



# The political economy of commissioning: commissioning for earlier and better outcomes

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# Contents

<b>Executive Summary .....</b>	<b>3</b>
Introduction.....	3
Findings .....	3
<b>1.0 Introduction.....</b>	<b>7</b>
1.1 Project Overview .....	7
1.2 Methodology.....	8
1.2.1 Rapid Evidence Assessments.....	8
1.2.2 Primary qualitative research.....	8
1.2.3 Limitations.....	9
1.3 Report Structure.....	10
<b>2.0 What factors local government commissioners consider.....</b>	<b>10</b>
2.1 Political factors .....	10
2.2 Economic factors .....	12
2.3 Sociological factors .....	13
2.4 Technological factors .....	15
2.5 Legal factors .....	15
2.6 Environmental factors .....	17
2.7 Other factors .....	17
<b>3.0 If, how, when, and why these factors affect choice of contracting approach.....</b>	<b>19</b>
3.1 Social Impact Bonds.....	19
3.2 Payment by Results .....	20
3.3 Alliance contracting.....	21
3.4 Fee for Service.....	21
<b>4.0 Implication of these factors for commissioning Social Impact Bonds</b>	<b>22</b>
4.1 Overall context – primacy of economic factors.....	22
4.2 Assessing the economic benefits of a SIB.....	22
4.3 Weighing political and sociological factors.....	23
4.4 Full appraisal of all options.....	24
Bibliography.....	26

# Executive Summary

## Introduction

This report, commissioned by **The National Lottery Community Fund** and prepared by **Ecorys** and **ATQ Consultants**, explores the *political economy of commissioning* across local government in England. The report complements Ecorys' and ATQ's evaluation of the **Commissioning Better Outcomes (CBO) Fund**, which is a Fund that supports the development and delivery of 23 outcomes-based projects, including 22 social impact bonds (SIBs) across England. The evaluation, spanning from 2015 to 2025, examines the effectiveness, challenges, and impact of commissioning through the SIB model, focusing on if and how it meets the CBO Fund's broader aim of fostering fulfilling lives and successful communities, particularly for those most in need.

This report seeks to explore **how local government commissioners decide on contracting approaches to achieve earlier and better outcomes in health and social services**. Our research focussed on the following contracting approaches: **Social Impact Bonds (SIBs)**, a form of outcomes-based contract, where (social) investors provide the upfront capital needed for a provider to set up and deliver a service, with investment repaid by commissioners on the basis of the providers achieving measurable outcomes; **Payment-by-Results (PbR)**, where providers are paid based on achieving specified outcomes (a SIB is a form of PbR); **Alliance contracting**, where delivery partners come together to hold a single 'alliance' contract with a commissioner, with payment typically linked to performance; and **Fee-For-Service (FFS)**, which is a contract where payments for services are based on inputs or activities delivered.

The research employed a **mixed-method approach** to comprehensively address the key research aims. The methodology consisted of two **Rapid Evidence Assessments (REAs)** and **primary qualitative research**. The first REA focused on *the factors influencing local government commissioners when choosing a contracting approach*, analysing political, economic, sociological, technological, legal, and environmental (PESTLE) factors. The second REA compared *the advantages and disadvantages of SIBs with other contracting approaches* such as fee-for-service, payment-by-results, and alliance contracting. A rigorous literature search **identified 337 relevant documents**, which were appraised for quality and relevance, resulting in **96 documents being reviewed** in detail. The findings were thematically analysed and synthesised into summary reports. These findings were supplemented by qualitative research conducted with commissioners from **10 local authorities**. A purposive sampling method ensured a diverse range of perspectives, including local authorities that had employed both innovative and traditional contracting models. Data collection involved **remote and in-person interviews and workshops**, conducted from August to November 2023, with a **total of 13 participants** discussing various contracting approaches across health, adult social care, and children's social care.

This report brings together the findings from the REAs and qualitative research to consider how various factors influence commissioner decision making and if, how, when, and why these factors inform commissioners' choice of contracting approach. It then considers the implications of the research on the commissioning of social impact bonds.

## Findings

The table below summarises the key findings relating to what factors influence commissioner decision-making. Overall, the research emphasised **the strong influence of economic factors** in shaping commissioners' decisions, there was less evidence on the role of technological and environmental factors in shaping decision-making.

Table 1 - PESTLE Factors and how they influence commissioner decision making

PESTLE Factor	How factor influences decision making.
<b>Political Factors</b>	<ul style="list-style-type: none"> <li>▶ Central government policy has influenced how commissioners contract social services and the contracting approach they opt for. In particular, the emphasis on outcomes-based and integrated commissioning, have shaped the commissioning environment and local commissioners' preferences</li> <li>▶ Consistent and transparent commissioning frameworks, developed at national and local levels, helps improve LAs' ability to procure high quality services and achieve value for money.</li> <li>▶ Local political dynamics, such as the views and priorities of elected officials, may influence commissioning decisions but limited evidence on them affecting contracting decisions</li> </ul>
<b>Economic Factors</b>	<ul style="list-style-type: none"> <li>▶ Research with commissioners highlighted that at the time of reporting, government budget reductions have posed significant challenges to LA (Local Authorities) commissioning decision-making and propensity to opt for alternative or more complex funding decisions</li> <li>▶ However, in the past, there has been evidence that where funding has decreased, LAs have tried to secure external and upfront sources of funding to help with both the set-up of complex contracts, as well as the initial costs of delivering services.</li> </ul>
<b>Sociological Factors</b>	<ul style="list-style-type: none"> <li>▶ Commissioners' decisions are affected by increasing frequency and complexity of service user needs.</li> <li>▶ Locality/rurality, levels of deprivation, average age, and health of the population all influence decision making.</li> <li>▶ Individual attitudes and extent of collaborative culture among commissioners and other stakeholders may enable or hinder the adoption of new or innovative contracting approaches.</li> </ul>
<b>Technological Factors</b>	<ul style="list-style-type: none"> <li>▶ Overall, limited evidence on the role of technological factors, but evidence indicates that adoption of data collection and data sharing systems is crucial to support innovation in contracting and successful delivery.</li> </ul>
<b>Legal Factors</b>	<ul style="list-style-type: none"> <li>▶ Statutory duties of LAs in specific policy areas often define their commissioning approach.</li> <li>▶ Procurement and contract laws sometimes introduce additional barriers for commissioners, thus affecting their choice of contracting approach</li> </ul>
<b>Environmental Factors</b>	<ul style="list-style-type: none"> <li>▶ At the time of reporting, available evidence indicated that environmental factors do not play a significant role in shaping local government commissioning decisions.</li> </ul>
<b>Other Factors</b>	<ul style="list-style-type: none"> <li>▶ Other factors shaping decision-making relate to the extent of knowledge sharing, internal leadership, capacity and collaboration with stakeholders.</li> </ul>

To explore the influence of these factors on the choice of contracting approach, our research questions began with the assumption that commissioners are confronted by, and need to navigate, several factors that shape their decision of which contracting approach to use. While in some of our interviews with local authorities, **commissioners' decision to use a particular contracting approach was driven primarily by economic, political, and sociological factors**, our primary research also found that some commissioners instead **opted for a contracting approach that they were most familiar with, with few other factors shaping this decision.**

In terms of the findings relating to specific contracting types:

- ▶ **SIBs: Economic factors** had both a positive and negative influence on choice. **Significant upfront costs of setting up SIBs were viewed as a burden**, but it was acknowledged that focus on outcomes often enabled an **'invest to save' approach**. However, commissioners noted that in the current budget landscape (at the time of reporting), any cashable savings may be untenable due to high intervention costs, and thus a SIB may be less feasible to implement.
- ▶ **PBR: Economic factors** such as high upfront costs to set up a contract also detracted from the choice of PBR. Commissioners were also put off **with perceptions of system gaming and private sector involvement**. That said, those who used a PbR approach felt in practice the **approach helps establish whether a partner organisation is truly interested or not in delivering the quality of service** necessary to achieve the outcomes.
- ▶ **Alliance**: Bringing together organisations to maximise the performance of services is often influenced by **political factors**. Our qualitative research found that **buy-in from senior stakeholders** across the alliance was seen as a vital enabler and allowed LAs maximum control.
- ▶ **FFS**: Described by some commissioners as the default option for LAs when commissioning services, **it is seen as cheaper and quicker**. When commissioners used FFS, we found that the **PESTLE factors often did not factor** in their decision-making.

Building on these findings, the report articulates the implications of the research on the future of outcomes-based contracting. For example, economic considerations are the primary drivers for commissioning decisions. The pressures on local authority and health budgets have intensified, influencing whether or not to opt for SIBs. Economic benefits are scrutinised heavily, and financial constraints can lead to decisions favouring familiar, less complex contracting methods like FFS.

Furthermore, commissioners must carefully evaluate the potential savings and benefits of a SIB. They need to determine if the projected savings are realistic and sufficient to justify the initial investment. This involves assessing the robustness of savings estimates and the likelihood of achieving the desired outcomes.

While economic factors dominate, political and sociological considerations also play a significant role in decision-making. Commissioners must balance these alongside economic benefits to make informed decisions. This involves understanding the broader impact of using a particular contracting approach on communities and stakeholders.

The findings indicate that, where feasible, commissioners should aim to conduct a comprehensive appraisal of all contracting options. This helps ensure that the selected approach, whether it is a SIB, Alliance Contracting, or another model, aligns best with their financial and strategic goals. Full appraisal can involve leaving some decision elements open during procurement to allow for flexibility and comparison during tender evaluation.

In conclusion, the findings from the research reveal that local government commissioners' decisions are heavily influenced by economic, political, and sociological factors. Key insights include:

- ▶ **Capacity constraints**: Limited capacity within local authority teams hinders the consideration of innovative contracting approaches beyond FFS.
- ▶ **Role of individual commissioners**: Individual commissioners are crucial in advocating for and implementing innovative approaches.
- ▶ **Influence of peer learning**: Learning from other local authorities' experiences is vital for increasing awareness and understanding of different contracting approaches.
- ▶ **Perception of FFS**: FFS is often perceived as more efficient due to lower setup costs, although alternative approaches may be more cost-effective in terms of outcomes achieved.

- ▶ **Economic and organisational Challenges:** Budget constraints and limited organisational capacity challenge the adoption of outcomes-based models like SIBs.

# 1.0 Introduction

## 1.1 Project Overview

The National Lottery Community Fund commissioned Ecorys and ATQ Consultants to undertake the evaluation of the Commissioning Better Outcomes (CBO) Fund. CBO has supported the development and delivery of 23 projects, including 22 social impact bonds (SIBs)<sup>1</sup> across England, in areas including health, social care and youth engagement. The evaluation, running from 2015-2025, has explored the advantages and disadvantages of commissioning a service through a SIB model; the challenges in developing SIBs; and explored the extent to which the CBO Fund has met its aim of growing the SIB market to enable more people, particularly those most in need, to lead fulfilling lives, in enriching places and as part of successful communities. The evaluation also aims to explore what more The National Lottery Community Fund and other stakeholders could do to meet this aim.

To help The National Lottery Community Fund further contextualise the findings of the CBO evaluation within the wider debate on how to commission for earlier and better outcomes, Ecorys and ATQ Consultants undertook further research exploring the political economy of commissioning.

The overall purpose of the research was to understand:

1. What factors local government commissioners consider or are confronted with when commissioning health and social service interventions, in terms of choosing a contracting approach for overcoming the challenges that otherwise get in the way of pursuing earlier and better outcomes.
2. How, when, and why these factors affect which contracting approach commissioners opt for.
3. The implications of these factors for commissioning Social Impact Bonds (SIBs).

An expert advisory group comprising practitioners, researchers and experts in local government commissioning helped to shape - and provide feedback throughout - the study.

Our research focussed on the following contracting approaches:

- ▶ **Social Impact Bonds (SIBs)** (a form of outcomes-based contract, where (social) investors provide the upfront capital needed for a provider to set up and deliver a service, with investment repaid by commissioners on the basis of the providers achieving measurable outcomes),
- ▶ **Payment-by-Results (PbR)** (where providers are paid based on achieving specified outcomes - a SIB is a form of PbR),
- ▶ **Alliance contracting** (where delivery partners come together to hold a single 'alliance' contract with a commissioner, with payment typically linked to performance), and
- ▶ **Fee-For-Service (FFS)** (traditional payment for service based on inputs or activities delivered).

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<sup>1</sup> A SIB is essentially a type of payment by results (PbR) contract. Like other types of PbR, a commissioner (usually one or more public sector bodies) agrees to pay for results delivered by service providers, and unless those results are achieved, the commissioner does not pay. See here: <https://golab.bsg.ox.ac.uk/documents/CBO-3rd-update-report.pdf>

## 1.2 Methodology

We used a mixed-method approach to answer the key research aims of the project. The research involved a review of the existing evidence and qualitative research with local authorities. These are described in more detail below.

### 1.2.1 Rapid Evidence Assessments

A rapid evidence assessment (REA) provides an overview of existing research on a (constrained) topic and a synthesis of the evidence provided by these studies to answer the research question. We undertook two REAs for this study. The first REA focused on factors that local government commissioners are faced with and consider when choosing a contracting approach. The second REA focused on comparing the advantages and disadvantages of SIBs with those of other contracting approaches, such as fee for service, Payment-by-Results, and alliance contracting.

We utilised a four-stage approach to conducting our REAs; searching for, assessing, reviewing, and analysing the literature in relation to the key themes of interest:

- ▶ REA 1 explored the wider available literature on the factors that influence commissioner decision-making. It analysed the factors that manifest at the individual, organisational, and market/wider context level; PESTLE factors (meaning political, economic, sociological, technological, legal, and environmental factors); and how these factors influence decision-making in specific sector areas, such as social care services for children and adults, and youth engagement services.
- ▶ REA 2 examined the wider available literature comparing the advantages and disadvantages of SIBs with fee-for-service, payment-by-results, and alliance contracting. Where possible, it explored how these advantages and disadvantages affect commissioners' choice of contracting approach.

To make best use of the limited time available for the REAs, we undertook a multi-pronged approach to identifying literature to be included in the study. This included a: search of databases/search engines such as Google Scholar; a search of publications pages of organisations working in relation to local government commissioning; and a call for evidence from our Advisory Group. Our search identified 337 pieces of relevant literature (124 documents for REA 1, and 213 pieces of relevant literature for REA 2).<sup>2</sup>

To prioritise the most relevant literature, we appraised each piece of evidence, using a scoring system based on the level of rigour of publication, the extent the literature was grounded in evidence and the relevance of the literature to our areas of investigation. After the appraisal process, we were left with 96 pieces of literature that we prioritised to review in detail (38 in REA 1 and 58 in REA2). Each piece of literature was reviewed, and we extracted the data in relation to the REAs' respective key themes.

Once we populated the framework with the relevant findings from the literature, we undertook a thematic analysis of the data. The findings from the thematic analysis were then synthesised in a completed Summary Report for each REA.

### 1.2.2 Primary qualitative research

The REAs provided some insights into the decision-making processes in choosing a contracting approach, but not a full picture. To fill in the gaps, we undertook primary qualitative research with commissioners from 10 local authorities (LAs). The qualitative research sought to map out the different factors that affect local government

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<sup>2</sup> The time allocated to REA 2 was higher than REA 1, hence the difference in the number of documents.



commissioners’ decision-making when choosing a contracting approach, how they do this, and who is impacted by these factors.

To ensure a broad range of perspectives, we sampled LAs purposively. Prospective participants were identified through scoping consultations with the key experts from the research advisory group, discussions with The National Lottery Community Fund, and our findings from the REA. The aim was to get a mix of participants where commissioners undertook more novel forms of contracting (for example, outcomes-based commissioning (including SIBs)) and more traditional forms of contracting (e.g. fee-for-service) to ensure that we could compare and contrast the factors across different contracting approaches. Table 2 outlines the full sample achieved.

Table 2 – Primary Qualitative Research Sample

Variable	Number
Number of LAs engaged	10
Number of participants	13
<b>Type of Contracting Approach Discussed</b>	
Social Impact Bond	2
Payment By Results	1
Alliance contracting	2
Fee for Service	5
<b>Policy area of intervention discussed</b>	
Health	2
Adult Social Care	2
Children’s Social Care	6

Depending on stakeholder preference, we undertook the qualitative research remotely using MS Teams or facilitated interviews/workshops in-person, from August 2023-November 2023.

### 1.2.3 Limitations

There were several limitations to our approach which must be considered:

- ▶ The broad scope of the research, and the limited time to search for and review literature likely resulted in some gaps in our coverage of particular topic areas.
- ▶ Specific parameters were applied to the search (e.g. date of publication (from 2018), geography (England only), language (English only)), meaning that not all research into this area was included.
- ▶ In order to ensure, where possible, that all contracting types were covered, some literature that scored lower on the ‘quality appraisal’ was included in our final sample.

- ▶ Strains on LA capacity caused challenges in engaging LA commissioners for the research, which caused difficulties achieving the intended sample (12 LAs) and ensuring sufficient spread across the different contracting types (for example, only one local authority could speak about the use of PbR contract).
- ▶ Budgetary constraints in LA departments limited our ability to assess all sectors identified in the REAs, such as Youth Engagement, where commissioners told us a lack of budget has meant there have not been many new interventions commissioned in recent years.

## 1.3 Report Structure

The subsequent chapters present the findings from the study:

- ▶ Chapter 2 assesses the factors local government commissioners consider when commissioning social and health interventions.
- ▶ Chapter 3 articulates if, how, when, and why these factors affect choice of contracting approach.
- ▶ Chapter 4 considers the implications of these factors for the commissioning of Social Impact Bonds.
- ▶ The conclusion brings together the key messages from the study. [\[10\]](#)

## 2.0 What factors local government commissioners consider

This section explores what factors commissioners consider or are confronted by when commissioning social interventions, in terms of choosing a contracting approach. As highlighted in Section 1.2, this section is structured around the PESTLE factors and informed by a rapid evidence assessment and qualitative research with local authority commissioners working across health, adult social care, and children's social care. The analysis below also considers where the evidence is strongest and where it is weakest (or where there are gaps).

### 2.1 Political factors

This sub-section discusses the evidence on the influence of political factors on commissioner decision-making. In this context, political factors relate to the effects of government and its central and local priorities on the commissioning ecosystems, embedded through mechanisms such as legislation, policies, and ideological views.

Evidence from the REA and, in a more limited capacity, from primary research indicates that **central government policy has influenced how commissioners contract social services and the contracting approach they opt for**. More specifically, the literature reviewed suggests that central government has transitioned from favouring traditional commissioning, focused on rigidly specified activities, to outcome-based models of commissioning. Between the mid-1990s and late 2000s, under the New Labour government (i.e. the Government at the time), emphasis was increasingly placed on responsiveness to needs and performance monitoring practice. Although there is still debate in the literature on the effectiveness of outcome-based commissioning and its diverse contracting approaches, this trend has been reinforced over time by value-for-money considerations in the context of reduced government budgets (Robertson and Ewbank, 2020). Outcome-based approaches allow for reimbursement to be conditional upon providers delivering agreed outcomes, hence transferring the financial risk of non-delivery from government to providers or third parties such as investors (Robertson and Ewbank, 2020). Commissioners interviewed from one local authority noted that a focus on outcomes has been reflected in policies such as the Care Act 2014, which goes beyond an assessment of needs to emphasise individuals' desired outcomes in determining their eligibility for adult social care. The consensus between the REA and primary research demonstrates moderate evidence that central government has increased its openness to outcome-based models,

primarily as a result of their potential cost saving implications. However, as discussed further in section 2.2, there is mixed evidence on whether or not the restrictive fiscal climate has consistently translated into local authorities deciding to utilise more innovative contracting models.

In order to achieve holistic health and wellbeing, the literature points to a **growing recognition across government of the need for local commissioners to work in more integrated ways**, for instance by bridging the gap between health and social care as well as other complementary support services. According to a recent report by Big Society Capital (Johal and Ng, 2022), some complex issues such as homelessness are best addressed through a multi-agency approach with support from sectors including health, education, employment, and criminal justice. Similarly, children's social care commissioners consulted as part of the primary research emphasised the complementarity of services by pointing out how gaps in the provision of health and housing support can lead to families experiencing more challenges, which could then affect the number and needs of children entering services. According to the literature, the recognition of the benefits of integrated service provision has led to an increasing tendency for commissioners to 'bundle together complex packages of user-facing services,' and setting up contracts that enable providers to work across policy areas to address cross-cutting issues (Robertson and Ewbank 2020, p. 19). For instance, the Greater Manchester Home Partnership, a SIB commissioned in 2018 by the Department for Communities and Local Government<sup>3</sup>, adopted a system-wide approach to tackling rough sleeping. In this model, individuals were supported through a personalised package of support that addressed needs spanning across health, employment, and education and training (Johal and Ng, 2022). In sum, there is moderate evidence that commissioners are increasingly considering cross-sector contracting, and contracting approaches that enable this collaboration to work, for the provision of complementary services, especially those cutting across health and social care.

In the context of integrated working, the Integrated Commissioning for Better Outcomes: a Commissioning Framework (Local Government Association, 2018) emphasises the need for strong and collective leadership between NHS England (NHSE) and Local Authorities (LAs) as well as need for good governance in place. Bach-Mortense et al. (2022) suggested that having a **consistent and transparent commissioning framework** improves LAs' access to high quality services and value for money. The West Midlands Residential Care Framework, the D2N2, and the South London Commissioning Partnership are examples of regional and sub-regional frameworks that are focused on achieving better commissioning outcomes among member LAs through joint procurement and contracting practices (Bach-Mortense et al., 2022).

In addition to the effects of central government policies, **the literature suggests that commissioner decision-making is shaped by political dynamics at the local level**. In the context of local government, REA evidence suggests the potential for decision-making to be influenced by individuals' political views. Local councillors set the strategic priorities for the council and, therefore, their engagement is significant for procurement arrangements to be successfully designed and implemented (Local Government Association, 2022). For example, as suggested by Checkland et al. (2018), the provision of sexual health services may be complicated if elected officials have socially conservative views on these issues. However, the selected literature and the commissioners consulted as part of primary research did not provide specific examples of political agendas inhibiting the contracting of social care and health services. On the other hand, some of the literature suggests that involvement of local elected councillors can support the process of integrating insights from constituents into service delivery (Robertson and Ewbank, 2020). In sum, due to the significant political dimension present in local government, commissioners are accountable both through the council line management hierarchy and to locally elected officials (Checkland et al., 2018). Nevertheless, there is no consensus emerging from the analysis of REA and primary research data on the influence that these accountability structures exercise on decisions about which contracting approach to use.

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<sup>3</sup> At the time of reporting (2024), the department has been renamed as 'Department for Levelling Up, Housing and Communities' (DLUHC).

## 2.2 Economic factors

In assessing economic factors, this section considers how economic trends may impact local government and the wider commissioning environment. The discussion specifically considers available government funding and its effects on local government operations and contracting decisions.

The literature and primary research converge in recognising the significant challenges to local authority contracting posed by **government budget reductions**. Data from the literature, confirmed by consultations with commissioners, indicates that shrinking budgets and short budget cycles provide limited opportunities for local authorities to maximise impact in health and social care by contracting innovative interventions (Davies et al., 2020; Thomson and Smith, 2019; Jefferson et al., 2017). For instance, in one LA involved in our research, a commissioner noted that outcome-based approaches are challenging to implement under budget restrictions as they commit councils to spending a set amount in the future, with limited options to reduce expenditure if required. In addition, evidence from the REA suggests that, despite national-level support for integrated commissioning, siloed government budgets and short budget cycles pose significant challenges to sustainable inter-agency collaboration. In some instances, the literature shows these challenges have been overcome through multi-year outcome funds such as the Social Outcomes Fund, CBO, and Life Chances Fund (Johal and Ng, 2022). For instance, the CBO evaluation found that the availability of outcomes funding and a development grant was a significant contributing factor in commissioners' decision to pursue a SIB (Ronicle, Stanworth, and Wooldridge, 2022).

The analysis identified mixed evidence on the impact of budget reductions on local commissioners' contracting decisions. The literature suggests that shrinking budgets have led commissioner decision-making to become increasingly financially- and politically driven, prioritising cutting costs over achieving outcomes for service users (Thomson and Smith, 2019; Davies et al., 2020). However, this was not confirmed during consultations with commissioners. Although financial constraints were consistently mentioned across consultations, commissioners indicated **that the priority remains on fulfilling the needs of those entering services**.

Evidence from the REA suggests that **the current budget climate has negatively affected the wider commissioning environment by placing smaller organisations at a disadvantage in tendering processes** (Samuel 2021). This occurs because local authority funding uncertainty does not allow providers to make long-term plans, including on issues such as staff recruitment, which often leaves smaller organisations with insufficient capacity to tender for new opportunities. For example, in a qualitative study of home-care providers, Davies et al. (2020) identified a widespread recognition among providers that these commissioning trends were 'pervasive and unavoidable in the current circumstances'. Our REA found that SIBs and FFS contracts enable greater participation of smaller organisations in contracts because their up-front delivery costs are covered (either by payment from the commissioner, or by up-front capital from an investor) (ATQ & Ecorys, 2021), although our interviews with commissioners found that this was not a core factor influencing their decision to use these contracting approaches.

In response to the current fiscal outlook, government strategies and toolkits included in this review suggest that there is a need for councils to **consider other means of reducing funding deficits**. Specifically, the most recent National Procurement Strategy for Local Government encourages organisations to shape the market through strategic engagement of development partners (Local Government Association, 2022). In this context, there is a growing body of literature focusing on contracting approaches that jointly address financial pressures and social impact, for example, through the involvement of third-party social investors in contracting approaches such as SIBs. The reviewed evidence suggests that in theory, SIBs allow local governments to shift the upfront costs of implementation and the associated financial and accountability risks of non-delivery to social investors (Carè and De Lisa, 2019) (see chapter 3 for more detail on this).

In this context, both the REA and the primary research suggest that **where overall funding has decreased, LAs have tried to secure external and upfront sources of funding** (Hameed et al., 2021). The evidence suggests that a key motivation for commissioners in opting for an outcomes-based contracting approach when procuring a preventative service is the ability to launch the service (using external upfront financing for services from delivery providers or investors) and then pay for the outcomes later through later avoided costs or cashable savings (Ronicle, Stanworth and Wooldridge, 2022). Similarly, the primary research confirmed that the availability of external funding to cover initial delivery, complemented by the willingness to innovate, contributed to decisions to contract SIBs.

In sum, the evidence on the influence of economic factors on commissioning finds strong evidence that government budget reductions have closely affected ways of working at the local level. There is evidence that current (i.e. at the time of the research) funding restrictions have limited the potential for local authorities to adopt innovative contracting models as a result of siloed government budgets and short budget cycles. However, at the time when projects were contracted, commissioners interviewed suggested that the economic environment encouraged them to explore more innovative forms of financing, through alternative commissioning approaches such as outcome-based contracting.

## 2.3 Sociological factors

In the following section, we assess how sociological factors, such as demographics and local needs, impact local government commissioner decision-making. We also consider individual attitudes of the commissioners and local government decision-makers.

The combined evidence from the literature review and the primary research suggests that the **changing needs of service users** is a key factor influencing commissioner decision-making. Robertson and Ewbank (2020) highlighted that in recent years, public service leaders have seen an increase in service users' needs as well as an increase in the complexity of those needs. This seems to be particularly evident in the area of adult social care, as the changing needs of the population and their complexity impacts the way health and social care systems work, leading to an increased desire for integrated working (Local Government Association, 2022a). The commissioners taking part in our research further confirmed that when choosing their contracting approach, one of the crucial considerations was flexibility of the service delivery to address changing and increasingly more complex needs of services users. This can lead to integrated provision and outcome-based commissioning as outcome-based models allow the providers to more easily adapt their delivery approach to respond to the changing needs of the service users than in input-based models.

According to other literature, service users' needs might vary based on other factors, such as **locality/rurality, levels of deprivation, and average age and health of the population**. Research suggests that these factors affect intervention design and pricing of the services, subsequently impacting on the commissioning approach (Jefferson et al., 2017; Hamblin, 2020). For example, Jefferson et al. (2017) explains that in rural areas with ageing populations, LAs have to pay for greater travel costs associated with care. Changes in populations' needs can also push LAs to reflect on their commissioning approaches. For example, in Tameside, high local mortality rates combined with financial cuts led to the borough *"reforming the commissioning functions in the borough to create a single place-based commissioner for health, social care and other public services"* (Robertson and Ewbank, 2020, p.37-38).

The literature also indicates that rural regions often lack a supply of providers and the required volume of workers, resulting in LAs needing to provide higher rates of pay to facilitate staff retention (Jefferson et al, 2017). This was further validated during a primary research workshop, when some commissioners highlighted that rurality and size of their LA is often a barrier when commissioning for public services. There is often a lack of local providers, meaning the commissioners need to attract national providers or providers who are willing to expand into their

area. However, due to the borough size and subsequently limited demand, the commissioners struggled to successfully attract those providers in the past. This led them to explore alternative procurement approaches for their homelessness and adult social care services and work collaboratively with surrounding councils. Alliance contracting was seen a suitable approach which might attract an alliance of providers that could work together to meet the complex needs of the population. Furthermore, the REA also found evidence that LAs may seek to adopt innovative approaches, such as outcome-based models, to develop local solutions, like the Troubled Families Programme, where LAs were given considerable autonomy to be creative in their methods of delivering the programme (Day et al., 2016).

Other literature (Mason, Lloyd, and Nash, 2017; Localis, 2016) shows that **an understanding of wider local needs and the needs of the target group is crucial for outcome-focused commissioning**, as it allows commissioners to appropriately tailor the approach and maximise the benefits for the wider community. The commissioners taking part in our research shared that they are experiencing increased complexity of service users' needs, especially within communities from more deprived areas. Some of them highlighted that understanding the complexity of the target groups' needs is crucial in selecting the right approach to delivery and the commissioning of services. Commissioners in one LA explained that their integrated approach to homelessness services was largely informed by the complex needs of the cohort, often struggling with substance abuse and with experience of domestic violence. In another LA, commissioners considered a SIB model to procure a prevention service, which allowed them to develop specifically targeted outcomes for the most deprived areas, consequently maximising the intervention's impact. Additionally, Localis' report (2016) presented an example of Plymouth City Council, where the needs of local communities were in the forefront of commissioners' decision-making. Local challenges in Plymouth with youth unemployment encouraged the council to take a cooperative approach to its commissioning strategy. This approach prioritised democratic engagement and empowerment to build close relationships between the citizens and council to identify local needs. As a result, the council set up the 1000 Club that works with local businesses to support young people's journey to employment.

Both evidence from the reviewed literature and the primary research considered **individual decision-makers' attitudes and their impact on the choice of contracting approaches**. The literature suggests that the openness of commissioners and other key stakeholder to collaboration with the local population is a crucial factor in integrated and outcome-focused approaches to commissioning (Walker et al., 2022). For example, The Strategic Collaborative Planning and Commissioning guide published by the Local Government Association (2022b) highlights the role of collaboration between commissioning bodies and a sense of collective responsibility in order to improve outcomes for people, place, and population. Furthermore, participants across different LAs reported that attitudes of staff and management in commissioning bodies towards concepts like collaboration, innovation, or testing new approaches are integral to their decisions about use of different contracting approaches. For example, in one area, the commissioning team was motivated and open to new approaches (i.e. outcome-based models such as SIBs), as they attended the Commissioning Academy<sup>4</sup> around the same time.

*"The Commissioning Lead was interested, and I think we also just got on the Commissioning Academy as a local authority around this time. So, I would say there was that driving force, that interest in trying something new [...] There was an interest from the team, without a doubt, in exploring different ways of doing things."* (LA commissioner)

The evidence from REA suggests that sociological factors impact the wider commissioning environment by driving the demand and supply of services and determining the pricing of the services. Our qualitative research provided further evidence that the size of the local authority and their population as well as wider demographics are likely to impact the commissioning environment. This is likely to motivate local authorities to seek contacting approaches that support adaptability to local solutions. Furthermore, the commissioners taking part in our research shared that they are experiencing increased complexity of service users' needs, especially in communities in more

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<sup>4</sup> <https://www.gov.uk/guidance/the-commissioning-academy-information>

deprived areas. The evidence from the literature and the primary research indicates that the use of outcomes-based approaches is often determined by commissioners' desire to a commission a service which can flexibly address the changing needs of service users. Additionally, the combined evidence strongly suggests that greater collaboration, and openness to innovation might serve as enabling factors in adopting new or innovative approaches to contracting.

## 2.4 Technological factors

This section considers how technological factors (e.g. information, automation, and technological awareness) impact local authority decision-making when choosing a contracting approach.

Although The National Procurement Strategy for Local Government in England 2022 (Local Government Association, 2022), states that *'rapid use of data is critical for understanding how to manage procurements and contracts'*, the REA and our primary research provided only very **limited evidence of how technology affects decision-making on contracting approaches in practice**. The literature illustrates that joint commissioning arrangements as well as outcomes-based approaches put emphasis on data collection and encourage data sharing across partners through data sharing systems and agreements. This can ultimately lead to increased focus on technology and software used for collecting and sharing data. Furthermore, the data sharing amongst partner then leads to more informed decision-making when designing and delivering services; a point that was further echoed by several commissioners participating in the workshops.

Learning from the HeadStart Partnerships, The National Lottery Community Fund's programme supporting young people's mental health and wellbeing, suggests that joint commissioning arrangements can facilitate partners to share datasets on their local population, which has the potential to then inform decision-making to commission more effective service delivery (The National Lottery Community Fund and National Children's Bureau, 2022). This point is further emphasised in the Local Authority Transformational Models guide (Localis, 2016), which highlights the importance of IT systems being set up in a way that allows transformation of services and commissioning so that they can be more person-centred. This could otherwise block some councils' decisions to take a person-centred approach (Localis, 2016). The commissioners participating in workshops echoed this and agreed that the **adoption of data collection and data sharing systems is crucial to support innovation and successful delivery of outcome-based contracts**. One commissioner also emphasised that a data sharing agreement between partners should have been put in place from the beginning of their SIB contract to facilitate setting up targets and defining outcomes.

The combined REA and primary research evidence suggest that technological factors impact commissioners' decisions mainly around use of outcome-based and/or joint commissioning approaches. Most commissioners interviewed were aware that to successfully deliver those types of contracts, LAs need adequate data collection and data sharing systems in place.

## 2.5 Legal factors

The following section explores how legal factors impact on commissioner decision-making and how these shape the commissioning environment, especially in terms of legal definitions of commissioners' responsibilities. Legal factors can further affect the policies and procedures that LAs have to adhere to, which naturally influence commissioners' decision-making when choosing a contracting approach.

The reviewed literature considered a range of legislation defining the mechanisms and rules for public procurement, the statutory duties of LAs to deliver specific services, and the roles and responsibilities of different commissioning bodies. However, the REA provided only limited evidence on how legislative factors impact commissioner decision-making about specific contracting approaches. Further evidence from our primary

research suggests decision-makers' approaches are mainly determined by the **contract's flexibility and expected contractual obligations** (e.g. any future financial commitments).

In many cases, the reviewed documents reference **laws defining statutory duties of LAs in specific policy areas**, such as health, adult social care, and social care services for children. This was often to provide wider policy development background and explain LAs' responsibilities in delivering certain services. For example, Bach-Mortense et al. (2020) refers to the Children Act 1989 (later amended by the Children and Young Persons Act 2008), which requires LAs to ensure 'sufficiency' of residential social care provision within their area. It is thus expected from LAs that commissioning practice addresses sufficiency issues for services relating to the Children Act. As the definition of 'sufficiency' is open to different interpretations, those might have further impact on commissioners' decision-making, however, this is not discussed in depth in the literature. On the other hand, different commissioners participating in the workshops explained that commissioning bodies are more likely to use alternative approaches to commissioning, such as SIB or other outcome-based approaches, to deliver services which are outside of their statutory duties, to protect their budget by mitigating financial risks (i.e. only paying for achieved outcomes) and in the case of SIBs, also by having the upfront capital from a social investor to deliver a service. For example, several commissioners were motivated to use a SIB model to deliver different preventive services, as the model provides a prior financial investment from a social investor. In one case, the council would not have been able to provide the initial investment themselves, as they are expected to financially prioritise delivery of statutory services. Furthermore, commissioners noted that the SIB model is particularly suitable to finance preventative services as it can mean outcomes are paid for through the avoidance of costs.

Several reviewed sources reflected on commissioning in health and adult social care and the increasing focus on the **division of commissioning responsibilities between multiple stakeholders**, as a result of multiple reforms within the sector. The Health and Social Care Act 2012 introduced a three-way division of responsibilities for health and social care commissioning, where *"local authorities would be responsible for social care, some public health services (e.g. sexual health and addiction services) and wider public services that affect health, such as transport, housing and leisure facilities"* (Robertson and Ewbank, 2020, p.13). In 2019, Clinical Commissioning Groups (CCGs) were required to take on a greater role in commissioning public health services collaboratively with local authorities (Robertson and Ewbank, 2020). However, the legislative landscape has recently changed again. The Health and Social Care Act 2022 formalised Integrated Care Systems (ICSs) that comprise of Integrated Care Boards and Integrated Care Partnerships, which subsumed CCGs. The Act was also complemented by a white paper that proposed a focus on Place Based Commissioning (Local Government Association, 2022b). Some literature emphasised that the frequent legislative changes led to a level of confusion around the commissioning responsibilities between different commissioning bodies (Gadsby et al., 2017). However, overall, the reviewed literature and qualitative research provided limited information about the impact of these legislative changes on decisions about contracting approaches.

There was some evidence from the REA that reflected on the impact of **recent Social Value legislation** (i.e. legislation that requires some (in England all) public sector organisations, including LAs, to consider how the services they commission can improve the economic, social, and environmental wellbeing of an area (The Public Services (Social Value) Act 2013 (England) and The Procurement Reform Act 2014 (Scotland)). While the requirement for including Social Value considerations is (at the time of writing) limited to Central Government procurement only, Thomson and Smith (2019) provided examples of how, as a result of these wider legislative changes, some local authorities have developed their own social value statements and taken innovative approaches to procurement as a result (for example, ensuring that a proportion of the scoring in procurement is allocated to social value considerations). Some commissioners participating in the workshops shared that they



often struggle to assess and score the social value responses in a consistent or standardised way. They also highlighted that although they consider social value in the cases where it is required by the law, it does not impact on their decisions to use different contracting approaches.

The commissioners interviewed argued that **procurement and contract laws sometimes introduce additional barriers for commissioners** and make the procurement process too long and complex. For example, they shared that the framework contracting process is too lengthy for most providers, and Contracts Regulations (2015) can be restrictive, especially around early market engagements and post-tender negotiation, limiting an open discussion with providers. Therefore, commissioners might be more likely to use open procedure and FFS model (i.e. payment for inputs or activities), which they perceived to be the easiest and fastest routes when it comes to commissioning. Additionally, some interviewed commissioners expressed concerns that adopting outcome-based approaches, including SIBs, can lead to using contracts that may require councils' commitments to future outcome payments. Therefore, they often resort to use of FFS as they know exactly how much they are going to pay for the service.

The evidence from the REA and primary research shows that legal factors clearly define public procurement processes and mechanisms. The reviewed literature discussed the statutory duties of LAs to deliver specific services, the roles and responsibilities of different commissioning organisations, and the public procurement legislation, including Social Value Act. However, the evidence of that these factors impact commissioners' decision-making about contracting approaches is limited. Some research participants perceived the public procurement legislation as overly complex, lengthy, and restrictive with some highlighting the longer timescales for setting up more innovative contracting types, compared to FFS models.

## 2.6 Environmental factors

The following section explores the influence of environmental factors on decision-making, including an assessment of both elements relating to the physical environment, such as climate and geographical location, and environmental protection requirements.

The analysis of qualitative interviews and REA shortlisted documents suggests that, at the time of reporting, environmental factors do not play a significant role in shaping local government commissioning decisions. Going forward, more research across a broader sample of LAs is needed to verify whether environmental policies and corporate social responsibility standards are taken into consideration, and whether there is any variance by sector and contracting model.

## 2.7 Other factors

In addition to the elements mentioned in the previous sections, we identified further contributing factors to commissioner decision-making in the selected literature and from the primary research. Specifically, our analysis identified the influence of local government capacity, effective leadership, and use of research.

Various studies reviewed suggest that **provider involvement and co-production** influence commissioner decision-making. For instance, a recent report of The National Lottery Community Fund-funded HeadStart partnerships addressing young people's mental health suggested that the active engagement of commissioners in local education forums contributed to building trusting relationships between schools and the local authority (The National Lottery Community Fund and National Children's Bureau 2022). A case study (conducted as part of the CBO evaluation) assessing mental health employment support in Staffordshire County Council found that co-

production techniques were helpful in understanding and overcoming the concerns of users and providers with respect to the introduction of employment advisers in local mental health professional teams (ATQ Consultants and Ecorys 2019). However, the literature suggests that **reduced capacity** originating from reduced budgets **and team sizes restrict the scope for close engagement between stakeholders** (Thomson and Smith 2019).

The commissioners taking part in our research further argued that reduced capacity in their teams and within the LAs ultimately leads to them searching for the **most efficient solutions for commissioning**. This means that commissioners often choose contracting approaches which require minimal resources, and which they are familiar with or have used before. Commissioners explained that for many LAs, fee-for-service is, thus, the default commissioning approach as it is a method most commissioners are aware of and comfortable with using. However, some commissioners that were interviewed, who used a PBR (Payments by Results) or a SIB, felt that despite the more complex set up, these approaches led to more efficient and higher quality delivery of services.

Two studies analysed as part of the REA suggest that **evidence informs commissioner decision-making** to a small extent (McGee et al. 2022; Hamblin 2020). Hamblin (2020) reports that according to a study of English local authority commissioners of Technology Enabled Care Services (TECS), only one third of respondents mentioned research as an influencing factor for their decisions. Similarly, through a qualitative study of using health research in local authorities, McGee et al. (2022) concur that research and evaluation are not prioritised by local health commissioners as a result of time constraints, budget cuts, and the absence of localised data. Nevertheless, beyond these barriers, McGee et al. (2022) identify that commissioners are interested in principle in the closer integration of research into commissioning practice, indicating a window of opportunity to embed these functions in local government structures. Additionally, the commissioners in one LA shared that they conducted an independent appraisal including cost benefit analysis of different commissioning models to transform their homelessness services. Their decision to an Alliance contract was heavily informed by this assessment. In some cases, commissioners mentioned they used **anecdotal evidence and shared learnings from other LAs** and adopted approaches successfully used in those LAs to deliver similar services.

Lastly, **effective leadership** was identified in some of the reviewed literature as one of the enablers allowing councils to adopt new commissioning approaches (Robertson and Ewbank, 2020; Checkland et al., 2019). Robertson and Ewbank's (2020) case study from South Tyneside emphasised the importance of role-modelling by senior leaders. However, the authors also note that to sustain the approach it is crucial that it is supported by everyone rather than key individuals only. Local Government Association, in their Integrated Commissioning for Better Outcomes: a Commissioning Framework (2018), also highlight the need for strong and collective leadership between the NHS and LAs, especially in the context of building foundations for integrated commissioning as well as raising ambitions through appropriate risk-taking. This was also a key theme identified in the CBO evaluation, which highlighted that *"the development of the projects required strong, charismatic leadership, commitment, and willingness to 'go the extra mile'"* (Ronicle, Stanworth and Wooldridge, 2022, p13).

The reviewed literature identifies various barriers to effective commissioning, such as insufficient local government capacity and the lack of localised data sources. However, the evidence from the commissioner workshops suggests that limited resources often lead commissioners to seeking most resource-effective and efficient commissioning approaches, which is often but not exclusively perceived to be the fee-for-service model. The participating commissioners further highlighted the crucial role of shared learning and knowledge disseminating around successful use of different contracting approaches. This can facilitate commissioners to consider adopting contracting approaches which have been successful in other LAs for the procurement of similar services.

## 3.0 If, how, when, and why these factors affect choice of contracting approach.

This section discusses the ways in which the PESTLE factors outlined in the previous section influence the type of contracting approach commissioners opt for. This section looks specifically at four contracting approaches; Social Impact Bonds (SIBs), Payment by Results (PbR), Alliance contracting, and Fee-for-Service (FFS) (see methodology for definitions).

There are several potential reasons why a commissioner may choose a particular contracting approach, as identified in the previous section. Our research questions began with the assumption that commissioners are confronted by, and need to navigate, a number of factors that shape their decision of which contracting approach to use. While in some cases in our primary research, commissioners' decision to use a particular contracting approach was driven primarily by economic, political, and sociological factors, our primary research also found that some commissioners instead opted for a contracting approach that they were most familiar with, with few other factors shaping this decision. We discuss this in more detail below.

### 3.1 Social Impact Bonds

**Economic factors** were often the primary influence as to whether or not Local Government commissioners would opt for a SIB. This could be seen as both positive and negative.

For example, in the REAs, the literature discussed the **upfront costs related to SIB development** as a barrier for commissioners both in terms of the time and resource required from commissioners to set up a SIB (Ronicle, Stanworth, and Hickman, 2019). This was traced to a combination of issues including SIBs' complex financing structure, the limited number of replicable models to use, and the multiple stakeholders involved such as commissioners, investors, and delivery providers (Hameed et al., 2021, Cools and Oosterlynck, 2016). According to the evaluation of the CBO Fund, the SIBs reviewed took between two and three and a half years to develop, which was longer than expected (Ronicle, Stanworth, and Hickman, 2019). This was largely corroborated by the primary research, where commissioners who had commissioned a SIB felt the process of deciding how they might structure the financing, how they define an outcome or trigger, or what is a reasonable amount to pay took more effort than expected. Moreover, many of those interviewed that had not commissioned a SIB highlighted the perceived high costs of setting up a SIB as a primary reason not to use it. For others, awareness was an issue, in that they had no knowledge of SIBs and how they could be an option. Therefore, it is clear that perceptions around the overall cost of commissioning a SIB, both from a financial and resourcing perspective, can be a significant negative factor that influences the commissioning decision making process.

Commissioners interviewed in the LAs where a SIB contracting approach had been used did explain that once the SIB was commissioned, it was valuable. The **focus on outcomes enabled an 'invest to save' approach** which encouraged innovative delivery and attained desired results, especially in preventative services. These savings were often cited as the most attractive reason to commission a SIB due to wider budget cuts or shortfalls. This aligns well with the findings in the literature, which articulated how SIBs provide financial incentives for commissioners. Rosenbach and Carter (2020) and Fraser et al. (2018) highlight the principle behind the SIB to offer a financial 'win-win-win' through the transfer of upfront capital and financial risk from providers to investors, the achievement of public sector savings to central and local government, and the making of financial returns to socially-minded investors. This was also supported by evidence such as the HCT Independent Travel Training SIB in-depth review, which suggests that supporting independent travel for young people with special educational needs or disabilities provides a potential £4 of savings for every £1 of investment in the intervention (Stanworth,

2018). The alignment between secondary and primary evidence suggests that when SIBs are commissioned, they can produce financial savings for Local Authorities.

The evidence indicates that the balance between the high set-up costs and ultimate financial savings associated with a SIB will undoubtedly influence a commissioner's decision making. As noted in the REA, there is a risk that any possible **cashable savings may be offset by high intervention costs** and the intensive resources needed to upkeep programmes (Fraser et al. 2018). Commissioners participating in the qualitative research reported that this was almost always the case. Even those who had a positive outcome from their SIB intervention explained that they do not have the budget to undertake a SIB independently, without external additional funds, such as those from the Life Chances Fund or CBO Fund. This caused some commissioners to question the applicability of the SIB model in the current context (at the time of reporting), where LA commissioners were having to manage increased demand for services and budget cuts.

*"I would do a SIB again, but it would be hard to get an invest to save SIB based on cost avoided off the ground in the current environment right now" – LA Commissioner*

### 3.2 Payment by Results

Similarly to SIBs, commissioners of Payment by Results approaches also considered **economic factors** when choosing the approach. The complexity surrounding PbR contracts, as identified in both the REA literature and the qualitative research, require greater investment of time and money for set up and delivery than more traditional contracting approaches. This is due to detailed design and development work (Albertson, et al., 2018), and complex processes for verifying outcomes (Robertson, et al., 2021; Johnstone, 2017; Crossley, 2017). In our primary research, those commissioners that had utilised a PbR approach agreed the development cost is high and requires intense support initially. It was recognised the LA needs to have enough resources to manage that initial set up cost.

There was also a negative perception of potential '**system gaming**' within PbR contracts. This was highlighted quite prominently in the literature, which described the risk of practices such as 'cherry-picking' or 'creaming' (i.e. described as a practice when providers choose to work with people who are closer to achieving the outcomes tied to payment, or ignoring 'difficult' - more complex - cases (Albertson, et al., 2018; Robertson, et al., 2021; Whitworth, 2020; Johnstone, 2017; Welshman, 2016)). This evidenced by Carter (2019, p.88) where providers in the DWP's Work Programme, "*developed profiling tools to "triage" their caseloads to focus energies on those easiest and most likely to move into work, whilst deprioritising claimants who were considered to need more time and resource to support in order to maximise pay-outs*". This concern was reflected across the LA commissioners that were interviewed, who noted this as a key reason why they would not use a PbR contracting approach.

Furthermore, there was a scepticism of the private sector element of PbR. The evidence suggests that this is due to private firms, who despite having the ability to offer cheaper solutions (Albertson, et al., 2018) may seek to target the highest value or easiest outcomes (Carter, 2019). Cost pressures and ambitious performance targets can drive some of these adverse behaviours (Tan, 2019). Whilst the possibility of gaming the system is a legitimate concern, those interviewed who had used a PbR approach did not see this as an issue, explaining that PbR, in practice, helps establish whether an organisation is truly interested or not in delivering the quality of care necessary to achieve the outcomes.

*"...there is onus and responsibility from the providers part to make sure that outcomes are being met and by, you know, in virtue of that you have a good quality service for the individual." - LA Commissioner*

### 3.3 Alliance contracting

Alliance contracting often hinges upon bringing together organisations in an attempt to maximise the performance of services. This naturally requires compromise through an alliance of organisations working to achieve shared outcomes in an environment where there is need to minimise financial expense and innovate in service delivery to improve client outcomes (Damm et al., 2019). The primary research identified that it was often **political factors** which influenced commissioners' decision to adopt an alliance contracting approach. Buy-in from senior stakeholders across those involved in the alliance was seen as a vital enabler for this approach, which commissioners were able to 'sell' upwards, to senior staff/councillors, and outwards to the wider market, as an opportunity for innovation and performance improvement (including for the service providers).

The REA found that a key advantage to alliance contracting is the focus on the performance of the whole alliance instead of individual organisations. This can be an effective for encouraging and supporting organisations to learn and adapt through a *"whole systems approach to delivery, where there is a collective goal, interdependent responsibilities, and shared risks and rewards"* (Blundell et al, 2019, p6). Furthermore, our qualitative research showed that alliance contracting can allow for LAs to have maximum control over a budget, which was seen as helpful, especially when the contract value was likely to decrease over time. Moreover, the literature also identified that commissioners decide to use alliance contracting to ensure an appropriate level of risk to the providers to maximise buy-in (Sanderson et al, 2019).

### 3.4 Fee for Service

The REA found that there is very limited literature on the reasoning behind using FFS in the UK. This contracting approach has been primarily discussed in outcomes contracting literature where the model has been widely criticised for rewarding providers for the volume and quantity of services delivered, regardless of the quality or outcome of services delivered (Charlesworth et al., 2012).

When this was raised in the qualitative research, commissioners noted that unless there was sufficient external financial incentives or personal desire to try something innovative, alternative contracting approaches were rarely considered. It was perceived that as FFS is the default option for LAs when commissioning services, as it is seen as cheaper and quicker to just follow normal processes. The available evidence therefore indicates that when commissioners use FFS, **the PESTLE factors** often do not factor in their decision-making.

## 4.0 Implication of these factors for commissioning Social Impact Bonds

### 4.1 Overall context – primacy of economic factors

Both the REA and qualitative research show that economic factors are driving commissioning decisions much more than other considerations. The pressures on local authority and health budgets observed in the literature appear to have become even more prominent in the last two years and the primary research highlighted the extent to which ever tighter budgets have driven decisions both towards and away from the commissioning of SIBs. In two cases, the reason for going down an outcomes-based contracting route was explicitly because of the availability of top-up funding from The National Lottery Community Fund, while in a third, top-up funding was also a factor but the impetus for commissioning an outcomes contract was more directly financial – the prospect of generating future savings that would pay for the initial intervention in a textbook “invest to save” model. Conversely, the commissioner who chose an alliance contract did so to give them maximum control over a budget for the contract that was likely to decrease, while another commissioner admitted that budgetary pressure was driving decisions that often led to a fee for service approach, because it was likely (or perceived) to be quickest to implement, to deliver lowest cost, and would be familiar to both commissioners and service managers (that is, as one commissioner stated, “quick, cheap and default”). Budget pressures have also impacted on the capacity of commissioners (whose own resources have been cut) to make well-researched decisions and manage the additional complexity and cost of more innovative approaches, whether SIB or alliance contract.

This overall economic context has three important implications for commissioners considering a SIB:

- ▶ Economic benefits need to be assessed very carefully.
- ▶ Political and sociological factors need to be appropriately weighted.
- ▶ All options need to be fully appraised.

### 4.2 Assessing the economic benefits of a SIB

A major issue for the LAs in our research that adopted an outcomes-based contract was the availability of top-up funding, and if similar funding becomes available again it will likely influence decisions in the same way. In the absence of such funding (as at the time of reporting), based on our research findings, the most important financial questions for a commissioner contemplating a SIB appear to be:

- ▶ **Are savings estimates robust, and likely to deliver the type of benefit needed?** If an ‘invest to save’ case is behind the decision to pursue a SIB, the commissioner needs to look very carefully at the scale of savings forecast, what evidence supports that forecast, and how likely it is that benefit will be lower than forecast (for example because fewer outcomes are achieved). Secondly, they need to be certain that the financial benefits, if achievable, will truly pay for the service. This is a decision that only a local commissioner can make because some will expect the savings to be truly cashable, with existing services decommissioned because they are no longer needed; while others will be content with future “avoided costs” that release capacity.
- ▶ **How do the costs of a SIB compare with alternative commissioning models?** As both the REA primary research indicate, all other things being equal, a SIB will cost commissioners more to set up than an FFS approach, with an alliance contract likely to be somewhere in-between. A simplistic comparison will therefore favour FFS or alliance over a SIB; but as the REA indicates, outcomes-based approaches can be

more attractive because reimbursement is conditional upon providers delivering agreed outcomes. The SIB will thus be cheaper, at least in cost-per-outcome, if there is significant risk of fewer outcomes than projected being achieved (and provided that the commissioner is paying only for outcomes achieved). This does, however, assume that the commissioners have compared the costs of different commissioning approaches, which the primary research suggested is not always the case.

- ▶ **How much can the commissioner afford to pay?** In one LA the commissioner interviewed chose an alliance contract because they feared further reductions in available budget and loss of control of future outcome payments under a SIB. This could have been addressed, however, by setting a so-called 'outcomes cap' on the maximum amount that the commissioner would pay, based on budget available.

### 4.3 Weighing political and sociological factors

Both the REA and primary research also show that economic decisions cannot be considered in isolation, and political and sociological factors also need to be considered. The evidence suggests that the most important considerations are to:

- ▶ **Understand and address misconceptions that might affect policy.** For example, in one LA, an interviewee highlighted that SIBs were viewed with suspicion because of commissioners' adverse experience of private equity involvement in areas such as fostering and children's residential care. However, both service providers and investors in SIBs have different characteristics and motivations, as identified in, for example, Carter et al. (2018). Equally, a perception that SIBs are attractive because they offer 'free money' (as identified as a concern in one LA involved in our research) needs to be equally challenged from the other direction; investors provide initial capital which delays payment until outcomes occur, but it has to be repaid, usually with a small return.
- ▶ **Identify the likely intervention.** As noted above, SIBs are potentially better value for money if the intervention is untried, since they transfer to providers and investors the risk that the intervention might not succeed. Commissioners might not have the appetite for such risk through an FFS or alliance model, where they need to pay regardless of success. If a high fidelity or evidence-based programme is proposed, therefore, the case for a SIB may be weaker (and the case for FFS correspondingly stronger) provided the commissioner is confident in the ability of the provider to deliver the programme with high fidelity.
- ▶ **Identify the likely delivery model.** Similarly, if the intervention is complex and needs either significant adaptation to respond to complex user needs, or delivery by multiple providers working in collaboration, it becomes more challenging to deploy a FFS contract because both delivery activities and outputs and the roles of sub-contractors tend to be more prescribed, making it more difficult (though not necessarily impossible) to enable the flexibility and adaptation needed. In this situation the benefits of a SIB approach may become more apparent, since as the REA identifies, key advantages of SIBs include supporting effective collaboration to address a specific social issue and achieving more integrated services. However, these benefits could also be achieved through an alliance contract, as our qualitative research identified. Therefore, if the intervention is complex, the pros and cons of a SIB or outcomes contract vs an alliance contract could become finely balanced, and dependent on other factors such as the strength of the local provider market and their appetite for either an alliance contract (which requires close cooperation between providers) or a SIB (which requires providers either to bear outcomes risk or to work with and through an investment fund manager managing investors),

## 4.4 Full appraisal of all options

Thirdly and arguably most importantly, commissioners need to undertake a full appraisal of all options, which takes account of the local context. There is some evidence from the primary research of this, but also of the commissioners defaulting quite quickly either to contracting options that they have used before (notably FFS) or to more innovative approaches (either SIB or Alliance contract) without full assessment of relative cost and benefits. It is arguable, for example, that commissioning a complex, strengths-based intervention for people at risk of homelessness (as in one LA involved in our research) would have been equally suited to a SIB approach as to an alliance contract, based on available research (though this is not to say that they made an incorrect decision, only that all options may not have been fully considered),

We acknowledge that it is not easy for commissioners to undertake such appraisal given current resource constraints but there are arguably greater risks in taking commissioning decisions without such appraisal. In addition, this is the only way fully to consider options that offer costs and benefits that are finely balanced – notably whether to choose a SIB or an alliance approach to a collaborative contract, or a SIB rather than PbR for a contract where transfer of outcomes risk is a key requirement. In both cases the decision may come down to local factors – such as provider market capacity – which can only be properly considered through full appraisal.

It is arguable that some of these decisions could be left open during procurement, and cost-effectiveness judged comparatively during tender evaluation – especially if there is interest in hybrid contracting and payment models. For example, an outcomes-based contract could leave it to bidders decide whether to bid with their own funding or with social investment support – effectively choosing between PbR and a SIB. Bidders might also be invited to bid with payment linked 100% to outcomes or only partly, with a fixed upfront payment that effectively creates a hybrid FFS/PbR contract. However, nearly all commissioners will want to set boundaries to the type of contract they want – in part because this will have an impact on who is most likely to bid for the contract. If so, they will need to have some reassurance that the option(s) they are choosing are the most cost-effective, underlining the need to carry out an options appraisal prior to tendering.



## Conclusion

The REAs and primary research provided several insights into local authority commissioners' decision-making when commissioning a social or health service. The evidence generated through this study indicates that political, economic, and sociological factors shape commissioners' decision-making on which contracting approach they opt for more than other factors (e.g. technological, environmental), particularly in choosing outcomes-based contracting. Below is a summary of our key findings and reflections on what helps and hinders commissioners in exploring how different contracting approaches could help them meet their aims; building on common themes drawn from the interviews, the REAs, and through discussion of the findings with our expert research advisory group:

- ▶ Limited **capacity within LA teams is an inhibiting factor** for considering different forms of contracting approach beyond fee-for-service.
- ▶ Individual **commissioners play a key role in championing more innovative approaches** within their organisation.
- ▶ Commissioners we spoke to highlighted the key influencing role of hearing from other LAs' experiences to increase awareness of other potential contracting approaches and how they might be used to address increasingly complex social issues. This demonstrates the ongoing **need for LAs sharing learning**.

There was a **perception from the commissioners interviewed that FFS, as a 'standard approach,'** is more efficient, as there are fewer associated set-up costs. However, based on the findings from our research, alternative contracting approaches could be more cost-efficient (in terms of cost per outcome) because commissioners only pay when an outcome is achieved (rather than paying for a whole service regardless of its outcomes as in FFS). This also highlights a key point around awareness of alternative contracting approaches. As there can be a lack of awareness of – and misunderstanding about – different contracting types among commissioners, it is important to correct these misconceptions to help ensure that the most appropriate contracting type is chosen for social and health interventions.

However, at the time of reporting, there was broad consensus from commissioners interviewed that **economic and organisational capacity factors** constitute a significant challenge for commissioners when considering outcomes-based models. Commissioners told us they often **do not have the time and capacity needed to use specific tools** like an options appraisal to assess all the possible contracting approaches and the various factors which may influence their decision to use these.

Based on findings from our commissioner interviews and on the broader research Ecorys and ATQ have undertaken for the CBO evaluation this means that when commissioners assess whether to pursue a SIB, economic benefits need to be assessed carefully. Political and sociological factors need to be given strong consideration alongside economic factors when opting for a SIB as an understanding of wider local needs and the needs of the target group is crucial for outcome-focused commissioning. Moreover, commissioners should be supported with resource and capacity to appraise all possible options of contracting approaches to be sure that a SIB is the best option for them to achieve earlier and better outcomes.

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