

Outcomes Rate Cards

FREQUENTLY ASKED QUESTIONS

What is an outcomes rate card?

An outcomes rate card is a list of outcomes government wants to achieve across identified target populations, and the prices they are willing to pay for each outcome achievement. Outcomes rate cards can be used as the basis for a procurement aimed to significantly accelerate the achievement of positive outcomes government wants to purchase and to standardize terms of performance-based financing. One outcomes rate card can enable multiple service contracts with multiple service providers, who must deliver against this outcomes rate card, receiving payment only when the stated outcomes are achieved and when participants' lives are positively impacted.

Why is it called an outcomes rate card?

An outcomes rate card is a 'card' or menu of outcomes and the 'rates' or prices government is willing to pay for each outcome that a service provider is able to help a participant achieve. This is part of a larger government shift towards paying for outcomes, rather than paying for services tracked by inputs and outputs.

How does an outcomes rate card differ from traditional Pay for Success (PFS) or other outcomes-based financing models?

Like all Pay for Success approaches, outcomes rate cards allow government to contract for outcomes. Similarly, to be used effectively, they require detailed and diligent work to specify a target population, select outcome metrics, conduct economic analysis, calculate appropriate prices, and design an effective and verifiable measurement methodology.

However, when PFS projects are developed in response to an outcomes rate card, the typical PFS development process is re-ordered. Most of the traditional PFS development work such as cost-benefit analysis, is completed *before* the procurement process, i.e. before an RFP is issued and before a service provider has been chosen. In an outcomes rate card approach, governments set the outcomes, terms, prices, measurement methodology and timelines before publishing the outcomes rate card. If a service provider chooses to apply, it is confirming that it is able to operate under the described terms. As a result, the PFS process becomes more standardized, development timelines are cut drastically, and governments can contract with multiple providers at once.

What are the opportunities that outcomes rate cards bring compared to traditional Pay for Success approaches?

Outcomes rate cards have the ability to accelerate PFS deal development processes, more readily articulate and meet government's priorities, and enable governments to implement an outcomes mindset and contracting structure to reach community-level or population-level scale. In the UK experience, most outcomes rate card-driven procurement processes will result in 3-5 PFS projects launched.

Outcomes rate cards have the potential to cut the PFS development timeline by 50% (e.g. 9 month from Request for Proposals to service launch). Because governments predetermine the outcomes they wish to achieve, they must be clear on their priorities and the value of achieving those priorities. Because government sets outcomes before selecting providers, jurisdictions can use one outcomes rate card to launch multiple contracts, of various sizes, in different geographies, and target different populations with different needs. The opportunity to launch simultaneous PFS projects provides fertile ground for learning "what works" and allows for a diversity of delivery methods to achieve outcomes for different target populations.

What are some of the risks associated with outcomes rate cards?

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Outcomes rate cards carry with them some of the same potential challenges traditional PFS projects face. In any PFS deal, developing prices for outcome achievement (or aversion of negative outcomes) requires analysis of existing administrative data, and ability to quantify willingness to pay. This can be challenging, especially when data systems do not provide as much granular information as desired, or when multiple agencies are required to share and connect data sets.

As a result, outcomes rate cards may indicate significant investment in data systems and IT infrastructure to connect outcomes validation and performance management to service provider payment processes. Because outcomes rate cards often seek to reach more participants over a number of awarded contracts, identifying the correct outcomes, segmenting the population and setting specific rates for each segment of the population having robust systems that are able to track the associated outcomes and payments is paramount. Because academic evaluation is typically not part of outcomes rate card PFS projects, identification of verifiable outcome metrics that are both indicative of long term positive outcomes, and trackable by administrative data systems, is crucial.

One of the greatest risks of outcomes rate cards is selecting the wrong outcomes or setting the wrong rates, either paying too much or too little for a given outcome. While traditional PFS may also carry this risk, because outcomes rate cards employ a *menu* of outcomes from which providers can freely choose which outcomes they wish to target, it is even more important that they stratify rates appropriately depending on the target population, geography, and or priorities. For example, offering higher rates for harder-to-serve participants, or individuals who may be considered high-risk or vulnerable. Not doing this may negatively influence service provider behavior, encouraging cherry picking and cream skimming, or creating perverse incentives.

Where have outcomes rate cards been used?

The United Kingdom issued the first outcomes rate card procurement through the Department of Works and Pensions (DWP). In June 2011, its ground-breaking Innovation Fund, through two rounds of contract procurements, leveraged a single outcomes rate card to contract with ten different service providers and serve approximately 17,000 young persons between the ages of 14 and 24.

In July 2016 a final evaluation report of the ten pilots, conducted by Insite Research and Consulting¹, found that program providers, investors, and intermediaries determined all ten to be “a great success, with targeted numbers of outcomes met or exceeded” and that “the funding model was seen as having been a significant factor in driving-up performance and developing expertise.”

Following the Innovation Fund, two more outcomes rate card projects, the Youth Engagement Fund and the Fair Chance Fund, launched in the UK. Together these three projects have deployed roughly £60 million, contracted with 21 different service providers, and served over 25,000 individuals across the country.

Have outcomes rate cards been used in the United States?

The outcomes rate card approach represents an evolution, not a revolution, in the way we contract for social services in the US. While the US has yet to specifically employ outcomes rate cards in this way, performance-based contracting projects have long utilized outcomes rate card-like features. One can even say, historic US performance-based projects formed the basis for the UK outcomes rate card approach.

¹ “Qualitative Evaluation of the DWP Innovation Fund: Final Report,” Department for Work & Pensions, July 2016, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/535032/rr922-qualitative-evaluation-of-the-dwp-innovation-fund-final-report.pdf

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Passage of Personal Responsibility and Work Opportunities Reconciliation Act (PRWORA) and the national adoption of Temporary Aid to Needy Families (TANF), America in the 1990s represented a wave of performance-based welfare-to-work programs. The New York City welfare-to-work program, administered by the Department of Human Resources Administration (HRA), utilized a 100 percent performance-based payment structure. Services for employment programs were delivered by 17 total contracts with for-profit and non-profit contractors. Priority outcomes (called “milestones”) included engagement, job placement, and job retention for 90 and 180 days and contracted vendors were paid based on individuals’ successes.

The DWP’s Innovation Fund pilot evokes a number of similarities with the NYC HRA welfare to work programs. The DWP identified outcomes related to education, training, and job placement for at-risk youth with outcome payments tied to their individual successes.

How do governments determine a price per outcome?

Two inter-connected factors may influence the determination of outcome prices.² Rates are calculated first by the maximum amount a government is willing to pay per participant, typically based on expected savings over time or value accrued to government (i.e. reduced welfare payments, tax revenue, value of avoided costs). Pricing may also reflect how governments want providers to behave, by incentivizing early outputs that have a proven correlation with the ultimate outcome sought, services for harder-to-reach or high-risk population cohorts, or outcomes that align directly with policy goals. Most government jurisdictions will hire a specialist to guide them through the economic analysis, project design elements, and procurement design.

Is a traditional PFS project that includes outcome metrics validated by government administrative data (rather than via academic evaluation) considered an outcomes rate card project?

No – the outcomes rate card approach is not synonymous with use of validated outcomes. In fact, while to date outcomes rate cards have employed validated outcome rates, an outcomes rate card project does not require a specific kind of measurement or evaluation is used, only that government decides the methodology independently and prior to the RFP process. Validation of positive administrative outcomes is most commonly the measurement methodology associated with outcomes rate card projects (all UK deals have been measured in this fashion) largely because it allows greater scale in the number of participants served by the projects.

What is the future of outcomes rate cards?

Outcomes rate cards represent a path to providing services and measuring performance at scale by standardizing PFS contracting and increasing the number of governments and service providers engaged in PFS to serve even more individuals. Outcomes rate cards represents another approach under the PFS suite of tools.

At Social Finance, we believe in a solutions-oriented approach to solving challenges. **There is no “one PFS fits all” answer. Outcomes rate cards and other outcomes-focused mechanisms can all be tools to drive social progress, when thoughtfully designed.**

² UK rate cards also employed an auction rate system where providers “bid” on outcome rates. Bids/rates provided in earlier rounds can inform the rates set in subsequent rounds. Provider performance such as an overwhelming focus or avoidance of a particular outcome also influenced pricing in later rounds.