DWP Commissioning: Payment by Results and social investment

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Challenges for public service delivery

"Public services across Europe face enormous challenges – how to deliver more for a lot less; how to protect what the public really values in their services, rather than just what they're used to getting; ------ the real issues are about shifting control from providers to their customers and from bureaucrats to enterprising professionals."

(KPMG Report: Payment for Success – How to shift power from Whitehall to public service customers – June 2010)

What is Payment by Results?

Shift in the way of public services are delivered

- PbR is part of a wider shift in the way public services are delivered - to introduce more competition, and involve the private and voluntary sector to deliver improved efficiency, performance and greater levels of innovation.

What is Payment by Results?

- ‘Payment by Results’ (PbR) is a way of commissioning services where service providers are paid for outcomes rather than its inputs, outputs or processes
- Importantly, payments are made when results are delivered, with the amount of payment directly linked to the achievement of outcomes.

Context

- In July 2011, UK Government published the Open Public Services White Paper setting out its commitment to expand the use of Payment by Results (PBR) across different areas of public sector commissioning.
- PbR is an important part of the UK Government's strategy on Social Justice.

Advantages of using Payment by Results

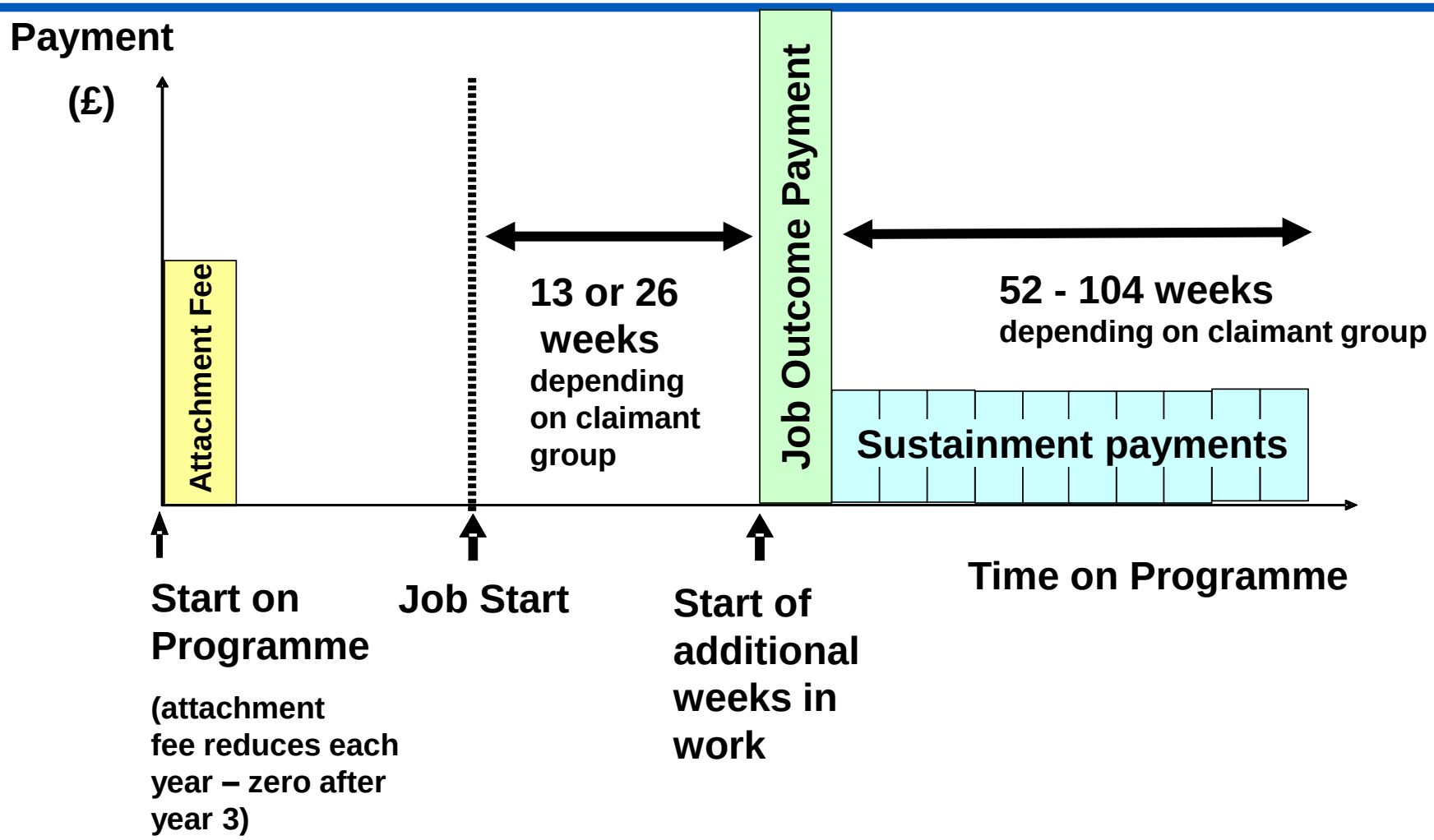
- Focuses on the delivery of **outcomes** rather than prescribing how these might be achieved
- Provides an incentive for **innovation** and permits flexibility in delivery
- Gives **responsibility for delivery** outcomes to those who can most effectively achieve them
- Allows a **range of providers** to compete
- Can drive **public sector reform** in areas where customer choice is not possible
- Making payments only once outcomes are achieved, aids **affordability** and helps in overcoming **short-term budget constraints**
- Allows **risk transfer** away from commissioners and towards service providers, on the assumption that they are better able to manage or share the risk

Payment by Results example: The Work Programme

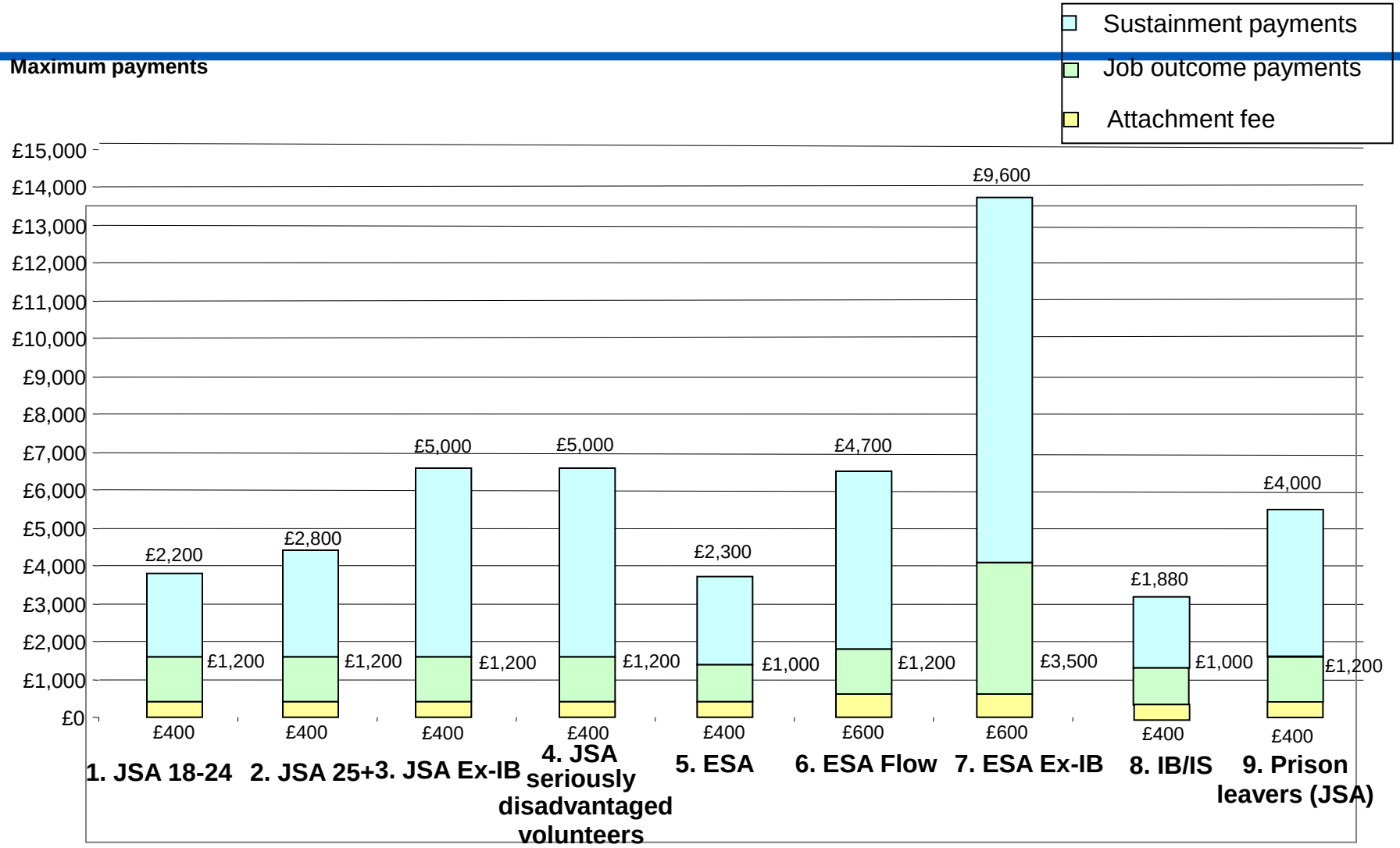
What is it?

- **Largest UK PbR programme** – a landmark **welfare-to-work programme** launched in summer 2011 – aiming to reduce the 5 million workless on benefit
- **Commissioned**: through contracts with range of prime contractors
- **Simplification**: replaces several existing programmes (Flexible New Deal, New Deal for Young People, Employment Zones etc)
- **Wide customer base**: potentially covers all benefit claimant groups – aimed at those at risk of long term unemployment.
- **Scale**: expect around 600,000 customers to join the programme in year one; cost around £700m a year
- **Long term**: Contracts last for 5 years of referrals, and claimants will be supported by their provider for up to 2 years

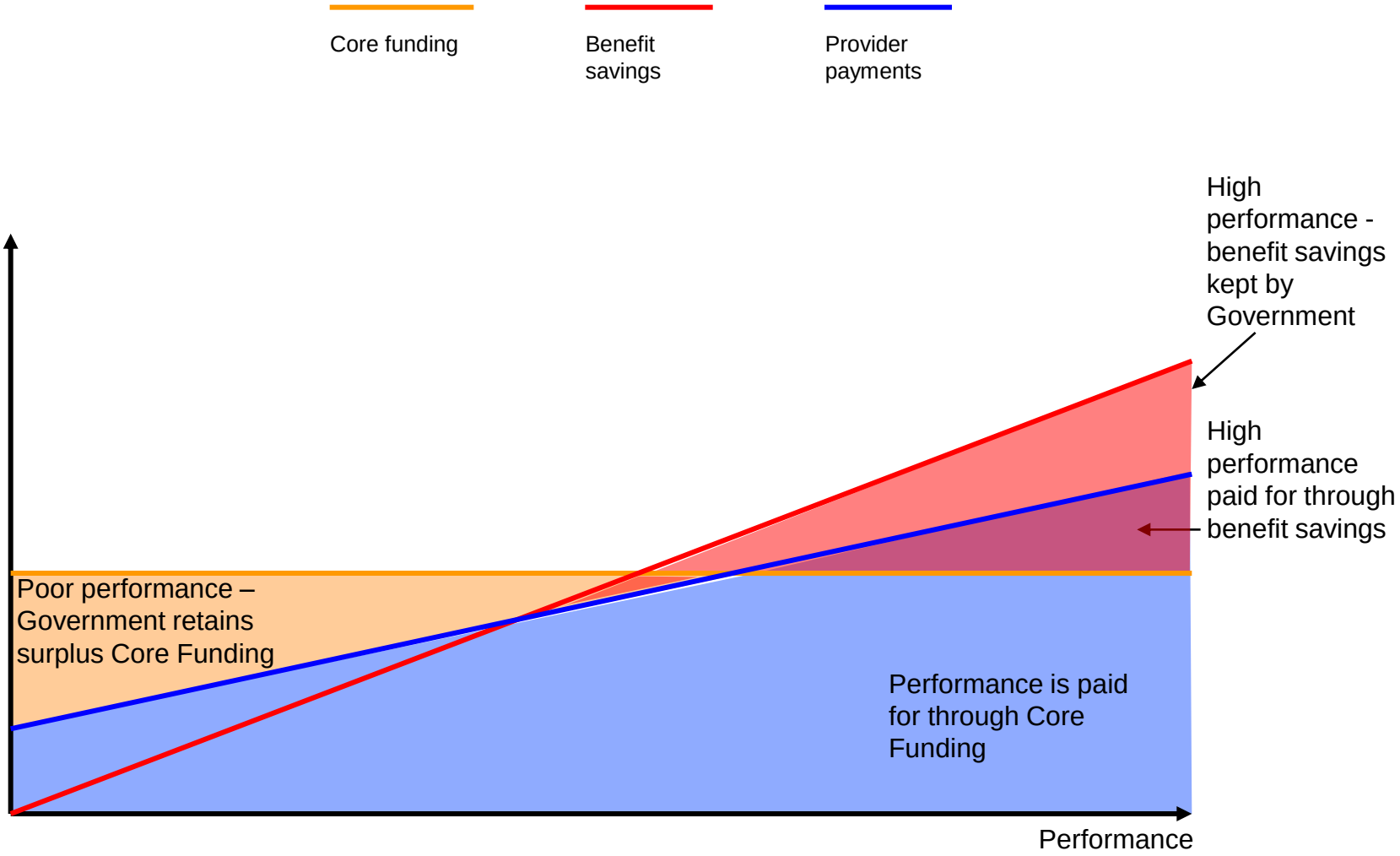
Payments incentivise sustained job outcomes



Differential payments - encourages help for the hardest to help



Managing financial risk – the funding model



Avoid paying for do nothing outcomes

- Some would find jobs without help
- Will only pay for job outcomes after 6 months in work
- Providers have to beat ‘do nothing outcomes’ to keep contracts

Initiatives for Performance

- At least two competing providers in every area
- We will shift market shares from worse to better performers
- …and pay bonuses for best performers
- In addition providers, must deliver the minimum service standards, that they set out as part of their bid.

Social Investment Approach – Social Impact Bonds

- Provide intermediaries which deliver social outcomes
- Non-government upfront funding
- Contracts held with investor intermediary not by delivery organisations
- Risk is transferred from Government and delivery organisations to the investor

Innovation Fund: PbR through Social Impact Bonds

- The UK is a world leader in SIBs. Through the Innovation Fund DWP are delivering six out of the seven SIBs in UK.
- The Fund is worth up to £30 million over three years, and has already backed six new projects and more will be announced shortly.
- Key objectives for the Innovation Fund:
  - Use a PBR model to deliver support to disadvantaged young people which improves their employment outcomes.
  - Test the extent to which we generate benefit savings, wider fiscal and social benefits and deliver Social Return on Investment.
  - Support the development of the social investment market, the capacity building of smaller delivery organisations and generate a credible evidence base to support future arrangements

What are we doing to make the social investment market grow?

- Establishing the Early Intervention Foundation
- Testing innovative funding solutions through the Innovation Fund and the Peterborough Social Impact Bond
- Launching investment and contract readiness programme
- Developing a metric for Social Return on Investment
- £20 million Social Outcomes Fund launched on 23rd November

Challenges in PbR

- **Commissioning**: procurement challenges of scale, scope, risk transfer and the timings of payments
- **Multiple-outcomes**: attribution is an issue when outcomes cut across organisations, co-ordination problems
- **Central and Local Government**: what extent can national PbR schemes to LAs drive behaviour, issues around risk transfer
- **Financial:** issues when savings created by PbR models accrue to different budgets to the commissioner
- **Supplier:** PbR outcomes will depend on the size and health of the supplier market e.g. VCSE sectors
- **Analytical:** setting the counterfactual/attribution, lack of robust data, incentivisation, cashability