Commissioning for Outcomes – The role of social finance

Introduction

The aim of this paper is to spark a new conversation about commissioning for outcomes – prompted by our recent work at OPM on new social investment models such as social impact bonds. These have been encouraged by new initiatives such as the launch of the Life Chances Fund - but are they simply solutions looking for problems – or can we begin to see how these new models might fit into a radical and more effective approach?

At OPM we have been developing out thinking from several strands of work: as an employee owned, public interest company we are committed to improving social impact and are exploring through our systems leadership work ways to do this in an environment of economic uncertainty; as consultants providing training for commissioners, we are concerned that current procurement practise is often ill-fitted to commissioning innovative approaches; and as evaluators of social funding experiments such as social impact bonds, we are keen to share the learning about what works, and the challenges faced.

As austerity bites, it is more and more important to measure the effectiveness of what public spending achieves – but a whole range of new questions now arise – Do we really know how to commission for outcomes? Do we risk 'gaming' and 'working to the target' at the expense of customer and consumer experience and benefit? Does it make sense to move away from market competition based on specifying activity, to partnership arrangements? Is it realistic to achieve 'rates of return' for social investment? What role can the private sector play in achieving social outcomes?

This paper is intended as a provocation to government, commissioners, providers and investors to begin a richer conversation that doesn't assume we already know the answers. It draws from learning about systems leadership, experience of teaching commissioning programmes and our work in evaluating social investment experiments. Many people have contributed thinking to it, in particular a small round-table group which met over the summer, to whom we would like to record our thanks for challenging and provoking our thinking. (See appendix A) We hope to spark a wider conversation – and to continue to explore these issues over the coming months.

The search for outcomes

Over the past decade, we have seen public organisations shift from delivering services – either in house or through outsourcing - to commissioning for outcomes. Ground-breaking initiatives such as Total Place and community budgeting shifted focus towards the potential social outcomes that might be achieved in a city or town or region, if many organisations pooled their thinking and their resources. Total Place began a process of identifying the waste and failure caused by different organisations in a fragmented system all try to commission activity separately – and graphically identified overlaps, gaps, contradictions and failures. As a result, although this process is painfully slow, commissioning organisations are beginning to align or integrate.

Once public service leaders began to focus on outcomes, it became clear that in whole areas of public policy problems seemed resistant to conventional state intervention and results, despite the investment of many millions of pounds, were shockingly poor. In some cases public spending made no impact on the desired goals – sometimes it made things worse – or public agencies tripped over each other and undid the good others were trying to achieve. Often the experience of vulnerable service users and of front-line professionals was of inflexibility, delays, barriers, obstacles. A few complex families or individuals cost hundreds of thousands of pounds, without experiencing a good outcome. Mental and physical illness was not responded to until it was too late. Some projects failed – but continued – and others succeeded, and were cut when special funding ran out. Multiple failures 'up stream meant that spending was concentrated at the 'crisis' points – by which time intervention was very expensive. We didn't know what sorts of interventions would make a difference – but we did know that what we did now was expensive and often had a deleterious effect on life chances and well-being.

Achieving better outcomes was not, therefore just a matter of 'trying harder'. The findings challenged a whole set of assumptions about how to tackle poverty and vulnerability – about the role of government and the possible ways to impact on public behaviour or attitudes.

Can commissioning and procurement be adaptive?

Recent work of the Leadership Centre, the Virtual Staff College, and others (quote) has built practical expertise in the leadership required to achieve real social change – the sort of leadership described by Ron Heifetz in his book 'Leadership without Easy Answers'. Heifetz argued for a need to shift from transactional to adaptive leadership. Effective systems leaders would:

- Name the challenge – leaders needed to say, honestly, what the problem was and how serious it was
- Build a sense of shared endeavour – leaders would start with their own values – and connect to the values of others to motivate them to share in an endeavour that would tackle the challenge head-on.
- Create a holding environment – instead of pretending to know the answer and give orders – leaders would create a safe space in which many brains could work together on how to solve the problem – involving staff, professionals, managers, service users, the private and third sectors, community groups – launching an 'enquiry' into finding a good answer.
- Reframing – leaders would create a narrative that would challenge old assumptions and unstick thinking by reframing the issue – and helping to find shared solutions
- Building strong relationships – since no-one knew the answer, this was a collaborative endeavour – and relationships had to be strong enough to navigate the difficulties – recognising it might take several attempts to find a way through – and not blaming or finger-pointing when things went wrong
- Leaders then, needed personal qualities that would make this happen – generosity, patience, courage, a willingness to allow others to take the lead.

While top executives can promote and nurture experiments within the organisations they lead, the conventions of procurement and contracting make it hard to incorporate this sort of creative process. And while there is often good and creative thinking by commissioners before going to market, the procurement process itself often involves posting a detailed specification and expecting detailed bids to match that specification, and then choosing on the basis of the lowest price for a given quality – with the expectation that the commissioner has the expertise to define the activity required, and the market can offer providers with the expertise to deliver.

But this approach makes far less sense if the solution is unknown, or if there are no current providers willing to experiment, or if the providers in the market don't exactly know what a solution might look like, or if the solution will involve a number of organisations co-operating together, or if the public are active participants in whatever solution needs to be created.

> *"There are times when we have put something out for tender – and got no response at all." (Commissioner)*
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> *"The current way of procuring doesn't realise the best value. For example, the Social Value Act is not used. There are tools, but people don't know about them. (evaluator)*

Austerity exacerbates these tensions, since public organisations have less and less money to meet rising needs and expectations. Once salami-slicing has reached bone – many look to prevention and early intervention to reduce spending. But this involves experimentation, without the assurance that the savings will actually be realised. And with less money, public organisations often become defensive and risk averse. And increasing need means that providers, even when they become more efficient and effective, respond by increasing the volume of their activity to match growing demand, rather than making savings.
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Commissioners in both health and local government face the enormous challenge of tackling deep seated problems of poverty, vulnerability, poor heath and are understandably anxious about taking major risks - but are caught both ways: they face the prospect of spending a huge amount at crisis stage if prevention fails, but might also spend a lot of money on prevention that doesn't work. Even if prevention activity succeeds, the benefit or saving may not necessarily accrue to the organisation that invests in prevention.

Is social financing the answer?

It is into this fraught environment that the idea of social financing has been introduced – the idea that providers could be commissioned through a payment by results system that means that public sector organisations only pay out if the desired outcomes are achieved – and ideally if further spending upstream can be prevented – creating 'cashable savings'.

Government has been actively encouraging social investment, through its exemplar programmes such as the Work Programme and initiatives such as the Life Chances Fund and the Outcomes Laboratory at Blatvnik School of government. And increasingly both health commissioners and local authorities have become interested in the use of Social Impact Bonds or similar funding vehicles to fund new initiatives.

However considerable scepticism remains. It is argued that financial incentives attached to crude outcomes encourage providers to cut corners or to ignore perverse or unintended consequences. Recent research suggests that outcome targets encourage 'gaming' or 'playing to the target' rather than achieving holistic goals. Social investment adds cost, making commissioning more complex and more expensive, with third party organisations taking a share of any return. And the emphasis on cashable savings may be at the expense of the user experience or outcomes that service users or carers value.

So what can these new funding vehicles contribute?

Social investors argue in response that if they are capable of delivering more efficient or effective services, then everyone wins. They suggest that they are competing with other more conventional forms of borrowing, and so will only be chosen if they are competitive. And they argue that creating a rate of return for public or charitable bodies enables funds to be recycled, achieving more.

One important question is whether social financial introduces new money into the system. Could this be a source of funding that could replace government cuts and sustain public services into the future? In the UK, so far, the answer appears to be no. The ultimate source of funding for almost all these initiatives comes from central or local government, and the social investment is simply a vehicle for providing the operating capital until outcomes are achieved – although the role they play in sharing risk means that in some cases the investment is subsidised. While in the US, social investment has attracted new players into the market; in the UK the main funders are charitable foundations that were funding social innovation already.

This may not be inevitable. If models can be developed at scale, it may be possible to attract new social investors, and perhaps to attract investors attracted by the social return if outcomes are achieved, rather than by a financial return. In addition, the prospect of a rate of return may release public funds currently invested in commercial activity or property or held in reserves. Anyone who remembers the interest rate swap fiasco of the 1980s will recall that public money is not always invested wisely. Scalable funds that enable public sector organisations to invest by spreading risk across many initiatives might be more attractive than one-off commercial ventures.

"There are a lot of examples of poorly used money. The new threats mean there is a risk averse response, lots of squirrelling away of money..for example buying up property. But is that the best way to use our money – when in other parts of the system, for example, the foster care service is struggling with the high cost of placements? The mechanisms for achieving better value for money are very underdeveloped." (commissioner)

Social investors, however, argue that the question of whether this is new money is a red herring. They argue that social investment adds value in other ways. Rather than simply being seen as a source of finance, they should be seen as a source of help, challenge and management – rather like the dragons in Dragon's Den.

Their focus on the outcomes means that they are able to understand the complexity of how outcomes can be achieved, and to challenge both providers and commissioners to think in new ways; constantly adapting the delivery system until improvements can be seen. Their understanding of how to improve performance can both challenge and support small and charitable organisations to change patterns of working. Their lack of vested interest in current patterns of delivery and their focus on the performance data means that they are quick to spot failures and agile in thinking about solutions. They, more than commissioners or providers, offer a relentless focus on results.

> *"Performance management needs to be continuous and you can't take your eye off the ball,.. It's not enough to get to your end of year and then say it wasn't quite right.. The level of SIB scrutiny is good practice and should happen across the board. "Investor*

"*The way some charitable organisations manage delivery is not always very efficient, they need active management, and it's not always as active as it is in Teens and Toddlers. I've heard of experiences where someone crucial goes on long term sick and nothing happens. This is an opportunity to make sure delivery is effective at benefiting service users."*

Providers organisations represented in our round table were v very positive about this process. They also argued that providers needed to be working in effective partnership with commissioners

> *"We would like regular meetings with the commissioners as active partners more often – and proper discussions to make sure the collection of data is not onerous. You need to involve delivery partners in deciding the outcomes and developing an outcomes dashboard." (provider)*
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> *"Sometimes as well as contributing new skills, a community-led or charitable provider can nurture a change which the council can't do so easily because of the baggage it carries." (provider)*

The challenges presented by new models

At the same time, our evaluation of public service experiments in using social impact bonds suggest that current models present new challenges. In the first place, they often bring together a new group of leaders and organisations that have not worked together before and don't understand each other's needs or motivations. This can lead to a lack of clarity about the desired outcome, or different interpretations about what this outcome might mean. The frenetic pace means there is not enough time to think, not enough exploration of the implementation risk as well as the outcome risk, and not enough engagement of the operational staff who need to make it work. This can be compounded by the conflict create by the different risk appetites and motivations of each player, and different expectations of risk to return. And even if all these players agree, there can be a tension between system-defined outcomes such as cashable savings, and the outcomes that matter to service users.

Of course, these problems don't simply relate to the social impact bond themselves, they apply to any outcome based model – but the additional expectation of a rate of return makes these tensions more visible.

Other problems are in part because these are early experiments. Concern about risk can lead to over-complex governance arrangements. Early stages can produce unintended consequences that require considerable adjustment from the original plans, while tight performance regimes and fixed targets make such adjustments difficult. Additional monitoring processes lead to duplication. The need for new, and more detailed data, collected and reported more frequently, adds cost. As partners learn how to work together it should be possible to streamline these arrangements.

"Cooking the conflict"

In systems terms, the additional support and pressure brought by a third party may be helpful rather than unhelpful. Ron Heifetz terms it 'cooking the conflict'. In whole system change it is often vital to prevent the system from ignoring or denying these problems. It is all too easy for organisations to explain away a failure or avoid system disturbance by deflecting the actions that would make a real shift. It is hard to overestimate the inertia in both large and small organisations and the difficulties involved in disturbing cherished beliefs, professional assumptions, or long-standing interests. By acting as the ‘grit in the oyster’ social investors can focus attention on the crucial question – is the desired outcome being achieved?

One of the impacts of a social funding model, then, is precisely that it surfaces the difficulties being experience and forces all the players to work together to solve them. The role played by the social investor is not simply about the technical funding approach which social investor colleagues have played down, arguing consistently that ‘*the financing is secondary’*. The value inheres in the skill and quality of the performance management, enabling providers to adapt and bringing commissioners to the table when things are going wrong.

This is not a role that only private sector players can play, but it always seems difficult for public sector agencies to do this without external challenge. It is important, if public agencies are commissioning for outcomes, that they have powerful ways to learn, from service users, the front line and from partners – to ensure they respond when change is ineffective, or there are unintended consequences, or targets turn out to be wrong, or partial.

When are social funding arrangements most effective?

How far do social funding arrangements simply highlight the problems of commissioning for outcomes, and how far do they help to tackle them?

It has been argued that the ‘payment by results’ approach work best when there is clarity about outcomes and a strong evidence base. Early social impact bonds experiments have been based on ‘licensed ‘ interventions with a fixed process which is carefully evidenced. But this approach has its own challenges, since a rigid approach can be difficult to transfer to a new setting. Services are inter-dependent and professionals need to work together across boundaries, which means that even evidence-based interventions require constant adaptation to succeed. Again, the challenges of the financial model restrict the scope for innovation, collaboration and creative thinking.

And yet it is in those areas where current public policy is failing to deliver outcomes where we need the greatest innovation, the broadest stretch of the imagination, the most generous collaboration. Where we find outcome failure, there is neither long standing professional practice to rely on, nor a mature market of alternative private, third sector or community providers ready to step in. In some of the most problematic areas there is no market at all, unless commissioners cajole and encourage providers into the space. Rather than try and limit social investment to a narrow group of tried and tested interventions, can we use social finance to spur greater experimentation?

Experimentation and creativity often comes from smaller community or third sector providers, but they often struggle in conventional competitive tendering. Social investors have played an important role in supporting and performance managing smaller providers to enable their creativity to flourish. Social investors can also knock heads together – forcing commissioners and providers to face and solve problems. With the right skills, their ‘relentless focus’ on the outcomes can offer vital challenge.

"Commissioners need to get better at talking to the provider market. They don't know where to start. So it feels risky and the put too much governance around it which shuts it down." (investor)

"*I would like to see more smaller organisations involved. There is some brilliant innovative work but current arrangements require large volumes. Some smaller charities are developing great innovative work, but they can't compete. Smaller charities don't know how to get onto the radar – they need some sort of toolkit to learn how to take advantage of the opportunities." (provider)*

A new relationship between commissioners, providers and investors?

The advice of our round table experts is that the funding model is the wrong place to start. They argue that the actual funding mechanism is far less important than the process of understanding the outcome that is to be achieved, and building the right sorts of partnership arrangements to achieve that outcome. It may be that if we can capture the strength of different perspectives and ways of seeing, we can more easily achieve outcomes than if one single set of organisational perspectives dominates.

"The key is getting lots of different people together. For us, relationships have built up strongly over the years, so we have become a team of providers, investors and commissioners"

Commissioning for outcomes implies a broader strategic commissioning role – developing clarity about risk appetite – distinguishing between those commissioning areas where a clear outcome is anticipated and those where a conventional service is being delivered – and identifying prevention activity where there are expectations of a rate of return.

In an ideal situation, commissioners would regularly review those areas where, despite best intentions, outcomes are not being achieved, or where current projects offer poor value for money, and identify those areas where a radical approach might be needed. They would have a good knowledge about effective practice elsewhere, both in the UK and in other countries, together with an understanding of the different economic and policy contexts which might make practice difficult to transfer. Commissioners would have a good working knowledge of the strengths and weaknesses of the different funding models and the circumstances in which they were likely to be most effective.

Where there is most to be gained is in the development of stronger and richer relationships, between commissioners and providers, investors, professionals and service users – to create a stronger understanding of outcomes and how they are achieved, and a process of continuous development and improve emend.

Commissioners would spend time working alongside providers, partners and communities to explore the outcomes that are realistic and desirable, and build up stronger shared knowledge about patterns of causality and how interventions might achieve a shift – without making naïve or simplistic assumptions about how actions will achieve results.

Some of the learning from social investment experiments offers good advice about an effective process:

- Time to plan for effective collaboration, with strong relationships between key players, building trust
- Time to explore and agree outcomes – shared work to understand causality and ensure that the interventions are appropriate
- Flexibility so that approaches can adapt and change as all players learn more]
- Scope to hear from and learn from the front line- understanding their experiences and testing the effectiveness of what has been planned - scope to learn throughout the system
- Shared literacy in what sorts of funding systems work best in which situations
- Strong relationships with providers and funders – with a shared understanding of the problems and dilemmas and a shared picture of the desired outcome and
- An active process of challenge and performance management – holding everyone's feet to the fire
- A relentless focus by all parties on the right data and evidence – constantly trying to understand why trends change – careful not to be fixated on the wrong targets, looking out for unintended consequences
- A range of different funding models and strong system wide approaches to managing risk – enabling both the attraction of new funding and releasing resources from reserves etc.

At the same time, there is an important role for government, academic institutions and the infrastructure bodies such as LGA, ADSS, NHS England - funding innovation and experimentation, creating a national R and D function – and go labs etc. can do this – need also scope for practice exchange

One potential prize would be an approach to commissioning which begins to overcome the problem if financial gains are made by another organisation other than the one that funds it. Commissioning models that include social investment offer school for agreeing how to share risk and reward between parties and – role of cabinet office.

Next steps:

At the close of our round-table discussion we asked participants for suggestions about how to take thinking to the next stage.

One suggestion was to work with local authorities and commissioners to identify those areas where current procurement was not providing value, or achieving outcomes. One example was community transport, where current models were very expensive, but there was no real interest by either service users or providers in making a change. Other similar areas might be out-of-town placements for disabled children, care and housing solutions for people with dementia –areas where the failure to agree about how to manage risk ah s led to unstable and expensive markets.

“Don’t start with finance. Start with services – in adult social care or children’s services, where current mechanisms are not working. Bring together different people to say ‘this is our experience’ – and work out what to do differently.” (Commissioner)

Another suggestion was the need for far better practice exchange – and an exploration of what works best.

“*You can’t underestimate the impact of abolishing the Audit Commission. They used to know what was happening in practice and share this. Now we’re trying to work without an evidence base “(Commissioner)*

“Ironically, while there has been a lot of work in exploring ‘what works’ in delivery systems, but far less attention has been paid to ‘what works’ in commissioning and funding systems”.(Social investor)

A third suggestion was better education for commissioners. They needed to challenge current assumptions and develop a better understanding about how different markets work, how to manage risk effectively and the range of different commissioning approaches available.

A future agenda?

From our initial discussions, it seems that the following would be helpful:

— More research and comparisons of the impact of different approaches and funding models and the factors impacting on success

— Better and different conversations between commissioners, providers and social investors at national as well as local level

— Build a better picture of the real added value of a third party investor – ensuring that they have the skills and aptitude to performance manage providers in the right way, and to build relationships with commissioners that ensure outcomes can be achieved

— Develop different commissioning skills

— Improve practice exchange about what sorts of interventions impact on social outcomes and the reasons why different sorts of interventions work

— Develop ways to actively engage smaller providers and charities

OPM is taking some of this work forward, but would welcome any contributions to the discussion, and any suggestions. In particular, we are keen to talk to local authorities or commissioners keen to take forward the idea of an ‘outcomes summit’ where we can identify areas of poor value, and bring together a set of expert participants to help design a different approach. Please contact Sue Goss if you are interested in taking part, sguess@opm.co.uk .