Better Outcomes for Public Services

Achieving social impact through outcomes-based funding

BY JENNIFER GOLD & MATTHEW MENDELSON

part of the SHIFTING GEARS series
Purpose
This report from the Mowat Centre at the School of Public Policy & Governance at the University of Toronto, supported by KPMG, is intended to help facilitate informed, strategic, long-term decision-making in Canada. It is part of our Shifting Gears series.

The Mowat Centre at the School of Public Policy & Governance has undertaken this study because of our commitment to better understand how governments can improve their ability to deliver high-quality public services and public policy, even in times of fiscal constraint.

KPMG has supported this study financially because of its commitment to help its clients understand the challenges faced by governments and to contribute to the discussion of strategies that can be used to address these challenges.

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By paying for outcomes, public sector leaders aim to enhance accountability and achieve greater social impact by redirecting funds to high-performing service providers.
Executive Summary

We are now in the midst of an exciting period of innovation in the way public services are funded. Governments have traditionally invested billions of dollars in social support systems with little understanding of their actual social impact. At best, programs and services have been funded, and their effectiveness measured, on the basis of input or activity-based indicators.¹

This is beginning to change. Governments around the globe are increasingly interested in paying for services through outcomes-based funding—a catch-all term for a variety of contracting arrangements whereby governments financially reward providers (and sometimes private investors) for having a positive, measureable impact on the lives of service users.

The motivation for moving in this direction is understandable: in today’s tight budgetary environment, governments are under increasing pressure to ensure that limited financial resources are allocated effectively. By paying for outcomes, public sector leaders aim to enhance accountability and achieve greater social impact by redirecting funds to high-performing service providers.

Outcomes funding is already well-established in some program areas, such as welfare-to-work schemes. This report addresses the challenges that governments now face in extending the use of outcomes funding to highly complex delivery areas, such as criminal justice and child and family welfare. It identifies key obstacles to implementation that result from the specific institutional context within which governments are operating and it makes a series of recommendations for how these problems might be overcome.

¹ Liebman and Sellman, 2013, p.6
CHALLENGES

Successful implementation requires governments to grapple with a number of key challenges:

**SOCIAL IMPACT MEASUREMENT**

Outcomes funding arrangements rely on governments being able to measure the alleviation of social problems. Yet this task is made a great deal more difficult by long-term under-investment in impact evaluation. There is limited support infrastructure—including data collection systems, data sharing arrangements and evaluation specialists—to facilitate the roll out of outcomes funding. The resulting absence of baseline information makes it difficult to assess whether outcomes funding (as one payment system among many options) has a positive impact on service delivery.

**EVIDENCE ON WHAT WORKS**

While outcomes funding is often celebrated as a vehicle for promoting innovation, the reality is that both service delivery providers and funders need assurances on the achievability of outcomes targets. The quality and availability of existing evidence on effective interventions plays a significant role.

However, the evidence base available to governments, investors and service delivery organizations alike is patchy. It tends to be stronger in program areas with a tradition of rigorous evaluation (e.g. health) or where outcomes funding is more established (e.g. welfare-to-work). But the evidence base is weak in many of the areas that governments are now trying to extend outcomes funding, including integrated family support services and early years intervention. Even in program areas where rigorous impact evaluation has taken place, it is not always readily available to stakeholders involved in outcomes funding arrangements.

**ALIGNING STAKEHOLDER INCENTIVES**

Outcomes funding will only be effective if the incentives facing all stakeholder groups—government, service delivery organizations, investors and clients—are aligned. Yet all too often there is a high risk of over-payment, gaming and non-cooperation because governments introduce outcomes funding into poorly-coordinated social support systems, where provider capacity is low, trust is lacking, and risk is unevenly distributed.
RECOMMENDATIONS

The use of outcomes funding must therefore be accompanied by a strong commitment to making the organizational changes necessary for this payment system to succeed. The most important actions needed are:

**ESTABLISH BASELINE INFORMATION**

Before rolling out outcomes funding, governments need clarity around existing expenditure and program performance. Time should be spent mapping current spending, clarifying program objectives, identifying clearly defined target populations, and evaluating the impact of existing services. Governments must mine current administrative systems, facilitate data sharing, address gaps in data collection and engage stakeholders.

Only once baseline information is available will it be possible to award outcomes payments, help service providers recognize whether they need to adapt their practices to meet pay-for-success targets, and understand whether outcomes funding is an effective payment system across a range of program areas.

**STRENGTHEN STAKEHOLDER CAPACITY**

Governments must invest in the support infrastructure needed to build capacity among both public servants and service delivery organizations. Independent “what works” institutes can play a valuable role in synthesizing and disseminating location-appropriate advice on proven interventions. Similarly, technical assistance labs can offer training, advice or analytics to support impact evaluation.

**ENHANCE SYSTEM-LEVEL COORDINATION**

In program areas that involve multiple agencies or levels of government in the direct funding or delivery of services, the success of outcomes funding depends on effective coordination.

Necessary actions include the sharing of both financial information (to track spending) and service user data (to track the impact of services on clearly defined client populations). Stakeholder incentives must be aligned through such strategies as the creation of joint investment agreements (in situations where savings are dispersed and it is difficult for one agency or level of government to justify assuming sole responsibility for outcomes payments). Equally, coordinated procurement and monitoring will reduce the risk of over-payment to service providers.

Outcomes funding has enormous potential, but there are also risks if implemented improperly. But this potential can only be realized with the existence of an enabling environment. In identifying key implementation requirements and highlighting innovative practices already in use, Better Outcomes for Public Services offers a valuable resource for policymakers and practitioners seeking to achieve social impact through outcomes funding.
Outcomes funding has enormous potential to transform frontline services. If this potential is to be realized, however, there is considerable capacity building to be done on the part of government.
SECTION 1
Introduction

Governments around the world are exploring innovative ways of funding public services. A focus on ensuring the more effective use of limited financial resources has led to growing numbers of frontline service providers being paid on the basis of the outcomes they achieve.

The broad appeal of outcomes funding is not hard to appreciate. For public sector leaders it has the potential to accelerate current reform agendas by enhancing accountability, driving efficiency savings, and achieving greater social impact by encouraging creative solutions to deep-rooted social problems.

Outcomes funding is already well-established in some program areas. It is widely used in welfare-to-work schemes, for instance, where payments to service delivery providers partly depend on them successfully assisting clients in securing lasting employment.

But there is now intense interest in extending outcomes funding to more complex service delivery areas—such as criminal justice and child welfare—where costs continue to escalate and entrenched social problems persist.

There are many technical guides already in the public domain that introduce outcomes funding. However, one payment system will never simply replace another and these guides rarely address questions that arise from the specific institutional contexts within which governments are operating. What are the key obstacles to implementation and how can they be overcome? What structures, procedures, and changes to working cultures are needed for outcomes funding to be effective? In short, how does government itself need to change?

Section Two of this report sets out the key characteristics of current trends in outcomes funding: the factors driving the adoption of this payment system and the main outcomes-funding models that are popular with governments today. Section Three identifies key areas where governments need to build capacity (around measurement, evidence, and aligning incentives) for outcomes funding to succeed and the organizational changes they need to make.

The research process for this report involved an environmental scan of current outcomes funding arrangements in both Canada and overseas alongside a number of focused case studies of specific initiatives. Interviews were also conducted with practitioners who have direct experience with outcomes funding, including policymakers, service delivery providers, and specialists in areas of procurement, evaluation and technical support.

As this report will demonstrate, outcomes funding has enormous potential to transform frontline services. If this potential is to be realized, however, there is considerable capacity building to be done on the part of government. In setting out implementation requirements and highlighting the innovative practices already in use, this report is intended as a valuable resource for policymakers and practitioners seeking to use outcomes funding in tackling social problems.
What do we mean by Outcomes Funding?

The term “outcomes funding” refers to contracting arrangements where governments financially reward service providers or private investors for having a positive and sustained impact on the lives of service users.

Historically, services have tended to be funded on the basis of prescribed inputs, activities, or outputs. The outcomes delivered (also known as social impact)—while always a policy objective—have rarely been factored into payment systems until now (see Figure 1).

Outcomes funding arrangements can take a broad range of forms. Some offer service providers a bonus payment for improving client outcomes (performance-incentive funding) or make at least a portion of providers’ core funding conditional on an achieved set of outcomes-based targets (payment-for-performance). Others involve the redistribution of contracts among service delivery organizations on the basis of their track record (outcomes-based contracting) or pay dividends to those private investors who invest in service providers that have delivered measured improvements in the lives of their clients (social impact bonds).

All these models link the procurement and funding of public services to providers’ ability to achieve prescribed outcomes. These outcomes are aligned with social policy objectives and can be either directly measured or determined using proxy indicators. These prescribed outcomes are also typically associated with substantial cost savings that are wholly or largely cashable.²

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**FIGURE 1**
Service delivery process

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**How programs and services have traditionally been measured and funded**

<table>
<thead>
<tr>
<th>Input</th>
<th>Activity</th>
<th>Output</th>
</tr>
</thead>
<tbody>
<tr>
<td>The resources that enable a service to operate e.g. workforce, physical assets, allocated budget</td>
<td>The specific intervention(s) delivered by a service provider e.g. career counseling, language training</td>
<td>The direct results of a program or service e.g. participation rates, number of career counseling sessions delivered</td>
</tr>
</tbody>
</table>

**Growing trend towards impact evaluation and paying providers on the basis of the outcomes they achieve**

**Outcome**
THE IMPACT OF AN INTERVENTION ON THE LIVES OF USERS e.g. obtaining employment
Broader Policy Context

The growing popularity of outcomes funding should be understood within the context of a broader public sector reform agenda. Governments are simultaneously using a range of tools—from emerging digital technologies to new governance models—to transform the delivery of frontline services (see Figure 2). Outcomes funding stands among these tools as an innovative means of facilitating the drive for better services at lower cost.

FIGURE 2
Popular mechanisms driving public sector reform

Source: Adapted from Mendelsohn et al., 2010, p.26.

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3 Appleby et al., 2012, p.4. See also Mendelsohn et al. 2010; Gold et al., 2011; and Gold and Dragicevic, 2013; and Galley et al., 2013.
**Why Introduce Outcomes Funding?**

Outcomes-funding arrangements offer governments a range of potential benefits (see Figure 3).

**FIGURE 3**
The advantages of outcomes funding

<table>
<thead>
<tr>
<th>Potential benefit</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Realigning incentives</td>
<td>Service providers are financially incentivized to improve client outcomes. This removes the distortions created by traditional performance targets that require providers to focus on prescribed inputs, activities, or outputs, rather than the policy objectives of social programs.</td>
</tr>
<tr>
<td>Strengthening the use of evidence in practice</td>
<td>Service providers are more likely to scrutinize the efficacy of their own operations and make use of existing evidence on interventions that are effective for the population groups they serve.</td>
</tr>
<tr>
<td>Promoting innovation and transferring risk</td>
<td>Program experimentation inevitably comes with the risk of failure—a factor that can sometimes inhibit innovation in government. In rewarding service providers for achieving outcomes, contracts typically give providers greater freedom to innovate. For governments, outcomes-funding represents a particularly cost-effective way of sponsoring successful research and development (R&amp;D). As one evaluation specialist interviewed put it: “You want your organization to be continually improving. Governments are no different. Just as a corporate organization might devote part of its budget to R&amp;D, [outcomes funding] allows governments to invest in R&amp;D, only they don’t have to pay for what doesn’t work.”</td>
</tr>
<tr>
<td>Better value for money</td>
<td>Public funds are redistributed to those providers and programs producing demonstrable improvements in clients’ lives.</td>
</tr>
<tr>
<td>Incentivizing holistic support for clients</td>
<td>Given the varied and interrelated causes of disadvantage affecting some clients, providers are motivated to optimize client outcomes through offering additional supports and coordinating their interventions with other services.</td>
</tr>
<tr>
<td>Improving performance data and accountability</td>
<td>Providers are required to measure and regularly report on the impact that their services have on client outcomes.</td>
</tr>
</tbody>
</table>

The growing popularity of outcomes funding is the result of a number of key drivers related to current economic conditions, a better understanding of deep-rooted social challenges, and a renewed political commitment to decentralized and partnered service delivery.
Outcomes funding has become an increasingly attractive option for governments seeking to contain costs in today’s tight budgetary environment.
SECTION 2
Current Trends: The Factors Driving Outcomes Funding

i) Fiscal Pressures and Escalating Costs

Outcomes funding has become an increasingly attractive option for governments seeking to contain costs in today’s tight budgetary environment.

For instance, in healthcare—one of the fastest growing areas of program expenditure in Canada—the economic downturn has focused attention on the efficacy of current payment systems. High profile spending reviews, such as the Commission on the Reform of Ontario’s Public Service, have been critical of the widespread use of fee-for-service compensation, which creates “perverse incentives that undermine the quality and efficiency of care” (e.g. billing for unnecessary medical interventions).4 Public sector agencies have sought to bring down costs and improve the quality of care by introducing mixed payment models that reward medical practitioners for positive health outcomes (see Box 1).

BOX 1:
WORKPLACE SAFETY AND INSURANCE BOARD (ONTARIO, CANADA)

Ontario’s Workplace Safety and Insurance Board (WSIB)—a government agency responsible for providing income and healthcare support to injured workers—saw its healthcare costs soar from $238 million to $619 million between 1998 and 2008, despite a downward trend in new claims.5

As the agency’s financial position deteriorated during the economic downturn, the existing fee-for-service payment system came under greater scrutiny. For instance, medical practitioners handed out close to 175,000 prescriptions for analgesia in 1999. By 2007, annual prescriptions had doubled to more than 350,000.6 Not only were repeat prescriptions driving up healthcare spending, but Ontario’s Auditor General was raising questions over whether the “drug’s high potential for creating dependency” was delaying claimants’ return to work.7

In 2009, WSIB introduced a results-based payment model for medical practitioners as part of a sweeping set of reforms that have reduced health care spending and improved return to work outcomes.8

5 Ontario Auditor General, 2009, p.331
6 Ibid
7 Ibid, p.332
8 WSIB, 2012, p.30

4 Commission on the Reform of Ontario’s Public Services, 2012, p.191. See also Falk et al., 2011
ii) Insufficient Progress in Solving Complex Social Problems

“...the Government [of Canada] recognizes that the approaches currently offered by all governments, foundations, organizations and committed individuals are not consistently producing measureable results for some disadvantaged groups like the homeless, the persistently unemployed and at-risk youth.”

ESDC, 2013, p.5.

There is increasing recognition that a significant portion of social program expenditure is dedicated to a small number of citizens who face multiple disadvantages (see Figure 4). Improvements in data analytics and electronic records-keeping show that existing support systems have failed to improve outcomes for citizens with complex needs or end cycles of intergenerational disadvantage. As a result, current programs and services do little to reduce the long-term strain on public finances.

In tying service providers’ compensation to their performance, outcomes funding offers a means of correcting the systemic problems that make it difficult to solve social problems such as homelessness, reoffending, and substance abuse.

**FIGURE 4**
Human services clients in Washington State

Analysts in Washington State’s Department of Social and Health Services have found that:

- **43%** of departmental spending
- **11%** of clients access at least 3 services


**Assisting the hardest to help**

Traditional payment systems such as fee-for-service increase output (i.e. the number of people served in a given time period) but deny service delivery organizations the flexibility to focus their energy and resources on assisting population groups with the greatest need. By contrast, outcomes payments typically offer service delivery organizations a share of the savings that accrue from the alleviation of social problems (e.g. if an employment support provider helps a client obtain paid work, the provider receives a share of the welfare benefits that go unclaimed). These payments are often structured to offer greater rewards for successful outcomes in the most complex cases (as clients facing the greatest challenges also represent the biggest potential savings to social support systems).

**A focus on causes rather than symptoms**

Today’s cash-strapped governments are locked into “negative spending cycle[s]” where expenditure on statutory crisis services crowds out (typically discretionary) spending on programs aimed at prevention and early intervention (see Box 2). As a result, support systems are overwhelmingly focused on treating the symptoms rather than the causes of social problems. Outcomes funding incentivizes greater investment in early or preventative interventions, and, in the case of social impact bonds, represents a way of raising private capital for prevention-based interventions that would otherwise go unfunded.

**Customized and seamless support**

Existing payment systems (e.g. block grants, fee-for-service) reward providers for treating clients’ conditions in isolation. Individuals with complex needs are left to interface with multiple agencies and caseworkers. A lack of coordination and information sharing between these parties means that interventions are not always sequenced to optimize results while early warning signs are missed. Outcomes funding encourages providers to seek better results through coordinating their activities (see Box 3).
BOX 2: SPENDING ON FAMILIES WITH COMPLEX NEEDS

The UK government calculates that annual spending on crisis services for the country’s 120,000 most complex-need families now outstrips investment in early and preventative interventions for these families by 8:1 (see Figure 5).

FIGURE 5
Estimated expenditure on the UK’s 120,000 most complex-need families

Source: Compiled from UK Department for Communities and Local Government, 2013.
Note: These estimates do not include “universal” spending that goes to all families, such as childhood immunization programs and regular schooling.

BOX 3: TROUBLED FAMILIES PROGRAM (UK)

Local authorities in the UK are being offered central government funding on a payment-for-performance basis to improve outcomes for families with multiple and complex needs. The program is aimed at reducing long-term demand for services by addressing challenges (e.g. employment, anti-social behaviour, and low education attainment) that perpetuate intergenerational disadvantage. Families receive a dedicated case manager who ensures each family receives coordinated support from local services that is tailored to their needs.

iii) The Expansion of Alternative Service Delivery

“...austerity-led governments...have outsourced at a rate not seen since the 1980s as they seek to provide the same services more cheaply.”

Gill Plummer, Financial Times, 2013

The current boom in alternative service delivery is also fuelling the growing turn towards outcomes funding.

Responsibility for a broad range of frontline services—including areas such as child and family welfare, probation services, and disability support—is increasingly being shared with the non-profit and private sectors through competitive tendering.¹¹

In the past, governments have often failed to capitalize on one of the greatest advantages of partnered delivery: the innovative capacity of service delivery organizations. All too often, innovation has been stifled by government contracts that are overly prescriptive about how services should be delivered and performance evaluations that are focused on procedural compliance.¹² This approach has also tended to limit market entrants to organizations whose business models are already compatible with prescribed delivery methods.¹³

¹¹ This trend includes services in Australia, Canada, the UK and the US. See Dean 2011; Gold et al. 2011; Gold and Dragicevic 2013.
¹² Shergold, 2012
¹³ Fox and Albertson, 2011, p.400.
Using outcomes funding arrangements when outsourcing services is becoming a popular way of granting service providers the freedom to innovate while ensuring that public policy objectives are still being advanced (see Box 4). Outcomes funding also allows a broader range of organizations—whose services offer different ways of achieving particular outcomes—to enter the market.

**BOX 4: PROBATION SERVICES IN THE UK**

The UK government has committed to contracting out the majority of probation services to private and not-for-profit sector organizations by 2015. A small public sector probation service will be retained with responsibility for monitoring high-risk offenders.

Service delivery organizations will be compensated through a payment-for-performance mechanism aimed at “giving providers flexibility to do what works and freedom from bureaucracy, but only paying them in full for real reductions in reoffending.”

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**FIGURE 6**

Recent trends in decentralizing control over financial resources

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**iv) The Decentralization Agenda**

The use of outcomes funding is also bound up in a growing trend towards decentralizing control over the design and management of services. Governments are moving away from issuing top-down blueprints for the operation of social support systems and are instead encouraging locally-developed solutions to managing support arrangements and tackling social problems.

A range of alternative funding models have emerged as a key tool in enabling this transformation to take place. As Figure 6 illustrates, these funding arrangements are all aimed at giving greater autonomy to stakeholders closer to the service delivery interface: local authorities, citizens, and frontline service providers. Outcomes funding sits among these models as a tool for leveraging the knowledge and expertise of frontline practitioners in developing innovative solutions to local challenges.

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14 Appleby et al. 2012.


16 See, for example, UK Government, 2010.

TYPES OF OUTCOMES FUNDING

This report identifies four main outcomes funding models that are popular with governments today (see Figure 7). On a practical level, none is static. The exact form that any one of these models takes is case specific and will continually change in light of factors such as emerging governance arrangements, new technologies, and an expanding social finance marketplace.

**FIGURE 7**
Outcomes funding models

<table>
<thead>
<tr>
<th>Description</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PAYMENT-FOR-PERFORMANCE</strong></td>
<td>The Ontario government’s Workplace Safety and Insurance Board (WSIB) offers employment support services (via accredited private and non-profit sector service delivery organizations) to individuals needing to find new employment following a workplace injury. Two-thirds of the funding available to service providers is dependent on successful job placement and retention outcomes.</td>
</tr>
<tr>
<td>A portion—and in some instances all—of a service provider’s core funding is conditional on it achieving a set of outcomes-based targets.</td>
<td></td>
</tr>
<tr>
<td><strong>SOCIAL IMPACT BONDS</strong></td>
<td>The Newpin Social Benefit Bond set up by the government of New South Wales (Australia) is aimed at reducing demand for child protection services. Under the scheme, a not-for-profit organization with a proven track record of stabilizing complex-needs families receives funds from private investors to deliver intensive support services. The Department of Family and Community Services will pay investors a return if there is both a demonstrable rise in court-sanctioned family reunifications and a fall in the number of children needing to be removed from their family home.</td>
</tr>
<tr>
<td>The use of private capital to fund interventions aimed at solving complex social problems. Governments pay investors a dividend if the interventions they sponsor deliver measured improvements in client outcomes. While social impact bonds (SIBs) have been widely embraced, different jurisdictions have emphasized their value for different reasons. SIBs are variously seen as vehicles for scaling-up proven interventions (US), for driving rigorous measurement and evaluation (Australia), and for enabling non-profit organizations to compete for government contracts (UK).</td>
<td></td>
</tr>
<tr>
<td><strong>PERFORMANCE-BASED CONTRACTING</strong></td>
<td>In 2012, New Zealand’s Ministry of Social Development announced its Investing in Services for Outcomes initiative. It involves a series of changes to procurement procedures, with the Ministry looking to redistribute contracts to service delivery organizations that produce demonstrable improvements in client and community outcomes over time.</td>
</tr>
<tr>
<td>The redistribution of contracts among service delivery organizations on the basis of their track record in achieving a set of prescribed outcomes.</td>
<td></td>
</tr>
<tr>
<td><strong>PERFORMANCE-INCENTIVE FUNDING</strong></td>
<td>A number of US state governments are offering probation agencies financial bonuses for reducing probation violation rates. The payments represent a share of the savings that amass from a fall in prison admissions and are designed to incentivize the use of supervision practices proven to reduce reoffending.</td>
</tr>
<tr>
<td>Service delivery providers are awarded bonus payments for achieving measured improvements in client outcomes.</td>
<td></td>
</tr>
</tbody>
</table>

18 Tomkinson, 2013.
19 Gold and Dragicevic, 2013, p.31
20 Vera Institute of Justice, 2012.
THE GROWTH IN GLOBAL INTEREST

Figure 7 not only provides a global snapshot of recent interest in outcomes funding but also an indication of the growing range of complex service delivery areas to which this payment system is being applied. Social problems including offending, homelessness, substance abuse, and family breakdown are the focus of a variety of new initiatives.

Developments in Canada have concentrated on introducing payment-for-performance into welfare-to-work schemes. But with health, education, justice, and social services spending accounting for more than 75 percent of most provincial budgets,19 there is growing interest in realizing larger gains through using outcomes funding more widely. A number of provincial governments—including Ontario and Nova Scotia—have made explicit commitments to introducing social impact bonds and making wider use of outcomes-based procurement.20

Support for outcomes funding has also come from the federal government, with Employment and Social Development Canada leading a recent review of opportunities to use social finance tools including social impact bonds and payment-for-performance in areas such as health, aged care, disability support, and youth services.21

Historical context

Current interest in outcomes funding builds on several decades of governments developing this payment mechanism in a number of program areas.

Outcomes funding was first introduced into US employment and skills training services in the 1980s. Over the following two decades, countries including Australia, the Netherlands, and the UK also applied this funding model to welfare-to-work services. The outcomes measures used in these services have changed over the years. Service providers are now increasingly being rewarded for the job retention rates rather than the employment rates of their clients.24

Healthcare systems were another early adopter. Over the past two decades, Australia, Brazil, New Zealand, the US and the UK, have all introduced outcomes-based payments for service providers. In many instances, payments are designed to reward prevention-focused interventions that reduce demand for chronic health care.25

24 Palameta, et al., 2013, p.5.

19 See, for example, Alberta Treasury Board and Finance, 2013; British Columbia Office of the Comptroller General, 2013; and Ontario Ministry of Finance 2013
20 See ESOC, 2013, pp.12-13
21 Ibid., p.15
### FIGURE 8
Programs announced or launched since January 2010 in selected countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Programs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Canada</strong></td>
<td></td>
</tr>
<tr>
<td>British Columbia</td>
<td>BC Employment Program ES</td>
</tr>
<tr>
<td>Ontario</td>
<td>Employment Placement &amp; Retention Services (Work Reintegration Program), Workplace Safety Insurance Board ES</td>
</tr>
<tr>
<td></td>
<td>Medical Service Provision (Work Reintegration Program), Workplace Safety Insurance Board HC</td>
</tr>
<tr>
<td>Federal</td>
<td>Employment Ontario ES</td>
</tr>
<tr>
<td></td>
<td>Career Focus ES</td>
</tr>
<tr>
<td><strong>Australia</strong></td>
<td></td>
</tr>
<tr>
<td>New South Wales</td>
<td>New Parents and Infant Social Benefit Bond FI</td>
</tr>
<tr>
<td></td>
<td>Intensive Family Support Service Social Benefit Bond FI</td>
</tr>
<tr>
<td></td>
<td>Social Benefit Bond to Address Adult Recidivism CJ</td>
</tr>
<tr>
<td>National</td>
<td>Investing in Services for Outcomes HSS CJ</td>
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<td>Wiri Prison CJ</td>
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<tr>
<td><strong>New Zealand</strong></td>
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<tr>
<td>New South Wales</td>
<td>New Parents and Infant Social Benefit Bond FI</td>
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<td></td>
<td>Intensive Family Support Service Social Benefit Bond FI</td>
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<td></td>
<td>Social Benefit Bond to Address Adult Recidivism CJ</td>
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<td>Asthma Reduction Program HC</td>
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<td>Minnesota</td>
<td>Human Capital Performance Bond HSS</td>
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<td>Arkansas</td>
<td>Justice Sector-Incentive Projects CJ</td>
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<td>Kentucky</td>
<td>Community Corrections Pilot Projects CJ</td>
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<td>Texas</td>
<td>Commitment Reduction Plan CJ</td>
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<td>Ohio</td>
<td>Probation Improvement and Incentive Grants CJ</td>
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<td>South Carolina</td>
<td>Crime Reduction and Sentencing Reform CJ</td>
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<td>Salt Lake City</td>
<td>Early Education Program EI</td>
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<td>Pennsylvania</td>
<td>Halfway House System CJ</td>
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<td><strong>United Kingdom</strong></td>
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<td>National</td>
<td>Work Program ES</td>
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<td>Troubled Families Program ES</td>
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<td>Drug &amp; Alcohol Recovery Program ES</td>
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<td>Probation Services CJ</td>
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<td>Peterborough Prison CJ</td>
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<td>Doncaster Prison CJ</td>
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<td>Youth Justice Reinvestment Pathfinder CJ</td>
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<td>Smoking Cessation Support ES</td>
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<td>Rough Sleeping in London ES</td>
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<td>Children’s Services, Essex</td>
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<td>Sure Start Children’s Centres ES</td>
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</table>

**Legend**
- CJ CRIMINAL JUSTICE
- EI EARLY INTERVENTION
- ES EMPLOYMENT SUPPORT
- FI FAMILY INTERVENTION
- H HOUSING & HOMELESSNESS PREVENTION
- HC HEALTHCARE
- HSS HUMAN & SOCIAL SERVICES (CROSS-PROGRAM SUPPORT)
- PAYMENT FOR PERFORMANCE
- SOCIAL IMPACT BOND
- OUTCOMES-BASED CONTRACTING
- PERFORMANCE INCENTIVE FUNDING
DIFFERENCES IN APPLICATION

Both across and within the four models identified in this report, there is considerable variation in the specific application of outcomes funding. Major variables include:

1. Who participates
Outcomes funding is commonly used to structure payment arrangements between governments and external service delivery organizations/private investors. However, it is also applied solely within the public sector. The UK central government’s Troubled Families Program, for instance, uses payment-for-performance to encourage local authorities to improve family support services.

2. The number of outcomes pursued
Outcomes funding contracts are often confined to a single outcome domain—requiring, for instance, that employment support providers help their clients find and retain paid employment. But they can also involve service providers being rewarded for simultaneously delivering improvements across multiple outcome domains (e.g. employment and health outcomes).26

3. The scale at which impact is measured
Service providers can receive outcomes payments on the basis of results achieved at a range of scales.27 These include:

POPULATION GROUPS
Outcome payments in the UK’s Peterborough Prison Social Impact Bond are based on a reduction in “reconviction events” averaged across a group of 3000 short-term prisoners, divided into three cohorts.28

FAMILY
Under the UK’s Troubled Families program local authorities will receive payments from central government for each family they assist in achieving a set of education, employment, and behavioural outcomes.29

INDIVIDUAL
Community-based Youth Service providers that mentor and support at-risk young people in New Zealand receive outcomes payments based on changes to individual participants’ lives (e.g. educational attainment).30

4. The degree of risk that governments transfer to service providers or investors
Outcomes funding is frequently depicted as an arrangement where providers/investors are only paid if and when results are achieved. There are certainly examples of this arrangement. Investors participating in the UK government’s Peterborough Prison Social Impact Bond, for instance, will receive no return on their investment if reoffending does not fall by at least 7.5 percent in comparison to a control group.31 However, in other initiatives, the necessity of attracting investment or ensuring the continued provision of services, has led governments to limit the losses to which providers and investors are exposed. These actions include:

PARTIAL CAPITAL PROTECTION
Where governments involved in creating Social Impact Bonds have arranged capital guarantees for investors. In the Newpin Social Benefit Bond, for instance, the government of New South Wales has guaranteed 75 percent of investors’ capital against loss for the first three years. This will fall to 50 percent for the remaining four years of the bond. Investors also have the option of ending their involvement from the end of the third year.32

26 Kohli, et al., 2012
27 Battye and Mason, 2012
28 Disley, et al., 2011, pp.33-34
29 UK Department for Communities and Local Government, 2012.

30 New Zealand Ministry of Social Development, 2013
31 Social Finance, 2011.
MIXED FUNDING MODELS
The use of mixed funding models in payment-for-performance arrangements. As one consultant we spoke to observed:

It’s much easier for providers to stomach if you have a dual component [i.e. outcomes payments and operating fees]. It’s also much easier to implement in the public sector. [Contracts offering] 100 percent outcomes payments are tough and risky. You have to get the pricing and risk transfer exactly right and this is difficult to do. A combined contract is much easier.

Mixed funding models are common in areas where payment-for-performance arrangements are new and untested. And even in more established areas, such as employment support services, governments often safeguard the sustainability of service providers by covering some operating costs (see Figure 9).

FIGURE 9
Employment support program payment-for-performance funding models

Sources: Interviews, UK National Audit Office, 2012, p.15.
Notes: UK Work Program is an average of 8 client categories. Within these categories operating fees range from 4 to 12 percent.

33 In the UK’s Doncaster Prison scheme, for instance, only 10 percent of the provider’s annual revenue is dependent on reducing reoffending rates.
Outcomes Funding in Action 1
CALIFORNIA’S CORRECTIONS SYSTEM

The Problem
High probation violation rates were driving up California’s prison population and placing a considerable strain on public finances.

Introducing Outcomes Funding
California passed the Community Corrections Performance Incentives Act in 2009. The Act was designed to incentivize investment in proven interventions.

- Counties must invest reward money in evidence-based interventions that support probation compliance
- A High Performance Grant was made available to counties with already low probation revocation rates in order to incentivize continuous improvement

Outcomes Funding Impact
$536 million
Accumulated statewide savings FROM 2011-2013

BY 2012 the probation failure rate HAD DROPPED BY 33%

33% INCREASE IN THE REPORTED USE OF evidence-based practice between 2010 & 2011

Savings shared with county probation departments

Sources: California Legislative Analyst’s Office, 2009a; 2009b, pp.2-3; Pew Center on the States, 2012, pp.1-2; Vera Institute of Justice, 2012, p.5.
Pew Center on the States, 2012, p.2
California Administrative Office of the Courts, 2013, pp.1, 18
Outcomes Funding in Action 2
ONTARIO’S EMPLOYMENT SUPPORT SYSTEM

The Problem
Successive reviews of employment support services in Canada have identified a systemic neglect of employers’ needs. Providers primarily focus on the tasks they are paid to perform. This includes a range of activities—from language courses to interview training—designed to get clients “job ready.” Traditionally, payment systems have not sufficiently incentivized job placement and retention.

Introducing Outcomes Funding
In 2007, the employment assistance component of the Ontario Disability Support Program (ODSP) moved over to a payment-for-performance model.

1. The service provider begins supporting a job seeker
2. The client obtains a job
3. The service provider receives a payment once the client completes 13 cumulative weeks of paid employment
4. The service provider can receive monthly job retention payments up to a total of 33 weeks

Outcomes Funding Impact
Outcomes funding has encouraged service delivery organizations to develop a range of demand-side interventions focused on job placement and retention.

Networking with employers
Proactively building connections with hiring managers in order to understand the dynamics of local job markets and become a trusted source for client referrals.

Routine check-ups
Monitoring the progress of clients that have been hired by making regular visits to employers. Taking action (e.g., hiring a job coach) if problems are detected.

Absorbing hiring and training costs
Undertaking candidate screening on behalf of the employer and paying for job coaches to assist clients with on-the-job training.

Job bundling
Working with an employer to reallocate duties so a job could be made compatible with a client’s abilities.

Job carving
Surveying an organization, identifying a task that a client could perform, and making a business case for the creation of a new role.

Interviews with service providers revealed a number of new demand-side interventions.

On the supply-side, too, practices have changed
A recent program evaluation found many providers adopting a case management approach went far beyond their traditional counselling role.

Of the clients surveyed:
6% received childcare support
37% received transportation assistance

Providers were also found to be addressing clients’ barriers to employment through better coordination with services such as housing and healthcare.

34 See, for examples, Commission for the Review of Social Assistance in Ontario, 2012; and Shirey and Tan 2014.
“You need a more integrated system to begin with. You cannot expect pay-for-performance to be grafted on to poorly coordinated systems.”

*Interview, evaluation specialist*
SECTION 3
Making it Work

The extension of outcomes funding to increasingly complex service delivery areas raises considerable implementation challenges for governments.

This section sets out three key areas where Canadian governments need to build capacity in order for outcomes funding to be effective: measurement, evidence on what works, and aligning incentives. In each area we identify potential strategies (concerned with processes, structures, and people management) that will help build this capacity (see Figure 14 for a summary).

FIGURE 14
Overview of capacity building strategies
1. Outcomes Measurement

Outcomes funding arrangements typically rely on governments being able to measure and monetize the alleviation of social problems. This involves a process of:

- **Identifying social problems** that impose a strain on public finances (e.g. reoffending, substance abuse, homelessness, or unemployment).
- **Tracking current public expenditure** on the social problem(s) selected.
- **Identifying a clear target population** who stand to benefit from funded interventions.
- **Determining the impact of new interventions** on target populations using direct or proxy measures. In order for causality to be attributed, it must be possible to understand the target population’s likely outcomes under previous service provision.
- **Linking improvements in outcomes to immediate or long-term cashable savings.** Financial payments to providers represent a share of these savings. Alternatively, outcomes funding can proceed in the absence of cashable savings if governments attach a broader social value to likely results.

Governments and external service delivery organizations face a number of practical difficulties in working through this process. The effective implementation of outcomes funding arrangements will involve revisiting existing data collection procedures, support infrastructure, and internal working cultures.

**TRACKING SPENDING IN A COMPLEX SERVICE DELIVERY LANDSCAPE**

“In order to move toward paying for outcomes, for example, to prevent homelessness, cities and states must first understand how much they spend on homelessness...”

Kristin Misner, Office of the Mayor, New York City, 2013

Understanding current levels of spending in a particular outcomes domain (e.g. employment or homelessness) is a necessary precondition to introducing outcomes funding and calculating potential savings from performance improvements.

Government databases hold vast amounts of information on social program expenditure. However, this information is rarely collected in formats, or shared in ways, that allow for levels of spending on specific social problems to be calculated.

One of the greatest problems is that **responsibility for activities and services rarely lies with just one level of government or one ministry.** As one former public servant interviewed put it:

We don’t know what we are paying...When you aggregate the spend on [individual problems such as] alcoholism, long-term unemployment, homelessness, it is substantial but governments are spending through highly fragmented pipelines.

In Canada, as Figure 15 illustrates, aggregating expenditure information is more complex in some social policy domains than others. In areas where jurisdiction is shared or multiple levels of government are involved in the direct funding of programs and services, tracking expenditure is extremely challenging (see quadrants 2-4 in Figure 15; Box 5).
“...there is no basis currently for determining the overall scale of the investments that are being made in workforce development in Toronto, the effectiveness of the resources deployed, nor the collective outcomes that are being achieved by the diverse range of organizations and governments that fund, manage and plan employment services in Toronto...”

City of Toronto, 2012, p.54

Even at the same level of government, multiple ministries and agencies may directly fund or deliver programs in the same policy area, further hampering expenditure mapping (see Box 5).

Nor is this delivery landscape stable. It is continually evolving. The 2013 Federal Budget, for instance, announced the creation of a new employment skills training program (the Canada Job Grant) that will be financed by clawing back existing training funding that is annually transferred to provincial governments.
### Key Activities for Governments

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| **SYSTEM MAPPING** | Understanding current levels of investment in a particular outcomes domain involves:  
» undertaking an inventory of existing programs and support services  
» collating detailed financial data from relevant agencies across different levels of government  
» analyzing and categorizing existing spending information.  
As the UK’s Social Research Unit note, this will likely be “an iterative process in which agency staff provide detailed expenditure information to the local coordinator who aggregates relevant information and returns to team members with questions and any additional data requirements.” | Completed in 2011, New York City’s Workforce Development Mapping Initiative provided local policymakers and practitioners with a detailed understanding of current levels of investment in employment-related support services. |

35 Social Research Unit, 2013, p.3

### IDENTIFYING TARGET POPULATIONS WITH COMPLEX NEEDS

By definition, paying service delivery organizations on the basis of measured improvements in client outcomes requires a clearly defined target population. The task of identifying an appropriate cohort tends to be easier in situations where:

» performance funding is applied to a single outcome area  
» rigorous data collection practices are in place  
» centralized or linked case records exist

However, government data holdings and collection practices do not lend themselves as easily to the growing desire to extend outcomes funding to complex delivery areas such as intensive family support services (see Figure 17).

Take, for instance, services aimed at reducing reoffending. A recent criminal conviction serves as a comparatively straightforward eligibility criterion for these services. Equally, high-quality, centralized administrative systems, such as Canada’s National Criminal Records Repository, allow individuals to be easily identified in real-time.
FIGURE 17
Common data challenges: UK Troubled Families Program

<table>
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<th>Description</th>
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<tr>
<td><strong>DATA AVAILABILITY</strong></td>
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<td>Relevant data is not always available in existing administrative systems. Data holdings tend to reflect the requirements of existing programs, and as a result, they cannot always be easily repurposed.</td>
<td>The feasibility study for the Troubled Families Program found that “information is rarely collected at the family level, as opposed to the individual child or adult.” Intensive data matching was required to compile household data.</td>
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<tr>
<td><strong>DATA SHARING</strong></td>
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<td>Clients’ problems are treated in isolation in most social support systems making it difficult to identify individuals or groups with complex needs. Client information is held in separate administrative databases across different ministries and levels of government.</td>
<td>The eligibility criteria for “troubled families” includes households with an adult on unemployment benefits, a child out of school due to persistent truancy or exclusion, and a member with a history of criminal or anti-social behaviour. As the UK’s Department for Communities and Local Government concedes: “The majority will be families who have been on different services’ radars for long periods.”</td>
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<td>The ease with which information can be matched across different administrative systems depends on:</td>
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<td>» The availability of integrated databases or the technological ability of information systems to exchange data with each other.</td>
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<td>» Data sharing protocols and legislation (and practitioners’ understanding of those rules).</td>
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<td>» Internal working cultures and levels of trust between service providers.</td>
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<td><strong>DATA QUALITY</strong></td>
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<td>A lack of consistency and accuracy in recording client information can make it difficult to identify population groups with complex needs. Few government systems use common unique identifiers that allow client data to be matched across administrative systems. As a result:</td>
<td>An executive leading one of the Troubled Families pilots reported that the “the basic quality of data is so poor it is difficult to match.” His team had been “forced to resort to manual matching.”</td>
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<td>» It can be difficult to distinguish between clients with the same personal details (e.g. name and date of birth).</td>
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<td>» Data matching is hampered by a lack of consistency in how services record personal information (e.g. name formats) and by some administrative systems holding more up-to-date information on clients than others (e.g. residential address and marital status).</td>
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36 Local authorities are being offered central government funding on a payment-for-performance basis to improve outcomes for families with multiple and complex needs.
37 UK Cabinet Office, 2012, p.38
38 UK Department for Communities and Local Government, 2012, p.3. Emphasis added.
39 Interview, UK government executive
### Key Activities for Governments

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<td><strong>MATCHING CLIENT DATA:</strong> Big data analytics</td>
<td>Sophisticated analytics can be used to match client data across administrative systems. A number of governments have developed algorithms that calculate the likelihood of a client being the same person across different agency databases based purely on their demographic data. This approach has the advantage of accommodating the messiness of existing administrative systems—including inaccuracies, inconsistencies and gaps across agency databases. It also enables the creation of master registers or indexes of clients who can be given unique identifiers.</td>
<td><em>New York City’s</em> Common Client Index and <em>Washington State’s</em> Client Registry use algorithms to match client data across multiple human and social services databases.</td>
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<td><strong>MATCHING CLIENT DATA:</strong> New integrated case management systems</td>
<td>An alternative approach to matching data has seen some governments create new integrated client databases that replace the separate systems maintained by individual agencies.</td>
<td><em>British Columbia’s</em> new integrated case management system offers government officials a holistic view of clients’ needs and the range of services and supports they access.</td>
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<tr>
<td><strong>ENABLING DATA SHARING</strong></td>
<td>Governments will only be able to identify users of multiple services if providers are willing and able to exchange information about clients. This may involve: 1. Governments revisiting existing legislation to allow greater information exchange; 2. Clearer guidance on existing data sharing protocols that will help address any misconceptions that unnecessarily limit data sharing; 3. Cultivating trust among government departments and agencies through strategies such as joint working groups or staff co-location.</td>
<td>Provisions in the UK’s Welfare Reform Act facilitate the identification of Troubled Families Program participants by allowing jobcentres to share benefit claimant data. Coordination efforts were also assisted by a joint working group consisting of officials from central and local government.</td>
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40 Accenture, 2010.
Outcomes funding has become an important driver of impact evaluation in both the public sector and among external service delivery organizations. It has focused attention on clarifying program objectives, gathering baseline data, selecting direct or proxy measures, and assessing and reporting results.

Another key task is determining attribution. Do we know if a particular activity or service makes a tangible difference to client outcomes? Governments can only be sure they are investing in effective interventions if they can calculate what is often referred to as the "deadweight"—that is, the change in client outcomes that would likely have occurred under pre-existing arrangements (see Figure 18).

However, a range of methodologies with different levels of scientific rigour—from randomized control trials to using population baselines—can be employed to assess causality (see Box 6).

**BOX 6: IDENTIFYING THE DEADWEIGHT IN THE IMPACT EVALUATION PROCESS**

**Sample Methodologies**

**RANDOMIZED CONTROL TRIAL (RCT)**
Using randomly assigned intervention and control groups to determine whether a new service offers better outcomes than existing services.

*Example:* Greater Manchester’s Troubled Families program pilot (RCT with 480 families).

**PROPENSITY SCORE MATCHING**
Using administrative data to compare the outcomes of a cohort receiving an intervention with the outcomes of a control group with similar characteristics.

*Example:* Peterborough Social Impact Bond (UK)

**POPULATION MEASURES**
Comparing the outcomes of a cohort with population-level outcomes.

*Example:* Performance-incentive funding in California’s corrections system

**NO COMPARISON**
Governments have no means of determining whether service providers’ interventions are responsible for changes in client circumstances.

*Example:* Work Program (UK)

*Source:* Adapted from UK Cabinet Office, 2013c.

Some outcomes payment systems do not attempt to make this determination. The UK Work Program, for instance, simply pays providers on a case-by-case basis for getting jobseekers into employment. There is no way “to distinguish the impact of the program versus wider changes in the economy”, as one interviewee put it.
Measuring and determining social impact in this way is no easy task for governments and service delivery organizations. Significant capacity building is still required to overcome a number of long-standing issues, including:

**A lack of outcomes data**
Few social programs track the impact of interventions on the lives of people using support services. At best, performance is measured and reported using input and activity based indicators. The resulting lack of outcomes data means that practitioners introducing performance funding in social services are not able to build on existing monitoring systems or have access to historic baselines with which to compare results.

**Under-investment in program evaluation**
Only a tiny portion of social programs are subject to rigorous evaluation. A federal government survey in 2010 found that, on average, departments devoted just 0.08 percent of direct program expenditure to evaluation. While other Canadian governments do not collate and publish these statistics, there are plenty of reviews by public commissions and provincial Auditor Generals that stress the need for more rigorous monitoring and evaluation of social programs.

Persistent under-investment in program evaluation means governments have limited support infrastructure available to assist the growing demand for outcomes measurement.

**A traditional disconnect between audit and evaluation**
Governments have failed to integrate the collection of performance and cost data. In public services, as KPMG observe, “one often finds disintegrated management of performance—with a performance monitoring unit collecting activity data [and] a finance function checking that agencies stick to spending limits.” This division of responsibility seriously impairs any understanding of the cost effectiveness of current services or attempts to understand possible productivity improvements from a switch to outcomes funding.

**Capacity constraints in the non-profit sector**
In some program areas services are delivered almost exclusively by external organizations. Many are small, specialist non-profit providers who often lack the expertise and financial resources to measure and evaluate outcomes. The current economic climate has only exacerbated these capacity constraints.

**A lack of coordination among service delivery organizations**
Social services sectors in Canada’s provinces have evolved in a fairly ad hoc and uncoordinated way. A large number of small service delivery providers coexist in a highly fragmented system. Program objectives are not clearly defined and there is little in the way of a standardized approach to data collection. As one interviewee from the social housing sector in Alberta commented: “for [impact evaluation] to work, you would need to take a year and get everyone on board in collecting the same statistics.”

**Institutional reluctance**
Concerns over the implications of impact evaluation—including potential budget cuts due to under-performance and the ethics of tracking clients and using control groups—has created some understandable resistance to rigorous evaluation among service providers.

The lack of impact evaluation currently undertaken by either public or external service delivery providers creates an additional problem: it becomes difficult to assess whether outcomes funding is itself a successful or appropriate payment system in different service delivery areas. Where governments have introduced outcomes funding, they have often simultaneously had to roll out impact measurement. As a result, governments have no baselines with which to assess the effectiveness of this payment system.

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41 Treasury Board of Canada Secretariat, 2011.
43 KPMG, 2010, p.10
44 Galley, et al., 2013, p.23
Key Activities for Governments

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<td><strong>BOOSTING EVALUATION CAPACITY: Support infrastructure</strong></td>
<td>There is a range of internal and external support infrastructure—from centres of excellence that offer technical assistance to training institutions—that can improve stakeholders’ capacity to undertake impact evaluation.</td>
<td>When creating social impact bonds, a number of US states—including Illinois, South Carolina, and Massachusetts—have leveraged the technical assistance and training in impact evaluation offered by Harvard University’s SIB Lab. In terms of internal assistance, Canada’s Centre of Excellence for Evaluation helps strengthen the evaluation capacity of the federal public service through offering advice and tools for measuring performance.</td>
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<td><strong>SHARING DATA AND DATA LABS</strong></td>
<td>Governments can help non-profit organizations evaluate the impact of their operations without increasing the administrative burden by sharing government-held data. Giving organizations outcomes data on their clients as well as data for a matched control group will help these service providers determine causation. Equally, even within government, social services departments can have a better sense of the effectiveness of their programs through accessing data from other agencies (e.g. accessing tax returns to obtain employment outcomes data).</td>
<td>The UK Ministry of Justice is piloting a Justice Data Lab that allows organizations delivering rehabilitation services to request aggregate level re-offending statistics for their clients and a comparison group with similar characteristics.</td>
</tr>
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<td><strong>INVESTING IN HUMAN CAPITAL</strong></td>
<td>Having sufficient evaluation expertise available is critical to improving governments’ capacity to evaluate existing programs.</td>
<td>The Canadian federal government has steadily boosted its evaluation capacity over the past decade by almost doubling the number of evaluation specialists. Between 2004/5 and 2009/10, the government-wide cadre expanded from 259 to 515 full-time-equivalents.45</td>
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<tr>
<td><strong>PERFORMANCE DASHBOARD</strong></td>
<td>Governments can improve their understanding of the effectiveness of existing services by using real-time performance dashboards and requiring service providers in a particular program area to report continuously on a common set of performance indicators.</td>
<td>New York City keeps track of performance data from a diverse range of service delivery organizations through a performance dashboard.</td>
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45 Treasury Board of Canada Secretariat, 2011, p.14
PAYING FOR OUTCOMES IN A SILOED SYSTEM

“Government structures dictate that it is very difficult to gain support for a program when benefits are not directly attributable to a departmental budget.”


Many outcomes funding arrangements typically depend upon the agencies “commissioning a service being able to realize a monetary saving from which to pay for the results commissioned.”46 In some instances this is possible. The use of performance incentive funding in California’s corrections system—where substantial cashable savings are available to the prison system—is one such example (see page 20).

In many other instances, the majority of cashable savings that result from specific services do not accrue to the government or agency with responsibility for commissioning them. Instead, savings are dispersed across multiple agencies and/or levels of government (see Figure 19). In these situations it can be difficult for any individual agency to justify assuming sole responsibility for outcomes-based payments.47

**BOX 7:**
**ESTIMATED DISTRIBUTION OF SAVINGS FROM THE TROUBLED FAMILIES PROGRAM IN GREATER MANCHESTER, UK**

The costs imposed by complex social problems—from anti-social behaviour to substance abuse—are dispersed across the public sector. So too are the savings that accrue from improvements in outcomes.

Local authorities in the UK are being offered payment-for-performance funding by central government to improve intensive family support services. Greater Manchester County Council estimates that an investment of £110 million in family intervention services and support workers will yield £224 million in savings across the system (see Figure 19).

**FIGURE 19**
Projected savings from Greater Manchester’s Troubled Families Program

Notes: Data covers investment in 8,090 families with complex needs.

Source: Compiled from data available in New Economy, 2013; Association of Greater Manchester Authorities, 2012.

46  Fox and Albertson, 2011, p.407.
47  UK Cabinet Office, 2013d.
Key Activities for Governments

In cases where, in spite of wider benefits, savings are too dispersed for any one agency to assume sole responsibility for outcomes payments, stakeholders must find ways of either moving funds across service delivery silos or accessing central pools of funding. Both approaches require that stakeholders have a clear understanding of the distribution of costs and savings that will likely result from a specific intervention.

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<td>JOINT INVESTMENT AGREEMENTS</td>
<td>Individual agencies that stand to realize savings from a particular intervention can enter into joint investment agreements. Negotiations are premised on cost-benefit analyses that model the return on investment for each participating agency.</td>
<td>A number of local authorities in the UK are working with partner agencies to create joint investment agreements under the Troubled Families Program.</td>
</tr>
<tr>
<td>OUTCOMES FUNDS</td>
<td>In the absence of contributions from other benefitting agencies, governments can establish central funds that an individual agency can draw upon in order to make outcomes funding for complex issues viable.</td>
<td>Public sector organizations in the UK that are interested in tackling complex social problems through the use of social impact bonds or payment-for-performance can apply to the Cabinet Office’s Social Outcomes Fund. This provides “top-up” contributions in instances where a single commissioning agency cannot otherwise take sole responsibility for outcomes payments in a scheme that nonetheless has widespread benefits.</td>
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48 UK Cabinet Office, 2013d

2. Evidence on What Works

Outcomes funding is regularly praised as a cost-effective means of governments sponsoring successful research and development. But governments also need “to strike a balance between allowing providers the space to innovate and not leaving good practice as a mystery”, as one evaluation specialist put it. Stakeholders often need assistance in understanding what interventions work.

There are a number of reasons why service delivery providers and funders alike need evidence of effective interventions at the outset of outcomes funding arrangements:

a. Outcomes funding is being used as a vehicle for scaling up evidence-based interventions

Many governments are using social impact bonds as a means of leveraging external capital to scale up proven preventative interventions (see Box 8). Funds collected from investors enable non-profit service providers to expand existing evidence-based programs or import ones that have worked in a different locality. Identifying interventions that work, as well as non-profit organizations with a strong track record in delivery, is a key part of setting up these social impact bonds and marketing them to investors.49

49 There are some Social Impact Bonds (SiBs), such as the UK Department for Work and Pension’s youth unemployment SiBs, where investors are asked to fund programs that show promise but have yet to undergo rigorous evaluation. However, as Callanan et al. note, these SiBs not only involve the “execution risk” that comes with scaling up any intervention (i.e. it may not work well at scale or in a new location) but they also carry “model risk related to the intervention” itself and are therefore “less likely to attract investment.” See Callanan et al. 2012, p.19
b. Public sector leaders wish to manage risk

Service commissioners are always more concerned with finding providers who will succeed than with finding providers who will absorb the cost of failure. As a result, many outcomes funding arrangements are commissioned through a competitive process that requires service providers to identify how results will likely be achieved. The evaluation criterion for proposals is weighted in favour of applications that offer precise details of what evidence-based programs and practices will be used.

52 UK Cabinet Office, 2012
53 See, for example, Government of Ohio, 2011

BOX 8: THE PROVEN INTERVENTION BEHIND NEW YORK CITY’S RIKERS ISLAND SOCIAL IMPACT BOND

The scheme uses Moral Reconciliation Therapy—an established behavior change intervention that reduces reoffending through enhancing prosocial decision-making. Delivered via group and individual counseling, the therapy has been the subject of multiple randomized control trials within the US corrections system. Results have shown high benefit-to-cost ratios and significant reductions in recidivism.

50 Little, 2001
51 Ibid; Washington State Institute for Public Policy, 2012; Ferguson and Wormith, 2013

b. To safeguard the stability of service provision

Where governments—as providers of last resort—introduce outcomes funding into statutory services it is important to ensure that service delivery organizations know what practices and interventions will help them meet outcomes targets. As one government procurement specialist commented:

[There are] only a handful of providers who can deliver some statutory services. So we need to balance the threat of removing funding with supporting them and building capacity.

Equally, many service delivery organizations hold contracts with multiple government agencies. Helping providers improve the effectiveness of their interventions is often important for the stability of wider service provision:

If we remove funding from a provider...what happens to the services that the provider supplies to other [departments]? If the provider collapses, there are implications for other parts of government.

b. To reduce the risk of gaming

Supporting service providers in adopting proven interventions is also likely to reduce attempts to game the system. Outcomes funding can create perverse incentives to act strategically—such as selecting clients who need minimal assistance—in situations where service delivery organizations are struggling to meet outcomes targets.

Ensuring that stakeholders have sufficient access to evidence on effective interventions requires considerable changes to existing evaluation practices, support infrastructure, and working cultures.

54 Palameta, B. et al., p.33.
BOX 9:
WHEN PROVIDERS MOST NEED ADDITIONAL ASSISTANCE

Research for this study showed that there are a number of circumstances under which providers are particularly likely to need external assistance in understanding what works:

a. When new skills and competencies are required of frontline practitioners
The switch to contracting models that are more precisely focused on measuring and optimizing client outcomes is dramatically changing the nature of the work that some service providers are required to perform.55 Equipping staff with the skills and knowledge necessary for this transition is a formidable challenge for many—particularly smaller—service providers. Internal learning opportunities are limited, while external professional development is restricted by limited resources.

b. Where competition restricts knowledge sharing
Outcomes funding can often create competition both within a service delivery organization and between organizations, restricting the sharing of best practice. As one Ontario-based employment service provider put it: “We are still working very much in silos because we have our targets to meet as individual agencies. And this goes right down the organization. Individual job developers have their own targets. It will take a while. At the moment, no one wants to share.”56

c. Where education programs have not caught up
There can often be a time lag between the introduction of outcomes funding and changes to the curricula of vocational training courses. Employment service providers in Canada have found that career counselor programs have not kept pace with changes in the operating environment. As one executive director put it: “It is difficult to hire a new graduate that knows how to get results. Many come from [career counselor programs] but job development is still only a small part of the curriculum.”57

d. Where service delivery organizations have to operate in new locations
High-performing service delivery organizations are not evenly distributed across a jurisdiction.58 As a result, governments will frequently award or reallocate contracts to organizations that have no existing footprint in an area. Many providers will need additional assistance in adapting their practices to local conditions in the early phase of establishing operations in a new area.59 As one commissioner of employment support services in Canada commented:

We tried to make sure there were a couple of providers in each area when we awarded contracts. This did mean that some providers were setting up in new areas...A provider in one area might be great but if they don't have a base in another area [that they are asked to move to] they will struggle. It is a very people-oriented service. We certainly saw that in terms of results. Those in new areas struggled.

55 By rewarding corrections agencies for reducing reoffending, for instance, the focus of probation work has shifted from surveillance to intensive case management. Probation officers have needed considerable assistance in switching to a social work function and utilizing evidence-based techniques such as motivational interviewing. Vera Institute of Justice, 2012, p.14.
56 Executive Director, Ontario-based service provider.
57 Ibid
58 Azemati et al., 2013, p.29. Contracts awarded to employment support providers delivering programs such as Ontario’s Employment Placement & Retention Program for injured workers, the Employment Program of British Columbia, and the UK’s Work Program have all required providers to move all or part of their operations to new locations. Shifting operations to new localities is often seen as relatively straightforward in program areas such as employment support where providers have limited fixed assets. However, even here, service delivery organizations have to acquire new premises and either relocate workers or hire new ones. See Gash et al. 2013.
“Taken together, the current evaluation landscape can be compared to paint splatters on a canvas, with robust publications and online collections in some [policy areas]... and relatively few spots on the canvas in other areas.”
Makhoul and Torjman, 2012, p.5

The quality of evidence available to governments, investors and service delivery organizations is very varied. In areas such as health where there is a strong culture of rigorous testing and evaluation, or in welfare-to-work, where outcomes funding and impact evaluation is more established, there is a stronger evidence base for practitioners to draw upon.60

In many of the areas that governments are now trying to introduce outcomes funding, evidence of effective interventions is much weaker. In family intervention, for instance, the feasibility report for the UK’s Troubled Families program concluded: “evidence which has been collected (e.g. in relation to the impact of [family intervention programs]) has not been gathered with the rigour and consistency required to make it useable in a [payment-by-results] and social investment context.”61

The same is true of early years intervention. A Canadian-led international review of the quality of evidence used in over 4,000 evaluations of early childhood intervention programs found that only 169 attempted to determine causality by using a control or comparison group.62 In 2011, the UK’s Review of Early Intervention reported that out of the several hundred programs examined by the assessment team, just “19 of them have been demonstrated, to the highest scientific standards, to improve child outcomes.”63

60 UK Cabinet Office, 2012; Mulgan and Puttick, 2013
61 UK Cabinet Office, 2012, p.40
62 Mrazek et al., 2000
63 Allen, 2011, p.100
### Key Activities for Governments

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<th>ACTION</th>
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<tr>
<td><strong>DEMONSTRATION PROJECTS</strong></td>
<td>The introduction of outcomes funding in service delivery areas where evidence is weak is best supported by demonstration or pilot projects.</td>
<td>Existing gaps in the evidence base for intensive family support services include such issues as how to combine and effectively sequence interventions. Before rolling out payment-for-performance arrangements in the UK’s Troubled Families Program, local authorities have been piloting interventions. Greater Manchester, for instance, has tested a new integrated service delivery model using a randomized control trial involving 480 families.</td>
</tr>
<tr>
<td><strong>IMPROVING PROGRAM EVALUATION:</strong></td>
<td>The greater use of impact evaluation in existing services will provide valuable information to funders (regarding where to invest /allocate contracts) and service providers (about where to focus resources or adapt practices). Governments can improve their understanding of the effectiveness of existing services through the use of real-time performance dashboards. By asking service providers in a particular delivery area to report on a set of performance indicators, it is possible to obtain a system-level understanding of what is working.</td>
<td><strong>New York City</strong> tracks outcomes data from a diverse range of publicly-funded service providers through a performance dashboard.</td>
</tr>
<tr>
<td><strong>DATA LABS</strong></td>
<td>The capacity of both government and external service delivery providers to evaluate the impact of their programs will be significantly improved by creating data labs to facilitate the sharing of data.</td>
<td>The <strong>UK Ministry of Justice</strong> is helping accredited providers of offender rehabilitation services to understand the impact of their interventions through supplying aggregate-level reoffending data for their clients and a matched control group.</td>
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### Making Better Use of Existing Evidence

“...one of the most striking factors impeding the effective use of evidence is the absence of organisations tasked with linking the supply and demand of evidence.”  
*Mulgan and Puttick, 2013, p.5*

Even in program areas where rigorous impact evaluation has taken place, evidence is frequently not synthesized and disseminated in ways that is useful for stakeholders involved in outcomes funding arrangements.⁶⁴

Funders and service providers alike often lack the **internal capacity** to analyze and synthesize existing evidence. Frontline practitioners “are overstretched,” as one interviewee put it, and “we can’t just expect them to locate best practice by trawling websites or going through reports.”

Governments, too, do not always have structures in place to ensure that they have access to, and keep up-to-date with, current evidence.

There is also lack of **external support infrastructure.** So-called “what works centres”—independent organizations that review existing evidence and offer location-appropriate advice on cost-effective interventions—can play a valuable role in assisting funders and providers involved in outcomes funding arrangements.

Canada, like many other countries around the world, has a shortage of organizations that offer this type of analysis. While provision is better in public health and criminal justice,⁶⁵ Canada has a lack of support infrastructure in social program areas such as child and family welfare and poverty reduction.

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⁶⁴ Mulgan and Puttick, 2013, p.5  
⁶⁵ The Canadian Task Force on Preventative Health Care, for instance, supports clinical practice through analyzing and disseminating evidence on health promotion and disease prevention. Similarly, the National Crime Prevention Centre offers guidance on crime reduction practices that are both evidence-based and cost effective.
Key Activities for Governments

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| REVIEWING THE EXISTING EVIDENCE BASE: Location-specific grading criteria | Stakeholders need criteria in place to evaluate the quality of existing evidence and identify proven interventions. Grading criteria provide a useful tool for ranking existing program evaluations according to:  
  » their level of scientific rigour  
  » whether evidence is derived locally, nationally, or internationally  
While it is important to make investment decisions and adapt service delivery methods in light of available evidence, funders and service delivery providers have to balance rigour with practicality. While there are many templates available, stakeholders will need to customize these according to the quality and availability of evidence at their disposal. | In piloting the Troubled Families Program, practitioners in Greater Manchester developed their own grading criteria for assessing evidence on effective family support interventions (see Figure 20). |
| REVIEWING THE EXISTING EVIDENCE BASE: Requests for Information | Issuing Requests for Information can offer a cost-effective means of identifying evidence-based programs and practices that could be scaled-up and funded through outcomes funding mechanisms. | In 2013, the state of Illinois issued a Request for Information (RFI) to identify interventions that were strong candidates for a Social Impact Bond. The RFI asked for information on “programs that: A.) Are evidence-based, achieve desired social outcomes, and result in quantifiable savings for the State. B.) Have demonstrated success on a measurable scale. C.) Have the potential to be implemented more broadly using the Pay for Success Model.” A similar approach has also been used by states including Massachusetts, Michigan, and South Carolina.67 |
| KNOWLEDGE SHARING BETWEEN STAKEHOLDERS | Outcomes funding can limit the sharing of best practice between service providers by fuelling competition. However, partnerships between providers in different regions—who are not in direct competition with one another—can facilitate the exchange of evidence. Regular teleconferences and/or in-person sessions can help build knowledge on effective practice. | Ontario’s Workplace Safety and Insurance Board has enjoyed considerable success in bringing together health care providers (e.g. back specialists) from different regions to share information on evidence-based practice. |

**FIGURE 20**
GRADING CRITERIA USED BY GREATER MANCHESTER IN THE TROUBLED FAMILIES PROGRAM

<table>
<thead>
<tr>
<th>CONFIDENCE GRADE</th>
<th>EVIDENCE BASE (METHOD)</th>
<th>POPULATION/COHORT DATA</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Randomized Control Trial in the UK</td>
<td>Figures taken from agency data systems</td>
</tr>
<tr>
<td>2</td>
<td>International Randomized Control Trial</td>
<td>Figures derived from local statistics</td>
</tr>
<tr>
<td>3</td>
<td>Independent monitoring of outcomes with a robust evaluation plan</td>
<td>Figures based on national analysis in similar areas</td>
</tr>
<tr>
<td>4</td>
<td>Practitioner monitoring of outcomes with a robust evaluation plan</td>
<td>Figures based on generic national analysis</td>
</tr>
<tr>
<td>5</td>
<td>Secondary evidence from a similar type of intervention</td>
<td>Figures based on international analysis</td>
</tr>
<tr>
<td>6</td>
<td>Uncorroborated expert judgement</td>
<td>Uncorroborated expert judgement</td>
</tr>
</tbody>
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66 Governor’s Office of Management and Budget, State of Illinois, 2013, p.3.
<table>
<thead>
<tr>
<th><strong>BOOSTING EXTERNAL SUPPORT INFRASTRUCTURE: Utilizing existing “what works” centres</strong></th>
<th>Where available, stakeholders can make use of the lists of cost-effective, proven interventions produced and maintained by existing “what works” centres. As Harvard’s SIB Lab notes, the advantage of “selecting an option from one of these lists is that they provide evidence collected from rigorous evaluations, thereby providing far greater levels of confidence in the intervention’s efficacy.”⁶⁸</th>
</tr>
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<tbody>
<tr>
<td><strong>BOOSTING EXTERNAL SUPPORT INFRASTRUCTURE: Creating new “what works” centres</strong></td>
<td>Governments can also improve their access to location-specific advice on effective interventions by creating new, independent “what works” centres.</td>
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<td></td>
<td>When creating social impact bonds, a number of US state governments have made use of the lists of evidence-based interventions produced by centres such as the US-based Coalition for Evidence-based Policy and the Washington State Institute for Public Policy.⁶⁹</td>
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The UK government is currently establishing a network of “what works” centres to offer advice in areas including education, crime reduction, early years intervention, and population ageing. The government of British Columbia also recently set up the BC Centre for Employment Excellence to assist service delivery providers in identifying evidence-based practice (see Figure 21).

**FIGURE 21**
The role of the BC Centre for Employment Excellence

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⁶⁸ Azemati et al., 2013, p.29.
⁶⁹ Ibid
3. Aligning Incentives
Outcomes funding will only achieve social impact and offer better value for money if the incentives facing all stakeholder groups (government, service providers, investors and clients) are aligned.

Complex operating environments leave governments vulnerable to over-paying service delivery organizations. Equally, a failure to work collaboratively with stakeholders—building capacity, cultivating trust, co-designing metrics, and sharing risk—increases instances of gaming and ultimately compromises the value of public services.

THE RISK OF DOUBLE PAYMENT IN AN UNCOORDINATED SYSTEM
“You need a more integrated system to begin with. You cannot expect pay-for-performance to be grafted on to poorly coordinated systems.”
Interview, evaluation specialist

Outcomes funding is difficult to administer in social support systems that have evolved in an uncoordinated and ad hoc manner.

Key Activities for Governments

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<tbody>
<tr>
<td>SERVICE INTEGRATION</td>
<td>Greater systems-level coordination creates a more organized service delivery environment within which to introduce outcomes funding. This includes integrating both funding streams and service provision.</td>
<td>Prior to introducing the British Columbia Employment Program (which includes an outcomes-funded component) in August 2012, the provincial government streamlined the service delivery landscape. This initiative involved:</td>
</tr>
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<td>Program consolidation</td>
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<td>Six federal and four provincial programs were integrated into the single Employment Program that serves both population groups with specialized needs (e.g. immigrants and youth) as well as the general population.</td>
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<td>Streamlined procurement</td>
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<td>400 existing contracts with service delivery organizations were consolidated into 73 area-based agreements with prime providers. These providers are in turn responsible for sub-contracting work to a network of specialist organizations.</td>
</tr>
<tr>
<td>LINKING OUTCOMES-FUNDED PROGRAMS</td>
<td>Funders and service providers can also reduce the likelihood of double payments through: a. Sharing service user data in order to identify common clients b. Creating joint investment agreements where outcomes payments are shared between participating agencies.</td>
<td>Data sharing agreements are in place between the UK’s Department for Communities and Local Government (DCLG) and Department for Work and Pensions (DWP). This prevents employment outcomes payments being made for any household joining the Troubled Families Program (operated by DCLG) that already receives employment support under the Work Program or European Social Fund Families Program (operated by DWP). Meanwhile, a number of local authorities creating joint investment agreements under the Troubled Families Program are seeking to bring Work Program providers on board.</td>
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70 John Coward Consulting, 2013.
71 Ibid.
FREE RIDER PROBLEMS IN AN UNCOORDINATED SYSTEM

If governments introduce outcomes funding in an uncoordinated manner, they risk paying the wrong provider for outcomes achieved.

Social problems—such as reoffending—have many causes (see Box 10). As a result, there are multiple public services—including health, housing, and employment support—whose activities have an impact on reoffending rates, despite recidivism not being the focus of their work.† Simply rewarding one service (e.g. a probation agency) with outcome payments misses the role potentially played by others and could create a “free rider problem”. As one consultant put it:

If no attempt is made to coordinate efforts there is the risk of a free rider problem. Getting a job outcome could be because of drug and alcohol treatment. But a health provider doesn’t get rewarded for this despite being the critical factor.

On the other hand, rewarding multiple service providers for achieving the same outcome target (e.g. offending or employment) could also create a free rider problem, if providers are working with the same clients (see Figure 21).

FIGURE 21
UK payment-for-performance schemes with overlapping outcome domains

If no attempt is made to coordinate efforts there is the risk of a free rider problem. Getting a job outcome could be because of drug and alcohol treatment. But a health provider doesn’t get rewarded for this despite being the critical factor.

On the other hand, rewarding multiple service providers for achieving the same outcome target (e.g. offending or employment) could also create a free rider problem, if providers are working with the same clients (see Figure 21).

<table>
<thead>
<tr>
<th>PAYMENT-FOR-PERFORMANCE SCHEME</th>
<th>REDUCED OFFENDING</th>
<th>EMPLOYMENT</th>
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<tbody>
<tr>
<td>Drug and Alcohol Recovery</td>
<td>✔</td>
<td>✔</td>
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<tr>
<td>Probation Service</td>
<td>✔</td>
<td></td>
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<tr>
<td>Troubled Families Program</td>
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<td>✔</td>
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<tr>
<td>European Social Fund Families Program</td>
<td></td>
<td>✔</td>
</tr>
<tr>
<td>Work Program</td>
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† UK National Audit Office, 2010
BOX 10: FACTORS IMPACTING REOFFENDING RATES

Reoffending rates are influenced by a range of factors, including:

- Less than 30% of Canada’s federal prison population graduated from high school.
- Less than 30% of Canada’s federal prison population has a history of stable employment.
- 4 out of 5 Canadian federal prisoners have a history of substance abuse.

We also know that time spent in correctional facilities exacerbates problems that contribute to reoffending.

- 1/3 of UK prisoners lose their house while serving their sentence.
- More than 2/5 lose contact with family members while in jail.

# Key Activities for Governments

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<tr>
<td><strong>MONITORING IMPLEMENTATION FIDELITY AND OVERSIGHT BODIES</strong></td>
<td>If funders monitor whether service providers are effectively using proven interventions, they can have greater confidence that improvements in client outcomes are the result of an individual provider’s efforts. External oversight bodies can play a valuable role in assessing whether practitioners are adhering to evidence-based practices.</td>
<td>To support the introduction of performance-incentive funding, California’s Administrative Office of the Courts conducts an annual survey of county-level probation departments. The survey monitors the use of evidence-based practices in offender supervision.</td>
</tr>
<tr>
<td><strong>IMPACT EVALUATION</strong></td>
<td>Funders can use a range of experimental (e.g. randomized control trials) or quasi-experimental (e.g. propensity score matching) methodologies to assess causality (see page 29).</td>
<td>The UK’s Peterborough Prison Social Impact Bond uses propensity score matching to compare the outcomes of a cohort involved in the scheme with a control group selected from administrative data.</td>
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73 California Administrative Office of the Courts, 2012, p.5
While outcomes funding is intended to achieve social impact, it can easily fall short if stakeholder incentives are not aligned. Our interviews with service providers and evaluation specialists highlighted a number of common problems:

1. Gaming

Linking provider payments to narrow, easy-to-measure outcomes targets can create perverse incentives that compromise the effectiveness of support services. The most common are:

A. CLIENT SELECTION BIAS
Service delivery organizations are incentivized to accept clients who are more likely to achieve outcome targets (e.g., an employment support provider with a preference for job seekers with relatively few barriers to employment).

B. “PARKING” OR REFERRING DIFFICULT CASES
Service providers are incentivized to devote greater energy and resources to those clients who are most accepting of help or easiest to assist (e.g., an offender rehabilitation scheme may not persist in offering support if clients are uncooperative). Equally, they may simply refer difficult cases to other providers, irrespective of whether the alternative provider is better placed to assist.

2. Harmful targets
All too often in outcomes funding arrangements, it is governments that define what constitutes a successful outcome. But, as Sherri Torjman observes, “sometimes the outcomes that governments desire may not produce productive results for participants.”

In employment services, for instance, payment-for-performance arrangements typically reward providers for ensuring clients gain and retain employment. The problem here, as Torjman again notes, is that:

It is assumed that if [clients] leave the program, they will have escaped poverty and their lives will improve. The reality is that many people are worse off than before.

A number of the employment service providers interviewed in this study raised concerns over the pressure to place individuals “in any job” as quickly as possible, regardless of its prospects. Deskilling can cause “ripple effects” that impact everything from a person’s mental health to long-term earning potential.

3. An unfair risk burden
The administration of outcomes funding arrangements can place a heavy burden on small, specialist providers, compromising their ability to maintain existing levels of service.

Under the Ontario Disability Support Program, for instance, the job retention payments that service delivery organizations earn are based in part on clients reporting their monthly earnings to providers. But many fail to do so.

We encountered numerous anecdotes of service providers being unable to collect outcome payments because clients refused to cooperate with the reporting system (many clients did not want the “stigma” of continued association with employment support services).

74 Palameta et al., 2013.
75 Torjman, 2013, p.2.
76 Ibid.
77 Problem encountered with both ODSP Income Support clients and ODSP non-Income Support clients, albeit with the latter group posing more reporting challenges.
Key Activities for Governments

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<tr>
<td><strong>ANTI-GAMING MEASURES: Outcome payment design</strong></td>
<td>There are a range of strategies governments can adopt to reduce the likelihood that service providers will resort to gaming. These include: » Paying service delivery organizations on the basis of cohort rather than individual outcomes » Offering service providers higher payments for success in more complex cases » Using multiple outcome measures to keep service providers focused on overall program objectives</td>
<td>In the UK’s Peterborough Prison Social Impact Bond, outcome payments are based on the number of reconviction events among an entire cohort of released offenders, irrespective of whether they use support services. Evidence suggests this not only minimizes selection bias but incentivizes providers to persevere with difficult clients. One provider, for instance, was found to be delivering a proactive “Meet at the Gates” service for every client, regardless of whether it was requested.78</td>
</tr>
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78 Helbitz et al., 2011, p.16.

79 Finn, 2011, p.36.

80 Vera Institute of Justice, 2012, p.15

81 Palameta et al., 2013, p.10.

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<tr>
<td><strong>ANTI-GAMING MEASURES: Risk sharing and capacity building</strong></td>
<td>Easing pressure on service delivery organizations is also likely to reduce attempts to game the system. Options include: » Using a mixed funding model where only a portion of core funding is dependent on achieving predetermined outcomes » Building provider capacity by improving access to location-specific advice on interventions that are proven to improve client outcomes</td>
<td>The British Columbia Employment Program uses a mixed funding model. Alongside outcome payments, service delivery organizations are also eligible to receive a “fixed operating fee” to cover overheads, a “variable service fee” for case management, and reimbursements for any additional “financial supports and purchased services” given to jobseekers.81</td>
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81 Palameta et al., 2013, p.10.

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<tr>
<td><strong>CO-DESIGNED METRICS AND MONITORING SYSTEMS</strong></td>
<td>Broad stakeholder input—from service providers to service users—on the development of outcomes measures and monitoring systems offers a number of advantages, namely: » Minimizing the risk of unforeseen perverse incentives » Helping identify potential unreasonable burdens on specialist service providers » Creating a shared vision of the overall objectives of support services » Building trust and buy-in among service providers</td>
<td>During the pilot phase of the UK’s Drug and Alcohol Program, a draft outcomes framework was developed by a Co-design Group (comprised of representatives from central government departments, local practitioners, and invited experts) and refined following broader consultation with the treatment and recovery sector.</td>
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Once governments work with external stakeholders to create an enabling environment, outcomes funding has every chance of driving improvements in, and increasing the cost-effectiveness of, frontline services.
Global interest in outcomes funding continues to gather momentum. Governments are embracing this alternative payment system—in a variety of forms—as a means of driving public sector reform efforts.

This trend has wide-ranging implications for governments and service providers alike. Introducing outcomes funding is no easy task and requires considerable capacity building. The impulse to use this payment system to solve an increasing range of social problems—from persistent reoffending to homelessness—should be accompanied by an equally strong commitment to making the organizational changes needed for outcomes funding to succeed.

These key conditions for success are:

1. Establishing baselines
   Outcomes funding is often praised as an important catalyst for impact evaluation. Too often, however, governments introduce impact evaluation at the same time that they roll out outcomes funding. As a consequence, it becomes near impossible to assess whether this new payment system is successful or even appropriate in different service delivery areas. There are no baselines available.

   Clarifying program objectives and gathering baseline data on program performance is an important precondition to introducing outcomes funding. Governments currently devote billions of dollars to alleviating social problems without tracking the impact of interventions on the lives of those using support services. At best, performance is measured through input or activity-based indicators.

   Time must be spent selecting outcomes metrics that are aligned with the goals of social programs, mining existing administrative systems, and working with service providers to collect any new data required. Only then will governments have a baseline with which to evaluate the effectiveness of outcomes funding and only then will service providers have an understanding of whether practices need to change in order to achieve outcomes targets.

2. Strengthening stakeholder capacity
   Governments also need to examine whether they have the organizational capacity to implement outcomes funding and put in place the necessary support where gaps are identified. Shortages of in-house evaluation specialists and a lack of independent organizations that offer advice on evidence-based interventions are challenges many governments face.

   Additionally, in many social policy domains, the majority of services are delivered by a multitude of small, specialist providers who often lack the expertise and financial resources to undertake impact measurement or adapt their practices to meet outcomes targets.

82 Liebman and Sellman, 2013, p.6.
This report has identified a range of support infrastructure that can assist both governments and external service delivery organizations. Independent “what works” institutes can play a valuable role in synthesizing and disseminating location-appropriate advice on proven interventions. Similarly, technical assistance labs can offer training, guidance or aggregate-level outcomes data that supports impact evaluation.

3. System-level coordination

Outcomes funding is unlikely to be effective if superimposed on an uncoordinated system. This report has outlined multiple areas where greater cross-agency and inter-governmental coordination is needed before outcomes-based payment systems are used.

Necessary actions include the sharing of both financial data (to calculate current spending on social problems) and client data (to identify target populations and understand their needs). It is also vital to ensure that stakeholder incentives are aligned by creating joint investment agreements (that enable funders to pay for services that would otherwise be financially unviable) and that procurement and funding arrangements are streamlined (to avoid double payments and free rider problems).

Once governments work with external stakeholders to create an enabling environment, outcomes funding has every chance of driving improvements in, and increasing the cost-effectiveness of, frontline services.
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None declared.
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