Payment by results - Briefing Paper

What is Payment by Results?

'Payment by results' (PbR) is the practice of paying providers for delivering services after agreed results have been achieved. [1] The Steps to Work programme (DEL) is delivered using this method.

This principle of paying for quality of performance, rather than for activity, is one NICVA agrees with. Yet the ability of providers to perform is decided by a range of factors, many of which they do not control.

What are the key issues?

1. PbR programmes can present an unbalanced and untenable risk for providers who have to fund services for a duration without any guarantee of payment.
2. The stability of PbR in the complex area of achieving welfare outcomes is still in question. It is clear that success for all is dependent on effective 'results' frameworks and fair 'tariff' systems that reward those results.
3. For voluntary and community organisations, access to capital funding to run services (paid for in arrears) is another issue.

Models of Payment by Results

Payment by Results includes an enormous variety of funding models. Please see below for details on various models;

Binary models: The provider has to achieve an absolute target. The model is 'binary' in the sense that there is an absolute yes/no distinction to whether they receive payment. Payment is not graded for achieving lesser results.

Frequency scheme: As opposed to the binary model, rewards are staggered along agreed frequency of results, with payments increasing as results increase.

Hybrid grants / PbR model: This is a mixed model, where the cost of delivering a service is funded, but additional payments are rewarded as bonuses if 'additional' impacts are demonstrated at the end of a programme.

What is the purpose of PbR?

Payment by results intends to:

1. Improve service quality, by offering bonuses for performance improvement, or withholding payment for poor performance;

[1] Payment By Results- Discussion Paper NCVO-2011

2. Improve transparency around spend, by putting a tariff on services and user needs;
3. Ease pressure on public spending budgets by staggering payments over longer time periods.

How does this affect the voluntary and community sector?

1. What is a result, and who gets to decide?

PbR has been well developed in areas of public services where outputs are absolute, and costs easy to allocate in tariffs for payment. However, when applying PbR to welfare outcomes, which are infamously hard to quantify and attribute, this is a far costlier and more complex process.

While NICVA agrees that public money should be focused on *what* services achieve rather than simply for the activity itself, two fundamental questions must be addressed if PbR is to work:

• What makes a good result/ outcome?

• Who should develop and agree results frameworks?

There is a lack of clarity on both these questions. PbR programmes have been developed in very different ways.

Fundamentally, a results framework puts a price on what does and does not matter, and what should and shouldn't be funded. This makes it of the utmost importance that ambitions and rewards in the framework meet those recognised by the principles and best practice supported by all stakeholders.

A framework is effective in targeting resources towards particular interventions or outcomes, but what happens to those impacts / user needs not recognised within the results framework and its' funding? A gap is created between rewarded results and unrecognised results.

Furthermore, if we're funding 'results', we are focusing on final interventions, and interventions that produce solutions. Many services don't have easily definable nor final results. Great swathes of services don't have positive outcomes – but are trying to prevent the further worsening of negative conditions, social isolation, or social injustice. These aren't 'results' in themselves, but provide important preventative and welfare support to individuals and communities.

With PbR such services could lose direct investment, or needs assessment, or infrastructure support, or could be reframed around artificial and forced 'results', rather than the needs of the individual receiving the intervention. Users could be forced towards 'results' that are inappropriate, by providers needing to reach payment thresholds.

2. Impact on service users

The most often cited impact is the cherry-picking of individuals with whom it's easiest to obtain the result e.g. returning to work. Those least likely to achieve the result, or whose needs are too costly and complex to address – and therefore those most needing interventions – are ignored by providers seeking to win the financial result. Work is prioritised on a basis of what is most financially valuable to the provider, rather than socially valuable to the individual.

3. Tariffs: fair risk and reward

PbR has a wide range of possible payment structures and timetables, with different levels of risk between funder and provider, and potentially recognising different needs through staggered outcomes frameworks.

One key principle must be followed: payment must reflect the risk and cost to the provider. If providers' costs are not covered, as businesses they cannot operate. It is not for charities to subsidise government.

If we believe that diversity of provision is absolutely necessary to meeting the complexity of our welfare needs, then the development of tariff systems must be managed flexibly and in discussion with providers representing the full variety of business structures in the market.

4. Will access to capital distort the market?

As PbR pushes the running costs of a service in part or whole on to the service provider, it will mean providers will need upfront capital to win contracts.

a. It is widely known that voluntary and community organisations often have limited reserves (in the employment and training sector, an average of three months at the start of 2010).

b. Approximately 97% of voluntary and community organisations have incomes of under £500,000.

c. Only 438 charities having an income of over £10 million (accounting for 44% of the sector's income).

d. Financiers often request track record of profitable activity before loans / capital is invested.

e. Financiers sometimes say it is inappropriate for a charity to be seeking loans and capital. [2] Therefore organisations must approach PbR with caution.

5. Is PbR a barrier or a driver to integration?

[2] Payment By Results- Discussion Paper NCVO-2011

Integration (for the voluntary and community sector) is absolutely crucial to improved effectiveness and personalisation of services. Issues that will either support or discourage integration at provider and funder level include,

a. It can be extremely hard to determine which intervention / service has produced a result and therefore should be rewarded;

b. It is also hard in some cases to determine who should be providing the funds;

c. And therefore which funder should recoup savings made and how decommissioning will be managed.

6. Will PbR replace commissioning?

Commissioning is the responsibility of statutory bodies to lead on. In contracts, PbR can be used to lessen this responsibility, stipulating to providers only what the end result should be, not the process of achieving it. Seen at its most unsympathetic, PbR suggests it can give the commissioner the guaranteed result without the effort.

Commissioners in the future must understand unitised costs and cashable savings, and will have to work out economic matrix on which to let their contracts;

PbR doesn’t escape the critical challenge for public funding of welfare needs to be integrated, and to break out of the artificial silos under which they currently operate;

Commissioners will be the parties to manage market transition to PbR models.