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## Value capture as a means of financing patient-centred health care homes across Australia

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# Introduction

- The Commonwealth Govt initiative to establish patient-centred health care homes (PCHCHs)
  - announced in late 2015
- Aim: to better deliver and coordinate primary care to individuals with chronic conditions.
- PCHCHs, developed originally in the US:
  - voluntary enrolment with a primary care ‘home base’ e.g. GP or AMS
  - tailored treatment based on individualised chronic disease management plans
  - remuneration: bundled quarterly payment for each patient enrolled
  - eliminate the fragmented care and duplication often associated with the current fee-for-service system.

# Introduction

- Phase 1 planned to commence in July 2017, but delayed in 2017 Fed Budget
  - 200 medical practices and 65 000 patients
  - \$21 million in *new money* over 3 years (around \$100 per patient for Phase 1).
  - around \$90 million in reallocated MBS payments
- Rollout?
  - will be substantial.
  - 50% of Australians have a chronic disease and 1 in 5 have multiple chronic conditions,
  - concerns raised (e.g. RACGP) about adequacy of funding
  - no indication of new money to support the rollout.
- Limited appetite among the public and govts to tap into existing sources of revenue.




# Value capture

- One option previously been applied to public infrastructure projects is **value capture**.
- This presentation:
  - explore the potential for value capture enable funding of PCHCHs
  - broader application in health

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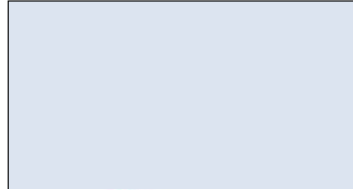
# Parramatta Council proposes pushing ahead with value-capture scheme

 **Jacob Saulwick**  

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The City of Parramatta Council is proposing to push ahead with an ambitious scheme to make property developers help subsidise the \$1 billion in infrastructure needed for the fast-growing area.

The scheme would return to the council about half the value of rezoned land above certain thresholds in the central business district, which will continue to be subject to significant high-rise development.



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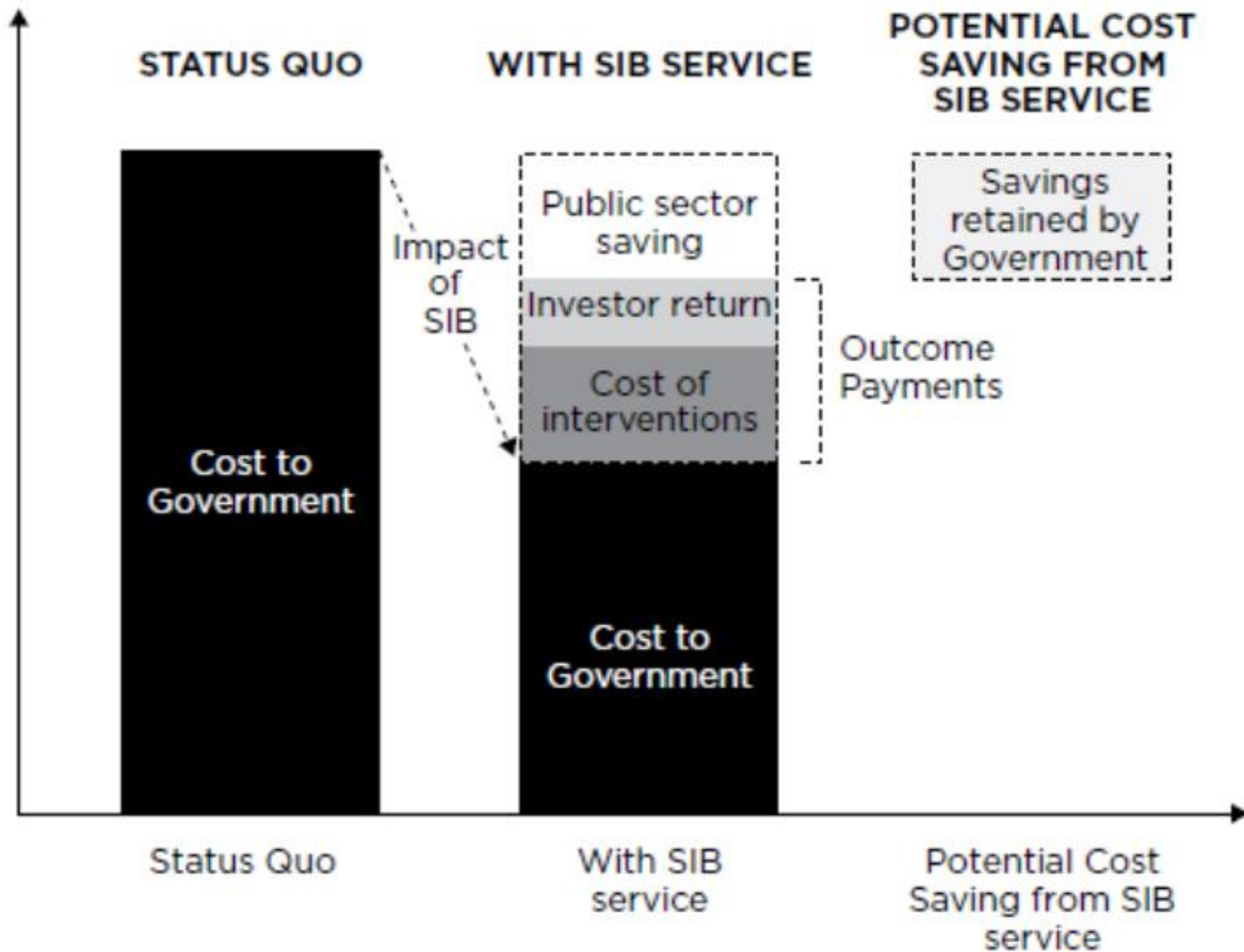
 

# Value capture

- Value capture -
  - form of public financing
  - redistributes to govt windfall gains to property owners from infrastructure investment
  - E.g. new railway lines in Sydney and increase in the value of adjacent land.
  - NSW Govt land tax to claw back some of the value created.
- Innovative financial instrument
  - adjusts the share of costs and benefits between stakeholders
  - turn conventional investment proposals into win-win scenarios.
- Potentially addresses areas of under-investment through funding from non-govt sources.

# Social Impact Bonds as a form of value capture

- Another form of value capture: Social impact bond (SIB)
- SIBs: method of financing health and social programs
  - delivered by non-govt organisations
  - expected to achieve cost savings to govt via improved health and social outcomes and ultimately reduced service use (eg, hospitalisations).
- Bonds purchased by private investors
- Returns paid by govt subject to future cost savings
  - determined by a third party evaluation.
- SIBs enable govts to access private capital and offset the risk of public investments.





# NSW Social Benefit Bonds

- The NSW govt, the earliest adopter in Australia
  - *Newpin* pilot— a parenting program delivered by UnitingCare to support families to avoid children being put into out-of-home care.
    - restored 130 children to their families;
    - prevented 47 children entering out-of-home care
    - restoration rate: 61% over 3 years vs a baseline of 21%
  - *Newpin* achieved a return of 12.2%, paid by NSW Treasury to bondholders.
- In 2016, the NSW SIB program was extended to health with the announcement of two new bonds:
  - *Managing mental health hospitalisations* (Richmond PRA and Social Ventures Australia)
  - *Managing chronic health conditions* (Silver Chain Group).
- Expectation of cost savings through reduced hospitalisations, although specific details are not yet available.

# PCHCH as a form of value capture

- PCHCHs can be seen as another value capture opportunity
  - albeit on a larger scale involving C'wealth and state/territory govts.
- Why value capture?
  - Misalignment of payer and beneficiaries
  - upfront funding for PCHCHs through the C'wealth Govt via Medicare
  - potential value reduced hospitalisations that benefit state/territory govts.
- media release : *“Investing in prevention and management of chronic disease keeps people healthier and out of hospital, easing the strain on the hospital system, and increasing efficiency across the wider health system.”*

# The value capture envelope

- Underlying the value capture proposal
  - critical role of primary health care in disease prevention
  - Medicare expenditure is to a large extent investment in such prevention.
- The value capture envelope
  - over 600 000 hospitalisations per year preventable through effective or timely provision of primary care in Australia.

# Designing value capture for PCHCHs

- Two general options.
  - **Cost sharing:**
    - States/territories contribute toward the costs of implementing the program;
    - akin to the conventional value capture model i.e. property developers charged a fixed levy.
  - **Gain sharing:**
    - more like the SIB model
    - investment in PCHCHs is packaged as a bond underwritten by state/territory govts and ‘purchased’ by the C’wealth
    - returns payable based on demonstrable reductions in preventable hospitalisations.

# The gain sharing model

- State/territory govts underwriting bonds
  - dividend contingent on reduced hospitalisations after 3 years.
- Dividend based on a predetermined scale linking performance levels with return.
- Funding for PCHCHs coming from the C'wealth acting as a bondholder,
  - although option for the sale of bonds to private investors.
- Evaluation conducted by a third party
- State/territory govts paying out a dividend to the C'wealth as bondholders, pending achievement of savings.

# The gain sharing model: advantages

- No financial burden on state/territory governments until cost savings are realised.
- It strengthens the C'wealth case for investing in the rollout of PCHCHs by providing them with an offsetting stake in the expected savings in hospitalisation costs.
- It makes explicit the stake that state/territory governments have in the success of PCHCHs.
  - By aligning interests through shared savings, value capture arrangements reduce incentives to cost shift and encourage intergovernmental collaboration.
- A unique feature of this proposal is the alignment of the financial incentives of key players toward a common goal.

# Central role for evaluation

- Evaluation is no longer an optional extra.
- Value capture reliant on the collection of data, ongoing evaluation and the use of data in determining return
- Claims often made about future cost savings but the current system does not compel these to be tested.
- Value capture creates information feedback loops and institutionalises evidence-based investment.
- Health service funders are vested with a strong interest to use evidence effectively
  - ultimately, to become better at picking winners.

# Feasibility/precedent

- The template for value capture exists - through the SIB programs.
  - gain sharing deals contingent on future savings
- Proposal involves no additional cost or risk to the states/territories over the status quo
  - Why? payouts by individual state/territory to bondholders only apportioned from money that it has already saved.



# Conclusion

- Fiscal pressure - need to find new ways generating investment in health
- Value capture
  - realises the potential for investment in primary health care to prevent future health care costs
  - embeds evidence-based investment decision making
  - encourages different levels of govt to work together to address health sector funding needs.

# Declaration

- Through the George Institute, I am a consultant for the NSW Treasury and NSW Ministry of Health in Social Impact Investment programs.
- Views in this presentation do not represent that of the NSW Treasury nor NSW Ministry of Health.