Payment by Results and the voluntary sector

April 2014

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Future of Public Services

NCVO's 'Future of Public Services' series uses learning from our members to review the role of voluntary organisations in the delivery of public services. With the increasing use of new types of partnerships, contracts and payment models in public service design and delivery, how can we ensure local needs are met and the most disadvantaged not left behind? How can volunteers and voluntary organisations provide much needed engagement with local people? This series aims to tackle these questions and provides real examples of how services can be commissioned in a way that truly enables community-led delivery.

Dr. Marcus Roberts, Chief Executive of Drugscope.
Chair of the NCVO PbR Working Group

This timely and important NCVO report addresses a topic that will be of considerable interest and concern to voluntary sector organisations, public service commissioners, and policy makers.

Payment by Results (PbR) is a powerful idea – it has translated a commissioning and procurement mechanism into a brand that is intuitively appealing, politically potent and hard to contest in principle. Developed by New Labour, it has been placed at the heart of the coalition Government's approach to the reform of public services.

It's a very simple idea in theory. Pay organisations who receive public money for what they achieve for people, not simply what they do with them: for outcome, not process.

PbR has often been presented as good news for the voluntary sector. It has been sold as a mechanism that creates new opportunities for independent organisations to provide public services where they can deliver outcomes. It has been linked to the kinds of innovation that our sector takes pride in – try new things if you think they will work. Most importantly, it appears to put the focus on achieving real, positive change for the individuals, families and communities that our organisations work with and for.

Such is the theory, but the devil has been in the detail and implementation.

Take an example that I have had a close personal involvement with: the drug and alcohol recovery PbR pilots launched in eight local areas in April 2012, and in many respects seen as 'trailblazers' for this new approach. The experience on the ground was that, while they did stimulate system change in some local areas, they also created additional bureaucracy (particularly around data management), supported little real innovation in service delivery and their overall performance was officially described as 'mixed'.

This report is concerned with this detail and the lessons from the practical experiences of voluntary sector organisations. It takes a balanced and informed view drawing on the experiences of NCVO members and the investigations of the Working Group that I was privileged to Chair. It provides guidance and makes clear and practical recommendations. It raises the questions about PbR that all voluntary sector organisations should be asking. What are the outcomes and who decides? Does the payment mechanism work as a carrot or a stick? How does PbR relate to the voluntary sector's distinctive ethics and approach? Can voluntary organisations manage the financial risks of PbR? Does it support innovation or does it actually encourage services to play safe?

One thing is clear: PbR is far from simple in practice and it is vital for service providers, commissioners and policy-makers to engage with these complexities in assessing its value and the opportunities and risks for our sector.

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Executive summary

The growing use of Payment by Results (PbR) has been met with concern by many in the voluntary sector. The principles of paying for impact and commissioning for outcomes are not commonly disputed. However, the way programmes are being designed and implemented is leading to questions about the viability of PbR as a method for improving public service delivery and for providing quality outcomes for service users.

A key concern is that the level of financial risk and the amount of working capital required from PbR is preventing voluntary sector organisations from bidding for contracts regardless of their ability to deliver the desired outcomes. Payment in arrears and the risk of making a financial loss also have implications for the provider's capacity to innovate and look for new ways of delivering services. Voluntary organisations are also facing PbR payment models which do not provide sufficient incentives for working with service users who require more complex, sustained or costly interventions, and there is concern about the impact which PbR is having on personalised outcomes.

This paper explores the viability of PbR as an effective method for procuring public services, and in particular for harnessing the innovation and service quality which is delivered by the voluntary sector. It contains three chapters which address three key challenges to the voluntary sector's capacity and appetite for PbR:

1) The financial and governance implications of PbR: we look at the ability of voluntary organisations to take on the risks of PbR and the impact which badly designed payment models have on provider behaviour.
2) Driving performance through innovation: we explore the impact which PbR has on the innovative capacity of the voluntary sector.
3) PbR outcomes and personalisation: we explain the centrality of personalisation to the voluntary sector and look at whether the outcomes-based commissioning model in PbR allows for increased personalisation of services to meet individuals' needs.

Financial and governance implications of PbR

Voluntary organisations typically have low reserves and this means that the cash flow required to implement and sustain services in a PbR model may be too great. Charity trustees have a requirement to be prudent with charity funds, and this can make the financial risk demanded by PbR unacceptable.

In addition, the ability of a provider to fully assess the risks of a potential PbR contract is often determined by the quality of information provided by commissioners. Furthermore, where commissioners do not test the impact that risk will have on provider behaviour then the payment model could result in perverse incentives and a drop in service quality.

Recommendations

It is essential that commissioners analyse the capacity of the market to take on the risks required before PbR contracts are let. This analysis would enable a fuller understanding of the impact that the introduction of PbR would have on the diversity of the market. Commissioners should, for example, consider how upfront payments can be included within models in order to ease cash flow, and to prevent the exclusion of quality service providers from the voluntary sector. Commissioners must also recognise that early and clear communication of procurement intentions is essential to allow organisations to carry out risk assessment and test their service model against the proposed payments and make sure it is affordable.

When setting outcomes and designing a payment tariff, commissioners should test the impact of these on provider behaviour; this would ensure that perverse incentives to 'game' the system (for example, to only work with service users who are the easiest to help) can be identified and addressed. It is also important that commissioners adopt a flexible approach to contract and performance management; where problems occur during the contract, they should work with providers to determine whether there are faults which need addressing in the programme design.

Driving performance through innovation

The innovative capacity of the voluntary sector is often championed in public policy debate, yet there is limited understanding of the impact which PbR has on this capacity. Innovation requires an environment within which new and emerging providers can enter public service markets, however PbR very often favours the largest providers with the largest turnovers. Market diversity is essential to innovation as it ensures a multiplicity of providers can bring in new ideas and challenges to existing delivery methods.

Recommendations

Further research is required into the impact which risk in public service contracts has on innovation in the voluntary sector. Commissioners must consider the limits that PbR places on the extent to which providers are able to innovate within a service due to the level of risk it brings. In addition, funding which is specifically aimed at enabling innovation, most appropriately through grants, should be encouraged by policy makers.

PbR outcomes and personalisation

The focus on outcomes within PbR has the potential to enable increased emphasis on delivering personalised and tailored services. However, the behaviours which can be driven by the financial structures of PbR can also undermine personalisation, for example by not offering appropriate payments for working with people with the most complex needs.

Recommendations

It is essential that commissioners involve service users in the design of outcomes in PbR models; they should also consider how to design PbR models which incorporate the service user into outcome evaluation, as well as wider programme evaluation. In addition, PbR payment models must offer adequate funds through their pricing structures for working with individuals with more complex needs, and use intermediate outcome payments to incentivise working with the hardest to help.

Introduction

It is well known that our public services are facing significant challenges in matching demand for services with effective supply. Social needs continue to grow, while at the same time long-term austerity in public spending is limiting the availability of resources to meet these needs.

Successive governments have sought to introduce competition into public service markets as a means for bringing in new solutions, creating efficiencies, and making resources stretch further. The current government's Open Public Services agenda outlines their vision for the further use of diverse markets within previously public sector systems.[1] The intention is that through more open public service markets, wider expertise can be levered in, and the costs and risks of service delivery can be shared beyond the boundaries of state institutions.

The voluntary sector has an extremely valuable role in the delivery of public services. Its fluidity and collaborative nature makes the voluntary sector a recognised site for the entry and development of service innovation. The voluntary sector is well placed to identify and assess need, and the local and personalised nature of services delivered by providers empowers service users and uses their expertise to drive service improvement. Voluntary sector providers also lever in non-state funded resources into public services, and contribute additional social value, for example through the involvement and development of volunteers. [2] The expertise and value of the sector is recognised in the government's ambition to create a "truly level playing field between the public, private and voluntary sectors."[3]

However, the changing structures of the outsourced market may well alter this trajectory of growing income and growing provision by the voluntary sector. In response to the increasing pressures to achieve social outcomes with limited resources, government has sought to bring in new methods of assuring value for money and driving up performance. Several of these methods come within the subject that is the study of this paper: the contracting mechanism known as Payment by Results (PbR).

Payment by Results

The use of PbR in public service markets has grown considerably over recent years[4], and it is a key component of the government's Open Public Services agenda.[5] The underlying principle of PbR is that providers are paid according to the outcomes which they achieve, as opposed to the activities they undertake. The detail and purpose of different PbR programmes to date varies; broadly, PbR seeks

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[1] Cabinet Office, 2010. 'Open Public Services White Paper' Available at: http://files.openpublicservices.cabinetoffice.gov.uk/OpenPublicServices-WhitePaper.pdf, p.9

[2] The voluntary sector's overall income is £39.2billion, with net assets of £104. 8 billion, and 15.2million people volunteer at least once a month. This creates a far greater social value than that alone funded by public services.
Information available at NCVO Almanac, 2014:

http://data.ncvo.org.uk/a/almanac14/what-is-the-voluntary-sectors-total-income-and-spending/

http://data.ncvo.org.uk/a/almanac14/what-is-the-net-worth-of-the-voluntary-sector/

http://data.ncvo.org.uk/a/almanac14/how-many-people-regularly-volunteer-in-the-uk-3/

[3] Cabinet Office, 2010. 'Open Public Services White Paper.' Available at: http://files.openpublicservices.cabinetoffice.gov.uk/OpenPublicServices-WhitePaper.pdf, p.9

[4] PbR has existed in NHS acute services and NHS mental health services for a longer period of time. It is also an established contracting mechanism for non-welfare services, such as waste management.

[5] Cabinet Office, 2010. 'Open Public Services White Paper' Available at: http://files.openpublicservices.cabinetoffice.gov.uk/OpenPublicServices-WhitePaper.pdf, p.9

greater performance and efficiency from providers, increased transparency of resources spent on public services, and reduced risk to the commissioner and to taxpayer funds.

PbR intends to transfer risk to providers in order to drive performance: if providers do not achieve the results which are required, then they do not get paid. By setting targets for payment which are based on outcomes or impact, PbR gives providers the freedom to shape services without specification, as long as agreed outcomes are achieved[6]; it is argued that this should enable providers to take risks with their service design and processes, and try new or innovative methods. However, providers carry the financial risk for failing to deliver results irrespective of how limited their control over the context in which they operate is. This highlights an important tension within PbR: the potential to take risks in service design is constrained by the risks incurred through 'failure.'

The incentives and risks in PbR are intended to enable or encourage providers to transform and improve services for the better. Yet, too few commissioners of PbR programmes have worked directly and thoroughly with providers beforehand to ensure that risk could be carried, or that the payment structure would prompt the behaviours necessary to achieve service transformation. There has been too little evidence and learning about the effectiveness of PbR and its appropriate use. Consequently, we are seeing a range of public sector commissioners, both centrally and locally, piloting variants of PbR with considerable unforeseen and unintended consequences on provider markets and on service quality.

As a flagship policy of the Open Public Services agenda, PbR has been subject to considerable interest from all sectors of providers, commissioners, and policymakers. One of the main challenges levelled at PbR is that the voluntary sector cannot compete on the commercial terms required; likewise, the main challenge thrown at voluntary organisations is that they must learn to sustain themselves within the challenges of PbR. This paper is interested in how the commercial and contractual demands of PbR programmes have impacted on the voluntary sector, and what these demands mean for both the short and long term viability of the voluntary sector as a provider within open public service markets.

The voluntary sector and PbR

PbR has provoked a wide range of reactions from the voluntary sector, and it is difficult to generalise about a broad sector which is facing a variety of very different environments. From our conversations with voluntary sector providers it would appear that two key considerations dominate their appetite for PbR. Firstly, whether the financial and delivery risks are manageable, including whether or not they can access sufficient capital in order to fund their activities and whether the monitoring and systems which would be required are manageable. The second consideration is whether the outcomes which are required are achievable, and in particular whether the 'results' targeted by the contract are appropriate for the needs of the service users.

Many in the voluntary sector recognise the transformational potential of PbR to focus commissioning and resources on the impact which our public services have, and the change that is achieved by provision. Several voluntary sector organisations have been active in the development of PbR by

[6] Although it should be noted that some PbR models remain fairly prescriptive. This was a finding of an analysis of VCSE PbR contracts carried out by BWB:

BWB and NCVO, 2013. 'Payment by Results contracts: a legal analysis of terms and process'. Available at: http://www.ncvo-vol.org.uk/pbr, p. 10

engaging with commissioners in design processes, working with universities to develop outcomes data, or developing programmes from scratch. [7]

However, many providers in the voluntary sector are finding themselves excluded from PbR contracts because the proposed payment structures have failed to balance risk with reward, and weaknesses and inconsistencies in contract design have caused providers significant problems in delivery. A recent analysis of PbR contracts from NCVO and BWB showed that implementation to date has been deeply flawed and has in many cases resulted in unsustainable risks to voluntary organisations.[8] Added to this, difficulties experienced by the recent and widespread application of PbR on large parts of the voluntary sector have brought much negative publicity and discussion. [9]

As a result many voluntary sector providers are extremely cautious about taking on PbR contracts. Results from a survey of providers in the Supporting People PbR pilots, for example, suggested that the PbR terms in contracts had made many organisations "more cautious when considering whether to bid"[10]. Although the number of bidders did not decrease with the introduction of PbR, commissioners suggested that interest only remained strong because providers felt that PbR was inevitable, rather than because they felt it presented sustainable incentives.[11] It is important to note, too, that voluntary organisations are 'mission-led' and for many, the option of 'walking away' from a contract is problematic, particularly if the contract is the only way of continuing to work with their beneficiaries.

In a recent Compact Voice survey, 42 percent of voluntary sector respondents stated that the financial risks and capital requirements involved "completely limit" their ability to compete for PbR contracts. Interestingly, the same survey showed that 28.2 percent of local authority respondents agreed with them.[12] Caution about PbR does not just come from providers with smaller turnovers. Large national organisations have told us that they have faced PbR contracts where the financial model was not feasible.

This paper considers how risk and innovative freedom in PbR needs to work differently to ensure commissioners benefit from the potential of voluntary sector organisations, and looks at the impact of PbR on achieving personalised outcomes for service users. Government has committed to addressing inequalities in open public services and unlocking the benefits of diversity in public service markets: our recommendations are critical to ensuring that any further roll-out of PbR leads to improved delivery.

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[7] As examples: DrugScope co-chaired the Department of Health 'Gaming Commission' with the UK Drug Policy Commission to develop a PbR model for drug and alcohol (DAT) services; Addaction are working with the University of Warwick and local authorities to develop outcomes measures; the Consortium of Voluntary Adoption Agencies have developed a Social Impact Bond (SIB).

[8] BWB and NCVO, 2013. 'Payment by Results contracts: a legal analysis of terms and process.' Available at: http://www.ncvo-vol.org.uk/pbr

[9] For example, a 2012 NCVO study found that 73% of the VCSE subcontractors in the Work Programme it surveyed believed their contracts were at risk of failure before the end of the contract:

NCVO, 2012. 'The Work Programme: Perceptions and Experiences of the Voluntary Sector.' Available at: http://www.ncvo.org.uk/images/documents/practical_support/public_services/The%20Work%20Programme%20-%20Perceptions%20and%20Experiences%20of%20the%20Voluntary%20Sector.pdf, p.10

[10] Ekosgen, 2013. 'From thinking to doing: early lessons from the supporting people Payment by Results pilot areas.' Available at: http://www.sitra.org/documents/from-thinking-to-doing-early-lessons-from-the-supporting-people/, p. 32

[11] Ekosgen, 2013. 'From thinking to doing: early lessons from the supporting people Payment by Results pilot areas.' Available at: http://www.sitra.org/documents/from-thinking-to-doing-early-lessons-from-the-supporting-people/, p. 33

[12] Compact Voice, 2013. 'Local Compact survey results 2013: Payment by Results.' Available at: http://www.compactvoice.org.uk/sites/default/files/payment_by_results-2013_local_compacts_survey_results.pdf

Methodology

This paper has been guided by expert discussions held by members of the NCVO PbR Working Group (2012-2013). The Group's membership consists of voluntary sector providers, solicitors, charity accountants, social investors and social finance intermediaries. Members of the Group have also provided detailed comment and feedback to this paper and have shaped its content and analysis.

The paper has also been informed by interviews with voluntary sector providers involved in a number of local and national PbR programmes including the Drug and Alcohol pilots, the Work Programme, Improving Access to Psychological Therapies (IAPT), Troubled Families, children's centres, public health, mental health and criminal justice.

We have also held two roundtable discussions on the topics within this paper. In May 2013 we invited commissioners from a number of local and national PbR programmes to a roundtable to discuss how the programmes were developed, and what the successes and challenges have been. These discussions, and subsequent interviews with attendees, added considerable evidence as well as an invaluable perspective to this paper. In September 2013 we held a roundtable with voluntary sector providers on the relationship between risk and innovation in public service delivery.

There has been reluctance amongst many to speak candidly about their experiences with PbR, the commercial sensitivities of contract and payment terms, and details of negotiations. We have therefore maintained anonymity for all contributors.

The financial and governance implications of PbR

One of the key intentions of PbR is to transfer financial risks to the provider market, away from the commissioning body: the common claim of proponents of PbR is that taxpayer money should only fund what works, leaving providers culpable for any service failings. Attaching payments to final results seeks to ensure that change, not just activity, occurs; by demonstrating that spending is achieving impact, it is intended that transparency increases.

Each PbR programme transfers different levels of risk through the design of supply chains, tariffs, pricing, and payment structures. In each case, commissioners have different intentions and experience different consequences. For commissioners, the difficulty is in designing a PbR programme which passes on risk and prompts service improvement and efficiency, but not to the extent that it limits the range of quality providers or prompts providers to manage these risks inappropriately such as through the practice of 'creaming and parking'. This is where providers pay most attention to those individuals who are easiest to help, and less to those with more complex needs who may require more expensive interventions or who may, in some cases, be unlikely to achieve a payable outcome at all.

For providers, the transfer of risk is a pressure on their financial health and their governance capabilities. Voluntary sector providers must be able to assess and manage the balance of financial risk and reward presented by the contract, and well as be able to evidence, and take accountability for, the results they achieve.

This chapter examines the capacity of the voluntary sector to bid for and deliver PbR contracts by examining the ability of charities to take financial risks, the risk assessment and management skills in the voluntary sector, and the operational risks posed by PbR. This chapter then examines the impact of badly modelled risk by looking at how commissioners respond to failure in PbR programmes.

The ability to take on financial risk: governance structure and access to capital

PbR often demands that providers fund part, or all, of the initial implementation of services and on-going delivery before receiving payment. Having a sufficient market of providers able to fund this interim stage is essential if markets are to be competitive. Yet this requirement can be a significant challenge for voluntary sector providers, and often prevents them from bidding for PbR contracts, regardless of their ability to deliver quality results.

Lack of working capital and reserves

Voluntary sector providers often lack the working capital required to maintain cash flow throughout delivery of PbR programmes. PbR can demand that funds are tied up over long periods until surplus is achieved (and this is not guaranteed). Along with the possibility of loss to the organisation, PbR may also tie up assets that could be invested elsewhere, in delivering greater social good beyond the value of the contract. Voluntary organisations are 'asset locked' and any cash-flow surplus must be reinvested in delivering on mission; profit is retained and applied for charitable purpose.

Reserves in the voluntary sector are typically limited[13], and are often restricted to specific funding objectives. For donors or funders of the charity, and to the charity itself, tying funds up in PbR schemes

[13] The voluntary sector holds £48.8 billion which is the equivalent to 15.4 months of expenditure. However, this reduces to just 8.3 months when the funds from grant-making foundations and research bodies are removed:

NCVO Almanac, 2014. 'How much does the voluntary sector hold as reserves?' Available at: http://data.ncvo.org.uk/a/almanac14/how-much-does-the-voluntary-sector-hold-as-reserves-3/

that may not deliver a return is not an immediately appropriate proposition. In addition, it is general practice promoted by the Charity Commission in England and Wales that organisations keep their reserves easily accessible in the short-to-medium term so that they can be used swiftly to meet emergent needs of the organisation and its service users,[14] and therefore it is often not suitable to tie them up in long-term contracts.

Furthermore, as the voluntary sector receives a third of its income from the state through contracts and grants, voluntary sector providers are particularly affected by funding cuts, top slicing of contract value, instability in the market, or loss of contractual income through competition. Voluntary sector providers are more likely to look to retain their reserves for covering these risks and shoring up funding gaps in incumbent contracts, rather than investing those reserves in the additional risks of new PbR contracts which offer no guarantee of payment.

The requirement for prudence from charity Trustees

Charities are led by a board of trustees who are entrusted with the charity's resources to allocate directly or indirectly on achieving their charitable objects[15]. The voluntary sector's regulatory body, the Charity Commission in England and Wales, sets out the requirement for trustees to be prudent in how they allocate and invest their resources.[16] This prudence, along with the not-for-profit and public benefit ethos, must be recognised by those working with voluntary sector providers; this has caused providers to drop out of PbR bidding and is also a known barrier to the advancement of social investment or other risk-related financing[17].

In addition, boards are made up of volunteers who typically become involved in the charity because they believe in its aspirations, objectives and mission, and do not necessarily have the particular financial management skills which are required by PbR, such as risk modelling.[18] The perception of risk can have considerable influence on decision-making and many charities will err on the side of caution in relation to financial risks. Although financial capabilities and attitudes towards perceived risk clearly vary between boards, commissioners must understand that this feature of the charity governance model will influence the appetite and ability to take on the financial risk of PbR.

Social investment

Social investment aims to generate social and financial investment, and this is largely targeted at social organisations that need working capital or finance to purchase assets. Efforts have been made to expand this funding option for the voluntary sector, which has the potential to be useful considering the financial risks inherent to PbR. Although a complete assessment of the extent to which social investment can finance voluntary sector involvement in PbR is beyond the remit of this paper, it is important to look at some of the challenges in this interaction.

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[14] Charity Commission, 2010. 'Charities and reserves.' Available at: https://www.charitycommission.gov.uk/media/93927/cc19text.pdf, p.13

[15] Note that this governance model is particular to charities; Community Interest Companies and social enterprises operate under different structures and have different attitudes to risk.

[16] Charity Commission, 2008. 'Hallmarks of an effective charity.' Available at: http://www.charitycommission.gov.uk/publications/CC10.aspx#h5 , p.9

[17] IVAR, 2013. 'Charities and Social Investment.' Available at: http://www.charitycommission.gov.uk/media/170711/social_investment.pdf, p.19

[18] CFG, 2013. 'Making it count.' Available at: http://www.cfg.org.uk/resources/Publications/~/media/Files/Resources/CFDG%20Publications/Making%20it%20count.ashx , p.7

The social investment market is in its infancy, and therefore opportunities to access social investment are limited. [19] It can also take voluntary organisations considerable resources, time and skills to both seek out opportunities and to create a compelling case for investment, including the resources and skills required to demonstrate impact. Questions also arise for voluntary sector organisations on the helpfulness of taking on debt, and some organisations may feel that that trading risk for debt is hardly an improvement.

Furthermore, PbR continues to be contracted out in timescales that do not allow organisations time to engage with social investment intermediaries[20], or offer sufficient reward within the contracts to be of interest to investors. Complex supply chain structures and spot purchasing agreements also present a number of difficulties for the social investment market. Added to this, both PbR and social investment are at relatively early stages and therefore not enough is known about the viability of one to offer secure opportunities to the other.

Opportunity to access social investment is largely dependent on procurement timeframes, payment structures, the balance between risk and reward, and the predictability and structuring of risk. Therefore, in the design of programmes, it is essential that commissioners consider these factors and their impact first, rather than assume that the voluntary sector market will necessarily have access to social investment to fund their involvement.

Risk assessment and risk management for voluntary sector organisations

In our conversations with voluntary sector providers about their approach to PbR programmes, many explained that their decision to bid is often not based on confidence in the contract and certainty that their obligations could be filled, but on optimism or resignation to the inevitability of PbR: "taking a punt" or "taking a gamble" were phrases that stuck out. Within competitive markets which are seeking to drive sustainability and quality, such practice is potentially concerning.

PbR demands a number of financial skills from providers which have not been widely required before in the voluntary sector. The skills required include: improved understanding of costs, margins and pricing; complex modelling tools; understanding of the cost and process of acquiring capital and an ability to make a compelling case to funders; an ability to identify, assess and mitigate risk; and greater analysis of investment and asset management opportunities.

Developing these skills would be of benefit voluntary organisations both in assessing and delivering PbR contracts, but also in other public service delivery contracts. [21] However, there is a need for commissioners to understand why these skills might be lacking. For smaller providers particularly, investing in these areas may be highly disproportionate and bring about little advantage in terms of service effectiveness. Smaller voluntary sector organisations typically lack the size of operations or

[19] Total social investment was estimated at £202m in 2011/12.

City of London, 2013. 'Growing the social investment market: the landscape and economic impact.' Available at: http://www.cityoflondon.gov.uk/business/economic-research-and-information/research-publications/Documents/research-2013/Growing-social-investment-market.pdf, p. iii

[20] As an example, see this blog post which documents a provider's efforts to seek social investment for the upcoming probation contracts in Transforming Rehabilitation: http://beanbagsandbullsh1t.com/

[21] CFG, 2012. 'Managing risk in charities.' Available at: http://www.cfg.org.uk/resources/Publications/~/media/Files/Resources/Briefings/CFDG%20and%20CASS%20risk%20briefing%20final.ashx , p. 2

renumeration to attract staff with all the experience necessary to evaluate the risk of a PbR contract. [22] For example, organisations with an income under £500,000 are not subject to statutory audit.[23] Although there is still need for independent examination below that level, organisations may be less likely to invest in certain financial skills because it may be disproportionate and bring about little advantage in terms of service effectiveness.

Decisions about which risks can be managed and which are unsustainable is challenging to all sectors due to the complexity and instability of the external environment. However, in commercial organisations profit and loss are the main drivers and the key determinants for navigating risk. Within the voluntary sector, many organisations are highly localised by geography and specialism, meaning that contracting opportunities are limited. Taking decisions to step away from a contract therefore can have significant repercussions, especially if an organisation is committed to working with people in that area and contract income is the best (or only) way to be able to do this. Deciding to move away from one funding area can destabilise core activity and frontline services, and affect staff positions.

Providers we have spoken to through this research have emphasised that the ability to manage the risks in PbR is greatly improved by experience and by planning for certain risks as part of their long term strategy. However, where market conditions disrupt sustainability to the extent that organisations are unable to plan effectively, there is a reduced ability to deliver PbR contracts.

Case study 1: A provider's decision not to bid for a poorly structured PbR contract

A local voluntary sector provider made the decision not to bid for a PbR contract for delivering services to short sentence offenders because of poorly designed and inappropriate payment targets.

From the start of the procurement process, there was a lack of clarity from the commissioners on the objectives of the programme, as well as contract and payment details. Information provided at a briefing with bidders differed considerably from that which was later released in the tender document.

When the financial information was released, there were a number of difficulties: there was no guarantee of volumes, which would have had huge implications on financial stability; the targets were unrealistic and not based on evidence, including a target to reduce reoffending by 20%; the binary payment model meant that if the provider achieved a reduction in reoffending of 19% instead of 20% they would be paid nothing; there was also no proven baseline.

By modelling the contract using the available information, the provider realised that in order to make it financially viable, they would need to change the way they worked with service users. Practitioners would have to make decisions on interventions based on the amount of money that would be generated, as opposed to what would be best for the service user. They were concerned that they would be forced to 'cherry pick' the service users who were the most inexpensive to work with, and reduce the quality of services provided to other service users.

[22] CFG, 2012. 'Managing risk in charities.' Available at: http://www.cfg.org.uk/resources/Publications/~/media/Files/Resources/Briefings/CFDG%20and%20CASS%20risk%20briefing%20final.ashx , p. 7

[23] Charity Commission. 'Charities and Financial Risk.' Available at: https://www.charitycommission.gov.uk/media/94007/cc26text.pdf, p.10

Case study 1 continued

The provider was also aware that the assessment procedures which would be necessary for producing the data required for measuring results would be alienating for service users at an essential part of their recovery pathway.

The provider decided that the impact that the model would have on their service users, as well as the behaviour changes it would require from frontline staff, would directly conflict with the charity's mission. They also knew from modelling the contract that, even if volumes had been guaranteed, the payment mechanism was not viable. Ultimately, they decided not to proceed with a bid.

The challenges faced by voluntary sector providers in assessing risk are increased by poor communication from commissioners as well as a lack of important financial information. As is outlined by the provider in the above case study (1), the inconsistency of information, and the lack of fundamental data–such as a baseline–can make risk assessment highly challenging, and can create considerable difficulties in designing bids. The provider was at an advantage because of the commercial skills base of its senior staff, however, notwithstanding this, the financial modelling they were able to do was severely limited because of the lack of information.

Another provider told us of a similar lack of information in the procurement of a PbR housing contract. There was no baseline information or quality data from which providers could model possible results projections and pricing. This meant that the provider had to model scenarios based on incomplete data. The provider pointed out that the housing sector as a whole suffers from a lack of data and therefore moving to PbR requires a "painful transition" and a great deal of trial and error. We explore the difficulties faced by the provider of this contract further in a case study (2) below.

The challenge from external risk

PbR programmes can often fail to account for the inability of providers to have effective control over many of the factors that determine whether or not a result is achieved. [24] There is also often a reliance on the quality of other services that the service user is accessing. For example, an offender using a PbR drug service will also likely be accessing housing, health and employment services as well: all will contribute to their rehabilitation. If programmes are not designed to reflect this, the provider could retain considerable risks for outcomes that it is unable to sufficiently control.

External risk in a PbR contract refers to all variables which affect the ability of the provider to achieve the stipulated result. This might include legislative changes, the quality of other services, or wide economic and social conditions and pressures. As an example, one provider we spoke to stepped away from their Work Programme contract because the seasonality of the employment market where they operated meant that they struggled to secure jobs for service users over the winter months. This made their contract unviable and the factors leading to this failure were, at least in part, beyond their control.

[24] BWB and NCVO, 2013. 'Payment by Results contracts: a legal analysis of terms and process'. Available at: http://www.ncvo-vol.org.uk/pbr , p.7

Case Study 2: Dependency on the quality of other services

A national voluntary sector housing provider is part way through a three-year PbR contract. In order to achieve the results, the provider is dependent on the quality of routes both into and out of the service; in addition, the end outcomes which are required may occur sometime after the user has left the service.

In this instance the provider has been "hit twice" by poor referrals into their service and by a lack of capacity in the services they are meant to move their service users out into. These factors are beyond the control of the provider and represent systemic problems, however within the PbR model the provider is penalised

The provider has not been able to meet all the targets required for payment, as service users have not been able to move on through the pathway. As a result of this the provider is expecting to realise a loss through the contract, although they are hopeful they may be able to negotiate their losses to some extent with the commissioner.

External variables are critical to the relative success of the service, especially when working in areas which are affected by a number of inter-related issues, which includes most of the areas of public services which voluntary sector providers operate in. Managing these risks requires modelling against a number of scenarios, however this can be difficult to do and exact predictions are complex to achieve.

Providers and commissioners we have spoken to have found a number of strategies for better managing these risks and strengthening the effectiveness of their PbR contracts. A wide mix of income is helpful to allow providers to balance lower and higher performing parts of the contract against each other. Elsewhere, commissioners have sought to exert influence over the quality and processes of related services impacting on the intended results, or provided opportunities for negotiation that allowed ongoing changes to the contract to rebalance the challenges posed by emerging risks.

These strategies demonstrate the importance of commissioner skills and confidence in managing provider relations and an ability to influence and engage other parts of the service system – including other commissioners. These skills have proved highly valuable to successful PbR programmes. The collaborative nature of these propositions for managing risk ultimately demonstrate that a contractual approach to relationships is limited and must always be surrounded by tools and approaches that build partnership behaviours.

Though commissioners we spoke with had expressed various levels of satisfaction with the results achieved by their PbR programmes, they had all found the process to be valuable in sharpening their understanding of the risk factors affecting outcomes and how these could better be managed and mitigated in future commissioning.

PbR within supply chains

The development of supply chains managed by prime providers is an emerging and significant trend in the structuring of outsourced public service markets, particularly offender services, employment and training support, and health services.

When PbR is let through supply chains, it is especially important that commissioners understand how risk is being apportioned throughout the supply chain. Typically, the level of the risk in PbR models is designed at scale; however, when this is then passed down supply chains it becomes disproportionate as each result that needs to be achieved carries with it a greater percentage of financial risk and quickly becomes unworkable for subcontractors. The rationale of the PbR models is that risk should be designed to incentivise and penalise providers, yet when allocation of risk is disproportionate, it distracts, and fails to act in this way.

Experience so far of using PbR mechanisms in supply chains demonstrates that neither commissioners nor voluntary sector providers have had the information or resources to understand how risk and reward should be placed to lever best results and best management of risk. It is often the case too that where providers have understood the risks, they have been denied opportunities to exert any influence over contract terms which were presented as "take it or leave it" by the prime contractors.[25] As a result, as has been evidenced in the Work Programme, subsequent risks have distracted some organisations from their core delivery purpose, lead to disinvestment, caused organisations to break contracts, and caused some voluntary organisations to collapse and close.

Throughout the Transforming Rehabilitation procurement process there has been some indication from the Ministry of Justice of the role of grant funding within supply chains, and recognition of the unsuitability of PbR for smaller providers.[26] Understanding the importance of grant funding mechanisms in these circumstances is essential as it opens up the delivery markets to a wider range of providers and ensures that financial risks are not passed on inappropriately which could destabilise the quality and continuity of provision if the organisations collapse.

The costs of demonstrating results

A concern repeated by many of the voluntary sector providers we spoke with was the potential cost and resourcing burden of the data systems required to demonstrate attribution. In supply chains, the data requirements may be acceptable due to the technological resources of the prime contractor, but may be disproportionate or unmanageable for subcontractors. The same problems can arise with single-provider contracts; data requirements may be more frequent, more onerous, and require greater input from service users than has occurred previously. It would be beneficial for voluntary sector providers to develop improvements in evidence and data practices; however, there is a cost implication for this which, for many providers, might not be possible.

Managing programme failure

It is important to examine the consequences of programme or contract failure, i.e. where results are not being achieved and the provider is not being paid. These failings may be the fault of the provider or the

[25] NCVO and BWB. 2013. 'Payment by results contracts: a legal analysis of terms and process.' Available at: http://www.ncvo-vol.org.uk/pbr, p. 28

[26] Ministry of Justice, 2013. 'Tier 2 and 3 Registration Process: Transforming Rehabilitation Programme' http://www.justice.gov.uk/downloads/rehab-prog/competition/tier-2-3-registration-process.pdf

result of a badly designed payment model which is not financially or practically workable. [27] In both cases it is essential to understand how both providers and commissioners may behave.

Providers have explained that where failure begins to occur they often have to disinvest from services in order to reduce losses and few voluntary sector organisations have additional funds to invest in order to raise performance in a failing contract. Organisations we spoke to who have had to adopt this behaviour explained that this was done with considerable unease: cutting resources and staff in order to reduce losses runs against their values, but they are forced to balance this against their responsibility to protect their organisation's wider sustainability.

Commissioners who have led PbR models which have encountered these problems have told us that they have had to renegotiate payment with providers in order to prevent programme failure. One commissioner described how they have had to reduce the losses which the provider was occurring through the programme by 50% and renegotiate the contract outcomes (see case study (3) below). A provider in a different model told us that during the first year of the contract, they would have earned only 10% of the contract value based on the targets they had met, but the commissioner intervened and the payment model was redesigned.

Although flexibility in PbR schemes is important, renegotiations of this sort raise considerable questions about the viability of PbR. If the provider is paid regardless of the outcomes it achieves, then it could be argued that the intentions of PbR to reward impact become irrelevant. This is arguably why centrally driven programmes such as the Work Programme have not allowed renegotiation. If this non-negotiation approach is the future, it presents a possible new norm for the way in which providers and commissioners relate to one another. By disallowing negotiation, this puts the entire burden for accountability and efficacy onto the contract and away from the parties' relationship and developmental learning.

Case study 3: A commissioner's approach to programme failure.

A local commissioner of a PbR pilot decided not to enforce full penalties when the provider finished the first year of the contract with a £98,000 deficit.

The commissioner explained that they have a good relationship with the provider, and believe many of the problems experienced have been the result of external factors, as well as failings in the design of the contract and payment terms.

Under the terms of the contract, the provider should be liable for the £98,000 shortfall. However, the commissioner recognises that the loss of income of this magnitude would impact significantly on the quality of service and the long-term relationship with the provider. Given that the move to PbR had already seen the number of bids submitted for contracts markedly reduced, the commissioner is wary of forcing this willing provider out of the market.

Rather than impose the punitive measures, the commissioner is seeking to improve results by working with the provider. In effect, the commissioner is cutting out the PbR aspect of the contract in favour of a relational approach and is reducing the penalty by 50%.

Together with the provider the commissioner is reviewing the metrics which the results are assessed against. They are also analysing what factors have contributed to the failings in the model, and whether these have been external to either the provider or commissioner's control.

Of the wider viability of PbR the commissioner stated that they "wouldn't rule it out at all if you have a service that needs to deliver a particular priority outcome". However, he noted that with significant resource cuts within local authorities, it is extremely hard to fund necessary development, testing and alterations of PbR contracts.

Case study 4: Working with the market to design and implement PbR contracts

A commissioner in a local authority trialling a number of PbR programmes developed an approach for testing the models before letting the contracts, and working with the providers to manage performance.

When choosing which services within the authority PbR could be applied to, a number of feasibility tests were carried out including:

- Examining the strength of the evidence base already available for what works and rates of success;
- Identifying possible perverse incentives and whether these can be managed by the commissioner or through the contract. This was tested in house, with professionals, and with providers;
- Testing the appetite and preparation within the market for PbR risks, and reviewing how PbR will affect plurality and market competition.

In setting up the contracts, the provider noted that the contracting process required far more dialogue and negotiation than either side had typically experienced. Monitoring the contract also required a lot of dialogue, and also honesty, to get a full picture of progress, challenges, and necessary alterations. The provider explained that having an agreed and engaged process of contract review has been crucial, as well as ensuring both sides are engaged and trusting from the beginning.

Commissioners and providers both spoke of the costs and wastage incurred when a provider fails on a PbR contract. The commissioner is tied to maintaining the service which cannot be replaced until a new commissioning round has found a replacement provider and this can take several months. This highlights the fact that PbR may not always be an appropriate model, and that performance failure is not cost neutral for the public sector. In many cases, public services are too critical, and the costs of failure too high, for failure and provider replacement to be countenanced. When promoting and developing PbR, policymakers need to understand these immediate pressures as well as the value that commissioners place on their relationships with providers in their market.

Commissioners must be prepared for failure given that its likelihood is increased by the greater risk, disruptive nature, and newly conceived results of many PbR programmes. Commissioners must understand their own organisation's appetite for failure, including the attendant political and reputational risks. Practical planning is also required so that exit strategies from a provider contract have been set out in advance and there are multiple providers available who may be interested and able to step into the PbR contracts.

Recommendations

PbR is not always appropriate

PbR is not always an appropriate mechanism; whether or not it will be an effective method for creating efficiencies, bringing about service transformation and improving outcomes is dependent on both the service it is being applied to and the market of providers. In some cases the costs to both the commissioner and provider of implementing PbR may far exceed the potential savings. Commissioners should ensure that they have a thorough and evidenced case for using PbR, and that their purposes and intentions are clearly explained to the market. [28]

Commissioners must carry out thorough market analysis before PbR contracts are let

It is essential that commissioners analyse the capacity of the market to take on the financial risks involved in PbR programmes, including the governance and financial profiles of providers. Commissioners must recognise that charities' governance requires organisations to be prudent with charity funds, and this limits capacity for financial risk. In addition to this, they must understand that risk 'perception' can influence appetite for PbR contracts. Commissioners need to use this market analysis to review how the introduction of PbR will affect the composition of the market.

Commissioners should publish market position statements

Commissioners should publish a market position statement setting out what they intend their future market to look like and the results they will want it to achieve. Commissioners should include in this the tools they intend to use to structure the market, for example PbR or prime provider models. The statement should also include procedures and commitments to early communication about future procurement and payment structures so that the market can undertake timely preparations.

Commissioners should lead a collaborative approach to contract design

In the initial stages of design for PbR programmes, commissioners should convene providers, service users, and relevant third parties involved in managing the transfer of risk, including social investors. This collaboration should inform the viability of risk transfer, effective contract management approaches, the setting of outcomes and the metrics used to reach these. This approach would also help to counter incentives for gaming.

Having all parties involved in this initial contract design stage would also be a useful starting point for considering how all parties can capture learning and evaluate programme effectiveness. Information developed throughout this process should be published and shared between commissioning authorities.

Appropriate use of upfront payment and grants

Voluntary organisations typically hold limited reserves and access to funding can be problematic. Although social investment is one option for funding involvement in PbR contracts, it is an emerging market and not necessarily feasible for all providers. Commissioners should also recognise that accessing social investment requires considerable time and resources, and social investors will require detailed financial information in order to assess risks.

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[28] We have developed a checklist of questions for commissioners considering developing a PbR model, including questions to determine whether PbR is appropriate to the service.

BWB and NCVO, 2013. 'Payment by results contracts: a legal analysis of terms and process.' Available at: www.ncvo.org.uk/pbr, p. 34-35

Commissioners should consider how upfront payments and grants can be included within models in order to ease cash flow difficulties, and to prevent the exclusion of quality service providers from the voluntary sector. The commissioner should consider how a mixed funding model might better support diversity of provision within supply chains.

Performance and contract management requires flexibility

Effective performance management requires tools for dialogue and negotiation to surround the contract. This is particularly true when transitioning to new contract models and when transferring considerable risks through PbR. Performance management should be on-going, and include open discussions about successes and solutions to problems. A punitive performance tool is blunt and ineffective.

PbR schemes should be designed to reflect the fact that performance of public services can be difficult to predict and services may take one or two years to take shape and become fully effective; PbR schemes need to respond fairly to this performance-lag. In particular, where PbR models are driven by a need for efficiencies in the market, commissioners must recognise that these will take time to be realised, and build this into contract design, as well as explaining the rationale of expected saving levels.

Provider risk management

Voluntary sector providers expecting to bid for PbR contracts should review their capabilities and processes for managing the risks which they will be required to bear, including the transparency, capacity and skills of governance and management. It will also require practice in risk modelling various scenarios, a practice which has proved essential to improving the ability to assess and manage PbR contracts.

Support financial skill development in the voluntary sector

Government funded support is needed for voluntary organisations in building skills in financial planning, risk assessment and modelling of contracts, and this should be planned for in new procurement processes. However, commissioners should also recognise that developing these skills can be a disproportionate burden on smaller voluntary organisations and that mixed funding models that include grant funding may be more appropriate. Where appropriate, commissioners should encourage partnership working and consortia to bring together the capabilities of a range of organisations

Driving performance through innovation

Voluntary sector organisations can help to transform and deliver high quality public services. They can also complement public services and tailor provision for those whose needs are not currently being met. When responding to the need to improve services, a key approach is through the development of new practice, often referred to as 'innovation'.

The innovative capacity of the voluntary sector in public services has long been noted in public policy debate[29]. Voluntary organisations are often born out of an unmet need in society, set up to provide for this need and to advocate for change.[30] This transformational role is one which PbR programmes have been explicit in seeking to harness. In theory, by specifying outcomes rather than outputs, providers have scope over service design and, by weighting payments on success, performance will be improved.

However, the key difficulty in PbR is whether the transfer of risk can be structured in such a way that allows voluntary sector providers to trial and test ideas. This chapter explores whether PbR provides a context which enables providers to invest in the improvements and change that put innovation into practice.

What is innovation?

The term innovation is used to cover a multitude of unclear policy objectives. Behind it there is often optimism that there are unknown and un-evidenced new ways of achieving better results. However, this innovative new method is a rare event: as one provider told us "there are not many true 'light-bulb' moments in public service delivery."

Innovation would be better understood as a process rather than a product. Nesta describes innovation as "the process by which new ideas turn into practical value in the world: new products, services or ways of doing things".[31] The process of innovation is therefore inherently risky. In its most linear form its process takes us from first idea, through to trial, implementation, and possible scale and altered replication.[32] However, it is rarely this predictable. The time and resources invested in innovation do not necessarily lead to value which can then be sustained, replicated, scaled, or incorporated. The value of innovative processes is therefore arguably as much about the learning from trial and error as they are about finding a workable solution.

Funding innovation is therefore clearly a challenge: how can investment and funding be structured when there is no guarantee of results? Providers admit that funding pressures in public service contracts lessen the likelihood of innovation because there is neither the money to put at risk initially nor the money to take ideas to scale. [33] The Business Panel on Future Innovation Policy has noted that "the current finance

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[29] Osborne, 2008. 'The Once and Future Pioneers? The Innovative Capacity of Voluntary Organisations and the Provision of Public Services: a Longitudinal Approach.', p. 3

[30] Murray, 2009. 'Danger and Opportunity.' Available at: http://youngfoundation.org/publications/danger-and-opportunity, p. 26

[31] Nesta, 2011. 'Measuring wider framework conditions for successful innovation.' Available at: http://www.nesta.org.uk/publications/measuring-wider-framework-conditions-successful-innovation, p. 14

[32] These stages are not always sequential—some innovations can jump a stage or two—and there can be feedback loops between them: prompts, inspirations, and diagnoses; proposals and ideas; prototyping and pilots; sustaining; scaling and diffusion; systemic change:

Kahli, 2010. 'Scaling new heights.' Available at: http://www.americanprogress.org/issues/2010/07/pdf/dww_scaling.pdf , p. 5

[33] Murray, 2009. 'Danger and Opportunity.' Available at: http://youngfoundation.org/publications/danger-and-opportunity/, p. 33

system is not fit for the new types of innovation required to address grand societal challenges". [34] The restrictions on commissioning innovation are described by one commissioner:

> *We do need the voluntary sector to innovate. Local government doesn't have the capacity. We are driven by statutory duties. But now so is the voluntary sector through our commissioning. We need to re-create freedom to fail. We've lost it. Risk management and minimisation dominates our commissioning – and this destroys the freedom to fail and the capacity to innovate.* [35]

PbR is in part intended to give providers flexibility; by purely specifying outcomes, not the way a service should be delivered, providers are able to try new ways of delivering. Yet the PbR financial model demands certainty of results which runs counter to the scope for failure and learning which is required for innovation.

What is needed for innovation – and how does PbR impact this?

> *Highly innovative fields are strongly networked, aiding the spread of learning, and sharing and disseminating best practice and new models. For example, looking at the field of technological innovation, the success of Silicon Valley can be largely attributed to the clustering of technology firms, which enabled networks, alliances and collaborations to flourish.* [36]

Market entry for new providers

An important source of innovation in the voluntary sector comes from new providers. [37] This is for two reasons: firstly, voluntary organisations are established in response to an unmet need, or as a means of bringing specific evidenced approaches into new service areas; secondly, organisations typically start out supported by philanthropic funding and grant funding from foundations, which encourages innovation and provides a flexibility within which ideas can be trialled. [38] In order to be able to make the most of this, public service markets need to be open to new providers.

More broadly, entry of new providers of any shape into the market increases competition and in theory drives an impetus for competitors to improve. However, the commercial barriers presented by PbR programmes will be hardest for new providers to overcome. New and young organisations have least income and least experience in taking on contracts and managing risks[39]. The quality of data systems, ability to negotiate with commissioners, and ability to access capital with limited reserves or track-record, are likely to be hardest for fledgling organisations.

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[34] EU/Young Foundation, 2010. 'Study on Social Innovation.' Available at: http://youngfoundation.org/wp-content/uploads/2012/10/Study-on-Social-Innovation-for-the-Bureau-of-European-Policy-Advisors-March-2010.pdf, p. 94

[35] Osborne, 2008. 'The Once and Future Pioneers? The Innovative Capacity of Voluntary Organisations and the Provision of Public Services: a Longitudinal Approach' (Local Authority member of Siliton Local Strategic Partnership), p. 29

[36] EU/Young Foundation, 2010. 'Study on Social Innovation.' Available at: http://youngfoundation.org/wp-content/uploads/2012/10/Study-on-Social-Innovation-for-the-Bureau-of-European-Policy-Advisors-March-2010.pdf, p. 99

[37] Osborne, 2008. 'The Once and Future Pioneers? The Innovative Capacity of Voluntary Organisations and the Provision of Public Services: a Longitudinal Approach' , p 13

[38] NCVO Almanac, 2013. 'Are smaller organisations reliant on different sources of income.' Available at: http://data.ncvo.org.uk/a/almanac13/are-smaller-voluntary-organisations-more-reliant-than-others-upon-particular-sources-of-income-2/

[39] EU/Young Foundation, 2010. 'Study on Social Innovation.' Available at: http://youngfoundation.org/wp-content/uploads/2012/10/Study-on-Social-Innovation-for-the-Bureau-of-European-Policy-Advisors-March-2010.pdf, p. 92

This is already recognised in the government's commitment to "regularly assess barriers to entry and exit which may prevent service providers from delivering the diversity and innovation of services we are looking for". [40] Yet, evidence from current PbR programmes shows that organisations are excluded from markets (or exiting them) because of the financial structuring of cash-flow and capital demands. [41] Government must maintain its commitment to assess existing barriers and ensure PbR is not excluding those providers best able to bring innovation to the market.

Market diversity and collaboration in outcome design

PbR can limit the range of providers who are able to bid for contracts through the financial terms which it demands. The reduction in diversity, and related competition and collaboration within markets, impacts upon the likelihood of innovation. [42] Innovation in public services prospers where there is greater participation by a greater number, creating a 'distributed system'[43] of ideas that are 'open and dynamic'[44]. Greater diversity creates a greater base for evidence to develop and be evaluated, and for learning to transfer, replicate and grow.

Finding innovative solutions around social problems requires a collaborative approach to grasp the full complexity of challenges and to ensure that solutions build on the knowledge held by specialists. Often, knowledge is held in distinct and separate parts of the commissioning and market system. This is knowledge that needs to be brought together to best stimulate and test innovation. Innovation in public services is therefore "less about products and more about making new connections and being collaborative; it is focused on strategic problem solving rather than 'one-size-fits–all' solutions". [45] So although PbR seeks to parcel out distinct responsibilities to providers, it is important to maintain a collaborative approach to all aspects of the design of programmes, as well as their eventual review.

Furthermore, the fact that PbR does transfer risk out to providers makes the need for commissioners to seek to maintain an open, collaborative dialogue at all stages of the process all the more essential. Developing an initial shared understanding of social problems will aid outcome design. PbR payment models can drive gaming behaviours and also lead to a protectionist approach to ideas development; what would previously have been good practice to be promoted becomes commercial advantage to be kept confidential. Collaborative development of outcomes can work to safeguard against this negative gaming or possible failure, and bring external risk factors to the fore.

The importance of being involved in the development of outcomes was highlighted by all the providers we spoke to. Commissioners also noted that innovation is better incentivised when providers have greatest levels of shared understanding–and therefore a sense of ownership–over the problems they are seeking to address through the PbR programme. This creates a firm shared understanding between provider and commissioner about the objectives of the contract, and allows providers to comment on

[40] Cabinet Office, 2013. 'Open Public Services White Paper' Available at: http://files.openpublicservices.cabinetoffice.gov.uk/OpenPublicServices-WhitePaper.pdf, p. *80*

[41] Nesta, 2012. 'Innovation in the Work Programme and beyond.' Available at: http://www.nesta.org.uk/blogs/policy_innovation_blog/innovation_in_the_work_programme_and_beyond

[42] Cabinet Office, 2013. 'Open Public Services White Paper' Available at: http://files.openpublicservices.cabinetoffice.gov.uk/OpenPublicServices-WhitePaper.pdf, p.79

[43] Murray R, Mulgan G, Caulier-Grice J, 2008. 'How to innovate: the tools for social innovation.' Available at: http://youngfoundation.org/publications/how-to-innovate-the-tools-for-social-innovation/, p. 2

[44] Mumford, 2002. 'Leading creative people: Orchestrating expertise and relationships.' Available at: http://www.sciencedirect.com/science/article/pii/S1048984302001583, p. 727

[45] Maddock, 2009. 'Change you can believe in.' Available at: http://www.bis.gov.uk/assets/biscore/innovation/docs/i/09-1640-innovation-hub-change.pdf, p. 6

the extent to which the programme is able to achieve these results. Early and thorough understanding of the programme objectives also serves the purpose of enabling providers to better pre-empt, understand and manage the risks involved in creating new solutions. In addition, sustained dialogue between all parties throughout the design process can increase confidence in the investment of resources.

Furthermore, the involvement of voluntary sector providers enables service users to have greater influence over design. A key driving force for voluntary sector innovation is its relationship with communities; engaging with voluntary organisations capitalises on the transformational capacity of service user-involvement. Service users are able to feed-back directly on the effectiveness of piloted innovations. They not only provide the genesis for new ideas, but also the learning and evaluation which is essential to the innovation process, creating shared learning across all stakeholders in the system.

Quality of frontline workforce

It is important to consider how the financial drivers of PbR programmes are likely to affect frontline workforce. The financial model of PbR intends to influence the behaviour of the financial decision makers in the top tiers of organisations; yet its impact on staff and frontline innovation also needs to be explored.

Innovation amongst frontline staff is best enabled in environments which "reduce stress and ambiguity". [46] However, PbR financing is disruptive; it can cause sudden deficits in income for organisations leading either to staff redundancies, or reduced employment security as a way to manage financial shortfalls or resulting shortfall in activity.

In unstable PbR environments, providers argue they cannot invest or trial un-evidenced models of working because they carry all the cost of transition, testing and any failure, and do so with limited access to cash-flow or capital funding. Instead providers are liable to firmly stay within the bounds of what has been tested and evidenced, or what they have the systems and experience for already. PbR also risks disempowering staff and creating anxiety about achievement of 'results' with service users whose complex needs are not met within the tariffs.

For example, several providers have explained to us that in order to manage PbR provision, the use of zero-hours contracts has increased. The innovation process is known to require high levels of personal investment, underpinned by high levels of motivation. [47] Both these features are weakened when employment becomes precarious through unstable financing. Creative behaviours are driven by strong professional identities and relationships with peers, both of which become destabilised if staff are subject to insecure employment arrangements under unpredictable PbR models. It is unconstructive for a key site of innovation – the frontline – to be the point carrying the greatest risk.

Implementing and replicating innovation

Many of the providers we spoke to noted the importance of robust evidence to support the adoption of new delivery methodologies. Innovation is kept moving where it is a field of live study, where improvements and new approaches can be considered, trialled, evaluated and replicated in an on-going process: procurement practices within a market structure cannot alone provide this context. Only where methods and approaches have been evidenced do they become of interest and use to the market.

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[46] Mumford, 2002. 'Leading creative people: Orchestrating expertise and relationships.' Available at: http://www.sciencedirect.com/science/article/pii/S1048984302001583, p. 719
[47] Mumford, 2002. 'Leading creative people: Orchestrating expertise and relationships.' Available at: http://www.sciencedirect.com/science/article/pii/S1048984302001583, p. 709, 710

Without the evidence of what is working, providers are taking unknown risks by trialling new approaches. Given that PbR already transfers risks to providers, adopting unproven 'innovations' would not only fail to manage this original risk, but would also enhance it. In response, voluntary sector providers are less likely to make changes to their ways of working. Instead, providers will manage the PbR risk by maintaining services as they are, seeking efficiencies, or even disinvesting, as was described in the previous chapter.

Recommendations

The success of innovation in PbR depends on intelligent systems of learning led by commissioners able to assess and balance risk, and provide platforms and cultures of learning across this market. Evidence so far suggests that the quality of commissioning will be just as important to innovation within PbR as the quality of providers.

Commissioners and policy makers must understand the impact that PbR will have on innovation in the voluntary sector. PbR does not automatically provide the necessary systems to support on-going improvement and innovation, from conception and trial, to adoption. The transactional approach it takes is not sufficient to enable new models and new entrants to develop: there is still a very real need for holistic commissioning and for markets to be as collaborative as they are competitive.

Separate funding for research on voluntary sector innovation in public service markets and the impact of the funding structure and risks of PbR

The voluntary sector provider market is fluid and diverse, with highly varied governance structures and contract experience. Across the sector, approaches to growth, risk and funding are highly volatile to external circumstances and therefore subject to continual change. This makes it difficult to create an aggregated and evidenced narrative on the way funding and market structures can best support voluntary sector innovation. Yet it is crucial that we better understand how funding and markets affect the processes of innovation, including understanding the barriers to market entry for innovative new organisations.

Strengthen platforms for exchanging evidence of effective practices

The purpose of the process of innovation is to create new evidence and leaning. We must therefore not assume that all public money should be spent on service delivery. In order to foster cultures of improvement and innovation, investment in evidence building is needed. This could include the use of shared measurement tools[48] to create benchmarked levels of impact; and it could include evidence sharing forums between providers working across client groups or social issues.[49]

Grant funding for innovation[50]

Describing the disproportionate impact that funding has on voluntary sector innovation, one representative of the sector described it:

[48] Shared measurement tools enable comparison of results across providers delivering similar outcomes. Work on shared measurement has been developed by the Inspiring Impact coalition. Available at: http://inspiringimpact.org/our-plan/shared-measurement/

[49] Examples include the Justice Data Lab, developed for the Ministry of Justice by New Philanthropy Capital. Information available at: http://www.thinknpc.org/publications/creating-a-data-lab/

[50] See 'The Open Book of Social Innovation' for more information on effective funding models for innovation. Available at: http://www.nesta.org.uk/sites/default/files/the_open_book_of_social_innovation.pdf, p. 149

> *Everything is funding-led of course. It is impossible to make a strategic decision to take a certain direction, like to be innovative and then look for money. You have to follow the money. It's all targets. And innovation is not one of them.*[51]

The lack of consistent funding practice, combined with the lack of understanding about how funding affects innovation, must be addressed in public service markets. The development of grant-funding streams which are specific to innovation are to be welcomed. [52] These funds have a role in championing the importance of voluntary sector innovation within public service markets, and demystifying the complex process of innovation and the inherent role of risk and failure in this process for commissioners.

Ensure PbR contracts do allow freedom

The transfer of risk to providers in PbR programmes should be accompanied by an increase in freedom and control over how the service will be delivered in order to achieve outcomes. Where it is not possible for the contract to enable such freedom, commissioners, and indeed providers, should consider whether PbR is appropriate.

[51] Osborne, 2008. 'The Once and Future Pioneers? The Innovative Capacity of Voluntary Organisations and the Provision of Public Services: a Longitudinal Approach,' p. 26

[52] As an example, the government made grant awards for the Community Action Against Crime Innovation Fund (£10 million across 2011/12 and 2012/13 for the voluntary sector).

PbR outcomes and personalisation

A key concern for voluntary sector providers when considering a PbR contract is '*how will this affect the way we work with our service users*'? For most organisations, this question comes before the consideration of payment terms, of market position, or of new business or reputation. A core principle of the voluntary sector is personalisation: voluntary organisations have long championed the values of empowerment, service user control, co-production and participation. Personalisation requires services to be shaped around the individual and, by giving people input into service design, this involvement becomes a resource for the quality of future services.

Personalisation sits alongside PbR as a core policy within the Open Public Services agenda. Both PbR and personalisation share similarities in their need to meet high demand and expectations, at a time of decreasing resources. Crucially, both models drive this through open markets and competition, and by purchasing end outcomes. Personalisation structures services around individuals, rather than expecting individuals to 'fit' into services. It is based on integrated working, a commitment to service user choice, and recognition of the capacity of the service users. PbR aims to purchase results for service users by focusing on outcomes; it also has the capacity to give providers the flexibility to deliver services in ways best suited to individuals by not specifying provider activity.

This chapter sets out to explore how PbR has affected personalised approaches to service delivery and the involvement of service user expertise in the design of existing PbR programmes. We examine the extent to which personalisation and PbR conflict or complement each other, and how the centrality of personalisation to the voluntary sector's way of working impacts on its appetite for PbR.

Setting outcomes and measuring results.

Most providers, in any sector delivering any type of activity, will steer their resources towards achieving against the measurables contained within a contract. If, for example, a contract asks a provider to prove that a service user has secured a stable tenancy, that is what the provider will focus their efforts on achieving. It is therefore essential that what is being measured creates a clear pathway to the final outcome, and that the final outcome itself can be measured. Getting the metrics right within a PbR programme is vital to making sure that the right activity and impact is delivered. Yet, in some instances, providers spoke to us of either refusing PbR contracts because they felt the metrics would skew them to seeking to achieve the wrong results with service users, or because they felt the metrics would not be a fair or accurate measure of progress towards the end result.

Voluntary sector providers have pointed out the need to involve service users in the design of outcomes, and the development of metrics to ensure that these will provide an appropriate steer towards that outcome. Service users are able to explain their pathway towards achieving results, and can therefore contribute towards developing outcomes that reflect this. They are also well placed to map the factors which may impact upon the ability to achieve results, for example, the reliance upon the efficacy of related services.

Service users bring in new ideas and experiences to challenge existing ways of working; their involvement levers in additional capacity and strengthens the quality of the resources available to commissioners. Co-producing outcomes with service users can create more sustainable and better incentivised PbR models. Yet, to date many PbR programmes have worked according to existing public services objectives, and used only commissioner-led outcomes. Indeed, some policy makers have seen the role of commissioners in PbR programmes as proxy purchasers for the service user, without sufficiently engaging with them..[53] The extent to which commissioners are able to carry forward the principles and methodology of personalisation without the involvement of service users is highly questionable.

It is essential that service users are brought in to critique the suitability of outcomes. For as long as service design is still largely dominated by commissioners, the 'system needs' (such as cost savings and budgetary frameworks) as well as policy motivations take precedence. This means that discussions about the service user are often framed in terms of resourcing, as opposed to what service users want from their services, and even what they would require in order to reduce their future need.

Some PbR programmes have attempted to develop a system to involve service user evaluation of results.[54] These can ensure that the views and experiences of the service users are taken into account as part of the measure of success of a service. There are significant difficulties in creating these metrics: there are likely to be problems of providers influencing service user ratings, or service users themselves being biased, inconsistent or unintentionally inaccurate in their ratings.

However, some learning around how to address these problems is slowly developing. Both the drug and alcohol PbR pilots and PbR in mental health services pilots have used 'health and wellbeing metrics', for example. In the latter, the programme developers have been particularly mindful of the value which service user evaluation has in holding the system to account and developing future quality. A process for service user evaluation was trialled in 'shadow form', giving it an importance right from the start, while also ensuring that the difficulties described above (such as inconsistency or bias) do not have the effect of penalising providers unduly. [55]

Case 5: Provider-led PbR model, designed with service users

London Cyrenians Housing, a voluntary sector housing provider, co-produced a PbR model for mental health services for people with complex needs who may have forensic histories and have been discharged from acute or secure inpatient facilities. The service users informed and influenced outcome design, outcomes assessment, as well as programme evaluation and improvement.

Cyrenians PbR model was developed in response to the current hours-based procurement model that focuses on delivering a high volume of hours at the most economic price, rather than less hours delivered by more specialist staff. They believed that PbR could be a good tool to raise quality and standards, and the commissioners and councillors in Royal Borough of Kensington and Chelsea supported this as a pilot.

The outcomes for the service are based on the six national mental health and wellbeing outcomes in order to ensure simplicity. However, added to this, the service users self-define two additional outcomes. Although it can take a while for service users to be engaged in the process, and support is required to facilitate choice, it does ensure user 'buy-in.'

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[53] For example, Oliver Letwin, Minister of State for the Cabinet Office, has argued for PbR "where vulnerable users can't exercise choice for themselves". http://www.theguardian.com/commentisfree/2012/mar/29/no-drug-rehabilitation-no-fee
[54] See case study 5

[55] Department for Health, 2013. 'Mental Health in PbR guidance for 2013-14.' Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/232162/Mental_Health_PbR_Guidance_for_2013-14.pdf, p. 12-13

Case 5 continued

For the Cyrenians, the most important part of the pilot is the process for assessing outcomes. Typically PbR creates a huge data burden from which results are assessed, however this pilot wanted to develop an approach which allowed better evaluation and learning. Each service user has a skills plan and needs assessment, and progress against these is tracked. A steering group gathers together and reviews each outcome, deciding if they have been 'achieved', 'partially achieved', or 'not achieved'. The panels include the service user themselves, GPs, forensic community mental health team members, the mental health trust, commissioners and key stakeholders.

This collective review of outcomes brings together professionals and customers in a way that was unprecedented; it enables learning and sharing and drives improvements to the system. All parties are responsible for and engaged in the purpose of outcomes and the resolution of problems.

The Steering Group format has already identified key system improvements. For example, realising that each of the agencies have different risk assessment forms, they have moved towards a system of universal paperwork. Service users also identified that the expectation that all outcomes should be achieved simultaneously was "overbearing", therefore a timeline plan was set up for each person instead, introducing different outcomes at different points.

The pilot is not yet complete but already they have been able to refine job descriptions and target recruitment to better meet certain outcomes, improve access to self-medication programmes with support from the trust, GP and local pharmacy, and adapt referral, assessment and in-reach according to bespoke needs of each individual.

London Cyrenians Housing are happy to share their experience and learning. For more information contact: Tracey Dann on tacey.dann@cyrenians.org or 020 7938 2004

Payment tariffs

A fundamental tension within PbR systems derives from the way in which providers are paid to work with individuals. The pressure to achieve a result puts a financial value on the head of each service user. Those service users most likely to achieve a result have a greater financial value to the provider. Those whose needs are complex are not only more costly, but will be harder to achieve a result with. For example, service users mandated into a service will be likely to bring less personal commitment to the programme and therefore require greater resources from the provider.

Tariffs must fairly reflect the cost to providers for successful interventions. This means the balance of risk and reward when working with each service user will play at least some part in the level of resources expended upon them, as well as the incentive given to invest in new service approaches and more personalised working. PbR tariff systems determine whether providers 'cream' off those service users who are easiest to help, and 'park' those who require more costly, complex, or sustained help. Tariffs must therefore be set which recognise, and guard against gaming across user groups, to ensure that all service users receive equitable access to services and results.

The Work Programme has provided useful learning about the impact of tariff structures on creaming and parking service users. One of the key policy promises of the Work Programme was that it would 'offer targeted, personalised help for those who need it most.'[56] A review of the tender documents submitted by successful prime providers found that the language of personalisation and tailored support featured heavily[57]. Yet, in practice, we have evidence that providers parking service users whose needs were too complex[58]; specialist and user centred support being under-funded within supply chains and a lack of referrals to specialist providers[59].

Providers in the Work Programme found that their ability to deliver personalised, quality services was constrained by the way in which payments were set. Often, the amount of upfront investment available through the attachment fee was not sufficient for the volume of service users, and some providers therefore chose to make use of the lower-cost interventions (for example, group sessions) with little scope for individually tailored, personalised interventions. [60] Specialist support, which is by nature more expensive and less predictable in its success rates than generalist support, was less available to those with complex needs.

Payment models which incentivise providers to work with those individuals that are inexpensive to work with whilst ignoring some of the most vulnerable people, with the most complex needs will result in a flawed programme. There is also a concern that, where service users are aware of the way in which PbR prices certain individuals, this will undermine their confidence in the service and be ultimately damaging to their engagement with certain programmes.

Although many of the commissioners and providers we spoke with all emphasised the need to keep metrics simple, attaching payments to interim results can be important. Not only does this release cash-flow for providers, but it also gives value to progress towards an end result.

End outcomes can take considerable time to achieve, and not all service users will achieve them, but this does not mean the support provided to these service users is invalid. Commissioners should either value this support through payment tariffs attached to interim results, or run services outside and alongside PbR programmes, which fund preventative and 'safety net' provision. Mixed funding models which reflect the differential complexities and progress to be made for different service user groups are essential.

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[56] Iain Duncan Smith, 2010. 'Welfare for the 21st century.' Available at: https://www.gov.uk/government/speeches/welfare-for-the-21st-century

[57] DWP, 2012. 'Work Programme evaluation.' Available at: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/193323/rrep821.pdf p, 101

[58] NCVO's survey of Work Programme subcontractors found that 13 out of 98 have had to 'park' customers because the cost of the intervention exceeds the payment, and of the 78 that have not 'parked' customers, 35 have had to subsidise delivery from their own reserves. The same research showed that 29 out of 98 respondents believed that prime contractors were inappropriately withholding clients ("creaming").

NCVO, 2012. 'The Work Programme-Perceptions and Experiences of the Voluntary Sector.' http://www.ncvo-vol.org.uk/sites/default/files/sig_survey_june_2012_report_17.9.12.pdf, p.13, 8

[59] Homeless Link, St Mungo's and Crisis, 2012. 'The programme's not working: experience of homeless people in the Work Programme.' Available at: http://homeless.org.uk/sites/default/files/attached-downloads/The%20Programme's%20Not%20Working.pdf

[60] Institute for Government, 2013. 'Making public service markets work.' Available at: http://www.instituteforgovernment.org.uk/sites/default/files/publications/Making_public_service_markets_work_final_0.pdf

Case 6: An internal measure to check mission and values

One social enterprise we spoke to has developed an innovative and robust way of ensuring that the contracts they take on do not perversely affect how their organisation works with its service users. It was essential for them to come up with a way of ensuring that the contracts they deliver also fit with their mission. They therefore wanted to measure their performance in these contracts against their own organisational vision, in addition to the performance measurements put in place by the commissioner.

This is done by plotting performance on a dual axis measuring both the contract targets and social value outcomes. They can then use this to determine whether the contract they are delivering on is supporting their mission, and the contract has not become purely about revenue generation.

So, for example, in a contract that pays the provider to get people into work, the social value measure would weight more highly successful results with those people who have been furthest from the job market. Essentially, it is a way of making sure that internally there are no perverse incentives to park the hardest to help in favour of easier cases.

Recommendations

Personalisation should be at the core of all public services. With the proliferation of PbR across public services, at local and national level, it is essential that commissioners consider the impact that PbR models will have on personalisation. Delivering personalised services should be a key measure of the quality of PbR programmes.

Develop systems for service user involvement in outcome design and evaluation

Service users should be involved in the design of appropriate and viable outcomes. This would help to ensure that the model is designed to reflect how service users engage with services and would enhance understanding about the barriers to achieving results.

Commissioners should also consider how PbR models could develop systems for incorporating the service user into outcome evaluation, and wider programme evaluation. This would also add an invaluable perspective on how services could be improved.

Payment tariffs should reward progress and include differential pricing

Developing a set of intermediate outcomes, rather than purely specifying end outcomes, would mean that providers are incentivised to work with those service users who may be further away from achieving the end outcomes. Rewarding providers for achieving these intermediate outcomes also eases cash flow.

Commissioners should consider whether the available evidence is robust enough to create a differential pricing structure, so as to ensure that providers are incentivised to work with those service users who might require more expensive interventions. Where the evidence base for this is not yet substantial enough, commissioners should consider testing service user segmentation on a pilot basis. Across services there is a need to build up service user profiles to enable intelligent and well-evidenced tariffs. It is essential that commissioners are supported to develop the analytical skills which are necessary for this.

Commissioners should monitor social value as part of their contract management processes

As part of their contract management processes, commissioners should be monitoring the profiles of service users who are achieving results. This will help to identify any service user groups who are not being worked with, or who are more difficult to achieve outcomes with. Commissioners should use this information for the basis of developing and refining payment differentials.

Voluntary sector providers should develop an internal mission and values check

Organisations should consider developing an internal measure to check and monitor their own behaviours. Running parallel to their contract monitoring this can help counter gaming and should be accountable to the organisation's governance structure.

Research into the effect of PbR on personalisation

Policy makers should monitor and review the way in which PbR's commercial pressures and incentives affect personalised delivery of services, including the practice of creaming and parking. This is currently an under-researched aspect of PbR.

Summary of recommendations

To commissioners:

Carry out thorough market analysis before PbR contracts are let: It is essential that commissioners analyse the capacity of the market to take on the financial risks involved in PbR programmes, including the governance and financial profiles of providers. This market analysis must be used to review how the introduction of PbR will affect the composition of the market.

Publish market position statements: Commissioners should publish a market position statement setting out what they intend their future market to look like and the results that they will want it to achieve. This should also include commitments to early communication about future procurement structures so that the market can make preparations.

Lead a collaborative approach to contract design: Commissioners should convene providers, service users, and social investors to discuss the viability of risk transfer, effective contract management approaches, the setting of outcomes and design of metrics.

Appropriate use of upfront payment and grants: Commissioners should use upfront payments and grants in procurement models in order to ease cash flow difficulties, and to prevent the exclusion of quality service providers from the voluntary sector. Mixed funding models allow diversity of provision within supply chains.

Adopt a flexible approach to contract and performance management: Performance and contract management should be on-going, and include open discussions about successes and solutions to problems.

Develop payment tariffs which reward progress and include differential pricing: Commissioners should include intermediate outcomes in payment structures in order to incentivise working with service users who may be further away from achieving end outcomes. Commissioners should also develop evidence bases for creating differential pricing structures.

Develop systems for service user involvement in outcome design and evaluation: Involving service users in the design of outcomes will help to ensure that these outcomes are appropriate, and would also enhance understanding of the barriers to achieving them. Commissioners should also consider how service users could be included in outcome evaluation, and wider programme evaluation.

To voluntary sector providers

Developing risk management capacity: Voluntary sector providers expecting to bid for PbR contracts should review their capabilities and processes for managing the risks which they will be required to bear.

Negotiating a fair contract: Providers should ensure that they fully understand the contract and payment terms they are signing up to. Through negotiation, providers should ensure that terms are balanced and allow sufficient break clauses to reduce liabilities.[61]

Develop an internal mission and values check: Providers should develop an internal measure to check and monitor which service users they are achieving results with. Running parallel to their contract

[61] For more information and advice on understanding the risk and liabilities of PbR contracts please see: NCVO and BWB. 2013. 'Payment by result contracts: a legal analysis of terms and process.' Available at: http://www.ncvo-vol.org.uk/pbr

monitoring this can help counter gaming and should be accountable to the organisation's governance structure.

To policy makers:

Coordinate evaluation of PbR programmes: Government should ensure that there is coordinated evaluation of PbR models which have been commissioned locally and centrally. There is a particular need at a local level for support and learning to be shared between commissioner and procurement peers.

Support financial skills development in the voluntary sector: When developing new PbR programmes, government should plan for funding to support voluntary sector organisations to build skills in financial planning, risk assessment and modelling of contracts.

Fund research into the impact of PbR on innovation: Government should fund research in order to develop evidence on how funding and market structures can best support service innovation, and what barriers there are to market entry for innovative new organisations.

Fund research into the impact of PbR on personalisation: Policy makers should monitor and review the way in which PbR's commercial pressures and incentives affect personalised delivery of services, including the practice of creaming and parking.