Local Compact Survey results: briefing 4 – Payment by Results

August 2013

Payment by Results (PbR) is becoming an increasingly common way of funding public services. The coalition government has moved decisively toward a PbR model with the Department for Work and Pension's Work Programme, and the forthcoming Ministry of Justice's prison and rehabilitation services.

PbR moves away from the funding models that are more familiar to voluntary and community organisations like grants and contracts - where payment is given upfront - to a mechanism where payment for delivering services will only be made after agreed results have been achieved.

Payment by results intends to:

- Improve service quality, by offering bonuses for performance improvement, or withholding payment for poor performance;
- Improve transparency around spend, by putting a tariff on services and user needs;
- Ease pressure on public spending budgets by staggering payments over longer time periods.

However there are problems and challenges involved in a shift to PbR contracts:

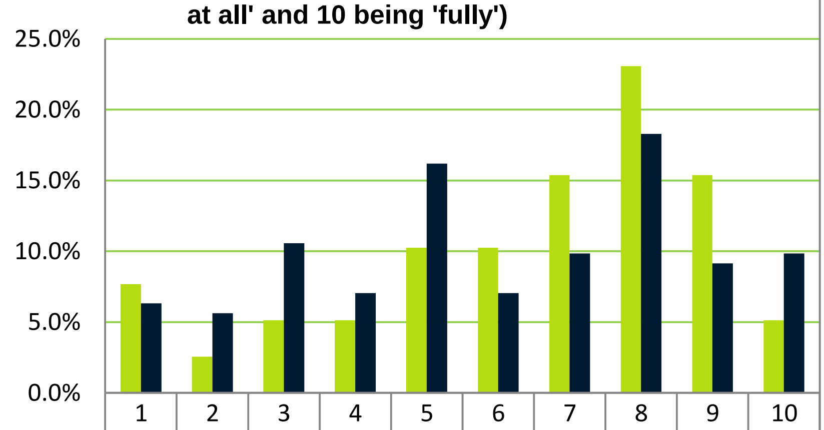
- Many Voluntary and Community Organisations (VCOs) struggle with requirements to hold a certain level of capital to be able to bid for PbR contracts
- smaller organisations, including those in the Voluntary and Community Sector (VCS), are likely to struggle to be able to manage their cashflow and to fund other operations whilst waiting for payment
- VCOs, of which many are small organisations, may struggle to handle the higher levels of risk associated with PbR contracts
- Having the skills and capacity to deal with a new type of contract and funding landscape, including the potential added complexity of measuring and reporting outcomes for PbR contracts
- How to fully recover costs, a key and long standing principle of VCS funding, when a PbR model is applied. This may be further complicated in a subcontracting model.

Compact Voice wanted to get a better understanding of if and how PbR mechanisms could affect local voluntary sector organisations, as well as the potential impact it may have on service delivery now and in the future. In our survey this year we asked a range of questions around PbR, and some of the findings are discussed below.

What our survey showed

Figure 1 (below) shows that the majority of responses suggest some understanding of PbR - although a significant amount of respondents stated that they had little to no understanding of it. Understanding around PbR is also mixed across sectors. This is not unexpected as PbR is still not a commonplace method of funding. Yet as the practice of PbR grows, understanding of how it works needs to improve to ensure VCS organisations can engage with it.

Fig. 1: How well do you understand PbR? (with 1 being 'not at all' and 10 being 'fully')



	1	2	3	4	5	6	7	8	9	10
Local Authorities	7.7%	2.6%	5.1%	5.1%	10.3%	10.3%	15.4%	23.1%	15.4%	5.1%
VCS	6.3%	5.6%	10.6%	7.0%	16.2%	7.0%	9.9%	18.3%	9.2%	9.9%

Figure 2 highlights some interesting divisions between the sectors on perceptions of the practice of ‘creaming and parking’. ‘Creaming and parking’ describes a situation where providers choose to work with certain service recipients because they believe them most likely to achieve a desired result, and therefore deliver a financial return in a PbR model.

This means that those service recipients least likely deliver a financial return, or whose needs are too costly and complex to address, are 'parked' to other organisations within a supply chain, which may not benefit from a PbR model if results are not delivered. It also means that service recipients who need the most help may not get it.

We asked respondents to tell us how often they believe this practice takes place. We can see that local authority respondents believe the practice takes place much less often than VCS respondents. Where almost 15 percent of VCS respondents believe ‘creaming and parking’ takes place all the time, only 2.5 percent of our local authority respondents thought this.

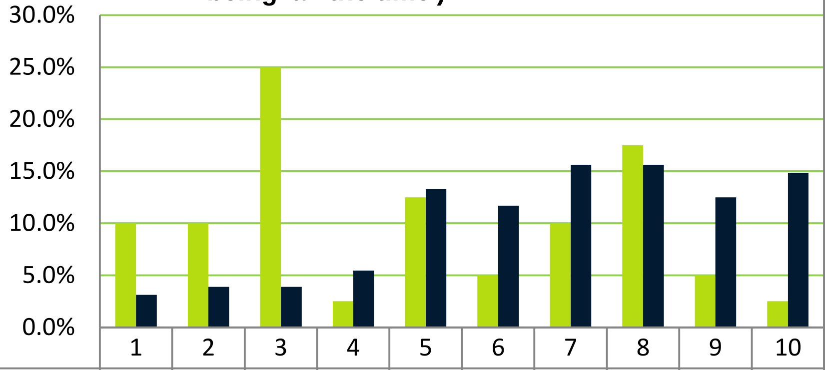


Fig. 2: How much do you believe the practice of 'creaming and parking' takes place? With 1 being 'not at all' and 10 being 'all the time')

	1	2	3	4	5	6	7	8	9	10
Local Authority Respondents	10.0%	10.0%	25.0%	2.5%	12.5%	5.0%	10.0%	17.5%	5.0%	2.5%
VCS Respondents	3.1%	3.9%	3.9%	5.5%	13.3%	11.7%	15.6%	15.6%	12.5%	14.8%

As stated, the capital requirements of a PbR contract may prohibit small to medium VCOs from competing. Our survey asked about the extent respondents thought that this was the case.

Figure 3 (below) shows that 42.1 percent of VCS respondents believe that the capital requirements and financial risks involved 'completely' limit the VCS's capacity to compete for contracts, as do 28.2 percent of local authority respondents. This is high across both sectors and shows how widely accepted the challenges of PbR are.

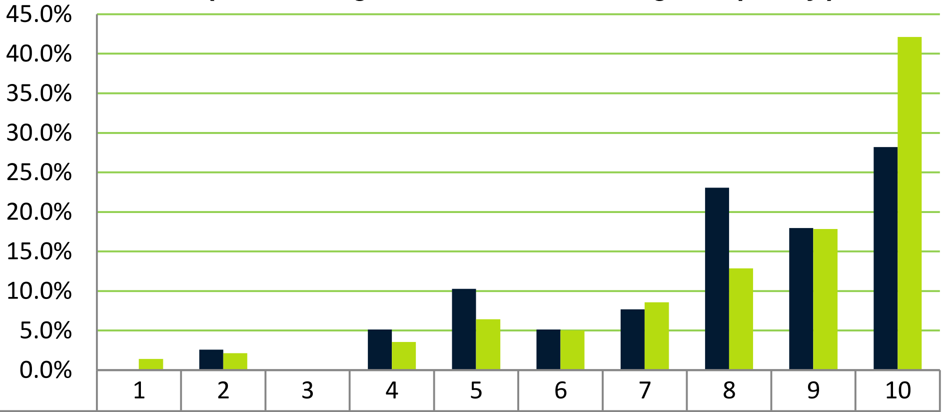
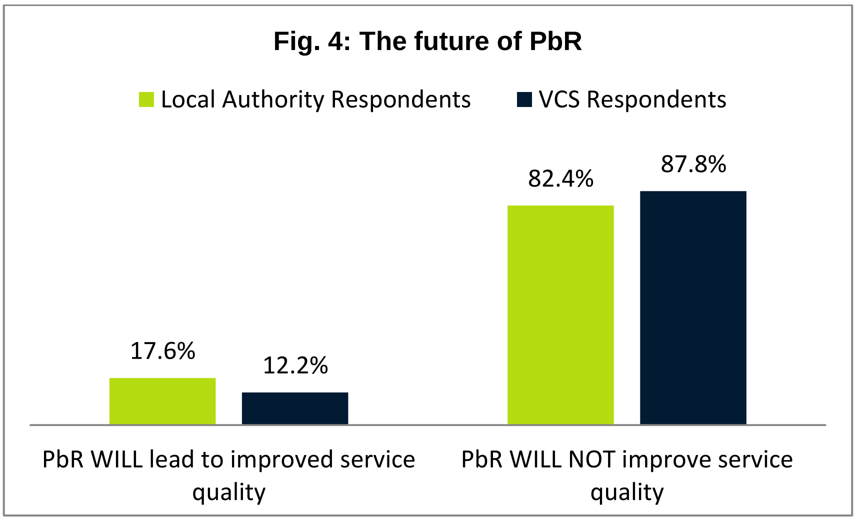


Fig. 3: Do you agree that 'The capital requirements of PbR, and the financial risks involved, can limit VCS capacity to compete for contracts'? (with 1 being 'not at all' and 10 being 'completely')

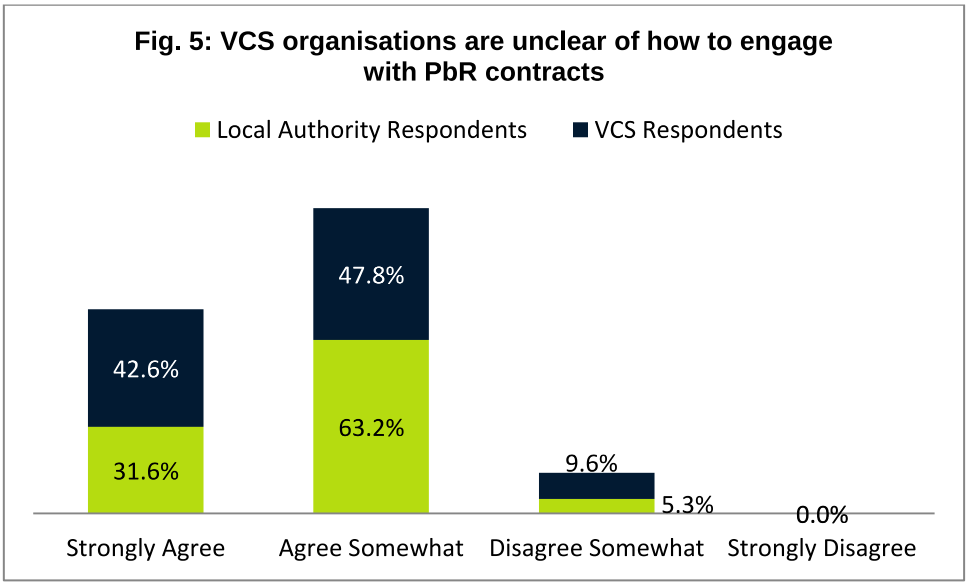
	1	2	3	4	5	6	7	8	9	10
Local Authority Respondents	0.0%	2.6%	0.0%	5.1%	10.3%	5.1%	7.7%	23.1%	17.9%	28.2%
VCS Respondents	1.4%	2.1%	0.0%	3.6%	6.4%	5.0%	8.6%	12.9%	17.9%	42.1%

We also wanted to find out how respondents felt about the potential of PbR to improve the quality of services in the future. Figure 4 (below) illustrates that alarmingly, the vast majority of respondents across both sectors do not believe that PbR contracts will improve service quality.



Finally, we wanted to understand whether part of the problem with PbR contracts was a lack of clarity about how to engage with them, and the impact this might have on VCOs' ability to compete effectively.

Figure 5 clearly shows that respondents from both sectors feel that VCS organisations are unclear of how to engage with PbR contracts.



What Compact Voice says

The PbR mechanism marks a potential challenge to the commitment to upfront funding embodied in principle 3.10 of the Compact, which states:

"Ensure that the widest possible range of organisations can be involved in the provision of services through appropriate funding and financing models, for example outcome based payments and payment in advance of expenditure."

A payment model that relies solely on PbR may exclude certain organisations from potentially taking on a contract. However, choosing to use a PbR model should not automatically preclude an element of upfront payment to cover operating costs, and this should be considered where appropriate.

Grant funding arrangements also remain significant to VCOs, who should be aware of the benefits of a mixed-funding model. An upfront payment applies particularly to projects or contracts where innovation is one of the stated goals, as an element of grant or guaranteed funding may be required to ensure that the space and capacity for innovation and experimentation exists.

If funders or commissioners do decide to opt for a PbR model, then it is essential that the sustainability of the organisations they wish to potentially work with are considered. The Compact states that at least 12 weeks' notice of changes to funding arrangements should be given to the sector. When a transition as major as a move to PbR is taking place, commissioners and funders should be aiming to give as much notice as possible. It is particularly important in times of transition to communicate and engage clearly and early with the VCS, particularly given the very challenging environment that the sector is operating in.

Finally, local Compacts can lead to strong partnerships between commissioners, providers and the wider VCS. This will make any transition to a PbR model more manageable, and help to ensure that this changed funding mechanism can fulfil its potential as a positive reform to public services.

Next steps

Compact Voice is committed to working with our members and the wider VCS to ensure that Compact principles are being used to shape decisions and to improve the operating environment for the sector.

If major changes - such as a wide scale transition to PbR - take place then it is essential that decision makers across all sectors are aware of Compact principles and take them seriously. Compact Voice will work to ensure this is the case.

More resources around PbR are available on the NCVO website. And if you would like to discuss PbR, or issues around other contracts, then Compact Voice would like to hear from you. Please contact compact@compactvoice.org.uk, or call 020 7520 2451.

This is one of a series of documents looking at the results of Compact Voice's third annual survey of local Compacts. The full report with all the results will be published in August 2013 and will beavailable on the Compact Voice website: www.compactvoice.org.uk.