

Event report

# Payment by Results ....but is it SIBable?

Learning from Funders

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HOSTED BY

**Buzzacott**  
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VENUE

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The event offered funders of all kinds an opportunity to catch up with some of the current ideas and experimentation around payment by results (PbR) and debate the issues arising. There were 30 participants in the discussion, almost half, unsurprisingly, from London boroughs and the rest a mix of other funders and investors. Many in the group were at some stage or another of the development of PbR, or at least constructing a policy approach to it. (We found every stage of PbR around the table, from running projects to “muttering in corridors”). Most were also aware of the need to understand it thoroughly as an approach that will affect increasing numbers of the organisations they fund. Those with some first-hand experience of it were excited by the potential but still quite unsure about aspects of practice.



**Debbie Pippard, Head of Programmes, Barrow Cadbury Trust,** chaired the meeting and began by sketching out the reasons why her trust is interested in PbR but still exploring its implications.

Barrow Cadbury Trust is primarily a grantmaker but it is an investor in the Peterborough Social Investment Bond (SIB) and is looking carefully at other opportunities for mission-related investment. Along with other foundations they are seeing this as a way of working their money harder, using capital for both an investment return and a social return. There are however many issues to consider when assessing whether or not a SIB is the best vehicle to use (“is it SIBable?”) Add to that other PbR structures and the field is complex though its advocates find the rewards can be great.

### **How does the Peterborough Social Investment Bond (SIB) work?**

It is shaped as an outcomes-based contract in which public sector commissioners commit to pay for significant improvement in reduction in offending rates for male prisoners who have served sentences of less than 12 months, leaving HMP Peterborough. The project will support 3,000 men over six years. A number of organisations including St Giles Trust, Ormiston Children and Families Trust, SOVA and YMCA will provide them with intensive support both inside prison and after release, to help them resettle into the community. If re-offending is reduced by 7.5%, or more, investors will receive from Government a share of the long term savings. If the SIB delivers a drop in re-offending beyond the threshold, investors will receive an increasing return up to a maximum of 13%.

The investors which have provided the capital include charitable trusts and Big Lottery Fund. There is a clear commitment from all of them to seeing whether this approach to intensive and well-co-ordinated support of a vulnerable group achieves success for individuals and also by offering effective preventative work saves the government money. In effect it is these latter savings that will enable government to provide a return to investors which replaces the capital they have lent and adds some income earned on that capital too. Meanwhile the organisations under contract to provide the services receive the appropriate, agreed stream of income to run the service.

Debbie listed the factors that need thought when considering paying by results:

Who bears the **risk** in PbR arrangements? This is a fundamental question and one which worries the voluntary and community sector. In the Peterborough example risk is clearly borne by the investor: government is funded to commission the programme; the social sector organisations running it are fully funded; the investor depends, for a return of capital and some additional income, on the effectiveness of the programme to achieve objectives. "PbR heavy", or purist structures, where no payment changes hands before the results are proven, focus the risk on the service provider – "no win, no funding". Mixed solutions could offer a blend of contract payments and additional funding for the service provider through stretch targets.

Specification of **outcomes**: Peterborough has clear-cut objectives, measurable by firm statistics (in this case, reconviction rates) scope for a control group (people discharged from prisons other than Peterborough) for comparison. Some work is of course much less susceptible to this kind of binary measurement and there are PbR schemes exploring "distance travelled" measures as an alternative.

PbR is being used to achieve change through a focus on preventative work, innovation in service provision, or linkage of disparate agencies and services to achieve holistic services better suited to complex problems. An immediate issue is one of **timescale** – all of these approaches normally demand longer periods of testing and delivery than the norm. The practical consequence is that programmes started in one **financial cycle** or by one **political administration** may end in a different one. A new kind of effort may therefore need to go into how lessons are learned and experience transmitted from these programmes.

The focus on results and impact could mean the temptation to **cherry pick** clients and users most able to respond to services and funders and commissioners of services will need to be especially thorough in clarifying intentions in order to avoid this. Other thoughts shared at this stage of discussion were around **attribution** of results and **unintended consequences**.

**Ben Jupp, Director, Social Finance**, started with the vision that has led his organisation to promote new ways of securing capital to address social problems. Their priority is to encourage preventative work – early action in tackling social problems - and to trail blaze how social and financial returns can be joint objectives in service provision. They are finding a growing band of social investors interested in funding this blended value of social and financial gains but they are aware that the opportunities to invest in this way are still limited. They developed the SIB approach to help address these challenge: a



key element is that under a SIB payment is dependent on outcomes, and so if organisations invest in achieving better outcomes they can be rewarded. In contrast, under traditional contractual mechanisms there is often no direct financial incentive in achieving more than the contract minimum and therefore limited scope to introduce a new model of delivery to that gets more and better results. New ways of funding can also come with a willingness to fund new ways of working – innovative approaches to problem-solving, opportunities to go “upstream” in tackling problems, ways of accounting for savings in other agencies’ budgets, etc.

The Peterborough SIB has had lots of publicity but there are many other examples. Social Finance is currently working with Manchester City Council to reduce the time that looked after young people need to be in residential care, to save money and at the same time achieve positive outcomes for those young people within the wider community. The contract payment to service providers is based on better outcomes (defined in relation to health, education, wellbeing, etc.) and reduced time in residential care. Investors will pump-prime the service with around £2 million, in return for sharing a proportion of the anticipated savings in residential care provision.

Ben’s summary was that a well-designed PbR scheme is a powerful tool for innovation and productivity, though a poorly planned and structured one is worse than conventional public funding. In the Peterborough SIB, for example, the PbR approach has incentivised investors and providers to develop more rigorous performance management systems, for example. This is in marked contrast to many traditional pilots, which have often had variable impacts because results were not tracked closely enough. The PbR approach encourages highly disciplined business and financial planning on the part of funders and service providers, to achieve positive change.

Ben agreed that there are challenges in good project development based on PbR, which means the approach is not appropriate in all circumstances: the complexity of many public service outcomes does not lend itself to easily specified outcomes nor simple attribution of results. All sorts of trade-offs may be needed to combine a mix of outcomes and step carefully between unmanageable complexity and distorting simplification. The allocation of risk and support for cash flow are a concern. Few social sector organisations have the capacity and funds to carry these. So without a good social investment market, one consequence of PbR might be opening opportunities more to the private sector or a limited number of very large charities.

Social Finance therefore does not recommend wholesale adoption of PbR but feels that it has a very important role as part of carefully developed programmes to tackle intractable social issues - service developers need to work through the issue

**“a well-designed PbR scheme is a powerful tool for innovation and productivity”**



they want to address, and all the related areas – outcome measurement, target population, all the variables that might be involved in attributing success. They also believe that there is a role for commissioners in supporting the capitalisation of social sector providers.

**Eileen McMullan**, Commissioning Manager, Supporting People, London Borough of Islington, presented a piece of work that is still under way, and from which her borough is trying to learn a great deal. She emphasised that the housing support project where she is exploring PbR is designed to test commissioning methodology not to trial investment models. It is one of ten different pilots in a CLG programme (running for 18 months and evaluated by CLG). In Islington it is being applied to services provided by voluntary organisations and housing associations for several vulnerable groups including young homeless people and substance misusers. Islington already has a good outcomes framework which was used to develop the payment by results framework and for the purpose of the pilot, the payment mechanism is virtual to allow the borough to test the risks and challenges. The service providers volunteered to be part of the experiment and the programme set up was based on co-production between them and the Council. They have developed a tool to measure outcomes where a monetary value is applied to performance, with elements weighted differently so as to reflect priorities.



Eileen sees the service providers taking the PbR element seriously although there is no monetary value to them – they are seeing it as a chance to review how they work and challenge their own and borough assumptions. At this stage in the programme none of the providers would be attracting additional payment and this is an opportunity for the borough to look at whether the targets are realistic or outcomes over-complicated. The borough is also exploring different ideas for rewarding over-performance against targets – such as contract extension; this is being trialled in a family outreach pilot. They are also testing how to avoid perverse incentives (having in mind the recent publicity around distorted results in a major government Work Programme contract).

Eileen talked about identifying targets in working with chaotic substance misusers: targets have to be flexible and cannot use simple numeric or binary measures. Questions need to be shaped around what services achieve for a group of service users. She noted that voluntary sector providers pressed for tougher targets than the borough was planning to set.

## Discussion points

While the language of co-production was used in much of the discussion of PbR, neither Islington nor Social Finance had yet involved service users directly in developing these programmes.

**Timescales:** commissioners can be frustrated by the normal length of local authority contracts. Contract extension as one of the rewards for good performance allow programmes to stretch much further (nine years in one instance). Shorter contracts do not provide the incentive to invest in service change.

**PbR as a blunt instrument?** This term described some Ministry of Justice/NOMS service provision and probably had resulted in some funders being nervous of the principle. The examples given at this meeting were seen as much more constructive in terms of achieving effective outcomes and positive change in people's lives. Another comment was a comparison with PFI where a new funding idea became a means of delaying payment for services rather than being a more purposeful instrument.

Is PbR fostering **better evaluation?** Ben described the work going into the Peterborough SIB, including a control group ten times the number of service users, with information provided from the Police national database. This should be raising the standard of evidence for establishing the value of the project.

Once the first Peterborough SIB has ended, would it be run again? Ben hopes there will be two outcomes from this first experiment. In terms of the work it sets out to achieve, then if it is successful, it should provide a model for similar work on the basis of raised performance and major public expenditure savings. It should also **inspire experiments** of a similar sort in new areas of work.

Southern Housing Group has its own Work Programme to support tenants, drawing on voluntary services which they know to have local knowledge and expertise. **How can funders make sure that smaller and local organisations are not crowded out from these sophisticated funding vehicles?** The Peterborough model was cited again as an example since it does not ask the voluntary sector providers to bear the financial risk but has encouraged investors to shoulder that.

Getting the contract terms right: one borough shared the experience of a contract for advice providers where the outcome was based on the number of cases handled. The services provided fell short on this number. Yet on the measure of improving the income of clients it over-performed. Eileen shared some thoughts about **how weighting could be assigned** and another contributor suggested the value of adding stretch targets so that an additional percentage could be earned for achieving results beyond a baseline. There was scope for benchmarking different levels of standards in outcomes also.

Unlocking innovation: can PbR **encourage local groups to offer innovation?** It was agreed as one mechanism for this. LB Sutton

**“PbR in all its forms, provides scope for efficiency and productivity and genuine outcomes for key services and vulnerable people”**

is commissioning preventative services in a number of areas (social isolation, support for carers, advice and information) by inviting proposals from groups including ideas about new design of services, on the basis of 20% PbR for successful outcomes.

While the discussion uncovered all sorts of complexity, there was a general sense around the table of that PbR in all its forms, not just SIBs, provides scope for efficiency and productivity and genuine outcomes for key services and vulnerable people. It can be a way of funding "missing services", i.e. preventative work, bringing new funders and donors into the field, and providing cashable savings for the public sector. It cannot be rushed, either in preparation or delivery, and dumbed down versions will bring risks of damage to services and disrepute for the mechanism. It was agreed that this was an area where everyone was keen to learn more and hear the progress of different experiments. London Funders would ask participants and other members for a steer on how best to support this exchange of information.

**With thanks for Buzzacott's continuing generosity  
in hosting this discussion series  
and to our chair and presenters for a lively and thoughtful  
discussion**

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