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Is it about the money, money, money?

PAYING BY RESULTS IN PUBLIC SERVICES

Payment-by-results (PbR), in various forms, has been used in the UK public sector for decades. But as part of its commitment to introduce open commissioning, the Coalition Government has piloted and introduced these payment techniques across a wide range of services. While the Work Programme has attracted the headlines, some lower-profile experiments have provided more important lessons. Frontier's work for the Department for Education (DfE) has helped us to identify some key success factors.

Since 2010, the Coalition Government has introduced PbR into areas ranging from back-to-work support to reducing reoffending, drug recovery and housing services. In September 2011, the DfE began to trial PbR for Sure Start Children's Centres, providing an important test of both the advantages and limitations of such incentive schemes for a different type of public service.



Children’s centres were created in 2002 as “one-stop shops” for early childhood services in deprived areas. Responsibility for implementing the policy lies with local authorities. This was not a barrier to PbR – in fact, some of the more innovative PbR mechanisms, notably outcome-based contracts for health services, have been put in place by local bodies. But it did mean that the children’s centres PbR trial was unusual in having a two-tier design. It combined a national element – with targets set (and rewards paid) by the DfE to the 27 authorities in the trial – and a local element – with the authorities designing their own PbR for centres in their areas. There are useful lessons from both.

DESIGN AND CIRCUMSTANCE

There are two reasons to use PbR in the delivery of public services. They can be used to give service providers:

- **The freedom to work out how best to deliver what is required.** This requires targets to be based on final objectives (e.g., the number of unemployed people to be got back to work), rather than on the means to be used (e.g., the number of unemployed people to be given job search advice).
- **A greater incentive to deliver on those aims.** This requires the transfer of some financial risk to the providers. An element of payment must be conditional on the achievement of targets (e.g., if/when the specified number of unemployed people do get back into work).

The ambition of the children’s centres trial was to see if these incentives could be made to work at two levels: to try to influence thinking at local authority level, as well as to incentivise the providers. Our analysis of the trial proved its usefulness: it threw up a lot of issues that need to be resolved if such schemes are to be rolled out successfully.

We found that the national element caused only a small number of local authorities to redirect their focus on to the nationally-defined “core purpose” for centres. Nor did it spread awareness of children’s centres beyond those already involved in early childhood services, or stimulate the use of wider research evidence in service design.

One key lesson is that the primary objective of the national scheme was too vague to stimulate new thinking: most local authorities felt that their own priorities already matched with the all-encompassing “core purpose”. Another weakness was the disconnect between means and objectives: local authorities were required to use children’s centres to realise the objectives, but four out of six of those specified related as much or more to other services – health, education, and family support. As one local authority responded (on the “school readiness” target), “we struggled with this one. Children’s centres pay a part, but only a part. Many other organisations play a bigger role.” Moreover, four of the national targets were set at level of service use, rather than final objectives. This further reduced local authorities’ freedom to find the best delivery method.

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But the main obstacle to the success of the national scheme was that the incentives were too small to encourage local authorities to do a lot of extra thinking – the budget for reward payments was only £2 million in 2012-13, just one per cent of total children’s centre funding. Unsurprisingly, local authorities dubbed this “insignificant” - estimates of the scale needed to make them take notice ranged from 5 to 30 per cent.

At the local level, many authorities struggled with design. Children’s centres are intended to provide a broad range of services to families, and local authorities were concerned that setting targets for some things would cause others to be neglected. Some were also worried that centres might cherry-pick “easier” families to work with. But some viewed Ofsted inspections as something of a safeguard – and indeed, few actual examples of perverse behaviour came to light.

It also proved hard to set targets for individual centres. Multiple services influence the targeted outcomes for children and centres tend to deliver services jointly with other agencies. Families also often attend more than one centre. Local authorities therefore tended to fall back on targets based on intermediate measures of service use rather than service impact (two-thirds of targets were of this kind). This, of course, reduced centres’ ability to experiment.

Finally, PbR ran counter to a prevailing ethos of support rather than penalty for poorly performing centres. This ethos was firmly expressed by one trial participant: “Those who don’t get the rewards are the ones who really need it – and those families and children deserve it as well.” This is a common refrain in public services, but an important premise of PbR is that providers should take responsibility for achieving improvements, preferably underpinned by systems to spread best practice.

GOING FORWARD

Despite all the difficulties, however, most authorities reported that PbR would probably continue in the absence of the national scheme which ended in March 2013 - a notable achievement for something so difficult to get off the ground. And the trial has proved valuable in identifying some key lessons for future PbR schemes of this kind:

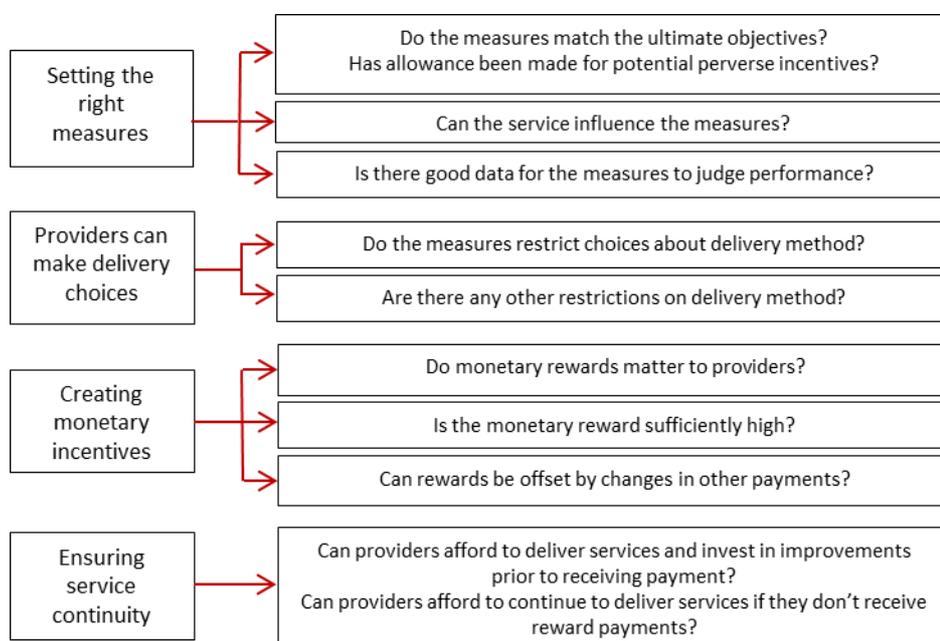
- Refine measures of success to ensure they are clear, relevant and applicable;
- Set them for groups of services or centres if it is hard to relate a key target to each one;
- Don’t fall back on intermediate targets of service use – ensure providers can experiment on how to deliver success;
- Set incentives at an effective level;

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- Ensure there are counterbalances to the risk of perverse incentive effects; and
- Ensure PbR “penalties” can be applied without hurting service users, by making sure there is an institutional framework for supporting or replacing failing providers.

To help embed these lessons, and avoid errors of design and implementation in future PbR schemes, Frontier has built a schematic “checklist” around the four key elements of success (see below).

Checklist for success of a PbR scheme



The desire to continue with PbR in relation to Children’s Centres demonstrates the appetite for financial incentive schemes to drive innovation and improve performance in public services. Following through this checklist should help avoid, or at least anticipate, the generic problems thrown up by this useful trial.

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