

Worked Example of the Local Improvement Payment Scheme

From a reporting and operational perspective there are 2 types of metrics within the Local Incentive Payment Scheme:

1. Metrics that require data capture and reporting development e.g. Healthy Life Expectancy, PROMs, PREMs.
2. Established metrics that are already recorded and reported at either local or national level.

For developmental metrics, (type 1 above), 2 years of development and base-lining is allocated. The development and base-lining milestones for these metrics will be developed and it is envisioned that these milestones will have the look and feel of milestone achievement goals that are commonly included in CQUIN schedules. Two years is an extensive period of time for development and base-lining and therefore, the expectation is that all such milestones will be achieved within the stated timeframe. Achieving all milestones within the given period will result in 100% of the award for the specific metric in question being paid to the Provider.

Where historical data exists for the metrics within the MCP local Improvement Payment Scheme (type 2 above), these data can be modeled and forecasted to develop likelihoods of achievement. Once this modeling is complete, the achievement reward can be calibrated across the likelihoods so that a reasonable stretch target for the Provider does not convert to a punitive loss of income for failure to achieve. In other words once the likelihoods of achievement are known, the incentive reward can be stretched across part or the whole of the likely achievement distribution.

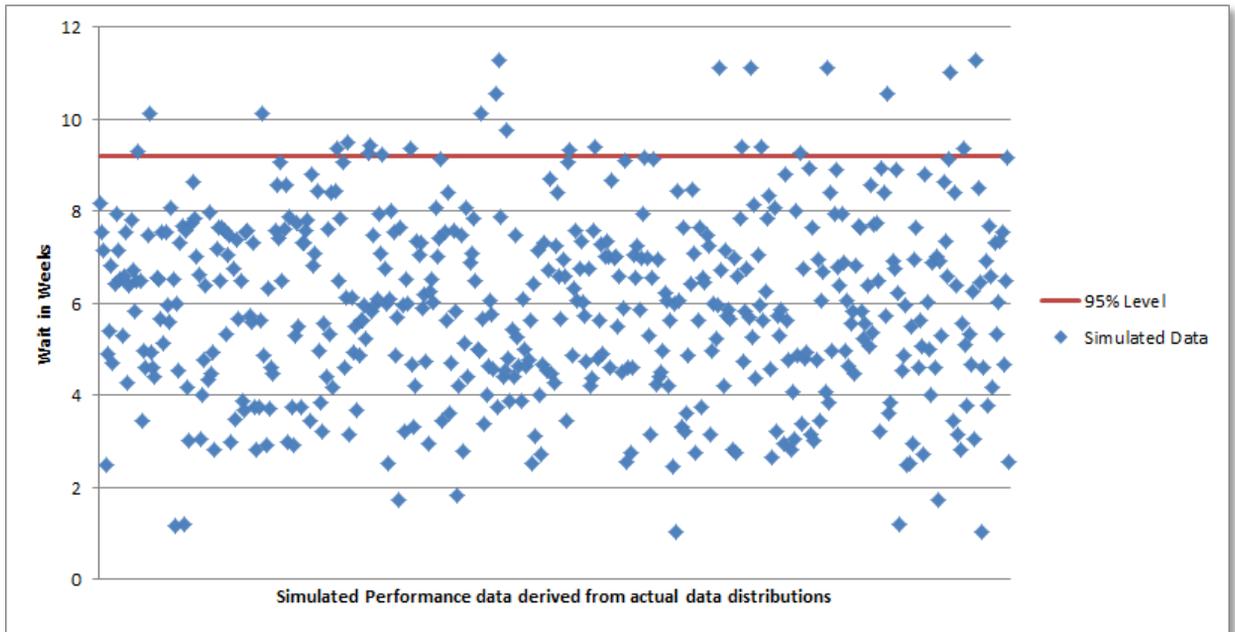
Step one – simulating the likely performance

Example Average wait in weeks – Referral to Paediatric Audiology Diagnostics Time

Currently the average wait in weeks for Paediatric Audiology Diagnostics is 5.82 and the standard deviation by time series is 1.79 weeks. Using these distribution parameters a 'Monte Carlo' simulation was used to randomly generate 500 values within these distribution parameters (see figure 1 page 2). The simulation showed that :

- 95% of values fell below 9.2 weeks (lower is better)
- A statistically significant improvement on the current position (5.82 weeks) would be a reduction of 2.47 weeks.

Figure 1: Monte Carlo Simulation Paediatric Audiology Diagnostics



The blue line in the scatterplot above is the 95% line: therefore 95% of values fall below this level.

Step two – Calibrating the IPS reward against the simulated likelihoods

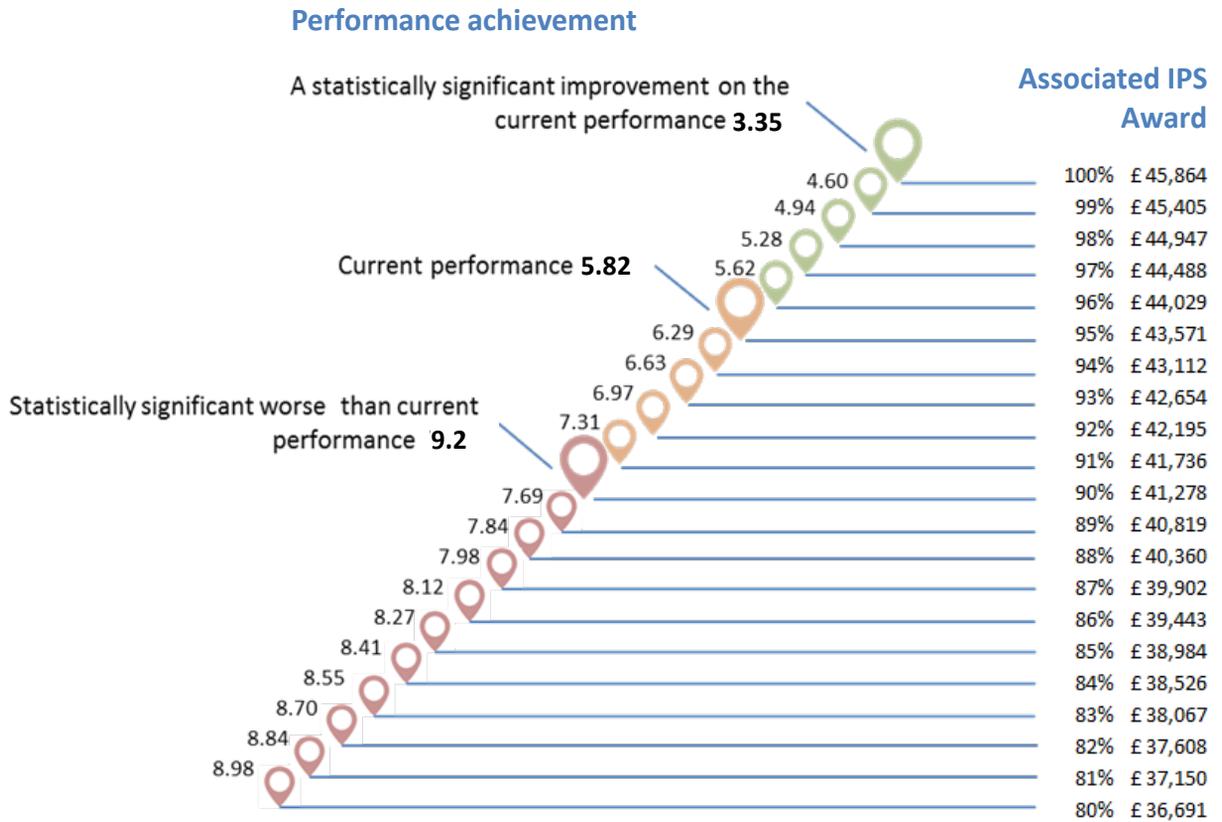
From the distribution derived from the above scatterplot, a sliding scale IPS award can be stretched across this distribution. This stretch can be calibrated in many different ways but the scaling chosen is as follows:

- For achieving a figure which is 2 units of standard deviation above the current achievement (worse) —————> 90% of allocated award
- For achieving a figure which is the currently achieved wait in weeks. —————> 95% of allocated award
- For achieving a figure which is 2 units of standard deviation below the current achievement (better) —————> 100% of allocated award

Therefore the MCP Provider would need to achieve results which are significantly worse than the current performance within the system to earn less than 90% of the award available. For the first two years of the contract it is proposed that the Local IPS payment floor is 80% but that this would be lowered incrementally during the 15 year span of the contract.

The diagram below (figure 2) shows the IPS award spread against achievement for the average referral to Paediatric Audiology Diagnostics.

Figure 2: IPS reward by Performance Referral to Paediatric Audiology Diagnostics



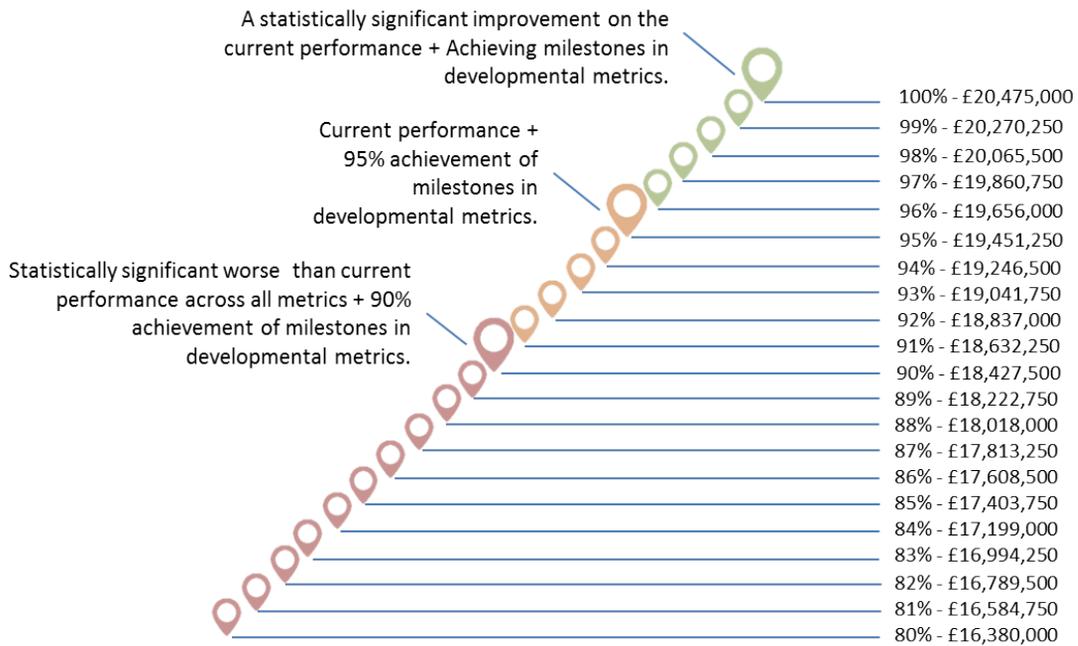
Therefore if the MCP Provider performance for Paediatric Audiology Diagnostics wait times is exactly the same as the current performance in the system (5.82 weeks), the IPS award would be 43,570 (95% of the available IPS award for this metric).

This method of calibrating the IPS award against likelihood of achievement provides a reasonable stretch target while averting a punitive loss of financial reward.

Furthermore, any retained monies from the IPS underperformance will be placed in a pool which the Provider can reclaim through submitting a cogent and deliverable remedial action plan and meeting the agreed milestones therein.

If we extend this methodology to the entire Local IPS Schedule the result is illustrated below (figure 3).

Figure 3: IPS reward by Performance (aggregated full scheme)



Therefore if the MCP Provider performance for all metrics with historical data does no more than match the current performance and all developmental metrics achieve 95%, the Local IPS award would be £19,451,250, a difference of -£1,023,750 from the total Local IPS award available.

However, it is anticipated that all milestones for the developmental metrics will be met in full in years 1 and 2. With this expectation played into the calculations the most likely achievement if there is no change from the current performance is 96.6% (-£706,251 from the total Local IPS available). Furthermore, if the Provider performance was significantly worse across all metrics with historical data (a highly unlikely scenario) the Provider would achieve 92.34% of the Local IPS award (-£1,569,204 from the total Local IPS available).

At this point the National IPS metrics have not been developed therefore likelihood analysis is not possible for this element of the IPS schedule.