011), Eu.Bac. http://www.euesco.org/fileadmin/euesco_daten/pdfs/euESCO_response_concerning_EPC.pdf	AIM Research, (2009). 'Outcome-based contracting Changing the boundaries of B2B customer relationships' http://www.aimresearch.org/uploads/file/Publications/Executive%20Briefings%202/Outcome_based_contracting.pdf . House of Commons - Justice Committee - Written Evidence. [online] Available at: http://www.publications.parliament.uk/pa/cm201012/cmselect/cmjust/519/519we11.htm

5 International Comparisons

5.1 Crime

	US – New York	US – New York	US - Massachusetts	Israel	Australia
Target group	2000 high risk male, formerly imprisoned individuals In New York City and Rochester.	Adolescent inmates released from Rikers Island Jail (majority of 16-18 year olds, approx. 2500 a year).	At risk young men (initially 929 men aged 17 -23) either in the probation system or leaving the juvenile justice system. Focus on those who have been imprisoned for violent crimes/involved in violence or gangs. A list of men who meet the criteria and have given signed consent provided.	Ex-offenders and prisoners.	Adult male prisoners recently released from prison.
Programme status	Implementation	Implementation	Implementation	Design	Design
Timescale	Start date was 2013 and the project is due to last 5.5 years.	Start date was 2012 and contract expected to last six years.	Start date was 2014 and the contract runs for seven years with individuals engaging for four years.	Not yet known.	Not yet known.
Type of PbR	SIB	SIB	SIB	SIB	SIB
Expected/actual outcomes	The expected outcomes which will be measured are: **Employment** – increase in employment in fourth quarter following prison release (percentage point difference between treatment and control group earnings). **Recidivism** – reduction in number of days imprisoned following release from prison (difference between	Outcomes and results are expected in 2017 – about 4 years after the intervention has helped the first cohort. Savings will be extrapolated forward based on the results of this cohort (into subsequent years). Payments will be made in relation to reductions in the rates of reoffending among the cohort at differing time points.	Outcomes expected are: Reduced incarceration days and improved employment rates against a control group.	Expected outcomes are based on three directly measurable indicators – ■ reduction of incarceration costs; ■ decreased costs of crime systems and; ■ growth of individual GDP.	Expected outcome – reductions in repeat offending by recently released adult males.

	treatment and control group in average number of days imprisoned during observation period). **Transitional jobs** – maximise engagement in them (number of treatment group members who start a CEO transitional job in observation period).				
Impact evidence	The project's impact will be evaluated using a RCT (with weighted data to ensure that outcomes compare across treatment and control group members on different release dates and released to different regions).	An independent evaluation will assess the rates of re-incarceration for the cohort.	Use of a RCT evaluation model – impact on both incarceration and employment rates against a control group will be determined. This will be verified by a third party with the provider aiming to reduce incarceration rates by 40%.	Benefit measured by three individual, economic indicators ■ reduction in incarceration costs, decreased crime system costs and growth of individual GDP.	Unknown at present.
Key features	■ First SIB distributed from a wealth management programme; ■ First American state-sponsored SIB; ■ This SIB was the first time that a major global bank has acted as an intermediary– Bank of America Merrill Lynch undertook the search for investment, structured a partnership with NY State and the US Department of Labor	■ First American SIB; ■ SIB has a $7.2 million loan guarantee which means that Goldman Sachs will be reimbursed for the first $7.2 million lost if the programme fails to attain its goals for performance. This limits the potential loss on principal investment to £2.4 million; ■ Evidence based intervention focussed on improving personal responsibility and	■ Largest SIB in the US to date; ■ Cognitive behavioural intervention model in which individuals will engage with the service for four years; two years of intensive engagement and two years of follow up contact; ■ If the intervention is highly successful, a top up fee will be paid to investors and the service provider by the state (enabling the	■ The SIB will involve the implementation of a holistic rehabilitation scheme that will tackle the leading causes of recidivism; offering employment and housing support, soft skills, career placement and community support.	■ Intensive post release programme – offering training, jobs and other support.

	and defined the terms of the investment; ■ Two outcomes trigger payments – recidivism and employment; must reduce recidivism by at least 8% and/or employment by at least 5 percentage points; ■ For each outcome metric that meets/exceeds the performance threshold, the savings and benefits to the public sector are included in the calculation of performance based payments; ■ Social Finance, Inc – a social impact financing and advisory firm provide performance management for the project.	decision making; ■ MDRC oversee the day to day project management through a contract with NY City, they also manage the non-profit service providers who deliver the intervention; ■ Returns are made on a capped, sliding scale; the break-even point for Goldman Sachs to recoup its investment is a 10% reduction in recidivism. A 20% reduction gives the maximum possible return on investment; ■ Funds remaining in the guarantee fund at the end of the intervention will remain at MDRC to allow future social impact investments in NY.	provider Roca to extend the service); ■ Outcomes which trigger payments relate to the number of days participants spend in jail and whether their employment and job readiness improves. Payments begin in the second year and continue until the seventh year of the project; ■ The state will only save money if incarceration days drop by 40% or above but the state will not lose money as any reductions in rates below 40% will see outcome payments capped at the same level as savings; ■ The US Department of Labor have put forward a grant to help the state pay the outcome costs; ■ None of the finance is guaranteed but more senior, larger investors will be paid before the smaller investors.		
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5.2 Employment

	Belgium	Germany	Netherlands	Australia	US
Target group	Youth Migrants aged between 18 and 30 living in Brussels – aims to work with 180 young people over a three year period.	Disadvantaged youths from Augsburg under the age of 25 who have: ■ no current school attendance/ completed compulsory education; ■ no current job; ■ no ongoing or successful completion of an apprenticeship; ■ no contract/participation with an employment agency in the 2 years before the launch of the programme. They aim to work with approximately 100 youths over the programme period.	Unemployed youths in Rotterdam aged between 17 and 27 – aims to work with around 160 young people.	Jobseekers – split into two main categories; ■ Fully Job Network Eligible (FJNE)—these are job seekers who are registered as looking for work and either is aged between 15 and 20 years of age but not in full time education or training or receives a specified type of income support payment; ■ Job Search Support Only (JSSO)—these are job seekers who are looking for work and are not FJNE.	Unemployed but employable applicants and recipients of public assistance in New York.
Programme status	Implementation	Implementation	Implementation	Unknown	Completed
Timescale	Launched in 2014 and last payments expected in 2017.	Launched in 2013 and expected to complete in 2015.	Launched in 2013, established in 2014 and expected to run for two years.	Started in 1998.	2005 and lasted for approximately three years.
Type of PbR	SIB	SIB	SIB	Outcome based and fee for service	Outcome based
Expected/actual outcomes	Increase in employment rates of this group; investors could lose money if the employment rates of participants does not rise	Increase in the number of disadvantaged adolescents who are in work, work placements or apprenticeships.	The outcome expected from this programme is that individuals stop claiming social security benefits.	Reduction in number of people on benefits through an increase in people in employment/prepared for employment, including	The expected outcomes were an increase in the number of people prepared for the transition from welfare to work and an

	faster than the control group. The aim of the project is for 35% of individuals to find employment who would not have done so otherwise.			expecting an increase in number of long term unemployed or highly disadvantaged into the labour market.	increase in the number of people being self-sufficient getting and maintaining employment rather than remaining on benefits.
Impact evidence	The job success results of the group involved in the 'Duo for a job' SIB will be compared to a live control group of similar individuals and will be carried out by the Brussels Observatory of Employment and independently evaluated.	The outcomes of participants in the programme will be measured with individual indicators - at least 20 members of the target group needing to be: ■ in work or apprenticeship (in both cases subject to social insurance and contribution); ■ for more than 9 months; ■ in the city of Augsburg, the district of Augsburg or the district of Aichach Friedberg (over the timeline of the project). The success of the project will be determined by independent, neutral evaluator – Dr Mohren & Partner	The municipality pays the implementers and the investors back using yields with indicators based on the number of benefits the municipality saves as a result of the programme, measured against a reduced benefit duration. In essence, the resultant reduction in the number of unemployment benefit claims. This yield can be as much as 12% annually.	Outcome payment claims substantiated by IT system – EA3000 which enables the monitoring of job seeker flows. Individual indicators are used – the date a participant entered employment/education is noted and then it is calculated whether the participant has been in employment the required 13 weeks (i.e. off income support) or income support has been reduced to at least 60% for this period for intermediate claims. Job Network organisations also have to substantiate the claims by collecting evidence of the continued employment or enrolment in education.	Individual indicators involving placement and retention figures – referral to system, employment plan completed, placed in jobs and kept in jobs for 90 or 180 days. The key source reviewed for the study reported here is highly critical of the results and claims it was not a success for the target group or the contracted providers: only 9% of beneficiaries found employment against a target of 25%; job retention was low (25%); few enrolled in education and training (1.9%). Recommendations include the provision of progress payments to move away from a full PbR to reward work undertaken and to recognise the high barriers to work the target group face.

Key features	■ One of the first SIBs in Continental Europe; ■ Innovative – this SIB takes a different approach to many other SIBs aiming to support people into employment. While other SIBs have focused on training to improve poor educational history; this SIB also focuses on the importance of networks and so selectively 'matches' a young migrant with experienced retirees who know the job market well. The expectation is that this will enter the migrants into existing networks and improve their chances of finding employment; ■ The mentors will be matched according to the field of employment interest of the mentee and so can give them advice as well as put them in contact with suitable employers; ■ For migrants who are non EU, US or Canadian nationals but who can speak French,	■ Maximum return (Intermediary to financer) of 3% over the lifetime of the project; ■ First German Social Impact Bond; ■ Believed to be the first SIB in Continental Europe; ■ The four project partners who are implementing the SIB operationally have brought together programme modules from youth welfare, vocational support and career guidance services which are specific for the target group; ■ The risk lies with the upfront financiers meaning the project partners' work is secured for the project duration and so the participants will benefit from the services on offer irrespective of whether the agreed objectives are achieved; ■ Only non-profit organisations have invested in this project.	■ The aim of Buzinezzclub is to help unemployed youth to develop their confidence and skills to enable them to stop claiming social security benefits and join the workforce; ■ The programme offers individual coaching, training, workshops, and access to a broad network of entrepreneurs and professionals to help them develop business plans, find a suitable job or enter study; ■ Most of the youth involved do not have a basic education, have debt or come from a troubled past; ■ The reintegration company also generates a yield in the event of programme success; ■ The quicker the participants successfully leave the programme, the greater the yield for the investor.	■ A Job Network organisation can receive four types of payment; job placement, job seeker, service fees and outcome payments; ■ The amount a Job Network organisation receives for helping a participant into employment or education is dependent on the job seeker's level of dependence and how long they have been unemployed; ■ Outcome payments are comprised of: interim outcome payments; final outcome payments; interim intermediate payments; and final intermediate payments; ■ Payment is contingent on substantiation by Job Network organisation that the relevant outcome has been achieved.	■ Seven payment milestones; Pre-Employment Plan, Job Placement (30 days), Job Retention (90 days), Job Retention (180 days), Sanction Removal, Job Retention and Career Plan, Wage Increase Bonus; ■ Only participants judged to be employable by HRA are referred to programme; ■ No line item payments for core services provided – only when milestones reached; ■ BTW was a redesigned programme based on earlier criticised interventions.

	English or Dutch and are registered at Actiris (Government employment agency).				
References	■ Evpa.eu.com, (n.d.). A Belgian premiÃ¨re: A Social Impact Bond to tackle unemployment in Brussels | EVPA. [online] Available at: http://evpa.eu.com/uncategorized/a-belgian-premiere-a-social-impact-bond-to-tackle-unemployment-in-brussels; ■ Social Ventures Australia, (n.d.). Duo for a Job - Social Ventures Australia. [online] Available at: http://socialventures.com.au/case-studies/duo-job	■ Anon, (n.d.). [online] Available at: http://www.juvat.org/pdf/juvat_augsburg_en1.pdf	■ Social Ventures Australia, (n.d.). Buzinezzclub - Social Ventures Australia. [online] Available at: http://socialventures.com.au/case-studies/buzinezzclub	■ Australian National Audit Office, (2009). Administration of Job Network Outcome Payments. Department of Education, Employment and Workplace Relations.	■ Kasdan, A. and Youdelman, S. (2008). Missing the Mark: An Examination of NYCs Back to Work Program and Its Effectiveness In Meeting Employment Goals for Welfare Recipients. Community Voices Heard, http://www.cvhaction.org/sites/default/files/Missing%20the%20Mark%20-%20Executive%20Summary.pdf

5.3 Family support and foster care

	Canada	Australia – NSW - Newpin	Australia – NSW – Resilient Families
Target group	Single mothers – at risk of having children put into care.	Families with children aged 0 – 5 who are at risk of entering care.	Families who are expecting a child or have a child under six and are determined to be at risk of harm by New South Wales Family And Community Services.
Programme status	Implementation	Implementation	Implementation
Timescale	2014 – 2019.	Launched in 2013 and due to last seven years.	Launched in 2013 and due to last five years.
Type of PbR	SIB/SBB	SIB/SBB	SIB/SBB
Expected/actual outcomes	The expected outcome is a reduction in the number of children (from the mothers who have lived in the house) who end up in foster care.	A reduction in the number of children in foster care, prevention of at risk children entering care and increase in the number of children returned to their homes (restoration rate). Another expected outcome is to see a reduction in the incidence of child abuse and neglect.	Expected outcomes are that children are safer through fewer helpline reports, SARAs and OOHC placements and that parents/carers exhibited increased safety, empathy, and efficacy and improved coping with more stable and secure relationships.
Impact evidence	The measurement of success is based on whether one of the participants has entered care or not (the presumption being that without the intervention this would have been the case). The savings and consequently, outcome payments, are based on this counterfactual.	The impact results are measured on the individual indicators of; proportion of children in out of home care that are returned to their families by the courts - restoration rate and the number of children in foster care being reduced. The effectiveness will be matched against a live control group of families with similar socio-demographics, established by FACS, who do not receive the intervention.	The results in terms of progress made by families involved in the programme will be compared to a control group made up of families who have not taken part in the programme and compared to a set of targets agreed with the state government. A range of NSW government data will be used to measure success including entries into foster care and reports to the Child Protection hotline. This data and measurement process will

			be independently audited.
Key features	■ Canada's first SIB; ■ This SIB helped meet existing government budget shortfalls – filling a gap; ■ Involves a strong working relationship between the providers and government; ■ The intervention involves the setting up of a communal home for single mothers and their children in Saskatoon. Families will live in the house for at least six months and there will be classes and workshops provided to help improve parenting standards and increase the chances of the mother gaining employment; ■ Out of the 22 mothers in the house, investors will lose money if fewer than 17 children stay with their mother. Above this figure, a sliding scale of payments will be made for each extra child who is kept out of care.	■ The SIB was oversubscribed – 59 investors; ■ The Newpin programme will work with three broad family cohorts; ■ Cohort 1: families that have at least one child under six who has been in statutory out-of-home care for at least three months (but are suitable for restoration); ■ Cohort 2: families that have at least one child under six years that has been assessed as being at risk of serious harm; ■ Cohort 3: families with children under six years who do not meet the definitions above but have been identified as requiring support to prevent the family environment deteriorating; ■ The bond coupons will change depending on the cumulative restoration rate during the time frame of the intervention; Key components of the Newpin programme include parenting modules, therapeutic group meetings, child development activities and the fostering of a supportive environment.	■ The SIB has two different tranches to reflect the different risk and return profiles of the investor markets; Class P is capital protected and Class E is subject to 100% loss of principal if the performance improvement following the programme is less than 5%. As would be expected, the return for Class E is thus higher; ■ The Benevolent Society uses a Resilience Practice Framework which incorporates professional approaches and practices which have been demonstrated to be effective; ■ The service is available for up to 400 families across two regions; ■ The evaluation will be using measures including a Strength and Difficulties Questionnaire, Protective Factors survey, Personal Wellbeing Index and Family Resource Management to measure child and family outcomes.
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5.4 Results based aid

	Rwanda – education	Ethiopia - education	Uganda
Target group	Primary and secondary level students in Rwanda	Lower secondary school students	Patients in Uganda
Programme status	Pilot completed	Implementation	Implementation
Timescale	2012 - 2014	2011/2012 – 2014/2015	2011 - 2015
Type of PbR	Results based aid	Results based aid – Cash on Delivery Aid	Results based financing
Expected/actual outcomes	Expected outcomes are: more students completing their national exams; and, a higher number of teachers with levels of competency in English language.	Expected outcomes are: improved access to, and quality of, lower secondary schooling; increased secondary education rates – increase in the number of students sitting and passing grade 10 examinations – especially girls and in Developing Regional States.	Expected outcomes are; increased access to quality health care services by the poor in the north of Uganda.
Impact evidence	The impact of the results based aid programme will be measured by individual indicators; ■ Annual improvements in the number of students completing national examinations; ■ Increased numbers of teachers with identified levels of competency in English language. Baseline data was provided for both indicators; baseline data from November 2011 national examinations and British Council undertook the measurement of teachers' English language competencies in November 2012.	The impact of the result will be measured by individual indicators; ■ A price per student who sits/passes the grade 10 examination over an agreed baseline will be determined and payment made to the government following the verification of results. An overall verified increase in educational results above the baseline.	The impact will be monitored through individual indicators which will assess the performance of the focus on both maternal/newborn/child health as well as general health: ■ Antenatal care with defined quality parameters; ■ Delivery in the health facility and appropriate postnatal care; ■ Child care – appropriate diagnosis and treatment of common illnesses, full vaccination; ■ Adult care - appropriate diagnosis and treatment of common illnesses. Some of these are tracked on a monthly basis for a participating facility with a general qualitative assessment undertaken every quarter. The resulting

			quarterly score determines the amount of the RBF payment made to each site.
Key features	■ The reliability and accuracy of the data reports for the testing instruments are assessed through independent verification. The results are also verified with independent evidence such as schools' records; ■ There is a high degree of government ownership of the RBA programme – largely explained by the fact that a lot of the envisaged results from the RBA were government priorities prior to the intervention.	■ For every girl who sits and passes the examination, an additional premium will be paid; ■ The four most under-developed regions will be paid an additional incentive will also be paid in order to accelerate progress in these regions; ■ Results will be independently verified for an accurate calculation of the aid to be paid.	■ A key feature of an RBF design is the separation of the roles of provider, purchaser, funder and regulation/verifier; ■ Funded and supported by UKaid under the Post-Conflict Development Programme; ■ 21 facilities were selected in Acholi and matched with ten control facilities in Lango which shares a similar socio-cultural and economic setting. The control facilities receiving input based financing each prepare a work plan for the same service improvement areas and then get funding to deliver them. The amount of funding they get is expected to be similar to the amount for the facilities in the programme.
References	■ Health and Education Advice and Resource Team, (n.d.). Independent Verification of Educational Data for a Pilot of Results-Based Aid (RBA) in Rwanda - Health and Education Advice and Resource Team. [online] Available at: http://www.heart-resources.org/assignment/independent-verification-of-educational-data-for-a-pilot-of-results-based-aid-rba-in-rwanda/ ■ UK Department for International Development, (2013). Evaluation of Results Based Aid in Rwandan Education: 2013 Evaluation Report.	■ Birdsall, N. and Perakis, R. (2012). Cash on Delivery Aid: Implementation of a Pilot in Ethiopia. [online] Available at: http://www.cgdev.org/doc/Initiatives/Ethiopia_RBA_pilot_report.pdf ■ Camb-ed.com, (n.d.). Cambridge Education > Experience > Our projects > Evaluation of RBA in Education Sector. [online] Available at: http://www.camb-ed.com/Experience/Ourprojects/EvaluationofRBAinEducationSector.aspx .	■ NU Health, (n.d.). Improving Access to Healthcare for the poor in Northern Uganda, http://www.healthpartners-int.co.uk/documents/NUHealthannouncementFINAL.pdf

	[online] Available at: http://reliefweb.int/sites/reliefweb.int/files/resources/Rwanda-education-results-based-aid-evaluation.pdf		

ANNEXES

Annex 1

Payment by Results Literature Review Protocol

Introduction

The literature review for this project will begin with a search to identify sources from three broad groups:

- Official literature – from across government and government agencies;
- Commentators and stakeholders – from policy areas where PbR is in place, under-discussion or planned; or those involved in policy analysis such as academics, voluntary sector bodies, think tanks and consultancies; and,
- Evaluation and performance data.

The examples and learning sought will include UK, international and private sector examples – comparisons of commercial PbR or outcomes-based contracting and delivery.

The search will follow a protocol, which is set out below. All of the documents identified through the search will be organised in a spreadsheet that lists:

- Author, year, title, publication; and,
- A summary of content.

There will be two stages to the review:

- Stage One: a spreadsheet will be provided to NAO on Thursday 4th December. It will include two lists: the full list of identified sources; and, ICF's suggested list for inclusion in the literature review. The final list of sources to be included will be agreed with NAO on Friday 5th December.
- Stage Two: the sources will be reviewed and the findings organised according to the structure of the evaluative framework being developed by NAO (and to be supported by ICF). The data capture template will be provided to NAO on 4th December for agreement on 5th.

The literature review and comparisons will be provided in final draft on 19th December, with the timetable for submission of a draft for comment to be agreed.

Literature search protocol

The protocol aims to provide a wide-ranging structure for the review, enabling all sources of potential interest to be identified. Following initial application, the protocol will be reviewed and any suggested developments – for instance to search terms and sources – will be shared with NAO and applied, in agreement. The list of grey literature sources will be develop through the search, for instance by visiting the university pages of academic authors of identified papers. A full record of terms used, sources searched, and returns achieved will be maintained and provided to NAO.

The key UK government and international PbR schemes that are known to the team and listed in the proposal for the research will be searched by name (Work Programme, Youth Contract, etc.) in combination with key search terms (evaluation, performance, etc.)

Stage One

Search definition

'Payment by results': paying for an intervention or service on the basis of the outcomes it achieves rather than the activities or inputs and outputs it delivers.

(NB this definition will be kept under review throughout the project.)

Search inclusion/exclusion criteria

- Focuses upon one or more PbR/ outcome based contract schemes.
- Addresses one or more of the review questions, with 'learning' sources prioritised.
- Is in English.
- No exclusions by date but those since 1995 prioritised.
- Is available at no additional cost.

Search evidence type (all both UK and international)

- Official government policy documents
- Parliamentary Reports
- Government agency documents
- Local authority/delivery site reports
- Evaluation reports
- Performance management reports
- Performance reporting data (e.g. Work Programme)
- Scoping studies
- Feasibility studies
- Peer-reviewed articles
- Non-peer reviewed articles
- Third sector organisations' publications
- Grey literature: commentary pieces; online commentary
- Think Tank/consultancy analysis
- Private sector literature

Search terms (to be updated as new terms emerge from the literature)

- PbR
- Payment by results
- Payment for results
- Outcomes based contract/s/ing
- Outcomes based delivery
- Outcomes based commissioning
- PFS
- Payment for success
- Pay for success
- Results based contract/s/ing
- Results based financing
- Results based aid
- Performance based contract/s/ing
- Gain share
- COBIC
- Capitated and outcome based incentivised contract/s/ing

- SIB
- Social impact bond/s
- Development impact bond/s
- Quality contract/s/ing
- Impact investment
- Social investment
- *In combination with*: evaluation, performance, UK, US, Ireland, Belgium, Austria, United States of America, Canada, New Zealand, Australia, Africa, Developing World, International Development

Databases

- ESBCO library (ICF subscribes)
- Cambridge Journals Social Policy Digest
- Google Scholar
- Gov.uk (all government departments)
- Google

Grey literature sources

- Third Sector Research Centre
- Health Service Management Centre
- National Council of Voluntary Organisations
- NACRO
- National Association of Probation Officers
- Association of Directors of Adult Social Services
- Royal College of Psychiatrists
- The Nursing and Midwifery Council
- Trades Union Congress
- New Philanthropy Capital
- New Economics Foundation
- Institute for Public Policy Research
- Policy Exchange
- Social Finance
- Social Market Foundation
- Institute for Government
- ACEVO
- ERSA
- Sector Skills Council
- Big Lottery Fund
- Criminal Justice Alliance
- Centre for Policy Studies
- Kings Fund
- Triodos Bank
- Charities Aid Foundation
- Big Issue Invest
- BOND
- Universities: e.g. Birmingham, Cambridge, Manchester Metropolitan, Nottingham, Oxford, Southampton, Sheffield Hallam, Teesside, UCL, York.
- Consultancies: e.g. ATQ, COBIC, KPMG, McKinsey, PWC, Deloitte
- International: e.g. Third Sector Partners, Social Finance US, Rockefeller Foundation, Maher and Maher, World Bank, Merrill Lynch Bank of America, Center for American Progress, Open Society Foundations, Tindall Foundation, Philanthropy New Zealand, Fulbright New Zealand, Canadian Charity Law, Pro Bono Australia.

Stage Two

Once the list of sources to be included has been agreed, the literature review will be structured by a set of question. The list below will be refined in light of the evaluative framework being developed by NAO. The outline provided here is indicative. The final template for capturing information from the literature will be developed and agreed with NAO.

Review questions

What is the learning from UK and international PbR?

- What is the type of PbR?
- What were the design features?
- What was learnt?

To include:

  - What is the policy/commercial focus of the PbR?
  - What are the outcomes of the PbR?
  - What are the metrics of the PbR – the performance measures?
  - What is the payment structure of the PbR?
  - What is the scale of the PbR (the value of the contract(s))?
  - What is/was the length of the PbR contract?
  - What was the process for the development of the PbR?
  - What market development was required for the PbR?
  - What was the governance and management structure
  - When will learning be provided by the PbR (for schemes in progress)?
  - What is the level of risk transfer?
  - What is the size of the total payment 'pot' available, and how many actual payments have been made to date?
  - What performance measurement and management issues have arisen?
  - How active has the department (or other commissioning body) been in managing the PbR scheme, e.g. by renegotiating contracts or adjusting performance metrics?