Driving social outcomes through new financial tools

AUGUST 2016

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The Challenge to Social Spending
The federal and provincial governments spend billions without knowing the impact of that money

“Despite decades of efforts and trillions of dollars in spending, rigorous evaluations typically find that around 75 percent of programs or practices that are intended to help people do better at school or at work have little or no effect.”

*(NY Times, Evidenced-based policy in US)*
Paying for Outcomes
## Paying for Outcomes: Contrasted with Current Expenditure Practices

<table>
<thead>
<tr>
<th></th>
<th>Activities-Based Gs&amp;Cs</th>
<th>Pay-for-Success Gs&amp;Cs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pay when...</strong></td>
<td>Program needs capital</td>
<td>Program reports on outcomes</td>
</tr>
<tr>
<td><strong>Payment contingent on...</strong></td>
<td>Activities completed</td>
<td>Degree to which outcome targets met</td>
</tr>
<tr>
<td><strong>Designed to...</strong></td>
<td>Complete activities or meet output targets (e.g. number of people spoken to)</td>
<td>Meet outcome targets (e.g. average blood pressure change)</td>
</tr>
<tr>
<td><strong>Payments set by...</strong></td>
<td>Size of program budget</td>
<td>Social and economic value of outcome targets</td>
</tr>
<tr>
<td><strong>Risk appropriation</strong></td>
<td>Government assumes all implementation and outcome risk</td>
<td>Government shares/transfers implementation and outcome risk</td>
</tr>
</tbody>
</table>
An example: The Heart and Stroke/PHAC pay-for-success contract spurred partnership to condition funding on outcomes.
HSF PFS contract will pay if blood pressure falls or stabilizes

Possible Blood Pressure Outcomes

- **Outcome Scenario #1**: Above Range, \( x \leq -2 \)
  - Decrease in blood pressure
- **Outcome Scenario #2**: Within Range, \(-2 < x < 2\)
  - No change in blood pressure
- **Outcome Scenario #3**: Below Range, \(2 \leq x < 3\)
  - Slight increase in blood pressure
- **Outcome Scenario #4**: Fail, \(3 \leq x\)
  - Normal increase in blood pressure

The Public Health Agency of Canada will pay investors based primarily on Heart and Stroke’s success in shifting the blood pressure trajectory.
Why did the Public Health Agency of Canada decide to pay on outcomes?

**Pay-for-success contract**

- **Funding**: Money
- **Metric**: Blood pressure before and after
- **Outcome**: Stabilized or reduced blood pressure
- **Policy Goal**: Reduced risk of chronic disease

**Activities-based contract**

- **Funding**: Money
- **Metric**: Hours of education on healthy living
- **Outcome**: Stabilized or reduced blood pressure
- **Policy Goal**: Reduced risk of chronic disease
The Case for a National Outcomes Fund
An outcomes fund lets government pay for outcomes without starting each contract from scratch.

Pay for success fund

- Youth employment
- Newcomer employment
- Homelessness
- Housing

- Service provider 1
- Service provider 3 & Service provider 4
- Service provider 5 & Investor partner
- Service provider 1
- Service provider 6

Independent evaluator
Example: The UK’s DWP Innovation Fund contracted 10 programs on outcomes

The UK’s Department of Work and Pensions Innovation Fund targeted vulnerable youth, especially youth not in education, training or employment.

<table>
<thead>
<tr>
<th>Nature of Outcome</th>
<th>Maximum Price of Outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improved attitude towards school</td>
<td>£700</td>
</tr>
<tr>
<td>Improved behaviour</td>
<td>£1300</td>
</tr>
<tr>
<td>Improved attendance</td>
<td>£1400</td>
</tr>
<tr>
<td>Entry Level Qualification</td>
<td>£900</td>
</tr>
<tr>
<td>NVQ level 1 or equivalent</td>
<td>£1100</td>
</tr>
<tr>
<td>NVQ level 2 or equivalent</td>
<td>£3300</td>
</tr>
<tr>
<td>NVQ level 3 or equivalent</td>
<td>£5100</td>
</tr>
<tr>
<td>Entry into employment</td>
<td>£3500</td>
</tr>
<tr>
<td>Sustained Employment</td>
<td>£2000</td>
</tr>
</tbody>
</table>
An outcomes fund can take some of the complication out of pay-for-success

Departmental Innovation

- Health Dept.
  - Foster buy-in
  - Review terms and conditions
  - Write custom contracts

- Education Dept.
  - Foster buy-in
  - Review terms and conditions
  - Write custom contracts

- Justice Dept.
  - Foster buy-in
  - Review terms and conditions
  - Write custom contracts

Service Provider
Investors

System Innovation

Outcomes Fund

- Government leadership already sold on tying payment to outcomes
- Fund’s terms and conditions structured to facilitate payment on outcomes
- Fund’s team uses standard contracts developed out of experience

A mix of service providers
A mix of investors
A Canadian outcomes fund could finance solutions to a suite of social problems

A cross-cutting outcomes fund aimed at prevention

<table>
<thead>
<tr>
<th>Problem</th>
<th>Health</th>
<th>Crime</th>
<th>Homelessness</th>
<th>Children in State Care</th>
</tr>
</thead>
<tbody>
<tr>
<td>Too many people suffer from preventable chronic diseases</td>
<td>Too many youth commit crimes and spend time in prison</td>
<td>Too many people spend years of their lives homeless</td>
<td>Too many children live in foster care</td>
<td></td>
</tr>
<tr>
<td>Community Hypertension Prevention Initiative</td>
<td>Stop Now and Plan</td>
<td>Housing First</td>
<td>Nurse-Family Partnership</td>
<td></td>
</tr>
</tbody>
</table>

**Possible Solution**

**Challenge**

Effective programs cannot secure enough money to meet the need

**An Outcomes Fund’s Role**

By focusing on evidence and outcomes, an outcomes fund would concentrate money on effective programs. Because it transfers the financial risk of failure to investors, an outcomes fund could take the risks required to scale even an effective program to new places and populations.