A Health Outcomes Fund for Canada

How paying for outcomes could improve health and deliver better value for money

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About this paper

This paper sets out the case for establishing a health outcomes fund dedicated to delivering better care and achieving improved health outcomes for Canadians. An outcomes fund is a committed pool of capital that is dedicated to paying service providers for achieving agreed-upon outcome targets. This proposal responds to both federal and provincial/territorial health system priorities, including moving from volume to value-based reimbursement approaches, curbing demand for health services by investing in prevention and supporting patient self-management, and shifting care into the community. It also responds to broader governmental aims to collect and leverage data to improve service delivery, and to root policy decisions in sound evidence.

Introduction:
Health policy innovation

The challenges faced by the Canadian health system are complex and require urgent attention.

Much has been written about the wide range of changes required. Some of these changes include:

- Designing a healthcare system that puts patients first;
- Addressing funding silos to enable enhanced care integration;
- Enhancing the adoption of innovative technology;
- Linking patient data across the system;
- Shifting more care into the community;
- Improving the way we care for people with chronic disease; and
- Investing in keeping people healthy in order to curb the demands on a system that is fiscally unsustainable.

When compared to the health systems of other high-income countries, Canada's system performs poorly. It does not deliver the highest quality of care to citizens, nor does it deliver good value for money.[1] New approaches are needed in order to better meet the health needs of Canadians. However, improvement efforts are hampered by misaligned financial incentives, resistance to risk, the need for investment to support transitions to new models of care, incomplete evidence about how best to move forward, and the lack of a strong and unified vision of the future state of the system. Many of these barriers to innovation and transformation were highlighted in a report of the Advisory Panel on Healthcare Innovation published in July 2015, "Unleashing Innovation: Excellent Healthcare for Canada". They included lack of meaningful patient engagement, system fragmentation, inadequate health data and information management capacity as well as a risk-averse culture.[2]

To drive meaningful change we need to expand our thinking beyond immediate solutions and consider how to reinvent the system to ensure fiscal sustainability and enhanced effectiveness for the long term. This task will demand new forms of collaboration within the health system and across sectors, new sources of capital and new approaches to managing risk. It will also require the improved use of data to drive performance, measure the impact of services and build evidence on what models of care work best.

An incremental wait-and-see approach to tackling healthcare transformation will not deliver the types of change required. This paper proposes testing a new approach to catalyze meaningful change.

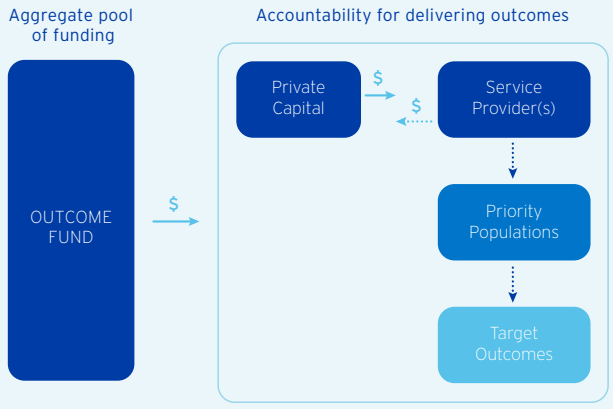
A health outcomes fund

Outcome-based funding agreements present an opportunity to move in a new direction. In these agreements, an outcomes payer (typically a government) agrees to pay a service provider not for the volume of work completed (that is, the number of exams or visits), but rather for its ability to deliver on pre-agreed measureable outcomes that matter to patients and the system. The upfront capital investment required to deliver the services is provided by the service provider and/or raised from a growing pool of "impact" investors who are interested in linking both financial and social returns.

The changing natures of the philanthropic and investment landscapes in Canada align well with a shift toward outcome-based reimbursement. Increasingly, Canadian investors are interested in opportunities to achieve both financial and social returns, and philanthropists are seeking new approaches to leveraging their money.[3]

We propose establishing a provincial or federal health outcomes fund dedicated to addressing the healthcare needs of a targeted segment of the population (such as seniors with dementia or patients at the end of their lives). This fund should aim to invest in potentially transformative health initiatives that are designed to deliver significant improvement in outcomes and can act as exemplars of the types of programs and innovations that our health system urgently needs.

Health outcomes fund concept



Key Activities:

A. *The Fund will establish eligibility criteria & make payments, contingent on outcomes*

B. *Service delivery organizations will be identified and will secure upfront funding from private investors (potential repayment if outcomes are archieved)*

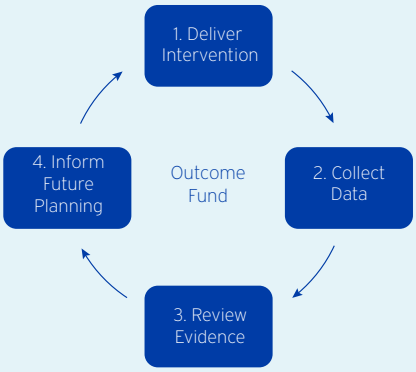
C. *Performance will be actively managed in order to deliver target outcomes*

See Appendix A for more information

This approach is not appropriate for funding most established health services. It is best suited to supporting innovation models which are more difficult to fund directly due to a lack of evidence, highly restrictive budgets or poorly aligned financial incentives.

A health outcomes fund provides policy-makers and service providers with an outlet for experimentation. The rigour imposed by the participation of outside investors requires government outcome payers and service providers to prioritize and refine evaluation and outcome measurement efforts. This structure provides valuable insights to integrate into standard practice going forward.

A Health Outcomes Fund will contribute to our understanding of which outcomes matter, how to measure them and which interventions most effectively deliver those outcomes in order to inform future policy development



Executing an outcomes fund will require contracting for care delivery in a new way. Focusing on outcomes and working with a broad set of stakeholders are capabilities needed to transition to a new normal in healthcare. An outcomes fund provides an opportunity to hone these skills.

Three important questions need to be addressed in order to design and implement an outcomes fund:

1. Who is interested in and able to pay for outcomes?

2. Which populations and/or health priorities should be targeted?

3. Who can best meet the needs of the target population and deliver the desired outcomes?

We will deal with each of these in turn.

1. Who is interested in and able to pay for outcomes?

As the primary funders of healthcare in Canada, provincial/territorial governments or regional health authorities are the natural "buyers" of health outcomes.

Provincial/territorial governments pay for the majority of health services on a fee-for-service basis or through global budgets. The drawback of these approaches is that they focus policy-makers' attention on the volume of activities being conducted or the volume of patients being seen rather than on the impact of those interactions. Current funding approaches do not distinguish between high-quality effective care and care that is inappropriate or that does not result in health improvements. This makes it difficult to determine whether taxpayers are getting good value for the money spent on any particular program or service.

This gap between investment and impact is not unique to Canada and governments around the world are increasingly attracted to the idea of paying for outcomes.

An outcomes fund fundamentally reorients the system, putting focus on outcomes instead of inputs and outputs. Rather than contracting for a prescribed set of activities (say, the number of home-care visits), outcome-based contracts focus on the achievement of a prescribed set of outcomes that matter to patients (for instance, improvements in quality of life or reductions in emergency department visits or hospital admissions).[4] Outcome-based funding agreements typically last several years, giving service providers the flexibility needed to deliver on those outcomes.

In addition, paying for outcomes ensures that governments pay only for those interventions that achieve the impact promised at the outset. This results in a transfer of both financial and implementation risk. In models where private investors or service providers fund the upfront capital costs of a program, stakeholders who are more willing and able to bear the risks associated with innovation take on a portion of the risk inherent in rolling out / scaling new programs, allowing governments to experiment with more transformative approaches. This model is sometimes referred to as a social impact bond or pay-for-success agreement (see Appendix B).

In October 2016, the Public Health Agency of Canada launched the country's first social impact bond in preventative health.[5] The project, a collaboration with MaRS Discovery District and Heart and Stroke Foundation, will use an outcomes-payment approach to fund a lifestyle-change program, the Community Hypertension Prevention Initiative, to prevent pre-hypertensive seniors progressing to full hypertension.

The 2015 report of the Advisory Panel on Healthcare Innovation acknowledged that new capital dedicated specifically to innovation is a necessary prerequisite to health system transformation.[6] An approach that seeks private investment and pays for outcomes provides an opportunity to inject new innovation capital into the system. If the funded program delivers improved outcomes for patients, investors can earn a return on their investment

and policy-makers can collect the necessary evidence to justify direct funding in the future. If the innovation fails to deliver, public funds have been preserved.

This reimbursement approach requires sound program management and evaluation rigour. The emphasis on data collection, measuring impact and evaluation is aligned with the government's commitment to evidence-based policy-making, its desire to ensure healthcare spending is maximizing value and its need to collect sufficient information to justify bold investments.

Paying for outcomes also requires that payers assign a monetary value to achieving particular health outcomes. This requires an understanding of the financial implications of any new program (including the potential savings per capita, the net system savings and the opportunity costs associated with the status quo). Outcome-based agreements require the government to develop sound business cases for its programs in order to determine how much it is willing to pay for particular outcomes.

In addition to provincial and territorial governments, other stakeholders may be well suited to paying for outcomes. As the federal government reviews its role in fostering a high-performing and sustainable Canadian health system and considers how to best leverage future funding commitments to drive transformational change, there is an opportunity to consider launching a federal health outcomes fund to support federal priorities and/or provincial initiatives.

Healthcare charities, hospital foundations and other philanthropic capital can also play a role. Forward-thinking charities and donors are increasingly interested in acting as agents of systems change and are seeking initiatives that could catalyze large-scale transformation. In the U.K., Marie Curie, a charitable organization that provides care and support to people with terminal illness, is exploring the application of social investment models to transform end-of-life care. It has embarked on a project to "develop new contract mechanisms and structures that support the integration of end-of-life care across an area and test payment-by-results incentives to deliver patient choice and improve the quality and efficiency of services."[7]

Healthcare charities may choose to act as investors (providing the upfront working capital for program roll-out and earning a return on their capital if the program is successful), or they may consider participating as outcomes payers (possibly alongside a government partner). Acting as an outcome payer would provide a new value proposition to donors: every dollar donated to an outcomes fund is guaranteed to deliver impact because the payout of the funds is contingent on achieving the target outcomes. This approach ensures that the impact achieved through any donation is highly transparent.

The charitable health community injects a significant amount of capital into the health system each year. Pooling some of this capital could help seed an outcomes fund to address health issues of broad interest. For example, if all hospital foundations in a province contributed a small percentage of their annual giving to a fund dedicated to addressing a systemic health challenge, they could have a meaningful joint impact. This type of collective action to tackle systemic health improvement is not unprecedented. To enhance overall health and well-being, local tax payers in Austin and Travis County, Texas, agreed to fund a new medical school in the region using a portion of local property tax revenue in return for a commitment to make Austin a model healthy city.[8] There is an opportunity to harness capital in Canada for greater impact on our health system.

2. Which populations and/or health priorities should be targeted?

Those stakeholders who contribute capital to a health outcomes fund—whether they are federal or provincial/territorial governments or health charities—will set the mandate of the fund, including the population and/or health outcomes to target.

In establishing the mandate, it is important to recognize that not all potentially innovative or transformational projects are a good fit for outcome-based reimbursement. Those services that are best suited will:

- have the potential to generate a significant positive change for the population being served and/or to generate significant system value;
- be able to impact change within three to seven years;
- be able to measure their impact using simple and reliable outcomes measures;
- carry a degree of risk or uncertainty regarding the likelihood of success;
- provide a new type of service (that is, a service not currently funded by the public health system);
- find traditional funding silos poorly aligned to their program objectives; and
- be aligned with broader transformation priorities.

In early discussions on this concept with healthcare leaders in Ontario, services that target the following populations have been highlighted as particularly suited to outcome-based reimbursement: Canadians at the end of their lives; aboriginal populations; populations at risk of or suffering from chronic disease and Canadians with mental illness, particularly children and youth, and seniors with dementia. These populations are often recipients of support from a range of providers, both those within and outside the formal health system. They can be well served through community based interventions; however, current services may be poorly integrated, under-funded and/or not highly effective. For each of these populations, there is an opportunity to deliver services in a way that will dramatically improve health outcomes and patient

experience, and that will enhance the cost-effectiveness of service delivery.

For some populations, the metrics of success might be easier to agree upon than for others. The outcomes that matter most to clinicians may differ from those that matter most to patients and those that matter at a system level. Selecting appropriate outcomes that satisfy all stakeholders is critical to ensuring the effectiveness of an approach that pays for outcomes.

For example, our system currently does a poor job of allowing terminally ill patients to die at home if they wish to do so. If a health outcomes fund were established to support this population, it could reliably measure the number of eligible patients who died at home to assess whether a program had been successful. This would be a meaningful outcome measure for patients and their families, and would point to successful systemic changes in service delivery that had shifted care from institutional to home settings.

3. Who can best meet the needs of the target population and deliver the target outcomes?

Given that the objective of this approach is to focus on the delivery of priority outcomes, the fund should show no preference for the type of service delivery organizations it contracts with (considering non-profits, social enterprises and for-profit organizations). In fact, the fund could deliberately experiment with working with different types of organizations to extract key insights about the similarities and differences in their approaches. As an outcomes funder, the focus should be on what outcomes can be achieved and whether successful programs can be adopted broadly across the system.

An outcomes fund relies on the market to respond to its priorities. To do this effectively, service delivery organizations may choose to work collaboratively through a new structure (like a lead accountable organization, where one entity holds the outcomes contract and assumes responsibility for the delivery of services by a variety of sub-contracted providers) in order to bring together the necessary expertise. The fund could direct the nature of these collaborations, for example, by requiring the participation of existing publicly funded service delivery entities, such as hospitals or community care organizations.

It is critically important that service providers engage in contracts that are long enough to actually demonstrate impact (for instance, a minimum of three years). A multi-year contract is an important element of outcome-based agreements as it allows delivery organizations to engage in longer term planning and to adjust program delivery as required to deliver the desired outcomes. This feature is an attractive element of outcome-based agreements for service providers.

In addition, service providers will need strong program management and impact measurement capabilities. They will need to integrate a continuous improvement approach and be prepared to alter program delivery plans if early outcome measures are weak.

International experience indicates that service providers may need support to effectively engage in these new types of contracts. Some will need additional resources to develop new partnerships and governance structures, as well as the infrastructure to collect and analyze data. International programs that support capacity building include: the United Kingdom's £10-million Investment and Contract Readiness Fund and the United States' Social Innovation Fund.

Momentum for change

Now is the time to explore new approaches. Healthcare stakeholders are seeking opportunities to reorient the system and adopt innovative approaches that shift the focus to delivering value for money and improving service delivery.[9]

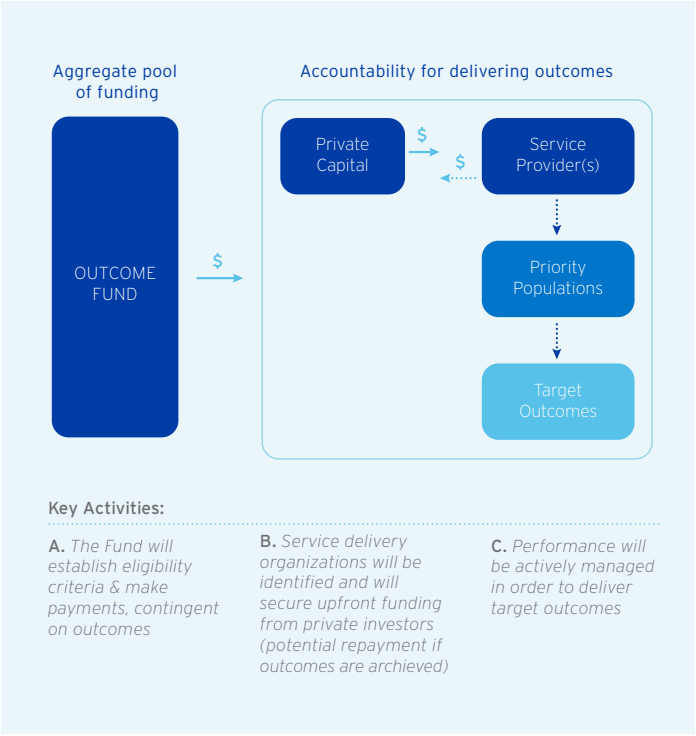
There is also significant international momentum and precedent to learn from. Health systems around the world are working to increasingly tie reimbursement to quality. For example, 30 per cent of Medicare payments in the United States are now tied to the quality of care delivered. The U.S. government aims to increase this figure to 50 per cent by 2018, a shift that's dramatically altering the nature of the American healthcare system.

Governments are testing approaches to tackling difficult social problems by leveraging new sources of capital and working collaboratively across sectors. (Appendix C provides an overview of several international outcomes funds.)

A health outcomes fund opens an avenue for healthcare leaders to test new approaches. It would also be a powerful signal from government of its commitment to address parts of the system that are most broken.

Designing and implementing an outcomes fund is imminently doable and the key insights that emerge will help to set the stage for broader reforms.

Appendix A: Potential structure of a health outcomes fund



A. Identify contributors to an outcomes fund and articulate eligibility criteria

Contributors to a health outcomes fund want to pay for outcomes only when they are achieved. These contributors are likely to include government, but may also include other healthcare funders. All funds will be reserved to pay for outcomes.

Contributors align around a target population and possibly a set of desired outcomes. If outcomes are not pre-determined by the fund, the market can be asked to propose appropriate outcome measures and targets for a given population/intervention. Outcome measures should be important to the funding organizations (i.e. aligned to key government priorities). Any other desired eligibility criteria should be defined.

B. Identify service delivery organizations and secure funding

A process is required to identify promising interventions and capable service delivery organizations. Delivery organizations may take on multiple forms, including partnerships or lead accountable organization models. The fund should set out any restrictions on the type of organization that can apply (for example, non-profits, social enterprises, for-profit organizations or the public-sector). The fund will enter into agreements with the most promising delivery organizations and will agree to specific outcome targets that will determine payments.

If required, service delivery organizations will raise capital from the private sector. This can be repaid if target outcomes are achieved and the fund pays out.

C. Manage performance, measure and verify outcomes

Outcome-based projects need reliable data collection, both for the purposes of active performance management and in order to confidently trigger payouts if outcomes are achieved.

Service delivery organizations, and their private funders, will rely on strong performance management information to course correct as necessary to deliver on agreed outcomes.

An independent evaluator experienced in measuring health outcomes and determining program effectiveness should be engaged to confirm the accuracy of the data collected.

If all parties agree that the outcomes have been achieved, payments will be triggered. In cases where the service provider sought private capital to finance the program delivery, investors will receive some or all of their capital back (including a pre-agreed return). If outcomes were not achieved, the fund will make no payment and investors will not be repaid.

Note: Although not shown in the graphic, intermediaries serve as an important resource in establishing an outcomes fund and executing outcome-based contracts. An experienced intermediary will conduct functions such as convening key stakeholders, facilitating contract negotiations, structuring reimbursement options, and supporting ongoing performance management and reporting during the term of an agreement. Given that this is a new way of moving money between stakeholders, all participants will typically require support in working through the design and contracting process. Transaction costs for these agreements are typically higher than when services are funded directly, thus the transfer of risk and potential impact achieved must justify the investment.

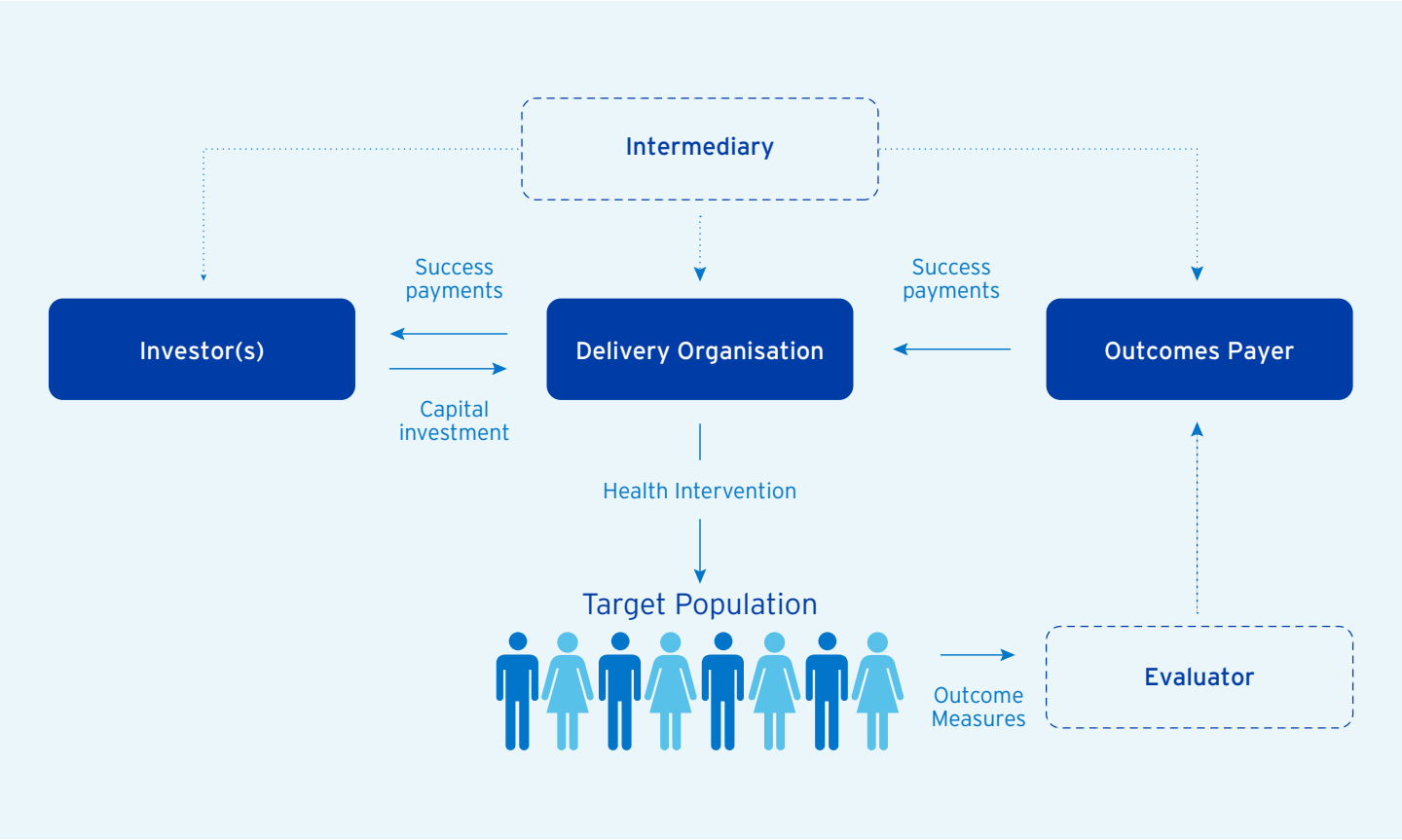
Appendix B:
Social impact bonds

Social impact bonds (SIBs) are a funding approach based around pay-for-performance contracts. In this financial structure, investors provide a delivery organization with the upfront capital required to test or expand an intervention. The outcomes payer makes payments if the agreed health outcomes are achieved. Investors are thus able to recoup their investment and earn a return (often capped at a pre-determined value). In the social impact bond model, financial risk is transferred from the delivery organization to the investor.

Over 50 social impact bonds have now been launched around the world, addressing issues such as early childhood development, homelessness, employment and recidivism. SIBs addressing health-related issues are also emerging.

- November 2016 (U.S.): SIB in development to support vulnerable seniors (Meals on Wheels / Johns Hopkins Bayview Medical Center)
- October 2016 (Canada): $4-million SIB to address hypertension in seniors (Heart and Stoke Foundation/MaRS)
- February 2016 (U.S.): $18-million SIB to provide home visits to at-risk mothers (Nurse-Family Partnership)
- November 2015 (Finland): $4-million SIB to enhance occupational wellness in the public sector (Epiqus)
- August 2015 (U.K.): $1.5-million SIB to help older people overcome loneliness (Reconnections)
- March 2015 (U.K.): $3-million SIB to enhance wellness for people with long-term conditions through social prescribing (Ways to Wellness)

Structure of a Social Impact Bond



Appendix C: International outcomes funds

Life Chances Fund

In 2015, the U.K. government announced an £80-million Life Chances Fund to support projects that tackle complex social problems.[10] The fund will "provide contributions to outcome payments for payment-by-results contracts, which involve socially minded investors" [11] (i.e. social impact bonds).

The fund aims to provide approximately 20 per cent of total outcome payments, with local commissioners paying the remainder. It will run for nine years. The fund promotes greater use of outcome-based commissioning models to deliver enhanced value for money and aims to enable voluntary, community and social enterprise sector providers to take lead roles in transforming public services.

The fund sends out calls for applications around particular social issues. "The first calls, which were issued in July 2016, focus on drug and alcohol dependency (early diagnosis and treatment) and children's services (entry into care). They will be followed by young people (employment and justice), early years education, healthy living (public health and long-term conditions) and older people's services (independent living, isolation and social care).

Additional funding is also available to help applicants procure technical advice to develop their proposals.

Fair Chance Fund

The U.K. government's £15-million Fair Chance Fund launched in December 2014 and will run until the end of 2018.[12]

It has so far supported seven social impact bonds aimed at improving housing, education and employment outcomes for 180 young homeless individuals with complex needs due to mental health issues, substance misuse or previous interactions with the criminal justice system.

The fund pays for improvements in select outcomes, including: stable housing for three, six, 12 and 18 months; achievement of certain vocational qualifications; sustained volunteering; and full- or part-time work for six to 26 weeks.

Outcomes are measured on an individual basis, with no comparison group.

Social Outcomes Fund and Commissioning Better Outcomes Fund

The £20-million Social Outcomes Fund and £40-million Commissioning Better Outcomes Fund were established by the U.K. Cabinet Office and the Big Lottery Fund. These funds pay a portion of outcomes payments for social impact bonds or other projects funded on an outcomes basis in complex policy areas. They were designed to help cut across government silos by supporting projects where no single department has an incentive to pay because their benefits accrue to multiple ministries, agencies or levels of government.

U.K. Department for Work and Pensions Innovation Fund

The £30-million Department for Work and Pensions Innovation Fund ran from 2012 to 2015, supporting 10 social impact bonds. Its objectives were: to improve education, training and employment outcomes for disadvantaged youth and those at risk of disadvantage; to improve the evidence base for effective approaches; and to assess the savings generated.

To solicit service providers, the fund established a competitive bidding process based on a rate card listing target outcomes and the maximum prices the department was willing to pay for each outcome (see the table below).

Indicative prices were set based on available service cost data and value estimates for the target outcomes. Service providers identified one or more outcomes and gave a bid price per outcome, subject to a maximum cap. The bidding process was deliberately structured in stages. A second round provided time for new partnerships to form between service providers whose collective impact was likely to be greater and who might otherwise have competed for scarce funds.

U.K. Department for Work and Pensions Innovation Fund Rate Card[13]

DWP pays for one or more outcomes per participant which can be linked to improved employability. A definitive list of outcomes and maximum prices DWP was willing to pay for Round 2 is as follows:

Nature of Outcome	Maximum Price of Outcome
Improved attitude towards school	£700
Improved behaviour	£1300
Improved attendance	£1400
Entry Level Qualification	£900
NVQ level 1 or equivalent	£1100
NVQ level 2 or equivalent	£3300
NVQ level 3 or equivalent	£5100
Entry into emplyoment	£3500
Sustained Employment	£2000

The Maximum amount payable per individual is £11,700. The figure is based on 3 years of Annually Managed Expenditure (AME) savings.

Try, Test and Learn Fund

Australia is taking a new, data-driven approach to reducing dependency on welfare.

In its 2016-2017 budget, the Australian government committed $96.1 million (Aus.) over four years to the Try, Test and Learn Fund. The fund will finance innovative new approaches to reducing long-term welfare dependency and compare outcomes with a control group.

On its Budget 2016-17 website, the Australian government wrote, "This approach aims to ensure that the Government funds programmes that actually deliver outcomes and cease or reform programmes that are shown to be ineffective."[14]

The fund will target groups identified as being at high risk of long-term welfare dependency by the Australian Priority Investment Approach to Welfare initiative, which used actuarial valuation and predictive analytics to identify risk factors and estimate future costs. It will focus on programs delivering results that can be evaluated quickly.

Social impact bonds may be one of the tools used to fund programs, but this fund will not operate exclusively on the basis of payments contingent on success.

Footnotes

1. The Commonwealth Fund: International Profiles of Health Care Systems, 2011 This report compared the health systems of 14 high-income countries. Canada ranked at the bottom in access to care and use of electronic medical records, and in the middle regarding costs and health outcomes. Also, Conference Board of Canada: International Rankings, Health, 2012. This report card ranked Canada's overall health performance at 10th out of 17 comparable countries, noting that it falls short due in part to "management systems that don't focus enough on the quality of health outcomes."

2. Advisory Panel on Healthcare Innovation: Unleashing Innovation: Excellent Healthcare for Canada, 2015.

3. Deloitte, MaRS Centre for Impact Investing: Social Impact Bonds in Canada: Investor insights, 2014. This survey of investors, together with international research, indicates that investors are willing to provide program financing capital in instances where the investment terms align with the investor's interest and risk tolerance.

4. The International Consortium for Health Outcomes Measurement is working to establish standard approaches for measuring and reporting patient outcomes.

5. Heart and Stroke: An innovative first for Canada.

6. Advisory Panel on Healthcare Innovation: Unleashing Innovation: Excellent Healthcare for Canada, 2015. This report makes a strong case for the idea that new investment is required to catalyze system transformation. While federal and provincial investments will remain fundamental, private capital may also be leveraged for this purpose.

7. Marie Curie: Social investment in end of life care.

8. Brookings Institution: Austin's big bet on the future of urban health care

9. André Picard: Health ministers' meeting is a preliminary bout. The Globe and Mail, Oct. 16, 2016. This article on negotiating a new Canadian Health Accord contained the following line: "In Canada, the health-care debate is too often about money, and not often enough about improving the delivery and quality of health services, and that's one of the main reasons that the system remains mired in mediocrity."

10. U.K. Cabinet Office: Life Chances Fund, 2016.

11. Gov.uk: Apply to the Life Chances Fund.

12. U.K. Cabinet Office: Fair Chance Fund.

13. HM Government (U.K.): Innovation Fund: Key facts.

14. Commonwealth of Australia: Budget 2016-17.