SOCIAL FINANCE

Payment by Results in the Youth Sector
October 2012

YOUTH OUTCOMES: A GUIDE FOR SERVICE PROVIDERS AND COMMISSIONERS

CONTENTS

PAYMENT BY RESULTS CONTRACTS DEMAND A NEW SET OF SKILLS AND NORMS FROM SERVICE PROVIDERS

October 2012

PURPOSE

This guide has been produced by Social Finance on behalf of the Catalyst consortium, a NCVYS coordinated partnership, and is intended to complement the Payment by Results and Social Investment briefing published by NCVYS last year. Catalyst is a consortium of four organisations working with the Department for Education to deliver three key objectives as their strategic partner for young people. This is part of the Department's wider transition programme for the sector and involves strengthening the youth sector market; equipping the sector to work in partnership with Government; and coordinating a skills development strategy for the youth sector's workforce.

1 Introduction

Over the past few years, the UK government has started to extend its use of Payment by Results (PbR) contracts. These contracts – which pay for improved outcomes in arrears – demand a new set of skills and norms from service providers. Providers must learn to manage their services towards the delivery of outcomes, like reduced unemployment, rather than service outputs, like the delivery of an agreed number of literacy courses. They must also identify finance that will enable them to pay for their services in advance.

Recent examples of contracts of this kind include the Department of Work and Pensions' (DWP) Work Programme and the planned Ministry of Justice Innovation Pilots. Without provision for the finance needs of social sector providers, delivery could end up dominated by large private sector providers. Other contracts, like DWP's Innovation Fund and the contracts to reduce rough sleeping and entry to care, that have recently been announced by the Greater London Authority and Essex County Council respectively, acknowledge the fact that social sector providers may struggle to access the finance to participate in PbR contracts. They plan to design procurement processes that enable providers to use social investment to fund services up front.

Despite this emphasis on accessibility for social sector service providers, there have been few examples to date of PbR contracts worth less than £2 million. This is partially due to the relative complexity and cost of establishing and monitoring outcomes-based contracts. However, smaller providers, who may not be able to consider bidding for contracts of this size on their own, may nevertheless be able to participate by partnering with larger organisations to bid for and deliver contracts.

In this document we build on our experience to demonstrate how PbR contracts might be used to improve youth outcomes. We also outline key considerations for both large and small youth sector service providers that are considering whether and how to engage with Payment by Results.

After a brief introduction to PbR contracts, we explore key considerations for service providers and commissioners. We then use three case studies to illustrate how PbR contracts in the youth sector might differ from traditional contracts. The case studies cover children in care, youth unemployment and youth offending.

2 Payment by Results

Payment by Results refers to any contract that pays providers in arrears to deliver improved outcomes. PbR contracts are structured around the delivery of client outcomes – for example, reductions in reoffending, improved educational achievement, increased employment, etc. – rather than service outputs – for example the number of courses delivered, number of clients worked with, etc. If the contracted outcomes are not achieved, payments from government to service providers are reduced or forfeited.

The focus of this document is the growing trend towards contracts that focus on the delivery of outcomes. For clarity we will call these outcomes-based contracts. These contracts give providers the flexibility to refine and develop their intervention approach to best meet client needs. However, by only paying for improved outcomes, commissioners transfer the risk that services are not successful to other stakeholders – service providers and / or investors – outside government.

WHAT ARE THE BENEFITS OF OUTCOMES-BASED CONTRACTS?

Commissioners, service providers and social investors could stand to benefit from well structured outcomes-based contracts.

The shift in commissioning from upfront payment for services, to output- and outcomes-based contracts reflects a broader trend in which government is less willing or unable to take on intervention risk – the risk that the services funded do not deliver the desired outputs or outcomes. This trend may, in part, be explained by the complexity of the social issues that commissioners are seeking to address. Youth unemployment or substance abuse, for example, have a number of deeply-rooted causes and the interventions that could make a difference to such issues may be poorly understood by commissioners.

In a budget-constrained environment commissioners may also wish to shift government spending into later years – PbR contracts use private finance to pay for services up front; government pays, in later years, only if the outcomes are achieved. This may be particularly attractive to government if the financial benefits will only be realised in the medium to long term – for instance as a result of improved educational or health outcomes.

Outcomes-based contracts can also have a number of advantages for effective service providers. Outcomes-based contracts are commissioned on the basis of a price per outcome not on the cost of service delivery. This payment approach highlights the value of the service rather than the cost and provides incentives for service providers to improve both the effectiveness and cost-effectiveness of their interventions. It should also mean that a provider's ability to win contracts is aligned with their ability to deliver social value. This could support the social sector to compete with private sector providers to deliver better social outcomes and better value services.

Service providers, with existing relationships to service users and their communities, may be well placed to assess what will work and hence may benefit from contracts with government in which the service offering is less tightly specified. Contracts that give service providers the freedom to decide how best to deliver outcomes within agreed good practice parameters could significantly improve the impact of current public sector spending. Outcomes-based contracts may also be awarded for longer periods than traditional contracts so that services can be developed over time. This may give successful bidders a more secure financial future.

By providing working capital finance – funding to pay for service delivery upfront – socially-motivated investors can align the delivery of social impact with a financial return. Social investors interested in such opportunities include high net worth individuals, and charitable trusts and foundations with social objectives.

As these contracts are still fairly new, commissioners are likely to get the most out of such contracts if their development and procurement processes are open and actively involve service providers and potential investors. Service providers may wish to seek professional support when assessing and preparing for outcomes-based contracts at first. Socially-motivated intermediaries with the expertise to advise service providers and structure investment are starting to appear in the UK market. We believe there is considerable benefit to all parties sharing their learning.

WHEN MIGHT OUTCOMES-BASED CONTRACTS BE INAPPROPRIATE?

Despite the potential attractions for commissioners, service providers and investors, outcomes-based contracts may not always be an appropriate means of addressing a particular social need.

If services are heavily regulated, for instance policing or child welfare, there may not be enough room for innovation to warrant an outcomes-based contract. Similarly, if the connection between an intervention and an outcome is well-evidenced and easy to deliver, there may not be enough risk transfer within the contract to warrant establishing an outcomes-based contract.

If the scale of a contract is small –under £2 million – it may be hard for government to justify the cost and complexity of structuring and procuring an outcomes-based contract. Finally, if the benefits to government are significant, but accrue to a large number of public sector bodies it may be difficult to secure agreement as to who should pay for improved outcomes without a central commissioning capability within government. A summary of key considerations for commissioners when considering outcomes-based contracts can be found in Appendix 1.

A final consideration is the nature of the outcomes desired by commissioners. At the time of writing, very few outcomes-based contracts have targeted soft outcomes –such as those set-out in the recent Young Foundation report including improved resilience, communication and management of feelings.[1] Instead, outcomes-based contracts have tended to focus on hard outcomes – such as youth employment, days in care and offending behaviour. This is likely to be partially because commissioners regard such metrics as more susceptible to objective collection, measurement and audit. However, it is also likely to reflect the strength of the link between the contract outcomes and public sector benefit. This may change as organisations, like New Philanthropy Capital, develop more robust measures for capturing and tracking softer outcomes.[2] However, further research may

1 Young Foundation (2011). An Outcomes Framework for Young People's Services. Catalyst. http://www.youngfoundation.org/publications/reports/an-outcomes-framework-young-peoples-services.

2 Heady, Lucy and Ana Oliveira. "On the bright side: Developing a questionnaire for charities to measure children's well-being." January 2008. http://www.philanthropycapital.org/publications/improving_the_sector/well-being/.

be needed to demonstrate the link between such outcomes and public sector finances before they are widely adopted by Government as the basis for outcomes-based contracts.

3 Service Provider Considerations

As the public sector moves towards outcomes-based models of commissioning, youth service providers may find themselves presented with a variety of opportunities to participate. The case studies in the next section demonstrate how different these contracts may appear and the importance of understanding the details of the contract when evaluating whether a specific opportunity is right for you.

This section highlights some key considerations for service providers considering outcomes-based contracts and provides some pointers for preparing for this new approach. A check list to support organisations and their boards to evaluate specific Payment by Results opportunities is included in Appendix 2.

ORGANISATIONAL COMPATIBILITY

When considering an outcomes-based contract opportunity, service providers should consider the compatibility of the contract's aims and approach with those of their organisation.

Commissioners may seek evidence of providers' previous experience of achieving outcomes for the target population. Providers that have historically focused on a different sub-section of the youth population should consider whether it is appropriate and achievable to bid for a contract with a differing target population. They should also consider what opportunities or activities they may need to give up in order to successfully deliver the contract.

Providers with previous experience, with either the target population and / or delivering the targeted outcomes, are likely to stand the best chance of securing contracts. Providers with some but not all of the required expertise may wish to consider becoming part of a partnership.

Service providers should also use their discretion to ensure that they are happy with the nature and size of the incentives provided by the payment structure. Providers may have an opportunity to help shape these through soft market tests or informal conversations with commissioners prior to the announcement of a procurement process. If service providers do not feel that the outcome metrics and payment mechanism are in the best interests of the service users and their organisation they may not want to participate.

For example, if payments are made on a yearly basis based on whether or not a young person has committed offences within the previous year, there may be an incentive for providers to discontinue work with a young person who commits an offence in the first quarter of the year. In order to encourage sustained work, with even the most difficult members of the target group, the average number of convictions compared to a control group may be a better metric.

DELIVERY CAPACITY

Having determined that an outcomes-based contracting opportunity is a good fit for their organisation, service providers should assess whether their organisation or partnership has the capacity and expertise to deliver outcomes for the required number of individuals across the target location.

The degree of complexity involved in tracking, monitoring and reporting outcome metrics may be a key consideration in making this assessment. Contracts with multiple outcomes or overlapping payment periods may be more difficult to manage administratively and require specialist data collection and monitoring resources.

Providers that feel they do not have the requisite capacity or expertise may wish to consider entering into partnerships or consortia with other service providers in order to bid. Depending on the structure of the procurement process, providers may be required to establish consortia prior to participating in the first stage of the process or all potential consortia members may need to be vetted before a consortia can be proposed. The tender specification documents should clarify the form of organisations permitted to apply at each stage. There may also be a separate protocol if your organisation wishes to act as a sub-contractor to a larger organisation. A sub-contracting arrangement may be particularly suitable for organisations wishing to bid for contracts that specify several outcome metrics. Whatever the form of a partnership, roles, responsibilities and payment terms should be discussed and formally agreed between partners before bidding for an outcomes-based contract.

Providers should be aware that, if raising investment to sit behind an outcomes-based contract, investors may wish to have some control over the way services are monitored and delivered. This is because they will be putting their money at risk by funding the services. Providers should consider whether they would be comfortable with external scrutiny and performance management before approaching potential investors.

FINANCIAL VIABILITY

In assessing the financial viability of a contract, service providers would be wise to consider the financial viability of their least optimistic case for the delivery of outcomes – i.e. to consider the minimum level of payments they believe they will generate from the contract against their most expensive scenario in terms of intervention costs. For instance, if the most successful programmes have previously supported 40% of disadvantaged young people to enter employment at a delivery cost of £3,000 per head, providers may wish to assess whether they would still get their money back if their intervention managed to support 30% of disadvantaged young people into employment. This will help both providers and potential investors to understand the risk that they would be taking by accepting the contract enabling them to reach an informed decision about whether the contract represents a good opportunity for their organisation.

If providers wish to use their own resources to fully or partly pay upfront for the delivery of interventions, they should consider the scale of the resource requirement relative to their other income and reserves. Service providers should be comfortable that they are not putting the future of their organisation at risk if the anticipated level of outcomes (and hence payments for outcomes) are not achieved.

PREPARING FOR PAYMENT BY RESULTS

Before identifying specific opportunities, there are a number of ways in which service providers can prepare to bid for and deliver PbR contracts.

Key steps might include:

- **Building a track record of outcome delivery**

  Previous success builds a track record and increases the probability that outcomes can be attained. This lowers the risk that providers and / or investors will lose money by delivering the contract.

  Commissioners seeking to award outcomes-based contracts are likely to look for evidence that potential providers have a track record of successfully delivering the target outcomes for a similar target group. Investors will also want to see evidence of a track record before deciding whether to support a particular bid.

  The evidence base can be built by improving tracking of intervention approaches, costs and outcomes. This may be as simple as, for example, a spreadsheet containing the number of hours spent with a young offender and the dates the offender spent in custody. Depending on your organisation's focus you may find it helpful to track some of the outcomes discussed in the case studies later in this document.

- **Establishing potential delivery partnerships**

  Commissioners understand that a range of skills may be needed to deliver a particular outcome. To reduce reoffending, for instance, it may be necessary to support young people to move away from substance abuse, re-engage with education, reconnect with their families and move towards employment.

  As different members of the target group may have dramatically different support needs to achieve target outcomes, it would be unusual for a single service provider to be able to meet all of these needs. Before specific opportunities for outcomes-based contracts arise, service providers may want to form in principle partnerships with other organisations that have complementary skill sets.

  A willingness to work with other providers is likely to be well regarded by potential commissioners. Given the tight timescales that are often set for contract procurement, there may be benefits to

INVESTMENT IN AN OUTCOMES-BASED CONTRACT COULD REPRESENT AN EXCITING OPPORTUNITY FOR EXISTING DONORS TO SUPPORT YOUR ORGANISATION commencing conversations with potential partners before specific opportunities arise.

- **Engaging with social investors**

  Finally, if you know that your organisation would not have the financial resources to fund services up front within an outcomes-based contract, you may want to consider building initial relationships with potential investors before a specific opportunity arises.

  Potential investors could include charitable trusts and foundations, specialist social investment intermediaries, high net worth individuals or even public sector bodies. Investment in an outcomes-based contract could represent an exciting opportunity for existing donors to support your organisation in a new way by generating both a social and a financial return with their money.

  Again, given tight procurement timescales there may be benefits to commencing ‘in principle’ conversations with potential investors before specific opportunities arise. A list of social enterprise intermediaries can be found in Appendix 3.

4 Youth PBR Case Studies

Payment by Results commissioning is increasingly being explored by government departments. In its 2011 briefing Payment by Results and Social Investment, the National Council for Voluntary Youth Services (NCVYS) draws attention to initial PbR contracts in areas including early intervention, children's services and drug rehabilitation. This form of commissioning can complement a variety of services managed by both national and local government.

In this section, we explore three examples of outcomes-based commissioning in the youth sector with a focus on children in care, youth unemployment and youth offending. Our analysis explains key principles, explores potential variations and highlights examples of existing PbR contracts. As we introduce a number of important concepts, the first case study around adolescents at the edge of care is the most detailed. We hope that this will provide both service providers and commissioners with a good grounding in the issues when considering outcomes-based contracts.

1

ADOLESCENTS AT THE EDGE OF CARE

This section focuses on how outcomes-based contracts might be applied to improve outcomes for adolescents at the edge of care. It analyses key considerations for service providers and commissioners around each main contract component:

- the target population
- outcome metrics
- payment mechanism
- interventions
- potential investors.

While there are few current examples of outcomes-based contracts in this area, this is likely to change in the near future. In February 2012, Essex County Council announced an intention to commission a Social Impact Bond to improve outcomes for adolescents at the edge of care. Some work that the Cabinet Office has commissioned in local authorities has also investigated the potential to use outcomes-based contracts to support vulnerable children. If implementation of these models is successful, there is scope for more PbR contracts to follow in this area of social need.

Looked after children[3] typically suffer poorer outcomes than children in the general population.

- In education, 50% of looked after children achieve fewer than 5 GCSEs, compared to 10% of the population overall.[4]
- Over 25% of prisoners have been taken into care as a child compared to 2% of the population.[5]

Adolescents in particular often have complex needs. Many have emotional and behavioural problems as well as issues rooted in their family circumstances such as substance misuse or offending.

Local authorities, who have responsibility for Children's Services, work to prevent young people entering care in the knowledge that their longer term prospects are typically more hopeful if they can remain with their families. When young people become looked after by the state, the costs incurred are significant ranging from £40,000 to over £200,000 per year depending on the intensity of need.

There is a range of interventions that exist to support both children and adolescents at the edge of care to prevent them from becoming looked after. However the degree of success of these interventions is variable. Even where highly specified models of intervention exist, success is not guaranteed.

The combination of poor outcomes and high costs of care is a key driver for commissioners to seek preventative services. However, where success is not certain, commissioners may see a benefit to sharing the implementation risks of prevention with service providers or external investors. An outcomes-based contract can allow such transfer of risks, with the public sector commissioner paying for successful outcomes.

DEFINING THE TARGET POPULATION

It is important that outcomes-based contracts are structured around a clearly defined target population. This is the group of people who stand to benefit from improved outcomes as a result of services delivered via the contract. Successful or improved outcomes trigger payment.

3 "Looked after children" are children in state care.

4 Department for Education: *GCSE and Equivalent Results in England*, 2009/10.

5 House of Commons, Prison Population Statistics, May 2012.

While it may be desirable to reduce the overall numbers of children in care, it is likely that there will be a variety of different sub-groups within that overall group each with different needs and requiring varying levels and types of support. To identify models of interventions that might successfully address a particular profile of needs for a specific sub-group, it is helpful to focus on certain factors such as geographic region, age groups and type of needs. The broader the target group and the more diverse their needs, the harder it will be to attribute success to the interventions funded through the outcomes-based contract.

A key consideration for commissioners is to ensure that the volume of referrals to any intervention is sufficient to justify the set-up and running costs. There will be a minimum scale above which the intervention becomes economically viable. Commissioners may also want to consider whether the needs of the children in the target group are sufficiently similar to allow for outcomes to be delivered within a single contract.

It is important that the target population can be identified objectively with well-defined selection criteria.

Understanding the social need

Commissioners are likely to want evidence of substantial need before entering into any contract for preventative services. Commissioners will want to be confident that there is capacity for improvement in the area of focus that will prevent or reduce the need for acute services. A key step is to conduct a needs assessment of the proposed target population by analysing historical and comparative data.

As set out above, age and underlying needs are important criteria to be defined for the target group of young people at risk of care.

The first step could be to establish a snapshot of the proposed group of looked after children:

- 10–15-year-olds constitute a large proportion of the looked after children population. Many young people entering care as adolescents take up residential placements. These are costly and result in relatively poorer outcomes than family-based placements. Many of those in residential care suffer from emotional and behavioural problems as well as family breakdown.

This group is defined by age as well as the fact that underlying needs present through the young people's behaviour. This contrasts with a younger age group where child protection and safeguarding from abuse and neglect are the over-riding concerns.

A second step is to analyse historic trends for the proposed target group, to understand if the current profile of need is consistent over time and therefore if this is a stable population:

- Has the 10–15-year-old age group consistently constituted a large proportion of the looked after population?
- Is there a consistent picture over the last 3–5 years of underlying need causing this group to enter care?
- Is there a consistent number of young people entering care each year that fits the profile of this group?

A third step is to compare the local picture both historically and currently with national averages and other comparable areas such as statistical or geographic neighbouring authorities:

- How does the overall looked after rate per 10,000 children under the age of 18 compare?
- How does the relative size of the age group compare?
- How does the severity and nature of need compare?

In order to assess the level of need for the local authority, it may be helpful to assess whether local numbers look high compared to the regional or national average, and whether trends over time show a profile better or worse than the national picture.

The result of these three areas of analysis should present a detailed picture of the target population and its needs both currently and over time. This enables commissioners to decide whether targeted intervention is necessary and if so, the nature of required intervention.

Statutory duties

In the case of many vulnerable groups, public sector service providers and commissioners are obliged by law to protect their interests. This is often known as a statutory duty of care. There may be other legal requirements – such as equality policies – which fall on commissioners and need to be considered if new methods of contracting are to be pursued. All such legal issues need to be addressed in the design of any outcomes-based contract just as they are in more traditional commissioning approaches.

In the case of adolescents at the edge of care, an outcomes-based contract needs to ensure against any perverse incentives that could arise through the definition of the target group or the desired outcomes. The duty of care obliges the local authority to ensure that appropriate services are offered to young people in need. Therefore if a young person would be best served by entering care, that is the service that must be offered to them, regardless of the desired outcome under the contract.

IDENTIFYING OUTCOME METRICS

PbR contracts deliver payments based on success as measured against pre-agreed outcome metrics. A service provider's ability to deliver and measure the specified outcomes will be crucial to ensuring that it achieves success when working with the target population.

There are various ways that outcomes can be measured. We illustrate these below through the example of preventing care for adolescents at the edge of care.

- **Binary outcome metrics**
  The desired outcome is defined as an individual who does not enter care. This is a clear measurement. Even if the young person spends a single day in care, this will be recorded as a failed outcome and therefore no payment will be liable. While many see binary metrics as the simple, clear-cut option, there is a risk that this approach can lead to perverse incentives.

  It may be, for example, that a short spell in care is the best solution for the young person and his or her family to provide respite from a highly charged situation. Once all parties have had time to cool off the family might be reunited with a programme of intensive support which addresses some of the underlying issues and results in sustained positive outcomes. Using a binary metric, however, this example would be recorded as a failed outcome and no payment would be due. In this case, the design of the outcome metrics does not promote behaviour in the best interests of the client.

  Binary metrics can encourage service providers to prioritise work with the less complex cases where the young people have the lowest chance of spending time in care.

- **Frequency outcome metrics**
  The desired outcome could be a reduction in number of days spent in care by the target group. This approach encourages service providers to work with the entire target population. Any reduction in time spent in care as compared to what would have happened without the intervention, is recorded as a positive outcome and payment based on the care placement days saved becomes due.

Both of these approaches reward positive outcomes with payments that reflect the cashable savings generated. There are other outcome metrics that might be desirable but cannot be directly linked to cashable savings. These might include placement stability for those in care, educational engagement or improved emotional wellbeing. Such outcomes might offer a valuable secondary metric to be recorded alongside the reduction in care days in order to provide a fuller picture of wellbeing of the young people in the target group.

Data collection can be a time-consuming and costly aspect of an outcomes-based contract, so the ease with which an outcome can be measured should be a key consideration for commissioners when identifying contract metrics. Ideally, outcome metrics should be objective, capable of verification by an independent auditor and based on data already collected by the public sector. This should keep data collection costs to a minimum. There may be some metrics, such as those reflecting wellbeing, that are based on self-reporting or interview responses. These are less objective and auditable, therefore service providers and investors may be less comfortable relying on these as the primary metrics on which payment will depend.

Outcome metrics that are easy to capture, objective, independently verifiable and linked to public sector cost savings are likely to offer the strongest basis for an outcomes-based contract.

The value of simplicity

While acknowledging the broader impact that interventions are likely to have on the lives of the target population, the additional cost and complexity of managing multiple outcome metrics means that, initially, the best solution may be to identify a narrow range of outcome metrics that incentivise service provider behaviour.

As more outcomes-based contracts are developed and implemented in this area, the body of evidence and data will grow. By drawing on this evidence and data it should become more feasible to extend the range of outcome metrics enshrined in contracts and to avoid excessive complexity and cost.

Recognising broader impact

While outcomes-based contracts might focus primarily on metrics that are linked to cashable savings generated in the course of the contract, there may be other wider benefits generated by the interventions, which lead to longer term savings and positive social outcomes. Examples include reducing the probability of young people becoming NEET (not in education, employment or training), fewer teenage pregnancies and reduced criminal behaviour in adulthood. The contract may seek to monitor such longer term outcomes with a view to building a fuller picture of the long term consequences and outcomes generated by preventative services. As suggested above, this might enable such outcomes to be captured and linked to savings in future contracts.

DEFINING SUCCESS

Both the binary and frequency approach described above require some benchmark against which to compare outcomes. A benchmark refers to the level of outcomes achieved in the absence of the proposed services. Once a benchmark is established then outcomes achieved by the target group can be compared and the difference measured. This enables the public sector benefit to be calculated.

There are a number of ways in which commissioners can use benchmarks when commissioning services. These include:

- Requirement to deliver above benchmark. The contract might specify that payments will only be made for improvements above the level that would otherwise have been expected (e.g. if the target population's number of days in care is less than the historical average in that location).
- Requirement to deliver at a threshold above benchmark. The contract could specify that payments will be made only when a certain threshold above the benchmark is reached (e.g. if the target population's number of days in care is at least 10% less than the historical average in that location). It is more appropriate to include

a threshold when there is a clear rationale for doing so. This might be the case if it can be demonstrated that a certain threshold for improvement is required for the improvement to be statistically significant. This means any lower level of improvement could have been down to chance. Tests for statistical significance typically require reasonably large population sizes.

- Service providers and commissioners should also be aware that benchmarks themselves can be determined in a number of ways. The most appropriate method will depend on the availability of information and the characteristics of the target population. The most common methods of determining benchmarks are outlined below.

Historical benchmarks for an equivalent population

Historical data for a similar population of young people can be analysed to determine the likely outcomes for the target population. For example, trends in the average number of days in care for 10–15-year-olds referred to the Children's Services Panel in a particular local authority over the last five years. Payments for the target population will depend on the delivery of a reduction in the number of days in care compared to this historical population.

This approach requires commissioners and service providers to be confident that the historical cohort is similar enough to the target population that equivalent outcomes could be expected if services continued as usual. Historical benchmarks are best when there is a reasonably stable population with a consistent level of outcomes over a number of years.

Historical benchmarks also work best for outcomes that are not significantly affected by broader socio-economic trends. Given their sensitivity to the economic environment, youth unemployment rates from 2008, for example, are unlikely to be applicable to youth today.

Pre- and post- intervention measurements for target group

This approach to measurement is sometimes referred to as 'distance travelled'. It measures outcomes for the individuals in the target population prior to the intervention start date and at a point after they have received the intervention service. This approach is often used when data is collected through questionnaires such as the Strengths and Difficulties Questionnaire (SDQ). The questionnaires are completed by participants at the beginning of their engagement with the proposed service and after leaving the service. Any change can then be measured and attributed to the impact of the service. While this approach is quite straightforward to administer and there are many standard questionnaires available, it does not measure improvement relative to what would have happened anyway – how the target group would have fared had they not received the proposed service.

Control groups

This approach compares the outcomes achieved by the target group against a contemporaneous control group that is monitored during the period of intervention. The control group seeks to mirror the target group in characteristics and, where possible, be subject to the same socio-economic context. The only difference is that the control group does not receive the proposed service that the target group benefits from.

Social Finance has deployed this approach in the Peterborough Social Impact Bond focused on reducing reoffending. A number of prison leavers with similar characteristics to the group released from Peterborough prison, are drawn from the central Police National Computer. Their records on reoffending are tracked over the same period as those of the target group coming out of HMP Peterborough. The difference is measured and outcome payments made on the basis of improvement by the Peterborough group.

In practice, the method of attributing success needs to be pragmatic: costs, timeframes and complexity should be key considerations. Commissioners need to consider the availability and quality of data before deciding on the most appropriate method of measuring success. Both public sector commissioners and service providers / investors must have confidence in the rigour and objectivity of the chosen measurement framework in order to agree the contract.

DETERMINING OUTCOME PAYMENTS

The value of the outcomes payments that a commissioner makes available within an outcomes-based contract should ideally be linked to the expected benefits generated through achieving improved outcomes for the target group. A contract should set out the value that will be paid per successful outcome and how success is defined. In the example of adolescents at the edge of care, the parties to the contract will need to agree on the cash amount attached to each care placement day saved.

The approach to outcome measurement and attribution of success are key features in an outcomes-based contract. The payment mechanism draws together these features and defines the timing and frequency of payments.

Commissioners will want to be confident that savings have been realised before paying for outcomes. However, the longer that investors wait to be repaid, the higher the level of financial return they will expect on their money. Therefore there is a balance to be struck for commissioners between maximising value for money and minimising outcome risk. At one extreme, the commissioner may want to hold back any payment until outcomes have been achieved and sustained for a number of years. This transfers significant risk to the providers and social investors which is likely to be reflected in a higher cost of investment. At the other extreme, commissioners could pay for service outputs or interim outcome metrics. In this case commissioners retain the risk that such outputs or interim outcome indicators are robust predictors of longer-term outcomes that are linked to public sector benefit.

When considering the example of adolescents at the edge of care, a hybrid could be applied. It is possible to measure care placement days saved from the point that the service is implemented. Payments reflecting improved outcomes can be made on a regular basis (e.g. quarterly). However, the typical care journey for the adolescent group is well over two years. Due to cost and practical considerations, it may not be feasible to continue actual measurement for the full care trajectory. At a suitable point, it may be necessary to estimate the expected remaining savings using the level of impact already observed and applying this to the remaining time period of the care trajectory. This approach allows money to be returned to investors in a timely manner, avoiding unnecessary extra financing costs, but also reflects as far as practically possible, outcomes achieved. To achieve value for money, commissioners should aim to identify the optimum, rather than maximum, level of risk transfer.

IDENTIFYING INTERVENTIONS

PbR contracts can offer service providers the flexibility to determine and vary interventions to deliver the best possible outcomes. By defining outcomes, rather than interventions, commissioners encourage innovation among social sector delivery organisations. To get the most out of this potential for service innovation within reasonable good practice parameters, contracts should allow providers the freedom to develop, adapt and amend their services to meet the evolving needs of the target group. This will likely require commissioners to restrain from prescribing services.

As we explore below, depending on the area of social need being addressed, there may be good reasons for a degree of service prescription combined with scope for innovation.

Interventions and statutory obligations

Local authorities have a statutory duty of care towards children in need. Appropriate service provision must be made available to meet their needs. There will be certain parameters of service provision that need to be defined to ensure that commissioners honour their obligations in this regard. For example, there will be measures related to safeguarding that have to be incorporated to ensure that children are kept safe. Any service innovation will need to take into account these factors.

One approach to providing comfort on this issue to both commissioners and investors, could be to give an indication that interventions would involve well-evidenced services that have some track record in the area of social need, but still carry implementation risk. The key is to ensure that there is room alongside the core intervention for service innovation to meet outstanding needs of the target group.

Assessing financial viability

Service providers bidding for outcomes-based contracts will need to carefully assess whether the payments they expect to receive for delivery of outcomes will be sufficient to cover the cost of interventions they deliver, including the cost of any finance required upfront to pay for service delivery.

In assessing the financial viability of a contract, service providers would be wise to consider a range of success rates for the delivery of outcomes and how this compares to the level of intervention costs. This will help both providers and potential investors to understand what an acceptable level of risk is and whether the contract represents an attractive opportunity.

THE ROLE FOR INVESTORS

Many social sector delivery organisations may not have ready access to funding that can cover their costs ahead of receiving outcomes payments. This is sometimes referred to as "working capital". Providers must ensure that they can afford to run services until they receive payments. There is a danger that this could prevent many youth sector organisations from bidding for outcomes-based contracts. This would be a missed opportunity for both providers and commissioners.

The concept of social investment has been gaining currency in recent years. In its broadest sense, social investment involves deploying capital to achieve both social impact and financial return. Over the last two years there has been some focus on how social investment can be applied to outcomes-based contracts. Social Impact Bonds refer to a family of investment products that provide finance for outcomes-based contracts. Such social investment can fully or partially fund service delivery to generate outcomes. Investors are repaid, with a financial return for the risk they have taken, if the funded interventions successfully deliver outcomes. Social investors take on implementation and financial risks, leaving service providers to focus on delivering outcomes. The potential opportunities and challenges for service providers of accessing investment of this kind were explained in more detail in the previous section of this document.

Illustrative contract terms

Adolescents at Edge of Care	
Target group	Adolescents aged 11-16 on the edge of care
Outcome metrics	Number of days in care against historical benchmark for target group Wellbeing metric
Contract term	5 years
Payment mechanism	Annual payments for each day in care avoided against historical benchmark for target group

2

YOUTH TRAINING AND EMPLOYMENT

An area of the youth sector which has already seen the development of PbR contracts is youth employment. In May 2011, the Department of Work and Pensions (DWP) announced an initiative to fund improved education, training and employment outcomes for disadvantaged young people. The Innovation Fund made up to £30 million available to pay for improved outcomes delivered over the course of three year projects to support young people between the ages of 14 and 24.

In recognition of the working capital challenges that social sector providers bidding for outcomes-based contracts can face, Innovation Fund bidders were required to partner with social investors that commit to fully fund the delivery of interventions.

In February 2012, Deputy Prime Minister Nick Clegg also announced a £126 million scheme to help England's 16 and 17-year-olds that are NEET (not in education, employment or training) and / or have no A*-C grade GCSEs. As part of a broader Youth Contract initiative, these PbR contracts aim to re-engage and sustain teenagers in work, education or training. This follows the lead of the DWP Work Programme that has been rewarding providers for improved employment outcomes for adults since June 2011.

Because the costs of unemployment are borne through higher levels of benefits claimants and reduced tax revenue it seems likely that contracts aimed at improving youth training and employment will be commissioned by central government.

UNDERSTANDING PROCUREMENT

The Innovation Fund offers an example of how PbR contracts may be awarded through a structured procurement process. Procurement describes the competitive process by which public sector commissioners choose service providers to deliver outcomes. There are many variations of this process, which is designed to ensure that the contract is awarded on a fair and transparent basis and that payments made by government will represent value for money.

The Innovation Fund is running two phases of procurement in 2011 and 2012. Each of these phases requires the submission of written information through an initial application form and then an invitation to tender. The initial application form requests brief information on the funding and delivery partner(s), delivery methodology and customer journey, outcomes expectations and investment arrangements. If providers are shortlisted to progress through the procurement they receive an invitation to tender, which asks for more detailed intervention, cost and financing information and an implementation plan. Bids received at this stage are scored on both price and quality before preferred bidders are announced and contracts awarded.

SERVICE PROVIDERS MAY BE WELL PLACED TO JUDGE WHAT WILL WORK AND MAY BENEFIT FROM CONTRACTS WITH A MORE FLEXIBLE SERVICE DEFINITION

Similar procurement processes have been used for many years as a means of commissioning service delivery contracts. However, their use to award outcomes-based contracts is less well developed and may require further refinement.

As we discussed in the previous case study, to get the most out of outcomes-based contracts, commissioners should aim to give providers the freedom to develop, adapt and amend their services for the target group. In contrast with service procurement approaches in which commissioners use procurement to assess the delivery capacity and cost of different service providers in relation to a specified intervention, outcomes-based contracts require a focus on the ability of providers to performance manage and adapt their services to deliver successful outcomes. They also require an assessment of service providers' or investors' capacity to fund the delivery of services before payments for outcomes are made.

As this is a developing field, commissioners may decide that it will be most appropriate to design procurement processes that include an element of dialogue between commissioners and potential providers. Care should be taken, however, that the demands of procurement processes, for both commissioners and bidders, remain proportional to the size of the contract being awarded. For large contracts or lengthy and complex procurement processes, commissioners may find that making available a small amount of funding to cover provider bid costs will give them the best choice of potential providers.

DEFINING THE TARGET POPULATION

Contracts to improve youth training and employment outcomes tend to focus on the number of young people not in education, employment or training (NEET). The number of NEET youth is often cited as a proxy for those who are disadvantaged or at risk of disadvantage, which makes it an important figure for commissioners with a desire to raise the achievement of young people with the highest levels of need. The statistics for NEET youth in the UK are published quarterly by the Department for Education, which also undertakes regional analysis of the figures.

Commissioners use NEET figures to demonstrate both existing inactivity among young adults and to assess the probability that those younger than employment age will have lower rates of employment in the future.

On a national level, the Innovation Fund prospectus notes that in Q1 2011, there were 81,000 NEET 16-17-year-olds in England and 844,000 NEET youth aged 18-24.[6] The large number of older NEETs may indicate difficulties in finding employment after leaving school. However, it is important to distinguish between those who are long-term NEET and those who will move into training or employment within a short period of finishing their education. While over 16% of young people are NEET at some point in the two years after completing their education, only 4%

6 "Innovation Fund – Prospectus," www.dwp.gov.uk/docs/inn-fund-prospectus.pdf

remain NEET for over a year.[7] The DWP recognised this distinction in its Innovation Fund prospectus and required that proposals focus only on the most disadvantaged young people who would be expected to remain NEET without the help of an intervention.

PbR contracts in the youth sector have most recently placed an emphasis on younger individuals. In the Innovation Fund, for example, the first round targeted a population of young people aged 14–24, but the second round of bidding required providers to work with young people aged 14 or 15. The Youth Contract specifies a target group of 16 to 17-year-olds with no A*-C grade GCSEs. Both contracts intend to target the most disadvantaged populations.

REGIONAL COMPARISONS

One difference between nationally and locally commissioned contracts is the expected scale of the project. While local authorities wish to create impact in their area, national initiatives may be open to providers across the entire country. Through the Innovation Fund, the DWP will cover areas across England, Wales and Scotland, while allowing service providers to specify their specific geographic focus. However, as contracts are awarded on the basis of the impact they can deliver, service providers operating in areas with the greatest needs are likely to stand the best chance of winning them.

The Innovation Fund, for example, lists locations with the highest concentrations of NEET youth and requests a strong rationale for services working outside these areas. In some cases, commissioners may more directly incentivise work in these locations by offering a greater financial reward. While the unit payments per successful outcome are the same nationwide, the value of the outcomes pots available under the Youth Contract varies by region according to the number of NEETs in each area in 2010. For example, outcomes payments worth up to £4 million are available for South London, which accounted for only 1,921 NEET youths in 2010, whereas providers in the West Midlands could be offered up to £14 million in outcomes payments reflecting the relatively high numbers of NEET young people in that area.[8]

7 "Innovation Fund – Prospectus," www.dwp.gov.uk/docs/inn-fund-prospectus.pdf

8 Department for Education, http://www.education.gov.uk/inthenews/inthenews/a00203715/timebomb

Identifying outcome metrics

A number of outcome metrics could be targeted to improve outcomes for disadvantaged youth. However, many of these outcomes – including prolonged unemployment, low pay and depression – are long-term effects that may be difficult to capture with robust metrics. The youth sector will face this issue in a number of areas that develop PbR contracts, as many childhood and adolescent experiences have a significant long-term impact on society, but may have relatively low short-term costs. As the Innovation Fund and Youth Contract demonstrate, one solution to this problem is to identify contract outcomes that are strong indicators of future outcomes.

The International Labour Organisation reports that youth unemployment can have long-lasting and devastating effects, including social exclusion, susceptibility to anti-social behaviour and social unrest. The longer young people are out of work, the more difficult it becomes for them to engage with the workforce.[9] Individuals who are NEET or at risk of becoming NEET often have low attainment in education. While low achievement itself has a range of causes, including learning disabilities and educational exclusion, improving achievement can be an indication of overcoming disadvantage. The Innovation Fund recognised that different age groups have different risk factors for becoming NEET and therefore structured the procurement process around three potential age groups – 14–15-year-olds, 16–17-year-olds and 18–24-year-olds. For 14–15-year-olds, outcome metrics included improved attendance at school, improved behaviour at school, improved literacy and numeracy, and entry into post-16 education or training. For 16–17-year-olds, the outcomes included re-engagement with education or training, entry into employment with a training element and the achievement of qualifications. Outcomes for 18–24-year-olds were similar but also emphasised vocational training and employment.

The Youth Contract scheme emphasises engagement in education, employment and training with a particular focus on sustained outcomes. Youth Contract payments are triggered when young people re-engage with education, employment or training and then sustain these pursuits for five of six months. These metrics point towards favourable future outcomes – better employment, pay and quality of life.

9 International Labour Organisation: http://www.ilo.org/global/about-the-ilo/press-and-media-centre/news/WCMS_142805/lang--en/index.htm

The value of simplicity

The two PbR contracts currently operating in the youth unemployment space demonstrate two different approaches to defining payment metrics. The DWP Innovation Fund has chosen a variety of outcome metrics aimed at capturing indicators of future value. For any one of its three age categories, there are at least four outcome metrics that could trigger payments of varying value (see table on the next page). The total value of payments that can be claimed for any given individual is based on the expected cost of providing that individual with Job Seeker's Allowance if outcomes are not improved.

The Youth Contract, by contrast, employs engagement and sustainment metrics to measure progress toward education, employment or training. Obtaining the re-engagement and sustainment waypoints for any of these outcomes will trigger the same value of payment. Payments are made when a young person engages with the provider; engages with education, employment or training; and following sustained engagement with education, employment or training for at least five of the six months following re-engagement.

Innovation Fund – Round 1 Outcomes[10]

	School years 10 and 11 (14–16 yrs old)	School years 12 and 11 (16–18 yrs old)	School Leavers (18–24 yrs)
Education	Improved attendance at school		
	Improved behaviour at school		
	Achievement of first NQF qualification Level 1 (e.g. one GCSE pass)	Achievement of first NQF qualification Level 1 (e.g. one GCSE pass)	
	Achievement of first NQF qualification Level 2 (e.g. 5+ A*-C GCSEs)	Achievement of first NQF qualification Level 2 (e.g. 5+ A*-C GCSEs)	
Training		Completion of first NQF Level 3 training/ vocational qualifications (e.g. 2 A/A2 Levels grade A-E)	Completion of first NQF Level 3 training/ vocational qualifications (e.g. 2 A/A2 Levels grade A-E)
			Entry into education at NQF Level 4 (post 18 higher or further education) – sustained for 13 weeks

10 Summarised from *The Innovation Fund: Specification and Supporting Information.* Department of Work and Pensions (2011).

	School years 10 and 11 (14–16 yrs old)	School years 12 and 11 (16–18 yrs old)	School Leavers (18–24 yrs)
		Successful completion of English as a second language course	Successful completion of English as a second language course
Employment		Entry into first employment with a training element (e.g. apprenticeship or work based training) – 16+ hours per week, sustained for 13 weeks	Entry into first employment – 16+ hours per week sustained for 13 weeks.
			Ongoing employment (as above) sustained for 26 weeks

Acknowledging broader impact

Supporting young people to improve their education, training and employment outcomes potentially has wider societal benefits, including an improvement in health and a reduction in crime. While PbR contracts addressing NEET youth may acknowledge these wider benefits, health and crime outcomes could unduly complicate the payment mechanism as they may be less easy to capture and verify in the short-term.

As we discussed in the previous case study, each additional payment metric adds additional cost and complexity, and must be carefully considered in this light. However, there may be a case for commissioners to measure achievement around these broader impacts to build an evidence base for effective interventions and to help establish baselines for future contracts.

DEFINING SUCCESS

Both the Innovation Fund and Youth Contract will pay providers for every outcome that is achieved rather than requiring providers to achieve an improvement relative to a baseline or control group (see Adolescents at the Edge of Care case study).

DWP's Innovation Fund justified this approach in two ways:

- By requiring bidding organisations to tightly define their geographic focus and target group, DWP ensures that the level of deadweight in the population – the number of young people that would have achieved the outcome without any additional support – is low.
- DWP has adjusted the financial value of each outcome to account for the proportion of the population that they believe would have achieved the outcome with no additional support – e.g. if they expect 10% of disadvantaged young people to achieve a grade C GCSE with no additional support, the maximum available outcome payment for such qualifications is set at 90% of the value they would otherwise be prepared to pay.

Because there is strong evidence linking youth education, employment and training outcomes to future employment, mental health and pay, DWP has been able to justify paying for short- to mid-term outcomes rather than waiting for longer-term outcomes to be achieved. This helps to manage the amount and cost of working capital that providers / investors need to deliver for these contracts. This potentially reduces the costs of delivering outcomes and offering better value for money to government.

The longer government requires outcomes to be sustained for before payments are made, the lower the risk to government that they may pay for an ineffective intervention, but the higher the risk – and hence the cost – to providers / investors. For this reason, commissioners should seek optimum not maximum risk transfer through outcomes-based contracts.

Variations in outcome payments

The complexity of the NEET target population means that payments may be structured in a number of ways. In the Innovation Fund, the value of outcome payments varies according to the age group being targeted, with the highest payments made available for the outcomes that are most challenging to achieve, and the most valuable to government – in this case sustained employment.

As discussed above, the Youth Contract does not differentiate payments based on employment, education or training but instead pays different values according to the stage of re-engagement. The initial payment is triggered once a young person has joined the programme and agreed an action plan with the provider. This payment is worth up to 20% of the total outcomes payments available. A re-engagement payment rewards entry to full-time training, education, or employment with training within six months of the initial payment. This is worth a maximum of 30% of the potential payment. Finally, a sustainability payment, worth a minimum of 50% of the potential payment, is triggered when the participant has sustained education, employment or training for five of the six months following the re-engagement payment. These payments indicate the importance the Department for Education, and the Department for Work and Pensions place on sustained engagement with education, employment or training as the key indicator of longer-term positive outcomes.

The importance of baselines

As mentioned earlier, both the Innovation Fund and Youth Contract will pay providers for every outcome that is achieved rather than requiring providers to achieve an improvement relative to a baseline or control group. Because of this, both government and providers / investors end up bearing risk around potentially unpredictable changes to the economic environment.

Outcomes around employment are particularly strongly linked to the economic climate. If the economy improves, government may end up paying providers for employment outcomes that young people would have achieved without any intervention. If the economy declines, providers may struggle to improve employment outcomes through no fault of their own. Both commissioners and service providers should carefully assess these risks before entering into an outcomes-based contract in this area.

IDENTIFYING INTERVENTIONS

To maximise their value, outcomes-based contracts to improve education, training and employment outcomes for disadvantaged young people should aim to give providers and their investors maximum flexibility to develop, amend and adapt their intervention models to the needs of the target group in order to deliver outcomes.

Nevertheless, to award contracts, commissioners are likely to want a clear description and rationale for a provider's proposed intervention approach. They may also want to set best practice parameters to ensure that providers act in the best interests of the young people they are working with – for example, the Youth Contract mandates staff CRB checks and minimum training requirements.

THE ROLE FOR INVESTORS

The Innovation Fund is unusual in its requirement that 100% of service delivery costs are met by social investors who, in turn, will receive payments as outcomes are achieved. In recognition of the risk they bear, government will contract with social investors or investment intermediaries rather than directly with service providers.

This requirement helps to safeguard social sector providers, by ensuring that they will not be in financial straits if outcomes are not delivered. On the other hand, it may reduce the financial benefits to service providers if they deliver outcomes successfully. In practice a mixed model of finance may be preferable, with providers self-funding some service delivery and identifying social investment to fund the rest.

Illustrative contract terms

YOUTH TRAINING & EMPLOYMENT – DWP Innovation Fund Round 1	
Target group	14-24-year-olds at, or at risk of becoming, NEET
Outcome metrics	Various age appropriate education, training and employment outcomes (see earlier table)
Contract term	3 years of service delivery + 6 months of outcomes measurement
Payment mechanism	Monthly payments for each outcome delivered (no baseline)

3

YOUTH OFFENDING

Our final case study considers youth offending as an area for youth sector organisations PbR contracts. Social Finance is currently managing a Social Impact Bond to reduce reoffending rates among adult male short-sentenced prisoners in Peterborough. High offending rates among young people demonstrate a similar need to focus on the prevention of youth crime. In late 2010, the Youth Justice Board and Ministry of Justice announced the Youth Justice Reinvestment Pathfinder Initiative: PbR contracts aimed at reducing levels of youth custody in England and Wales.[11] While other contracts aimed at youth offending have been considered,[12] this case study focuses on the Pathfinder Initiative as the primary existing example of PbR contracts in this space.

DEFINING THE TARGET POPULATION

Youth offending in England and Wales is a costly social phenomenon with wide ranging long-term effects. The Youth Justice Board – the public body that oversees the youth justice system in England and Wales – currently spends an estimated £300 million per annum on youth custody.[13] However, at present, the system does not seem to deter further offending behaviour – 70% of young people leaving custody

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11 *Youth Justice Reinvestment Pathfinder Initiative: Information*, http://www.justice.gov.uk/downloads/guidance/youth-justice/reducing-re-offending/YouthJusticeReinvestmentPathfinderInitiativeinformation.pdf

12 See, for example, the 2011 Payment by Results plans for Youth Offending Teams.

13 *Youth Justice Reinvestment Pathfinder Initiative: Information*, http://www.justice.gov.uk/downloads/guidance/youth-justice/reducing-re-offending/YouthJusticeReinvestmentPathfinderInitiativeinformation.pdf

reoffend.[14] Evidence suggests that young people who fall into a pattern of criminal behaviour are likely to continue reoffending as adults. In addition to the significant costs this generates within the criminal justice system and wider society, young offenders can expect to have a lower quality of life, including unemployment and poor health, in the longer-term.

UNDERSTANDING NEED

The Pathfinder Initiative concentrates on local authorities with high use of custody for young offenders. Local authorities submitted bids to central government to become pilot areas before procuring services locally. The four Pathfinder areas are West Yorkshire, west London, east London and Birmingham. The first three sites involve consortia of local authorities – for instance, the West Yorkshire pilot includes five boroughs – while Birmingham is undertaking the initiative alone.

The Pathfinder Initiative required that pilot locations have a minimum volume of young offenders in custody (either on remand or sentenced) in order to have the potential to deliver cost savings – an average of at least 50 young people in custody at any time over one year. Pathfinder authorities were also required to demonstrate that the new service would complement existing initiatives in the area.[15] Where service providers were contracted by local authorities, they were brought into the process at a later stage, once the target population had already been identified.

While location is one way of selecting a target population, contracts to reduce youth offending could also be targeted by age. The term young offender is applied to young people between the ages of ten (the legal age of criminal responsibility in England) and 17. An outcomes-based contract might choose to target, for example, areas where 16–17-year-olds comprise over half of the youth in custody. This narrow focus may be useful when statistics demonstrate that a small group of young people is responsible for the majority of convictions. Alternatively, they may choose to focus on the younger end of the population with a view to preventing a trajectory towards more serious criminal behaviour.

14 Ministry of Justice (2010) Reoffending Publication: Proven Reoffending Statistics – *Quarterly Bulletin April 2009 to March 2010*. London: HM Government.

15 *Youth Justice Reinvestment Pathfinder Initiative: Information*, http://www.justice.gov.uk/downloads/guidance/youth-justice/reducing-re-offending/YouthJusticeReinvestmentPathfinderInitiativeinformation.pdf

Understanding trends in the target population is important when defining the target population for an outcomes-based contract. Nationally the numbers of young people in custody have declined over the last two years, which might suggest that current provision is succeeding.[16] However, the Pathfinder Initiative encouraged local authorities to consider whether falling numbers in their areas were the result of legislative changes in the Criminal Justice and Immigration Act of 2008, new sentencing guidelines published in November 2009 and a natural demographic decline of the youth population in England and Wales.[17] Such factors should be considered when assessing what levels of success it may be possible to achieve. In order to do this Pathfinder areas were supplied with historic information by the Youth Justice Board.

IDENTIFYING OUTCOME METRICS

Potential metrics for an outcomes-based contract focused on reducing youth offending might use a range of metrics including conviction rates or average sentence lengths. The Youth Justice Reinvestment Pathfinder Initiative focuses on the length of time spent in custody and uses 'bed nights' to measure success. This metric is compelling as youth custody is extremely costly and hence a reduction in bed nights should be strongly linked to cashable public sector savings.

Bed nights is a more compelling metric than some alternatives. Custodial sentence length, for instance, does not take into account the time young people actually spend in custody – in practice many young people's sentences are structured so that they serve only half of the time in custody and hence sentences are less closely linked to public sector costs. Furthermore, the number of bed nights in custody captures both the convicted population in custody and the population of young people held on remand in custody, potentially incentivising providers to work to speed young people's progress through the court system in addition to preventing offending behaviour. Given that the purpose of contract metrics is to incentivise service provider behaviour, this may also make bed nights a more compelling metric than conviction rates.[18]

16 "Time for a fresh start: The report of the independent commission on youth crime and anti-social behaviour." Independent commission on youth crime and antisocial behaviour (2010). Available at http://www.youthcrimecommission.org.uk/attachments/076_FreshStart.pdf

17 *Youth Justice Reinvestment Pathfinder Initiative: Information*, http://www.justice.gov.uk/downloads/guidance/youth-justice/reducing-re-offending/YouthJusticeReinvestmentPathfinderInitiativeinformation.pdf

18 http://www.theyworkforyou.com/wrans/?id=2011-12-19a.86659.h

The value of simplicity

Contracts could potentially include payments for metrics around sentencing, nights spent in custody and reoffending rates, or they could focus on the one that is most strongly linked to the outcomes commissioners are trying to achieve.

As in the youth unemployment examples, outcome metrics could be differentiated according to age or the profile of needs. For example, if 16–17-year-olds commit the most serious crimes and account for the majority of nights in custody, one option would be to use nights in custody as the metric for this age group, while trying to reduce conviction rates overall for 10–14-year-olds. As discussed in previous case studies, the cost and complexity of adding payment metrics means that commissioners should aim to contract against the smallest number of outcome metrics that will drive the desired service provider behaviour.

Where commissioners wish to track a broader set of outcomes, other metrics could be tracked without triggering payments. While bed nights are the only payment metric the Pathfinder Initiative, for example, aims to reduce youth offending across the pilot areas, improve outcomes for young offenders, strengthen local authorities' accountability for young people in custody, and inform long-term decisions about financial responsibility for youths in custody.[19] Other broader outcomes could include drug and alcohol misuse, teenage pregnancy and educational achievement as indicators of improved quality of life.

DEFINING SUCCESS

The Pathfinder Initiative represents an unusual Payment by Results contract because funding is distributed to the pilot areas quarterly throughout the intervention period. This provisional award of funding is intended to reduce the working capital strain. However, failure to meet agreed targets will trigger a claw back of funds at the end of the contracts in proportion to the extent to which the targets have been missed. If the pilot area meets or exceeds its target baseline, it will not have to return any of the contract money.

While the contract between the Youth Justice Board and pilot local

19 *Youth Justice Reinvestment Pathfinder Initiative: Information*, http://www.justice.gov.uk/downloads/guidance/youth-justice/reducing-re-offending/YouthJusticeReinvestmentPathfinderInitiativeinformation.pdf

authorities is based on this Payment by Results mechanism, the local authorities have full control over how they use the funding to meet local needs. Conversations with the Youth Justice Board indicate that the pilot areas are applying a range of approaches to service delivery. These range from full delivery of services by existing public sector bodies to full outsourcing of services using PbR contracts. Service providers asked to contract on a payments by results basis should carefully consider potential risks to their sustainability if outcomes are not achieved.

The importance of baselines

The Pathfinder Initiative uses the year 2010/11 as the baseline, agreed by the Youth Justice Board with each pilot local authority before service delivery commences, to judge intervention success. The target reductions from this baseline are locally determined on the basis of an analysis of available data including national forecasts of projected demand for custody beds and local historical custody data. The targets for the Pathfinder Initiative operate on a threshold basis – custody bed nights in a Pathfinder location must be at or below the target level in order to avoid claw back of the funding awarded in advance for outcomes.

This negotiated approach allows the ambitions of commissioners, in terms of desirable levels of success, to be tempered by analysis of historic data and input from the local authorities that will be accepting the outcomes risk.

IDENTIFYING INTERVENTIONS

In order to encourage innovative intervention approaches, the Pathfinder Initiative does not prescribe interventions, instead allowing the Pathfinder local authorities and their service providers to decide how best to use the award money to reduce levels of youth custody.

Guidelines around potential interventions suggest that community interventions may be relevant and effective, including programmes such as intensive community-based provision, system improvement and/or system change, targeting of a particular cohort of young people, family-based provision, or youth offending ‘academy’ provision.[20] In addition to employing well-evidenced interventions, Pathfinders are encouraged to use best practices from other Pathfinder locations to help meet target baselines.

Funding

While the Youth Justice Board guidance for the Pathfinder Initiative places an emphasis on community interventions, it does not preclude the possibility of local authorities delivering services through public, private or social sector organisations.

To compete, social sector organisations would need to have better or equivalent offerings than other bidders. This may include a demonstration that they have the funding available to cover the up front costs of service delivery if there is a Payment by Results component to the contract. As we have discussed in the previous case studies, social investment may offer a potential source of such finance where organisations do not have their own resources.

Illustrative contract terms

YOUTH OFFENDING – Youth Justice Reinvestment Pilots	
Target group	10-17-year-olds in, or at risk of entering, youth custody in a specified local authority
Outcome metrics	Custody bed nights in target location
Contract term	2 years
Payment mechanism	Quarterly payments in advance clawed back if baseline outcomes not achieved

20 *Youth Justice Reinvestment Pathfinder Initiative: Information*, http://www.justice.gov.uk/downloads/guidance/youth-justice/reducing-re-offending/YouthJusticeReinvestmentPathfinderInitiativeinformation.pdf

APPENDICES

Appendix 1
Commissioning Payment by Results contracts

Outcomes-based contracts will not always be an appropriate approach to commissioning complex services. To ensure that outcomes-based contracts are successful, commissioners should:

- *Invest in a feasibility study.* Better outcomes and value for money should ensue if the commissioner has defined, in advance, the social outcome and gap in services, the target population and the potential for cashable savings, investor interest and the key features of a contract.
- *Ensure that there is a dialogue with potential providers and investors through the process.* Engagement can be prior to procurement and/or with a small number of potential organisations after an initial qualification process, such as a two-stage process.
- *Establish a procurement process that has low costs for bidders.* As outcomes-based contracts are most needed in new, undercapitalised markets, there are unlikely to be players with deep pockets (neither social sector providers nor social investors). As such it is even more important than usual for commissioners to establish simple processes and define their criteria in a way that ensures the process quickly focuses on one or a small number of providers. A simple two-stage process can be helpful. Finalising elements of the project design once a single preferred provider has been identified may also be helpful. In a very emerging market, commissioners may also need to consider covering some bid costs for those bidders shortlisted.
- *Ask bidders to demonstrate that they have secured or have good prospects of securing appropriate finance*. This process will eliminate speculative applications because investors will only back credible providers.
- *Consider collaborating with others to establish a framework or to co-commission outcomes-based contracts.* This will help build the market and enable investment to be raised at sufficient scale.

- *Seek to introduce transparent processes,* such as open book accounting, good contract management arrangements and independent evaluations, so that individual commissioners and the market can learn from the development of outcomes-based contracts.

Further guidance for commissioners can be found in Social Finance's 2011 publication, *A Technical Guide to Commissioning Social Impact Bonds*.[21]

Appendix 2
Service provider check list

ORGANISATIONAL COMPATIBILITY	
Do the contract outcomes and target group fit with the aims of your organisation?	☐
Does your organisation have a track record of delivering the contract outcomes and working with the target group?	☐
What opportunities or activities might you have to give up to successfully deliver the contract?	☐
Do the contract outcomes create any perverse incentives or conflicts, in terms of either the target group you would work with or how you work with them, that you would be uncomfortable about?	☐

21 *A Technical Guide to Commissioning Social Impact Bonds*, http://www.socialfinance.org.uk/sites/default/files/technical_guide_to_commissioning_social_impact_bonds.pdf

DELIVERY CAPACITY

Does your organisation have the delivery capacity to work with the required number of individuals in the target location(s)?	☐
Does your organisation have the expertise to deliver the contract outcomes?	☐
Does your organisation have the systems and skills required to track, monitor and report on the contract outcomes?	☐
Are there other organisations you could partner with to deliver the contract effectively?	☐

FINANCIAL VIABILITY

How many outcomes do you think your organisation can reasonably deliver?	☐
Realistically, how much will it cost to deliver these outcomes?	☐
Considering your least optimistic outcomes scenario and your most expensive cost scenario, will the payments available for outcomes cover your costs?	☐
How much funding will you need to pay for your services before outcome payments are received?	☐
Can you provide this funding from your organisation's existing resources?	☐
If not, can you identify another source of funding – potentially social investment? How much will this funding cost?	☐
What is the risk to your organisation if outcome payments are not received?	☐

Appendix 3
Social Enterprise Intermediaries[22]

Intermediary	Focus	Website
Big Issue Invest	Debt fund and growth capital fund/social venture fund	www.bigissueinvest.com
Bridges Ventures	Social venture fund	www.bridgesventures.com
CAF Venturesome	Social venture fund	www.cafonline.org/venturesome
Charity Bank	Charity and social enterprise loans	www.charitybank.org
Cooperative and Community Finance	Co-operative social enterprise loans	www.coopfinance.coop
The Key Fund	Finance for social enterprise	www.thekeyfund.co.uk
London Rebuilding Society	Social investment fund	www.londonrebuilding.com
Private Equity Foundation	Venture philanthropy	www.privateequityfoundation.org
Social Finance	Social investment intermediary	www.socialfinance.org.uk
Social Investment Business	Social enterprise loans, grants and business support	www.thesocialinvestmentbusiness.org
UnLtd	Social investment with engagement	www.unltd.org.uk

22 *Growing the Social Investment Market: A Vision & Strategy.* Cabinet Office (2011), Annex A. http://www.cabinetoffice.gov.uk/sites/default/files/resources/404970_SocialInvestmentMarket_acc.pdf

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WE BELIEVE THAT IF SOCIAL PROBLEMS ARE TO BE TACKLED SUCCESSFULLY, THE ORGANISATIONS SEEKING TO SOLVE THEM NEED SUSTAINABLE REVENUES AND INVESTMENT TO INNOVATE AND GROW.

Our role is to devise the financial structures and raise the capital to enable this to happen.

Social Finance injects market principles into funding in a way that stands or falls on results – both social and financial.
We support social organisations to raise and deploy capital; we work with government to deliver social change; and we develop social investment markets and opportunities.

Now more than ever, there is a pressing need to harness social investment to make a long-term difference to society.

This is our ambition.

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NATIONAL COUNCIL FOR VOLUNTARY YOUTH SERVICES

NYA
National Youth Agency

THE YOUNG FOUNDATION

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