

Examining the implementation of new models of contracting in the NHS: what are the lessons for the formation of Accountable Care Systems



POLICY RESEARCH UNIT IN
COMMISSIONING AND THE
HEALTHCARE SYSTEM

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Overview of talk

- Background
- What are 'New Models of Contracting'?
- Contract negotiation and specification
- Payment structures and financial risk
- Impact of models
- What can be learnt



What are New Models of Contracting?

Contracts which seek to achieve defined outcomes by transferring risk from the commissioner to the provider(s) of services.

Alliance contracting

Prime provider contracting

Outcomes based contracting



Research activities (1): literature review

- Aim to explore the **international cross-sectoral evidence** concerning:
 - the characteristics of these contractual models
 - the process of their implementation
 - their impact
- **Methods**
 - Data base search (Abi-inform, Web of Science, Academic Search Complete, Business Source Premier)
 - ‘Snowballing’ from references
 - ‘Grey’ literature such as policy reports, unpublished doctoral theses etc
 - Exclusion of pay for performance and Accountable Care Organisation literature
 - Full report found at **www.prucomm.ac.uk**



Research activities (2): Empirical research

First stage of data collection October 2016 – March 2017

Second stage commencing April 2018

Three case studies

20 interviewees (17 interviews)

Analysis of contractual documentation

Meeting observation



Characteristics of models (I)

Model	Defining characteristics	Sectors from which literature drawn
Alliance contracting	<ul style="list-style-type: none">• Single alliance contract between the commissioner of the service and the organisations delivering the project• Risk/reward incentive structure shared across alliance partners giving collective ownership of risks (win together/lose together model)• Emphasis on coproduction, facilitated by governance structures and relationship building activities to encourage collective responsibility• Recruitment of alliance partners without competitive tender process• Contract may include no dispute clause	Aerospace Construction Public services



Characteristics of models (II)

Model	Defining characteristics	Sectors from which literature drawn
Alliance contracting	<ul style="list-style-type: none"> • Single alliance contract between the commissioner of the service and the organisations delivering the project • Risk/reward incentive structure shared across alliance partners giving collective ownership of risks (win together/lose together model) • Emphasis on coproduction, facilitated by governance structures and relationship building activities to encourage collective responsibility • Recruitment of alliance partners without competitive tender process • Contract may include no dispute clause 	Aerospace Construction Public services
Prime Provider contracting	<ul style="list-style-type: none"> • Commissioner contracts with a single (prime) provider for the delivery of a service likely to span a number of organisations • Prime contractor has responsibility for managing the supply chain, including commissioning sub contractors • Prime contractor may provide some services • 'Black box' approach to give prime contractor freedom 	Construction Defence Health services Public services



Characteristics of models (III)

Model	Defining characteristics	Sectors from which literature drawn
Alliance contracting	<ul style="list-style-type: none"> • Single alliance contract between the commissioner of the service and the organisations delivering the project • Risk/reward incentive structure shared across alliance partners giving collective ownership of risks (win together/lose together model) • Emphasis on coproduction, facilitated by governance structures and relationship building activities to encourage collective responsibility • Recruitment of alliance partners without competitive tender process • Contract may include no dispute clause 	Aerospace Construction Public services
Prime Provider contracting	<ul style="list-style-type: none"> • Commissioner contracts with a single (prime) provider for the delivery of a service likely to span a number of organisations • Prime contractor has responsibility for managing the supply chain, including commissioning sub contractors • Prime contractor may provide some services • 'Black box' approach to give prime contractor freedom 	Construction Defence Health services Public services
Outcome based contracting	<ul style="list-style-type: none"> • Contract pays on the achievement of outcomes (or proxy measure) • Commonly use risk/reward structure to reward parties in accordance with their efforts • May be used in conjunction with other contractual models such as alliance contracting and prime contracting 	Construction Defence Health services ICT Welfare services



Overview of case studies

Case Study	Model	Services	Participants	Value – Yr 1	Payment structures
A	Commissioner/provider alliance (Unsigned)	Health and social care services to the over 65s	-CCG -Council -NHS Trusts -GP Collaborative -Third sector organisation	£200 million	Current- mixture of Payment by Results and block Under negotiation: Capitation Outcome based payments Risk share arrangements
B	Commissioner/provider alliance (Signed)	Mental Health	-CCG -Council -NHS Trust -Third sector organisation -Third sector organisation	£10 million	Monthly payments based on forecast activity Gain/pain share based on outcome based payments Overspend responsibility
C	Joint venture (Unsigned)	Adult out of hospital care and social care services	-Joint venture -NHS Trust -GP federation -proposed future - NHS Trusts - council - CCG	£20 million	Current – Block payment to NHS Trust Under negotiation: Capitation Outcome based payments



New Contractual Models in the NHS

- A stage in a journey towards a more integrated and more ambitious, model of integration
- New contractual models adopted to:
 - shift risk to groups of providers
 - create a sense of collective purpose
 - create something ‘radically different’ to achieve significant savings (10-20%) through remodelling services
- Aspiration to use capitation, risk/reward systems inc. OBC elements



Contract negotiation and specification: the literature

- Alliance literature suggests that:
 - investment in relationship building is central, including pre-alliance period to establish 'alliance perspective' and build trust between parties
- OBC literature suggests that:
 - Requirement of more rigorous contract specification
 - Investment in new information systems and staff skillset
 - Negotiation of outcomes an ongoing and iterative process



Contract negotiation and specification: in practice

- Lack of clarity regarding contractual boundaries
- Decisions regarding service parameters and financial flows between providers were to be taken during the life of contract
- Trust can compensate for lack of clarity
- Mistrust of financial models, concerns regarding:
 - accuracy and robustness of financial and activity information systems
 - adequacy of stress testing
 - scale of savings



Payment structures and financial risk: in practice

Allocation of financial risk is very difficult in practice, and may be only partially enacted

- Ongoing commissioner involvement in contract limits provider independence
- OBC only a small element of contract in practice (Case Study B = 1%, Case Study C < 1%)
- ‘Shared ownership’ of financial risk was a significant stumbling block for provider organisations
 - Perception that risk shouldered by particular providers
 - Perception that providers retained individual accountabilities for financial performance



Payment structures and financial risk in practice

- Some providers declined to participate
- Deferral of difficult decisions
 - In Year One existing payment structures retained
 - Capitation, risk sharing arrangements, outcome based measures and payments to be agreed in Year One (A and C)



Payment structures and financial risk: in practice

- Successful sharing of financial risk in Case Study B
- Over/underspends netted off at end of Year One between Alliance partners
- Longstanding working relationships between Alliance partners identified as an important enabler of these decisions



Impact of models (literature)

- Limited evidence of integration, but:
 - Improvement in relationships of Alliance partners (learning benefits, enthusiasm, avoidance of disputes, enhanced reputation, competitive advantage)
 - Evidence of sharing of good practice amongst supply chain members and better co-ordination of services (prime contracting)
- More evidence regarding a decrease in costs and project completion time
- Impact on quality improvement not clear



Impact in practice

- Limited data at this interim stage
- Clear impact in Case Study B:
 - On track to achieve savings target (20%)
 - Changes in service provision
 - Reduction in demand for services leading to closure of inpatient ward
- Benefits in all case studies related to increased collaborative working



What can be learnt to aid Accountable Care Systems (I)

- Contract negotiation and specification is challenging and time consuming
- The incremental development of risk sharing depends on:
 - Addressing capitation, risk sharing arrangements
 - The successful 'scaling up' of trusting relationships
- Tension between agreement to share risk and individual accountabilities inhibits participation



What can be learnt to aid Accountable Care Systems (II)

- Role of outcome payments needs clarification
- Clarification of the role of commissioners

