Key Considerations and Components of a New Funding Model: Creating a More Efficient and Responsive Children’s Mental Health Sector
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The child and youth mental health sector is undergoing unprecedented change. This current transformation of the system provides Ontario’s Ministry of Children and Youth Services (MCYS) with an opportunity to develop a clear and straightforward method of funding that is fair, transparent and responsive to community-determined need. As a member organization that supports community-based child and youth mental health agencies, Children’s Mental Health Ontario (CMHO) applauds MCYS’ initial steps to create a new funding model. CMHO believes that the current funding model presents a significant barrier to the effective implementation of Moving on Mental Health (MoMH) and that a carefully constructed new model is critical to ensuring the sustainability of the sector. If done right, a new model will contribute to the financial stability of agencies, improving service delivery, access and outcomes for children, youth and families.

This position statement builds on CMHO’s previous policy work, *Funding Principles for Child and Youth Mental Health* and *Towards a Sustainable Future: Working Together to Strengthen Ontario’s Child and Youth Mental Health System*, published in July 2011 and May 2013, respectively. Determining funding principles for children’s mental health services is especially complex, as it is challenging to define concrete timelines for treatment plans and recovery periods. Strategies for funding services must also be particularly responsive and flexible to changing risk factors and provide opportunities for early intervention. Children and youth are particularly vulnerable to gaps in service delivery due to funding shortfalls, as they require care at a critical point in their lives when they are experiencing rapid and intense developmental changes. Each child, youth and family has unique needs that are tied to their individual experiences, which are typically harder to predict than for physical illnesses. While some cases may be handled with relatively few services, others will require ongoing treatment and substantial resources.

The knowledge and input of CMHO, member agencies and those relying on essential services must be respected and utilized to improve sector accountability to children, youth and families by ensuring that financial resources are appropriately allocated.

This position statement will demonstrate the complexity involved in developing a new funding model, while highlighting critical budgetary aspects that are unique to the child and youth mental health sector.

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Transforming the current funding structure

The community-based child and youth mental health system is operating in an increasingly challenging fiscal environment, as outlined in CMHO’s previous policy work and the 2014 Pre-Budget Submission. The current structure of financing the children’s mental health sector falls short of meeting the needs of children, youth and families across Ontario for the following reasons:

- Funding mechanisms differ substantially between programs and agencies and are not based in a consistent framework that appropriately rationalizes funding allocations.
- The true cost of delivering services in remote and northern regions, requiring additional funding to attract qualified professionals, account for transportation costs across large geographical service areas, and provide tele-psychiatry services is not properly indexed in the current model.
- Resources to support culturally and linguistically appropriate services with allocations for translation costs and to hire specialized staff are not currently recognized in provincial funding schemes.
- Funding does not reflect community-determined need and doesn’t meet demand, leading to increased wait times and underserved communities.
- Current budget allocations do not account for sudden demographic changes, which could drastically alter the pressure on individual agencies to deliver services with already minimal resources.
- Funding envelopes for individual budget lines are inadequate, negatively impacting quality service delivery and the provision of comprehensive and specialized care.
- Agencies are unable to plan efficiently for future need due to single year funding contracts, restricted financial flexibility and the inability to redistribute funding between different budget lines.
- The current model lacks funding streams to support important data collection methods, needs assessments, quality assurance and best practices required to improve outcomes, increase accountability to children, youth and families, and determine provincial-wide standards and expectations.

A successful funding structure will help to distribute limited funds more efficiently, creating a stronger and more sustainable system for children, youth and families. It will provide services to meet the individual needs of clients and enable agencies to problem solve for complex cases, while also supporting proactive services such as targeted intervention. Funding will be rooted in a reliable, transparent and consistent framework.
Principles of a New Funding Model

- Funding will cover the cost of delivering services in each region across the province, taking into account demographic, geographic, linguistic and cultural diversity to provide inclusive care and reach more children, youth and families.
- The new funding model will enable lead agencies to self-determine community need and respond to changing demographics to deliver services that match demand.
- The funding model will be outcomes-focused and improve service delivery by providing the sector with budget lines to support specialized and comprehensive services for children, youth and families.
- Multi-year funding contracts and budgetary flexibility and will build stronger, more reliable services for those who require them by increasing financial sustainability, improving human resource planning and delivering positive outcomes more efficiently.
- The funding model will support the necessary infrastructure required to increase accountability to children, youth and families by including the collection of a common data set across the province to promote evidence informed practices, be responsive to outcome measurements and create innovation in service delivery.

Building a Funding Model

To understand the impact of various funding models on the services children’s mental health agencies provide, CMHO completed an environmental scan, which included interviews with key informants and a review of literature on the theoretical concepts behind various funding models and on international case studies.

This statement was developed through consultation with experts who are well-versed in the implications of commonly used funding schemes. For a complete list of those we consulted with, see appendix i. Our research concludes that no one model can achieve all of the goals of MoMH and that a specially designed blended model approach to funding is required to support the financial evolution of agencies and increase accountability to children, youth and families. In this paper, we assess the ways in which aspects of each model would affect agencies, services and clients, and provide guidance about the respective elements that would strengthen the sector.
The new funding model will need to incorporate components from volume-based, activity-based and global budgeting funding models to ensure that the child and youth mental health system is adequately and efficiently funded. For a detailed description of the important considerations of each model, see appendix ii.

**Volume-based funding**

A volume-based model uses demographic characteristics to determine funding allocations. A new funding model would need to include an amount based on the average number of children served by a given agency or region over a recent period of time.

*The model is relevant to the sector for the following reasons:*

- It addresses needs based on per capita funding allocations and managing wait times for initial intake and access to services.
- It enables agencies to serve their communities better, as a portion of their funding is directly linked to client numbers in their given area.
- It reflects the demographic characteristics of the population, in order to determine the types and amounts of services that will need to be funded in each geographic location.²
- It can respond to incremental growth in order to keep pace with changing local demographics.
- It helps agencies provide consistent, timely and accessible care in each community.

**Activity-based funding**

Activity-based funding models focus on the type and amount of services that are provided. An activity-based funding component is crucial to support necessary intensive programs including home treatment, day treatment and residential treatment.

*The model is relevant to the sector for the following reasons:*

- It helps to ensure that longer-term, expensive services are protected.
- It stimulates productivity and efficiency, as financial incentives push the cost of service delivery to match the predetermined amount of funding for the activities being performed.
- It helps agencies provide a range of programs, as required, to meet the array of core service requirements outlined in the service framework.

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Global Budgets

Global budgets are typically based on historic spending patterns through the provision of a lump sum of funding. The funding is a fixed, predictable amount that limits expenditures and is effective as a cost control mechanism. A form of global budgeting is necessary to support the additional operational costs associated with running an agency effectively.

The model is relevant to the sector for the following reasons:

- It provides the funding necessary for investments in infrastructure to account for operational costs including leadership, Information Technology, data collection and analysis, and quality assurance.
- It supports the additional administrative funding associated with key processes.
- It provides funding for data collection and analysis.

Using elements of each model together in a blended approach will create a comprehensive funding structure. The strategy will allocate resources more efficiently to appropriately fund the volume, services provided and operational costs that are specific to a given agency.

Critical aspects of a new funding approach

Within a new model, a number of considerations must be recognized to ensure that it maintains optimal service delivery for the sector and supports positive outcomes for children, youth and families.

Transparency

- Transparent communication from MCYS and an openness to feedback from the sector, throughout the development of the model, will ensure that the funding model addresses the challenges that are unique to the community-based child and youth mental health system.
- Consultation with CMHO and executive directors from member agencies will enable government to benefit from the expertise in the sector and the first-hand knowledge of how funding schemes impact quality service delivery for children, youth and families.
- Additional consultation with youth and families will help assess the impacts of different funding schemes at the ground level.
Responsiveness to Population Needs

- Reserved funding lines are required to recognize costs within a standardized funding model and will need to include the following points:
  - A remote region component is required to cover the costs associated with providing services across large geographic locations with dispersed populations, including additional funding for transportation and human resources.
  - An Aboriginal component is necessary to provide culturally appropriate services for children and families self-identifying as Aboriginal living off reserve.
  - A French language component is needed to fund services that are linguistically appropriate, including translation costs and funding to hire francophone clinicians to meet the requirements of the *French Language Services Act*.
  - A cost of living component is important to address differences in business expenses across the province (i.e. rent).
  - A contingency component is necessary to account for fast growing regions and/or unpredictable spikes in service usage.

Shared Distribution of Risk

- Carefully planned out and consistent funding lines will need to be well-communicated to lead agencies and core service providers, mitigating clinical risk due to unexpected budgetary shortfalls.
- Capped service volumes tied to activity-based funding will help ensure that services are not over utilized, mitigating financial risk for MCYS and lead agencies and preventing the practice of strategic fiscal spending in favour of client-centered care.

  - Service volume and activity caps will be reflective of community- determined need and the provision of required core services for children, youth and families.

Budgetary Flexibility

- Occasionally, agencies attain surpluses under specific budget lines, while acquiring deficits in other funding streams. Retention of such surpluses to redirect funding will enable agencies to plan for the future and promote more cost efficient methods of service delivery, with the goal of serving children, youth and families more effectively.
- Multi-year funding contracts will facilitate more effective and purposeful spending patterns and develop stronger balance sheets.

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Accountability to Children, Youth and Families

- Feedback systems, checkpoints and mechanisms will help adjust funding allocations on an ongoing basis.
- Monitoring and adjustment of the model will be necessary to highlight the successes and failures of the model and produce a self-correcting funding scheme to better serve children, youth and families.
- Changing demographics will need to be carefully monitored, with funding relative to need adjusted over time.
- Fine-tuned and consistently reviewed activity-based funding is necessary to reflect evolving best practices and increase accountability.

Implementing a New Funding Model

The implementation of a new funding model is a complicated process that merits the same level of careful attention and planning as the design phase. The following considerations will impact the success of the implementation phase.

A Phased Approach

As agencies undergo substantial changes to their financial models, they will need adequate time to re-align programs to meet the funding arrangements. A gradual implementation phase minimizes risk of financial instability for service providers. Most importantly, a phased approach will help prevent children, youth and families from being adversely affected by service interruptions during the implementation of a new funding model.
Resources to support agencies with implementation

The implementation of a new funding model will require supplementary funding for the following human and financial resources:

- Training opportunities are required for lead agencies on the specifics of the new funding structure and how to create appropriate budget lines for the core service providers they are partnering with.
- Senior management human resources are necessary to revise financial processes, organizational controls, to build new business models.
- Human resources to support evaluation of the funding model both during and after the implementation phase are needed.
- New work environments may result in hiring, retaining or releasing some staff members and will require additional human resource time and expertise.
- Severance packages, tied to years of service and reflecting case law and common practice of other publically funded sectors, will need to be funded accordingly.

Conclusion

This statement demonstrates that the development of a carefully designed funding model is a critical component of the successful transformation of the child and youth mental health system. To take on the new strategies presented in the Draft Service Framework, the sector must first develop the financial capacity required to be responsive to the call for change.

CMHO emphasizes the importance of ensuring that pre-existing issues are not exacerbated in a new funding approach and that representatives from the sector, with first-hand knowledge of how funding is distributed within agencies, are involved in the development of a new funding model. CMHO, executive directors of member agencies, mental health funding experts, and key stakeholders must work alongside government in order to achieve the goals of MoMH. CMHO cautions that the key reflections presented in this position statement must be recognized to ensure that a new funding model improves quality service delivery for children, youth and families.
CMHO Recommendations:

1. MCYS’ funding model advisory committee should include representatives from CMHO and both lead agencies and core service providers, health economists, and youth and families with experience navigating the system. The group should meet immediately and begin working with MCYS’ system transition team to develop the specifics of a new funding model.

2. A blended model funding approach should incorporate critical components of volume-based, activity-based and global budget funding models to ensure that all aspects of quality service delivery are appropriately funded.

3. Appropriate funding should be allocated to support external evaluation of the effectiveness of the funding model and recommendations for changes, as required.

4. A volume based funding component should factor in incremental growth and incorporate emergency supplementary funding strategies to keep pace with developing need and account for sudden changes in local demographics.

5. Funding for activities should be adjusted for local input, with averages recalculated regularly.

6. A form of global budgeting should be allocated to support the necessary infrastructure required to enhance the sustainability of agencies including outcomes measurement and the actual costs of doing business (e.g. rent, administrative and leadership costs).

7. Special allocations for transportation, infrastructural, and human resources support in rural and isolated northern areas, services for Aboriginal and Francophone communities, the cost of doing business in urban centres, monitoring and evaluation, costs associated with transformation, and contingency plans should be indexed appropriately.

8. Retention of surpluses under specific budget lines and multi-year funding contracts should be granted to all agencies to improve resource planning.

9. Adjustments to the present funding model should be introduced through a phased approach over an extended period of time, with targeted support from MCYS for the resources required to implement a new model.

10. The new model should be regularly reviewed and evaluated to adapt to service needs, gaps in funding and budgetary restraints based on changing circumstances.
Appendix I:

Our process included discussions with child and youth mental health agency executive directors, finance directors, the Ontario Non-Profit Network, and the Ontario Association of Children’s Aid Societies regarding their experience with the implementation of a new funding model. These discussions provided important insight into the possible implications of inadequate funding models and the resulting impact on children, youth and families. CMHO also consulted with Dr. Gillian Mulvale, a health economist at McMaster University and an expert in funding models for publicly funded health services. Dr. Mulvale provided CMHO with invaluable insight and knowledge underscoring that each type of funding model has unique benefits and flaws that must be carefully considered and addressed. 7

Appendix II:

Volume-based funding

The following points are important to consider when using the model:

- The model lacks the capacity to capture the reality of delivering services to culturally, linguistically and geographically diverse populations.
  - It doesn’t account for northern and remote areas facing high service delivery costs including travel expenses, tele-psychiatry and human resources support.
- Demographic indicators of need may not appropriately reflect the true demand of a particular community.
  - It often neglects Aboriginal communities and under-served populations with an exceptionally high prevalence of mental health concerns.

Strategies to maximize the benefits of the model

A component based on need is often incorporated into this type of model to address the social determinants of health. Need relative to population should be determined in a weighted formula that includes the share of the general population in a given community with mental health issues and the percentage living below the poverty line. 8 Additionally, if volumes are not frequently monitored, sudden influxes in population (ex. communities with high volumes of newcomers or refugees) may contribute to substantially longer wait times, and service capacities that do not reflect demand in a given community. To mitigate the negative implications of volume-based funding, a new funding model will need to factor in incremental growth and incorporate emergency supplementary funding strategies to be able to keep

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7 Mulvale, G. “Health Care Funding Models.”
8 A. Mason, M. Goddard, L. Myers, & R. Verzulli, “Navigating Uncharted Waters? How International Experience can Inform the Funding of Mental Health Care in England.”
pace with developing need and account for sudden changes in local demographics. In addition, volume-based models typically require a carefully assessed and realistic form of capping to ensure minimal risk to government.

**Activity-based funding**

*The following points are important to consider when using the model:*

- The model typically does not recognize the true cost of delivering services per unit, as administrative costs and salaries are not accounted for in this model.

- Incentives arise for agencies to cater the services they provide to the most cost effective clients, in order to gain the highest profit margin.
  - Agencies may be apprehensive to serve those with more complex needs, as they may take longer to treat, resulting in less financial profitability.
  - Promoted services may not be what a particular child, youth or family requires.
  - If the child does not receive the proper care, the result could lead to frequent relapses, ultimately requiring a greater amount of financial resources over time.

*Strategies to maximize the benefits of the model*

While such incentives may hinder the quality of existing services, they can be avoided with appropriate restrictions and balances to ensure comprehensive service delivery. Services including specialized consultations, crisis support and intensive treatment are often critical elements of core service delivery and need to be appropriately funded, with proper incentives in place to ensure high cost clients receive treatment. Additionally, payments should reflect variations in treatment times to account for the complexity of mental health issues.9 Activities must also be based on the provincial average costs and be adjusted for local input, with averages recalculated regularly.10

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9 A. Mason, M. Goddard, L. Myers, & R. Verzulli, “Navigating Uncharted Waters? How International Experience can Inform the Funding of Mental Health Care in England.”

10 Ibid.
Global budgets

The following points are important to consider when using the model:

- Services can remain restricted in order to maintain a balanced budget, which leads to longer wait times and places limits on the array of services provided.\textsuperscript{11}
- The model offers few incentives to increase efficiency.\textsuperscript{12}
- Agencies may end up focusing on the most affordable services, as they are unable to provide more comprehensive treatment plans, which can lead to poorer outcomes for children, youth, and families.
- The model may create incentives for agencies to serve fewer clients.
- It often reflects historic spending patterns across communities rather than actual need.\textsuperscript{13}

Strategies to maximize the benefits of the model

The inclusion of a specialized global budget component in a blended model provides agencies with funding that can be flexibly assigned to programs that meet community needs as well as build strong infrastructure. An inflation escalator will need to be incorporated to ensure sustainability.

\textsuperscript{11} Ibid.
\textsuperscript{12} Ibid.
\textsuperscript{13} Ibid.
References:


Mulvale, G. “Health Care Funding Models.” Presentation at Children’s Mental Health Ontario’s Funding Model Task Force Meeting, Toronto, ON, (June 18th, 2014).

Additional Resources:


“Incentive Based Funding and Canada’s Health System.” Canadian Healthcare Association, (2011).


