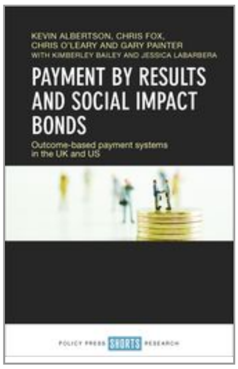

Payment by Results and Social Impact Bonds: Outcome-Based Payment Systems in the UK and US

Kevin Albertson, Chris Fox, Chris O'Leary, and Gary Painter

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Kevin Albertson
Chris Fox
Chris O’leary
Gary Painter
Kimberly Bailey
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(p.i) Payment by Results and Social Impact Bonds

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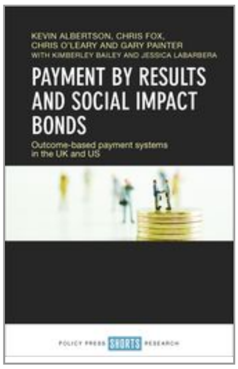

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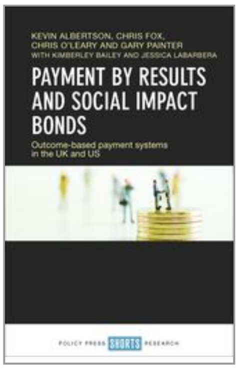
(p.iv) Abbreviations

Kevin Albertson
Chris Fox
Chris O’leary
Gary Painter
Kimberly Bailey
Jessica Labarbera

BLF
Big Lottery Fund
DCLG
Department for Communities and Local Government
DfE
Department for Education
DFID
Department for International Development
DoH
Department of Health
DWP
Department for Work and Pensions
GLA
Greater London Authority
HO
Home Office
MoJ
Ministry of Justice
NAO
National Audit Office
NEET
Not in Employment, Education or Training
NHS
National Health Service
PbR

Payment by Results
PFS
Pay for Success
SIB
Social Impact Bond



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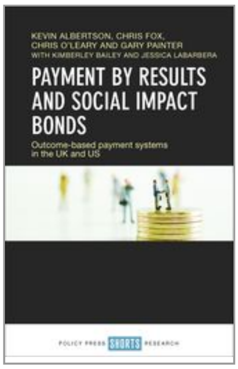

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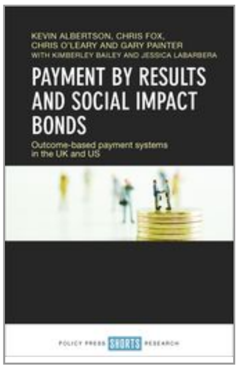

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Introduction: outcome-based payment and the reform of public services

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[–] Abstract and Keywords

This book examines outcomes-based commissioning as an important element of the public service reform agenda, focusing on Payment by Results (PbR) and Social Impact Bonds (SIBs) in the UK (also known as Pay for Success (PFS) or outcomes-based funding and Pay for Success financing in the US, respectively). It considers whether PbR/PFS and SIBs/Pay for Success financing drive efficiency and innovation in the delivery of social outcomes, and whether attempts to reconcile corporate profits and social goods may lead to perverse incentives and inefficiency. It also analyses the impact of PbR and SIBs on not-for-profit and smaller players in the market for social outcomes. This introduction provides an overview of outcomes-based commissioning, the distinction between PbR/PFS and SIBs/Pay for Success financing, some key questions raised by outcomes-based commissioning, and the chapters that follow.

Keywords: outcomes-based commissioning, public service reform, Payment by Results (PbR), Social Impact Bonds (SIBs), UK, Pay for Success (PFS), Pay for Success financing, US, corporate profits, social goods

Outcomes-based commissioning

Over recent decades on both sides of the Atlantic we have experienced important social gains. Average life expectancy has continued to rise, employment rates have risen, participation in higher education has increased, crime has fallen and technological innovations have provided new opportunities for work and play for many. But change has also brought challenges, including increasing inequality, an ageing population, rising levels of childhood obesity, changes in family size and structure, loss of traditional industries, new working practices, a more mobile population in Europe and a less mobile population in the US, and the erosion of social capital. Almost 20 years into the new millennium, the ‘wicked problems’ (Rittel and Webber, 1973) we face are remarkably similar to those we faced at the end of last millennium: adults and families experience multiple social, economic and health challenges.

Meanwhile, the role and structure of the public sector has also changed, with government increasing its reach in some areas of social and economic life and withdrawing from others. New models of **(p.2)** commissioning and delivering services have evolved and, since 2008, public services on both sides of the Atlantic have experienced budget cuts in real terms.

In this fast-changing world, outcomes-based commissioning has become an important element of the public service reform agenda, and underpins two distinct but related approaches. On the one hand, 'Payment by Results' (Pay for Success or outcomes-based funding in the US) is arguably rooted in New Public Management approaches, whereas 'Social Impact Bonds' (Pay for Success financing in the US) are associated more closely with the social finance movement and impact investing. However, Social Impact Bonds (SIBs) can also be understood as a class of Payment by Results (PbR) and analysed as the logical conclusion of outcomes-based performance management (OBPM) (Lowe and Wilson, 2015), as they are intended to ensure that financial rewards flow directly from the achievement of specified outcomes. OBPM is a general term used for using outcomes as a means of assessing performance (Lowe, 2013).

Currently, the study of Payment by Results and Social Impact Bonds is limited and emerging. The majority of publications to date have been policy briefings produced by government departments, industry leaders and think tanks. Such publications should be treated with caution because their treatment of the (limited) evidence base is often partial, they sometimes 'gloss over' theoretical and ideological debates that are not consistent with their agenda, and the tools they discuss are still in their infancy.

The distinction between Payment by Results/Pay for Success and Social Impact Bonds/Pay for Success financing

It is important to begin with clear definitions about the two principal theoretical constructs we examine here. In brief, the terms Payment by Results'/'Pay for Success' (hereinafter PbR) describe models of outcomes-based commissioning where payment is made, in part or entirely, contingent on the achievement by the contracted agent of specified goals or targets. This is a departure from more traditional **(p.3)** forms of public sector funding, where (typically in the UK) payment is often made 'up front', often based on previous service use, demand and/or staffing levels, or (typically in the US) paid post hoc to cover costs of salaries, services and administrative costs or for specific outputs. In contrast, the terms 'Social Impact Bonds'/'Pay for Success financing' (hereinafter SIB) describe PbR funding models where the finance needed to make the contract work and to fund social outcomes is provided not by the service provider but by private investors.

However, it is important to bear in mind that a particular intervention may entail aspects of both commissioning and funding innovation. Also, there are levels of government to consider; for example, the national or federal government might contract to a local or city government. Hence, the distinctions we draw in theory may in practice be less clear in application.

Payment by Results (PbR)

Over recent years, there has been increasing interest in PbR as a model for commissioning services in the public sector. A PbR contract links payment to the outcomes achieved, rather than the inputs, outputs or processes of a service (Cabinet Office, 2011). By making some or all of the payment to a service contingent on delivering agreed outcomes, PbR supposedly reduces 'micromanagement' on the part of the commissioner, encourages innovation and transfers risk away from the branch of government commissioning the service towards the service provider or investor (in the case of SIBs), because government will only pay if outcomes are achieved. From government's perspective, payments for service are deferred. Given the need to reduce public sector spending, both the transference of risk and deferring payment for services are attractive propositions for government. Typically, where payment by results is used to commission services in the UK it only constitutes a part of the value of the contract. The proportion varies widely. For example, in the UK, PbR accounted for approximately 80% of the value of the Work Programme contracts, but only around **(p.4)** 10% of the contracts for offender rehabilitation under the Transforming Rehabilitation programme.

Many PbR programmes in the UK are delivered by private sector providers, sometimes working in partnership with the not-for-profit (NFP) sector. These private sector 'prime' contractors are primarily motivated by financial profit, although they are of course also delivering social outcomes. Not all PbR programmes in the UK have involved the private sector. For example, the Troubled Families programme uses a PbR model to commission local authorities to deliver services to families with complex needs.

Social Impact Bonds (SIB)

In a PbR contract production of social goods must be carried out before any results – successful or otherwise – can be observed and hence payment made. Deferred payment may favour some classes of organisations (those with large capital reserves or those that can raise capital) at the expense of other classes of organisation (those whose constitution places restrictions on how they use capital reserves or those that cannot raise capital). It is partly to address this issue that Social Impact Bonds were developed (Social Finance, 2009). An SIB is a class of PbR contract where the finance needed to make the contract work is provided not by the service provider but by private investors. To date, these have usually been social investors: investors who consider both social and financial returns. SIBs are also associated with a broader 'social investment' movement (discussed below). In its strategy for *Growing the social investment market*, the UK Coalition Government (2010–15) identified SIBs both as a mechanism for expanding the use of PbR (HM Government 2011, paragraph 4.3) and as an investment vehicle to expand the social investment market, likened to a type of social ISA[1] (paragraph 5.6).

(p.5) Social Impact Bonds are not strictly speaking bonds (that is to say, debt instruments), but rather are a class of PbR contract where the upfront finance for the contract is provided by third-party investors rather than providers. In this sense, SIB-funded provision of public services is analogous to the UK's Private Finance Initiative (PFI) funded provision of public infrastructure. However, early proponents distinguished SIBs from other forms of outcomes-based payment by emphasising their alignment of social and financial returns on investment; the fact that service provider costs are covered by investors upfront, minimising risk transfer to smaller, third sector providers; and the potential for them to bring together groups of social investors and portfolios of interventions (Social Finance, 2009).

SIBs have several distinct elements:

- an investor – to date investment has tended to come from social investors (Ronicle et al, 2014), although some initial programmes in the US had private investors and other projects had alternative financing structures (Mulgan et al, 2010; Social Impact Task Force, 2014);

- a programme of actions to improve the prospects of a target group (Mulgan et al, 2010) – that is to say, a group in need of public services;
- commitments by a commissioner (to date usually national or local government) to make payments linked to particular social outcomes achieved by the group (Mulgan et al, 2010).

Although different models of SIB are possible (see, for instance, Mulgan et al, 2010, and Ronicle et al, 2014), a common model is an SIB that is delivered through a special purpose vehicle (SPV): a legal entity – owned by investors, service providers or an intermediary or some combination thereof – created to undertake specific objectives while insulating the owners from financial risk. The SPV holds the contract with the commissioner (payor) and contracts with one or more organisations which will provide the interventions required to achieve the outcome(s) specified in the contract between the SPV and **(p.6)** the commissioner. This structure was used in the first SIB at HMP Peterborough (Disley et al, 2011). Ronicle et al note that organisations are still innovating to develop new contractual and financial structures, and therefore any attempts to constrain the definition of a SIB are 'likely to stifle such innovation, within what is a relatively new and developing area of contracting for services' (2016: ii).

Origins and scale

Commissioning for outcomes

Payment by Results is not a new phenomenon, dating back, in education at least, to Victorian England (Mitch, 2010). Although there was some success at first in the Victorian application of PbR, in the end, the experiment was abandoned, in part because the Treasury felt the costs of administration and evaluation made the overall project inefficient. There were also concerns that the system was unfair to some church- and volunteer-run schools, and liable to corruption in the 'results' measure (Mitch, 2010). These same concerns are often highlighted in the modern PbR literature.

The UK Coalition government committed to 'introducing payment by results across public services' (Cabinet Office, 2011: 9) and introduced schemes across diverse areas of policy, including welfare to work, substance misuse, criminal justice, family interventions and overseas development. In a thorough review of the current situation in the UK, the National Audit Office (NAO, 2015) identified over 50 schemes worth a combined total of at least £15 billion. Subsequently, the reorganisation of probation services and the creation of Community Rehabilitation Companies involved a PbR element (MoJ, 2013).

Social Impact Bonds

Early arguments for SIBs emphasised their potential to bring more private and public investment into early intervention and preventative measures, an area that historically charitable trusts and foundations had addressed (Social Finance, 2009). Social Finance (2009) give various **(p.7)** examples, including the fact that of £92 billion health expenditure in England, only 3.7% is spent on preventative interventions; that in relation to mental health, £10 billion is spent on benefit payments alone, while only £2 million is spent on mental health promotion; and that the government spends almost £1.5 billion on school truancy and exclusion, but only £111 million on preventative initiatives. Early arguments also drew on a wider trend towards 'social investing', including interest from investors and philanthropists in combining commercial and social returns, advances in government methods for assessing the impact of public investments on human capital, widespread experience of private finance initiatives and public private partnerships, the development of markets for carbon trading, and experiments in health around advance market commitments (Mulgan et al, 2010).

Social Impact Bonds, it was argued, would align stakeholder interests around specific social outcomes. The long-term vision was ambitious:

> Social Impact Bonds enable foundations, social sector organisations and government to work in new ways and to form new partnerships. By aligning the interests of all parties around common social outcomes, Social Impact Bonds have the potential to address some of society's most intractable problems.
>
> (Social Finance, 2009: 4)

Thus, SIBs would supposedly enable change in four distinct ways: by unlocking an unprecedented flow of social finance, creating an incentive to develop the evidence base, creating an incentive to innovate, and changing the role of government so that its focus was on defining social priorities and bringing resources and expertise to bear (Social Finance, 2009).

The Cabinet Office's Centre for Social Impact Bonds[2] reports that there are now 32 SIBs across the UK, supporting interventions in areas such as youth unemployment, mental health and homelessness **(p.8)** (Ronicle et al, 2014; Tan et al, 2015). Nearly 20 SIBs in the United States have started delivering services, primarily clustered in three areas: criminal justice, early childhood education and homelessness. Ronicle et al (2014) note that a key difference between UK and overseas experience is that SIBs outside the UK have tended to be funded by institutional rather than social investors, for example, Goldman Sachs in the US. However, more recent experience indicates that the US is moving towards social investors.

Social impact investing

Social Impact Bonds are one element of an international social impact investing movement. The OECD defines social impact investment as: 'the provision of finance to organisations addressing social needs with the explicit expectation of a measurable social, as well as financial, return' (2015: 10). The Social Impact Investment Taskforce established under the UK's presidency of the G8 in 2013 was given the objective of 'reporting on "catalysing a global market in impact investment" in order to improve society' (Social Impact Investment Taskforce, 2014: unnumbered). In its 2014 report *Impact investment: The invisible heart of markets* it was claimed that:

> The world is on the brink of a revolution in how we solve society's toughest problems. The force capable of driving this revolution is 'social impact investing', which harnesses entrepreneurship, innovation and capital to power social improvement.
>
> (Social Impact Investment Taskforce, 2014: 1)

The size of the social investment market is difficult to estimate because of definitional issues (OECD, 2015). The Global Impact Investing Network (GIIN) defines impact investing as: 'investments made into companies, organizations, and funds with the intention to generate measurable social and environmental impact alongside a financial return' (2017: 58). The 205 respondents to its annual survey invested $22.1 billion into nearly 8,000 impact investments in 2016 and, in **(p.9)** total, 208 respondents were currently managing $114 billion in impact investing assets. This implies that the total market is larger, because not all investors will be captured by the survey. A subset of respondents to the GIIN survey who had answered repeated annual surveys reported increasing their impact investing assets under management from $25.4 billion in 2013 to $35.5 billion in 2015, an annualised rate of growth of 18% (GIIN, 2016).

The OECD notes that, as in traditional finance, social investment instruments can include grants, loans, guarantees, quasi-equity, bonds and equity, and at the moment most social investment is still in the form of grants. SIBs represent a small but innovative element of the market. This is borne out by the GIIN (2017) report, where pay-for-performance instruments such as SIBs accounted for 0.2% of the $114 billion of assets under management in 2016.

Some key questions raised by outcome-based commissioning

This book addresses three, recurring themes that, crudely, raise technical, economic and political questions about outcomes-based commissioning:

- Technical: As a technical innovation, does outcomes-based commissioning lead to better services? Does outcomes-based commissioning encourage innovation in service design? What (dis) incentive structures do these models create both for service delivery organisations and individuals that work or volunteer within them? If there are gaps in the evidence base, why is this and how might they be filled?
- Economic: It has been argued, particularly in the UK, that outcomes-based commissioning is part of a trend to 'marketise' the delivery of traditionally public services. This debate, absent in the US, often sidesteps the question of policy makers' incentive structure, implicitly assuming an a priori bias towards public sector outsourcing. We take a step back and consider the political/ **(p.10)** economic rationale of such commissioning and the developments of markets in delivering public services in the context of PbR and SIBs.
- Political: What is the potential scope of outcomes-based commissioning? Where might this emerging 'market' go next, what is its potential to expand and what are the alternatives? What do 'social finance' and 'impact investing models' suggest for the future of traditional charitable and philanthropic activity? More fundamentally, what does outcomes-based commissioning suggest to us about the changing role of the state and its relationship with citizens as service users and the public, private and not-for-profit sectors as service providers?

About this book

This book reviews the UK and US experience of PbR and SIBs, and asks whether these approaches to commissioning services are efficient ways to unlock new capital investment in order to advance social goods.

It is the first academic publication to attempt to comprehensively synthesise experience and evidence from the UK and US. In many ways, we will see that there are parallel developments between the two nations, but different backstories. Whereas in the UK, the primary driver of outcomes-based commissioning has been the public sector, as government seeks to subcontract already existing public services, in the US, the primary driver is the provision, by the private or philanthropic sector, of new public services.

This book will provide a balanced overview of a field where much of the existing evidence is sparse. We will build on and develop the limited theoretical discussion and, in particular, explore two themes: one that PbR and SIBs drive efficiency and innovation in the delivery of social outcomes; the other, that attempts to reconcile corporate profits and social goods, may lead to perverse incentives and inefficiency. We will also consider the impact of these approaches on not-for-profit and smaller players in the market for social outcomes.

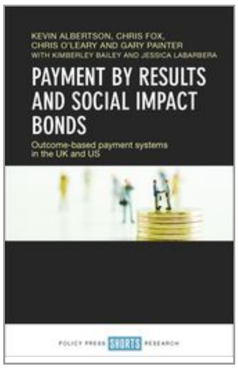
This book is intended for academic researchers and students in the fields of social innovation, social policy, political science and **(p.11)** economics, as well as policy makers in the UK, US and Europe who are being urged by politicians to consider this form of policy innovation.

In Chapter Two we set out some key theoretical issues that are raised by outcomes-based payment systems and argue that, currently, this area is theoretically underdeveloped. In Chapters Three and Four we provide an overview of the current situation in the UK and the US. We describe how outcomes-based payment has developed and pay particular attention to describing all current SIBs in both countries, and the infrastructures that have developed to support them. In Chapter Five we report the findings of a structured review of all published evaluations of PbR and SIBs in the UK as well as a brief overview of SIB evaluations published in the US. In Chapter Six we draw conclusions from the evidence we have reviewed, address the theoretical issues set out in Chapter Two and briefly discuss future directions.

Notes:

([1]) An Individual Savings Account with a tax-free allowance set by government to encourage individuals to save.

([2]) See https://data.gov.uk/sib_knowledge_box/home



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Outcome-based commissioning: theoretical underpinnings

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[−] Abstract and Keywords

This chapter discusses some key theoretical issues that are raised by outcomes-based commissioning. It begins by outlining three potential theoretical drivers of outcomes-based commissioning. First, Payment by Results (PbR)/Pay for Success (PFS) and Social Impact Bonds (SIBs) can be viewed as the logical next step in the New Public Management (NPM) reforms aimed at improving public sector efficiency. Second, they can be explained as an attempt by policy makers to deal with complexity in the social world. Third, they can be interpreted as a means by which policy makers seek to facilitate and develop new and existing philanthropic activity and social enterprise. The chapter goes on to consider the underlying theories and objectives of outcomes-based commissioning as well as how practice and theory may differ, focusing on issues relating to perverse incentives, conflicting policy objectives, risk management, and contracting. Finally, it examines questions of delivery and outcomes.

Keywords: outcomes-based commissioning, Payment by Results, Pay for Success, Social Impact Bonds, New Public Management, public sector, PbR, risk management, contracting, PFS, SIBs

Introduction

The growing use of Payment by Results and other forms of outcomes-based commissioning raises significant questions about the direction of public administration reforms. Here, we consider why and how such innovations in commissioning arrangements have developed, and how they might be theorised.

To date there is a very limited literature in this area; and that which *does* exist largely focuses on either: (a) criticising such commissioning arrangements as examples of marketisation, or (b) examining the use of such instruments in specific sectors or specific arrangements. There is little detailed examination of the theoretical underpinnings of outcomes-based commissioning.

We suggest that there are three potential theoretical drivers of outcomes-based commissioning. These are not necessarily alternative or complementary explanations. First, such innovations can be seen as the logical next step in the New Public Management (Hood, 1991) reforms implemented by the UK and US governments with a view to improving public sector efficiency. Second, they can be viewed as an **(p.14)** attempt by policy makers to deal with complexity in the social world. Finally, they can be explained as a means by which policy makers seek to facilitate and develop new and existing philanthropic activity and social enterprise.

We evaluate each explanation and, in particular, discuss the extent to which policy objectives motivate outcomes-based commissioning. We go on to discuss the theoretical criticism of such commissioning models. The extent to which these promises and problems are observed in practice is the focus of Chapter Five. In conclusion, we discuss the implications of outcomes-based commissioning theory on wider discussions about the use of PbR in the UK, the US and worldwide.

Theories and objectives

It is no new observation that public interventions may fail to deliver, or may not deliver as well as might have been hoped, solutions to social problems. Outcomes-based commissioning may be viewed as a measure developed by government seeking to address these shortcomings.

PbR is a broad term applied to a number of the wide variety of outcomes-based commissioning strategies used by government (Battye, 2015). The common theme is that payment is made, in part or entirely, contingent on the achievement by the contracted agent of specified goals or targets.[3] This contrasts with more traditional forms of public sector funding, where (typically in the UK) payment is often made ‘up front’, often based on previous service use, demand and/or staffing levels, or (typically in the US) paid post hoc to cover costs of salaries, services and administrative costs or for specific outputs. Such a development in funding might be purely pragmatic, it might be led by theory, and/or *ex post* theorisation might follow pragmatic policy **(p.15)** in an attempt to establish a unifying narrative. We consider three broad theories which might explain the rise of such commissioning and three broad policy objectives which outcomes-based commissioning might address.

Theoretical foundations

New Public Management

In the last 30 years there have been a number of reforms and restructures in government in the UK, the US and elsewhere, supposedly intended to modernise and improve public service delivery.[4] These are collectively termed New Public Management (NPM) (Hood, 1991), although there remain different conceptions of NPM (De Vries, 2010). Ferlie et al (1996) summarise NPM as being about three Ms: markets, managers and measurement. Dunleavy et al (2006) suggest three ‘chief integrating themes’ of:

1. Disaggregation, that is, splitting up large public bureaucracies to create a number of smaller, less hierarchical organisations – this may facilitate decentralisation, the devolution of decision-making and service provision to a lower level of government.
2. Competition, particularly introducing a purchaser/provider split and enabling different forms of provision.
3. Incentivisation, with a greater emphasis on specific performance-based payment.

To these we might add a fourth theme (which Dunleavy et al, have associated with post-NPM reforms): the increasing use of digital and information technology.

Further, there is the question of the implementation: whether NPM is essentially a 'top-down' or 'bottom-up' process. In the former, it is managers who hold themselves accountable to the public and hence **(p.16)** seek to develop and impose means by which they can appropriately incentivise those who produce and deliver public goods. In the latter conception, it is rather service producers and deliverers (that is, those who come into contact with the public) who are accountable to the public, and who seek to develop means by which management will facilitate, rather than hinder, service delivery. In practice, NPM exhibits elements of both – though the emphasis on the relative importance of each may vary from one nation to another (Hood, 1991).

It is beyond the scope of this chapter to summarise the successes and failures of NPM; however, it is clear that outcomes-based commissioning arrangements often involve a mix of each of these themes, particularly 'measurement' with a focus on incentivisation (Lowe and Wilson, 2015). To the extent that NPM involves the creation of internal markets for public provision, outcomes-based commissioning is a logical extension, as it is based on provision through externally contested markets. This extension of market power is operationalised by the commodification of public goods, or rather, the commodification of statistics pertaining to such goods (Albertson, 2014).

Complexity and risk management

New Public Management, however, is a meso-level theoretical explanation: it describes *how* policy makers may seek innovation, but not *why* policy makers would seek to innovate. One such motivation arises from the increasing complexity of the modern globalised world (Boettke and Coyne, 2005).

Complexity affects many aspects of modern life. In the design and delivery of social programmes in the developed world, it may arise from demographic changes, post-industrialisation, changes in the labour market, increased globalisation, climatic vulnerability and changes in information technology.

A common theme in much public administration literature is that bureaucrats are conservative and generally risk-averse. Growing complexity and increasing demands are likely to further reduce policy **(p.17)** makers' appetite for risk, incentivising them to seek commissioning arrangements that transfer political and financial risk to third parties. Therefore, policy makers may respond to complexity through decentralisation, transferring political and/or financial risk, increasing the number of providers engaged in delivering programmes, and focusing payment arrangements on the delivery of results.

Facilitation of social innovation

Our final theoretical motivator of outcomes-based commissioning might well be thought of as the opposite of the type of reforms associated with NPM; it considers the responsibility of government to act to correct the failure of the market in producing sufficient public goods.

In the UK and the US, as in most nations, a sizeable – though arguably decreasing (Meer et al, 2017) – proportion of social production is carried out by philanthropists, people who invest (or donate) their resources, both financial and temporal, to produce social goods (what Dowling [2017] has critically called the 'social turn' in public financing). Such goods might include, for example, the building of communities and community services, public health innovation, support services for substance misusers and employment services. The need for such extra-market production arises because social goods are not correctly priced in traditional markets (Grimm et al, 2013).

To the extent that existing charities, non-profits and philanthropic interventions promote the common good, they save government money (for example, by reducing crime or the demand for social support). It follows that there is a case for government to contribute financially to the establishing of new social interventions, or the upscaling or continuance of existing activities (Cabinet Office, undated).

In many instances, as Ronicle et al (2016) observe, the development of SIBs is thus driven by service providers and intermediaries. They see potential advantages: a provider-led SIB can change the dynamics of the relationship between commissioners and service providers, **(p.18)** creating more of an equal partnership rather than a service design led by the commissioner. SIBs developed in this way may be supply-not demand-led.

We must also consider, from the point of view of the private sector, the desire of entrepreneurs, both social and otherwise, to invest in social enterprises. Early proponents of SIBs argued social investors might be individual philanthropists or a charitable trust, but, looking ahead saw the potential for private finance to replace philanthropic or public finance, thus creating a new asset class in which banks, pension funds and others might invest (Mulgan et al, 2010).

More recently, the Social Impact Investment Taskforce (2014) continues to stress the potential of private sector social impact investment to tackle social problems. It argues that investors are increasingly adding a third dimension of ‘impact’ to risk and financial return in their decision-making, and that there is ‘a considerable pool of capital looking for opportunities to invest in achieving measurable social impact’ (Social Impact Taskforce, 2014: 18).

Government may facilitate such social investment in one of two ways through outcomes-based commissioning: as a dealmaker, directly contracting for the provision of public services; or as a broker, facilitating the collaboration of philanthropic capitalists who would speculate their own money on the achieving of social ends, with intervention/innovation providers.

In either case, efficient provision of the social good requires that payment reflects the value placed on that good or service by society in aggregate. Appropriate evaluation of social innovation is thus necessitated. This will particularly be the case if the social investment market does indeed grow to the point where it attracts investors solely motivated by fiscal returns.

Policy objectives

A number of different policy objectives are ascribed to the introduction and use of outcomes-based commissioning. For PbR/PFS, these policy objectives can sometimes be unclear, interrelated, complementary or **(p.19)** supplementary, and may even be contradictory or mutually exclusive (Hunter and Breidenbach-Roe, 2013). Broadly speaking, these policy objectives fall into one of three categories:

1. Incentivising desired behaviours of commissioners and providers
2. Managing risk
3. For most but not all examples of PbR, reducing costs of public services provision or increasing efficiency of delivery.[5]

These are explored in more detail in the following sections, and each covers a range of different, more nuanced aims and objectives.

Incentivising desired behaviour

A core assumption underpinning outcomes-based commissioning approaches is that *incentives matter*, in particular, that financial incentives will change the behaviour of commissioners and providers. By providing appropriately specified financial rewards to providers and investors – and sometimes commissioners, as in the case of several UK PbR programmes (O'Leary, 2017) – for outcomes achieved, it is supposed outcomes-based commissioning will encourage a number of consequential changes:

- Commissioners will be incentivised to focus on specifying and measuring outcomes, on becoming an 'impact-seeking purchaser' (Social Impact Investment Taskforce, 2014), and will thus move away from micromanaging how, when and by whom services are delivered (Kohli et al, 2012).
- Providers will innovate and experiment (Battye, 2015), to identify what works in terms of delivering impact and to design services based on such evidence (Fox and Albertson, 2011).
- **(p.20)** New providers will be encouraged to enter the market and to collaborate with other, complementary providers and services, incentivised by explicit payment arrangements and by the freedoms and flexibility to redesign how services are delivered and organised (Fox and Albertson, 2011).
- In relation to SIBs, investors will be encouraged to finance social policy programmes and interventions, incentivised by potential impact and/or the dividends paid when outcomes are achieved (Corporation for National and Community Service, 2014).

In theory, by using PbR, governments may achieve improved social outcomes and commit fewer financial resources compared with public sector delivery or traditional commissioning approaches. In practice, it is by no means assured that these intentions are always realised. We discuss below some evaluation evidence that raises questions about whether, and to what extent, PbR/PFS and SIBs achieve these objectives.

Managing government risk

Outcomes-based commissioning arrangements may also aim to transfer risk from government to non-government organisations (Battye, 2015). Risk may be transferred in whole or in part. In the case of SIBs, investors provide upfront programme funding which is returned with an additional dividend, if and when objectives are met and outcomes achieved. Where objectives are not met, government typically does not repay the upfront investor funding, either in part or in entirety. PbR contracts are slightly different, in that upfront funding is typically provided by government commissioners (and not private investors, as in the case of SIBs), with part payment made on the achievement of outcomes.[6] As payment is only made when contractual outcomes **(p.21)** are achieved, risk is transferred (at least in theory), in full or in part, from government to investors (in the case of SIBs) or providers (in the case of PbR).

Government also mitigates its risks in three other ways. First, a key policy objective of outcomes-based commissioning (at least in the UK) is to encourage new entrants to the market and foster competition between providers. Rather than government directly providing the relevant programme or service, delivery is spread across a number of private sector providers.

This is intended to lead to diversification of providers, which reduces the potential impact scale of contractor failure.

By contrast, in the US it is generally recognised that outcomes-based commissioning actually excludes new entrants to the field because they lack the scale and capacity to invest in systems to track outcomes. This perspective is backed up by evidence discussed later in this book, which questions the extent to which smaller providers can compete in the UK's PbR markets.

Second, by making providers responsible for decisions about how services are designed and delivered, policy makers attempt to transfer risk by 'depoliticising' (Burnham, 2001) service delivery. Such moves are attempts to limit the 'political character of decision-making' (Burnham, 2001), emphasising rather that decisions are rational and evidence-based; in essence, claiming that decision-making is technocratic rather than political/ideological (Flinders and Wood, 2014), in the UK at least. From this perspective PbR in particular can be seen as a progression of other depoliticising trends in UK public policy, including the establishment of foundation trusts in health, school academies in education and probation trusts in criminal justice, all features of the UK's New Labour government's public sector modernisation agenda of 1997 to 2007 (Diamond, 2013).

Again, the US experience is rather more pragmatic, as it is recognised that such outsourcing decisions are themselves political. As Flinders and Wood note: 'few scholars associate depoliticisation with the removal of politics; and many associate it with the denial of politics or the **(p.22)** imposition of a specific (and highly politicised) model of statecraft' (Flinders and Wood, 2014: 136).

Third, outcomes-based commissioning is often used in areas of social policy characterised as having 'wicked problems' (O'Leary, 2017): entrenched, complex, multifaceted social problems typified by degrees of equifinality,[7] which have largely been impervious to previous government policies or programmes. Through promoting innovation, it is hoped that outcomes-based commissioning arrangements may go further than more traditional forms of outsourcing in addressing such problems.

Reducing costs/increasing effectiveness of public service provision

Often, a stated policy objective for PbR/PFS and SIBs is to increase efficiency and reduce costs of social programmes (Fox and Albertson, 2011; Battye, 2015). Efficiency gains/cost reductions may be achieved in a number of different ways:

- As providers are free to decide how they will organise and deliver services, it is expected that they will reduce overheads and other costs.
- Freedom to innovate will encourage providers to structure their activities and focus on evidence-based interventions and service models.
- Private sector firms might put pressure on terms and conditions of employment more effectively than government departments.
- Arguably more in relation to the UK, increased competition, particularly through encouraging new market entrants, is expected to play a role in driving down costs.
- **(p.23)** The deferment of payments inherent in PbR/PFS and SIB contracts may reduce costs, as future costs may be discounted. Further, a key policy objective of these sorts of commissioning arrangements is to curtail potential future increases in costs.

However, while outsourcing in general (both by the private and public sector) has been shown to drive down costs, it also appears to increase income inequality and poverty (Equality Trust, 2014; Greenwood, 2014; Weil, 2014; Schmieder and Goldschmidt, 2016; Appelbaum, 2017). Where PbR is used as a form of outsourcing, the potential associated increase in inequality might exacerbate social problems (cf. Wilkinson and Pickett, 2009). This is clearly an empirical matter, yet currently the evaluation of PbR schemes involving public sector outsourcing does not, to our knowledge, consider the potential impact on inequality (see Chapter Five).

This is not, of course, a criticism of PbR in general. Where outcomes-based commissioning expands or deepens the social innovation market (rather than where it is proposed as a form of cost-cutting), this problem is unlikely to arise (cf. Golden et al, 2017).

Theoretical concerns

The difference between theory and practice is almost always greater in practice than it is in theory, or so it is said. That ought not stop us from theorising how practice and theory may differ; it is to this task we now turn. Evidence regarding the validity of these concerns is outlined in Chapter Five.

Commissioning

Perverse incentives

In practice, the incentives of government commissioners of services and of service funders and deliverers will seldom naturally align. If they did, there would rarely be a need for outcomes-based commissioning. One of the arts of contracting, therefore, is to avoid conflicting or perverse **(p.24)** incentives. Outcomes-based commissioning may encourage service providers to concentrate on achieving those outputs and/or outcomes that are included in the reward system, even though other (less easily observed) outcomes might be just as important (Hoverstadt, 2011).

Use of outcomes-based commissioning increases the possibility of ‘gaming’ the system (Lowe and Wilson, 2015), for example, in so-called ‘creaming’ or ‘cherry-picking’, whereby providers might select ‘easy’ cases to work with, and ‘parking’, where they ignore ‘hard’ cases (Carter and Whitworth, 2015). Such an approach maximises returns without providers accepting fully the transfer of risk or undertaking the intervention envisaged by the public sector commissioner (Battye and Sunderland, 2011). More generally, there is potential for the distortion of the indicator chosen to represent ‘success’ (Campbell, 1979; Berlin 2017). The threat here is that the delivery process will, over time, converge on the most efficient way of producing desirable, commodifiable statistics rather than the originally desired outcome.

The mixing of the incentive structure of the public, the for-profit and the not-for-profit sector might well cause third sector organisations to become ‘more market driven, client driven, self-sufficient, commercial or businesslike’ (Dart, 2004: 414). Such ‘social marketization’ (Han, 2017) may, ironically, reduce their effectiveness.

The risks arising from such perverse incentives can be mitigated in the design of the PbR contract by specifying evaluation schema, but this provides additional challenges in the implementation of such projects and adds to their complexity.

Conflicting policy objectives

It is clear that there is a great deal of tension and potential conflict between the disparate policy objectives governments hope to address with outcomes-based commissioning.

The policy goal of promoting economic efficiency, for example, may be undermined by the necessity that the return on outcomes-based contracts must reflect the additional costs of their establishment (Fox and Albertson, 2011). These arise both because of the complexity of **(p.25)** such commissioning and because of outcomes evaluation (Corporation for National and Community Service, 2014).

Such costs may also disincentivise some organisations from participating in the process which would rather tend to undermine the policy goal of encouraging new market entrants (in the UK) and also create entry barriers for smaller organisations. If, as many of their proponents hope and expect, SIB investors come increasingly from the for-profit as well as the philanthropic sector (Rizzello and Carè, 2016), there is likely to be increased pressure on policy makers to increase the rate of return to attract additional capital. This would undermine government attempts to reduce costs.

There is also an inherent contradiction between evidence-based intervention design and the promotion of innovation (NAO, 2015; McGahey and Willis, 2017). Innovation requires experimentation, which carries with it the potential of failure, yet by definition PFS pays only for success. To achieve contracted outcomes, providers may wish to focus on interventions which they know will work, on interventions and service designs for which there is demonstrable evidence of impact – that is to say, existing interventions.

The balance of risk

Attempts by government to pass on risk may not be met with enthusiasm from investors and service deliverers. Economic theory argues that investors and enterprises are generally risk-averse – they require incentives to take on risk. In particular, the for-profit sector, and small enterprises, are likely to be significantly more risk-averse than government (Fox and Albertson, 2012). Higher payments may be required to induce the private sector to take on government risk. As McGahey and Willis (2017) note, SIBs often carry equity risk, although returns are closer to a low-risk government bond.

Also, where the commissioner feels the risk may well not have been reallocated, or the SIB investor is concerned over the impact of such risk on returns, the service deliverer may be subject to **(p.26)** restriction, increased demands for monitoring or other forms of 'micromanagement' (Edmiston and Nicholls, 2017).

Contracting

Ultimately, it is clear that thoughtful and appropriate PbR contracting will be a challenge, particularly for commissioners who need metrics to reflect the benefits of change and that avoid perverse incentives (Ronicle et al, 2014). It may well be that the use of PbR contracts will involve rather more than less government interference in the private sector, as commissioners seek to ensure the desired outcomes are delivered, and the associated benefits realised (Edmiston and Nicholls, 2017).

We must also consider the motivation of the provider of social investment (Fraser et al, 2016). Some investors may have private reasons to 'do good', that is, to take part of the return from their investment in social outcomes, rather than purely in dividends. Other funders are big businesses or banks engaging in corporate social responsibility activities or to meet their obligations under the Community Reinvestment Act in the United States. The motivation in this case is not necessarily to do good, but to be *seen* to do good. Where investors are prepared to accept a below-market rate of return, the government may save money.

Delivery

Set-up costs and scale

A potential advantage of PbR in general, and SIBs in particular, is that they bring together new and different actors to tackle social problems. We might also consider that economics of scale implies that cost savings are more likely to result from larger-scale PbR projects. However, the increased number of actors involved in service delivery is likely to increase transaction costs (see, for example, Demel, 2012; Ronicle et al, 2016) as contracts become increasingly complicated. There is, therefore, a trade-off between scale, opportunities for collaboration and transactions costs. In an attempt to address this, commissioning **(p.27)** in the US almost always requires strict evaluation frameworks and data-sharing agreements (see Chapters Four and Five).

Limitations in the evidence about 'what works'

When bidding for and delivering on SIB contracts, service providers must have an idea of what can be achieved and at what cost. In most areas of social policy there is an increasing body of evidence in the form of systematic reviews of 'what works';[8] however, interpreting and making use of this evidence is not straightforward (Fox and Albertson, 2012). In addition, translating evidence from one jurisdiction to another is particularly problematic. Providers may therefore be tempted to replicate existing interventions, rather than innovate.

Outcomes

Measurement

The challenge of measuring outcomes is substantial, particularly in sectors where outcomes are difficult to define and evaluate. Once outcome measures are agreed, evaluation raises further challenges. Key to PbR is the ability of a commissioner not only to be confident that the desired outcome has been achieved but that it was achieved because of the actions of the commissioned service provider (Fox and Albertson, 2012; McHugh et al, 2013). Thus, experimental and quasiexperimental evaluation designs with high levels of internal validity (cf. Shadish et al, 2002) will be preferred to those with lower levels of internal validity. Such evaluation designs can be expensive. There is, of course, also the issue of whether these outcomes will be sustained over time (Edmiston and Nicholls, 2017).

(p.28) In some areas of social provision, there is also an inherent difficulty in setting hard (objective) outcomes (Ronicle et al, 2016); there may also be a need to incentivise subjective measures that indicate progress towards hard outcomes that can only be achieved in the medium to longer term. However, the measurement of subjective outcomes is not straightforward.

Ultimately, for politicians and commissioners wishing to cut through the complexity of PbR, outcomes need to be easy to measure. However, keeping outcomes simple might undermine the co-creation of solutions to complex social problems involving both service providers and service users (Crowe et al, 2014). The SIB incentive structure is such that it is likely that innovation may be curtailed to those interventions for which an effective metric is available and which are already 'tried and tested'.

Identifying benefits

When developing the business case for an SIB it can be challenging to identify the financial benefits and/or savings that commissioners and others will make (Ronicle et al, 2014). The challenge of identifying non-cashable benefits may be even greater. The UK government has argued that PbR commissioning must be based on full social value: ‘Understandings of value … driven by citizens and communities’ (Cabinet Office, 2011: 18). This is likely to be crucial in the case of an SIB involving social investors. However, this is also one of the main paradoxes of the SIB approach (Fox and Albertson, 2012). If SIBs are to become widespread, they will rely on the commissioning organisation being able to realise a monetary saving from which to pay for results. This implies taking a relatively narrow view of value, one in which value is limited to the fiscal benefits realised by the commissioning organisation over the lifetime of the PbR contract (Fox and Albertson, 2012).

(p.29) Conclusion

To develop the theory of the PbR/SIB approach, we have considered the motivations of stakeholders in the provision of social goods. These goals can be understood by considering the theoretical frameworks of NPM, complexity and risk management in the provision of social goods by multiple sectors. However, the objective to promote social innovation with PbR/SIB adds an additional layer of complexity that can often render these multiple objectives contradictory. It follows that implementation of outcomes-based commissioning is less straightforward than advocates have sometimes assumed, and that, despite the optimism of some advocates, caution is required when considering whether the development of new forms alone can produce rapid change.

It is not, therefore, a question of whether or not outcomes-based commissioning is useful or not in and of itself, but rather a question of when and where it is appropriate. We suggest that careful consideration of the policy objectives and incentive structures implicit in the contractual arrangements outlined above will aid in making decisions on how to design PbR/SIB projects.

Notes:

([3]) It is possible, of course, for government to pay up front, where the PbR/PFS contract includes a repayment clause if the service provider *fails* to meet specific targets. The Social Impact Guarantee Model (Overholser, 2017) is an example. Although a form of outcomes-based commissioning, it might rather be termed ‘Repayment for Failure’ than ‘Pay for Success’.

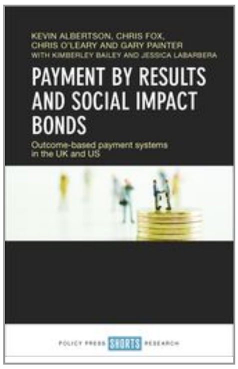
([4]) By ‘modernise’, we mean to promote economic efficiency in the context of the current sociopolitical orthodoxy.

([5]) Although objectives might not always be readily ‘cashable’. There might, for example, be political benefits realised from addressing particular issues.

([6]) Although payment is entirely based on achievement of objectives/outcomes in some PbR schemes, it is more common to allow a mixture of funding, with outcomes-based post hoc payments accounting for part of overall funding.

([7]) Consistent with complexity (and in contrast to assumptions of simple cause–effect understandings of the social world), equifinality assumes that any outcome may be achieved though different causal combinations and causal mechanisms.

(8) See, for instance, the UK government-sponsored What Works Network (www.gov.uk/guidance/what-works-network), and in the US, the Pew-MacArthur Results First Initiative (www.pewtrusts.org/en/projects/pew-macarthur-results-first-initiative) and the What Works Clearinghouse (https://ies.ed.gov/ncee/wwc/).



Payment by Results and Social Impact Bonds: Outcome-Based Payment Systems in the UK and US
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Payment by Results and Social Impact Bonds in the UK

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[−] Abstract and Keywords

This chapter discusses the development of outcomes-based commissioning in the UK, focusing on Payment by Results (PbR) and Social Impact Bonds (SIBs). It first considers key policies that have underpinned outcomes-based commissioning in the UK since 2010 before analysing PbR programmes and SIBs in more detail, highlighting results and some of the important issues related to these areas of policy. It shows that the themes of New Public Management (NPM) and risk management are evident in the development of PbR and SIBs, whereas the theme of social innovation is present but less prominent. The chapter also provides an overview of the social investment market and two PbR programmes, namely, the Work Programme and the Troubled Families programme. Finally, it describes two SIBs: HMP Peterborough SIB and Nottingham Futures SIB.

Keywords: outcomes-based commissioning, PbR, Payment by Results, Social Impact Bonds, New Public Management, risk management, social innovation, social investment market, Work Programme, Troubled Families programme

Introduction

In this chapter we concentrate on the development of outcomes-based commissioning in the UK. This chapter starts by identifying key policies that have underpinned outcomes-based commissioning in the UK since 2010, and then goes on to describe in more detail Payment by Results programmes and Social Impact Bonds. For both PbR and SIBs we list key programmes, identify results and summarise some of the key discussions around these areas of policy. The themes of New Public Management and risk management, discussed in Chapter Two, are evident in the development of PbR and SIBs, with the theme of social innovation present but less prominent.

Policy on outcomes-based commissioning

Payment by Results

As Tan et al (2015) note, the term ‘Payment by Results’ can be confusing in a UK context because it is also the term used in the English NHS to refer to a programme of activity-based commissioning. **(p.32)** An extensive programme of activity-based PbR was introduced in the UK health system in 2004 (Conrad and Uslu, 2011). Prior to the introduction of PbR, many hospitals were paid according to block contracts where funding received by the hospital was fixed irrespective of the number of patients treated (National Health Service, 2012). Payment by Results was introduced to support patient choice by creating tariffs so that commissioners pay healthcare providers for each patient treated (National Health Service, 2012). However, in this model payment is linked to delivery of treatments to a defined standard, but not to outcomes such as morbidity or mortality. It is therefore a form of ‘output-based commissioning’ rather than ‘outcomes-based commissioning’, and will not be a substantive focus of this book.

Payment by Results in the sense that is the focus of this book really entered mainstream policy following the 2010 UK election, which led to the creation of a coalition government between the Conservative Party and the Liberal Democrats. During the election campaign the Conservatives argued for the creation of a ‘Big Society’ with charities, social enterprises and communities playing a greater role in tackling social problems, while the Liberal Democrats emphasised strong communities and localism (Bochel and Powell, 2016). However, both parties shared an enthusiasm for a ‘mixed economy’ of public service provision with a bigger role for the voluntary and private sectors.

The Coalition Agreement (HM Government, 2010) drafted by the Conservative and Liberal Democrat parties at the point that they formed a Coalition Government (2010–15) contains several references to outcomes-based commissioning in different areas of government, including welfare-to-work programmes, public health budgets and the criminal justice system. The Coalition Agreement also emphasised the new government’s desire to rethink the size and role of the state. The Coalition partners shared a mistrust of ‘big government’:

> We share a conviction that the days of big government are over; that centralisation and top-down control have proved a failure. We believe that the time has come to disperse power more widely in Britain today.
>
> (HM Government, 2010: 7)

(p.33) and a belief in extending individual and community involvement in tackling social problems:

> This [programme for government] offers the potential to completely recast the relationship between people and the state: citizens empowered; individual opportunity extended; communities coming together to make lives better.
>
> (HM Government, 2010: 8)

These themes were present in the Coalition Government’s white paper on *Open public services*, where the government stated that ‘Open commissioning and payment by results are critical to open public services … Payment by results will build yet more accountability into the system –

creating a direct financial incentive to focus on what works, but also encouraging providers to find better ways of delivering services' (Cabinet Office, 2011: paras 5.4, 5.16). In addition to greater accountability and more innovation, PbR was also linked to 'diversifying' the supplier base and to closer working with communities and service users.

Social investment market

The Coalition Government published a strategy for growing the social investment market (HM Government, 2011). Social investment was described as financing that blends financial return with social return, and the strategy was framed in terms of devolution of power and civic renewal:

> We want a bigger, stronger society. One where communities and citizens have more power to shape their lives and determine their destinies. This is about so much more than just encouraging the voluntary sector to grow; to really see change we need to accompany this with localising swathes of power and opening up public services.
>
> (HM Government, 2011: Foreword, unnumbered)

(p.34) The strategy highlighted the potential role of SIBs in expanding payment by results and providing a financial vehicle for social investment:

> In expanding and developing the use of Payment by Results across a range of public service areas, access to working capital could be a particular challenge to many smaller and more specialist providers. We will examine financing options for working with the private sector and social ventures on Payment by Results, for example through more Social Impact Bonds.
>
> (HM Government, 2011: 30)

Subsequent updates have continued to stress the role of SIBs (HM Government, 2014).

Payment by Results: extent and trends

Payment by Results programmes in the UK

It is not straightforward to provide a definitive list of Payment by Results contracts that have commenced over recent years, a criticism made by the NAO (2015) when it noted that despite the government's support for PbR, neither the Cabinet Office nor the Treasury maintained an inventory of PbR schemes across the public sector. The NAO (2015) compiled its own list by liaising directly with a number of government departments known to operate PbR schemes. Table 3.1 is based on this list with some supplementary information included. It should be noted, however, that in some sectors PbR contracts have spread beyond those commissioned by national government, and identifying these is beyond the scope of this book. For example, the UK government launched its Drug and Alcohol Recovery Pilots in 2011, and in 2015 DrugScope, in its annual review of the substance misuse sector, noted that PbR contracts were also being developed outside of the formal pilots, most likely in the form of local contracts between substance misuse service providers and local government commissioners of services.

(p.35) Table 3.1 below and later discussion excludes the National Health Service Payment by Results programme, because it is not the type of PbR that is the focus of this book (see above).

PbR programmes have been used primarily to deliver ‘mainstream’ public services. The size and duration of PbR programmes varies considerably, from some programmes under £10 million to some worth several billion pounds. Some programmes involve private investment, where a non-governmental ‘prime contractor’ invests to deliver a service and others cover commissioning arrangements between national and local government with no private investment.

It is noticeable that an initial flurry of PbR programmes across a number of government departments has not been sustained. There is also some evidence that the UK Coalition government’s initial enthusiasm for PbR – which as Brown (2013) notes, was mentioned 34 times in the Cabinet Office’s (2011) *Open public services* white paper – cooled considerably over time, particularly in light of disappointing results from the Work Programme.

Examples

Below we describe two programmes in more detail. These programmes have been selected to illustrate a range of different approaches to PbR across different sectors. They are:

- The Work Programme: One of the biggest PbR programmes in the UK, where the PbR component of the contract was a substantial proportion of the contract values. It was undertaken in the welfare sector with prime contractors mostly coming from the private sector.
- Troubled Families: In this programme PbR was a relatively small component of the contract values. It was undertaken in the social work sector with local government as the prime contractor.

(p.36) The Work Programme

This was a welfare-to-work programme for people who had usually been unemployed for between nine and 12 months. It was commissioned by the Department for Work and Pensions (DWP). Approximately 2.1 million people were referred to the programme and it was delivered by 17 prime contractors and about 850 subcontractors drawn from the public, private and voluntary sectors (NAO, 2015). The prime contracts were based on a PbR model with three main payments: an attachment fee paid when a benefit claimant started on the programme, a job outcome fee paid when claimants entered work and sustainment payments paid for keeping claimants in work (Work and Pensions Committee, 2011). A range of tariffs were set for different customer groups, reflecting the need to create incentives for prime contractors to address the increased difficulty of placing some groups in employment (Work and Pensions Committee, 2011). The overall budget for the Work Programme was £3.3 billion over nine years and the DWP expected 80% of payments to be outcomes-based over the life of the programme (NAO, 2015).

When the Work Programme was first introduced, there was some evidence it was, in fact, less effective than the public services it had replaced. By 2014 the NAO found that performance in getting people into work had improved, with Work Programme performance comparable to previous welfare-to-work programmes (NAO, 2014). More recently, the Work and Pensions Committee (2015) concluded that, although the Work Programme had streamlined the procurement of welfare-to-work and created a stable welfare-to-work infrastructure, outcomes for mainstream participants remained similar to those achieved under previous programmes. Further, the Committee was critical of the fact that nearly 70% of participants were completing the Work Programme without finding sustained employment and that the Work Programme was not working well for people with more complex or multiple barriers to employment who need more intensive help. The Work Programme was discontinued in April 2017. **(p.37)** It was succeeded by the Work and Health Programme[9] which has a very much smaller budget and a refined focus on specific vulnerable groups such as the long-term unemployed and people with disabilities and health conditions.

Troubled Families

The Troubled Families programme was launched in 2012 with the aim of ‘turning around’ the lives of 120,000 families with multiple and complex needs in England. More fundamentally, it aimed to shift public expenditure from reactive service provision towards earlier intervention via targeted interventions (Day et al, 2016). Families were classed as ‘troubled’ if they were i) involved in crime and antisocial behaviour, ii) had a child not in school, iii) had an adult on out-of-work benefits and iv) caused high costs to the public purse (Day et al, 2016). The programme was commissioned by the Department for Communities and Local Government (DCLG). Local authorities were invited to participate in the programme and had to check that families they worked with met the first three eligibility criteria or two of the first three and the fourth. Local authorities developed different delivery models involving lead workers working closely with families, local family intervention programmes and coordinators assimilating local data to ensure a joined-up approach to targeting families (Day et al, 2016).

A PbR mechanism was used to make payments from central to local government. A proportion of the total £4,000 funding available per family was paid as an ‘attachment fee’, and the remainder was linked to outcomes corresponding with the four main issues that the programme sought to tackle. Analysis of the PbR outturn data showed that most local authorities identified and achieved outcomes-based payments for families broadly in line with their local share of the target to ‘turn around’ 120,000 families nationally (Day et al, 2016). The national evaluation of Phase 1 (Day et al, 2016) identified various benefits of **(p.38)** the model, including enabling local authorities to scale up the way they worked with families with complex needs and encouraging innovation. However, an evaluation found no consistent evidence that the Troubled Families Programme had any significant or systematic impact across the key objectives of the programme: employment, benefit receipt, school attendance, safeguarding and child welfare. Some impacts were found on more subjective and attitudinal outcome measures, with families in the programme group more likely to report managing well financially, knowing how to ‘keep on the right track’, being confident that their worst problems were behind them and feeling positive about the future (Day et al, 2016).

In 2013, three years before the evaluation reported, the programme was expanded to an additional 400,000 families to be supported by £200 million of funding in 2015/16 (Phase Two). The programme is now scheduled to run until 2020 (DCLG 2017).

National Audit Office report

The mixed results from these two examples is consistent with the wider UK experience of PbR. A major review of PbR in UK by the National Audit Office in 2015 concluded that:

> While supporters argue that by its nature PbR offers value for money, PbR contracts are hard to get right, which makes them risky and costly for commissioners. If PbR can deliver the benefits its supporters claim – such as innovative solutions to intractable problems – then the increased cost and risk may be justified, but this requires credible evidence. Without such evidence, commissioners may be using PbR in circumstances to which it is ill-suited, with a consequent negative impact on value for money.

(National Audit Office. 2015: 8)

We return to these themes in Chapter Five.

(p.39)

Table 3.1: Payment by Results schemes in England and Wales since 2010

Title (Outcomes payer)	Year launched (Service delivery term [years])	Aim	Individuals served	Issue area	Budget	PbR proportion of contract	Service providers
International Aid projects (DFID)	2009–14 (Various durations between 3 and 12 years)	A range of development issues including water and sanitation, education, and health	Communities, mostly in sub-Saharan Africa	International aid	Approx. £2.2 billion across 19 projects	Varies between 9% and 100%	Various governments, private sector suppliers and NGOs
Work Choice (DWP)	2010 (7)	To support people with significant disabilities to move into, retain and progress in employment	People with disabilities who are not in work	Employment	£575 million	30% (15% when client progresses into supported employment and 15% when client progresses to unsupported employment)	Employment support specialists in the private, public and voluntary sector
Supporting People (DCLG)	2010 (6)	Various across the pilots but with a focus on supporting vulnerable people to access and maintain housing	Vulnerable people including older people, homeless families, ex-offenders, young people at risk and people with disabilities	Housing	£100 million across 10 pilot areas	20%, although there is some variation across pilots	Local government

Title (Outcomes payer)	Year launched (Service delivery term [years])	Aim	Individuals served	Issue area	Budget	PbR proportion of contract	Service providers
(p.40) Sure Start Children's Centres (DfE)	2010 (1.5)	To encourage a local focus on intervention in the early years and children's centres; local investment in early intervention and children's centres; and evidence-based decision-making which takes account of results for families	Disadvantaged young children and their families	Early years	£5.5 million across 26 trial areas	Varies between national tariff system and locally developed schemes	Local government and its supply chain
Work Programme (DWP)	2011 (9)	To help long-term unemployed people secure jobs sooner and keep them longer	Long-term unemployed people	Welfare	£3.3 billion	80% of payments were outcome-based over the lifetime of the programme	17 prime contractors (predominantly private sector) and about 850 subcontractors (mix of public, private and voluntary sector)

Title (Outcomes payer)	Year launched (Service delivery term [years])	Aim	Individuals served	Issue area	Budget	PbR proportion of contract	Service providers
(p.41) European Social Fund (ESF) Support for Families with Multiple Problems (Administered by the DWP, funded by the ESF)	2011 (6)	To tackle entrenched worklessness by progressing people in families with multiple problems closer to employment that lasts	Families with multiple problems and complex needs where at least one family member receives working age benefit and either no one in the family is working or there is a history of worklessness across generations	Social work	£200 million	30% of the contract value had to be fixed for job outcomes; remaining 70% was split between attachment fee and progress measures	Delivery contracted out to prime contractors in 12 contract package areas

Title (Outcomes payer)	Year launched (Service delivery term [years])	Aim	Individuals served	Issue area	Budget	PbR proportion of contract	Service providers
Drug and Alcohol Recovery Pilots (Led by DoH with input from the HO and MoJ)	2011 (4)	Various but high-level outcomes are for service users to be free of drug(s) dependence, reduce reoffending or continue non-offending, be in employment and have improved health and wellbeing	Various groups of substance misusers	Health and social care	£16 million across 8 pilot areas	Varies across different pilot sites	Substance misuse service providers
New Homes Bonus (DCLG)	2011 (5)	To provide a financial incentive to reward and encourage local authorities to help facilitate housing growth	Local authorities	Housing sector	£3.4 billion	100% – the entire payment is linked to the outcome of new homes	Local authorities
(p.42) Justice Reinvestment Pilots (MoJ)	2011 (2)	To reduce demand on and costs of courts, legal aid, prisons and probation in both the adult and youth justice systems	Statutory organisations that work in the adult and youth criminal justice system	Criminal justice	£25.7 million across 6 sites (5 London boroughs and Greater Manchester)	100% – payments are based on achievement of demand reduction metrics	Local statutory partners working in the adult and youth criminal justice systems

Title (Outcomes payer)	Year launched (Service delivery term [years])	Aim	Individuals served	Issue area	Budget	PbR proportion of contract	Service providers
Youth Justice Reinvestment Custody Pathfinder (MoJ (Youth Justice Board))	2011 (2)	To test how local authorities can be incentivised to reduce the use of custody for 10–17 year-olds. Its formal aim was 'to improve the alignment of financial incentives in youth justice to encourage greater focus on prevention'	Local authorities	Youth justice	Not known	A 'claw-back' model where a grant provided to reduce demand could be clawed back if demand reduction targets were not met	Local authorities
Doncaster Prison (MoJ)	2011 (Projected 4, actual 3)	To reduce reoffending for those leaving prison by five percentage points from baseline	Prisoners released from HM Prison Doncaster	Criminal justice	The PbR contract was an element of the overall contract for running the prison	If the outcome target was not met the MoJ would reclaim 10% of the total contract value for running the prison	Serco, the private sector organisation that ran HMP Doncaster

Title (Outcomes payer)	Year launched (Service delivery term [years])	Aim	Individuals served	Issue area	Budget	PbR proportion of contract	Service providers
Troubled Families (DCLG)	2012 (Originally 3, extended by 5)	To turn around the lives of 120,000 troubled families, extended to further 400,000 families in April 2015	Families with multiple needs	Social services	£448 million over 3 years, plus £200 million in 2015–16 for the first year of a 5-year extension	20% in 2012–13, rising to 60% in 2014–15	Local government and partner agencies
(p.43) Youth Contract (Led by DWP with input from DfE and the Department for Business, Innovation and Skills (BIS))	2012 (3)	Various for different contracts, but in broad terms to increase participation in training or employment	Young people who are NEET	Employment and training	£1billion	A national, model commissioned through a prime provider–subcontractor approach; a local devolved funding model for 3 areas where 6 local governments commissioned services	Significant variation across different contracts, but generally involved fees for attachment and further fees for re-engagement with training or sustained re-engagement with employment

Title (Outcomes payer)	Year launched (Service delivery term [years])	Aim	Individuals served	Issue area	Budget	PbR proportion of contract	Service providers
Employment and Reoffending Pilot (MoJ and DWP)	2012 (4)	Reduce reoffending among prisoners sentenced to less than 12 months in prison	Prisoners serving prison sentences of less than 12 months	Criminal justice	£9.1 million	Providers receive an 'attachment' fee for working with a client and an additional fee for reducing reoffending; proportion linked to outcome not in public domain	Prime contractors providing the Work Programme (see above)
(p.44) Community Work Placements (DWP)	2014 (2)	To provide work experience leading to sustained employment.	Long-term welfare claimants who have completed the Work Programme (above) and whose key barrier to work is a lack of experience, motivation or both	Employment	£203 million	Fees paid for benefit claimants attending work placements and for moving claimants into sustained employment	Prime contractors, mostly from the private sector

Title (Outcomes payer)	Year launched (Service delivery term [years])	Aim	Individuals served	Issue area	Budget	PbR proportion of contract	Service providers
Transforming Rehabilitation (MoJ)	2014	To reduce reoffending and the frequency of reoffending.	Low-and mediumrisk offenders serving community sentences or released from prison on license	Criminal justice	£3.15 billion	Around 10% – in addition to a fee for service for satisfactory completion of activities with offenders, PbR fees are triggered by reductions in reoffending and frequency of reoffending	Consortia of providers led by prime contractors, the majority of which are large, private sector organisations. Most consortia involve charities and other not-for-profit organisations

Source: All data from Audit Commission (NAO, 2015: Figure 4) supplemented with data from evaluation reports included in Chapter Four

(p.45) Social Impact Bonds: extent and trends

Social Impact Bonds in the UK

The first Social Impact Bond anywhere in the world was launched in the UK in 2010. Since then the number of Social Impact Bonds developed in the UK has reached at least 32. In Table 3.2 below we list and describe briefly all the SIBs that we are aware of. This table is based on Social Finance's Impact Bond Database and supplemented with information from various other sources.[10]

It is noticeable that SIBs cluster in a few service areas, particularly youth unemployment, homelessness and looked-after children. The average initial investment across the 32 SIBs was £1.71 million and 19 of the 32 had initial investment below £1 million. The average number of individuals served by each SIB is 1,133, although there is significant variation in the service delivery term of each SIB.

Examples

By way of illustration, we describe two SIBs in more detail below. They were selected because they come from different sectors (criminal justice and education), involve different client groups (adult offenders and children), have different types of investor (a group of charitable trusts and a single public sector investor), have different approaches to outcomes (a single outcome and a rate card with multiple outcomes to choose from), and take different approaches to establishing outcomes (a counterfactual evaluation and no independent evaluation of outcome).

HMP Peterborough Social Impact Bond

The SIB begun at HMP Peterborough in 2010 was the first to be established and focused on reducing reoffending of prisoners serving sentences of 12 months or less. The Ministry of Justice and the Big Lottery Fund undertook to fund the social outcomes sought. They **(p.46)** signed a contract with Social Finance (2010) to attempt to reduce the reoffending of three cohorts of 1,000 adult males who would be discharged from HMP Peterborough having served sentences of less than 12 months in custody – a group that at the time received little support on leaving custody. The One Service, led by St Giles Trust, provided offenders with coordinated advice and support services, including support from trained mentors. The outcome measure was binary: whether offenders were reconvicted or not (Disley et al, 2011: iv). Social Finance reported that £5 million of capital was raised from 13 charitable trusts to fund rehabilitation work and that they could earn a return of up to £8 million from the government and the Big Lottery Fund if reoffending fell by 10% per cohort, or, if the rate of reoffending for all 3,000 offenders fell by at least 7.5%. If a reduction in reoffending beyond 7.5% was delivered, investors would receive an increasing return capped at 13% over an eight-year period (Social Finance, 2011: 3). Conversely, if offending did not fall sufficiently, investors would potentially lose all their money. The vulnerability of such social investment is indicated by the fact that changes in national criminal justice policy led to the HMP Peterborough SIB being curtailed after two cohorts.

An independent impact evaluation of the first cohort used a counterfactual design which matched 936 offenders released from Peterborough (the first cohort) with 9,360 released from other prisons. The analysis found an 8.39% reduction in reoffending rates within the first cohort, which was insufficient to trigger payment for the first cohort (Jolliffe and Hedderman, 2014). An independent evaluation (Anders and Dorsett, 2017) of the second cohort, using the same methodology estimated that the One Service reduced the number of reconviction events by 9.7%. The reduction across both cohorts was therefore 9%, sufficient to trigger an outcome payment such that investors received their initial capital plus a return of just over 3% per annum for the period of investment (Social Finance, 2017).

(p.47) Nottingham Futures Social Impact Bond

The Social Impact Bond was launched in April 2012 and was funded by the DWP as one of 10 SIBs funded through its Innovation Fund. The overall aim of the fund was to increase future employment prospects for teenagers at risk of becoming NEET (not in employment, education or training) (Griffiths et al, 2016). In Nottingham the focus of the SIB was on 3,000 16 to 24 year-olds no longer in school, who were most at risk among those young people officially ‘not known’ to services in Nottingham. The SIB worked with young people who were furthest from support, and did not work with school-age participants. It focused on the six most deprived wards of the city.[11]

The sole investor in the SIB was Nottingham City Council and there was no intermediary. Social Finance report that £1.7 million was used to fund the delivery of interventions. Under the terms of the SIB the maximum payment for delivering outcomes was £2.9 million. For the Innovation Fund, the DWP produced a ‘rate card’ of social outcomes, with attached monetary values. There were three categories of outcomes: i) improvements at school (for example, behaviour and attendance), ii) qualifications (for example, achievement of different levels of National Qualifications Framework vocational or academic qualifications), and iii) employment (for example, entry into training or sustained employment). The rate card was based on accepted evidence of a strong link between achieving certain qualification outcomes and young people subsequently entering sustained employment. In other words, the emphasis was on delivering outcomes that were a ‘proxy’ for longer-term outcomes (Griffiths et al, 2016).

The service commissioned as a result of the SIB offered advice, coaching and signposting to specialist services and to an apprenticeships agency, where young people are linked to employment and training partnerships. Support services were co-located with active home and community outreach to engage young people (Griffiths et al, 2016).

(p.48) The project came to an end in 2015. Social Finance report[12] that it performed well in achieving behavioural, truancy, educational and employment outcomes, and investors received £2.5 million in outcomes payments. No independent evaluation of outcomes was commissioned. Payments for outcomes were made on the basis of achieving agreed performance metrics.

(p.49)

Table 3.2: Social Impact Bonds launched in England and Wales since 2010

Project (Geography)	Year launched (Service delivery term [years])	Motivation for project	Project objective(s)	Individuals served	Issue area	Initial investment (£ millions)	Outcomes payor(s)
Peterborough Prison (East of England)	2010(7 (projected); 3 [actual])	High rates of reoffending for prisoners serving sentences of less than 12 months	Reduce reoffending by 10% in each cohort or 7.5% across all cohorts	2 cohorts of 1,000 short-term prisoners	Recidivism	7.70	MoJ/BLF
New Horizons (part of the DWP Innovation Fund) (Greater Merseyside)	2012 (3.5)	A rising number of young people who were NEET between 2003 and 2013	There were three categories of outcomes: i) improvements at school (eg behaviour and attendance), ii) qualifications (eg achievement of different levels of National Qualifications Framework vocational or academic qualifications), iii) employment (eg entry into training or sustained employment)	950 14–16 year-olds	Youth unemployment	1.50	DWP
The Advance Programme (part of the DWP Innovation Fund) (West Midlands)				2,987 14–24 year-olds		3.00	
Think Forward (part of the DWP Innovation Fund) (East London)				1,050 14–17 year-olds		0.90	

Project (Geography)	Year launched (Service delivery term [years])	Motivation for project	Project objective(s)	Individuals served	Issue area	Initial investment (£ millions)	Outcomes payor(s)
Nottingham Futures (part of the DWP Innovation Fund) (Nottingham)				3,000 16–24 year-olds		1.70	
(p.50) Links for Life (part of the DWP Innovation Fund) (East London)	2012(3.5)	A rising number of young people who were NEET between 2003 and 2013	There were three categories of outcomes: i) improvements at school (eg behaviour and attendance), ii) qualifications (eg achievement of different levels of National Qualifications Framework vocational or academic qualifications), iii) employment (eg entry into training or sustained employment)	740 14–19 year-olds	Youth unemployment	0.37	DWP
Living Balance (part of the DWP Innovation Fund) (Scotland)				300 14–17 year-olds		0.00	
Teens and Toddlers (part of the DWP Innovation Fund) (Greater Manchester)				1,100 14–15 year-olds		0.80	
3SC Capitalise (part of the DWP Innovation Fund) (Cardiff and Newport)				720 14–15 year-olds		0.42	

Project (Geography)	Year launched (Service delivery term [years])	Motivation for project	Project objective(s)	Individuals served	Issue area	Initial investment (£ millions)	Outcomes payor(s)
Energise (part of the DWP Innovation Fund) (Thames Valley)				1,500 14–15 year-olds		0.90	
Prevista (part of the DWP Innovation Fund) (West London)				800 14–15 year-olds		0.00	
(p.51) Essex Children in Care (Essex)	(8)	Young people who grow up in the state care system often experience worse outcomes than their peers	Foster more stable and supportive family environments to reduce the risk of children entering the care system	380 11–16 year-olds	Children in Care	3.10	Essex County Council
London Rough Sleepers (Thames Reach) (part of the Social Enterprise Investment Fund) (London)	(3)	Rough sleepers are among the most vulnerable people in society, and often have a wide variety of complex needs	Support vulnerable young people to get their lives back on track by helping them find accommodation, gain qualifications and move into employment	415 persistent rough sleepers	Homelessness	1.20	DCLG/GLC

Project (Geography)	Year launched (Service delivery term [years])	Motivation for project	Project objective(s)	Individuals served	Issue area	Initial investment (£ millions)	Outcomes payor(s)
London Rough Sleepers (St Mungo's) (part of the Social Enterprise Investment Fund)				416 persistent rough sleepers			
It's All About Me (IAAM) Adoption Bond (UK-wide)	2013 (10)	Approaching 3,000 children seeking adoption each year do not find a permanent home	Create stable, lasting placements for harder-to-place children, supporting both families and children in order to reduce the risk of breakdown	650 children in local authority care	Children in care	2.40	11 local authorities and Cabinet Office Social Outcomes Fund
(p.52) Manchester looked-after children (part of the Social Enterprise Investment Fund) (Greater Manchester)	2014 (8)	Young people who grow up in state care experience worse outcomes than their peers	Find children in care stable foster family placements and support those in foster placements at risk of entering residential care	95 11–14 year-olds	Children in Care	1.20	Manchester City Council/Cabinet Office Social Outcomes Fund

Project (Geography)	Year launched (Service delivery term [years])	Motivation for project	Project objective(s)	Individuals served	Issue area	Initial investment (£ millions)	Outcomes payor(s)
Birmingham looked-after children (Birmingham)	(4)	About 50% of foster placements are for teenagers, and if these placements break down repeatedly, a child will likely be cared for in a secure children's home		138 children in residential care	Children in Care	1.00	Local authority, Cabinet Office Social Outcomes Fund, Big Lottery Commissioning Better Outcomes Fund
Birmingham Homelessness (part of the DCLG and Cabinet Office Fair Chance Fund) (Birmingham)	2015 (3.5)	There are approximately 60,000 young adults aged 18–24 in England that experience homelessness each year whose needs are often very complex	Help the most vulnerable young people in society by assisting them into accommodation and education/ training or employment/ volunteering	300 homeless 18–24 year-olds	Homelessness	1.00	DCLG/Cabinet Office Social Outcomes Fund

Project (Geography)	Year launched (Service delivery term [years])	Motivation for project	Project objective(s)	Individuals served	Issue area	Initial investment (£ millions)	Outcomes payor(s)
(p.53) West Yorkshire Homelessness (part of the DCLG and Cabinet Office Fair Chance Fund) (West Yorkshire)	(3)	There are approximately 60,000 young adults aged 18–24 in England that experience homelessness each year whose needs are often very complex	Help the most vulnerable young people in society by assisting them into accommodation and education/ trainingor employment/ volunteering	261 Homelesness 18–24 year-olds	homeless	0.90	DCLG/Cabinet Office Social Outcomes Fund
Gloucestershire Homelessness (part of the DCLG and Cabinet Office Fair Chance Fund) (Gloucestershire)				150 homeless 18–24 year-olds		0.30	
Greenwhich Homelesness (partof the DCLG and Cabinet Office Fair Chance Fund)(London)				178 homeless 18–24 year-olds		0.60	

Project (Geography)	Year launched (Service delivery term [years])	Motivation for project	Project objective(s)	Individuals served	Issue area	Initial investment (£ millions)	Outcomes payor(s)
Leicestershire Homelessness (part of the DCLG and Cabinet Office Fair Chance Fund) (Leicestershire)				340 homeless 18–24 year-olds		0.60	
(p.54) Liverpool Homelessness (part of the DCLG and Cabinet Office Fair Chance Fund) (Liverpool)				130 homeless 18–24 year-olds		0.60	
Newcastle Homelessness (part of the DCLG and Cabinet Office Fair Chance Fund) (Newcastle)				230 homeless 18–24 year-olds		0.50	

Project (Geography)	Year launched (Service delivery term [years])	Motivation for project	Project objective(s)	Individuals served	Issue area	Initial investment (£ millions)	Outcomes payor(s)
Ways to Wellness (Newcastle)	(7)	Over 15 million people in the UK suffer from long-term health conditions (LTCs); most experience poorer health outcomes and reduced quality of life as a result and are also proportionately higher users of health services	Enhance peoples' ability to manage their illness, so as to improve quality of life for patients and reduce the pressure on NHS primary and secondary services	11,000 people with long-term health conditions	Health and social care	1.70	Big Lottery Commissioning Better Outcomes Fund, Cabinet Office Social Outcomes Fund, Newcastle West Clinical Commissioning Group
(p.55) Career Connect (part of the Youth Engagement Fund) (Mersyeside)	(3)	Roughly 13.6% of young people in England are not in employment, education or training (NEET)	Provide the necessary support so that vulnerable young people can participate in education or training, and ultimately build the skills and qualifications they need for sustainable employment	4,040 14–17 year-olds	Youth unemployment	1.40	Cabinet Office, DWP, MoJ, Wirral Council
Prevista (part of the Youth Engagement Fund)(London)				1,000 14–17 year-olds		0.00	Cabinet Office, DWP, MoJ
Futureshapers (part of the Youth Engagement Fund) (Sheffield)				1,300 14–17 year-olds		0.90	

Project (Geography)	Year launched (Service delivery term [years])	Motivation for project	Project objective(s)	Individuals served	Issue area	Initial investment (£ millions)	Outcomes payor(s)
Teens and Toddlers (part of the Youth Engagement Fund) (Greater Manchester)				1,680 14–15 year-olds		0.90	
Worcester Reconnections (Worcester)		Older people are more vulnerable to loneliness and social isolation, which can have a serious effect on health and wellbeing	Develop a structure for supporting lonely older people to get more involved in their communities and eventually progress to help others	3,000 people aged 50 years and over	Social isolation	0.85	Cabinet Office and 4 local authorities

Project (Geography)	Year launched (Service delivery term [years])	Motivation for project	Project objective(s)	Individuals served	Issue area	Initial investment (£ millions)	Outcomes payor(s)
(p.56) Mental Health and Employment Partnership (London and Midlands)	2016	70–90% of people with a mental health issue consistently want to work; however, in 2015 only 37% of people with a mental health issue were in work, dropping to 7% for people with severe mental health issues	Help people with a serious mental health issue find and sustain competitive, paid employment	2,500 people with a severe mental illness	Unemployment	0.40	Cabinet office, 3 Clinical Commissioning Groups, 2 local authorities

Project (Geography)	Year launched (Service delivery term [years])	Motivation for project	Project objective(s)	Individuals served	Issue area	Initial investment (£ millions)	Outcomes payor(s)
Lambeth school transport (London)	2017	Children in the UK with special educational needs are entitled to free transport if they are unable to walk to school. While for many young people this is the best option, for some, with the right support and training they could be trained to travel independently	Support young people with special educational needs to travel to school independently, leading, in the long-term, to building social skills and confidence	200 11–19 year-olds with special educational needs	Special educational needs	0.42	Lambeth Borough Council, Big Lottery Commissioning Better Outcomes Fund

Source: All data from Social Finance's Impact Bond Database and evaluation reports included in Chapter Five, see: http://sibdatabase.socialfinance.org.uk

(p.57) Infrastructure to support Social Impact Bonds

As discussed in Chapter One, social impact bonds can be understood as a class of PbR contract and as one element of a wider social investment or social impact investing sector (Rizzello and Carè, 2016). A substantial infrastructure has developed to support the adoption of SIBs, much of which is grounded in a broader a strategy framework for social investing (HM Government, 2011).

Various market-building initiatives were launched following the strategy. In 2012 an Investment and Contract Readiness Fund (ICRF) was launched. An evaluation of the ICRF (Ronicle and Fox, 2015) reported that 155 social ventures received £13.2 million in grants to help them get investment and become contract ready. The evaluation concluded that half the ventures supported (78 out of 155) successfully secured at least one contract or investment as a consequence of the support they received. Other capacity-building funding has included:

- In the UK health and social care sector, nine projects – collectively known as the SIB ‘Trailblazers’ – received seed funding from the government’s Social Enterprise Investment Fund (SEIF) in 2013 to undertake an analysis on whether or not to implement an SIB and, if appropriate, to set it up (Tan et al, 2015).
- Big Potential, funded by the Big Lottery Fund, aims to raise awareness of the social investment market and support voluntary, community and social enterprise organisations that want to prepare themselves for social investment. Grants are awarded for specialist business support to help raise repayable investment.[13]
- The Commissioning Better Outcomes Fund, financed by the Big Lottery Fund, has a mission to support the development of more SIBs in England (Ronicle et al, 2016).

Also in 2012, using £600 million from dormant UK bank and building society accounts, topped up by contributions from high street banks, **(p.58)** the UK government launched Big Society Capital (BSC) with a specific mission to grow the social investment market, including by investing in ‘repayable finance’ (Big Society Capital, undated). Big Society Capital was a social investment ‘wholesaler’, providing finance to other social investment organisations that would then make social investments.

The government has established various other funds to provide ‘top-up’ funding to support the development of SIBs. For example:

- The Social Outcomes Fund (SOF) launched in 2012 is a £20 million fund that provides ‘top-up’ contributions to outcomes-based commission, ideally financed by an SIB. The money is available to government departments, local councils and other public sector commissioning bodies, and it aims to address one of the main issues holding up the growth of SIBS: ‘the difficulty of aggregating benefits and savings which accrue across multiple public sector spending “silos” in central and local government’.[14]
- The Life Chances Fund is an £80 million top-up fund, whose objective is to help people in society who face the most significant barriers to leading happy and productive lives. It does this by increasing the number and scale of SIBs in England, and making it easier and quicker to set them up. The fund provides contributions of up to 20% of total outcomes payments to locally commissioned outcome payments for SIBs.

Some funding has been targeted to address specific policy issues. For example, in 2011 the DWP made funding available via an Innovation Fund that funded 10 SIBs to deliver support to disadvantaged young people aged 14–24 who are NEET, and in 2014 the government launched the Fair Chances Fund to fund SIBs with a focus on homelessness.

(p.59) The UK government's online Centre for Social Impact Bonds provides technical guidance on developing SIBs.[15] Further, to promote development of the SIB concept in both theory and practice, the Cabinet Office (2016) announced a five-year partnership with the Blavatnik School of Government, University of Oxford.

The government introduced a Social Investment Tax Relief in its 2014 Budget, which allowed individuals making an eligible investment to deduct 30% of the cost of their investment from their income tax liability, a tax relief that covered social investments made, or capital gains arising, for the tax years April 2014–19 (HM Government, 2015).

Results to date

A number of SIBs are reported as having been completed and to have made a return for investors. Social Finance, reports in its database that the following SIBs have been completed with some success:

- The Nottingham Futures SIB came to an end in May 2015. Investors received £2.5 million in outcomes payments against an investment of £1.7 million.
- The Greater Merseyside New Horizon's SIB is completed and, as of July 2015, investor capital of £1.5 million had been repaid in full.
- The Think Forward SIB in East London provided a full return of the £0.9 million of capital plus an unspecified return to social investors.
- The 2012 Teens and Toddlers SIB in Greater Manchester, part of the DWP Innovation Fund, repaid £0.8 million of investor capital in full and a further return was anticipated.
- The Adviza SIB repaid £0.9 million of investor capital in full and a further return was anticipated.
- The St Mungo's Rough Sleepers SIB in London returned £1.2 million of investor capital and paid income to investors.

(p.60) Conclusion

Since 2010, outcomes-based commissioning has covered a broad range of activity in UK policies and programmes, of which the development of the social investment market has been one strand. New approaches to commissioning services have been adopted on a large scale with limited evaluation (a theme discussed in more detail in Chapter Four). There have been various drivers for this change, including a response to the economic crisis of 2008 and the ideological ambitions of the Coalition Government (2010–15). It is noticeable that much of the discussion of the pros and cons of these new models of service commissioning and policy governance have received relatively little academic attention.

Notes:

([9]) See www.gov.uk/work-health-programme.

([10]) See www.socialfinance.org.uk/database

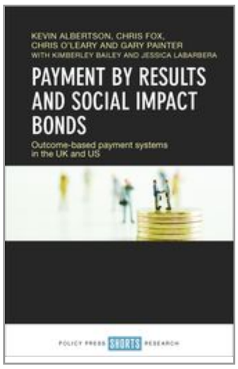
(11) Information from Social Finance Impact Bond Database http://sibdatabase.socialfinance.org.uk

(12) Information from Social Finance Impact Bond Database http://sibdatabase.socialfinance.org.uk

(13) See www.bigpotential.org.uk

(14) See https://data.gov.uk/sib_knowledge_box/social-outcomes-fund-cabinet-office-uk

(15) See https://data.gov.uk/sib_knowledge_box/home



Payment by Results and Social Impact Bonds: Outcome-Based Payment Systems in the UK and US

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Pay for Success and Social Impact Bonds in the US

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[−] Abstract and Keywords

This chapter discusses the development of Pay for Success (PFS) and Social Impact Bonds (SIBs) in the US. PFS ties payment for service delivery to the achievement of measurable outcomes. PFS projects to date have clustered primarily in three issue areas: criminal justice and recidivism, early childhood education and wellbeing, and homelessness. The chapter first provides an overview of the extent and trends relating to PFS and SIBs before discussing lessons learned from PFS programmes. It also considers the infrastructure support, evaluation approaches, and financial models for such programmes and concludes by analysing how the development of PFS in the US compares to that of programmes in other countries, and how PFS has been connected to the broader performance management practices in the US.

Keywords: infrastructure support, Pay for Success, Social Impact Bonds, SIBs, criminal justice, recidivism, early childhood education, homelessness, financial models, performance management

Introduction

Pay for Success (PFS) programs in the US have similar features to PbR programmes in other parts of the world. PFS ties payment for service delivery to the achievement of measurable outcomes. Projects are often accompanied by a form of social innovation financing, also known as a Social Impact Bond, in which investors provide upfront financing for the delivery of services and are repaid only if the services achieve a pre-agreed set of positive outcomes. In the US the development of PFS has been influenced by both the development of similar tools in the UK (see Chapter Three) and performance management tools in the public sector (Van Dooren et al, 2015). At the same time, the primary impetus for the adoption of these tools has been to increase the speed of social innovation in certain social sectors and to determine the extent to which the risk of exploring new approaches to increasing social benefit can be shifted away from the public sector. The trials, challenges and lessons learned from early attempts at PFS innovation in the US – while far from conclusive – offer hints at the future of **(p.62)** PFS and the broader movement towards outcomes-based funding. This movement seeks to deliver high-quality, effective social services to individuals in need and their communities.

Extent and trends

As of 2017, 20 PFS projects are delivering services in the United States and there are over 50 additional projects in development. To date, the project development timeline has been about two years, on average.

Projects to date have clustered primarily in three issue areas: criminal justice and recidivism, early childhood education and wellbeing, and homelessness. This reflects several characteristics of the PFS model as it was originally framed: to provide upfront sources of capital to fund preventive or early intervention services with the potential to interrupt entrenched cycles of negative social and economic outcomes, and by doing so, to realise cost savings to the public sector. Recidivism and homelessness have emerged as leading PFS issue areas because of the high cost associated with frequent and repetitive use of jail, prison, emergency rooms and shelters, and baseline outcomes that are bad enough that even marginal change is notable. Even though early childhood interventions do not provide large-scale social benefits during the period of the intervention, early childhood education is widely recognised as one of very few interventions demonstrated to have a long-term impact on a range of educational and social outcomes. The prevalence of these issues in early PFS projects is likely also a response to increasing national attention to the persistent issues of income inequality, affordable housing crises, criminal justice reform, and calls for more effective and sustainable solutions than that offered by the status quo. More recent projects have added foci in mental health, substance abuse and environmental issues.

There is great variation in the size of PFS projects, both by number of individuals served and size of investment raised. Project sizes have varied from $2.59 to $25 million. While there is increased interest and development of smaller-scale projects – such as in Ventura County, California – those launched to date have typically required **(p.63)** between a $5 and $10 million investment, reflecting the relatively high transaction costs and the interest of investors (particularly commercial ones) in larger investment opportunities. The scale of the project by number of individuals served is determined by the type of intervention. For example, permanent supportive housing projects are smaller programmes serving a few hundred clients. In contrast, other interventions such as transitional work and preschool serve a few thousand. The relatively small size of most projects, in terms of numbers of individuals served, has led some observers to question whether PFS can address the issue of scale, a challenge endemic to many new social service interventions. On the other hand, as is necessarily the case when implementing new social innovations, experimentation is required to refine implementation and provide confidence to investors as to the efficacy of the design of PFS programmes.

There is also increasing variation in the types of organisations that fulfil the key roles in PFS projects. While cities, counties and states pioneered the role of payor, the market is seeing an increased exploration of having philanthropy, federal programmes (such as Medicaid and the Department of Veterans Affairs), hospitals and healthcare systems fulfil this role. Similarly, the first 10 projects leveraged single-issue or single-model service providers with deep expertise in their issue area. However, the second generation of projects, as well as those in development, are featuring smaller or multiple model organisations deeply rooted in the community to be served, as well as the use of government programmes as service providers and collective impact approaches.

In Table 4.1 we summarise the programmes to date in the United States, highlighting the key features of each of the contracts. Next, in Table 4.2, we summarise lessons learned from these PFS programmes. We conclude by discussing how the development of PFS in the US compares to that of programmes in other countries, and how PFS has been connected to the broader performance management practices in the US.

(p.64)

Table 4.1: Pay for Success schemes launched in the US to date

Name (Geography)	Year launched: Service delivery term (years)	Motivation for project	Project objective(s)	Individuals served	Issue area	Initial investment ($ millions) [note 1]	Outcomes payor(s) [note 2]
NYC ABLE Project for Incarcerated Youth (New York City, NY)	2012: 4 (projected); 3 (actual) [note 3]	Nearly half of all adolescents incarcerated at Rikers Island jail will return within one year of being discharged	Reduce recidivism by at least 10%	17,287 (projected); 4,000 (actual)	Recidivism	$9.60	New York City Department of Corrections
Utah High Quality Preschool Program (Salt Lake County, UT)	2013: 5	Children from low-income families have limited access to high-quality early childhood education	Increase school readiness and academic performance; reduce the need for special education services	3,500	Early childhood education	$7.00	United Way of Salt Lake; Salt Lake County (cohort 1)/State of Utah (cohorts 2–5)

Name (Geography)	Year launched: Service delivery term (years)	Motivation for project	Project objective(s)	Individuals served	Issue area	Initial investment ($ millions) [note 1]	Outcomes payor(s) [note 2]
New York Increasing Employment and Improving Public Safety (New York City and Rochester, NY)	2013: 4	44% of formerly incarcerated individuals who are under community supervision and without employment return to prison within two years	Support 2,000 high-risk recent offenders in New York State to transition back to the community through re-entry transitional employment services aimed at increasing unsubsidised employment and reducing recidivism	2,000	Recidivism	$13.50	New York State Department of Labor; US Department of Labor [note 4]
Massachusetts Juvenile Justice PFS Initiative (Boston, Chelsea and Springfield, MA)	2014: 7	55% of young adults who age out of the juvenile justice system or are on probation will return to prison at least once within three years; only 30% are employed within one year of their release from prison or jail	Reduce incarceration by 40%; increase job readiness and employment	929	Recidivism	$21.70	Commonwealth of Massachusetts; US Department of Labor [note 4]

Name (Geography)	Year launched: Service delivery term (years)	Motivation for project	Project objective(s)	Individuals served	Issue area	Initial investment ($ millions) [note 1]	Outcomes payor(s) [note 2]
(p.65) Chicago Child-Parent Center Pay for Success Initiative (Chicago, IL)	2014: 4	Chicago Public Schools serving low-income families have a shortage of publicly funded, high-quality pre-kindergarten seats available	Increase school readiness and academic performance; reduce the need for special education services	2,620	Early childhood education	$16.70	City of Chicago; Board of Education of City of Chicago [note 5]
Cuyahoga Partnering for Family Success Program (Cuyahoga County, OH)	2014: 4	Children of families who struggle with homelessness experience longer stays in foster care	Reduce the length of stay in foster care and achieve permanency and/or family reunification	135 caregivers and their families	Child welfare	$4.00	Cuyahoga County, Ohio
Massachusetts Chronic Homelessness Pay for Success Initiative (Commonwealth of MA)	2014: 6	1,500 chronically homeless people in Massachusetts lack access to stable housing and are high-cost users of temporary shelters, Medicaid and other emergency services	Provide 500 units of stable supportive housing for up to 800 chronically homeless individuals	800	Homelessness	$3.50	Commonwealth of Massachusetts

Name (Geography)	Year launched: Service delivery term (years)	Motivation for project	Project objective(s)	Individuals served	Issue area	Initial investment ($ millions) [note 1]	Outcomes payor(s) [note 2]
Santa Clara County Project Welcome Home (Santa Clara County, CA)	2015: 6	More than 2,200 chronically homeless individuals in Santa Clara County lack access to stable housing and long-term supportive services	End homelessness, increase stability and improve health by achieving 12 months of housing stability	150–200	Homelessness	$6.90	Santa Clara County, California
Denver Housing to Health Initiative (Denver, CO)	2016: 5	The City of Denver spends $7 million annually on emergency and criminal justice services for 250 chronically homeless people who lack access to affordable housing and supportive services	Achieve housing stability; decrease jail bed days; improve access to affordable housing and supportive services	250	Homelessness	$8.70	City/County of Denver, Colorado

Name (Geography)	Year launched: Service delivery term (years)	Motivation for project	Project objective(s)	Individuals served	Issue area	Initial investment ($ millions) [note 1]	Outcomes payor(s) [note 2]
(p.66) South Carolina Nurse Family Partnership (South Carolina)	2016: 6	27% of children in South Carolina live in poverty, which can be harmful to a child's cognitive development, health, school performance, and social and emotional wellbeing	Support the health and development of first-time mothers and their children; build a pathway to sustainability for NFP in South Carolina; evaluate the effectiveness of efficiencies in the NFP model	3,200 mothers and their children	Maternal and child health	$17.00	South Carolina Department of Health and Human Services
Connecticut Family Stability Project (Connecticut)	2016: 4	The Connecticut Department of Children and Families (DCF) spends more than $600 million each year to address child abuse and neglect. In 2013, more than 50% of all cases investigated by DCF indicated parental substance misuse	Promote family stability and reduce parental substance misuse for DCF-involved families	500 families	Early childhood	$11.20	Connecticut Department of Children and Families

Name (Geography)	Year launched: Service delivery term (years)	Motivation for project	Project objective(s)	Individuals served	Issue area	Initial investment ($ millions) [note 1]	Outcomes payor(s) [note 2]
DC Water Environmental Impact Bond (Washington, DC)	2016: 4.5	When the DC sewer system receives too much storm water and overflows, a combination of the storm water and sewage bypasses treatment plants, allowing waste water to flow directly into local rivers and causing water quality and environmental issues for residents	Control storm water runoff and improve the district's water quality by reducing the incidence and volume of combined sewer overflows that pollute the district's waterways	Not applicable	Environment	$25.00	DC Water

Name (Geography)	Year launched: Service delivery term (years)	Motivation for project	Project objective(s)	Individuals served	Issue area	Initial investment ($ millions) [note 1]	Outcomes payor(s) [note 2]
(p.67) Santa Clara County Acute Mental Health Needs Project (Santa Clara County, CA)	2017: 6	In Santa Clara County a small subset of severely mentally ill residents frequently cycle in and out of the county's psychiatric emergency room and inpatient facility. These individuals are also at risk of homelessness, incarceration and extended psychiatric hospitalisations.	Reduce utilisation of costly county emergency, inpatient and contracted psychiatric services, and jail days; improve or maintain health and wellness	250	Mental health	$11.20 [note 6]	Santa Clara County, California

Name (Geography)	Year launched: Service delivery term (years)	Motivation for project	Project objective(s)	Individuals served	Issue area	Initial investment ($ millions) [note 1]	Outcomes payor(s) [note 2]
Massachusetts Pathways to Economic Advancement (Greater Boston, MA)	2017: 3	With approximately 200,000 known adult English language learners in greater Boston, at least 16,000 are on service provider waiting lists for English classes. Furthermore, current services lack a workforce component –few programmes help individuals improve their English and transition to either employment or higher earnings	Support~2,000 adult English language learners who are seeking to transition to employment, higher wage jobs and/or higher education	2,000	Workforce	$12.43	Commonwealth of Massachusetts

Name (Geography)	Year launched: Service delivery term (years)	Motivation for project	Project objective(s)	Individuals served	Issue area	Initial investment ($ millions) [note 1]	Outcomes payor(s) [note 2]
(p.68) Salt Lake County Pay for Success Initiative–Homelessness Program (Salt Lake County, UT)	2017: 5	There is a lack of viable interventions to help the persistently homeless population in Salt Lake County, with $52 million being spent on the homelessness service system. Annually in the county there are over 1,000 of these individuals spending at least 3 months in emergency shelters or booked into the county jail	Offer 315 individuals rapid rehousing and a range of housing assistance and support services – including access to behavioural health treatment and employment counselling – to improve housing stability, criminal justice and behavioural health outcomes	315	Homelessness	$11.50 (between two projects) [note 7]	Salt Lake County, Utah

Name (Geography)	Year launched: Service delivery term (years)	Motivation for project	Project objective(s)	Individuals served	Issue area	Initial investment ($ millions) [note 1]	Outcomes payor(s) [note 2]
Salt Lake County Pay for Success Initiative–Criminal Justice Program (Salt Lake County, UT)	2017: 5	74% of high-risk offenders in Salt Lake County return to the criminal justice system within 4 years and on average spend over a year incarcerated during that time. Incarceration alone is not a solution. It is costly and the county jail already operates at full capacity. Additionally, the problem is worsening: over the past decade, Utah's prison population has grown by 18%	Provide risk-assessed behavioural health treatment, housing and case management services to 225 formerly incarcerated adult males in order to lower the rate of recidivism and help these individuals recover stable lives	225	Recidivism	$11.50 (between two projects)	Salt Lake County, Utah

Name (Geography)	Year launched: Service delivery term (years)	Motivation for project	Project objective(s)	Individuals served	Issue area	Initial investment ($ millions) [note 1]	Outcomes payor(s) [note 2]
(p.69) Illinois Dually-Involved Youth Project (Illinois)	2017: 4.5	Dually involved youth – those involved in both the child welfare and juvenile justice systems – spend an inordinate amount of time in extremely restrictive living placements in Illinois. These young people spend an average of 308 days in congregate care (which includes residential facilities, group homes and emergency shelters) in the three-year period post dual involvement	Improve specific outcomes – restrictive placements, delinquency and wellbeing – for dually involved youth by changing behaviour at three levels: (i) the systems level, (ii) the family level, and (iii) the youth level	807	Child welfare; recidivism	$16.40	Illinois Department of Children and Family Services (DCFS)

Name (Geography)	Year launched: Service delivery term (years)	Motivation for project	Project objective(s)	Individuals served	Issue area	Initial investment ($ millions) [note 1]	Outcomes payor(s) [note 2]
Los Angeles County Just-in-Reach (Los Angeles County)	2017: 4	PFS financing provides a new platform to share the incredible systems change story of LA County while strengthening public–private partnerships that produce measurable positive impact. In addition, the county is interested in exploring performance-based contracting beyond PFS	Create 300 supportive housing slots for individuals with histories of homelessness and involvement with the LA County criminal justice system. This will result in improved outcomes for participants–namely, reduced jail recidivism, increased housing stability and reductions in net costs to public systems	300	Homelessness; recidivism	$10.00	Los Angeles County; US Department of Housing and Urban Development; California Board of State and Community Corrections
Oklahoma Women in Recovery Project (Tulsa, Oklahoma)	2017: 5 – 1-year contract with annual renewal option	Oklahoma has the highest rate of female incarceration in the nation, and it continues to rise	Reduce the number of women sent to prison from Tulsa County	625	Criminal Justice	$10.00	State of Oklahoma Office of Management and Enterprise Services (OMES)

Name (Geography)	Year launched: Service delivery term (years)	Motivation for project	Project objective(s)	Individuals served	Issue area	Initial investment ($ millions) [note 1]	Outcomes payor(s) [note 2]
(p.70) Ventura County Project to Support Reentry (Ventura County, CA)	2017: 4	Nearly 300,000 offenders are on probation in California and recidivism rates remain high, with more than two-thirds of those released from prison returning within 3 years	Reduce recidivism, improve public safely and promote family stability for residents throughout Ventura County	400	Criminal Justice	$2.59	Ventura County/ California Board of State and Community Corrections [note 8]

Notes ([1]) This category captures the initial private investment raised to support the project, which has the potential to be repaid if the project achieves its predetermined outcomes. Many projects, particularly those in the supportive housing and health arenas, leverage existing public resources, such as subsidised housing and health insurance, to achieve programme impact; the value of these resources is not included in these dollar values.

([2]) Makes payments when predetermined outcomes have been met.

[3] The NYC ABLE project was designed as a four-year project, but gave the investor the option to continue funding for the fourth year based on results for the first year of participants after a two-year evaluation period. This interim evaluation demonstrated no impact on recidivism, so the programme was ended after the third year of service delivery.

([4]) Both New York State and the Commonwealth of Massachusetts were the recipients of grant funds from the United States Department of Labor, awarded through a competitive process through the Workforce Innovation Fund. Grant funds received through this process are being used in whole or part to fund outcome payments in combination with resources committed by the states themselves. In both cases, the PFS contract is held by the state, so the federal agency is not the payor of record.

([5]) The City of Chicago and the Board of Education of the City of Chicago (Chicago Public Schools) are both payors but are paying for different success outcomes. City of Chicago is paying for outcomes related to kindergarten readiness and third-grade literacy, while Chicago Public Schools is paying for an outcome related to avoided special education costs.

([6]) Represents PFS Contract Expenses that will be paid by the County to Telecare (the service provider), if the project achieves its target level of success across the six-year service delivery term.

([7]) The Salt Lake County Homes Not Jail and REACH programmes are part of a single initiative that is pioneering a model to combine Pay for Success projects.

([8]) Ventura County was the recipient of grant funds from the California Board of State and Community Corrections, awarded through a competitive process through the agency's Social Innovation Financing Program. Grant funds received through this process are being used in whole or part to fund outcome payments.

Source: Based upon and updates content in Archer-Rosenthal (2016)

(p.72)

Table 4.2: Evaluation of Pay for Success programmes in the US

	Evaluation design methodology [Length of evaluation period]	Data source(s) for evaluation	Outcomes tied to success payments	Outcomes tracked, not tied to success payments
NYC ABLE Project for Incarcerated Youth	Quasi-experimental: regression discontinuity using historical baseline [4 years (projected); 3 years (actual)]	New York City Department of Corrections; New York City Office of Management and Budget	1) Number of participants served;2) Total jail days avoided	Intensity/dosage of service and progress through programme stages; number of safety incidents and conflicts reported
Utah High Quality Preschool Program	Longitudinal study [12 years]	Granite School District	1) Use of special education and remedial services	Numeracy and literacy; cecondary and post-secondary school completion; college readiness; connection to health insurance and healthcare provider
New York Increasing Employment and Improving Public Safety	RCT [5.5 years]	New York State unemployment insurance database; NYS Department of Corrections and Community Supervision; service provider data	1) Number of jail/prison bed days; 2) Engagement in transitional job [note 1]; 3) Increases in employment	None
Massachusetts Juvenile Justice PFS Initiative	RCT [7 years]	Massachusetts unemployment insurance database; service provider data	1) Number of jail/prison bed days avoided; 2) Job readiness [note 2]; 3) Increases in employment	GED/High School completion; college enrolment
Chicago Child-Parent Center Pay for Success Initiative	Quasi-experimental: propensity score matching [17 years]	Board of Education of Chicago Public Schools	1) Kindergarten readiness; 2) Avoided use of special education services; 3) Third grade literacy	Student mobility and retention; improvements in social-emotional learning; parent engagement; school attendance

	Evaluation design methodology [Length of evaluation period]	Data source(s) for evaluation	Outcomes tied to success payments	Outcomes tracked, not tied to success payments
Cuyahoga Partnering for Family Success Program	RCT [5 years]	Homeless Management Information System; Statewide Automated Child Welfare Information System	1) Days in out-of-home placement for children	Family reunification [note 3]
(p.73) Massachusetts Chronic Homelessness Pay for Success Initiative	Validated data [5.25 years]	Service providers	1) Stable housing for at least one year	Healthcare service usage; number of nights spent in shelter; number of days incarcerated
Santa Clara Project Welcome Home	Validated service provider data; RCT [note 4] [6 years]	Santa Clara Valley Health and Hospital System; Homeless Management Information System; Criminal Justice Information Control; service provider	1) Months of stable tenancy	Healthcare, social service and criminal justice system utilisation
Denver Housing to Health Initiative	Validated service provider data; RCT [note 5] [5.25 years]	Service providers; Denver Sheriff Department	1) Housing stability; 2) Jail days	Emergency services, shelter and criminal justice system utilisation
South Carolina Nurse Family Partnership	RCT [5 years]	Service providers data; State of South Carolina administrative data	1) Reduction in preterm births; 2) Reduction in childhood hospitalisation and emergency department use due to injury; 3) Increase in health spacing between births; 4) Increase in number of first-time mothers served in high-poverty ZIP codes	School readiness; academic achievement; high school completion; receipt of government services (eg TANF, SNAP); employment/earnings; crime

	Evaluation design methodology [Length of evaluation period]	Data source(s) for evaluation	Outcomes tied to success payments	Outcomes tracked, not tied to success payments
Connecticut Family Stability Project	RCT [6 years	Connecticut Department of Children and Families administrative data; service provider data	1) Reduction in out-of-home placements; 2) Reduction in re-referrals to DCF; 3) Reduction in substance use; 4) Successful FBR enrolment	Various
(p.74) DC Water Environmental Impact Bond	Pre-test/post-test design [1 year]	Service provider	1) Runoff reduction	Percentage of new jobs created that are filled by district residents
Santa Clara County Acute Mental Health Needs Project	RCT [6.5 years]	Santa Clara County	1) Reduction in clients' utilisation of costly emergency, inpatient and contracted psychiatric services, and jail days	Client's health and wellbeing as compared to a similarly situated control group of clients not receiving care
Massachusetts Pathways to Economic Advancement	Differs by programme track; includes RCT for English for Advancement track [note 6] [6 years]	Administrative data from the Commonwealth of Massachusetts; service provider data	1) Earnings; 2) Transition into college; 3) Programme engagement	Programme completion rate; job attainment rate; college registration rate
Salt Lake County Homes Not Jail	RCT [7 years]	Department of Workforce Services; Salt Lake County Behavioral Health; Salt Lake County Jail; The Road Home	1) Number of months without any shelter or jail; 2) Number of participants who graduate to permanent housing location; 3) Number of enrolments into mental health services; 4) Number of enrolments into substance misuse services	

	Evaluation design methodology [Length of evaluation period]	Data source(s) for evaluation	Outcomes tied to success payments	Outcomes tracked, not tied to success payments
Salt Lake County REACH	RCT [7 years]	Department of Workforce Services; Utah Department of Corrections; Adult Probation and Parole; Salt Lake County Jail; First Step House	1) Reduction in arrests; 2) Reduction in days incarcerated; 3) Improvement in number of employment quarters; 4) Number of individuals engaged in 200 hours of treatment within 6 months of enrolment	None
(p.75) Illinois Dually-Involved Youth Project	RCT (outcomes 1 and 2) and non-experimental (outcomes 3, 4 and 5) [7.5 years]	State of Illinois administrative data	1) Reduction in congregate care days; 2) Reduction in recidivism; 3) Success rate in education goals; 4) Success rate in placement stability; 5) Success rate in programme fidelity	None
Los Angeles County Just-in-Reach	Success metric calculation; broader impact analysis (includes propensity score matching components) [4.5 years]	Service providers via the Department of Health Services; Los Angeles County Sheriff's Department; Enterprise Linkage Project	1) Housing retention at 6 months and 12 months; 2) Reduction in number of arrests in the two-year period following placement into PSH	Service utilisation
Oklahoma Women in Recovery Project	Validated service provider data cross-referenced with Oklahoma Department of Corrections prison admission data [9.5 years]	Service provider data; Oklahoma Department of Corrections	1) Number of prison years avoided (54 months post-programme admission)	Programme completion rate; programme recidivism rate
Ventura County Project to Support Reentry	RCT; validation [4.5 years total]	Administrative data from Ventura County Probation Agency; service provider data	1) Number of avoided arrests (mean number or rate of rearrest); 2) Clean quarters (90-day period without rearrest)	Various

Notes ([1]) Transitional, or subsidised, work is central to the Center for Employment Opportunities' intervention model as a critical step towards achieving employment and avoiding recidivism.

([2]) Job readiness is measured by the intensity of engagement and level of participation that a participant demonstrates with their assigned service provider staff member during a given period.

([3]) The evaluator will also conduct a two-year implementation study to determine how different components of the programme implementation relate to reduction in out-of-home placement days.

([4]) The evaluator will use data generated by the service provider to determine whether stable tenancy has been achieved. This is what triggers investor repayment. The RCT will be used to examine differences in health services, social services and criminal justice system utilisation, as a means of determining the impact of the PFS programme beyond its effect on housing stability, including how permanent supportive housing generates efficiencies and economic benefit for Santa Clara County.

([5]) The evaluator will also implement a process study to collect data on programme implementation. Data collected through this study will be used to institute mid-course corrections as necessary and help interpret results of the RCT.

([6]) Occupational Skills Training track: pre-post design; Rapid Employment: arithmetic mean; Bridges to College: proportion; programme engagement metric for all four programme tracks will be a validated count.

Source: Based upon and updates content in Archer-Rosenthal (2016)

(p.77) Infrastructure

Early pioneers started exploring the use of PFS as early as 2011. Support from the Harvard Kennedy School Government Performance Lab was integral to most early projects. The Government Performance Lab (formerly the Harvard Kennedy School SIB Lab) offers a technical assistance model that embeds a full-time staff member within government to provide expertise on the PFS model as well as added capacity for data analysis, project design and evaluation, fidelity monitoring, and performance management. Government Performance Lab fellows also act as the liaisons and coordinators for day-to-day activity throughout all stages of the project, providing critical support in the capacity-constrained environment of government, where competing political priorities can make it difficult for staff to devote time to PFS. The work of the Government Performance Lab and its fellows has been supported by philanthropy since its inception, and more recently by the federal Social Innovation Fund, and has acted as an in-kind contribution to early projects.

After a flurry of activity near the end of 2014, 2015 was a slow year for new PFS programmes, with only one new project launched. However, catalytic investments in project feasibility assessment and transaction structuring by the federal Social Innovation Fund's Pay for Success programme in late 2014 helped to create an invigorated pace of project launches. The Social Innovation Fund (SIF) is a programme of the Corporation for National and Community Service, a federal agency that engages millions of Americans in service through its AmeriCorps, Senior Corps and Volunteer Generation Fund programmes, and leads the nation's volunteer and service efforts. The SIF positions the federal government as a catalyst for impact – using public and private resources to find and grow community-based nonprofits with evidence of results.[16]

(p.78) Evaluation approaches

Evaluation is a central component of PFS. Programme evaluation, whether interim or final, triggers repayment of the initial PFS investment, and any additional payments tied to higher levels of impact or success. Evaluations can be paid for by funds raised either through the PFS financing process, or separately by philanthropy or government. In either scenario, payment for the evaluation must not be tied in any way to the achievement of the outcomes; nor can the evaluator have a financial interest or stake in the project.

In the US the majority of projects to date have used a randomised control trial (RCT), considered the gold standard of evaluation design (see Table 4.2). An RCT relies on comparison to a group of individuals randomly assigned to a control group that does not receive the services being evaluated. For government, an RCT is usually viewed as the best way to ensure that it is paying for outcomes that would not have been achieved otherwise; likewise, some investors and stakeholders in the PFS market feel strongly that the use of an RCT is critical in order to establish the rigour of the PFS model. Some service providers embrace the opportunity to undergo an RCT because they see it as a way of demonstrating their impact, confidence in their approach and willingness to subject themselves to broader scrutiny. When an RCT is not possible, often due to ethical concerns or sample size, programmes use quasi-experimental methods of various types.

Payment outcomes tend to be ones that can be most easily tied to available administrative data from government, though in some cases the data is collected by the service providers. Projects define outcomes with different metrics and methods of measurement. Despite differences in projects, only a handful of outcomes have been used: namely, utilisation of jail or prison beds, academic readiness and achievement, and stable tenancy in housing. However, many projects are tracking multiple indicators and outcomes beyond success payments to build knowledge about population wellness and look for additional ways to continue to improve social service delivery.

(p.79) Financial models

The original conception of the PFS model included attracting private capital to help fund the social good. However, with expected returns often below required returns given the risk of the project, philanthropic funds were typically embedded in the deal, acting as an insurer against non-payment of a contract or as a subordinate position to attract commercial capital. Community development financial institutions have also been involved in filling a number of roles in the project development and implementation phases, as transaction coordinators, project managers and technical assistance providers, as well as acting as senior and subordinate investors (see Figure 4.3 for details).

In the initial 10 PFS projects, senior positions comprised the majority of the capital stack, while the second round has seen an increasing role for subordinate and grant capital. Some argue that the early hope that PFS models could be funded by private equity dollars is partially a failure of the model. Rangan and Chase (2015) note that the second round of PFS projects in the US was mostly funded by philanthropic dollars, and that private equity largely retreated from the SIB approach because investors were being asked to take on an equity risk and receive only bond returns. However, the launch of new funds – such as those managed by Maycomb Capital and the Reinvestment Fund – seeking senior positions in PFS projects shows a continued interest in the model if sufficient subordinate capital can be accessed to mitigate the risk. Further, this next phase also saw projects exploring other financing options beyond the traditional capital stack. Notably, Denver created tranches of senior capital based on issue area. In Santa Clara the first project was launched without commercial capital and the second had no outside investment at all. In Illinois a Social Impact Guarantee structure has government funding a majority of the programme up front, while letters of credit secure the project should it not succeed.

Recent projects have also used different outcomes to trigger repayments to senior and subordinate investor groups, or tranches of investors in the case of the Denver Housing to Health Initiative. This reflects differences in risk tolerance, and is only possible for **(p.80)** interventions where short-term proxy measures exist that can be linked by strong evidence to longer-term measures of success. For example, in housing projects, housing stability for one year with minimal interruptions is considered a strong indicator of longer-term **(p.81)** stability and retention in housing, with the associated positive benefits of improved health, and reduced use of emergency services and criminal justice systems. Similarly, for early childhood education programmes, measures such as kindergarten readiness can be correlated to greater rates of academic achievement continuing through primary and secondary school, based on existing longitudinal studies.

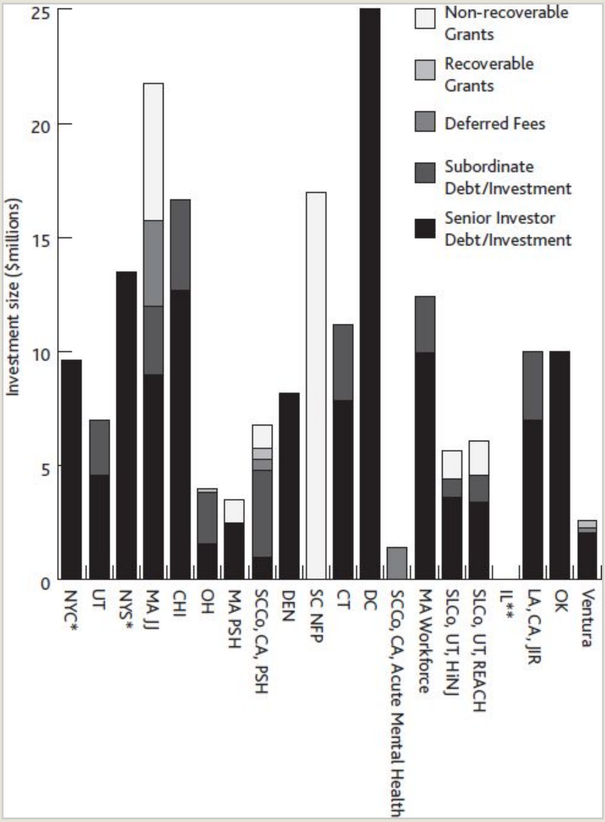


Figure 4.1: Financing Pay for Success programmes in the US

Source: Based upon Archer-Rosenthal (2016) with updates from the Pay for Success Learning Hub (www.payforsuccess.org/sites/default/files/excel-files/PFS-Project-Matrix.xlsx)

* Projects have a philanthropic guarantee.

** Project has yet to close capital raise.

Santa Clara's PFS initiatives demonstrate the county's commitment to moving towards outcomes and use of PFS as a tool to further that transition. Project Welcome Home was constructed on the county's willingness to pay for outcomes in excess of the estimated ROI, and was also the first project to be constructed using CDFIs in the senior position instead of commercial capital. The county further invested in PFS, launching Partners in Wellness, the first mental health PFS project. The project does not involve outside investors, but rather operates as a risk-sharing agreement between the county and the service provider, Telecare Corporation. This structure has allowed for a deep partnership between Telecare and the county, as they jointly bear the financial risk of the project.

Conclusion

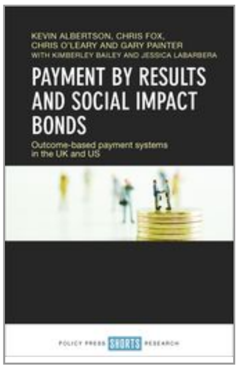
Since PFS was first introduced to the United States in 2010, the PFS market has established itself as a small but rapidly growing and evolving feature of the social sector landscape. To date 20 projects have gone from concept to implementation, and there are dozens more in development. When PFS was first introduced, it was defined narrowly as a tool for upscaling proven interventions that could demonstrate cost savings. While the use of evidence and the potential for cost savings remain two powerful motivators, they are not the only reasons why PFS is used. Early projects demonstrate that practitioners have applied the tool creatively, and in ways that depart from the initial construct of PFS, to help advance solutions to persistent community issues and needs.

While the full set of lessons learned are discussed in the following chapter, it is worth noting here that while the initial foray into PFS programmes was motivated by increasing the speed of social innovation **(p.82)** and determining the scope for redistributing risk from the public sector for social experimentation, a number of ancillary benefits have occurred that have impacted public management. These ancillary benefits often include encouraging delivery organisations to prioritise investment in the infrastructure necessary to track data and measure the outcomes of social programmes, as well as shifting cultural attitudes around measuring whether service programmes were truly making a difference in people's lives. For example, the City and County of San Francisco's recent feasibility analysis helped transform the way it plans to serve homeless people in the city, even though it determined that it was not feasible to pursue a PFS contract at that time. It found that it lacked the necessary infrastructure and staff capacity to track how clients fared after using its services or to conduct effective evaluations to learn whether families served in its shelters were later able to secure stable housing. However, the feasibility study fuelled the City and County's decision to invest considerable funding into services for homeless families, and it has announced plans to create a new department to oversee, align and coordinate these efforts. It is also updating and adding systems, processes and capacity to collect and use more robust outcomes data. According to the City and County, the PFS feasibility analysis has 'been an important driver in looking at how we can invest our and partner dollars in a more coordinated and outcomes-driven way' (Chan and Bailey, 2016, np).

PFS is but one front in a movement towards an outcomes-oriented social sector that better delivers high-quality, effective services to communities in need, with these 20 PFS projects demonstrating the potential that PFS has to spark innovation in delivery, evaluation, contracting and financing. The proliferation of interest in PFS from service providers, foundations and governments at all levels and in all corners of the United States speaks to the potential of the PFS model as one tool to further much larger, and far-reaching, changes in how social services are provided and funded in this country. A central challenge – and opportunity – in the next phase of the shift towards outcomes-based approaches is not to advance a particular financial innovation, but to collectively improve our ability to deliver better results.

Notes:

([16]) See www.nationalservice.gov/sif



Payment by Results and Social Impact Bonds: Outcome-Based Payment Systems in the UK and US

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Review of the evidence for outcome-based payment systems

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[−] Abstract and Keywords

This chapter reviews the current state of evidence on what works in outcomes-based commissioning using published evaluations of Payment by Results (PbR) and Social Impact Bonds (SIBs) in the UK and SIBs in the US. Findings from these evaluations are arranged under the following broad headings: designing and commissioning, development of markets, performance management, innovation, the role of incentives, and overall outcomes. The evaluations address issues such as the complexity of PbR commissioning models compared to other commissioning exercises, the impact of PbR on the market for social goods, and the development of new or enhanced performance management systems as a result of outcomes-based commissioning. Two areas of innovation are also highlighted: innovation in service design and delivery, and innovation in financing.

Keywords: outcomes-based commissioning, evaluation, Payment by Results, Social Impact Bonds, design, PbR, performance management, innovation, incentives, outcomes

Introduction

In this chapter we review published evaluations of UK PbR and SIBs and US SIBs to assess the current state of evidence on what works in outcomes-based commissioning. We have used elements of a systematic review methodology to structure our search for evaluations, our assessment of their quality and the synthesis of results.

For every PbR and SIB programme identified in the UK (Tables 3.1 and 3.2) and the SIBs identified in the US (Table 4.1) a thorough search was undertaken for any published evaluation associated with each programme. This included searching websites associated with the programmes, their funders, investors and service providers. In addition, we undertook a structured search of two databases: ASSIA (Applied Social Sciences Index and Abstracts) and Web of Science. In total, 811 papers were sifted for relevance based on reading titles and abstracts.

In the US there are only three published evaluations, making our search relatively straightforward.

(p.84) In the UK there was more material: we retained 46 empirical evaluations of UK PbR and SIB programmes for detailed analysis. No papers were excluded based on methodological rigour; however, the methodologies of these papers were assessed. Qualitative evaluations were assessed using the set of quality standards for qualitative evaluation that was drawn up by the UK government's Cabinet Office (Spencer et al, 2003). The design of impact evaluations was assessed using Sherman et al's (1998) Scale of Scientific Methods (the Maryland Scale). Some UK papers were not designed primarily as evaluations, but were nevertheless included because they had some evaluative elements. In these cases, and where the methodological standards set out above were relevant, they were applied. Where they were less relevant, professional judgement was used to assess the overall methodological rigour of the paper.[17]

For the UK, synthesis of findings was undertaken in two stages. Some initial themes were taken from previous reviews, including Tan et al (2015), Fraser et al (2016) and NAO (2015), and relevant data from the 46 papers was extracted. Additional themes were also identified during the analytical process, to reflect themes emerging from the data. When synthesising results, findings from papers assessed as methodologically weaker were given less weight.

The bulk of this chapter focuses on the UK programmes, with a short summary of the US evidence at the end. This reflects the relatively greater UK evidence base.

Results from UK programmes

Of the 46 UK papers reviewed, 29 relate to PbR interventions and 15 to interventions involving SIBs funded PbR programmes.[18] One **(p.85)** covers two interventions: a PbR programme and an SIB-funded PbR programme (MoJ, 2014). Four papers were published in peer-reviewed journals, the remainder were evaluation reports, the majority of which were published by the UK government departments that commissioned them.

The majority of UK papers (37) are primarily implementation evaluations that use either exclusively qualitative methods or a mix of qualitative and quantitative methods. Assessed against Spencer et al's (2003) framework for 'quality in qualitative evaluation', the majority of evaluations are reasonably strong on overall evaluation design, analysis and reporting.

Our synthesis of findings from these evaluations is arranged under the following broad headings:

- designing and commissioning
- developing markets
- performance management
- innovation
- the role of incentives

- overall outcomes.

Designing and commissioning

Complexity, time and costs

A number of evaluations highlight the complexity of PbR commissioning models compared to other commissioning exercises. For example, the evaluation of the Supporting People PbR pilot found there was a need to provide clarity around targets, performance measures and impacts on income. This requires more detailed guidance to be provided at stage of tendering (DCLG, 2014a).

In many, though not all, cases, with complexity comes an additional time investment (DCLG, 2014a). A number of evaluations of PbR programmes found that insufficient time was allowed for setting up and commissioning the programme (for example, DfE, 2014; Wong et al, 2015b). Building performance management systems was often **(p.86)** more time-consuming than for comparable commissioning models (Murray et al, 2012; Wong et al, 2013).

Similarly, a consistent finding across a number of SIB evaluations is around the complexity of contractual relationships and obligations between stakeholders. The commissioning process for most SIBs was also time-consuming, involving detailed design and development work to agree on a policy problem, identify a potential solution, design an interventions outcomes and payment schedule, and evaluate funding options (see, for instance, Tan et al, 2015). Sometimes commissioning also included formal feasibility studies and consultation exercises (DCLG, 2015).

Disley et al (2015), for example, describe six contractual relationships created as part of the Peterborough SIB; the process took approximately 18 months from initial discussion to project launch (Disley et al, 2011). The Ways to Wellness SIB took three years (ATQ Consultants and Ecorys, 2015), the Reconnections SIB took 10 months (ATQ Consultants and Ecorys, 2016a) and Roberts and Cameron report that: ‘Commissioning the SIB in Essex was a long and complex process’ (2014: 6).

With increased complexity and commissioning time comes cost. In PbR evaluations both prime contractors and their subcontractors routinely reported to evaluators that upfront investment in the commissioning process was higher than expected (Lane et al, 2013; DCLG 2014a; DfE 2014; Newton et al, 2014). A study by Egdell et al (2016) of the experiences of third sector organisations (TSOs) in the Work Programme in Scotland found that TSOs made considerable investments in building relationships with potential primes during the procurement process, but this activity was highly speculative since it was not known which of the primes would be successful in getting contracts.

Similarly, several evaluations comment on the high costs of commissioning an SIB (DCLG, 2014c; Sin and Roberts, 2016), but few quantify these costs. The Reconnections SIB cost nearly £200,000 to develop (ATQ Consultants and Ecorys, 2016a) and the Mental Health and Employment SIB cost £150,000, although other costs borne **(p.87)** by stakeholders were found to be comparable to the normal cost of commissioning a new service (ATQ Consultants and Ecorys, 2016b).

Role of social investors and intermediaries

Several evaluations noted that social investors often went beyond financial support and gave significant expertise and ‘hands-on’ support to the interventions they supported (for example, Roberts and Cameron, 2014; Tan et al, 2015; Griffiths et al, 2016 and). Several evaluations also noted that intermediaries were often key to the success of the SIB, whether the intermediary functions were undertaken by a separate body or managed in-house. Intermediaries were particularly important in helping to manage increased workloads in areas such as finance and performance management (for example, Disley et al, 2015, in the Peterborough Prison SIB; and Griffiths et al, 2016, in the DWP Innovation Fund). Roberts and Cameron (2014) go as far as to suggest that the success or otherwise of the SIB approach may be due not simply to the SIB model, but to the behaviours and levels of engagement of different investors in specific SIBs.

Developing markets

In the UK a number of evaluations document how the introduction of PbR has made a significant impact on the market for social goods.

Purvis et al (2013) in their evaluation of the Work Choice Specialist Disability Employment Programme identified significant changes to the structure of the specialist disability employment provider market. Whereas previously the UK Department of Work and Pensions (DWP) might contract directly with small providers, the introduction of a prime-provider PbR model meant that DWP managed fewer contracts directly. In many cases prime-providers managed various subcontracts with smaller providers in line with their own business plans. At a local level, within the supply chains of prime-providers, a number of the subcontractors told evaluators they believed there had been a loss of expertise, local knowledge and employer relationships due to **(p.88)** the reduction in the number of specialist providers and their reduced role. A large number of local authorities exited the market; however, a number of providers, including some small disability-focused charities, entered the market.

By contrast, the evaluation of the DWP's Work Programme found the top four prime-providers held only around 54% of the market. They described the market as an 'unconcentrated, competitive oligopoly, which has remained fairly stable over time' (Foster et al, 2014: 30). Overall, the programme's supply chains included circa 800 smaller organisations, although the number of service providers decreased over time (Foster et al, 2014).

A concern within the third sector has been the imbalance of power implicit in the prime-provider PbR model. In particular, that voluntary sector organisations have sometimes been included in prime-providers' bids to enhance the perceived bid quality, but have then not received any or as much business as was promised. This issue was addressed explicitly during the evaluation of the Work Programme. The evaluators (Lane et al, 2013) found there was evidence of some providers dropping out between bidding and contracts starting, but found little evidence that subcontractors had been named in proposals purely to help prime-providers secure the contract. However, a subsequent evaluation found evidence that some prime-providers were maintaining or expanding their own referral volume share even where some of their subcontractors were outperforming them (Foster et al, 2014).

As with all markets, the provision of social innovation will see some new entrants, and some organisations will leave. For example, in their evaluation of the Youth Contract Newton et al (2014) report that some national stakeholders commented that the providers were not typical of those operating in education and, as a result, would bring new blood into it. However, the evaluation also identified a concern that small organisations in the voluntary, community and social enterprise (VCSE) sector were squeezed out of the national model because they were unable to risk upfront investment since payments were weighted **(p.89)** towards later outcomes. Suggestions were made that their exclusion had stifled innovation and the delivery of specialist support.

Evidence, in short, is mixed. For example, the evaluation of PbR in Children's Centres also found no indications that PbR had had adverse effects on the types of providers willing to operate in the market (DfE, 2014).

Performance management

Many of the evaluations reviewed identify a greater focus on performance management and the development of new or enhanced performance management systems as a result of outcomes-based commissioning. On balance, more evaluations identified positive effects associated with this increased focus than negative effects.

Advantages and disadvantages of a stronger focus on performance management

SIB evaluations tended to report the most unequivocally positive effects associated with performance management (Roberts and Cameron, 2014; Tan et al, 2015; ATQ Consultants and Ecorys, 2016b). For example, in their evaluation of the DWP Innovation Fund Griffiths et al (2016) noted that the amount of data required and the intensity of performance monitoring needed to successfully manage a 100% outcome-funded project came as something of a 'culture shock' to many deliverers, but also documented a great deal of direct and 'hands-on' involvement in projects from social investors in the areas of performance management, client tracking and outcomes-profiling systems. They concluded that the SIB funding model appeared to have created a high intensity of focus on performance across all projects.

Some PbR evaluations also identified predominantly positive effects arising from a greater emphasis on performance management (DCLG, 2014a; DfE, 2014; Wong et al, 2015b). For example, the evaluation of the Troubled Families Programme found that, while the financial framework presented many challenges to local teams – including **(p.90)** imposing a high degree of accountability, requiring a certain level of multi-agency cooperation and effective data sharing (Day et al, 2016) – this approach was instrumental in raising the quality and capacity of local data management systems (White and Day, 2016).

The advantages of enhanced performance management associated with PbR were less clear-cut in other PbR evaluations. For example, in the evaluation of the Work Programme there were many reports of both prime-contractors and subcontractors improving their performance management systems over the lifetime of the contracts. However, while some DWP contract managers associated rigorous PbR contract management with their having more 'power' over prime-providers – making the primes easier to manage, focusing providers and driving cost-effectiveness – others questioned whether the new regime was too intensive and/or prescriptive (Foster et al, 2014).

In a number of PbR evaluations, the effects of enhanced performance management were negative (Newton et al, 2014; Pearce et al, 2015). For example, in the evaluation of the Drugs and Alcohol Recovery PbR Pilot Programme, evaluators found that PbR had encouraged services and practitioners to place a greater emphasis on monitoring and reviewing the progress of those in treatment, but this had the potential to alter and distort aspects of practice, and risked undermining the responsiveness of services (Mason et al, 2015).

Complexity and cost

We have noted the increase in complexity and cost associated with designing commissioning contracts; similarly, in delivery, performance management was more complex and hence more costly than in comparable contracts.

In the first place, evaluation is complex because the approach to measuring social impact remains in its infancy. According to Disley et al (2011) the ability of investors and markets to deal in social outcomes risk is currently underdeveloped: metrics for quantifying social outcomes are unclear; conventional finance markets do not price social value creation; and, consequently, there is a lack of comparable **(p.91)** performance information to support the creation of a new or modified social investment marketplace (see also ATQ Consultants and Ecorys, 2015).

In some cases, outcomes-based commissioning may motivate the development of a literature. For example, in a review of a recent SIB aiming to address loneliness, ATQ Consultants and Ecorys (2016a) note that the SIB quantified in a rigorous way the costs and benefits of loneliness, and put forward a stronger ‘case for investment’ for this issue. However, performance measurement, outcome payment thresholds and values are rarely transferable between SIB-funded initiatives. Yet, as noted by Tan et al (2015), the use of cost-benefit analysis to develop outcome metrics and the development of bespoke information management systems may, in some cases, require new or specialised staff.

Some evaluations of PbR in the criminal justice sector noted challenges in adopting an overly simplistic, single, binary outcome measure in a PbR programme (Foster et al, 2013; Pearce et al, 2015). As result, metrics proliferate, adding to complexity. According to Wong et al (2015a), the large number of metrics in the Local Justice Reinvestment Pilots made it harder for providers to work out what interventions to implement.

Gosling takes a more critical view of the challenges inherent in defining and measuring social outcomes and argues, in relation to the use of PbR in a therapeutic community: ‘PbR creates a clear dichotomy between the achievement of a successful outcome and demonstration of a recovery journey’ (Gosling, 2016: 527).

Several evaluations emphasise the cost implications of more complex performance management systems (Lane et al, 2013; DCLG, 2014a; DCLG, 2015).

Innovation

Two broad areas of innovation are common themes within evaluations of outcomes-based commissioning: innovation in service design and delivery, and innovation in financing.

(p.92) Innovation in service design and delivery

While several evaluations identify isolated examples of innovation (Foster et al, 2014; Pearce et al, 2015), only two evaluations made strong claims for extensive innovation within the programme they evaluated. In their evaluation of the Troubled Families programme, Day et al (2016) are clear that it encouraged innovation, and the desire among local authorities to try new ways of working. However, there is little evidence that the innovations observed resulted from the PbR element of the programme. ATQ Consultants and Ecorys (2015), in their review of the Ways to Wellness SIB, suggest the intervention is truly innovative and that stakeholders were consistent in emphasising its innovative nature.

In relation to SIBS, while programmes tended to implement well-established, evidence-based interventions, there were sometimes elements of innovation around the *mode* of delivery. For example, the evaluation of the London Homelessness SIB notes some innovation in mode of delivery, particularly around flexibility to deliver more individualised solutions (DCLG, 2015). Others describe an established intervention being extended to new target populations (Roberts and Cameron, 2014; Disley et al, 2015) or the ‘scaling up’ of established service models (Tan et al, 2015; ATQ Consultants and Ecorys, 2016a; Day et al, 2016).

Overall, however, evidence suggests that innovation in the design and delivery of outcomes-based commissioned services was limited (DCLG, 2014a; Roberts and Cameron, 2014; Disley et al, 2015; ATQ Consultants and Ecorys 2016a and 2016b).

Several evaluations explored whether the ‘black box’ approach to commissioning led to innovation; generally, they concluded that it did not.[19] Thompson et al (2011), in their evaluation of the Work Choice Specialist Disability Employment Programme, note that commissioners **(p. 93)** intended ‘black box’ commissioning to drive innovation; however, providers felt prescriptions about the amount and intensity of client contact constrained innovation. In a later report from the same evaluation, Purvis et al (2013) surveyed the 56 organisations delivering Work Choice about what impact the commissioning model had on aspects of their activity, and found that they generally reported negative responses on all aspects, including innovation. Similar findings emerge from the evaluation of the Work Programme (Lane et al, 2013; Foster et al, 2014) and the Youth Contract evaluation (Newton et al, 2014). This latter reported the concern that ‘black box’ commissioning was squeezing out of the national model small organisations in the voluntary, community and social enterprise (VCSE) sector; this was said to stifle innovation and the delivery of specialist support.

Financial innovation

SIBs are motivated by the desire to promote financial innovation; a number of evaluations report that one of the impacts of introducing an outcomes-based commissioning framework was to realise this.

Several evaluations (Thompson et al, 2011; Disley and Rubin, 2014; Newton et al, 2014; Disley et al, 2015; ATQ Consultants and Ecorys, 2016b; Griffiths et al, 2016; White and Day, 2016) stress the flexibility associated with SIB funding. For example, in relation to health and social care SIBs, Tan et al (2015) found some service providers were highly motivated to take part, as SIBs were seen as offering financial freedom from shorter grant-giving cycles and process-measure-driven contracts. Specifically mentioned were SIB projects that focused on preventive, long-term interventions. These were seen as attractive because they allow time for interventions to become established and for outcome metrics to be developed.

(p.94) The role of incentives

Motivating risk

In general, evaluations suggest that providers tend to be risk-averse (see, for example, Disley et al, 2014, on the Drugs and Alcohol Recovery PbR Pilot) and that taking on increased risk has led to providers looking for bigger financial incentives. Evaluators of the London Homelessness SIB identified that, as a result of having to compensate for the transfer of risk, ‘SIB investment models result in “leakage” of funding away from provision through the payment of return on investment’ (DCLG, 2014c: 95).

Conversely, Griffiths et al (2016) found that financial incentives have their limits if investors perceive the risk of pursuing PbR outcomes to be too great. In this scenario providers will tend not to enter the market. In the Work Programme evaluation (Lane et al, 2013) the main reasons given by potential prime-providers that might have, but did not bid for contracts, were primarily financial concerns around the viability and the level of risk associated with the Work Programme.

The effect of incentives on organisational behaviour

Some SIB evaluations reported providers responding positively to the financial model. For example, Thomas and Griffiths (2014) and Griffiths et al (2016) considered SIBs funded under the DWP Innovation Fund, where outcomes-based commissioning was widely seen as having incentivised the achievement of outcomes. Projects were highly dynamic and a 'continuous improvement' approach was incentivised. Two PbR evaluations also reported positive effects linked to incentive structures. The Youth Justice Reinvestment Pathfinder evaluators (Wong et al, 2015b) reported that the use of a commissioning model with upfront funding and a 'claw back' mechanism in the event of underperformance seemed to provide an effective way of incentivising sites to achieve their targets. The New Homes Bonus, where a PbR scheme that sought to incentive local councils to increase **(p.95)** the number of homes available, was found to provide a clear financial incentive (DCLG, 2014b).

However, most evaluations of PbR and SIBs that considered incentives found they had little or no effect (Thompson et al, 2011; Foster et al, 2013; DCLG, 2014a; DfE, 2014; Foster et al, 2014; Wong et al, 2015a).

While SIB evaluations reported that perverse incentives had not been identified, some PbR evaluations reported adverse effects resulting from incentive structures. Pearce et al (2015) report that a binary reoffending outcome measure in the Doncaster Prison PbR Pilot did not capture the frequency or severity of reoffending and its use probably led to community-based services being withdrawn from individuals who had reoffended within a cohort year. White and Day (2016) found that in the Troubled Families Programme the financial incentives model created some perverse incentives, where local teams sought to claim outcomes for families at the margins of the programme to ensure that targets were met.

The effects of incentives on individual behaviours

A few evaluations considered the possible effect of outcomes-based payment on the behaviour of individuals within provider organisations, and most found little effect. The evaluators of the PbR in Children's Centres concluded that service provider staff are 'driven primarily by a desire to make a difference for children and families', rather than financial incentive (DfE, 2014: 13).

The evaluators of the Work Programme identified three types of performance pay and incentives within provider organisations: individual performance pay and bonuses linked directly to achievement of targets, group bonuses, and promotion. In all but a handful of the 56 providers interviewed, they found no clear evidence that the support provided to participants was conditioned by payments systems. The main way in which there appeared to be scope for a performance–pay link was through the promotion process (Newton et al, 2012). There is some, limited, evidence for a similar effect in George et al's (2014) **(p.96)** evaluation of Day One Mandation of Prison Leavers to the Work Programme.

However, in the evaluation of the New Homes Bonus, almost half of all planning officers agreed that the Bonus is a ‘powerful incentive’, with around 40% agreeing that the Bonus had resulted in officers and their elected members being more supportive of new homes (DCLG, 2014b: 3).

Segmentation and gaming

As noted in Chapter Two, avoiding perverse incentives is a challenge of all performance management systems (Hoverstadt, 2011). They increase the risk of ‘gaming’ and, in particular, ‘creaming’ or ‘cherry-picking’ (Battye and Sunderland, 2011; Carter and Whitworth, 2015).

Some programmes, for example, the Work Programme, used differential pricing structures to incentivise providers to work with client groups that had more complex needs or that were harder to engage. However, evaluation of the Work Programme suggests differential pricing had little impact on customer segmentation and prioritisation of support. Providers reported that a key reason for this was the heterogeneity in levels of support need within and between payment groups (Foster et al, 2013). Egdell et al (2016), in a study of third sector experience of the Work Programme in Scotland, note that some providers were concerned that gaming might be taking place, but they provide limited evidence to support this.

In the Drug and Alcohol Recovery PbR Programme an independent system was established to assess and refer clients in order to prevent gaming. However, the evaluators noted that the need to attend an assessment prior to being allocated to a treatment provider represented an additional step in the user’s treatment journey, which might reduce the likelihood of users entering treatment. Although the evaluators found no evidence of increased gaming in sites that opted not to have an independent assessment and referral service, in some sites where there was such a service they noted some positive impacts, such as shorter waiting times for treatment, improved data collection, enhanced **(p.97)** integration of drug and alcohol treatment services, and the assessment and referral service fulfilling a user advocacy role (Disley et al, 2014).

A number of other evaluations of PbR and SIB programmes explicitly looked for evidence of gaming, but found no evidence that it was taking place (see, for example, Murray et al, 2012; DCLG, 2014a; Disley and Rubin, 2014; Roberts and Cameron, 2014).

Overall outcomes

There is only limited evidence on whether outcomes-based commissioning has an effect on the quality of services delivered or the outcomes services achieve.

Impact of outcome-based commissioning on service quality

A recurring theme of PbR evaluation reports is that outcomes-based commissioning has an impact on organisational behaviours; generally, to increase risk-averse behaviour, reduce specialist service delivery and potentially drive down quality.

In the Work Programme evaluation, Lane et al (2013) found that some providers who were successful in securing Work Programme contracts felt PbR had the *potential* to enable them to deliver good-quality services to participants. However, the interaction between the payment model, the economic climate (increased total referrals) and the differing referral profile (fewer ‘high-value’ referrals) had forced them to change the services they delivered – potentially to a reduced quality. Generalist end-to-end providers dominated Work Programme delivery, and the majority of these had low levels of onward referral to specialist support (Foster et al, 2014).

Similar findings emerge from Purvis et al’s (2013) evaluation of the Work Choice Specialist Disability Employment Programme and Newton et al’s (2014) evaluation of the Youth Contract.

Mason et al (2015) found in the evaluation of the Drug and Alcohol Recovery PbR pilot that the introduction of the PbR scheme and the structure of the payments may have led providers to be more risk-averse **(p.98)** in discharging service users from treatment and thus recording them as completed successfully, compared with previous financing arrangements. An independent piece of research in one therapeutic community undertaken by Gosling (2016) illustrated this tension. Gosling reports that staff believed the initiative added a financial dimension to their workload, increased the amount of bureaucratic processes which surrounded key working residents, and felt that the values and principles of PbR would dilute the therapeutic integrity of the programme. Because payment was attached to the completion of each programme stage, this reduced the extent to which individual treatment plans could be personalised and varied as client needs changed over time.

However, some programmes, usually smaller ones, reported more positive impacts on quality. Pearce et al (2015) found the introduction of the Doncaster Prison PbR contract resulted in the delivery of additional rehabilitative services to offenders in custody and the community. Thompson et al (2011) found in their evaluation of Work Choice that prime-providers had invested in delivery infrastructure such as IT systems, premises, and staff recruitment and development. They also expanded their supply chains during the programme to bring in specialist subcontractors, indicating a broadening of the services available to clients. The DWP (2016) evaluation of the European Social Fund Support for Families with Multiple Problems found delivery of effective support to those engaged across much of the provision reviewed.

In some cases PbR commissioning had little impact on delivery. For example, the Department of Communities and Local Government (DCLG, 2014a) evaluation of the Supporting People PbR pilot found that the extent to which providers embraced PbR was variable, with some adopting a ‘business as usual’ approach to delivery, merely adapting their monitoring processes to meet reporting requirements.

Assessment of the impact of outcomes-based commissioning on quality of service delivery emerging from evaluations of SIBs is generally more positive than for PbR. Disley et al (2015) found that the Peterborough Prison SIB resulted in the delivery of additional **(p.99)** services to offenders in custody, and led the community to support their rehabilitation. The evaluation of the Innovation Fund, which funded a number of SIBs targeting disadvantaged young people, found that the funding model was credited as a significant factor in driving up performance and developing expertise. There was a widespread belief that projects had achieved better results than they would have done had the pilot been commissioned using more traditional methods, and many schools that had bought into new services were reportedly seeking to maintain the new provision beyond the contract period (Griffiths et al, 2016).

Impact of outcome-based commissioning on outcomes

To date, there is little evidence from the UK on the effect of outcomes-based commissioning on outcomes. In some cases, evaluations of PbR have been cancelled or modified before being completed. Some evaluation plans became impractical because rapid public sector reform ‘contaminated’ potential control areas or policies were rolled out nationally before evaluation, making rigorous analysis impossible (Webster, 2016).

In our review, eight impact evaluation reports were identified. They relate to only five separate programmes and not all are methodologically robust; therefore, findings should be treated with caution. Three programmes were found to have had a positive impact on outcomes, one had no clear impact and one had a negative impact.

Two of the evaluation reports reviewed (Nafilyan and Speckesser, 2014; Newton et al, 2014) set out results of the rigorous, counterfactual impact evaluation of the Youth Contract PbR programme. This found that the Youth Contract substantially increased re-engagement in learning; it also included a cost-benefit analysis showing that the intervention generated substantial net benefits by improving educational attainment. Two reports are from the impact evaluation of the first cohort for the Peterborough Prison SIB. The evaluation employed a rigorous 'matched pairs' design and showed a significant **(p.100)** improvement in the outcome, albeit not sufficient to trigger a payment to investors (Jolliffe and Hedderman, 2014; MoJ, 2014).

The impact evaluation of the first cohort for the Doncaster Prison PbR pilot, employing a relatively weak evaluation design, showed a successful outcome with the outcome target being achieved (MoJ, 2014).

The evaluation of the Troubled Families Programme found that it did not have any significant or systematic impact across a range of outcomes that covered the key objectives of the programme. Some small, positive impacts were identified on some 'intermediate outcomes'. The evaluation was subject to some significant limitations, in particular, relating to data availability and quality (Bewley et al, 2016).

Mason et al, in their evaluation of the impact of paying treatment providers for outcomes as part of the Drugs and Alcohol Recovery PbR pilot, found that it had a negative impact on outcomes as, in the first year of the pilot, it 'reduced the probability of completing drug misuse treatment and increased the proportion service users declining to continue with treatment' (Mason et al, 2015: 1120).

During the review we did not identify any published impact evaluations associated with the UK SIBs that have concluded, despite the fact that they paid out to investors. Subsequently, after the review was completed the final impact of the Peterborough Prison SIB was published (Anders and Dorsett, 2017), and on the basis of this, investors were paid (Social Finance, 2017).

A number of implementation evaluations we reviewed, while not including a formal impact evaluation, nevertheless included some evidence, usually qualitative, related to outcomes. Generally, this was positive (Thompson et al, 2011; DCLG, 2014b; DCLG, 2015; Wong et al, 2015a and 2015b; DWP, 2016). For example, in their qualitative evaluation of the DWP Innovation Fund, under which a number of SIBs were funded, Griffiths et al (2016) report:

> a strongly expressed conviction that tangible, positive social impact was being achieved with young people and could be evidenced. … The evidence offered ranged from 'turn-around' **(p.101)** success stories of individual young people, to institutional-level changes in schools, to assessments of benefit across comparable cohorts of non-participants.
>
> (Griffiths et al, 2016: 14)

Results from US programmes

Three US Pay for Success SIB projects have announced their first evaluation results and determined investor repayment. In July 2015, after three years of service delivery, the NYC ABLE Project for Incarcerated Youth announced that the evaluation of the first cohort of youth served at Rikers Island jail (Vera Institute, 2016) showed no difference from historical data in their rates of recidivism over the two-year period following their enrolment in the PFS-funded programme. As a result, no success payments were made to Goldman Sachs, the sole investor, which triggered the use of a 75% guarantee by Bloomberg Philanthropies, acting as the guarantor. Goldman Sachs decided not to continue funding for a fourth year of services – a right defined in the project contract – ending the project. In contrast, in October 2015 the Utah High Quality Preschool Program announced the first set of interim results at the end of the kindergarten year for the first cohort of students served (Innocenti, 2015). The results demonstrated that only one student that participated in the programme would require special education services when they entered preschool. In this case, Goldman Sachs – also the senior investor in this project – received an interim repayment based on avoided cost per student. These overwhelmingly positive interim results raised many questions about the validity of the evaluation method, the project's costs and the appropriateness of the success metrics. In June 2016 the Chicago Child Parent Initiative announced that 59% of the 325 children who attended preschool were considered ready for kindergarten (Eldridge and Kreeger, 2016). These results triggered the maximum initial payment to investors of $500,000. Still, despite these criticisms and the different outcomes for investors in these projects, many observers of the PFS field took away the same message from these projects: that the PFS financing model **(p.102)** worked as intended, and risk was shifted to the private sector to the benefit of the taxpayer.

Lessons learned from early experiences with PFS in the US

There are a number of lessons learned from the implementation of PFS in the US. First, because the projects remain very complex, technical assistance provided by intermediaries is a critical part of the project development and implementation phases (Archer-Rosenthal, 2016). The scope of duties of the intermediaries has become segregated into three primary roles: transaction coordinator, project manager and fiscal agent. Prior to implementation, transaction coordinators are responsible for feasibility studies and project development. As the project is implemented, most projects have retained an intermediary as a project manager and, with increasing frequency, a fiscal intermediary. Generally speaking, the fiscal intermediary manages the SPV, which contracts with the payor and contracts directly with the other parties providing services or funding to the PFS project: the service provider, the investors, the technical assistance provider, legal counsel and/or the evaluator. Fiscal intermediaries are responsible for reporting to both the investors and the payor. The fiscal intermediary manages the project's cash flow and accounting. For example, in the Salt Lake County REACH and Homes Not Jail projects, the Community Foundation of Utah serves as the fiscal intermediary, while the Sorenson Impact Center is the project manager. Project managers play a leadership role in convening the committees and working groups that make up the project's governance and monitoring structure. Project managers also play an active role in performance management. For example, in the New York State Increasing Public Safety and Employment Project, Social Finance US meets with the service provider and the parole bureau on a regular basis to review key programme outputs, such as referrals and enrolments, and identifies and supports implementation of possible course corrections. However, it is important to note that the responsibilities of these three roles has had some fluctuation from project to project (Archer-Rosenthal, 2016).

(p.103) Of particular note, support from the Harvard Kennedy School Government Performance Lab has been integral to most early projects (see Chapter Four). Second, pilot programmes and ramp-up phases are an increasingly important part of project development. A pilot programme is used to demonstrate the efficacy of an intervention in a given jurisdiction at a small scale. Often, if a pilot programme is proven effective, a project will enter ramp-up, which is a short implementation phase at full project scale prior to the start of the evaluation. Pilot programmes allow for model improvement for stronger outcomes for the target population. Ramp-up is important in operationalising project referral and retention pathways. Both pilot and ramp-up phases are important for generating back-end payor and investor confidence (Archer-Rosenthal, 2016).

Even with these measures, there remain significant implementation risks in these projects. Many of these risks are elaborated during the PFS contract development phase and can be incorporated as termination events in the contract. In most PFS contracts, there is at least one project-specific termination event, in addition to and distinct from the standard terms and language that are part of most contracts – PFS or otherwise. Some of these implementation risks are related to performance and capacity of project stakeholders, so there may be clauses for replacement of service providers or project managers, as well as clauses for contract termination and project wind-down if stakeholders are terminated but not replaced. There may also be termination events related to programme design elements that are critical to project success but beyond the control of a project's service providers or project manager. This is most apparent in the Cuyahoga, Santa Clara County and Denver Housing to Health projects, which rely on access to or commitments of publicly funded housing resources and, in the Santa Clara and Denver cases, Medicaid reimbursement for services provided. These resources are funded outside of the PFS transaction, but are integral to project design and intended impact. In cases like these, termination events can be exercised if a public partner fails to commit adequate resources to ensuring project success (Archer-Rosenthal, 2016).

(p.104) Finally, it is worth noting that, despite implementation risks, PFS projects can allow for increased flexibility in programme design and delivery. In the NYC, Cuyahoga County and Denver projects, a PFS model allowed for flexibility in designing and delivering services that standard government contracts for social services do not usually allow. This speaks to a large, and unmet, demand for funding sources that can support transformation in social service delivery.

Conclusion

Evaluation

Relatively few evaluations of the impact of outcomes-based commissioning using PbR and SIBs in the UK have been undertaken. On the other hand, because the evaluation design in US programmes has been prescribed upfront, the evidence base that has emerged from the first three programmes to generate interim or final results is much stronger. Lessons learned on implementation of SIB and PbR programs in the UK and the US are consistent.

In the US there is a growing consensus on the importance of involving the project evaluator early in the SIB design process. An initial assessment of a programme's evaluability, or its ability to be tied to a set of outcomes which can be observed in a reasonable period, is often part of the feasibility assessment phase of project development. In the US, projects which are not evaluable, for reasons of complexity, difficult research designs or lack of obvious concrete and measurable outcomes, are not a likely fit for PFS; in the UK, however, a more pragmatic approach to evaluation has been taken. For example, in the ‘Its All About Me’ Adoption Bond there was no evaluation of implementation or impact. The Cabinet Office stated:

> This cohort of children is very unlikely to have found a home in the absence of this intervention given the rates of adoption and their characteristics. Therefore we assume that none of the **(p.105)** cohort would have been placed without IAAM, and deadweight is therefore nil.[20]

Regarding the evaluation of SIBs contracts, O’Flynn and Barnett highlight what they see as a paradox within impact investing: the sector is concerned with ‘the prioritisation of “social impact” without prioritising “impact evidence”’ (O’Flynn and Barnett, 2017: 3). There are various reasons for this. O’Flynn and Barnett list: cost considerations by investors (cf. Tan et al, 2015), the administrative burden placed on the investee, that impact is implicitly assumed and so doesn’t need to be measured, and that social outcomes might occur many years after the investment is made. To this we would add: the complexity of designing evaluations that can reliably attribute social outcomes to programmes, and debates about methodology within the evaluation sector (the so-called ‘paradigm wars’) that can be off-putting to commissioners. Thus, Social Finance characterise the evaluation debate in the social investment sector as:

> increasingly polarized among those that maintain that only randomised control trials (RCTs) will do, and those that advocate less intensive approaches in order to accelerate the market. (2016: 2)

Early engagement of an evaluator in programme design comes at a cost, which adds to the overall cost of the project development process. In early 2016 in the US, the Urban Institute started providing in-kind support for early evaluation work to PFS projects under development, through a grant from the Laura and John Arnold Foundation. Local and regional universities and research centers, such as MIT’s J-PAL, have also played a key role in early-stage evaluation design.

Access to administrative data is also required in the project development phase to establish baselines and model potential outcomes. Often, this data is confidential or sensitive, and its use may be governed **(p.106)** by regulations around privacy, for example, in the case of medical data. Access to medical data was problematic in the evaluation of the Homelessness SIB in the UK. To finalise project models, transaction coordinators must secure data-sharing agreements with government, often with several agencies or departments. In some cases, public agencies and departments must also develop intragovernmental data-sharing agreements. Securing the necessary agreements has proven to be a source of delays to many projects under development in the US and the UK. The magnitude of the task of extracting and sharing data should not be understated, even with the proper agreements in place. Access relies on partners within the government who understand what the goals of the project are, and have the capacity and time to pull the data and, if necessary, present it in a format that protects individuals’ confidentiality.

Finally, being subject to any rigorous third-party evaluation bears considerable reputational risk for a service provider, and this risk is higher in a PbR or SIB project. Depending on how the evaluation is set up and how results from a project are messaged and communicated, the failure of a project to repay investors can be interpreted to mean that a service provider and/or intervention is ineffective, which may not be the case. In addition, these labels or conclusions can persist without an appreciation for other effects produced by a service provider’s work, even beyond those captured or tracked in the programme evaluation. This further underscores the important role that programme evaluations can have in telling a full story about programme effect, as well as the important and challenging work to be done by the field in developing messaging and communications around PFS programme results.

The narrative around a binary outcome such as success and failure is not confined to PbR programmes, but has been endemic in discussions of the success of public policy initiatives. The US PFS field is working to change the narrative of social innovation thinking and frameworks to include learning, refinement and progress, so that PFS-style programmes have the potential to have a much larger impact on transforming the way that social good is delivered and **(p.107)** evaluated. One such solution is creating feedback loops through process evaluation, either during a pilot or ramp-up phase, or concurrent to the randomised control trial. For example, Salt Lake County is using a process evaluation for both the pilots of their concurrent homelessness and repeat offenders projects.

Do PbR and SIB work?

While detailed information on PbR and SIB development costs is limited, they are typically more complex and costly to commission than comparable services. For both PbR and SIBs, the increased focus on outcomes and better performance management has the potential to offset some of the additional commissioning costs, although in some UK PbR programmes undue emphasis on performance management and narrowly defined outcomes has had the potential to distort service delivery.

Neither PbR nor SIB programmes in the UK have been strongly associated with innovation in the design of services. PbR programmes, because of the financial risk transfer to providers, have been more likely to stifle innovation. SIBs have typically focused on scaling up or extending the reach of existing evidence-based programmes, and as such provide support to the movement for evidence-based policy and practice.

There is some evidence that PbR and SIBs can incentivise different behaviours at the level of organisations and individuals delivering services. The evidence is stronger for changing organisational behaviour than it is for individual behaviour; behaviour change has not always been positive, particularly within PbR programmes. Overall, this is an area where more and better evaluation is needed.

Concerns about PbR contracts leading to gaming and about the use of third sector organisations as ‘bid candy’ (Butler, 2011) do not generally seem to have materialised.

There is evidence that PbR contracts can lead to a reshaping of markets, depending upon the scale of the contracts and the intentions of the commissioners.

(p.108) There is some evidence that PbR and, in particular, SIB can improve service quality, but also evidence of PbR having an adverse impact on quality. The evidence arising from those programmed that have been completed is mixed, with some showing improved outcomes and one showing worse outcomes.

Overall, evidence from SIB programmes tends to be more consistently positive whereas evidence from PbR tends to be much more mixed. Evidence from smaller, more focused PbR programmes in the UK and US tends to be more positive than for large programmes, for which evaluation design *ex ante* was not well specified, suggesting that there would be merit in further exploration of the potential benefits of PbR, but based on smaller, more focused programmes, and accompanied by more intensive evaluation.

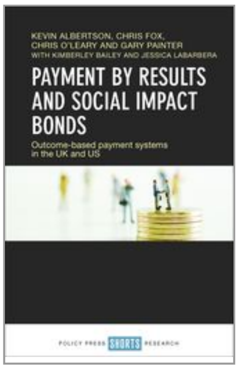
Notes:

([17]) A working paper that includes more detail on the review methodology is available at www.mmuperu.co.uk/projects/review-of-payment-by-results-and-social-impact-bonds

([18]) A working paper that includes a summary table of all 46 papers is available at www.mmuperu.co.uk/projects/review-of-payment-by-results-and-social-impact-bonds

([19]) The ‘black box’ approach is a commissioning model in which the commissioner only has control over inputs and outputs/outcomes, but not over the delivery of services.

([20]) See https://data.gov.uk/sib_knowledge_box/node/183



Payment by Results and Social Impact Bonds: Outcome-Based Payment Systems in the UK and US

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Conclusions, cautions and future directions

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[−] Abstract and Keywords

This book has examined some technical, economic and political questions about outcomes-based commissioning as well as key theoretical debates, arguing that outcomes-based commissioning in its various guises may be theorised as a logical extension of New Public Management (NPM) or marketisation. It has also shown that outcomes-based commissioning might be theorised as policy makers' response to complexity and risk management, and/or as a means of facilitating philanthropists and other private sector actors in social innovation. This chapter draws conclusions from the evidence that has been reviewed, discusses the theoretical issues that have been identified, and considers future directions for Payment by Results (PbR) and Social Impact Bonds (SIBs).

Keywords: outcome-based commissioning, New Public Management, NPM, marketisation, risk management, social innovation, Payment by Results, PbR, Social Impact Bonds, SIBs

Introduction

We started this book with some technical, economic and political questions about outcomes-based commissioning.

In Chapter Two we developed some of these questions through consideration of key theoretical debates, and argued that outcomes-based commissioning in its various guises may be theorised as a logical extension of New Public Management or marketisation. This argument has rather more traction in the UK than in the US, as the UK government has committed to ‘introducing payment by results across public services’ (Cabinet Office, 2011: 9), as part of a long-standing outsourcing and privatisation agenda (Dowling and Harvie, 2014; Dowling, 2017). By contrast, PFS is not generally seen as a form of marketisation in the US.

More generally, outcomes-based commissioning might also be theorised as policy makers' response to complexity and risk management, and/or as a means of facilitating philanthropists and other private sector actors in social innovation. This latter motivation applies **(p.110)** in particular to the US, as it has a different emphasis in the history of provision of public services to the UK, tending to rely rather more on private philanthropy than innovative government interventions in the provision of public goods (cf. Carnegie, 1889a and 1889b).[21]

Drawing on the evidence presented in earlier chapters, we start this concluding chapter by addressing these questions, before going on to consider the future of outcomes-based commissioning.

The evidence to date on outcome-based commissioning

Models that encourage social innovation are attractive to governments concerned that public provision of services is resistant to reform and/or inefficient. Likewise, such models have an obvious application where government feels the private sector needs encouraging in the production of social goods. Our discussion in Chapter Five indicates both PbR/PFS in general and SIB/PFS financing in particular have provided new opportunities for the private sector to complement or substitute the public sector in the delivery and financing of social services (Gustaffson-Wright et al, 2015). However, we find that there is little clear evidence of the benefit of the PbR/PFS approach in terms of three key policy areas:

- incentivising desired behaviour
- complexity and risk management
- facilitation of social innovation.

Incentivising desired behaviour

Outcomes-based commissioning in general and SIBs in particular have encouraged a greater focus on understanding the evidence for 'what works' and a greater effort to measure key outcomes. However, in the UK, Gustafsson-Wright et al's assertion that the use of SIBs has **(p. 111)** translated into a 'movement to evaluate program impact' (2015: 48) is, we feel, overstating the case. As they subsequently note many of the evaluations of SIBs are not rigorous. In the case of the UK, it is outputs, rather than outcomes which trigger payments (2015: 49). We have found that very few UK SIB programmes have yet been subject to impact evaluation, and that some are not subject to any evaluation. This problem is repeated in non-SIB PbR programmes, where often, perhaps motivated by the relatively short-term political cycle, PbR innovations are adopted nationally before the pilot has been evaluated (sometimes even before the pilot has been concluded).

The US, like the UK, provides insufficient evidence to allow us to be sure the approach is worthwhile. Only three evaluations have been published to date.

Complexity and risk management

It is not clear whether PbR/PFS and SIB/PFS contracting will reduce the complexity faced by policy makers. It rather appears the complexity of 'wicked' social problems leads to complexity in the contracts required to incentivise the private sector in addressing such problems. Where ‘outcomes’ are not straightforward to measure, or where attribution is unclear, the specification of appropriate contracts is time-consuming and costly.

The outsourcing of risk, both financial and political, is attractive to government. However, the evidence in the UK suggests that private sector providers are averse to taking on financial and reputational risks as part of PbR contracts. Where the government is forced to offer financial incentives to the private sector to take on such increased risk, public cost reductions and economic efficiency will be more difficult to realise. Indeed, it is by no means clear that, when considered in its entirety, the UK government’s PbR approach has resulted in cost and risk reduction (NAO, 2015).

(p.112) Facilitation of social innovation

It is clear that SIBs and PFS financing can provide opportunities to unlock new capital investment and advance social goods over and above other models of PbR. The potential to bring in additional, external investment, replacing the need for the commissioner or service provider to provide upfront working capital, opens up new opportunities for innovation, but this is primarily in the *mode* of delivery, that is, how it is delivered, rather than the development of new models of service delivery.

However, there is currently little evidence to suggest that such approaches drive innovation in the design of public services, although cases such as Ways to Wellness in the UK, and in San Francisco and Santa Clara County in the US show some promise.

In the UK there is little evidence that PbR commissioning has increased the size of the social market. If anything, there is some limited evidence that the market is concentrating, in the sense that there are fewer providers. In the US, so far as we are aware, the impact of PFS commissioning on the number of social providers has not been evaluated. Of course, it must be borne in mind that PFS commissioning in the US does not aim to increase the size of the market.

Developing the evidence base

It is clear that the theoretical potential of PbR and SIB has yet to be realised; and really, this should come as no surprise, given that this is a relatively new field and that empirical evidence is still limited. It follows that the evidence base must be developed, and we would suggest such outcomes-based commissioning is most likely to provide clear evidence where it is tightly focused, where outcomes are clear and attribution is relatively straightforward. For example, pilots should be centred on developing smaller PbR programmes (tens of £millions, rather than £billions) for tightly defined services, accompanied by more detailed, holistic, evaluation (cf. Golden et al, 2017).

(p.113) Where next for outcome-based commissioning?

Across Western economies, changing gender roles in families and labour markets, an aging population, declining birth rates, the shift from an industrial to a service economy, relatively high youth unemployment, and the destandardisation of employment relations present new social risks that governments and wider society must manage (Hemerijck, 2013; OECD, 2015). These social challenges are not abating; rather, they tend to intensify. This is in part because some of these social challenges have proved resistant to traditional policy responses (OECD, 2015), and in part because large portions of social expenditure are committed to prior commitments, particularly old-age pensions, which due to extending life expectancy, relative austerity and slow economic growth, tend to ‘crowd out’ the potential for addressing the new social risks (Hemerijck, 2013). Thus:

> While we have seen considerable progress over the past decade in some indicators of well-being, the gravity of the social challenges the world continues to face today requires serious consideration of innovative ways to finance and deliver services more efficiently and cost-effectively.
>
> (Gustafsson-Wright et al, 2015: 48)

In an early publication describing the potential of Social Impact Bonds to address some of society’s most intractable social problems, Social Finance argued that one of the four ways change would be achieved was by SIBs:

> Changing the role of government – government is already commissioning many services in order to address complex and diverse social needs. Social Impact Bonds would enable government to focus on defining social priorities bringing a wider pool of resources and expertise to bear on delivering that change.
>
> (Social Finance, 2009: 4)

(p.114) Our analysis suggests that, to date, this view was overly optimistic, but, nevertheless, we have identified theoretical arguments and evidence that suggests that SIBs could play an important role in tackling societal challenges. This being the case, there are some clear directions that an expansion of SIBs could take:

- **Larger scale**: it is noticeable that, to date, SIBs in the UK have tended to be much smaller than in the US (a finding consistent with Gustafsson-Wright et al, 2015). Given the complexity of SIB procurement and the likelihood that this complexity will not diminish significantly between SIBs, then in line with US experience, larger SIBs in the UK would be logical.
- **More sectors**: To date SIBs in the UK and US have focused on a small number of similar sectors (housing and homelessness, youth unemployment, looked-after children, and youth and adult custody). Other sectors face pressing social needs, where government is not able to meet demand fully, and where PbR and SIBS might be considered. It is noticeable that more recent SIBs have been or are being developed in sectors such as health and social care, mental health, and education. Corrigan (2011) argued that in the UK SIBs could provide a set of innovations which will challenge the existing value-for-money equation in the NHS, by organising a financial model over a number of years and not on an annual basis, with a stronger focus on prevention. He argues for SIBs to be developed in relation to long-term conditions, where a move to more effective, planned day-to-day care could reduce expensive emergency admissions to hospitals. Jupp (2017) points to the transformative potential of SIBs in healthcare, using the example of the recently created Reconnections SIB in Worcestershire, UK, that addresses chronic loneliness in the over 50s. However, it is worth noting that there are many reasons to expect that PbR and SIB are likely to work best in those sectors where an outcome is more readily identified, payments can be linked to one or few public departments and results are observable in the short term.
- **(p.115)** **Different roles**: There is potential to continue to explore the role of philanthropic and private finance within PbR generally and SIBs specifically. In the US private health insurance plans and hospitals are being engaged to, potentially, play the role of back-end

payor. For example, the Green and Healthy Homes Initiative is currently structuring a project in which the prospective back-end payor is intended to be a private health insurance company, University of Utah Health Plans. However, in the instances of healthcare, it is important to note that often the ability for these private organisations to engage in the back-end payor role is tied to enabling policy at the governmental level. There are also various roles for philanthropy, from serving as the back-end payor during a pilot period, as was the case in the Utah High Quality Preschool Program, to funding an SIB without commercial investment, in which the return is foregone to a recyclable fund to continue to expand the programme, as in the case of the South Carolina Nurse-Family Partnership project.

• **Develop variants of SIBs**: In the International Development sector, Development Impact Bonds are well established. This is a variant of the SIB implemented in low-and middle-income countries, where not-for-profit organisation is the outcome funder, as opposed to government (Gustafsson-Wright et alm 2015). In the UK Jupp (2017) describes the development of Social Investment Partnerships in health and social care. These emphasise the partnership and innovation elements of social investing to deliver underlying outcomes, but without relying on an outcomes-based contract. Jupp describes how, in the Shared Lives Incubator, stipulating one or two contractual outcomes for a highly personalised service in which someone shares their home with an adult in need of care is difficult. So, in this model investors and commissioners jointly identify a provider to grow the Shared Lives service, the investor provides upfront investment to develop the local service, and repayment is made as a proportion of the service revenue, if and when it grows.

(p.116) All of these innovations and developments will need to be supported by continued government or philanthropic investment in infrastructure. Our review of the sector in the UK and US highlighted the role that government has played in facilitating its development through a range of measures, including establishing funds to support the development of SIBs; advice services to support outcomes-based commissioning; wholesale investment through, for example, Big Society Capital; ‘what works’ clearing houses to make the evidence on effective practice easier to access; and tax relief. Of particular importance is greater investment in evaluation, particularly impact evaluation.

The challenges faced by non-SIB PbR programmes in the UK suggest almost the opposite course of action is required. Whereas there is potential to consider scaling up SIBs in the UK, there is a need to scale down PbR programmes to create more manageable programmes that are more susceptible to rigorous evaluation. Our review of the evidence for PbR suggests that evidence from smaller, more focused PbR programmes tends to be more positive than for very large programmes. This, taken together with continued developments around the better definition and measurement of outcomes accompanying the continued development of the social investment market, suggests that there would be merit in further exploration of the potential benefits of PbR, but based on smaller, more focused programmes, accompanied by more intensive evaluation.

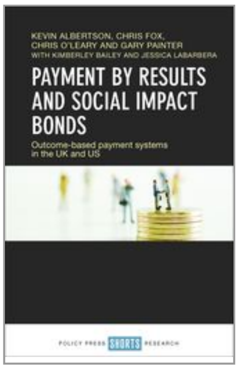
In summary

Our analysis shows that outcomes-based commissioning, while superficially similar in the UK and the US, has different development histories and motivations in each nation. Yet ultimately, the question we must ask is the same: not whether outcomes-based-commissioning is appropriate, but rather, under what circumstances. In few spheres of government expenditure do we insist that something is always either of benefit or not – we do not assume, just because some investments in roads are worthwhile, that the government must always build roads. Likewise with social investment, backed by an SIB or PbR framework.

(p.117) We trust this book has shed light both on the appropriate circumstances for the development of SIBs, PbR and PFS, and indicated both the potential and some possible directions for future development.

Notes:

([21]) This is not to say there is no private philanthropy in the UK or government provision in the US, of course. We are speaking here in relative terms.



Payment by Results and Social Impact Bonds: Outcome-Based Payment Systems in the UK and US

Kevin Albertson, Chris Fox, Chris O'Leary, and Gary Painter

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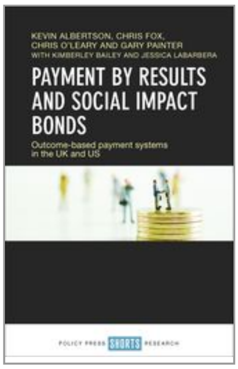

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