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# CHAPTER ONE

## Introduction

*Open commissioning and payment by results are critical to open public services. This is not just about opening up services to competition; it is also about empowering all potential providers, from whichever sector, with the right to propose new ways to deliver services, and linking payment to results so that providers are free to innovate and eliminate waste.*

**Source: *Open Public Services White Paper (HM Government, July 2011)***

The *Open Public Services White Paper* sees payment by results (PbR) as a way of incentivising service providers to deliver good services throughout the period of a contract. PbR also offers opportunities to innovate and review the aims and goals of service delivery through the lens of ‘outcomes’ as opposed to ‘outputs’. It has the potential to deliver savings and bring in new resources.

The quantity and range of PbR schemes is currently growing rapidly and this includes initiatives aimed at, for example, reducing reoffending, providing non-custodial options for young offenders, assistance in seeking work, and preventative work with children at risk of going into care.

Innovations in social finance have added another dimension to this area of activity. The social impact bond is an example of this, where a PbR approach is combined with external investors providing funding for services and entering into outcomes-linked contracts with commissioning bodies.

Along with the opportunities, PbR brings with it a number of challenges and risks for commissioning bodies. These include accurately identifying and specifying appropriate outcomes, and balancing provider and public benefit when establishing scheme incentives.

This publication provides an overview of PbR and social impact bonds and considers the accounting issues for public sector commissioning bodies. This is done through the use of a number of scheme scenarios. While this publication does look at accounting for PbR schemes, it does not look at accounting issues from the perspective of investors in a social impact bond.

### USING THIS PUBLICATION

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The main purpose of this publication is to consider various aspects of accounting for PbR schemes and this is done primarily through working through six different scenarios, each designed to highlight different aspects. There is a brief summary of the scenarios in chapter five. Chapters six to eleven contain the six detailed scenarios including relevant calculations and accounting information.

For those who are new to PbR or who want to refresh their memory, chapter two provides an overview of PbR schemes and points to various examples of current and developing schemes in the public sector.

Because social impact bonds (SIBs) are a relatively recent development and because they differ markedly from other PbR schemes, chapter three provides an overview of them. This chapter also provides information on the first SIB scheme to get under way – the Peterborough scheme involving work with ex-offenders.

Chapter four introduces accounting aspects of payment by results.

Chapter twelve pulls together a list of relevant resources including websites, papers, reports and articles. In addition, some chapters include a summary and a list of resources relating to that particular chapter.

Annex 1 provides a short glossary, while annex 2 is a set of tables produced by the Audit Commission which set out the aims of PbR, the associated challenges and risks and ways of addressing them.