

What is payment by results?

Put simply, it is a way of funding services that pays them money for delivering specified outcomes. Under payment by results, you do not get allocated a budget to run a service over a given time period. Funding depends on what the service achieves – for example, on how many hip replacements it performs or how many people it gets into sustainable employment.

So what's it got to do with me?

The Government is aiming to introduce payment by results into drug and alcohol treatment. The cabinet office minister, Oliver Letwin, is leading this work in Government. A group of civil servants from a number of government departments are working at the moment to hammer out the details.

Five or six pilots are planned for 2011, and there were even some indications that Government was aiming to introduce pilots by the Spring, but this now seems less likely. Payment by results will also be at the core of the Ministry of Justice's 'rehabilitation revolution' - we're expecting a Green Paper on criminal justice reform any time now.

What's the appeal of payment by results?

Payment by results is seen by the Government as a way of encouraging services to focus on outcomes, in a way which it believes is less top-heavy than centralised targets. If you want services to be more focussed on 'recovery' and 'outcomes', then what better way of achieving this than paying them for results?

If you get extra money for every service user you move into work - for example - you are going to devote more energy to developing activities and building partnerships that help to achieve this. At least, that's the theory.

Any other reasons this appeals to Government?

The Government wants to cut 'red tape' and give a bigger role to the market. It wants to encourage innovation with less central direction on how to run services. The idea is that services that can deliver the desired results will get the money, and it will be much more down to them how they go about it. Public, private and third sector providers will compete on who can deliver best.

Payment by results has also been presented as a way of cutting costs and improving efficiency – for example, by the NTA in its current business plan. If you're paid a fixed amount for achieving the outcome, then you will want to deliver it as efficiently as possible – it is less obvious how this translates into savings for Government. There is perhaps a general assumption that a more market-orientated approach will drive down costs.

Is it also linked to the 'Big Society'?

Certainly the Government sees it as providing more opportunity for third sector organisations to show what they can do. Questions are being asked, however, about how smaller local charities can start up and survive if they don't get any money until they've delivered outcomes that could take months or years to come through.

One possibility is a 'mixed' approach where some funding is activity-based and the rest depends on results. The Government is considering loans to enable new and smaller organisations to compete in a payment-by-results system. In September, the Secretary of State for Justice, Ken Clarke, helped to launch a £6 million 'social investment bond' scheme for resettlement services in Peterborough, which could provide a model.

How much will the payments be?

The level at which the payments or tariffs are set will obviously be critical for payment by results. Elsewhere in the NHS, tariffs have been set to reflect average costs of delivering a service or at a rate that reflects agreed good practice.

It is not clear how this would apply to setting tariffs for, say, moving somebody with a long term addiction problem into stable accommodation.

It is often said by advocates that payment by results rewards whatever approach can deliver the outcome. But this is a bit misleading - some approaches may not be affordable if the tariffs are set too low. Conversely if they are set too high, too much public investment could be creamed off by providers (for example, in profits for private companies).

So what outcomes will we be paid for delivering?

We do not know yet. Initial indications are that there will be four "domains" covering participation in education and employment, housing, crime reduction, overcoming drug dependency and cutting drug use. We understand that consideration is also being given to health and mental health outcomes. Even if Government does go with these domains, it is not yet clear how outcomes in these four areas will be spelt out in detail.

A key challenge will be to get the right balance between ambition and realism. If you set the bar too high then this can create a 'perverse incentive' for providers to 'cherry pick' or 'cream-off' clients, which could exclude those with the greatest needs. For example, if you only get paid when service users moves into employment, then you will tend to focus on those who are nearest to being 'job ready'.

One way of dealing with 'cherry picking' could be to pay services a premium for achieving results with the most challenging clients. An obvious question here is how clients are classified to decide when a premium should be payable, and who decides this?

Consideration is also being given to 'distance travelled' payments - services get money for successfully moving service users towards the ultimate goal. One question this raises is how payment by results will work for people whose starting point on the 'recovery journey' is different to the norm - for instance, lots of people with substance misuse problems are housed, in training or work and are not offenders, so for those individuals, several of the payment by results outcomes are already 'achieved'.

How long will services have to wait for results-based payments?

It has been pointed out that some outcomes can only be assessed after a significant time period. For example, how long do you wait before concluding that an intervention has been effective in preventing re-offending - six months, one year, two years?

Similarly if you reward services when service users have overcome drug or alcohol dependency - then when do you assess if they have achieved this and what happens if they relapse? And how do you assess this? Do you rely on self-reporting or drug tests or both or what?

Again, a 'mixed' payment by results system may be the better suited to manage some of these issues.

Who gets the money?

Moving people with drug or alcohol problems into housing and employment or cutting re-offending, for example, will depend on the work of a number of different agencies. It will also reflect wider external conditions that will vary from area to area - such as social housing stock and job opportunities.

The drug strategy consultation is clear on the need for holistic and joined up approaches to recovery. So presumably the Government will want the payment by results system to encourage joint work, common ownership of outcomes and fair and effective mechanisms of distributing the payment for results from shared endeavours.

One model is that larger organisations would take on the role of 'prime contractor' to be paid for achieving the desired outcomes with a given percentage of service users. They then subcontract service delivery to individual providers - which could include drug and alcohol, rehabilitation, housing, employment and other services. But this is only one model and the details are not clear.

It sounds complicated - are there examples to build on?

It is a 'big ask' to sort this out for 2011, and in the context of drug and alcohol treatment the government is moving into largely uncharted terrain. Payment by results elsewhere in the health service is not really outcome-based in the same way. Pathways to Employment is a closer fit, but has arguably highlighted as many problems as it has resolved (see, for example, the report published by the Public Accounts Committee in August - <http://www.publications.parliament.uk/pa/cm201011/cmselect/cmpub-acc/404/404.pdf>)

On the other hand, some serious thinking is being done by senior civil servants across Government and the pilots are not intended to be the final word, but a way of developing and fine tuning different models over the next two or three years.

Payment by results has its cynics and critics. At the same time, service providers highlight the potential opportunities for innovative third sector provision and welcome both the loosening of central control and the increased focus on outcomes and recovery.

Do I need to worry about it if I'm not in one of the pilot areas?

Well, it's certainly worth bearing in mind that most localities will not be in the pilot areas and so may not be directly affected for some years. But, yes, all areas will be directly affected by a shift towards outcome-based commissioning.

The Government is determined to move to a more outcome and recovery-orientated approach everywhere else - the direction of travel is set out in the NTA Business Plan for 2010-11. The new drug strategy, due to be published in December 2010, is likely to articulate the government's approach to a 'rebalanced' drug treatment system and the outcomes to be achieved. And there will be other payment by results work that will affect drug and alcohol services - including the Ministry of Justice's 'rehabilitation revolution'.

DrugScope's Director of Policy and Membership, Marcus Roberts, is currently writing up a report on Payment by Results on behalf of the UK Drug Policy Commission.

DoH Payment by Results site:

<http://tinyurl.com/DoH-paymentbyresults>

NTA Business Plan:

http://www.nta.nhs.uk/uploads/nta_business_plan_2010_11%5B0%5D.pdf

Peterborough social bond scheme:

<http://www.justice.gov.uk/news/announcements/100910a.htm>