Is 'Pay for Success' an efficient way to unlock new capital investment and advance social goods?

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1. Introduction

Over recent years there has been increasing interest in ‘Payment by Results’ (Pay for Success in the US) as a model for commissioning services in the public sector. A PbR contract links payment to the outcomes achieved, rather than the inputs, outputs or processes of a service (Cabinet Office 2011). By making some or all of payment to a service contingent on that service delivering agreed outcomes, PbR transfers risk away from the branch of government commissioning the service and towards the service provider. Government will only pay if outcomes are achieved. The service provider will have to raise some or all of the funds to deliver the service prior to being paid for results and so, from a government perspective, not only is risk transferred to the provider but payments are deferred. Given the need to reduce public sector spending (see above), both the transference of risk and deferring payment for services are attractive propositions for government.

A Social Impact Bond (Pay for Success Bonds in the US) is a class of PbR contract where the finance needed to make the contract work is provided not by the service provider but by private investment, usually social investors.

This paper asks whether PbR, and in particular Social Impact Bonds (SIBs), is an efficient way to unlock new capital investment and advance social goods?

In the remainder of the paper the rise of PbR, particularly in the UK is described and a brief review of the emerging evidence base for its effectiveness is presented. This is followed by a more detailed examination of Social Impact Bonds, their development, their potential advantages and the challenges they pose.

2. The rise of Payment by Results

PbR can be traced back at least to the 1990s (Webster 2016) with early examples in the healthcare sector (Flodgren et al (2011). The UK government committed to “introducing payment by results across public services” (Cabinet Office 2011: 9) and has introduced schemes across diverse areas of policy including welfare to work, substance misuse, criminal justice, family interventions and overseas development. In a through review of the current situation in the UK the National Audit Office (2015) identified over 50 schemes containing an element of PbR and worth a combined total of at least £15 billion. Since that report 21 sizeable contracts have been established in the criminal justice sector for Community Rehabilitation Companies, all of which have a PbR element (Ministry of Justice 2013).

The Audit Commission (2012) suggested that although there may be subsidiary objectives, PbR schemes usually have one of three main aims: improving outcomes or service quality; reducing costs or improving value for money; or, stimulating innovation or transformational change. Deferring payment and/or transferring risk from commissioner to provider are probably also important albeit unstated aims (Battye and Sunderland 2011, Fox and Albertson 2012).

The Work Programme (UK)

By far the biggest implementation of a PbR mechanism in the UK is the Department of Work and Pensions (DWP) Work Programme. This is a welfare-to-work programme being delivered by 17 prime contractors and about 850 subcontractors drawn from the public, private and voluntary sectors (National Audit Office 2015) delivering 40 Work Programme contracts across 18 areas with at least two providers in each area (DWP 2010). These contracts are based on a PbR model with three main payments: an attachment fee paid when a benefit claimant starts on the programme, a job outcome fee paid when claimants enter work, and sustainment payments paid for keeping claimants in work (Work and Pensions Committee 2011). A range of tariffs has been set for different customer groups, reflecting the need to create incentives for prime contractors to address the increased difficulty of placing some groups in employment (ibid.). The overall budget for the Work Programme is £3.3 billion over 9 years and DWP expects 80% of payments to be outcome-based over the life of the programme (National Audit Office 2015).

The evidence base for PbR

Despite the UK government's considerable investment in PbR over the last 5 years, the evidence base for its effectiveness is limited. The National Audit Office, in its review of current programmes concluded that "Most operational PbR schemes have still to finish so there is not yet enough evidence to evaluate the effectiveness of either individual schemes or the PbR mechanism itself" (National Audit Office 2015: 6). Webster (2016) summarises the main reasons for this:

- Some substantial PbR pilots were cancelled or modified before being completed eg the Peterborough Prison Social Impact Bond (discussed below)
- In some cases original evaluation plans which intended to compare PbR pilot areas with other areas became impractical because of the substantial changes in the funding and organisation of public services eg the Department of Communities and Local Government (DCLG) sponsored evaluation of the Supporting People PbR pilot (DCLG, 2014);
- Many PbR contracts are not yet mature enough for a full evaluation eg the Community Rehabilitation Companies; and
- Many schemes, particularly in health care, were implemented nationally, making it difficult to attribute changes in performance over time to the implementation of PbR.

Outcomes. Currently there is no strong evidence for PbR delivering better outcomes. For example, looking in more detail at the Work Programme, after a slow start, by 2014 the National Audit Office (2014) found that performance in getting people into work had improved and was similar to previous comparable welfare-to-work programmes. However, performance for harder-to-help groups was below expectations and about the same as previous programmes (ibid.). More recently, a report published by the Work and Pensions Select Committee (2015) reviewed available evidence, cross-examined key parties and concluded that the Work Programme had streamlined the procurement of welfare-to-work, created a stable welfare-to-work infrastructure, and now produces a similar level of job outcomes for mainstream participants as previous programmes. But the Committee was critical of the fact that nearly 70 percent of participants were completing the Work Programme without finding sustained employment and that the Work Programme was not working well for people with more complex or multiple barriers to employment who need more intensive help. Similar issues seem to arise in other quasi-marketised welfare to work schemes (Carter and Whitworth 2015).

Cost reduction. Evidence for PbR reducing costs is also limited. From a financial perspective the National Audit Office (2014) found that the Work Programme had reduced risks to the Department of paying for low performance. Whereas it expected to pay contractors £1.7 billion between June 2011 and March 2014, because performance was lower than it expected DWP actually paid £1.4 billion. The National Audit Office estimated that by 2014 DWP was paying around £41 million (2 per cent) less for the Work Programme than it would have done for previous, broadly comparable schemes.

Risk transfer. There is some evidence for PbR allowing commissioners to transfer risk. Several of the PbR programmes in the UK have involved private sector and some not-for-profit providers raising substantial working capital to set-up and run services subject to PbR contracts. However, the National Audit Office (2015) emphasise that reputational risks cannot be so easily transferred from commissioners to providers.

Innovation. Looking at innovation, the National Audit Office (2015) was sceptical of the potential for PbR to stimulate innovation:

> "[W]e found expert opinion differs on the extent to which using PbR promotes innovation. Government has typically used PbR to tackle difficult social problems that lack ready solutions – such as reducing reoffending. Some commissioners hope PbR will give providers the freedom to innovate, which might lead to new, long-term solutions to intractable problems. However, some providers told us that, given the risks associated with it, PbR is best suited to issues to which there are known solutions and where the commissioner's overarching aim is to reduce costs; they indicated that PbR is unlikely to encourage innovation because exploring new approaches is costly and increases the provider's risk. This suggests that where commissioners want innovation, providers are likely to expect additional financial incentive." (National Audit Office 2015: 21)

The National Audit Office supported this statement with evidence from the major UK PbR schemes that they reviewed in preparing their report. These issues are illustrated in the Work Programme, the evaluation of which noted that although the 'black box' model of commissioning allowed providers to be innovative in both their contract bids and service delivery: "there appeared to be limited evidence of innovation in service design and delivery at the prime provider or subcontractor level." (Foster et al. 2014: 121) The factors which potentially limited innovation were not fully explored in the research, but were suggested to be linked to perceived limitations in contract flexibility, and possibly, financial elements of the contract. Bond for International Development's (2014) review of payment by results in the context of the UK international development sector draws similar conclusions. Webster (2016) finds some positive examples of innovation under PbR including an approach to substance misuse provision in the US and a pilot with rough sleepers in the UK.

New market entrants. PbR has often been used in the UK explicitly to draw in new market entrants. But the role of voluntary sector organisations in the Work Programme was controversial with allegations by some voluntary sector organisations that they were included as 'bid candy' (Butler 2011) and the evaluation (Foster et al. 2014) showing low levels of referrals to specialist subcontractors, and some subcontractors leaving the supply chain. In the more recent competition for Community Rehabilitation Companies the Ministry of Justice limited the extent to which prime contractors could pass risk on to their supply chains and when the preferred bidders for CRCs were announced in 2014 the Ministry of Justice emphasised that 20 of the 21 CRCs would be run by partnerships that involved charities and other not-for-profit organisations and that around 75 percent of the 300 subcontractors named in successful bids were voluntary sector or mutual organisations (Ministry of Justice 2014).

3. Social Impact Bonds

Social Impact Bonds (SIBs) are a class of PbR contract where the up-front finance for the contract is provided by third-party investors (usually social investors) rather than providers. They have several distinct elements:

- An investor. To date investment has tended to come from social investors (Ronicle et al. 2014), but need not (Mulgan et al. 2010, Social Impact Task Force 2014);
- A programme of actions to improve the prospects of a group (Mulgan et al. 2010); and
- Commitments by a payer (usually national or local Government) to make payments linked to improved social outcomes achieved by the group (Mulgan et al. 2010).

The Cabinet Office's Centre for Social Impact Bonds reports that there are now 32 Social Impact Bonds across the UK, supporting tens of thousands of beneficiaries in areas like youth unemployment, mental health and homelessness[1]. A number of SIBs are active in other countries including the US and the Netherlands (Ronicle et al. 2014, Tan et al. 2015). Ronicle et al. (2014) note that a key difference between UK and overseas experience is that SIBs outside the UK have tended to be funded by institutional rather than social investors, such as Goldman Sachs in the US and ABN AMRO in Holland. They suggest that this in part reflects a relative lack of a social investment market in these countries, but also the way some SIBs have been constructed to attract institutional finance providers.

Different models

Different models of SIB are possible (see for instance Mulgan et al. 2010 and Ronicle et al. 2014). A common model is a SIB that is delivered through a Special Purpose Vehicle (SPV) where the SPV holds the contract with the commissioner (payer) and contracts with one or more organisations who will provide the interventions required to achieve the outcome(s) specified in the contract between the SPV and the commissioner. The SPV is owned by investors or an intermediary or both and was the structure used in the first SIB at HMP Peterborough (Disley et al. 2011).

Infrastructure to support Social Impact Bonds

A substantial infrastructure has developed to support the adoption of SIBs. This section concentrates on developments in the UK

There has been substantial policy input. For example, as Ronicle et al. (2014) describe the UK government has published a strategy for growing the social investment market (HM Government 2011) that highlighted the potential role of SIBs in encouraging social investment. Subsequent updates have continued to stress the role of SIBs (HM Government 2014b cited in Ronicle et al. 2014). With an international focus, the Social Impact Investment Taskforce (2014) examined what is needed to catalyse the growth of a global market for impact investment and recommended governments streamline pay-for-success arrangements, such as SIBs (Ronicle et al. 2014).

Practical support structures have been developed. For example, the UK government's Centre for Social Impact Bonds provides technical guidance on developing SIBs including templates for key stages of the process.

[1] https://data.gov.uk/sib_knowledge_box/home [Accessed 14-03-15]

Funding has been made available in various forms. For example in 2012 the UK government launched Big Society Capital (BSC) with a specific mission to grow the social investment market, including by investing in 'repayable finance' (Big Society Capital undated). Some funding has been targeted on specific policy issues eg in 2011 the Department for Work and Pensions made funding available via an Innovation Fund that funded 10 SIBs. Funding has also been made available for feasibility studies on potential SIBs. For example, in the UK health and social care sector nine projects collectively known as the SIB 'Trailblazers', received seed funding from the Government's Social Enterprise Investment Fund (SEIF) in 2013 to undertake an analysis on whether to implement a SIB and, if so, to set it up (Tan et al. 2015). Tan et al. (2015) reported that, as of December 2014, two projects were operational, five projects were still in negotiation and two did not become SIBs, illustrating the length of time taken to establish SIBs.

HMP Peterborough Social Impact Bond

The SIB begun at HMP Peterborough in 2010 was the first SIB to be established. The Ministry of Justice signed a contract with Social Finance (2010) to attempt to reduce the reoffending of three cohorts of 1,000 adult males who would be discharged from HMP Peterborough having served sentences of less than 12 months in custody. The outcome measure was a binary one of whether offenders were reconvicted or not (Disley *et al.* 2011: iv). Disley *et al*. (2011) report that investors[2] raised £5m to fund the rehabilitation work and that they could earn a return of up to £8m from the government and the Big Lottery Fund if re-offending falls by 10 per cent per cohort, or, if the rate of re-offending for all 3,000 offenders falls by at least 7.5 per cent. If a reduction in re-offending beyond 7.5 per cent was delivered investors would receive an increasing return capped at 13 per cent over an eight year period (Social Finance 2011:3). Conversely, if offending did not fall investors would potentially lose all their money. Changes in national criminal justice policy led to the HMP Peterborough SIB being curtailed after two cohorts.

The independent evaluation of the SIB matched 936 offenders released from Peterborough (the first cohort) with 9,360 released from other prisons. The analysis found an 8.39 percent reduction in reoffending rates within the first cohort, which was insufficient to trigger payment for the first cohort (Jolliffe and Hedderman 2014). Based on this reduction the Ministry of Justice (2014b.: 2) reported: 'This means that the provider is on track to achieve the 7.5% reduction target for the final payment based on an aggregate of both cohorts". However, interim analysis of the second cohort has thrown doubt on this prediction. A Ministry of Justice (2015) statistical bulletin provides early analysis of the progress of the second cohort. Although only convictions within six months of release, rather than the usual 12 months, are reported, the results are disappointing and cast doubt on whether a payment will be made at the end of the second cohort. There was only a small reduction in the frequency of reoffending – an average of 84 reconviction events per 100 offenders compared to a national rate of 86.

4. Potential advantages and challenges for the implementation Social Impact Bonds

In this section a range of advantages of and challenges for the implementation of SIBs are described. As with PbR more generally, the evidence-base in relation to SIBs is limited.

[2] Our reading of Disley *et al.* (2011) is that they are social investors and none are from the private sector.

There are few formal evaluations of SIBs to draw on. Much of the literature is either analysis of the concept (eg Mulgan 2010, Fox and Albertson 2012) or reviews of the literature, sometimes combined with small-scale surveys of stakeholders (eg Ronicle et al. 2014, Jackson 2013). In a recent, structured review of the literature on SIBs Tan et al. (2015: 5) searched a number of databases but found "little empirical data about SIBs has been produced to date". They found "a much larger academic, policy and 'grey' literature focused on the theoretical impacts of SIBs in funding and providing public services" (ibid.).

Advantages

Ronicle et al. (2014) whose focus is primarily on commissioners, investors and service providers, review the literature and identify eight main benefits of SIBs:

1. *More innovative and flexible service delivery stemming from the focus on outcomes rather than outputs resulting in less prescription about what service providers have to deliver*.

2. *Better contract management, creating more efficient delivery linked to the requirement to evidence outcomes in order to trigger payments.*

3. *Alignment of interests between commissioners, service providers and investors resulting from the linking of payments to outcomes and close partnerships which can bring together distinct expertise and address knowledge gaps.* Two key ideas are encapsulated in this argument for SIBs. One is that SIBs offer greater efficiency through the correction of misaligned incentives. For instance, an organisation responsible for delivering a service has not always shared in the benefits of that activity (Mulgan *et al.* 2010). SIBs hold out the prospect of a mechanism to better align incentives. The second relates to collaboration and in this regard the Cabinet Office (undated) goes slightly further than Ronicle et al. and highlights the potential to support collaboration between different sectors and facilitate coordination between organisations working on overlapping problems.

4. *Ability to bring in additional, external investment replacing the need for the commissioner or service provider to provide up-front working capital.* Early proponents of SIBs took this idea a step further. They recognised that social investors might be an individual philanthropist or a charitable trust, but, looking ahead saw the potential for private finance replacing philanthropic or public finance and thus creating a new asset class that could be invested in by banks, pension funds and others (Mulgan et al. 2010). Notwithstanding, writing in 2010 they acknowledged this situation would take 5-10 years to develop. More recently the Social Impact Task Force (2014) have stressed the potential of private sector social impact investment to tackle social problems. They argue that investors are increasingly adding a third dimension of 'impact' to risk and financial return in their decision-making and that there is "a considerable pool of capital looking for opportunities to invest in achieving measurable social impact" (Social Impact Task force 2014: 18). Specific examples highlighted by the Social Impact Task Force include investment banks such as Goldman Sachs and Bank of America Merrill Lynch that have participated in issuing SIBs to tackle prisoner recidivism in New York City and New York State and Morgan Stanley's 'Investing with Impact Platform' offering clients a range of investment vehicles evaluated for financial integrity and return as well as social impact.

5. *Potential savings to current budgets, both cashable and non-cashable when outcomes achieved by the SIB prevent the need for further intervention.* Extending

this idea various commentators have argued that SIBs represent a particular opportunity to increase funding for early intervention and preventative programmes (for example, Mulgan et al. 2010, Allen 2011, Fox and Albertson 2012, Cabinet Office undated). This stems from the potential for SIBs to address misaligned incentives in current service provision and to develop, fund and deliver preventative services that can save costs down the line and achieve a better result from the system as a whole (Mulgan et al. 2010)

6. *Better alignment of financial and social returns because investors are able to achieve social outcomes and receive a return on investment.*

7. *Enabling smaller service providers to participate in PbR contracts when they might otherwise be excluded from 'traditional' PbR contracts because they do not have sufficient working capital to fund an intervention prior to payment or are not able to accept the financial risks of a PbR contract*.

8. *Embedding a more outcome-focused culture because of the focus on evidencing outcomes to trigger payments.* Some commentator have extended this idea and argued that PbR in general and SIBs in particular have the potential to improve the evidence base for social services and accelerate the expansion of evidence-based programmes (Cabinet Office undated, Fox and Albertson 2011).

Other commentators place more emphasis on benefits for beneficiaries (service users). For example, the Cabinet Office (undated) emphasise that SIBs can enable better programmes and better results for the people who participate in them because a focus on outcomes rather than outputs improves "the likelihood of delivering real and sustainable solutions to important social challenges" and making effective interventions available to "far more people in need than the number that can be reached through traditional state contracts and philanthropy" (Cabinet Office undated, unnumbered).

Challenges

A number of challenges have been identified. Some are distinct to SIB, others also have some application to PbR more generally, but may provide particular challenges in the concept of SIB contracts. Key challenges are as follows:

Achieving the right balance of risk has been a challenge, partly because SIBs are in their infancy and there has sometimes been too little or too much transfer of risk to investors (Ronicle et al. 2014). Ronicle et al. (2014) in their small-scale survey found that a quarter of service providers not yet involved in a SIB cited financial risk as a challenge to getting involved.

The complexity of SIBs and consequent time and cost of development is a key theme in the literature and Ronicle et al.'s survey of investors (Ronicle et al. 2014). Complexity comes from different sources including:

- *Multiple actors*. A potential advantage of SIBs is that they bring together new and different actors to tackle social problems. But some commentators argue that the increased number of actors involved in SIB delivery is likely to increase transaction costs (eg Demel 2013).

- *Avoiding perverse incentives*. A problem of all performance management systems is that they encourage service providers to concentrate on achieving those outputs and/or outcomes that are included in the system. In doing so, service providers might ignore or neglect other measures even though they know that these are also important (Hoverstadt 2011). The aim of government in replacing specific targets with more generalised outcome measures is that this problem will be avoided (*ibid.*). However, as Hoverstadt (2011: 1) arguing from a systems thinking perspective explains: ". . . merely shifting the level of abstraction of what is being measured upwards from activities to 'outcomes', doesn't alter the systemic structure and the same unfortunate consequences are likely to ensue."

- *Gaming*. A persistent critique of PbR and SIBs is that they increase the risk of 'gaming' and in particular 'creaming' or 'cherry-picking' whereby providers might select 'easy' cases to work with and 'parking' where they ignore 'hard' cases; thereby maximising their returns without accepting fully the transfer of risk envisaged by the public sector commissioner (Battye and Sunderland 2011). These issues can, in part by ameliorated by segmenting the population receiving the service and giving providers higher payments to work with more challenging cases.

- *Segmentation and tariffs*. Segmentation and tariff systems can counter perverse incentives, but can also add to the complexity of the contracts that underpin the SIB. A balance will need to be struck between segmenting populations enough to be confident that services will be tailored sufficiently to the needs of particular groups (Battye and Sunderland 2011) and defining groups that are large enough for statistically robust conclusions to be drawn about any outcomes achieved (Fox and Albertson 2012, and below). It is likely that the process of assessing client needs and allocating them to different segments will need to be undertaken by a different organisation to the one offering treatment so as to avoid the potential for gaming. This approach was criticised in PbR contracts for Drug and Alcohol Recovery Pilots. In most of pilots, commissioners did not trust providers to categorise new service users and introduced an independent third-party to make assessment when the new service user made contact with the treatment service. As well as introducing extra cost and bureaucracy into the treatment system, the need for third party assessment placed an additional barrier in the way of those seeking help – making it no longer possible for them to access treatment directly (Webster 2016).

The complexity of SIBs increase transaction costs and this, combined with their inherent risks, has the potential to result in a premium being placed on services delivered via SIBs. If, as many of their proponents expect, investors come increasing from the private as well as the philanthropic sector this premium is likely to increase. As Fox and Albertson (2012) note in general, private investors have a higher discounting factor than government, that is, they expect to see their investments yield returns in the short-term, yet the social return on any social investment is likely to be relatively long-term. The implication of complexity is that SIBs must have sufficient scale to justify their additional transaction costs (Ronicle et al. 2014).

Limitations in the evidence about 'what works'. When bidding for SIB contracts service providers can struggle to generate evidence that demonstrates the effectiveness of their interventions to investors and commissioners (Ronicle et al. 2014). There is an increasing body of evidence in the form of systematic reviews of 'what works'[3]. However, interpreting and making use of this evidence is not straightforward. The evidence is often patchy and from a European perspective, heavily skewed towards US studies.

Evidence that outcomes have been achieved. When delivering contracts service providers struggle to evidence outcomes and ensure that they are independently and objectively verified (Ronicle et al. 2014). The challenge of measuring outcomes is a substantial one, particularly in sectors where outcomes are difficult to define and evaluate. Early findings from the HMP Peterborough SIB evaluation suggested that: "The development of a methodologically robust outcome measure, which had the confidence of all stakeholders, was a time-consuming and analytically complex process" (Disley *et al.* 2011: iii). Once outcome measures are agreed, evaluation raises further challenges. Key to SIBs is the ability of a commissioner to be confident the desired outcome has been achieved and that it was achieved because of the actions of the service provider that has been commissioned (Fox and Albertson 2011). Thus, experimental and quasi-experimental evaluation designs with high levels of internal validity (see for instance Shadish, Cook and Campbell 2002) will be preferred to those with lower levels of internal validity. Such evaluation designs can be expensive.

Identifying financial benefits. When developing the business case for a SIB it can be challenging to identify the financial benefits and/or savings that commissioners and others will make (Ronicle et al. 2014). Fox and Albertson (2012) note that the UK government has argued that PbR must be based on a "full understanding of the value of the potential results" (Cabinet Office 2011: 18). By this they mean: "Understandings of value should be driven by citizens and communities, wherever appropriate. This will enable commissioners to focus services on the social, environmental and economic priorities of the people they serve." (Cabinet Office 2011: 18). In economic terms this would imply that the viewpoint to adopt when valuing outcomes in a PbR contract should be a broad one in which the full social value is considered. In a SIB where social investors are usually involved this is likely to be crucial. But this is also one the main paradoxes of the SIB approach (Fox and Albertson 2012). If SIBs are to become widespread they will rely on the commissioning organisation being able to realise a monetary saving from which to pay for the results. This implies taking a relatively narrow view of value, one in which value is limited to the fiscal benefits realised by the commissioning organisation over the lifetime of the PbR contract (*ibid.*). The evaluators of the HMP Peterborough SIB conclude that "The Peterborough SIB is too small to deliver substantial 'cashable' savings (monetised benefits)" (Disley *et al.* 2011: iv).

Agreeing contracts to suit all parties. This can be a challenge, particularly for commissioners who need metrics to reflect the benefits of change and that avoid perverse incentives (Ronicle et al. 2014). Metrics also need to be easy to measure (Ronicle et al. 2014). However, keeping outcomes simple, while attractive to government as a commissioner and to politicians wishing to cut through the complexity of public service commissioning, also has the potential to undermine the co-creation of solutions to complex social problems that involve both service providers and service users (Crowe et al. 2014).

[3] See for instance the work of the Campbell Collaboration www.campbellcollaboration.org

Addressing theoretical and ideological concerns. If the primary aim of SIBs is to drive innovation, then they raise interesting theoretical and ideological questions. The UK Cabinet Office (undated, unnumbered) is clear that “SIBs shift financial risk of new interventions away from the public sector, towards investors, resulting in innovation and diversification of service provision.” In the UK there has always been a mixed economy in the provision of ‘public services’ in terms of the balance between public and private provision, finance and control (Hills 2011). But for many commentators, the rise of PbR and SIBs represents a form of marketization of public services that is extending the neo-liberal paradigm into the public sphere, for example, see Dowling and Harvie’s (2014: 869) critique of social investment as “deepening of capitalist disciplinary logics into the social fabric”. But whether or not one share’s Dowling and Harvie’s misgivings, what is clear is that PbR and SIB has implicatons for the purpose and shape of the future welfare.

6. Effective practice

A clear conclusion from the evidence reviewed above is that PbR and SIBs are not appropriate for all service commissions. The National Audit Office (2015) suggest that a service suited to PbR will have the following characteristics:

- Clear overall objectives, capable of being translated into a defined set of measurable outcomes
- Clearly identifiable cohort/population
- Ability to clearly attribute outcomes to provider interventions
- Data available to set baseline
- An appropriate counterfactual can be constructed
- Services are non-essential and underperformance or failure can be tolerated
- Providers exist who are prepared to take the contract at the price and risk
- Providers are likely to respond to financial incentives
- Sufficient evidence exists about what works to enable providers to estimate costs of delivering services
- Relatively short gap between provider intervention and evidence of outcome

Webster (2015) further develops the theme of ‘understanding the market’ stressing the importance of commissioners:

- Ensuring that they align the level of risk they wish to transfer with the ‘risk appetite’ of current and potential providers.
- Recognizing that large contracts will attract primarily large providers meaning that commissioners will need to proactively prescribe any requirement that small/medium/local providers are to be involved in service delivery

- Recognising that it is extremely risky to procure a PbR service for the first time on a competitive pricing basis and that instead commissioners should consider co-designing new PbR contracts with potential providers and service users.

Ronicle et al.'s (2014) recommendations in relation to SIBs also stress that, because the market is in an early stage of development, market-building activities on the part of government and commissioners remain important. They advocate continued support to local SIBs, particularly support for local commissioners. This support should be focused on linking together different stakeholders and encouraging innovation in relation to the different types of SIB models and structures that could be applied (ibid.). Ronicle et al. caution against 'over-prescription' arguing that:

> "The wants and needs of groups getting involved in SIBs are very diverse, and there is no 'one size fits all' approach to developing and implementing a SIB. Consequently, SIB programmes should avoid being overly prescriptive, and organisations should be wary of promoting only a few SIB models." (Ronicle et al 2014: vii).

7. Conclusions

Payment by results models have a place in the provision of services. The transference of risk is attractive to government. In some parts of the public sector, where the potential client group is fairly large and homogenous and service provision is highly integrated, measurement of outcomes is straightforward and the fiscal return on achievement of outcomes is easy to establish, a payment by results mechanism might be attractive to commissioners. Nevertheless, based primarily on the UK experience, a provisional assessment of whether PbR is an efficient way to unlock new capital investment and advance social goods is that the evidence base is not yet sufficiently developed to answer this question and that what evidence there is to date is inconclusive. Significant PbR programmes have been implemented with service providers required to raise capital to deliver services and take on some of the risk of delivery. New capital investment has potentially been unlocked, and new market entrants introduced, but, to date, there is little evidence to suggest that PbR has led to greater innovation in service delivery or delivered better social outcomes, indeed, the limited evidence available tends to suggest the contrary.

Social Impact Bonds provide opportunities to unlock new capital investment and advance social goods over and above other models of PbR. The potential to bring in additional, external investment replacing the need for the commissioner or service provider to provide up-front working capital opens up new opportunities for innovation both in the interventions that are implemented and the collaborations between organisations delivering them. The introduction of social investors together with the potential for SIBs to address misaligned incentives in current service delivery and fund new preventative services that can save costs down-stream raises the prospect of real advances in tackling complex and entrenched social needs. However, as Ronicle et al. (2014) conclude, to date, their development has been slow and relatively complex and the evidence-base for their effectiveness is limited (Tan et al. 2016).

Going forward there is a clear need for more and better evaluation of both approaches to identify when PbR and SIB are likely to be effective. This includes further evaluations of the implementation of PbR and SIB, building on studies such as Disley et al. (2011) and Foster et a. (2014) and methodologically robust impact evaluations along the lines of Jolliffe and

Hedderman (2014). For the foreseeable future, and while a stronger evidence-bases is assembled emergent PbR and SIB markets will continue to need substantial support from governments and commissioners.

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