Outcomes Rate Cards
FREQUENTLY ASKED QUESTIONS

What is an outcomes rate card?
An outcomes rate card is a list of pre-determined outcomes government wants to achieve to advance its policy priorities, and the prices it is willing to pay for each outcome achievement. It is used as a procurement and contracting tool with the ability to standardize performance-based financing, through Pay for Success, and drastically reduce the time such deals take to get to market. One rate card can result in multiple contracts with multiple providers, who must deliver against this rate card, receiving payment only when the stated outcomes are achieved and participants' lives are positively impacted.

Why is it called an outcomes rate card?
An outcomes rate card is essentially a 'card' or list of outcomes government wants to achieve to advance its policy priorities, and the 'rates' or prices it is willing to pay for each outcome achieved.

How does an outcomes rate card differ from traditional Pay for Success (PFS) or other outcomes-based financing models?
Like Pay for Success projects, outcomes rate cards still requires detailed, diligent work to identify a target population, select outcome metrics, and price them. However, when PFS projects are developed in response to an outcomes rate card, the typical PFS development process is fundamentally shifted. Most of the development work is completed before a service provider is engaged. Governments are empowered to set the outcomes, terms, prices, and timelines in the rate card and then contract with multiple service providers. This affords outcome rate cards the potential to reach population level scale and greatly increase the number of individuals PFS can serve.

This method is particularly useful for program interventions that have a robust evidence base but have had difficulty accessing wider capital. It can also be used to address specific needs of unique population groups, or to quickly test a variety of interventions for a hard-to-serve population, where evidence on proven interventions may be limited.

It's important to remember that outcomes rate cards are not better or worse than traditional Pay for Success approaches. They are undoubtedly different from current PFS models and carry tradeoffs associated with those differences. Social Finance believes in a **solutions-oriented approach** to solving challenges. Outcomes rate cards and other outcomes-focused mechanisms can all be tools to drive social progress, when designed thoughtfully.

What are the opportunities that rate cards bring compared to traditional Pay for Success approaches?
The benefits of rate cards are substantial. They have the ability to uniquely accelerate PFS deal processes, sometimes cutting the development timeline by 50% (e.g. 9 month from Request for Proposals to service launch). They force governments to be clear on priorities and values, they allow for smaller deals/contract size (typical UK deal is £2m to £5m), and they can significantly increase the reach (number of individuals served) of the PFS market.

What are some of the risks associated with rate cards?
Rate cards carry with them a different set of challenges from traditional PFS projects. In order to develop a rate card, governments must have the capacity and data resources to set rates. This may require significant investment in IT systems to address outcomes validation and performance management processes. Identifying the correct outcomes, segmenting the population and setting the

rates require a process that may be unprecedented, ambiguous, and challenging. Outcome rate cards to date have been structured so that outcomes are paid based on a validated positive achievement rather than the results of Randomized Controlled Trial (RCT). While academic evaluators may disapprove of the lack of rigorous evaluation, the outcomes rate card structure does not preclude the use of RCTs.

Some of the greatest risks of outcome rate cards are selecting the wrong outcomes or setting the wrong rates, either paying too much or too little for a given outcome. However, while these rates are pre-determined, they are not set in stone. Governments can iterate and evolve with the market by adjusting rates in subsequent rounds of project contracting. The Innovation Fund – Round II had higher payment rates for outcomes for improved behavior in school and employment attainment while certain outcomes, such as completion of an ESOL course, were eliminated completely.

Is a validated outcomes PFS project considered a rate card project?
Not necessarily – the outcomes rate card approach is not synonymous with validated outcomes. In fact, a rate card project does not specify what kind of measurement or evaluation is used, only that government decides that methodology independently and prior to the RFP process. While validation of positive administrative outcomes is most commonly the measurement methodology associated with rate card projects (all UK deals have been measured in this fashion), it does not mean rate cards are mutually exclusive with rigorously evaluated impacts.

Are outcomes rate cards used in the United States?
The outcomes rate card approach represents an evolution, not a revolution, in the way we pay for social services in the US. While the US has yet to specifically employ rate cards in this way, performance-based contracting projects have long utilized rate card like features. One can even say, historic US performance-based projects were the basis and foundation for the rate card approach.

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 included engagement, job placement, and job retention for 90 and 180 days and contracted vendors were paid based on individuals' successes.

While the rate card approach originated in the United Kingdom with the launch of the ground-breaking Innovation Fund ("DWP Innovation Fund") in June 2011, this pilot initiative 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?
Three inter-connected factors influence outcome prices:

1. <u>Calculated savings and value:</u> Initial calculations are based on the maximum total amount the government is willing to pay per participant, based on expected savings/value over time (i.e. reduced welfare payments, tax revenue, value of avoided costs)

2. Incentivizing performance: Rates can evolve over time in response to administration political priorities where governments can incentivize a particular set outcomes that have a proven correlation with longer term goals.
3. Service Provider informed: (Bidding on rates experienced in the UK due to an auction rate system) Bids/rates provided in earlier rounds can inform the rates set in subsequent rounds. Provider performance (e.g. overwhelming focus or avoidance of a particular outcome) can also influence pricing in later rounds.

The outcomes rate essentially triangulates between these three factors. Rates are driven first by the maximum amount a government is willing to pay per participant, typically based on expected savings over time (through reduced welfare payments etc.). However, it may also incorporate pricing that reflects how the government wants providers to behave, by incentivizing early outputs that have a proven correlation with the ultimate outcome sought, or services for harder to reach populations. They can also prioritize outcomes that align with policy goals. As such, it is good practice to issue outcomes rate cards over multiple iterations, tweaking the prices each time, as government learns more about how the market responds to different price points.

What is the future of outcome rate cards?

Outcome rate cards represent a path to providing services and measuring performance at scale by standardizing PFS contracting and expanding the PFS market, increasing the number of governments and service providers engaged in PFS to serve even more individuals.

The UK's first Innovation Fund leveraged a single outcomes rate card to contract with ten service providers, which would collectively serve approximately 17,000 young persons between the ages of 14 and 24 for three years. To put this in perspective, a single outcomes rate card will serve roughly the same number of individuals in three years as the first eleven Social Impact Bonds in the US will serve over the course of more than five years. This approach also allows for a diversity of delivery methods to achieve outcomes for different target populations.

Since then, two more rate card projects, the Youth Engagement Fund and the Fair Chance Fund, have been launched in the UK and together with the Innovation Fund have deployed roughly £60 million, contracting with 21 different service providers, and serving over 25,000 individuals across the country.