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**MINISTERIAL ADDRESS –
‘REVIEWING THE REHABILITATION REVOLUTION’**

**SOCIAL MARKET FOUNDATION
ANNUAL JUSTICE CONFERENCE – 6 MARCH 2012**

INTRODUCTION

1. I would like to thank Ian and Social Market Foundation for organising this event - I think it will add some real value to the ongoing discussions about payment by results. I'm sure that the outcomes of this conference will be of interest to the Government and external parties. To date, the Foundation has made many thoughtful contributions to policy debates and I hope that we will be able to collaborate on future work in regard to payment by results and criminal justice issues.
2. Since the last election, the phrase ‘payment by results’ has become increasingly commonplace. A range of reforms are underway across government in a variety of areas.

3. Regardless of the nature of the scheme, or the issues that it seeks to tackle, the enduring principle is the same: it represents a smarter approach to commissioning, with the potential to drive a step change in performance whilst securing improved value for money. In difficult economic conditions, it provides a means for ensuring our money goes further.

INTRODUCTION TO PAYMENT BY RESULTS IN THE CRIMINAL JUSTICE SYSTEM

4. Our plans for payment by results are well documented. The Coalition Agreement and the *Breaking the Cycle* Green Paper made clear the scope of our wide-reaching group of pilots. And whilst we are piloting to test the concept in a number of different ways, we are taking further steps to implement the approach more widely.

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5. Previous governments have adopted a range of measures and innovations to address the problems of increasing levels of crime and reoffending, with varying degrees of success. So why do we now consider payment by results to be the right way to go? To answer that question, it's helpful to revisit the core policy problem.

WHY PAYMENT BY RESULTS? THE POLICY PROBLEM

6. The current system does not do enough to rehabilitate offenders. Too often, our most prolific offenders cycle and recycle through the justice system. Prison neither serves to effectively rehabilitate offenders, nor offer the public sufficient protection from crime and reoffending. This is borne out by reoffending statistics demonstrating that half of prisoners reoffend within a year, with the reoffending rate rising closer to 60% for those serving short sentences.

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7. This must not be taken as criticism of the commitment or professionalism of those working with offenders. There are countless people doing brilliant work, with an extremely challenging set of people. However, I know that there is a huge sense of frustration that controls from the centre to ensure safe and secure services too often fail to support professionals to truly innovate and make a difference. Instead of enabling our staff, the system appears to constrain them.

8. These failings really matter. The annual prison bill is over £3bn. And that's before you consider the economic and emotional costs of reoffending. We must do more to break the cycle of reoffending, and help offenders to become productive members of society, or the system is failing everyone.

9. Past Governments have talked tough but not delivered real change, instead choosing to throw more money at the problem. But the days of undisciplined spending are over. We face the most testing economic conditions for a generation. My department alone must reduce its expenditure by 23% to find nearly £2bn of annual savings by 2014/15.

PAYMENT BY RESULTS AS A POTENTIAL SOLUTION

10. The case for changing the way we do things is clear, and in the current economic conditions, unarguable. We need to extract maximum value from every pound we spend. I believe that payment by results provides a potential solution.

11. This represents a clear departure from the days of increased spending and centrally specified services. Fundamental to our approach is that we want to pay for what works. This means transferring the financial risk of failure away from the government. If services do not deliver, the taxpayer should not pick up the bill.

12. We want to attract to the market providers from the voluntary and private sectors, to introduce new ideas, creativity and external investment. As part of our offer, we will grant greater autonomy to providers, and strip away the bureaucracy that would otherwise prevent them with getting on with what works.

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13. Under a payment by results regime, providers will have a clear financial incentive to hit our targets. They will also be encouraged to drive through efficiencies to maximise their potential return. I embrace that principle. Yes, reductions in reoffending will have financial benefits for the providers involved, but the wider impact will be far-reaching – substantial social and economic benefits through reduced crime, and rehabilitated offenders adopting a more purposeful and worthwhile lifestyle.

CHALLENGES TO OVERCOME

14. Of course, we face considerable challenges in delivering on this vision:

- Attributing reductions in reoffending to the actions of the provider is challenging, and if we get it wrong, we run the risk of paying for changes that might have happened anyway.
- we've never tried this approach before, and the market is untested.

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- we want to encourage a diverse and competitive market involving providers from all sectors, which means we cannot adopt a ‘one-size fits all’ approach. And we do not want to see prime providers offloading large amounts of risk onto their sub-contractors, or failing to share any reward payments.
 - Providers must be freed from unnecessary red tape, and have scope to truly innovate to succeed. But we must also be careful to guard against perverse incentives, or scope to ‘game’ the system.
15. Paying for real outcomes is absolutely the right approach, but I accept that we do not yet know how best to make this happen. Hence our programme of pilots, to explore the challenges that I have set out. Each will be fully evaluated, to help us learn the lessons needed to refine our approach in the future.

PROGRESS WITH PAYMENT BY RESULTS PILOTS

16. I will now briefly touch on progress with the pilot programme, and discuss some of the issues that they will address.

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17. The pilot at Peterborough prison, initiated under the previous Government and launched before the Green Paper was published, is testing an innovative approach to working with short sentenced prisoners, funded through social investment. That pilot will be well known to most of you, so I shall not expand on it now.
18. In addition, the Green Paper committed us to two new prison pilots, but in fact we are proposing to test three separate models in three prisons.

DONCASTER

19. The first pilot launched in October last year, at Doncaster prison. Nearly every offender leaving the prison will be included within the pilot. They will be observed for a year after release - if convicted at court of a further crime committed at any point during that period, they will be marked as a failure against the prison. If they receive no further convictions, they will be counted as a success.

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20. There will be a cohort of offenders for each year of the four-year pilot. Reconvictions across each cohort will be reviewed and compared to a benchmark based on data from previous years. Monitoring performance against prison data from previous years will help to address the attribution issue, and improve the likelihood that any payments will reflect genuine success.

21. The prison operator, Serco, will surrender a portion of the contract price if they fail to reduce reoffending by a sufficient amount in any year of the pilot. If they meet their target, they may retain this sum, and if they over-achieve, they will receive additional bonus payments.

22. We have given Serco greater latitude in how they work to rehabilitate offenders. This has resulted in a truly innovative through-the-gate operating model, and involving novel operating partnerships with voluntary sector agencies.

LEEDS

23. We are planning to pilot a similar model in Leeds prison, but with the key difference that Leeds is currently managed as a public sector prison. The pilot will give us invaluable experience of structuring the necessary partnerships between public and non-public sector providers to enable public sector involvement in future payment by results contracts.

HIGH DOWN

24. The final prison pilot, at HMP High Down, will launch very shortly. This will test an altogether different model – a model based on financial incentives, rather than risk transfer. The prison will retain and reinvest any savings that can be linked to success at reducing reoffending. This pilot will test a radically different approach, which allows us to shift the focus of the public sector onto delivery of outcomes, without needing to draw in external finance.

COMMUNITY PILOTS

25. Our pilot activity extends beyond the prison gate. We are working with two Probation Trusts, Wales and Staffordshire and West Midlands, to introduce payment by results principles for offenders managed in the community. There will be a degree of financial risk linked to these pilots, so we are supporting the Trusts to form the commercial partnerships required to allow them to operate in this way. As well as testing payment by results, these pilots will give us essential experience of competing core probation activity for the first time, and help to introduce new players to the probation market.

CO-COMMISSIONING

26. And we are not simply operating in glorious isolation. We are partnering with other government departments to test the benefits of co-commissioning services on a payment by results basis. We are working with the Department for Work and Pensions to trial an addition to the Work Programme, where we will contribute to success payments if an ex-offender enters sustained employment and commits no further offences.

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27. Similarly, working with the Department of Health, we will pay providers for helping former offenders to recover from drug and alcohol addiction, and avoid a life of crime.

28. And there are other initiatives which we are progressing, including:

- pilots in London and Manchester, offering a financial incentive to local partners for reducing demand on the justice system;
- Four youth custody pathfinders, encouraging local authorities to provide intensive community-based support to young people at risk of custody;
- up to two additional innovation pilots, designed to encourage smaller providers and voluntary organisations to enter the market.
- My department is supporting the Troubled Families programme announced by the Prime Minister, a mainstream initiative which aims to turn around the lives of families with multiple serious problems.

BEYOND THE PILOTS - APPLYING THE PRINCIPLES OF PAYMENT BY RESULTS

29. Beyond the pilot programme, we are pursuing opportunities to apply more broadly the principles of payment by results.
30. Through the current round of prison competitions, we are canvassing for views on how payment by results might be incorporated into the core prison contract. We have also been conducting a comprehensive review of probation services, and will shortly be consulting on our plans for reform of this part of the system. Payment by results will increasingly become a feature of how we commission offender services in the period to 2015 and officials in my department are working to develop a strategic approach to achieve this.
31. There will be challenges in implementing across the entire system payment by results approaches that meet all of the principles I discussed earlier. A variety of factors might make payment by results unfeasible, or undesirable in some circumstances. But that is why we are piloting, to help us uncover the advantages and limitations of different models.

WRAP UP

32. That is where we are heavily reliant on the market to engage with our proposals, and help to make payment by results a reality. We need providers to come forward with the capacity to innovate and the commitment and appetite to do things differently. There are of course risks associated with payment by results for all parties, but the opportunities and potential rewards from working jointly to achieve our aims are considerable

33. And so I urge you to continue to work with us, both through our initial pilot programme and as further payment by results opportunities arise. You will find our doors open if you want to come to us with new ideas, or to discuss our developing plans. And that dialogue should continue – I would be very happy to take your questions, or hear your reflections on anything I have said today.

34. Thank you.

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