



Payment by Results

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Who is Paul Harper

- Been Director of Finance, IT & Resources at National Autistic Society for 3 years
- Responsible for Finance, Contracts, Property, IT, Procurement and Pensions
- Previously worked at Chatham Historic Dockyard Trust
- University for Creative Arts
- 10 years at BBC mainly in World Service (EurAsia)
- 12 years in Local Government
- 5 years National Audit Office
- Trustee at Sutton Community Voluntary Services Centre
- Trustee for Fant Wildlife (Maidstone, Kent)

Payment by Results (PbR)

My approach to this subject is from the viewpoint of someone unfamiliar with it, so this is presented as a journey into what is Payment By Results and then what are some of the issues to be aware of.

What is Payment by Results

- Payments by Results is where a provider is contracted to deliver a service to achieve desired outcomes.
- The method to achieve the outcomes is the responsibility of the provider
- Payment is in arrears and is either fully based on the achievement of the outcomes or a mixture with a large element based on the outcomes.

Case for Payment by Results

- The case for public sector, mainly Government PbR is as a response to Austerity
- There is a need to provide public services cheaper and for less money
- In theory move control from providers to customers and bureaucrats to entrepreneurs – KPMG 2010 Study ‘Payment for Services’

Features of Payment by Results

- Requires move away from input measurements to outputs measurements
- Harnessing the profit motive is the key driver for companies and privatisation of public services
- Allowing private investment into public services
- Payment Metric, outputs required by commissioner to get payment
- Use of Social Impact Bonds

Growth of Payments by Results

- Central Government
 - Work Programme
 - The Youth Contract
 - The Innovation Fund
 - Education, training and custodial services
 - Substance misuse
 - Families with multiple problems
- Local Authorities

Examples of Government Payment by Results

- Criminal – Prevention of Reoffending
- The Work Programme
- NHS Internal Market
- Cash on Delivery in Foreign Aid (results based aid)

Types of Government Scheme

The Government has set up 3 types of scheme

1. Peterborough/ Social Impact Bonds
 2. Prime Provider
 3. NHS Internal Market
- Various Central Government Departments are now running PbR schemes including, Health, Work & Pensions, Justice and Communities & Local Government.

Peterborough Prison Project

- Project funded by Social Impact Bonds
- If outcomes delivered investors get a return based on the savings to the Treasury
- Problem is that it is likely to work with better with offenders who are more motivated to avoid reoffending

Prime Provider Model

- The Work Programme delivered by 40 contracts held by prime contractors in 18 geographical areas
- Job Payment Outcomes payments after participant in work for 13 or 26 weeks, once in sustained work payment every 4 weeks.
- People grouped into categories with higher payments for individuals in hardest to help categories

Prime Provider Model cont.

- Need for Prime Providers to have initial working capital to fund scheme in advance of payment.
- Currently 15 Prime Providers = Private Companies, 1 = Public Sector, 2 = Voluntary/Community Organisations
- Cashflow + Financial Risk can be a deterrent to Charities with relevant experience

Prime Provider Model cont.

- Tier 1+Tier 2 subcontractors limited referrals to Tier 2 specialist providers
- ESA (Employment & Support allowance) claimants limited avoiding specialist provision
- Creaming and Parking Issues
- PbR contracts have discouraged prime contractors from investing upfront for vulnerable clients.

NHS PbR

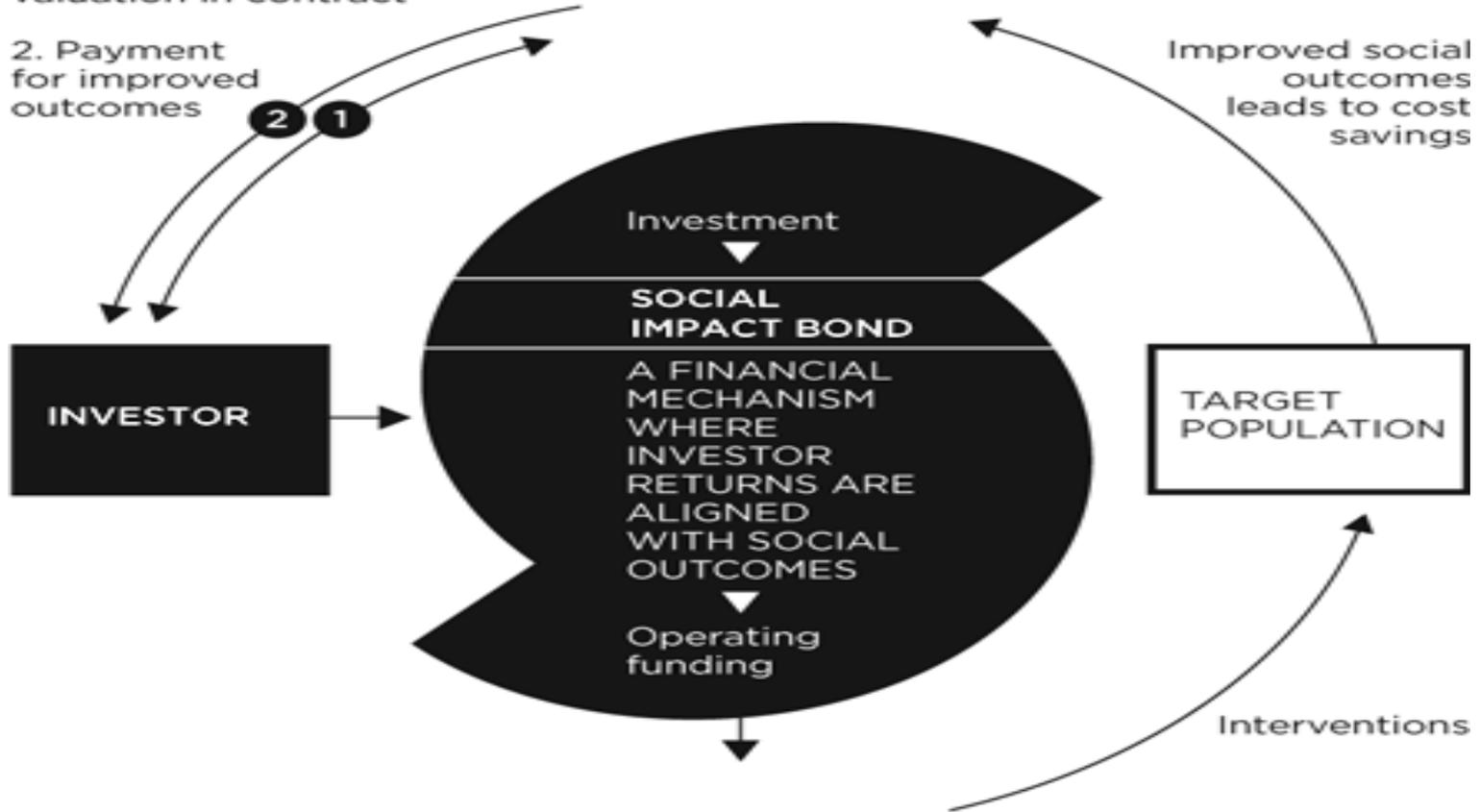
- Market generated by fixed national price for each patient treated irrespective of outcome.
- “Money follows Patient”
- 30% of NHS expenditure in England £29bn 2011/12 through PbR & 50% of NHS acute hospital care.
- Supports privatisation of NHS
- NHS PbR more suited to elective care not a one solution for all approach

Kings Fund Nov 2012

What are Social Impact Bonds?

1. Define outcomes metrics and valuation in contract

2. Payment for improved outcomes



Source Social Finance: socialfinance.org.uk

Funding Social Investment Bonds

- Peterborough Scheme
- Different to standard Charity Bonds
- Public bodies pay third sector for measurable results. Once terms agreed, charities use contract to attract project funding from investors, if project succeeds the investors profit, if it fails they lose. Bond holders are expected to take all the risk but will make a return on their investment if the intervention is successful.

Funding Social Investment Bonds cont.

- At Peterborough the bond works in that if the scheme is successful the investors will receive a payment representing a % of the cost of reoffending., the payment will increase based on the reduction on reoffending with the total cost capped at £8m for an initial £5m investment.

Are Social Impact Bonds always appropriate?

- Social Impact Bonds (SIB) are best suited when there is an easily measurable outcome which is clear to interpretation, and also only one stakeholder
- They are not suited to a situation like the NAS where the result of our intervention leads to reduction in costs of social care, NHS mental health services, the criminal justice system, education services etc. thus they do not work where there would be multiple clients.

Subcontracting and PbR

- Third Sector often a subcontractor.
- Prime Contractors may pass down their risk to subcontractors
- Prime Contractors may impose terms on subcontractors that they are not subject to eg payment being conditional on the contractor being initially paid by the commissioner
- Good practice is to avoid the above, and evidence that in considerable cases this is the position

Partnership Working

- A way in for the third sector is by partnership working between organisations
- Can have a lead and subcontractor relationship
- Can set up a joint venture
- Can do in a partnership arrangements
- Clarity on risk sharing and management needed
- Brings strengths, and better specialisms
- Collaboration brings economies of scale

London Rough Sleepers Project

- Run by St Mungo's Trust on behalf of the Greater London Authority
- Aim to get 400 people off streets over 3 years
- Cost about £2.4m
- Outcome targets
 - Sustained accommodation
 - Reduced A&E visits
 - Return to paid or voluntary work
- Initial bond for working capital of £650k raised

Opportunities for improving outcomes for children

- Essex County Council Social Impact Bond for young people on the edge of care
- The cost of a child in care is up to £78k a year. The cost of Multi Systemic Therapy (MST) to prevent a child going into care is £1500 a child
- A SIB could raise the money to fund MST and be funded by the Councils long term savings

Other Examples Include

- Sure Start Children's Centre
- Adoption Bonds a third sector non statutory scheme
- Triodos New Horizons Project in Manchester
- ThinkForward Social Impact in Tower Hamlets
- 3SC Capitalise on South Wales
- Government Youth Contract
- Increasing pilots in Housing Related Support
- Kent Drug & Alcohol Action

Fundamental Concern with PbR

An article on the *Guardian Professional* website has argued that a pre-occupation with outcomes can worsen a service:

“payment by results does not reward organisations for supporting people to achieve what they need; it rewards organisations for producing data about targets; it rewards organisations for the fictions their staff are able to invent about what they have achieved; it pays people for porkies.

(...)

There's a growing momentum behind the understanding that outcomes-based performance management in general – and payment by results, in particular – is dangerous idiocy. It makes good people do the wrong things, and then forces them to lie about it.”

Issues with PbR.

- Public sector contracts beware of EU procurement requirements
- Impact on Market, PbR may drive out smaller local providers, in favour of national companies
- Principles increasingly also relate to LA “grants” which are becoming increasingly more output based on measurement. Failure to have an outcomes framework and method of assessment may limit future funding.
- Volume Guarantee, to tender you may want a guarantee but PbR will not provide this
- Danger charities bid for contracts to continue to serve core user groups
- Allow sufficient time and resources in preparing a tender

Issues with PbR cont.

- Intention of PbR not always clear & is just used as an inappropriate payment mechanism for current services, rather than being designed to improve outcomes.
- NCVO “Many services don’t easily have definable or final results.”
- Many services don’t have positive outcomes, but are designed to limit negative conditions, social isolation and injustice.
- PbR requires the Commissioner to “let go” and have reduced control/ influence of service delivery.
- PbR commissioners can be linear in view and fail to recognised that a positive intervention may have many impacts, not reflected in contract

Issues with PbR cont.

- Poor evaluation and monitoring mechanisms/ dispute resolution
- Ability of Commissioner to be able to amend contracts and change specification unilaterally “or such additional / alternative requirements as the Commissioners may impose from time to time”
- Is there an ability for provider to terminate with notice

Issues with PbR cont.

- Cashflow – cash is king
- Start up costs need to be subsidised
- Impact of Cash issues means that PbR is endangering third sector involvement compared to big companies and private sector
- Reserves – Do you have sufficient reserves to cover contract risks
- Payment metrics
 - Payments attaching too many targets
 - Payment targets that are beyond providers control
 - Payments being able to be unreasonably deferred
- Payments in Arrears, although now more schemes are split with a core contract payment of between 67% and 80% and an element depending on the success of the services of between 20% and 33%

Issues with PbR cont.

- Shift of Risk from public sector to provider
- Risk appetite both financial, reputation, service and governance
- TUPE/ Pension Implications – sort out asap
- Flexible Workforce
- Fixed term re permanent jobs



Thank You for Listening

Questions/ Debate