

BEECK CENTER

FUNDING FOR RESULTS:
How Governments Can Pay for Outcomes



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The Beeck Center for Social Impact & Innovation at Georgetown University inspires and prepares students, faculty, and global cross-sector leaders to generate and innovate solution-based social change locally and internationally. The Center promotes collaborative spaces for fostering innovation and provides experiential opportunities to pragmatically impact the social sector.

Designing Policy for Impact at the Beeck Center seeks to help government, social sector, and philanthropy leaders reimagine how they can align incentives to improve systems and achieve better results in the social sector. This report presents how governments are achieving outcomes and having an impact. Public sector leaders are increasingly recognizing that innovative approaches can enable new solutions and dramatically improve results. This project highlights how outcomes-focused public policies, innovative social service delivery models, and good leadership are disrupting the current system and affecting transformative change.

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Introduction

Funding for 21st century solutions. Around the world and across levels of government, policymakers use grants and contracts to deploy public dollars to accomplish a broad range of goals. The U.S. government, the world’s largest purchaser of goods and services, distributed in Fiscal Year 2013 alone, over \$500 billion in contracts¹ and \$546 billion in grants to state and local governments.² State and local governments allocated many billions more. In the social services sector, these funds are used to restore wetlands, tackle veteran homelessness, care for aging seniors, improve education, and address other critical policy issues.³ These programs, while critical, have met varying degrees of success. As governments continue to search for the best ways to achieve real impact, there is an opportunity to inform the design of programs and incentivize certain provider and participant behavior to attain maximum results. Many of these grants and contracts have long been structured in a similar way: They pay for promised activity and effort. However, governments at every level increasingly see an urgent need to identify and pay for desired outcomes, and not to pay for effort only. Across the nation and globally, effective “outcomes-based” grant and contract models are now emerging. When implemented effectively, payment structures based on successfully meeting stated outcomes can dramatically increase efficiency, significantly lower costs, and have a profound impact on program success. Redefining how government funding is distributed has the potential to profoundly impact service delivery and further drive policy goals.

The focus on achieving outcomes is not new to procurement. Many kinds of contracts, such as those used in construction, have included easily defined outcomes along with sophisticated incentive and penalty structures.⁴ It is important to recognize that government has been tracking its investments. However, much of the oversight has been focused on compliance and a prescribed process, with an emphasis on guarding against the misuse of public dollars to ensure taxpayer resources are honestly and accountably spent. Hence, government funding has largely tracked metrics focused on outputs, usually the number of people served. Few programs have measured the quality of service or the outcome achieved. In the social services sectors—healthcare, welfare, education, and economic development, in particular—paying for activity has long been the rule. This approach has been due, in part, not only to the need for fiscal compliance, but also to perceived challenges in identifying objective and measurable “successful outcomes” for social services and economic development agreements. But now, as the public sector faces increasing economic challenges and diminishing budgets, alongside a rising

demand for services, governments have developed innovative and effective ways to identify, objectively measure, and then pay for successfully achieving outcomes in social services and economic development delivery.

The focus on outcomes in delivery of social services has not come at the cost of effective oversight. While social services agreements have traditionally addressed clarity, accountability, and compliance by basing funding on delivery of outputs, increasingly we now see that the compliance and oversight process can just as effectively be aligned with outcomes-based contracts and grants—and even with reduced and streamlined oversight costs.

What is an outcomes-based agreement?

An outcomes-based agreement is a contract or grant between a funder and a service provider where payment (including extra incentives to reward increasing levels of success) and financial rewards are contingent upon the achievement of agreed and measurable outcomes. In contrast, traditional contracts and grants link funding to the completion of a set number of activities, services, or individuals served, regardless of whether or not the underlying goals and outcomes—which were the reason for the project in the first place—were achieved.

The U.S. is not alone in pursuing these models. Globally, governments are implementing innovative strategies to ensure essential programs achieve meaningful impact in communities, while also holding providers accountable for the efficient and effective use of public funds. These models are testing how to tie the payment of public funds to the attainment of desired outcomes and achieving real results. For instance, workforce development providers in Australia are paid for the number of people who obtain and remain in jobs, rather than just the

number of people who received training. These programs are changing the discussion between governments, public service providers, and private sector organizations, and transforming the distribution of public funds by defining shared goals and metrics at the outset. Grant and contract agreements are then structured with accountability measures to ensure the responsible use of public funds and the flexibility needed to yield even better and more effective results.

In the U.S., the shift from compliance to performance has received support from bipartisan leaders committed to the principles of good government. This change is taking place at all levels, with federal, state, and local governments testing new approaches. At the federal level, building on the work of the George W. Bush Administration, the Obama Administration has advanced national efforts to pursue outcomes-focused policymaking. A set of grant programs and models have been introduced—such as the Innovation Funds, Pay for Success Pilots, and, more recently, Performance Partnership Pilots and Pay for Performance measures in the Workforce Innovation and Opportunity Act. At state and local levels, performance-based contracting and Pay for Success programs are being implemented across multiple service areas. These programs are creating incentives

for providers to achieve real outcomes, develop metrics to achieve those goals, and create more transparent, data-driven public-private partnerships. Governments are discovering that reorienting funding toward outcomes can help meet the goals of responsible public stewardship—and create lasting impact in the lives of citizens and communities.

The emerging focus on outcomes. As the following case studies show, governments at the U.S. federal, state, and local levels, and across the globe, are structuring agreements to identify critical social services “outcomes” and to pay only when those outcomes are achieved. At the highest level, recent U.S. federal legislation has created new opportunities to use outcomes-based agreements that increase administrative flexibility and improve financial incentives. Performance Partnership Pilots,⁵ a provision within the Consolidated Appropriations Act of 2014, seek to improve outcomes for disconnected youth by identifying cost-effective strategies for providing services at the state, regional, local, or tribal community level.

Performance Partnership Pilots incentivize grantees to explore new and better ways to significantly improve the life outcomes of vulnerable youth by connecting them to sustainable opportunities in education, employment, and other key areas. The program will fund up to 10 pilots to address the challenges of disconnected youth: 14–24 year olds who are not working or in school, and may be homeless, in foster care, or in the justice system.⁶ To participate in the program, grantees would commit to accomplishing a set of youth-related outcomes, such as reducing youth incarceration or increasing high school graduation rates, while utilizing existing funding streams. In exchange, the federal government may significantly reduce administrative requirements and reward high performing jurisdictions with the opportunity to waive specific program-related requirements.⁷

Pay for Success:

This report looks at funding tools governments can employ to better manage social programs. In addition to the public sector-funded, outcomes-focused agreements discussed in this report, there are other innovative financing mechanisms currently driving impact in communities. For example, Pay for Success (PFS) financing models have been implemented in the U.S. and abroad in the last few years. PFS enables government agencies to pay for programs that deliver results, and is, in essence, a public-private partnership between government and an external organization. In these partnerships, the government sets a specific, objective, and measurable outcome that it wants achieved in a population and promises to pay an external organization—sometimes called an intermediary—if, and only if, the organization accomplishes the desired outcome (such as a specific reduction in asthma-based hospitalizations, teen pregnancies, or homeless populations, for example) at some future date. A third-party evaluator determines whether the outcome has been achieved. Often, external organizations turn to investors who bear the upfront cost—and therefore the risk—of achieving the targeted, successful outcome by contributing the working capital needed to implement the social services that aim to achieve the outcome. Investors are often impact investors who are incentivized by the prospect of a double bottom line return. If the agreement succeeds, the government releases an agreed-upon sum of money to the external organization, which then repays its investors with a return for taking on the upfront risk. If the agreement fails, the government is not on the hook, and the investors do not get repaid with public funds. PFS is a potentially powerful tool for policymakers to spend resources more efficiently and improve services for disadvantaged populations, even in the face of shrinking public budgets.

This program is one example of a larger shift in federal, state, and local funding toward outcomes-based agreements. While still an emerging approach, this shift in focus has enormous potential to achieve real results. By releasing funds for outcomes achieved, rather than for activities to be undertaken, federal, state, and local agencies are able to better manage and monitor the impact of public funding. And when grant recipients face fewer compliance and reporting conditions—such as is intended by the Performance Partnership Pilots—providers are able to devote more resources to delivering results and improving service delivery for target populations and individuals.

Overview of the Case Studies

This report considers five examples of outcomes-based agreements. These examples were selected from a wide survey of programs (see Appendix II), each of which focused on outcomes, to varying degrees. The selected cases provide a diverse set of examples that vary by policy area, composition of recipient populations, service provider types, complexity, and geography. They were also selected based on the availability of information, including access to contracts and agreement documentation, reported metrics and/or outcomes, points of contact for interviews, and multiple accounts of the case.

Australian Employment Services

The Australian government transformed its provision of employment services from a public system to a private one using outcomes-based agreements. Starting in 1998, Australia began paying non-governmental employment services providers based on job training services provided and placement in sustainable employment. Each service provider was given an incentive to link job training with real jobs, creating a competitive market of providers, reducing costs, and producing results for those seeking services. Between 1995 and 2005, the cost to place each job seeker dropped from \$16,000 to just \$3,500, while employment outcomes for the most disadvantaged improved by 55%, rising from 15% in 2009 to 23.6% by 2014.⁸ Additionally, by incorporating performance evaluations into contract renewal and consolidating social services, Australia improved the quality and effectiveness of its employment service providers and developed an outcomes-based approach that has so far withstood the test of time and changing administrations.

United Kingdom Local Area Agreements

This case highlights the importance of creating effective contract negotiation processes between governments and service providers to help clarify policy priorities and establish the trust needed between parties to reduce administrative and reporting burdens. By simplifying national funding streams, the U.K. central government was able to grant greater flexibility to local governments while continuing to drive national priorities. In the 1990s, the U.K. reformed the funding relationship between national and local governments through outcomes-based agreements. U.K. leaders agreed to pool £5 billion in national, specific-purpose government grants to fund outcomes-focused Local Area Agreements (LAAs). Through LAAs, governments at the national and local level negotiated a set of 35 outcomes (selected from a national list of 198) for each participating local government. If local governments successfully achieved these outcomes, they received reward payments. Although the program ended with a change of government in 2010, the results were promising, as performance improved against the baseline within many LAAs. Of the 150 LAAs signed in 2008, 92 local authorities received a performance reward grant, meaning they had improved performance toward target outcomes by at least 60%.⁹

How to use this report. This report is intended to serve as a resource for leaders in government, philanthropy, and the social sector interested in funding, structuring, and/or implementing outcomes-based agreements. The report presents case studies of outcomes-focused social services agreements implemented at varying levels of governments and across multiple delivery systems. The case studies offer lessons learned and present the wide spectrum of design choices available to governments to implement outcome-based policies. Most importantly, this report highlights the enormous potential of how outcomes-focused policies can effectively help advance social and economic goals.

U.S. Medicaid Accountable Care Organizations

Three states in the U.S. – Colorado, Oregon, and Minnesota – have reduced costs and improved quality of care for Medicaid beneficiaries by implementing Accountable Care Organizations (ACOs). An ACO is a network of doctors and hospitals that shares financial and medical responsibility for providing coordinated care to patients in hopes of limiting unnecessary spending. Colorado, Oregon, and Minnesota state governments have created effective incentives to pay ACOs for achieving improved healthcare outcomes, rather than for the number of services provided or people served. Early results show that Medicaid ACOs in these states have helped control costs and have vastly improved the delivery of care. This case provides insight into how governments have gradually introduced healthcare providers to risk, augmented successful aspects of the system, and set up data systems to achieve better results without increasing the burden on providers.

Tennessee Department of Children's Services Performance Based Contracting

Tennessee transformed its child welfare system by setting clear, outcomes-based goals to better serve the children in its care. By focusing on and paying for simple, clear measures, the State of Tennessee directed the entire child welfare ecosystem to accomplish a single goal: moving children into permanent homes more quickly. In the wake of a child welfare crisis in 2006, Tennessee adopted an outcomes-based agreement model to reduce the amount of time taken to place children in permanent homes. Providers that improve on baseline performance receive a share of the state's savings, and those that perform below the baseline reimburse the state for cost overages. Once fully implemented by 2010, Tennessee's new model nearly cut in half the average time a child spends in temporary care from over 22 months to just 14 months. By engaging all stakeholders and introducing clear measures and transparent incentives to change behavior, Tennessee has transformed a public system and improved the lives of children.

Australian National Partnership Agreements

This case demonstrates how leadership support in government can be an essential start to building momentum for outcomes-focused policy. Following concerns about national competitiveness, Australia used outcomes-based agreements to revamp the way its federal and state governments work together to achieve national priorities. National Partnership Agreements, outcomes-focused agreements between the national and state governments, offer Australian states streamlined funding and the potential for reward payments in exchange for reaching pre-negotiated goals. A government progress report indicated the program had mixed results overall, but achieved noticeable improvements in areas such as health and education. Australia's experience with intergovernmental agreements shows how specifying data sources and payment methodologies, and potentially contracting a third party evaluator, can reduce controversy.

Exploring Outcomes-Based Agreements

While outcomes-based agreements offer tremendous potential for simplifying and improving how governments achieve a broad range of social outcomes, we do not yet have extensive experience and models across all social services sectors. Accordingly, a clear, up-front analysis and discussion will help policymakers evaluate what is most needed from any particular proposed use of an outcomes-based agreement.

There are many specific design choices available to policymakers as they prepare to implement outcomes-based agreements, such as the survey of design choices presented below, but first there are contextual considerations to help guide government decision makers in discerning whether these tools are best-suited for the problem or set of problems they are seeking to address. The following questions can help government leaders and policymakers think about how best to understand and deploy outcomes-based agreements as an effective tool to transform service delivery and achieve outcomes.

- **What outcome is the policy hoping to achieve?** Outcomes-based agreements are most promising when governments are more invested in achieving a goal than in the process or method used to achieve that goal. Clarity of policy goals and desired social outcomes will maximize the potential for success of any agreement. Government should seek to establish a shared understanding of these at the outset of partnerships.
- **How can current reporting requirements be streamlined?** As funding agreements shift from a focus on compliance to outcomes, some existing reporting requirements may no longer be necessary or useful. Outcomes-based agreements may require government reform of reporting mechanisms to reduce administrative burdens on providers and maintain oversight through new interim measures. Shifting reporting requirements will also require a shift in mindset. Government should seek opportunities to retrain government and provider staff alike, from contracting officers and acquisition staff to frontline case managers.
- **Is there political and community engagement?** Implementing outcomes-based agreements may create changes in the current marketplace. For example, some service providers may no longer meet the requirements or certifications required to continue to provide services, and as a result, other providers may gain market share. It may also mean that organizational structures and roles

will change. While important considerations, these challenges can be overcome with strong government and community support, thoughtful engagement of all stakeholders, and political will. This support can be developed through a strong business case and strategy for managing change over time.

- **Can the program evolve over time?** Shifting a public service delivery system toward outcomes-based agreements may need to occur in stages, as both government and providers adjust to new risks and discover more efficient working methods. External macro factors, such as the health of the economy, or internal factors, such as complementary government efforts, may require program managers to evaluate and refine programs over time. A willingness to constantly learn and evolve can be a crucial determinant of a program's success and sustainability.
- **What is the capacity for evaluation?** There are many different approaches governments can take to measure and evaluate outcomes-based agreements. Governments must consider data infrastructure, provider capacity, funding, and whether or not certain outcomes are measurable when designing an evaluation program. Policymakers should also weigh the costs and benefits of using thorough, time-intensive evaluation tools against the need to establish a causal link between programs and outcomes.

These questions serve as an initial guide for program managers and decision makers to determine whether and in what format an outcomes-based agreement would and could be an appropriate solution for the issue at hand. Outcomes-based agreements can offer an attractive alternative to traditional grants and government agreements. As illustrated through the five case studies, outcomes-based agreements have the potential to more effectively achieve mission outcomes, transforming lives as well as the delivery models used to serve vulnerable populations. In addition to directly impacting constituents and communities, outcomes-based agreements can also reduce administrative burdens and costs, strengthen relationships between public and private organizations, and create more fiscally sustainable models for delivering services.

Building A Successful Foundation

As governments continue to shift toward a greater focus on outcomes and transform grant programs to outcomes-based agreements, they will need to do at least three things differently: (1) negotiate with funding recipients and manage stakeholder relationships; (2) develop effective and clear outcomes and incentives; and (3) measure and evaluate provider performance.

Each pillar of outcomes-based agreements—categorized as negotiations and relationships, outcomes and incentives, and data and evaluation—should continually inform and shape the others. A successful framework for outcomes-based agreements provides a constant and evolving feedback loop between these three pillars—while always maintaining a clear focus on identifying and agreeing upon objective, measurable outcomes, which, if achieved, would effectively implement the program’s critical goals.

In a successful implementation, outcomes are established at the outset of an agreement, based on policy goals and the best available information. As the agreement is implemented, measurement and evaluation provide insights about the efficacy of the agreement. Agreements are modified and improved to match new data and changing environments. The relationships and negotiation process developed at the outset of the agreement will impact how easily government can modify agreements to reframe outcomes or processes. Renegotiating outcomes requires new information and potentially new data or measurement techniques—and creates an opportunity to apply lessons learned. These are a few examples of the ways negotiations and relationships, outcomes and incentives, and measurement and evaluation should guide one another in a continuous feedback loop throughout implementation.

Governments must recognize the importance of these three pillars and remain open to ongoing learning to improve agreements and achieve sustainable impact. The case studies provide examples of how governments have succeeded and struggled with each pillar. The following section highlights lessons learned for successfully implementing outcomes-based agreements. For a complete list of lessons learned, see Appendix III.

NEGOTIATION AND RELATIONSHIPS. Moving service delivery systems toward an outcomes framework requires more than just payments. Governments should engage stakeholders across the system to establish and understand desired outcomes at the onset of the agreement, and continue to engage stakeholders over time to achieve desired goals.

- **Transparency and trust help pave the way for successful agreements.** Taking early steps to build trust and transparency between funders and providers can help improve the agreement's effectiveness and resiliency. When trust and transparency are not well established, governments may be more apt to re-introduce a focus on compliance and providers may lose sight of achieving outcomes or be unsure of what success entails.
- **A refined focus on clear goals can help galvanize support for change.** While change can create disruption and uncertainty, framing the transformation in terms of a simple, mission-focused goal can motivate stakeholders to initiate changes, as well as avert potential pushback.
- **Leadership support is a first step, but not a finish line.** Not just leaders, but participants at all levels, should feel committed to an outcomes-based approach. Managers and employees, both within the funding agency and the provider organizations, should feel they have an invested stake in the agreement. This level of engagement is necessary to catalyze a change in work culture at the ground level and encourage providers and funders to operate in a new environment.
- **Pilot programs and contract renewals offer opportunities for continuous improvement.** Governments can use participation criteria and eligibility requirements in pilot programs and contract renewals to test the quality of providers prior to long-term implementation. Each pilot and contract period represents an opportunity to incorporate lessons learned from the previous iteration, and allows governments and providers to achieve constant, even if incremental, progress toward improved outcomes.

OUTCOMES AND INCENTIVES. To maximize effectiveness and enable providers to focus on improvement, governments should clearly define a limited number of outcomes, design simple performance incentives, and build administrative flexibility into outcomes-based agreements.

- **Clearly linking outcomes to a prioritized goal can help providers achieve success.** While it can be tempting to include many outcomes in a single agreement, each additional outcome brings extra measurement requirements and creates new challenges. Too many outcomes can divert providers' attention and resources away from achievement of the primary policy goal. Instead, prioritizing a key goal allows governments to identify essential outcomes, more easily measure results, and effectively target resources.

- **Simple incentives are the most effective route to behavioral change.** Incentives are most effective when providers understand exactly how to earn them. Complex and opaque calculations can diminish the effect of incentives on providers' behavior. Similarly, entering into too many outcomes-based agreements with a single provider can muddle incentives and dilute a provider's focus on any one goal.
- **Administrative flexibility should be institutionalized.** In exchange for a focus on outcomes, governments should grant providers the flexibility needed to create tailored processes and improve services. Institutionalizing this flexibility by, for example, disbursing funds to a state treasury rather than the responsible state agency, helps ensure that providers and states are able to craft unique solutions to achieve outcomes.

MEASUREMENT AND EVALUATION. Effective measurement and evaluation of outcomes-based agreements is critical to promote transparency and consistency, establish administrative flexibility to ease burdens on providers, and allow agreements to evolve over time.

- **Clear, reliable data sources and methodologies are key to sustainability.** If reward payments, shared risk, and shared savings are used as incentives in the agreement, it is essential for funders and providers to understand how outcomes are measured. By making the data sources, measurement methodologies, and responsible parties explicit and transparent, governments can avoid controversy down the road.
- **Data systems that do not burden providers improve fairness and effectiveness.** It is important to ease the data burden on providers (e.g., by using centrally managed administrative data) to level the playing field for organizations with varying analytic abilities. Government provision of central and consistent data further empowers providers by equipping them with the information necessary to improve performance and the flexibility to focus on achieving outcomes, rather than complying with reporting requirements.
- **Engaging third parties can increase capacity and lend credibility to the agreement.** Government and providers should consider soliciting expertise and assistance from third parties to help manage and monitor data. Third parties can help validate data, improve the way existing data is used, and select the right balance of goals and incentives. The use of third parties for measurement

and evaluation also provides independent verification of the agreement's results and impact.

- **Adjusting baselines over time can improve performance.** The initial baseline used to measure performance may not always be the right measurement. Baselines may need to change over time in order to ensure fairness across parties, address changing external climates, or reflect and encourage improving results.
- **The performance data may not reflect all benefits.** Economic or demographic trends may result in a change in demand for services, despite improvements or failures to achieve outcomes for a particular program. This makes it especially important to select appropriate performance measurement data, set both long-term and short-term goals, and build in feedback loops so that findings can inform the design of future agreements and measurement approaches.

Moving To Implementation: Design Choices

The case studies illustrate that there is no singular approach or correct formula for outcomes-based agreements. In each example, government leaders made decisions about how to design funding mechanisms and develop custom arrangements, allowing these agreements to evolve over time. Government can and should fashion outcomes-based agreements to address unique policy priorities, service providers, and populations served. The following chart explores the key components and choices a government should consider when designing an outcomes-based agreement. It also presents examples from the case studies and other existing policies to demonstrate what each of these components could look like in practice.

Who is the agreement between?	
Government and direct service providers	Any level of government enters into an agreement with direct service providers. <i>E.g., the State of Tennessee enters into an agreement with Youth Villages, a child welfare services provider.</i>
National government and state/local government	A national government enters into an agreement with a state and/or local government. <i>E.g., the U.K. central government enters into an agreement with the City of Bristol, England.</i>
What is the funding mechanism?	
Government contract	Any level of government enters into a contract with a private/non-profit service provider to procure services in exchange for government funds. <i>E.g., the State of Minnesota enters into a contract with a group of healthcare providers to deliver services to Medicaid patients.</i>
Grant agreement	A higher level of government distributes funds to a lower level of government in exchange for services or projects. <i>E.g., the U.K. central government provides grants to a local area for trash collection services.</i>
Intergovernmental agreement	An agreement between different governments that outlines specific roles and responsibilities. <i>E.g., the Australian federal government and State of South Australia agree on the roles, responsibilities, and financial support each entity will contribute to improve high school graduation rates.</i>

How can incentives and penalties be used to drive performance?

Shared savings and risk	<p>If the providing party of the agreement delivers under budget, it shares a defined percentage of financial savings with the government. However, if it delivers over budget, it pays a defined percentage of the costs.</p> <p><i>E.g., child welfare services providers in Tennessee share in cost savings with the state if they reduce the number of days children spend in state care. If the child welfare services provider comes out over budget without improved outcomes, it is responsible to the state for a portion of the cost.</i></p>
Reward payments	<p>A government provides a financial reward to the providing party for meeting or exceeding pre-defined performance targets.</p> <p><i>E.g., an Accountable Care Organization receives a financial reward for reducing the number of emergency room visits in its Medicaid population within a designated timeframe.</i></p>
Administrative flexibility	<p>A government offers the providing party flexibility to craft agreement implementation plans and requires less reporting and paperwork. In exchange, providers are expected to focus efforts and resources on delivering designated outcomes.</p> <p><i>E.g., the U.K. central government pools funding from multiple sources into one Local Area Agreement, reducing the local governments' reporting requirements while increasing accountability for outcomes.</i></p>
Business growth	<p>If a providing party achieves the designated outcomes, it stands to gain a greater share of future business and potential earnings in the sector, thus successful achievement of outcomes correlates with an increased market share.</p> <p><i>E.g., an employment services provider in Australia performs well and, in return, receives a greater share of unemployed job seekers needing assistance.</i></p>

How can results be measured?

Comparative (time)	<p>A government designates a baseline year and dataset for a particular measure, then compares program results to baseline data through statistical analysis. Baseline measures help determine whether outcomes were achieved as a direct result of the program.</p> <p><i>E.g., Australia gives reward payments, in part, based on whether improvements were significant enough to provide statistical confidence that the targets achieved resulted from performance improvements rather than external trends.</i></p>
Comparative (geography)	<p>A government uses statistical analysis to compare service areas with a control region or population. This comparison helps determine whether outcomes occurred as the result of an outcomes-based agreement, or were due to economic or demographic trends. It also helps prevent penalization of providers for broader, uncontrollable trends.</p> <p><i>E.g., a government compares the change in the unemployment rate in one neighborhood served by an employment services provider to that of neighborhoods with similar demographics not served by the provider.</i></p>
Randomized Controlled Trials (RCT)	<p>A government requires providers to conduct Randomized Control Trials (RCTs), in which randomly chosen participants receive an intervention and randomly chosen participants do not.</p> <p><i>E.g., a healthcare provider randomly assigns participants into two groups, with only one group receiving a nutritional regimen. The results are compared across the two groups to test the efficacy of the nutritional regimen.</i></p>

The key components listed above can be combined in many different ways to create a diverse set of potential models for governments. Policymakers and government leaders should also consider numerous other factors, such as the size of an incentive, the nature of participation (mandatory or optional), the ability and desire to scale the program, the type of outcome being measured, and the appropriate level of risk to place on service providers. For example, policymakers can create low-level risk for agreement participants by withholding only a small fraction of payments for performance rewards, or introduce significant risk by allotting a larger percentage of payments for performance rewards. Risk level can also be carefully modified over time by gradually increasing the percentage of payments used for performance rewards. Regardless of the chosen design, the success of a program is critically related to whether or not governments allow agreement components to evolve over time and respond to changing marketplaces, populations, and political environments. The impact and considerations surrounding these design choice components are discussed in greater detail throughout the report.

A Closer Look

The implementation lessons discussed here were distilled from five different experiences across governments within the U.S. and abroad. While many of these lessons can be seen across more than one case, each example has its own unique set of challenges and successes. The following five case studies provide context for these lessons by highlighting the design choices of the funding government, describing the evolution of the agreement, and drawing out key lessons from each experience.

Australian Employment Services

AUSTRALIA, 1998 – PRESENT

In 1998, Australia replaced its government-run employment services system with a competitive market of private providers. Under the new system, non-governmental employment services providers are paid for successfully placing job seekers into sustainable employment, rather than for the act of providing services. Between 1995 and 2005, the cost to place each job seeker dropped from \$16,000 to just \$3,500, while overall placements increased.

Tackling rising unemployment. Beginning in the 1970s, Australia—along with many other Organization for Economic Co-operation and Development (OECD) countries—faced sharp, cyclical unemployment. As the number of long-term unemployed increased, government-run employment services struggled to help job seekers find stable employment. Between 1970 and 1980, the unemployment rate tripled from approximately 2% to over 6%.¹ It continued to climb in the following decades to 10% in 1980 and 11% in 1993.² Meanwhile, the long-term unemployment rate was also rising, peaking in 1993 at 37%.³ While the unemployment rate began to decline after 1993, the percentage of individuals dependent on government benefits soared to 24.9% in 1996.⁴

At the time, employment programs and benefits payments were managed by separate national government departments—the Commonwealth Employment Service and the Department of Social Security, respectively. Each had its own separate network of community-based service delivery offices. Lack of integration limited these

MODEL TYPE	Contracts
PARTICIPATION	Between the Australian Department of Employment and private for-profit or non-profit employment services providers.
TARGET OUTCOMES	Sustainable job placements measured at 13 and 26 weeks of employment.
INCENTIVES	Outcomes payments and the ability to earn a larger share of the provider market.
PROVIDER RISK LEVEL	High for providers, who may go out of business if unable to achieve enough outcomes.

programs’ effectiveness and resulted in duplicate processes and multiple points of access for those seeking benefits.⁵

By the early 1990s, many of the shortcomings of Australia’s existing employment services programs were well documented. The programs emphasized compliance over results, were highly complex, and lacked the flexibility to address job seekers’ unique needs.⁶ For example, a 1993 evaluation of the SkillShare program, a community-based

vocational training service, found that the program’s compliance guidelines actually directed resources away from effective assistance in some instances.⁷ Attempts to address these issues in the early and mid-1990s achieved only limited success, and unemployment remained a hot-button issue in the 1996 election.

Unparalleled reform in government contracting.

In May 1998, a newly-elected Liberal/National coalition government replaced the Commonwealth Employment Service with the Job Network. While most other OECD countries deliver employment services through publicly managed agencies, Australia completely outsources employment services through an outcomes-based contracting model.⁸ The first iteration of this model, the Job Network, established a competitive market for employment services by changing the way funding is distributed to providers. Private for-profit and non-profit organizations are paid through a combination of upfront funds and post-outcome payments, allowing providers greater discretion over customized service delivery to fit job seeker needs.

Over time, the Australian government has reformed and rebranded the employment assistance system to streamline and centralize government services. The original implementation of the Job Network consolidated the entry points to government benefits programs into a one-stop-shop delivery agency known as Centrelink. Centrelink created local offices to act as a “gateway” for all people seeking to obtain publicly financed social services, centralizing and linking previously disconnected programs.⁹ In 2009, the Job Network became Job Services Australia, which created a more seamless pathway to employment by integrating the Job Network with six other separate employment programs focused on issues such as disadvantaged youth, homelessness, mental illness, and drug and alcohol dependency.¹⁰

By 2009, nearly all federal employment services—which totaled approximately \$2.1 billion in annual spending and served roughly 700,000 people at any given time¹¹—were outsourced and regulated through outcomes-based contracting and performance arrangements.¹² Job Services Australia is currently being rebranded for the 2015–2020 contracts. Throughout the program’s

	Commonwealth Employment Service	Employment Services Contracts
EMPLOYMENT SERVICE DELIVERY	Entirely run by the government, with separate ‘specialist’ employment services programs addressing specific issues, such as disadvantaged youth, and older disadvantaged cohorts, such as the homeless and mentally ill. Specialist services were not integrated with the primary employment services delivery program.	Employment services are competitively contracted out to for-profit and non-profit providers, consolidating separate programs into one streamlined service.
FUNDING	Contingent on managing unemployed job seekers back into employment.	Contingent on service fees and the achievement of desired outcomes, e.g., sustainable job placement measured at 13 and 26 weeks, with funding more heavily weighted to the most disadvantaged and long-term unemployed.

evolution, the system's fundamental focus on paying for outcomes rather than for compliance has not changed.

Placing more disadvantaged job seekers for half the cost. By incentivizing providers to achieve specific goals, the outcomes-based Australian system has delivered better outcomes for half the cost of the previous system. In the previous system, the cost per employment outcome, calculated from the department's Post Programme Monitoring survey of job seekers, was approximately \$8,000 between 1991 and 1994, rising to just under \$16,000 between 1995 and 1996. After the introduction of the new model, cost per employment fell to \$3,500 by 2005, while the overall number of placements increased. A 2010 study analyzing impact across communities found that net employment outcomes for job seekers were "strong in both areas of high and low unemployment."¹³ In the latest iteration of the model, employment outcomes for the most disadvantaged improved by 55%, rising from 15% in 2009 to 23.6% by 2014.¹⁴ Since implementation of the outcomes-based model, Australia has reduced unemployment from 11% to 5%, maintained lower levels of unemployment compared to most OECD countries, and avoided large unemployment spikes such as those experienced elsewhere in the world during the 1980s and 1990s.¹⁵ However, implementation of the new employment services model also coincided with the longest growth period Australia has ever experienced, and more recently Australia's unemployment rate has begun to creep upwards, with current unemployment standing at 6.1%.¹⁶

Focusing on job placements and long-term employment. Throughout its various iterations, the Australian employment services system has

focused on the clear goal of moving job seekers off unemployment benefits and into sustainable employment. Two key performance indicators are used to assess and reward all providers seeking to achieve this goal: (1) the time taken to achieve a placement or employment for a job seeker, and (2) the aggregate number of job placements and

OUTCOMES AND INCENTIVES: ADJUSTING FOR DIFFERENCES IN DEMOGRAPHICS AND GEOGRAPHY

The Department of Employment contracts with providers based on geographic service areas and allocates market share based on unemployment estimates and assessments of provider capacity. As a result, providers compete only within each geographic service area. However, all providers nationwide are rated on a five-star system for comparison at both the geographic service area and individual site level. In order to rate providers against each other in a fair and consistent manner, a regression analysis is used to account for differences in job seeker characteristics and local labor market conditions.

employment outcomes. Each key performance indicator is based on an underlying set of weighted measures that reflect the type of outcome and the level of job seeker disadvantage. The weightings are released to providers and the public.¹⁷

The clarity of these indicators and the unquestionable appeal of the goal created broad support across political and organizational lines. This has allowed the system to maintain its fundamental focus on employment outcomes despite multiple reforms and changes in government.

Selecting providers and allocating market share. In the initial Job Network contract, 306 providers were selected from over 5,300 submitted bids. Over time, the number of providers has dropped to below 100 as the competitive ratings and

contracting process have weeded out less successful service providers. Contracting rounds occur every three years and will be every five years for the next contract period beginning in 2015. The contracting periods are generally competitive,

Incentivizing performance with rewards and ratings. Two mechanisms are used to incentivize and reward providers for placing job seekers. One is based on achieving outcomes while the other measures performance relative to other providers.

OUTCOMES AND INCENTIVES: AUSTRALIA'S PAYMENT MODEL

Funding to providers in the Australian outcomes-based contracting model is spread across three types of payment tied to individual job seekers:

- Upfront service payments to fund the minimum services required by the Department of Employment for each job seeker;
- Placement payments for each job seeker successfully placed in a job; and
- Employment outcomes payments after 13 and 26 weeks of successful employment.

Each of these payments are weighted based on a set of criteria:

- Job seekers are separated into different “streams” based on their assessed level of disadvantage and work-readiness, with payments more heavily weighted to the more disadvantaged streams;
- The length of unemployment is measured, with payments more heavily weighted toward job seekers with longer periods of unemployment; and
- After a job placement, the length of employment is measured, with payments more heavily weighted as length of employment increases.

although the contracts of successful providers are sometimes “rolled over.” Contracts are made with providers for designated services areas. As the total number of job seekers varies over time, the government grants each provider a percentage of job seekers in their service area, rather than a guaranteed number of participants.

First, provider payments are tied to the provision of services (e.g., developing an employment plan and scheduling interviews), job placements, and employment outcomes. All payment calculations are based on the job seeker’s period of unemployment, the length of employment following job placement, and the job seeker’s level of disadvantage as determined by a national assessment conducted by Centrelink. The centralization of multiple social services and payments in Centrelink offices allows social benefits and employment services to be tracked in tandem. Providers receive the greatest rewards when job seekers move fully off unemployment benefits. This payment structure is designed such that unsuccessful providers cannot continue to operate without achieving an adequate number of job placements and outcomes for job seekers. Payments can also be retracted if providers are found to have consistently misreported data.

Second, providers are also assigned “star ratings” by the Department of Employment. These ratings rank providers compared to one another and to average provider performance. The rating system promotes competition and continuous improvement across providers. Star ratings are produced every three months and provide a useful metric for tracking relative performance over time. The government uses the ratings to reallocate market share from the lowest to the highest performing providers and to select high performing providers for innovative pilot programs. This incentive structure has created a competitive marketplace

and steadily increased the rate of placements over time.

Clarifying incentives and improving administrative flexibility. The payment structure in the current model is complex, with over 144 types of outcomes payments. This complexity, in addition to increasing compliance requirements for providers over time, has altered the relationship between the government and providers.

Initially, providers possessed significant flexibility. The first three-year Job Network contract utilized a “black box” approach, which focused on meeting basic obligations, making accurate payments, and verifying outcomes.¹⁸ This approach avoided any service prescriptions and had minimal data reporting requirements. However, as a result, the Department of Employment lost an ability to track what was working across providers.¹⁹

The next two contract iterations added reporting and compliance requirements, which resulted in a greater focus on provider operations, a more prescribed continuum of service, and a “command and control” style relationship between the government and providers.²⁰ As the problem shifted from a high employment rate to addressing long-term unemployment, providers complained they did not have enough flexibility to effectively serve job seekers due to increasing micromanagement by the Department of Employment.

The move to the Job Services Australia model attempted to reverse this unemployment trend by increasing flexibility for providers. To increase administrative flexibility, a Charter of Contract Management was developed to accompany the formal legal contract. The charter aims to reduce compliance burdens and more clearly set out the

responsibilities of the Department of Employment’s contract managers. These reforms signaled a new approach to partnerships between the government and providers.²¹

However, efforts to increase flexibility produced mixed results. Provider groups felt payment calculations were unnecessarily complex,²² and surveys indicated caseworkers were spending significant portions of their time on data entry

MEASUREMENT AND EVALUATION: AUSTRALIA’S MULTI-AGENCY IT SYSTEM

Providers of employment services self-report data on job seekers, which is tracked through a unified IT system. Department of Employment contract managers work with Centrelink to verify information such as benefits receipts and employment records. Spot checks of provider sites are also conducted by the Department of Employment to verify records. Over time, as the market has matured, the amount of monitoring has become more limited in terms of frequency and types of data collected.

and administrative compliance.²³ In 2013, the newly elected government responded to these issues by simplifying the number of outcomes payments, reducing many of the compliance requirements, and implementing a quality assurance framework as a means of accreditation for qualified providers.²⁴ These reforms, which are currently being finalized, will go into effect in 2015.

Additionally, to clarify how incentives work, the Department of Employment formed an Expert Reference Group that includes department officers, representative provider organizations such as Jobs Australia, the National Employment Services Association, the National New Enterprise Incentive Scheme Association, and an independent service assessment expert.²⁵ This group plays a role in the Performance Framework, which helps develop and improve performance measures and outcomes payments.

NEGOTIATION AND RELATIONSHIPS: RECONTRACTING TO DRIVE PERFORMANCE IMPROVEMENT

The Australian employment services model has undergone numerous changes over the course of five contracting phases. With each phase, enhancements have been made to the contracting model in response to issues identified in ongoing evaluations (e.g., cream-skimming, compliance requirements, etc.). Since the initial Job Network contract, the creation of new contracts has involved intensive consultation with stakeholders through each planned revision of the model and draft requests for proposals. This has allowed the Department of Employment to address emerging issues, such as perverse incentives or changing unemployment demographics, as the Australian employment services model has evolved. Despite reported issues during the transition from Job Network to Job Services Australia—which resulted in a parliamentary hearing to investigate the closure of a large number of provider organizations and associated lay-offs—the Department of Employment has been able to successfully increase employment outcomes over time through adjustments to the weighting of payments and incentives.

Promoting innovation and best practices in a competitive market. A wide range of providers are currently active in the market. Providers vary in size, degree of specialization, and for-profit and non-profit status. As a result, representative provider organizations were created to support

diverse membership and spread best practices. However, the reduction in number of providers over time prompted concerns that innovation may be stifled due to consolidation and standardization.²⁶ In response to these concerns, Australia established an Innovation Fund to conduct Demonstration Pilots to aid the development and spread of new best practices. Between 2009 and 2012, the Innovation Fund used \$41 million in competitive grants to finance 83 projects designed to help highly disadvantaged job seekers overcome multiple barriers to employment.²⁷

Following a review of the Innovation Fund, the Department of Employment implemented an additional set of Demonstration Pilots to apply and scale the lessons learned. From 2011 to 2013, the department spent \$4.7 million on 20 pilot programs to test improvement ideas, such as ways to integrate services for disadvantaged job seekers, offer mentoring, establish social enterprises, and link disadvantaged job seekers with areas of skill shortage. Interim evaluations of the pilots show that job placements were double that of a comparable group of non-pilot participants.²⁸ Only highly rated providers were eligible to apply for pilot project funding. The findings from the Demonstration Pilots will be incorporated into the design of the new employment services contract for 2015.

An integrated performance management system. Over time, the Australian employment services model developed increasingly integrated performance management systems to drive outcomes improvement. Through a unified IT system, Centrelink and the Department of Employment are able to monitor the frequency of outcomes by tracking a combination of welfare benefits receipts and provider reported information. Large providers

typically have their own front-end IT systems and record-keeping requirements, but the centralized government system is used to record all provider interactions with job seekers, claim service fees and job outcome payments, and monitor and regulate job seeker flows to providers.²⁹ However, the IT system also requires considerable dedication of caseworkers' time to input data and perform administrative tasks.³⁰ As a result, the proposed employment services contract for 2015 reduces reporting requirements for providers.

Establishing evaluation strategies to guide future reforms. Beginning with the first employment services contract, the Department of Employment released an evaluation strategy alongside the contracting process. The strategy laid out the scope of the evaluation, including the evaluation criteria, methods of performance monitoring, a list of proposed studies, and a timeline for release of the evaluations to the providers and the general public. With each reform to the contract and model, the evaluation strategy has been adjusted to reflect changes in the model. This continual evaluation and adjustment allowed the government to provide guidance that reflects lessons learned over time for subsequent contract renewals.³¹

Mitigating perverse incentives. Issues of “parking” and “cream-skimming”—when providers underserve the most disadvantaged job seekers while focusing on the most easily placed—were identified in early government evaluations of the original Job Network system. Analysis of expenditures showed that providers were deriving 70% of their income from commencement fees, which are received for taking on a new job seeker, and that there was little incentive to achieve additional outcomes.³² These issues were addressed through reforms in 2004. Commencement fees were

replaced with activity-based service fees and a pool of funding per individual that could only be used for job seeker training and support.³³ The Job Services Australia model further altered the payment structure to incentivize improved outcomes for the long-term unemployed and most disadvantaged streams.

A sustainable and flexible method of placing job seekers. One of the greatest strengths of the Australian outcomes-based employment services model is that it has been able to adapt over time while retaining its central focus on moving job seekers off benefits and into sustainable employment. Although changes have been made to contracts, the core principles of the service have remained insulated from politics. As a result, the system has been able to extract lessons from numerous evaluations and adapt to changing circumstances in the labor market. The model successfully reacted to the 2008 financial crisis, helping to alleviate some of the labor market pains felt by most other OECD countries.

The model also dramatically improved the job placement rate for a growing pool of disadvantaged and long-term unemployed job seekers. Despite initial difficulties striking a balance between flexibility, accountability, and efficiency, the Australian employment services model demonstrates how competitive recontracting and a commitment to continuous learning can enable sustainability.

Local Area Agreements

UNITED KINGDOM, 2004 – 2010

In response to increasingly restrictive local spending requirements passed by the national government, British leaders agreed to dedicate £5 billion in specific-purpose national government grants to form outcomes-focused Local Area Agreements. These agreements identified 35 performance goals for local areas across England and financially rewarded those that met targets.

A radical shift in local government funding.

Between 2004 and 2010, the United Kingdom (U.K.) national government radically simplified local government funding in England while increasing its effectiveness. The national government consolidated over £5 billion previously spread across more than 40 specific-purpose grants,¹ reduced 1,200 performance indicators to fewer than 200,² awarded £350 million in rewards for improved performance, and encouraged collaboration and partnerships at the local level.

The U.K. successfully transformed local funding by devising a program known as Local Area Agreements (LAAs). On the national scale the program was complex, with over 150 negotiated agreements, 198 measurable indicators, and a coordination process involving a range of stakeholders. While intricate at the national level, the program simplified local efforts by consolidating funding streams and focusing on outcomes over compliance.

MODEL TYPE	Intergovernmental Agreement
PARTICIPATION	Between national government agencies and partnerships of local government entities.
TARGET OUTCOMES	Sets of 35 priority outcomes, selected from a national list of 198, negotiated between the central and local governments.
INCENTIVES	Greater spending freedom, greater administrative flexibility, and reward payments.
PROVIDER RISK LEVEL	Low

Under LAAs, stakeholders at both the national and local level had to adjust how they worked together to focus on outcomes. To start, national and top-tier local governments had to reach agreement on 35 targeted outcomes per local area to measure progress. If local authorities achieved negotiated targets, they received a rewards grant from the national government. The process of negotiating and executing LAAs forced both levels of government to identify policy priorities and encouraged local organizations to collaborate in new ways to achieve outcomes.

Although LAAs created intergovernmental relationships focused on outcomes, it is unclear whether or not the program reached its full potential. In 2010, a new national coalition government rose to power and abolished the program, preventing further evaluation and evolution. Regardless, LAAs provide a clear example of how a greater focus on outcomes over compliance can be applied at a very large, intergovernmental scale.

Addressing the “humpty-dumpty effect” with LAAs.

Throughout the 1980s and 1990s, local governments in the U.K. faced increasingly restrictive requirements from the national government.

NEGOTIATION AND RELATIONSHIPS: CLARITY OF RESPONSIBILITY ACROSS LEVELS OF GOVERNMENT

Local Strategic Partnerships (LSPs): responsible for convening local public service delivery agencies, reporting on performance, and negotiating agreements.

Government Offices in the Regions: responsible for ensuring quality and cost-effectiveness of public services across a region on behalf of the national government, and for negotiating agreements.

Audit Commission: responsible for ensuring accurate and timely assessments of local services in order to improve standards.

National Government: responsible for setting national policies that reflect the needs of local areas to improve the lives of citizens, and for supporting low-performing local areas.

Driven by concerns about how to manage public sector spending and improve public services, national agencies centralized control over a range of local public services.

During this period, local governments received funding from the national government through a

combination of block grants and over 40 separate challenge grants, which were awarded for particular priorities in exchange for reporting and compliance at the local level. The volume and diversity of funding streams required local governments to report on more than 1,200 different performance indicators. The U.K. Audit Commission described this as the “humpty-dumpty effect”—local governments needed to piece together strands of national programs after they had been fractured into various agency silos.³ These administrative challenges were particularly problematic for local areas with high levels of “deprivation”—high percentages of low income populations, high unemployment or underemployment rates, poor health indicators, low educational attainment, inadequate housing, victimization, and poor environmental quality.⁴

In response to public pressure, local government reform became a priority during the 1997 general election. Following the election, the new Labour government, led by Prime Minister Tony Blair, passed several legislative reforms aimed at strengthening local authority, increasing accountability, fostering partnerships, and reducing bureaucratic barriers between national and local governments. From these reforms, Local Area Agreements emerged.

Evaluating and adjusting the program through multiple pilots. For initial pilots, the national government established public service agreements with a small number of local governments. In exchange for achieving prioritized improvement targets, local governments were offered performance rewards and simplified funding streams. Early evaluations of the pilots indicated that the agreements had improved service delivery, but identified areas of weakness to be addressed in

later iterations of the program. Some local areas continued to face difficulties reaching performance goals. Often, this was due to an inconsistent collaboration process among local stakeholders or an unclear distribution of responsibility for achieving targets.

To improve service delivery, better represent local interest in negotiations, and coordinate the delivery of community strategies, cross-sector organizations developed formalized relationships through Local Strategic Partnerships (LSPs), comprising public, private, and non-profit sector entities. LSPs had already been formed in 2001 to provide a more integrated and strategic approach to policymaking and service delivery. LSPs were required to produce local Sustainable Community Strategies articulating their problems, priorities, and aspirations, and outlining coordinated proposals in relation to four broad policy areas: Children and Young People; Safer and Stronger Communities; Healthier Communities and Older People; and Economic Development and Environment. For the second round of pilots, LSPs were institutionalized as the primary convening body and negotiator for local stakeholders. For the first time, charities and non-profits were formally included in government service delivery, giving providers on the frontline voice and influence over local strategic decisions.

Scaling the program through legislative reform. The third iteration of the Local Area Agreements program entered the piloting stage in 2003 and 2004. Local authorities were invited to apply for the pilots, and at least one Local Strategic Partnership was selected from each region. The pilot agreements, negotiated between 21 LSPs and partner organizations, increased spending

OUTCOMES AND INCENTIVES: NATIONALLY STANDARDIZED INDICATORS FOR SETTING TARGETS

The national government set targets for and tracked the outcomes it wished to incentivize using the 198 indicators that comprised the National Indicator Set. For each Local Area Agreements, national and regional governments (after consulting with Local Strategic Partnerships) negotiated 35 indicators and three-year improvement targets. The exact combination of indicators in each agreement reflected the unique conditions and priorities of local areas. Below are examples of selected performance targets from the Brighton and Hove Local Area Agreement:

- 1.2% reduction in working age people on unemployment benefits, from 12.9% to 11.7%;
- 2.6% reduction in the number of 16–18 year olds not in education, employment, or training (NEET) from 9.3% to 6.7%; and
- 3% increase in the number of vulnerable people achieving independent living, from 65% to 68%.

freedom, streamlined reporting requirements, and awarded funding for successful completion of target outcomes. After the final pilot and evaluation, a law was passed in 2007 expanding LAAs to over 150 local areas.

Under the new legislation, all 150 local government councils responsible for education were required to create LAAs and track performance against a subset of educational indicators. Local government entities receiving national government funding—such as the city council, police, and healthcare organizations—were likewise required to participate in Local Strategic Partnerships to negotiate and deliver on LAA agreements.

Using the National Indicator Set to improve performance. Regional government offices are the primary delivery bodies for national government policy in each of England’s nine regions. Local Area Agreements required regional governments to negotiate with Local Strategic Partnerships to select 35 performance improvement targets for their areas. Regional government officials then represented LSPs in negotiations with the national government. The 35 priorities and performance improvement targets were selected from and tracked against a National Indicator Set consisting of 198 indicators. Each indicator aligned with key areas of national public policy, such as educational achievement, crime reduction, and economic development.

The National Indicator Set was developed with input from national government departments and the Local Government Association.⁵ However, inconsistencies existed across the indicator set. Some indicators were outcomes-focused, others were simply process measures, and some were subject to definitional scrutiny. Such difficulties

were evidenced in a 2009 government survey, in which 81% of local officials felt the National Indicator Set did not sufficiently address local issues.⁶ Despite these challenges, 60% of the previous respondents indicated that the National Indicator Set was a useful lever for improving performance.⁷

Each indicator was defined with unique metrics largely collected via national surveys and existing data sets.⁸ However, some indicator data had to be measured locally. When local partners were responsible for reporting data toward these indicators, regional government offices and the National Audit Commission independently reviewed information.

Customized agreements for unique local priorities. Central and high-level local government representatives negotiated the set of 35 priorities for each Local Area Agreement. Each of the 35 chosen priorities was matched to an annual improvement target established in relation to available baseline data on local conditions. As a result, each area’s

	Prior Funding System	Local Area Agreements
FUNDING STREAMS FROM NATIONAL TO LOCAL GOVERNMENTS	<p>Provided through single block grants, supplemented by over 40 types of specific-purpose grants with unique sets of compliance requirements.</p> <p>Local government entities, such as police and healthcare providers, were funded separately from local governments and could not pool budget resources.</p>	<p>Provided through single block grants, supplemented by a single Local Area Agreement grant with a defined set of compliance requirements and potential reward payments for meeting targets.</p> <p>Local government entities were allowed to pool and share budget resources.</p>
COMPLIANCE REQUIREMENTS	<p>Performance on over 1,200 indicators monitored by the national government. Indicators were tracked through either local government reporting or national data collected at the local level.</p>	<p>Performance on 35 target outcomes monitored by the national government and chosen from the 198 measures in the National Indicator Set. Indicators were tracked through local data and performance reporting (audited by the national government), or through nationally collected information.</p>

policy priorities and performance targets were unique. For example, the Lewisham Local Area Agreement contained a large number of targets aimed at improving public health—such as reducing obesity and teenage pregnancy—while the less prosperous Brighton and Hove included more targets related to promoting economic development and reducing crime.

As an intermediary between national and local representatives, regional governments were often a key determinant of whether or not the LAA was successful. Regional government attempts to strike a balance between local and national priorities created some initial tension and confusion during negotiations.⁹ As a result, trust between Local Strategic Partnerships and regional government offices varied, and the efficacy of negotiations largely depended on whether local partnerships viewed regional government officials as a “friend at court or spy in the camp.”¹⁰ To achieve success, it was essential for regional government offices to play a multi-faceted role and attempt to understand the priorities of both local and national government stakeholders.

The negotiation process improved with subsequent iterations. As data collection evolved, Local Strategic Partnerships were able to amass evidence substantiating local policy prioritization, leading to greater trust, consistency, and equity in negotiations. Further, following issues during negotiations in the first two pilots, the national government advised regional government offices to negotiate with a lighter touch and provide more freedom to the local areas.¹¹ In a later evaluation survey of LAA participants, local officials agreed that the LAA negotiation process had increased flexibility and facilitated local action.¹²

MEASUREMENT AND EVALUATION: NATIONAL SUPPORT TO MEASURE LOCAL PERFORMANCE

Each of the 35 target outcomes was tied to one of the 198 measures in the National Indicator Set. When local data reporting was required, local partnerships assigned responsibility to leading partners for monitoring specific targets.¹³ Each area used its own IT system to collect data and report performance. These IT systems were typically established with funding and support from the national government, and some partnerships, such as the one in Derby City, developed policies to share data with all partners responsible for reporting.¹⁴ Some local areas created research centers to improve data availability.¹⁵ For example, the Sandwell Local Strategic Partnership created Research Sandwell in 2006 to act as the principal research provider and intelligence support for the partnership.¹⁶ However, partnership research centers were primarily locally funded, and, as a result, were not consistently established across all local areas.¹⁷ Where local data reporting was required to measure target outcomes, regional government offices conducted annual performance reviews, which were complemented by reviews of local public service delivery.

Creating clear local partnerships. The structure of Local Strategic Partnerships varied across areas, as each locality was given discretion over how to self-organize. However, local partnerships were generally more successful at improving processes and delivering on targets when trust and relationships were developed through shared goals and a clear organizational structure.¹⁸ Local partnerships were particularly successful when they focused on what they could agree to do together as opposed to emphasizing areas of disagreement. Some localities, such as Bolton, conducted a “social network analysis” to assess the effectiveness of partnerships.¹⁹ Organizational clarity was also a key determinant of success. The Kent

partnership developed a framework for its agreement to avoid a “blame culture,” outlining steps for resolving conflicts, developing collaborative action plans, and meeting responsibilities.²⁰

NEGOTIATION AND RELATIONSHIPS: THE U.K.’S LOCAL STRATEGIC PARTNERSHIPS

The passage of a 2007 reform bill introduced a “duty to cooperate” for all local level government organizations, such as police, health, and employment services. Local organizations were required to participate in the development of local agreements through their Local Strategic Partnership. However, the duty to cooperate did not extend beyond local level government organizations, and, as a result, partnerships had to make choices regarding the extent of external stakeholder engagement. To varying degrees, partnerships engaged the community, voluntary, and private sectors. Partnerships that actively engaged stakeholders early on were able to establish structures for participation, such as forums. Similarly, LSPs that aligned policy priorities with those of external partners had greater success with collaborative planning and delivery.²¹

National help for local problems. Areas that suffered from particularly poor performance or unusually high barriers to improvement received more direct support from regional government offices and national government agencies. For example, national government advisors were despatched to local areas with particularly low performance to help develop action plans to address issues. If an area performed especially poorly on certain indicators prior to the negotiation, national governments would often push for the inclusion of those particular indicators in the agreements.

Formalized mechanisms for renegotiation. Due to the outcomes-focused nature of Local Area Agreements, there were several potential issues that could lead to a need for renegotiation. These issues included a lack of baseline data, poor performance, and external economic shocks. The 2008 financial crisis, in particular, made several target outcomes impossible to meet, leading to the renegotiation of a number of indicators. For example, the Blacknell Forest partnership revised targets related to housing and employment growth in 2009, and set new targets to account for the financial crisis in its 2009–2010 review.

Clear guidelines and protocols for renegotiation were established to help ensure consistency and fairness with regard to reward payments. Local officials and regional government offices reviewed target performance at the end of every year, noted issues in performance, and opened renegotiations on selected targets, if necessary. All agreement renegotiations were granted final approval by the head of the Department of Communities and Local Government.

Using rewards to incentivize performance improvement. In addition to strong incentives, such as greater spending flexibility, reduced reporting requirements, and collaboration requirements, Local Area Agreements included the potential for local areas to receive reward funding from the national government for successfully meeting target outcomes.²² Local Strategic Partnerships or local governments were responsible for deciding how reward money would be spent. Some areas chose to put the reward into a corporate “pot.” Others chose to reward specific partners that had helped “win” the reward, or to use it to supplement mainstream funding gaps.²³ Some areas agreed on the alloca-

tion of reward funding before it was received, while others waited to allocate funds for updated policy priorities.

Reward payments were a powerful incentive for local leaders, who were pressured to deliver on agreements and held responsible for meeting improvement targets.²⁴ However, reward payments were a less effective incentive for managers directly responsible for service delivery, as few expected rewards to be reinvested in their service.²⁵ Consequently, assessments concluded that the process of reward allocation needed to be shared, open, and transparent.²⁶

Improving service delivery with Local Area

Agreements. In a survey of 113 local area governments, 90% reported that the creation of LSPs improved cross-organization relationships, and another 90% responded that LAAs improved partnership collaboration through a greater focus on local priorities.²⁷ An independent evaluation of LAAs conducted by a consortium led by Liverpool John Moores University found that the

OUTCOMES AND INCENTIVES: CALCULATING REWARDS WITH A STANDARDIZED FORMULA

The national government set aside over £350 million to reward improved performance. Local areas could receive up to 0.54% of their net budget if they met all of their targets. The proportion of reward payment was calculated based on the average performance across the designated improvement targets. A minimum performance score of 60% was required for a local area to receive a performance reward grant. Reward grant payments were paid in two installments in the two years following the end of the agreement. Of the 150 LAAs signed in 2008, 92 received a performance reward grant.

$$\text{Reward Score} = \frac{\text{performance} - \text{baseline}}{\text{target} - \text{baseline}} \times 100$$

introduction of the agreements promoted better tailored services, joint projects, leveraging of extra resources, and quality and efficiency gains.²⁸ For example, the Suffolk partnership successfully aggregated funding across different local organizations, providing greater flexibility to target funds and services to the areas most in need.²⁹ Similarly, the Derbyshire partnership consolidated staff roles previously split between multiple organizations.

Local Area Agreements also led to a number of process improvements, such as increased data sharing, performance management integration, and improved communication across local organizations. For example, the Nottingham partnership developed an online system that acted as a single point of reference for data and information to inform the decision making of local organizations.³⁰ The agreements also sparked innovations in processes, services, and products.³¹ Additionally, the Cambridgeshire partnership was

MEASUREMENT AND EVALUATION: EVALUATIONS NOT TIMED FOR IMPACT

The national government commissioned a number of studies and evaluations on the implementation and performance of pilot programs leading to the establishment of LAAs. However, the first long-term evaluation of LAAs for 2007-2010 was not released until 2011, well after a change in government had eliminated the program. As a result, the national government was unable to apply the results from the long-term evaluation.

able to successfully experiment with new forms of service delivery, namely Self-Directed Support for people with learning disabilities, which provides vulnerable people with a budget instead of direct service provision.³²

Targeting funding and services towards policy priorities. The structure of LAAs required partners to determine key policy priorities, provide a more robust evidence base, and sharpen focus on outcomes. In a 2009 survey of local government officials, 80% of respondents thought the agreements helped target funds and services towards local priorities.³³ As a result, many partnerships were able to successfully meet improvement targets and earn reward grants.³⁴ A national analysis of pilot agreements found that performance improved from baseline conditions for 81% of all target outcomes. As a result, 73% of targets received reward payments for improving against the baseline by at least 60%.³⁵ In the final evaluation of the program, significant improvements were noted in specific policy areas, including social cohesion, community safety, childhood well-being, health, local environmental quality, and reduction of inequality in local areas.³⁶ For instance, specific indicators with particularly strong performance included: reduction in the number of 6–18 year olds not in education, employment, or training; increase in the amount of recycled household waste; and improved outcomes related to young offenders, including access to education and housing.³⁷

Political challenges to LAAs. After over a decade of Labour government control, the election of a new Conservative and Liberal Democrat coalition in 2010 brought a renewed and increased focus on reducing bureaucracy between national and local governments. Despite supporting the principle behind Labour government efforts to devolve power to the local level, the new government viewed the National Indicator Set as too centralized and bureaucratic.³⁸ As a result, the National Indicator Set was eliminated and Local Area Agreements were discontinued.³⁹ Data reporting is still required on many outcomes indicators, but the datasets are no longer used as performance indicators. Instead, local councils are funded through a single grant with discretionary spending.⁴⁰ While there has been no specific policy change regarding Local Strategic Partnerships, and many remain in operation, there has been no further mention of LSPs in official government announcements. As a result, bureaucracy between central and local governments has been further reduced, but clear, measureable outcomes and an emphasis on collaboration and coordination to solve local problems has been lost.

Medicaid Accountable Care Organizations

UNITED STATES, 2011 – PRESENT

Despite rising costs, low quality care persists in the U.S. healthcare system, particularly for low income individuals enrolled in Medicaid. Some states are developing Accountable Care Organizations (ACOs) to tackle challenges associated with Medicaid service. ACOs pay providers for better care and health outcomes, reducing the amount of public money spent on redundant or poorly coordinated services. Early results suggest ACOs may be effective at incentivizing healthcare providers to deliver more affordable, higher quality care.

Quality and cost challenges in Medicaid. Medicaid is a publicly funded health insurance program for low income Americans and is the largest source of health insurance in the United States (U.S.), covering over 60 million people. Medicaid patients encounter the same healthcare challenges as many other Americans: poorly coordinated services, inadequate primary and preventive care, and frequent use of redundant and/or emergency services. Medicaid beneficiaries may also face additional barriers related to substance abuse and mental health that heavily influence health outcomes and increase costs.¹

While the quality of healthcare in the U.S. is well below that of other industrialized nations,² costs are high and continue to rise.³ Balancing health outcomes and fiscal constraints is especially difficult for publicly funded programs such as Medicaid. In the U.S., state governments, with partial federal funding, pay providers to care for

MODEL TYPE	Competitively bid contracts
PARTICIPATION	Between U.S. state Medicaid agencies and groups of healthcare providers, or regional organizations that hold healthcare providers accountable.
TARGET OUTCOMES	Lower costs and higher quality healthcare
INCENTIVES	Shared savings, shared risks, and reward payments.
PROVIDER RISK LEVEL	Varies by state; often low but increasing over time

Medicaid beneficiaries. Medicaid costs have become a priority for many states, as the 2010 Patient Protection and Affordable Care Act (ACA) and recent economic recession have increased the number of people enrolled in the program. As state governments face increasing pressure to address Medicaid’s rising costs and

low quality, many are seeking new healthcare delivery options and payment innovations.

The rise of Accountable Care Organizations. Many states have responded to the healthcare crisis by implementing Accountable Care Organizations (ACOs). ACOs are voluntary groups of healthcare providers that collectively assume financial responsibility for their patients' health. State health insurance plans reward, and sometimes penalize, ACOs based on how well they lower costs and improve quality of care for patient populations. By creating a coalition of providers, ACOs are able to enhance care coordination and service integration to increase savings and quality. Cost savings result from more efficient service delivery and better health outcomes, not from eliminating services or spending.

ACOs are different from other healthcare payment and delivery models, such as fee-for-service and Managed Care Organizations (MCOs). Under the fee-for-service model, health insurers pay providers for the amount of services delivered, leaving no financial incentive to lower costs or improve quality. In contrast, health insurers under ACOs tie payments to better care instead of to additional services. MCOs are groups of providers overseen by an umbrella organization that coordinates a patient's care. Health insurers use MCOs to control costs by only paying for care received within the network, and by paying groups of providers a fixed price for treating a population. Within ACOs, physicians, not health insurance providers, coordinate care and retain decision making responsibility. Unlike MCOs, patients can seek care outside of the ACO network at any time. ACOs also reward providers for achieving quality, not just reducing costs.

ACOs are beginning to flourish in the U.S. healthcare system. From 2005 to 2010, a federal government pilot initiative known as the Medicare Physicians Group Practice Demonstration used accountable care to reduce costs and improve quality. The ACA expanded on this pilot by introducing two initiatives to grow accountable care in Medicare: the Pioneer ACO Program and the Medicare Shared Savings Program (MSSP). From 2011 to 2012, more than 100 Medicare ACOs formed as a result of the two ACA programs.⁴

ACOs have also developed outside of federal policy. There were over 100 private sector ACOs sponsored by hospitals, physician groups, and insurers before the implementation of federal healthcare reform initiatives.⁵ In 2010, there were only 41 ACOs and, as of 2013, there are 606 ACOs across the country.⁶ It is estimated that the number of people in the U.S. now receiving care through ACOs is approaching 20 million.⁷ While much of the U.S. healthcare system is increasingly shifting towards ACOs, these organizations are still young works-in-progress.

Leading state approaches to Medicaid ACOs.

Increasingly, states are turning to the ACO model to address rising costs and poor quality care in Medicaid. Arkansas, Colorado, Illinois, Iowa, Massachusetts, Minnesota, New Jersey, Oregon, Utah, and Vermont have all used ACO models. Often with support from the governor's office, many states have passed enabling healthcare reform legislation. In envisioning these reforms and adapting ACOs to Medicaid, states frequently apply approaches that are unique from other Medicare and states' ACOs.

	Colorado	Oregon	Minnesota
ORGANIZATIONAL STRUCTURE	Regional	Regional	Self-forming
RELATIONSHIP TO THE STATE MEDICAID AGENCY	Accountable to the state for provider performance in their service area	Accountable to the state for provider performance in their service area	A group of providers that elects to be accountable to the state for their performance
RELATIONSHIP TO PROVIDERS	Assist in developing provider network and coordinating care Hold providers accountable for performance	Develop and implement a healthcare delivery transformation plan Coordinate care across physical, behavioral, and dental health	Coordinate care within provider group
HOLD PROVIDERS ACCOUNTABLE FOR PERFORMANCE	Develop and implement a healthcare delivery transformation plan	Earn back a portion of an annual reimbursement held in an incentive pool based on performance	Share savings with the state; some also share costs with the state based on performance

Colorado, Oregon, and Minnesota offer three distinct adaptations of ACOs to Medicaid with demonstrated success in lowering costs and improving quality. In each state, ACOs differ in many respects, including by organizational structure, relationship to state Medicaid agencies, relationship to healthcare providers, and incentive payment structures. These differences reflect diversity in state healthcare delivery systems, beneficiary populations, and local politics.

Colorado and Oregon have selected one ACO for each region across the state, while Minnesota has established a program in which groups of providers across regions apply to become ACOs. In all three states, ACOs are accountable to state Medicaid agencies for providers' performance.

To incentivize better care, both Colorado and Oregon's state Medicaid agencies withhold a portion of standard, upfront payments to ACOs. ACOs in these states are eligible to win back

withheld payments based on performance. By bearing risks for health costs and outcomes in their service areas, Colorado and Oregon's regional ACOs are encouraged to improve the effectiveness of healthcare delivery systems. In contrast, ACOs in Minnesota share savings, and sometimes risks, with the state Medicaid agency, depending on performance.

Unique models for each state. Colorado launched its ACO program, the Accountable Care Collaborative (ACC), in 2011 to develop a "regional, outcomes-focused, client/family-centered, coordinated system of care."⁸ For the ACC, Colorado developed a system of seven regional ACOs called Regional Coordinated Care Organizations (RCCOs). RCCOs support Medicaid primary care providers in their regional service areas and direct competitively bid contracts. RCCOs have a mandate to improve primary care providers' performance as patient-centered medical homes. RCCOs fulfill this

NEGOTIATION AND RELATIONSHIPS: BUILDING ON PREVIOUS SUCCESSSES IN COLORADO

Prior to ACC, Colorado's healthcare system had significant experience with traditional managed care. In the 1990s and early 2000s, an experiment with widespread managed care frustrated providers and resulted in a lawsuit against the state.⁹ Beneficiaries were similarly frustrated with the system, and advocates complained about inadequate care.¹⁰

In launching ACC, Colorado's leadership wanted to send a different message to Medicaid stakeholders. Throughout the creation of RCCOs, leaders communicated that they were making an investment in providers. This investment was both financial and institutional. Providers received a new monthly payment and benefitted from participating in a more integrated system of care with greater data management and analytics capacity. State leadership also made an effort to emphasize and augment aspects of the healthcare delivery system that worked well. Colorado applied pre-existing standards from the Children's Medical Home initiative, which had a history of improving care for children, to medical homes across Medicaid.

Colorado framed the launch of ACC as an investment in and enhancement of the healthcare delivery system. By doing so, Colorado was able to effectively engage and align stakeholders around reforms.

mandate by integrating primary care providers with specialists, hospitals, and social services, and by holding primary care providers accountable for cost and quality.

Oregon developed a regional ACO model that focuses on making risk felt across the entire delivery system to drive improved performance. Oregon obtained a waiver from the federal Centers for Medicare and Medicaid Services (CMS) and launched its ACO initiative in 2012. Oregon's ACOs, called Coordinated Care

Organizations (CCOs), contract with Medicaid-certified providers in their service area. Each CCO operates like a health plan, assuming financial risk for the entire cost of its population's care and maintaining requisite financial reserves. CCOs are financially responsible for care across physical, behavioral, and, as of 2014, dental health. A provider participating in a CCO has an incentive to refer patients to appropriate care, as each provider—whether a dentist, a specialist, or a behavioral health clinician—is at risk for the costs related to unaddressed aspects of patients' health. In addition to bearing broad risk, CCOs must develop and implement a transformation plan for integrating care, using alternative payments and addressing health disparities across ethnicity and other factors.

Minnesota began its three-year demonstration ACO project in 2012 with a \$45 million grant from the federal State Innovation Model initiative (SIM). In contrast to Colorado and Oregon, groups of providers voluntarily apply to the state to become ACOs regardless of region. Since Minnesota's approach relies on providers opting in, providers must not only be prepared, but also willing to assume risk. To incentivize broad provider participation and maintain strong performance standards, Minnesota created two different ACO tracks: one for "virtual ACOs" and one for "integrated ACOs." Smaller providers with less experience coordinating care and more exposure to cost anomalies can form virtual ACOs. Larger providers that share financial systems and other infrastructure can form integrated ACOs. While both types of ACOs strive to achieve a similar proportion of shared savings, integrated ACOs bear more risk and must share in losses earlier in the process, beginning in year two.

Defining outcomes for accountable care in Medicaid. ACOs align provider incentives around reducing healthcare costs while maintaining or even improving quality outcomes. However, how states define lower costs and improved quality, and where opportunity exists for improvement, varies widely.

Colorado uses performance targets to define cost and quality improvements. In the program's first year, RCCOs strived to achieve at least a 5% reduction in unnecessary emergency department visits, hospital readmissions, and high cost imaging—performance targets that correlate with cost savings and do not reduce quality of care. By year two, once Colorado had successfully demonstrated cost savings, the state added additional targets focused on quality (for example, child wellness, and prenatal and post-partum care). Primary care providers are also required to meet enhanced standards for medical homes and RCCOs must assign primary care providers to enrollees within six months.

Oregon evaluates CCO performance based on 17 incentive measures related to quality of care in areas such as depression screening and follow-up, and alcohol and substance misuse. Three of these metrics are clinical, meaning they rely on medical record data and are more closely related to ultimate health outcomes. As clinical data systems improve, Oregon hopes to define more outcomes using clinical results. In addition to these 17 state targets, Oregon is also held accountable to CMS for an additional 16 performance measures. In order to maintain administrative flexibility for the program, Oregon must demonstrate to CMS each year that it can reduce costs while either improving or maintaining quality of care.

Minnesota has defined 10 quality measures to evaluate provider performance, including: rates of depression readmission at six months, colorectal cancer screening, heart failure rates, and patient experience. The state is attempting to standardize quality measures across all healthcare reform

OUTCOMES AND INCENTIVES: ADDRESSING PERVERSE INCENTIVES IN MINNESOTA

Minnesota developed its ACO model based on the Medicare Shared Savings Program (MSSP). Under MSSP, patients using an extreme amount of services, sometimes called “hot spotters,” are removed from performance calculations. This prevents costly outliers from skewing the data and putting providers' payments at substantial risk.

However, in the Medicaid population, these expensive beneficiaries often have chronic conditions and coinciding challenges, such as substance abuse or mental health concerns. In other words, they are the very people who could benefit most from careful care coordination. To incentivize providers to target this population, while avoiding introducing unsustainable risk, Minnesota created a tiered performance system. Larger ACOs, whose performance is less likely to be skewed by outliers, must reach a higher threshold before they can exclude individual costs from performance calculations. These threshold costs are capped at either \$200,000 or \$500,000. Smaller providers may only cap individual costs at \$50,000.¹² The tiered system incentivizes larger providers, who are best able to tolerate the risk of costly patients, to address this population's needs.

programs. Minnesota hopes that this will improve performance by encouraging multiple payers, including privately funded insurers, to incentivize achieving a shared set of quality measures. As more payers agree to standardized quality measures, performance goals and incentives will strengthen and provider reporting will continue to be simplified.¹¹

OUTCOMES AND INCENTIVES: OREGON'S CHALLENGE POOL

Coordinated Care Organizations (CCOs) in Oregon strive to reach quality thresholds to earn back 3% of their annual reimbursement payment, which is held in a “quality bonus pool.” When CCOs fall short of qualifying for the total value of the bonus, the state Medicaid agency transfers excess funds to a unique “challenge pool.” CCOs qualify for challenge pool payments if they achieve special challenge measures that have the potential to significantly transform care delivery (e.g., achievements related to glucose control for diabetics). This tiered bonus pool system is intended to spur clinical innovations to improve health outcomes for Oregon's Medicaid beneficiaries.

Paying for better healthcare. States rely on rewards, shared savings, and shared risk to incentivize improvements in cost and quality for Medicaid beneficiaries. One way states structure performance payments is by putting a portion of state Medicaid agencies' payments to ACOs at risk, often by withholding part of a monthly per capita fee or annual reimbursement payment.

Colorado's current payment system involves a unique investment rewards structure that is continuing to innovatively evolve. Beginning in 2011, Colorado invested \$20 a month per each beneficiary in the ACC. This monthly payment is divided in the following manner: the RCCO receives \$13, the primary care doctor receives \$4, and the remaining \$3 is allocated to the state's data contractor. In July 2012, the state withheld an additional \$1 from both the RCCO and primary care doctor's share to create an incentive pool. If RCCOs and providers meet performance targets, they qualify for a portion of the incentive pool each quarter. Similarly, primary care doctors

may earn an extra \$0.50 per enrollee per month (from the RCCO's share) if they meet at least five of nine new quality standards. Over time, the state plans to increase the portion of the monthly payment at risk. However, if a RCCO fails to assign enrollees to a primary care provider within six months, their payment is reduced.

Oregon similarly sets aside a portion of each CCO's annual cost reimbursement to create a “quality bonus pool.” In 2013, 2% of the state's annual reimbursement payment was allocated to the pool. In 2014, this portion rose to 3%. Further increases in the percentage at risk are expected over time. CCOs can regain up to 100% of their set aside bonus if they achieve an absolute benchmark (often based on national Medicaid data) or improve upon past performance.

MEASUREMENT AND EVALUATION: COLORADO'S THIRD PARTY DATA CONTRACTOR

To help RCCOs and primary care doctors improve healthcare delivery, as well as measure performance and calculate incentive payments, Colorado developed state level data analytics capacity. Rather than struggle or wait to develop this ability internally, Colorado contracted with a private sector organization. The state makes an investment of \$3 per month, per enrollee in a third party data contractor. The contractor collects and manages Medicaid claims and other clinical data for the entire state. The contractor then shares this information in dashboards and other formats available to RCCOs and primary care providers, enabling organizations to apply this data towards performance improvements. Savings realized in the first year of the ACC program more than covered the state's investment in the data contractor.¹³

Minnesota varies its incentives based on the type of ACO. Virtual ACOs receive shared savings based on performance indicators related to quality and patient experience. Savings must exceed 2% of the anticipated cost (to remove incidental variance) and are split evenly between the state and the ACO. Integrated ACOs, which include larger and more experienced organizations, must assume limited downside risk starting in year two, and increasing in year three.¹⁴

Measuring improvements in cost and quality.

Colorado, Oregon, and Minnesota employ different approaches to measuring improvements in cost and quality. All three states have sought to centralize data measurement and avoid putting new burdens on ACOs and healthcare providers. For example, Colorado hired an outside contractor to manage all of its performance data. Similarly, Oregon initially selected measures that could be centrally calculated by the state using administrative data. CCOs in Oregon review quarterly reports and help verify the state's data, but do not bear the burden of calculating performance. Oregon also works with a third party organization to externally validate data.

Promising early results. It is too early to tell whether the ACO experiments in Medicaid and elsewhere will prove successful at reducing costs and improving quality of care in the long run. However, initial results, at least in the case of Colorado, Oregon, and Minnesota Medicaid ACOs, are promising.

Early results from Colorado's reforms suggest ACOs have reduced acute care, lowered costs, and improved management of chronic health problems.¹⁵ In its first quarter, Minnesota's first Medicaid ACO, Hennepin Health, successfully redirected patients with dental pain from the emergency room to the dentist and cut medication costs in half.¹⁶ Oregon has met its commitment to the federal government to reduce cost growth by 2% per beneficiary each year. Furthermore, in the first year of Oregon's ACO program, emergency department visits decreased by 17%, hospital admissions for select chronic conditions were reduced by nearly a third, and preventive care measures were increased, including early childhood developmental screenings and primary care visits.¹⁷

These early results suggest that ACOs in Colorado, Oregon, and Minnesota may be making progress in lowering costs and transforming how care is delivered to Medicaid beneficiaries. States are scaling these programs in phases, while learning and improving with every successive iteration. Gradual increases in the number of participating providers and beneficiaries, the scope of healthcare services involved, and the proportion of payments at risk has allowed for steady and sustainable progress. As participation increases and the magnitude of risks and rewards grow, these outcomes-based agreements will demonstrate their potential to improve healthcare for Medicaid beneficiaries.

Tennessee Child Welfare Services Performance-Based Contracting

UNITED STATES, 2006 – PRESENT

In the wake of a child welfare crisis, the State of Tennessee aligned child welfare funding with providers' ability to quickly place foster care children into permanent homes. When providers meet a baseline performance goal, agreed upon with the state, they receive a share of the state's savings, and when they perform below the baseline, they reimburse the state for cost overages.

Crisis in child welfare. In May 2000, eight families sued the State of Tennessee for failing to meet the needs of Tennessee's most vulnerable children: those in state custody. At the time, many of these children were languishing in emergency shelters for periods of six months or more. Others were constantly shuffled between multiple facilities and family placements. More than one in three children in the state system had been living within the system without a permanent home for over two years.¹ These children had little hope for reunification with family, adoption, or even finding appropriate foster care.

The Tennessee Department of Children's Services (DCS) was at the center of this crisis. Before the lawsuit, DCS contracted with nearly 100 different service provider organizations to care for children in state custody. Based on earlier reform efforts, every provider was required to provide a continuum of care to keep children with families where possible, as well as to share outcome data with the

MODEL TYPE	Contract
PARTICIPATION	Between the Tennessee Department of Children's Services and private child welfare service providers.
TARGET OUTCOMES	Fewer days in state care, no returns into the system, and more exits out of the system into permanent homes.
INCENTIVES	Shared savings and penalties between the state and providers.
PROVIDER RISK LEVEL	Low

state. However, the state did not enforce these mandates and failed to hold providers accountable for helping children succeed in permanent homes.

The state eventually settled the lawsuit in 2001 and agreed to make significant changes to the child welfare system. But changes were slow to come, and DCS remained noncompliant on many of the requirements of the settlement agreement.

	Prior Contracts	Performance-Based Contracts
FUNDING BASIS	Based on the duration of care and type of services provided.	Providers share in savings and costs realized by the state, resulting from providers' ability to achieve outcomes.
RESULTING INCENTIVE	Providers place children in the least restrictive setting for the longest duration.	Providers efficiently match children with and place children in permanent homes quickly.

In July 2006, DCS renegotiated the settlement and agreed to take immediate actions to redesign the system and follow through on the original promises of the settlement agreement—including implementation of a provision of the 2001 settlement, performance-based contracting.

Incentivizing change with Performance-Based Contracting. Prior to implementing outcomes-based agreements, the state funded providers on a per diem, per child basis. This meant that the longer the child stayed in a facility or received a service, the more funding the provider received from the state. There were no financial incentives for providers to act swiftly to move children out of the system and into permanent homes.

Under Performance-Based Contracting (PBC), providers receive funding based in part on how well they meet child welfare goals, such as permanent placement, which, in turn, creates an incentive for providers to focus on the child's long-term well-being. The contract structure varies with each provider to ensure that each agreement is specific to the needs of the region and population. Under PBC, providers have flexibility in how goals are reached, enabling them to focus on achieving the desired outcome. As a result, Tennessee, one of several states to turn to PBC to improve child welfare, has reversed a history of failing to care for at-risk children. Fully implemented by 2010, the state's PBC model nearly cut in half the average time a child spent in state care from over 22 months to 14 months.³

MEASUREMENT AND EVALUATION: HIRING CHAPIN HALL TO IDENTIFY AND MEASURE INDICATORS

Before PBC, DCS struggled to collect comprehensive child welfare data. The state hired the youth-focused research and policy center Chapin Hall at the University of Chicago to help with the design of appropriate indicators and the collection and analysis of data in Tennessee. Chapin Hall developed performance measures and independently evaluated service providers, bringing increased rigor and credibility to DCS' performance measurement methodology, and ultimately the determination of payments for providers. The DCS deputy commissioner noted that "[this] methodology keeps [them] centered on the big picture, namely, better outcomes for kids."²

Stakeholders aligned to one shared goal. DCS centered the change to Performance-Based Contracting on one "elegantly simple" goal: to move children to permanency more quickly.⁴ A diverse set of stakeholders, including state employees, caseworkers, providers, and political officials unified around the mission. The goal also had the effect of rebuffing political pushback; strong public opinion on the need to move children to successful, permanent homes preempted political opposition.

Measuring progress. Tennessee worked with a research team at Chapin Hall, a youth-focused research and policy center affiliated with the University of Chicago, to develop three relevant measures:

- The number of days children spend in providers' care in the fiscal year;
- The number of children that exit providers' care to permanent placements, including adoption; and
- The number of children that return to providers' care after previously exiting to permanent placements.

DCS has relied on the partnership with Chapin Hall to help collect and analyze performance data for the child welfare system in Tennessee. Providers have access to the data and receive monthly reports and summaries of their progress. By making DCS data the source of all performance calculations and payments, the state helped ensure fairness across providers with varying data capacity, and eliminated administrative burdens on providers.⁵

Incentivizing better performance. To incentivize better outcomes, the state financially rewards providers that exceed performance targets, which are based on providers' past baseline performance. When provider performance improves across the three desired outcomes—reduced lengths of stay in the provider's care, increased exits to permanent housing, and fewer returns to the system—the state realizes significant cost savings, and successful providers share in those savings. While providers are free to spend the reward payments as they see fit, the state encourages reinvesting incentive payments to continue to improve performance.⁶ For example, Youth Villages—a large provider in the state—has reinvested

OUTCOMES AND INCENTIVES: ADJUSTING INCENTIVES TO AVOID PERVERSE OUTCOMES

There was a concern that by rewarding providers for quick and effective placement of children in permanent homes, DCS would risk encouraging providers to only serve those children who were easiest to place. To proactively respond to and resolve this issue, DCS requires providers to complete exception reports each time they refuse to take a child. These reports are analyzed for suspect trends in the reasons for refusal.

Similarly, DCS runs the risk of incentivizing providers to get children out of the system without taking steps to support a placement's long-term success. This could result in a revolving door of children entering and exiting care. In response, DCS measures re-entries to help ensure that providers are aiming to achieve permanency, as opposed to mere exits from the system.

In 2013, due to an unintended outcome related to how DCS measures the number of days children spend in care, DCS expanded the window for evaluating a child's care from one to three years. Previously, if a provider's care days were approaching the limit for a given fiscal year, it would be against its interests to take on a child in need. By expanding the period of measurement to three years, DCS has reduced the risk that providers refuse cases due to timing, as well as diminished the volatility of measuring outcomes within a single fiscal year.⁹

its incentive payments in evidence-based practices, such as Trauma-Focused Cognitive Behavioral Therapy, to increase effectiveness in treatment for children.⁷ Some smaller organizations use the capital to bridge financial gaps created to meet increased demand.⁸ Providers also share additional costs with the state if performance goals are not met.

The reimbursement and incentive calculations are one of the most complex parts of the DCS PBC program and remain an area for improvement. Given the multitude of contract types and

OUTCOMES AND INCENTIVES: SHARED SAVINGS AND LOSSES BASED ON PERFORMANCE

Under PBC, providers and the state share both savings and losses. The providers' share of both savings and losses is adjusted based on their performance in quickly and effectively placing children in permanent homes.

- Based on the types of contracts and the number of children a given provider serves, the state determines a “blended rate.” That dollar amount is then applied to all care days a provider uses in a given reporting period.
 - If the provider reduces the number of care days used in the reporting period, it shares in a percentage of the savings. If the provider over-utilizes care days during the reporting period, it pays a percentage of the costs.
 - The provider's percentage is based on its performance against the relevant baseline and performance targets for the three critical outcome measures: exits to permanency, days in care, and re-entries into the system.
 - The state evaluates a provider's performance at the close of a three-year window for each cohort of children.
-

categories—dependent on region and type of case—there are more than 49 potential calculations. This has made it hard for even large providers with high analytic capabilities to predict and plan for reward and penalty payments. The difficulty of predicting payments and penalties may prevent PBC from realizing its full potential to drive behavioral change. Yet, despite this shortcoming, stakeholders report that the state has still succeeded in systems change and improved outcomes for children.

Attracting providers to PBC. Beginning in 2006, DCS launched PBC with an initial group of five providers. The state attracted initial participation

by asking providers to improve only in relation to their own past performance, for example, setting a goal of reducing care days by 10 percent compared to prior years. During the first year of participation, providers were also exempt from penalties for poor performance, but were still able to achieve reward payments if they excelled.

From 2006 to 2009, DCS held calls with providers once or twice a week to help answer questions, address concerns, and provide technical assistance. By providing support, DCS was able to maintain relationships and a real-time awareness of concerns and complications experienced by providers. Additional providers were gradually added to PBC each year. Within four years of the first pilot, all DCS contracts for out-of-home care had moved to a performance-based structure. The agency continues to hold a monthly provider call.

Managing change across the system. DCS understood that the move to a PBC program would be a significant change for many of the system's providers. There was a history of distrust between providers and DCS. Many providers were concerned they would be unfairly penalized under PBC. Weekly calls helped engage providers, whose participation and performance was critical for success.

While DCS made a significant effort to educate and support providers in launching PBC, providers are one group of stakeholders out of many in the larger child welfare system. DCS employees in regional offices across the state, as well as judges who decide to place children in care, also have a significant impact on the number of children entering care and the outcomes of state custody. As PBC implementation progressed, DCS and providers discovered the need to educate and

mobilize all parts of the system to work together to move children to permanency. The agency eventually took steps to educate regional staff and judges about PBC contracting goals and the benefits of new strategies that support permanency.

Moving children to permanency quickly. PBC began to demonstrate positive results immediately. Starting in fiscal year 2006, more children were placed in permanent homes than entered into state custody each year. In Tennessee's first three years of using PBC, the number of days children spent in care decreased by 8%, permanent exits from the welfare system increased by 6%, and re-entries to the welfare system remained flat.¹⁰ PBC was helping to reduce the total number of children in care. Compared to nearly a decade earlier, by 2009 the number of children in out of home care had decreased by 34%.¹¹ By 2010, Tennessee had the fastest care to adoption time in the nation, and one of the lowest national rates for placing children in congregate care—an undesirable institutional housing setting.¹² While PBC has proved budget neutral for the state, the state gets more for its dollar.

Strengthening provider quality. When PBC started, DCS worked with approximately 89 providers, ranging from large national organizations to small local establishments. Due to the PBC entrance requirement that providers have accreditation and 90 days of working capital in hand, a number of providers either dropped out of the system or merged with accredited providers. The competition inherent in PBC pushed further changes in the number and types of providers. By year four, when all of the providers in the state were participating, only about 60 providers remained and the state lowered the requirement to 60 days of

NEGOTIATION AND RELATIONSHIPS: USING ENTRY CRITERIA TO IMPROVE PROVIDER QUALITY

Providers submit a Request for Qualifications, which DCS uses to determine the delegation and distribution of services. Participating providers also have to apply and meet new eligibility criteria, such as holding provider accreditation and having enough capital for 90 days of operation.¹⁶ These requirements helped the state ensure that participants were properly licensed, in compliance with federal and state laws and regulations, and had sufficient organizational capacity to manage an agreement.¹⁷

working capital. Today, there are only approximately 30 providers working with DCS. Today's providers, while fewer, are better able to meet the needs of children in state custody.¹³

DCS did more than sit back and let the best providers rise to the top. The agency has long-supported the learning and professional development of child welfare service providers across the state. DCS works through the Tennessee Alliance for Children and Families to deliver providers communication and technical assistance related to PBC.¹⁴ DCS also implemented a training for relevant stakeholders, first by providing Middle Tennessee State University with a multi-million dollar training grant, and then by bringing the training in-house in 2012. The training works with universities and other partners to educate child welfare workers on issues such as trauma intervention and supervision of child welfare workers.¹⁵

The impact of paying for outcomes. DCS's experience with PBC shows the power of paying for outcomes; the possibility to turn around a failing system and improve the welfare of Tennessee children. It is important to note, however, that

implementing PBC was not a quick fix or a one-off change. It required the state to work closely with providers, evolve how performance was measured, and build the capacity of the system over time. Once a system in crisis, Tennessee now serves as a model to other states and nations for how to apply performance-based contracting to achieve their goals. As a result of the outcomes-focused approach, thousands of Tennessee's children find permanent homes more quickly, while providers continuously strive to better meet their needs.

National Partnership Agreements

AUSTRALIA, 2009 – PRESENT

National Partnership Agreements offer Australian states streamlined funding, increased flexibility, and the potential for reward payments. In exchange, states agree to achieve pre-defined outcomes in a number of social services, including health, education, and employment. While states have had mixed progress in achieving outcomes set by the various agreements, there have been noticeable improvements in areas such as health and indigenous education.

A 10-year goal to improve Australian national competitiveness. In 1992, the Council of Australian Governments (COAG) was created to serve as an intergovernmental forum of federal and state governments. The COAG, which consists of the Australian Prime Minister, the First Ministers of each state and territory, and the head of an association of local governments, is intended to facilitate complex policy reform that requires coordination across states. During the 1990s, the COAG drove successful fiscal and regulatory reform, which led to years of economic growth and transformation. Despite this growth, international competition from developing countries and an aging Australian population raised concerns about national competitiveness in the early 2000s. In 2006, the COAG agreed to focus its attention on boosting the national competitiveness of Australia’s workforce.¹ To achieve these goals, the COAG sought to improve living standards and services “by lifting the nation’s productivity and workforce participation over the next decade,” an undertaking that required all levels of government

MODEL TYPE	Intergovernmental agreements
PARTICIPATION	Between the federal government and state/territory governments.
TARGET OUTCOMES	Specific to each agreement.
INCENTIVES	Administrative flexibility, reduced reporting requirements, and reward payments.
PROVIDER RISK LEVEL	Ranging from low to high

to “commit to reform across health, education and training, and encouraging and supporting work.”² These new policy priorities provided an impetus for a new intergovernmental system and the creation of National Partnership Agreements.

An opportunity for reform. In the Australian system, the federal government has used its greater revenue raising capacity to assume an expanded role in areas of more traditional state

OUTCOMES AND INCENTIVES: PAYMENT TYPES UNDER THE FEDERAL FINANCIAL FRAMEWORK

There are multiple funding mechanisms between Australian federal and state governments.

General Revenue Assistance: Funding provided to states that can be used for any purpose.

Specific-Purpose Payment: Funding states must use towards service delivery in key sectors, including education, skills, workforce, disability services, and affordable housing.

National Partnership Payment: Funding tied to achieving agreed upon outcomes or reforms in National Partnership Agreements, divided into three subpayment types:

- **National Partnership Project Payments:** Paid to states for delivery of specific outputs or projects (typically capital or equipment).
 - **National Partnership Facilitation Payments:** Provided to states upfront to support specific governmental reforms.
 - **National Partnership Reward Payments:** Paid upon successful achievement of pre-defined outcomes.
-

responsibility (such as health and education), which has, in turn, caused confusion about government roles and responsibilities in the achievement of outcomes. Additionally, a growing number of federal, specific-purpose grants with prescriptive conditions left little room for state flexibility or discretion over how money should be spent.³ A critique sponsored by the Victorian state government argued that these payments focused on “inputs and bureaucratic processes and controls” rather than outcomes, creating administrative burdens and inefficiencies within states.⁴ Overcoming these challenges to improve workforce participation and productivity would require structural change. Such wide-ranging reform

required strong political backing, which became available in 2007 when a national election swept the Australian Labor Party into power across all levels of government.⁵ Against the backdrop of concerns over national competitiveness and calls for government reform,⁶ the new political leadership implemented a mandate to reform intergovernmental partnerships for improved social outcomes.

A new framework for federal cooperation. The 2008 Intergovernmental Agreement on Federal Financial Relations overhauls the way Australian federal and state governments cooperate to address issues of national importance. The new system recognizes states as the primary provider of government services and contains measures to streamline funding to states, clarify the roles and responsibilities between state and federal governments, and simplify and strengthen performance reporting.⁷ This new framework includes three types of financial assistance to states, one of which is outcomes-based. National Partnership Payments are provided to states through National Partnership Agreements and are issued to states for the achievement of specific outcomes or reforms, defined through more than 120 individual agreements.⁸

National Partnership Agreements (NPAs) cover a diverse range of policy issues, such as health, education, skills, affordable housing, infrastructure, and the environment. Agreements are typically drafted by the relevant federal agency and then sent to states for input and negotiation. While NPAs are intended to be national, anywhere from one to all states can sign on to an NPA, and not every state is required to participate in each agreement. An independent third party, the COAG Reform Council, was established to

measure states' progress and to assess whether or not states achieved the outcomes specified under each NPA.

NPAs award funding through national partnership payments, which are divided into three subtypes: project, facilitation, and reward payments.

National partnership project payments pay states to deliver specific projects and are awarded for time or activity milestones. National partnership facilitation payments are provided upfront to support specific governmental reforms that states agree to undertake in a NPA. Finally, national partnership reward payments tie funding to the successful achievement of a pre-defined outcome.

Paying for results. The introduction of National Partnership Agreements represented a national shift away from compliance-based funding. By cutting the strings attached to federal funds and reducing administrative burdens, the national government freed states to achieve outcomes using the most effective methods for its particular needs and context. To provide flexibility, NPAs

emphasize how expected outcomes are measured for each agreement. For instance, the National Partnership Agreement on Youth Attainment and Transitions measured 15–19 year olds enrollment in grades 11, 12, or in vocational programs, as well as the percentage of 20–24 year olds completing grade 12 or receiving vocational certification. NPAs also attempt to structure accountability for outcome achievement by clearly delineating the roles and responsibilities of the federal and state governments.

Some agreements incentivize participation by rewarding states that meet all or a significant proportion of their target outcomes. However, reward payments vary by NPA and not all NPAs include rewards. Federal guidance advised NPA drafters to structure reward payments to foster “the achievement of ambitious performance benchmarks, continuous improvement in service delivery and provide significantly better outcomes than would be expected in the absence of reform.”⁹ For more complex projects, federal guidance suggested reward payments acknowledge

	Prior Funding Model	National Partnership Agreements
FUNDING FLEXIBILITY	Federal funding came with prescriptive federal guidance and a heavy administrative burden on states.	The federal government distributes funds to state government treasuries. Key elements of how outcomes will be achieved are prescribed in the NPA, with some additional flexibility provided to states for the Implementation Plan.
TYPES OF FUNDING	Funding was received through multiple federal payments to states for specific purposes.	Three types of funding streams, including the potential for reward funding if outcomes targets are achieved. An independent body is responsible for assessing outcome achievement before reward payments are made.
REQUIREMENTS FOR FUNDING	Funding was allocated contingent on compliance with federal agency requirements.	Funding is allocated based on outcomes-focused agreements between federal and state governments.

OUTCOMES AND INCENTIVES: CALCULATING PAYMENTS

National partnership project payments associated with the National Partnership Agreement on Youth Attainment and Transitions were allocated based on two factors. First, states with a greater share of the specific project's target population (e.g., 12–18 year olds, full time students, etc.), as determined by the Australian Bureau of Statistics, were allocated a greater share of the overall budget. Second, in recognition of the difficulty of improving enrollment numbers in sparsely populated areas, states with a designated “remote student population” were given a 1.45% weight for outcomes.

Given the variety of target populations within NPAs, national partnership reward payments are calculated from a state's percentage of the national population, the proportion of outcomes targets achieved, and the level of statistical confidence that targets were actually met. For the third measure, the COAG Reform Council runs a statistical analysis to determine whether there is enough evidence to suggest that the NPA program directly achieved the outcome, or if the results would have been the same without the NPA.

partial progress towards outcomes. For instance, in the National Partnership Agreement on Youth Attainment and Transitions, which lasted from 2009 to 2013, states could earn a pro-rated reward payment for partial attainment of defined outcomes, but no rewards were paid to states that did not achieve at least 50% of their target. While focusing on rewards, NPAs have not included explicit penalties for states failing to meet outcome targets.

To prevent disagreement between state and federal governments over reward payment calculations, NPAs specified data sources, evaluation methods, and the potential rewards available to each state. Until its dissolution in 2014 due to budget cuts, the COAG Reform

Council measured results and evaluated whether there was enough statistical confidence to reward states for achieved outcomes. For the National Partnership Agreement on Youth Attainment and Transitions, Australia issued a \$723 million budget. However, only \$623 million was guaranteed to states in the form of facilitation payments. The remaining \$100 million was set aside for reward payments, to be paid to those states the COAG Reform Council determined had met or exceeded targets specified in the agreement.

NPAs prescribe the key elements of how each outcome will be achieved, but states are given some flexibility in developing implementation plans. Implementation plans allow states to achieve outcomes with programs tailored to individual state priorities and demographics. Administrative flexibility is accomplished by consolidating multiple funding streams into a single agreement paid directly to state treasuries. States are given a degree of discretion over service delivery, but are paid for the achievement of outcomes, rather than simply the process of trying to achieve them.

Institutionalizing the ability to evolve. To account for changing circumstances, many National Partnership Agreements include mechanisms to review agreement conditions prior to the agreement's expiration. This review process allows NPAs to include lessons learned in future agreements, as well as to extend or revise existing agreements. Additionally, a review mechanism allows federal or state parties to leave the agreement with formal notification to the other parties, or to offer amendments that can be implemented with the consent of other parties.

NPAs are bound by political commitment, but are not legally binding documents. While this offers assurances to federal and state governments that they will not be locked into failing agreements for years to come, some states are concerned about the ease with which the federal government can exit such agreements. For instance, agreements covering the most contentious policy areas can be canceled when new governments come to power.¹⁰ Such concerns were validated by the 2014 federal budget, which canceled a number of NPAs before they were set to expire, including agreements on pensioners, preventive health, and improving public hospital services.¹¹

Cultivating stakeholder buy-in. The NPA model was chosen, in part, to simplify the roles and responsibilities between federal and state governments for achieving policy priorities. While the agreements delineated roles and substantial lists of shared responsibility for federal and state governments, it did not explicitly engage stakeholders at lower levels. For instance, the National Partnership Agreement on Youth Attainment and Transitions listed 10 shared responsibilities between the federal and state government, including requirements for stakeholder outreach and engagement. However, the COAG Reform Council’s assessment of NPAs noted that some stakeholders found that the new system occasionally “‘muddied’ clarity around roles and responsibilities.”¹²

Similarly, NPAs were sometimes unable to secure leadership support at all levels and areas of government—a key factor for successful implementation and measurement of the program. This difficulty often arose during the agreement negotiation process. The agreement is

NEGOTIATION AND RELATIONSHIPS: ENSURING FAIRNESS ACROSS PARTIES

Federal government agencies responsible for a specific policy area typically initiate development of draft NPAs. Drafts are then provided to states for input on program and design issues. Once an agreement is fully drafted, negotiations begin between the departments of the Prime Minister and each state or territory’s First Minister. States submit comments in a series of negotiations until the parties reach agreement.¹³ As a result of this process, states are not obligated to sign on to any agreement without first agreeing to the terms.

Some agreements set a blanket target outcome for all states. For instance, in the National Partnership Agreement on Youth Attainment and Transitions, Australia sought to raise graduation rates to 90% from a baseline of 83.5%. Each state was given a target for improving its own attainment indicators by 6.5 percentage points. In other NPAs, individual states negotiated with the federal government to receive special recognition of unique circumstances and populations before entering an agreement. In another example, the National Quality Agenda for Early Childhood Education and Care NPA contained grandfather clauses to recognize an individual state’s current capacity and population needs.

first discussed with portfolio-based agencies before being finalized by First Ministers’ departments. Conflicting incentives within central and portfolio agencies at both levels of government have made it challenging to finalize agreements quickly and in accordance with the overarching framework. Without sustained and meaningful culture change to implement the new funding model (including at the political level), there has been a strong tendency to revert to prescriptive, non-reform-based agreements.

MEASUREMENT AND EVALUATION: MEASURING SUCCESS

The COAG Reform Council worked closely with the Productivity Commission, Australia's independent research body, to utilize existing national comparative datasets (e.g., those tracked and maintained by the Australian Bureau of Statistics) to assess progress toward outcomes. NPAs containing the possibility of reward payments clearly outlined the data source used for assessment and set aside necessary funding to measure the data. For instance, the National Partnership Agreement on Youth Attainment and Transitions set aside \$400,000 per year for program evaluation and change management activities. The COAG Reform Council then produced a report on each reward-eligible outcome. Reports included the measurement methodology, whether states met pre-defined outcomes, and the level of statistical confidence for each measurement.

Measuring performance fairly. The NPA program included mechanisms to reduce conflict of interest and promote trust between parties. To ensure accountability and equity, the COAG Reform Council measured performance across the various funding agreements between federal and state governments. While the federal government considered assessments made by the COAG Reform Council it was not bound to follow its recommendations and retained ultimate responsibility for reward disbursement.

Mixed results, but notable progress. A COAG Reform Council report on the overall progress of reforms related to NPAs and the wider Intergovernmental Agreement system found that states achieved mixed progress with the outcomes set by the various agreements.¹⁴ However, some NPAs were able to significantly improve on performance targets. One example is the National Partnership Agreement on Youth Attainment and Transitions. The State of South Australia met 96.7% of its participation goal by increasing enrollment in grades 11–12 by 1,921 students in just two years.¹⁵ It exceeded outcome targets by increasing the percentage of 20–24 year olds completing secondary education by 4.29%,¹⁶ making South Australia eligible for more than \$7 million in reward funding.¹⁷ The mixed results across NPAs reflect the complexity and significant undertaking involved in implementing outcomes-based intergovernmental agreements. However, as illustrated by the example above, reforming how governments set priorities and receive funding unleashes new opportunities to better serve citizens and vulnerable populations.

Appendix I: Interview List

In developing this report, interviews were conducted with 45 individuals. Their input helped frame the overall structure of the report and provided key insights that made it possible to develop the five detailed case studies. Below is a list of those interviewed, with their name and affiliation at the time of the interview.

Interviewee	Organization
Helena Sims	Association of Government Accountants
Ali Jalayer	Australian Department of Employment
Marsha Milliken	Australian Department of Employment
Sheila Hanley	Center for Health Care Strategies Discussion
Rob Houston	Center for Medicare and Medicaid Innovation
Hoangmai Pham	Center for Medicare and Medicaid Innovation
Laurel Karabatsos	Colorado Department of Health Care Policy and Financing
Michael Smith	Corporation for National and Community Service
David Rumbens	Deloitte Access Economics (Australia)
Matt Wright	Deloitte Services (Australia)
Jessica Caloza	U.S. Department of Education
Lisa Harris	U.S. Department of Education
Rich Rasa	U.S. Department of Education
Grace Solares	U.S. Department of Education
Lul Tesfai	U.S. Department of Education
Johan Uvin	U.S. Department of Education
Shaw Vanze	U.S. Department of Education
Kim Clum	U.S. Department of Health and Human Services
Amy Haseltine	U.S. Department of Health and Human Services
Lok Wong Samson	U.S. Department of Health and Human Services
John Tambornino	U.S. Department of Health and Human Services
Valerie Piper	U.S. Department of Housing and Urban Development
Gary Dennis	U.S. Department of Justice
Jennifer Kemp	U.S. Department of Labor
Megan Lizik	U.S. Department of Labor
Demetra Nightingale	U.S. Department of Labor

Evan Rosenberg	U.S. Department of Labor
Alia Waly	U.S. Department of Labor
Jo Ivens	U.K. Cabinet Office (Formerly)
Hilary Russell	Liverpool John Moores University (U.K.)
Jim Blades	Millennium Challenge Corporation
Chantale Wong	Millennium Challenge Corporation
Michael Stanek	National Academy of State Health Policy (Formerly)
Craig Layton	New South Wales State Government (Australia)
Victoria Collin	U.S. Office of Management and Budget
Hai (Gil) Tran	U.S. Office of Management and Budget
Russ Voth	Oregon Health Authority (Formerly)
Lisa Angus	Oregon Office for Health Policy and Research
Taylor Woods	Oregon State Government
Susan Mitchell	State of Tennessee Department of Child Services
Philip O'Meara	Victoria State Government (Australia)
Anita Ambroise	World Bank
Imad Saleh	World Bank
Sarah Hurley	Youth Villages
Nicole Truhe	Youth Villages

Appendix II: Other Potential Cases

This report details five examples of outcomes-based agreements, which were selected from a wide list of programs that had some focus on outcomes. Selected cases provide a diverse set of examples that vary by policy area, composition of recipient populations, service provider types, complexity, and geography. They were also selected based on the availability of information, including access to contracts and agreement documentation, reported metrics and/or outcomes, points of contact for interviews, and multiple accounts of the case. In addition to the five cases used in this report, the following additional cases were considered:

Case	Country	Participation	Timeframe	Description
NYC Welfare-to-Work	U.S.	Local – Provider	1999 – Present	Since 1999, New York has experimented with performance-based payment structures for contractors who successfully provide employment outcomes to job seekers.
Education Performance-Based Funding	U.S.	State – University	1978 – Present	Many states currently use some level of performance-based funding for state universities. These models have evolved over time, but they generally allocate a portion of a state's higher education budget according to performance on specific measures, such as graduation rates.
Gates Foundation Outcomes Investing in Water, Sanitation & Hygiene	International	Nonprofit – Varied	2012 – Present	The Gates Foundation is exploring a new approach called Outcomes Investing in its Water, Sanitation & Hygiene program. At the start of a project, the foundation and grantee collaborate to define success. Rather than tracking predefined task-related milestones, grantees commit to a few measurable, long-term outcomes, and some portion of the grant funding is tied to achieving those outcomes.
Global Superior Energy Performance Partnership (GSEP)	International	Varied – Varied	2010 – Present	GSEP is a multi-country effort to create and harmonize nationally accredited energy performance certification programs.

Kresge Foundation Performance-Based Loan for Colorado Coalition for the Homeless	U.S.	Foundation – Nonprofit	2013 – Present	The Kresge Foundation granted a three-year, \$3 million loan to the Colorado Coalition for the Homeless to hire more staff and upgrade infrastructure. The interest rate of the loan is determined by the Foundation’s success in meeting agreed upon objectives—including enhanced health and residential stability for patients and reduced overall system costs.
National Environmental Performance Partnership System (NEPPS)	U.S.	Federal – State	1995 – Present	NEPPS is a performance-based system of environmental protection designed to improve the efficiency and effectiveness of state-EPA partnerships. Performance partnerships are formed between the EPA and states, through which states can combine categorical grants for greater spending flexibility.
Wisconsin Works	U.S.	State – Provider	1997 – Present	Wisconsin has built pay-for-performance standards and target rates into its W-2 contracts.
Millennium Challenge Corporation (MCC)	U.S.	Federal – Foreign Government	2004 – Present	The MCC uses a competitive process that rewards countries for past actions measured by objective performance indicators.
World Bank Health Results Innovation Trust Fund (HRITF)	International	Int’l Org – National	2007 – Present	HRITF objectives are to: support the design, implementation, and evaluation of results-based financing (RBF) mechanisms; develop and disseminate the evidence base for implementing successful RBF mechanisms; and build countries’ institutional capacity to scale up and sustain RBF mechanisms.
World Bank Program For Results (PforR)	International	Int’l Org – National	2012 – Present	PforR supports government programs such as transportation or water and connects funding to defined results with a special focus on strengthening institutions.

Appendix III: Detailed Lessons

This report details the experiences and lessons learned by a number of governments in moving forward with outcomes-based agreements, from design through implementation. These lessons have been grouped into three categories: (1) Negotiation and Relationships; (2) Outcomes and Incentives; and (3) Measurement and Evaluation. The detailed list of lessons, grouped by theme and case, is below.

NEGOTIATION AND RELATIONSHIPS

Australian Employment Services

- Regular, competitive recontracting can be used to continually drive improved contractor performance over time.
- The recontracting process can be used to improve the selection of providers by fine tuning criteria and using competitive performance ratings to weed out poorly performing providers and reallocate market share to high performers. Australia successfully used recontracting in this manner. However, special care must be taken to ensure that major changes to contracts do not cause overly disruptive transitions for providers.
- In a competitive provider market, there are some barriers to sharing best practices, such as business strategy. As a result, alternatives should be explored to support continual innovation, improvement, and sharing among providers of best practices. In Australia, provider networks and government-funded innovation pilots are used to promote knowledge sharing and process improvement.

United Kingdom Local Area Agreements

- Building trust, relationships, and shared responsibility between participating stakeholders—both in negotiations and delivery of services—is essential to creating effective partnerships and changing culture. Analysis of agreements and survey responses from local officials in the U.K. indicated that trust and relationships were key to the negotiation of agreements, and that outlining clear roles and responsibilities improved working relationships.
- Agreements should provide a structured framework for dialogue between local and national governments and help build evidence bases, which allow for a better focus on priority outcomes. Survey results indicated 90% of local officials thought the agreements helped focus and target funding and services on what mattered.
- Mechanisms for flexibility around renegotiation should be built into agreements, particularly when there may be issues establishing baselines or broader external forces that require changes in targets. For example, the 2008 financial crisis brought many economic targets into question in the U.K., forcing many outcomes to be renegotiated.

- Negotiating outcomes-focused agreements at a large-scale requires significant logistical planning and capabilities including representatives from all negotiating parties, set procedures, and clarity of roles for all parties. This is particularly important when stakeholders do not have a history of working collaboratively. The U.K. national government played a key role in building capacity and support for behavioral change at the local level by providing written guidance, technical assistance, and funding for IT systems.

U.S. Medicaid Accountable Care Organizations

- When outcomes-based programs are being implemented, contracts should be regularly evaluated and adjusted as needed. Incremental change and constant experimentation allowed ACOs to bring providers along at a reasonable pace, although some providers were still ultimately left behind.
- When drafting outcomes-based agreements, governments should build on existing successes and frameworks, rather than trying to dismantle the whole system. States have been able to build on past healthcare reforms and prior ACOs to identify improvements and successfully manage change.
- Stakeholders throughout the system should be aligned to outcomes and held accountable. The network should be expanded over time to include more stakeholders that have an impact on desired outcomes.

Tennessee Department of Children’s Services Performance-Based Contracting

- Entrance criteria should be used to improve the quality of the pool of providers. In Tennessee, partially as a result of introducing accreditation and working capital requirements, the pool of providers shrank from 100 to 30.
- Internal stakeholders should not be forgotten. While effort was made to educate and engage providers, there were no outreach efforts to Department of Children’s Services (DCS) employees in regional offices.
- Feedback loops should be integrated to improve agreements. After all providers had been part of the new program for three years, DCS decided it was time to refresh baselines and to introduce a number of changes based on lessons learned. By having time-bound contracts, DCS and providers had an ability to adjust at the end of each contract period as challenges were encountered and new lessons were learned.

Australian National Partnership Agreements

- Getting buy-in from all stakeholders, particularly the leaders who will execute the agreement, is critical. This is especially true if they do not have a seat at the negotiating table.
- There is a balance between having the flexibility to exit or renegotiate an agreement and the assurance of all parties that an agreement will not be abandoned prematurely. The Australian government canceled some agreements due to budget issues and, as a result, states became skeptical of leadership commitment.

OUTCOMES AND INCENTIVES

Australian Employment Services

- Competitive ratings can encourage continuous improvement across providers by illustrating relative performance and providing meaningful metrics that can be used in recontracting. Australia has successfully used a 5-star system to promote competition and improvement, as well as allocate greater market share to better performing providers.
- When evaluating provider performance, changes in demographics and geography should be considered. In developing ratings and paying rewards, Australia uses regression analysis to account for varying demographics that can create differential burden across providers.
- The balance between flexibility and accountability should be regularly adjusted with every renewed contract. In Australia, requirements have been added and removed based on insights from evaluations. As the model has matured, there has been a gradual relaxation of compliance requirements due to a greater understanding of what works at the provider level.
- Outcomes payments can ensure individual providers maintain a focus on achieving results for their customers. Payments can be adjusted to address demographic changes, as well as perverse incentives—such as “parking” and “cream skimming” (e.g., when providers underserve the most disadvantaged job seekers by focusing on the easiest to place job seekers). Australia has adjusted the weighting of payments over time to address such issues.

United Kingdom Local Area Agreements

- Tracking and target setting should be limited to a set number of priorities to help focus stakeholders on the outcomes that really matter. By focusing on a set of 35 outcomes, local officials in the U.K. were able to better focus and target spending on the right priorities.
- A broad range of indicators should be selected to allow for outcomes-focused agreements to reflect local priorities. Each agreement was unique in its mix of indicators and improvement targets, allowing for nationally standardized metrics to be better customized to local needs.
- Flexibility should be institutionalized through the form of payment. By consolidating several separate grants into a single discretionary grant, local areas were able to combine budgets and better coordinate services.
- Rewards—even small ones—can create positive incentives for improving performance among senior leaders, but need to trickle down to motivate frontline managers to be motivated. A clear process for spending rewards needs to be established so that lower-level managers and employees understand incentives.

U.S. Medicaid Accountable Care Organizations

- State models should reflect the unique histories and partnerships within the state. The state government often has the best understanding of this and should be heavily involved in the design of any state programs. The ACO framework has allowed states to tailor models to local contexts, while still maintaining a focus on outcomes.

- When developing outcomes-based agreements, governments should focus on outcomes without being too prescriptive. ACOs were successfully able to strike that balance, allowing for flexibility at the provider level to adjust to patient needs.

Tennessee Department of Children’s Services Performance-Based Contracting

- In order to provide maximum incentive payments, it is important that rewards and potential penalty calculations are transparent. In Tennessee, even the most sophisticated providers are unable to accurately predict projected rewards or penalties. Without being able to understand how actions link to incentives, rewards and penalties will not have the maximum possible effect.
- A mission-focused goal can be a change management tool and help focus providers on the outcomes a funder really cares about. Tennessee developed a clear, universally appealing goal, allowing stakeholders to rally around accomplishing a shared mission.
- Baseline settings will impact fairness across parties. Tennessee initially used individual baselines but then moved to regional baselines to avoid penalizing high performers while controlling for regional differences.

Australian National Partnership Agreements

- A proliferation of agreements can dilute the desired simplicity. Beware of uncontrolled growth in agreements that are intended to simplify funding streams. Uncontrolled growth can actually make the agreements more complex.
- Flexibility can be institutionalized through the form of payment. For example, Australia paid funding directly to a state treasury, rather than a specific agency. This allowed for recipients to spend in ways that best addressed local needs.
- Demographic differences and fluctuations should be considered. While target populations were sometimes uniform across different states, funding amounts in the agreement were tailored to the population of each state, and were weighted for rural populations.

MEASUREMENT AND EVALUATION

Australian Employment Services

- Existing datasets across government agencies can be connected to better track and assess outcomes. Australia harmonized the IT systems of separate agencies that manage benefits, tax receipts, and deliver employment services. As a result, tracking benefit payments, tax receipts, and service information from providers more easily validated the employment outcomes of job seekers.
- Longevity of outcomes-based agreements is essential to effectively evaluating and improving outcomes. By separating policy and delivery of services, the Australian employment system has been able to insulate the program and develop political buy-in across party lines. As a result, the system has survived three changes in government.

United Kingdom Local Area Agreements

- In order for evaluations to make an impact, they must be timed carefully. In the U.K., a long-term evaluation of the Local Area Agreements provided several important insights and lessons. However, electoral timelines overlapped with the evaluation, and a change in government occurred before the report's release. The program ended before the evaluation was completed and, as a result, its impact was neutralized.

U.S. Medicaid Accountable Care Organizations

- Performance data should be easy for providers to use. Private sector organizations can be contracted to manage data and work to build provider capacities. Some states have worked with third-party data managers to great success.

Tennessee Department of Children's Services Performance-Based Contracting

- Existing data and established mechanisms can be used for measuring outcomes. This can alleviate the burden on providers of any unfunded mandates and allay concerns about data quality and collection ability across a diverse set of providers. Tennessee used existing administrative data in the design of its agreements, helping smooth provider transition into the new system.
- Outside organizations can be contracted to help design indicators and measure data. Tennessee hired Chapin Hall, a child-focused research and policy center at the University of Chicago, to design the indicators and measure provider data.

Australian National Partnership Agreements

- The sources of data and methodologies that will be used to evaluate outcomes should be clearly identified. Use of an independent third party to conduct the evaluation can help avoid conflict when determining reward payments. Australia spelled out these details in each agreement, and it used the independent Council of Australian Governments (COAG) Reform Council to evaluate progress.
- Measuring results can be an opportunity to build an evidence base. One of the lessons identified by the COAG Reform Council after several years of NPAs was that the focus on comparative data, rather than evidence, diminished the ability of states to understand exactly what inputs and activities led to outcomes.

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