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Setting up the payment mechanism in an outcomes-based contract

24th October 2018



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#PricingOutcomes

About us

Joint partnership
between UK
Government &
Oxford University

Established in 2016

Based at the
Blavatnik School of
Government, in
Oxford

Centre of academic research and practice with a mission to improve the provision of public services to tackle complex social issues, with a focus on outcome based models

Support available from GO Lab

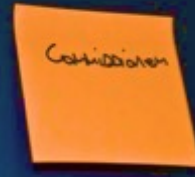
Digital Knowledge
Hub for SIBs & OBC

golab.bsg.ox.ac.uk

Guides &
resources



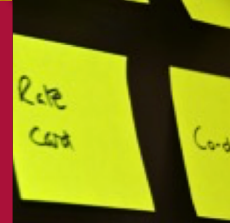
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Setting and measuring outcomes 2 chapters

Setting and measuring outcomes

A guide to identifying, defining and measuring outcomes for the purposes of outcome based commissioning

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Chapter 1
General guidance

- Introduction and overview
- Understanding outcomes, measures and metrics
- Different types of outcome
- Individual versus cohort measurement
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About the guide

This guide provides advice on the processes of identifying, defining and measuring outcomes when putting in place an outcomes-based contract or social impact bond. It is aimed mainly at local commissioners, but should also be useful to providers of services and interventions who are involved in

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Webinar: Measuring the impact of your outcomes-based project

13th November, 10am

golab.bsg.ox.ac.uk/news-events/events



Today's speakers



Catherine Remfry,
Economic Advisor,
DCMS



Mila Lukic, Partner,
Bridges Fund
Management



Tim Gray,
Consultant



**Nigel Ball, Deputy
Director, GO Lab
(moderator)**



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Our audience this morning



Some of your questions...

What is the starting point for pricing an outcome?

How can commissioners avoid over-paying?

How do you get the payment amount right?

Practical examples & best practice

What are the different models or options for setting up the payment mechanism?



How much flexibility do partners have in amending the initial contract?

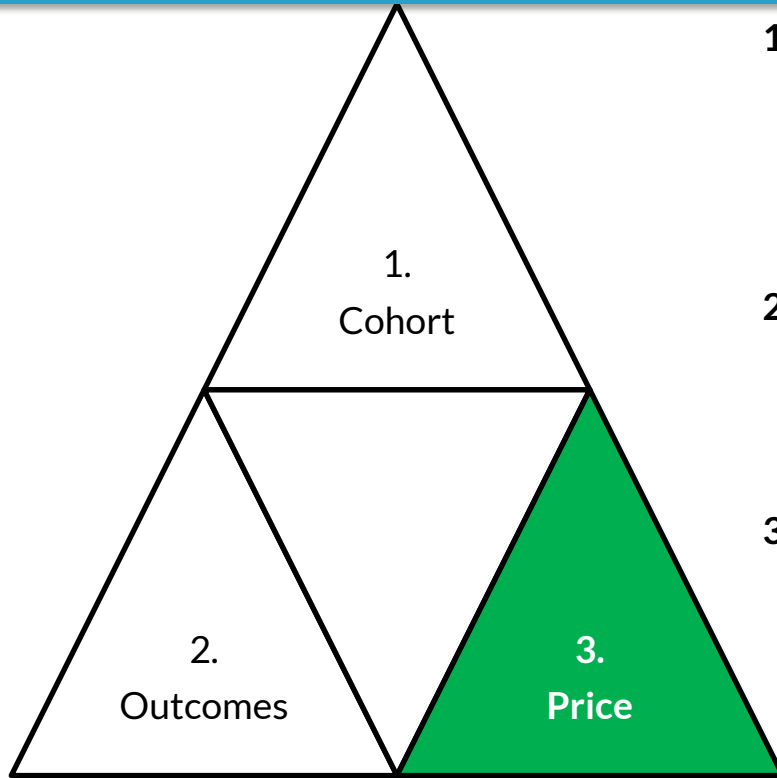
How do you get the right balance between outcomes payments and fee-for-service within a contract?

What is the starting point for developing rate cards?

Session overview

- The core elements of a payment mechanism in an outcomes based contract (*the session will focus on the pricing outcomes element*)
- Overview of the key steps for setting the price for outcomes:
 - Starting point & the various approaches that have been used to date
 - Adjusting the price & the core elements that will impact the actual price of outcomes
 - Engaging the market
- Pitfalls to avoid & other key considerations

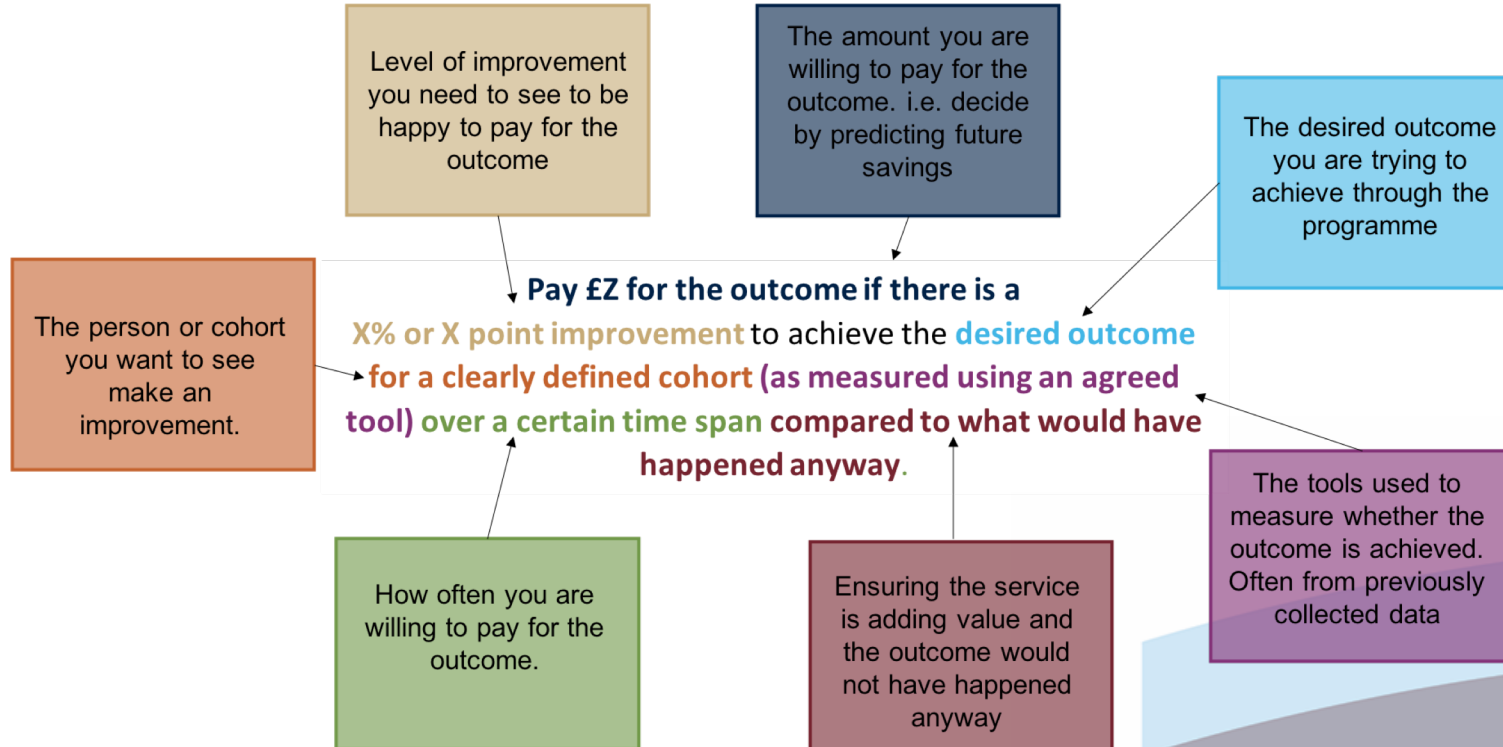
Designing a robust framework



1. **Tightly defined eligible cohort**
 - Clear, objective criteria
 - Understanding of how far participants are from the desired outcomes
 - Independent referral / identification mechanism
2. **Alignment between payable outcomes and policy objectives**
 - Logical link between activity, outputs and outcomes
 - Adequate period of time for tracking
 - A way to tell if the effect has 'stuck'
3. **Accurate price-setting of outcomes**
 - Robust estimate of likely level of benefit vs what would happen anyway ("deadweight")
 - A way to get confidence that any outcomes are caused by the intervention ("attribution")
 - Suitably long outcome tracking-period

Whilst it is not practical for these aspects to be perfect, commissioners should focus on them to avoid perverse incentives

Payment by results in a sentence



PbR in a sentence – an example (HMP Peterborough SIB)

Wanted to see > 7.5%
reduction in order pay
for the programme

£ would have be paid
if the reduction was
achieved. This figure
is not in the public
domain

The desired outcome
is to reduce
reoffending for these
people

You want to see a
reduction for three
groups of 1000
people who are ex-
offenders

Pay £ for the outcome if there is
**more than 7.5% reduction in reoffending among three
1,000 person cohorts of ex-offenders who had been in
prison a year or less (as measured by reconvictions)
over 3 years compared to a matched comparator group.**

This would be paid
over a 3 year time
period.

A matched
comparator group
would be used to
ensure a reoffending
would have reduced
anyway

Reduction in
reoffending will be
measured by rates of
reconvictions.

PbR in a sentence – an example (Manchester Treatment Foster Care SIB)

£94k would be paid if
this change of state
was achieved

Want to see change in
the conditions for the
child in order to pay

The desired outcome
is to find a stable
family-based
placement for these
children in residential
care

This change of state
will be measured by
the number of days
the child is not in
residential care

Pay up to £94k for a **successful transition into a stable family-based placement** for a **child who was in a residential care home** is (as measured by the number of weeks not in residential care) over **12 months**, on the **assumption that the child would have stayed in residential care without the intervention.**

This would be paid
over 12 months with
additional outcomes
paid over 2.5 years

This will be compared
to the likelihood that
the child would have
remained in care
without the
programme

You want to see this
happen for each child
in a residential home
at the start of the
contract

Overarching approach



STARTING POINT

- ✓ The commissioner needs to have a clear idea as to the value it attaches to a set of outcomes



ADJUSTING THE PRICE

- ✓ There are a number of elements that will impact the actual price of outcomes

(e.g. level of improvement sought, complexity of need within target cohort, timing of payments etc.)



ENGAGING THE MARKET

- ✓ Engagement with providers and investors to help ensure that the contract is viable and investable



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Starting point



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- Pricing outcomes is an **iterative** process
- The starting point for a commissioner looking to set the price for outcomes in an outcomes-based contract (OBC) will reflect the **motivations** for engaging in an OBC or SIB.
- Flexibility, need to allow room for revisions and negotiations throughout the process. Helpful to set the right expectations internally
- Provider-led propositions



Starting point



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Some broad approaches we have observed from practice to date:

- Intrinsic value of outcomes
- Efficiencies
- Prevention



Adjusting the price



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- Level of improvement
- Cohort specification
- Timing of payment
- Confidence around attribution (Additionality test)

Engaging with the market



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- Engage early (test assumptions made around delivery costs, ability of provider to finance upfront costs, investor interest)
- Balance between what is valuable to the commissioner & what is viable and investable
- Openness, trust and shared understanding around terms of sharing information
- Allow sufficient time both for the early discovery phase and for ongoing negotiation once provider(s)/investor(s) appointed
- Partnership v. transactional approach



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Data considerations & other sources of information



DATA

- Sources of data for estimating costs; local & national
- Analytical skills within commissioning organisation



SOME HELPFUL RESOURCES

- [Cost benefit analysis guidance for local partnerships](#)
- [Treasury's Green Book](#)
- [New Economy Unit Cost Database](#)

Your feedback



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