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Department of Social Services

Transition Funding for Successful Try, Test and Learn Projects (TFSTTLP) program evaluation

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Executive summary

The overarching mission of the Department of Social Services (the department) is to ‘improve the wellbeing of individuals and families in Australian communities’ – to make a positive difference for all Australians. One main driver for this is how the department administers grant funding. In recent years, there has been an appetite within the department to explore different ways of managing grants, to test if these new ways will lead to better outcomes for people while being value for money. One of those ways is outcomes-based funding or **payment by outcomes** (PBO), an approach in which a portion of payments are contingent on performance as measured by agreed outcome metrics.

Transition Funding for Successful Try, Test and Learn Projects (TFSTTLP) (the program) is a PBO program trialled by the department from 2021 to 2023 following the completion of the Try, Test and Learn (TTL) Fund.

The TTL Fund delivered trials of new or innovative projects to support people in the community who face greater disadvantage and are at higher risk of long-term unemployment and welfare reliance. The TTL Fund provided traditional block funding grants totalling \$96 million to 52 projects from 2016 to 2021. The priority groups supported were at-risk young people, carers, migrants and refugees, older unemployed people, and women at risk of long-term unemployment.

The program funded 7 service providers – of which 6 completed the program – to continue to deliver their TTL projects with a PBO approach (the projects), from a total budget of \$12.6 million over 2 years. All 7 projects had been evaluated as achieving successful employment outcomes for their participants during the TTL Fund. The intent was three-fold:

- First, that the department would, through undertaking the trial, develop its capabilities and generate evidence for what works in PBO programs, to inform future program and policy decisions.
- Second, that the PBO approach would lead to improved services from service providers.
- Third, that this would ultimately lead to better employment outcomes for project participants.

The department commissioned Social Ventures Australia (SVA) from January to July 2023 to evaluate the extent to which the program had achieved its intended objectives. This report presents the findings from the evaluation, together with lessons learned to inform future policy and program decisions. This executive summary synthesises the key findings and lessons learned. It is intended primarily for program managers or decision makers who are or who are considering embarking on PBO approaches within the department, and more broadly within government.

In Figure 1 on the next page, an overview of the program’s activities, funding and resources, key findings from the evaluation related to what changed for participants, service providers, and the department, and key lessons for future PBO programs and policy is presented. They are discussed in further detail throughout the remainder of the Executive Summary.



Figure 1: Overview of key findings and lessons learned

Key findings from the evaluation

The background context in which to interpret the findings

Findings are too often taken out of context. This section attempts to address that by summarising the key contextual elements in which to interpret and understand the findings from the evaluation. The intent is to enable program managers or decision makers within government to draw insights from the findings that are appropriate for their situations.

The community, political, and economic context in which service providers were operating across Australia evolved during the 2-year period of the program:

- Low unemployment rates combined with state and federal responses to the COVID pandemic – whether restricting movement, requiring vaccinations, or modifying employment subsidies – impacted participant recruitment and service delivery for several service providers.
- Other policy changes, for example, the introduction of Workforce Australia following the 2022 federal election, resulted in a need for several service providers to adapt their referral pathways and service.
- The rise in the cost of living across the 2-year period affected the willingness of certain participant cohorts to travel longer distances for employment.

In addition to evolving over the 2 years, this external context was markedly different from that encountered in 2016 to 2021 during the TTL Fund, which has to be considered in evaluating the changes achieved for participants and service providers in the program.

It is also important to highlight the internal context of the department during the design and implementation of the program. The decisions to create the program as a 2-year follow-on funding mechanism from the TTL Fund for a reduced number of service providers, and to adopt a PBO approach, were taken by the government towards the end of the TTL Fund. The program team had a compressed timeframe to develop a grant design that had rarely been used before in the department, and establish data reporting with the level and rigour required for a PBO approach.

Several factors needed to be balanced by the program team. One key consideration was the need to develop a sufficiently rigorous outcomes-based approach that was also easily understood by department executives, the Minister for Social Services, and service providers. Another area for innovation was between the department's established grant administration approaches, and the interest in exploring new ways to fund and partner with the sector.

What the program changed for participants

The program **supported over 850 participants from a diverse range of cohorts** including carers and young parents, migrants and refugees, and women experiencing homelessness and domestic violence. All were at risk of long-term welfare reliance, although barriers to employment varied across the groups. Projects provided a range of individualised support enabling participants to overcome barriers to employment, to become more job-ready, and to secure employment.

Under the program, **many participants achieved the outcomes specified in service providers' PBO agreements**. Across the 6 service providers who completed the program, and as measured by the outcome metrics:

- At least 104 participants exited income support due to employment.
- At least 195 participants increased their income above a set threshold due to employment.
- At least 15 participants commenced or returned to study, as a pathway towards employment.

There is evidence that the program significantly contributed to participants increasing their income and that participants would not have achieved this outcome without service providers' support. There is also evidence that the outcomes were achieved faster than in the TTL Fund. There are, however, limitations to the strength of this evidence, notably due to the short overall length of the program.

Participants were also **supported to achieve outcomes beyond those specified in service providers' PBO agreements**. These included improving employability skills and overcoming practical or non-vocational barriers to employment, such as mental health, childcare, and English language proficiency.

What the program changed for service providers

The program helped to **increase the capacity of service providers to engage in PBO agreements** by increasing capabilities and infrastructure required to collect, manage and report outcomes data. Some also increased their capacities related to financial and risk management.

Some providers reported that the program **reinforced their focus on continuously improving services** to deliver better outcomes for participants. However, service providers reported needing more regular outcomes data to be able to make data-driven improvements to services and operations, took time to understand what counted as outcomes, and placed value on intermediate outcomes that were not used as PBO outcome metrics.

At the time of writing, five of the six service providers had received ongoing funding under block-funded grant agreements from July 2023. However, it was not possible to draw conclusions about the extent to which this can be attributed to the program.

What the program changed for the department

Developing stronger partnerships with service providers was one of the significant changes achieved for the department through the program. A pivotal factor cited by both service providers and department staff as contributing towards stronger relationships was the regular opportunity to meet and discuss progress through the quarterly Outcome Progress Reviews. Service providers remarked on the department's genuine interest in their projects, willingness to be flexible, and commitment to working through challenges together.

The program contributed to the department **identifying its current level on each of the key capabilities** needed to design and implement PBO programs. There is also evidence that it contributed to strengthening certain capabilities within the department, such as obtaining and analysing quality data, nurturing collaborative partnerships, and managing contracts constructively.

The overarching success of the program is in the **rich collection of lessons learned**, which are detailed in the report section 'Understanding better what works in PBO programs'. These relate to what service providers need to have in place, the role of department capabilities and culture in shaping the success of PBO programs, and important considerations for design and implementation.

Key lessons learned for the future

The program design and implementation generated insights about what worked effectively, and areas for future enhancement. This section highlights 7 lessons learned that can be applied to a wider range of PBO programs that the department may consider in the future, and which can be tailored to a program's context.

1. Be clear on what it is for

Ensure that resources and timeframe align with a program's purpose.

Building a shared understanding among key stakeholders of the purpose of a PBO program is particularly important at the beginning when decisions on timeframes and resource allocation are being made. For example, if the main objective is to rigorously measure participant outcomes where achieving some of those outcomes may realistically take years, there may be a need to consider using lead indicators that can demonstrate incremental progress towards the outcome and be observed in the data within the program's timeframe.

Sufficient resources need to be allocated from the outset to allow time for building relationships with partner service providers (see Lesson 6) and setting up the necessary data systems on both sides.

If the program involves smaller, more specialised service providers, they will likely have a smaller number of participants and a smaller capacity to develop the skills and infrastructure necessary to engage in a PBO agreement. This means that there may be a need to reduce the emphasis on rigorously measuring outcomes, and to focus on trialling aspects of a PBO approach that are suited to their size.

2. Proceed only if there is a good fit

Assess maturity of critical capabilities and pertinence for outcome types.

Service providers and the department both require an appropriate level of maturity across a number of critical capabilities in order to successfully participate in a PBO program.

For service providers, having a minimum viable product is necessary but not sufficient: they also require robust financial viability, abilities in risk management, contract management, and data analysis, along with an appetite for innovation.

For the department, the ability to obtain quality data and analyse it is essential, as is the ability to nurture collaborative partnerships and to manage contracts constructively. Equally important are the ability to communicate clearly and to build – and maintain – internal alignment throughout the program.

Beyond the critical capabilities required on both sides, there are certain outcome types that may be better suited to a PBO approach than others: the data required to measure the outcomes needs to be readily available, and correlation with impact and financial savings for the department must be considered.

3. Customise deliberately

Balance standardisation across a program with adaptation for service types and participant demographic groups.

Standardising elements of the PBO agreements such as outcome metrics or measurement periods in a PBO program funding several interventions is important because it streamlines the commissioning process. However, this needs to be balanced with adapting to the service types and participant demographic groups, to ensure that the PBO approach effectively supports the achievement of outcomes for each intervention.

During the commissioning process, it may be helpful to set guidelines for which contract elements are fixed or negotiable. Performance targets in particular may need to be adapted to a service provider's specific context, considering factors such as recruitment method and the expected time to achieve the outcome.

4. Consider unintended consequences

Balance intended and unintended impacts of design and implementation decisions.

Any design or implementation decision will have unintended consequences. What is important is to identify them, and to choose those that least impact the PBO program's purpose (see Lesson 1). For example, choosing certain outcome metrics over others with the intention of focusing service providers' efforts towards achieving those outcomes, may increase the risk that other important outcomes that are not directly measured within the PBO program are deprioritised.

5. Make the implicit explicit

Openly discuss risk appetite, power dynamics, and handling the unexpected.

Department stakeholders and service providers are likely to have different interpretations of risk appetite and how to handle the unexpected. Discussing these internally enables the PBO program team to manage expectations and maintain the authorising environment for the program. Discussing these with service providers ensures they have thought sufficiently about the risks involved and have planned sufficiently for the scenarios in which performance targets may not be met.

Explicitly recognising the power dynamics between the department and a service provider and discussing together how this can be mitigated throughout the program is also critical to continuing progress towards genuine partnership.

6. Invest in the partnership

Take the time and effort to build relationships with service providers.

Engaging in something new and that has risk attached to it requires trust in the partnership. For service providers who operate on a human scale, the department can help facilitate trust by designating a single contact from the initial conversations who understands the service provider's specific context and liaises internally with others within the department as needed.

7. Keep trying, testing, and learning

Advocate continued trialling and sharing of lessons across government and with the sector.

Real change takes time. This is particularly true for the changes in mindset and culture that are required in a shift from traditional block funding grants to a PBO approach. To support continuing development of department capabilities and to ensure that future PBO programs are set up for success, an enabling spirit of experimentation and learning must be genuinely supported across the department – including in grant design decisions – and shared with the sector.

Introduction

Australia has the resources to be a country where all people and communities can thrive. Yet many do not, experiencing one or more facets of disadvantage.

Government agencies and service providers can alleviate disadvantage by delivering programs and support that generate measurable outcomes. While agencies and providers span a continuum, most do not effectively measure the outcomes that they achieve. This limits the opportunity to learn what works, which can inform decision-making towards better outcomes. Agencies have limited budgets and need to allocate scarce resources according to highly regulated processes. Providers have limited capacity and influence and are often unable to continue or scale successful programs alone. There is a clear need across both agencies and providers to ensure effective government resource allocation, to build capacity, and to strengthen accountability for outcomes.

One of the ways to do this is through outcomes-based funding or **payment by outcomes** (PBO), an approach in which at least a portion of payments are contingent on the results achieved by a program. The intention is that this will lead to better outcomes for people while creating value for money.

Global interest in PBO approaches has increased significantly over the past decade. Considering the subset of social impact bonds alone, there are currently over 200 social impact bonds contracted by governments across more than 30 countries (Government Outcomes Lab, 2022). Social impact bonds are defined in Figure 2 below. Australia has followed this trend, with over 20 PBO agreements – the majority of which are social impact bonds – being deployed over the past decade.

The Department of Social Services (the department) has demonstrated commitment to growing the Social Impact Investing (SII) market in Australia through initiatives to trial PBO approaches and build the capacity of the sector. Building on these initiatives, the Transition Funding for Successful Try, Test and Learn Projects (TFSTTLP) program (the program) was trialled by the department from 2021 to 2023. These trials demonstrate the department's recognition that the way it decides grant funding is a fundamental driver for achieving its mission – to 'improve the wellbeing of individuals and families in Australian communities'.

This Introduction provides relevant background information for understanding the detailed findings presented in the remainder of the report.

How the program came to be

The program was established by the department in 2021 to run for a period of 2 years, at the conclusion of the original Try, Test and Learn (TTL) Fund.

The TTL Fund was established by the department in 2016 with a \$96 million budget over 5 years, to generate new insights and empirical evidence into what works to reduce long-term welfare dependence. Traditional block funding grants were provided to 52 projects to trial innovative approaches to support at-risk groups identified by the Australian Priority Investment Approach to Welfare, which was informed by a review of Australia's welfare system (McClure et al. 2015). The priority

groups supported were at-risk young people, carers, migrants and refugees, older unemployed people and women at risk of long-term unemployment.

As the TTL Fund came to its conclusion in 2021, the government provided additional funding to several service providers who had experienced success with their projects so that they could continue service delivery. Up to \$10 million over 2 further years was allocated in the 2021–22 budget to continue funding up to 10 projects that had demonstrated success under the TTL Fund, as measured by an independent evaluation (University of Queensland 2021). The intention was that the service providers use this 2-year period to transition to alternative funding. However, rather than continue with a standard grant agreement, the government took the opportunity to trial PBO agreements for these service providers.

PBO agreements were already being trialled in the department, including through the Social Impact Investing project's PBO Trials program, which began in 2019–20. These trials were co-developed through an extended and in-depth process with 3 service providers. The established PBO agreements see service providers hold a relatively high level of financial risk balanced with high potential for financial reward and a high degree of freedom for innovation in service delivery. They require robust measurement of data and strict verification of outcomes.

What outcomes-based funding involves

Outcomes-based funding can take various forms, with the common denominator being that the performance of an intervention is measured relative to a baseline or counterfactual, and a certain portion of payments are linked to the intervention's performance as measured by agreed outcome metrics.

Compared to traditional grant funding, this generates a financial risk for service providers while reducing financial risk for the commissioning party – if performance targets are not achieved, then the service provider may not be paid the full amount of at-risk funding.

Social impact bonds and PBO agreements are 2 key variations of outcome-based funding agreements. PBO agreements can have different names depending on the government jurisdiction, including PBO contracts, social impact investments, payment by results (PBR), and Partnerships Addressing Disadvantage (PAD). In Figure 2, traditional grant agreements, social impact bonds, and PBO agreements are compared on a spectrum from lower service provider risk to higher service provider risk (Bollen and Sainty 2022). Traditional grant agreements sit at the lower end of the spectrum whereas PBO agreements sit at the higher end.

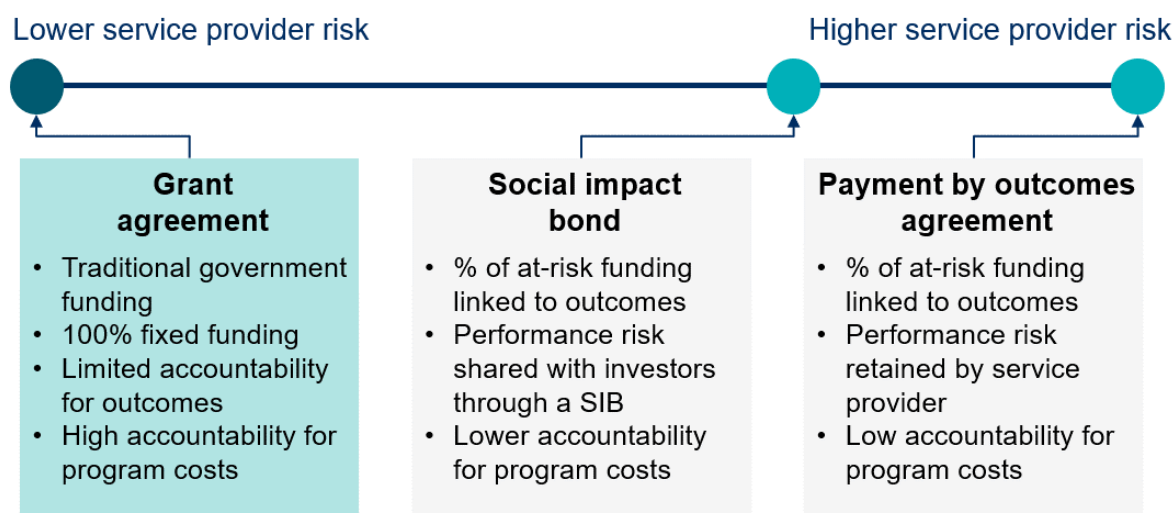


Figure 2: Key variations of outcomes-based funding in comparison to traditional grant funding

A PBO program may comprise of several individual PBO agreements funded under the same initiative. The agreements funded under a program generally employ the same or similar outcome metrics, method of setting performance targets, and reporting requirements. The PBO agreements under the TFSTTLP program share several design elements that are explained in the following subsections.

What the program is

The stated purpose of the program is to:

- Link people at risk of long-term welfare dependence to sustainable employment.
- Develop outcomes frameworks and transition TTL Fund projects to PBO agreements.
- Generate insights and evidence useful for future policy and program development.

Seven service providers across Australia participated in the program, with one project – Train and Care – terminating in June 2022 due to unexpected difficulties in recruiting participants, related to COVID-19 restrictions. Train and Care aimed to recruit participants through face-to-face meetings with community groups, playgroups, mothers' clubs and other avenues to connect with the target cohort of young parents and other vulnerable young people. However, COVID-19 meant that many of these groups ceased to meet, making it difficult to promote the project and recruit participants.

A summary of the 7 projects is provided in Table 1. Throughout this report, the service providers and projects funded are referred to using their project name or its abbreviation indicated in Table 1.

Table 1: Service providers and projects supported by the program

Service provider	Project	Description
Adelaide North Division of General Practice	Sonder Employment Solutions (Sonder)	Assist migrants and refugees with complex psychosocial barriers into employment, through delivering employment and vocational support from employment specialists trained in Mental Health First Aid
Apprenticeships are Us	Train and Care	Assist young parents and other vulnerable young people to transition into work by skills development and financial assistance to cover any upfront or gap childcare costs
Australian Medical Association Western Australia	Carers Connect to Education and Employment (Carers Connect)	Assist carers to enter the workforce or undertake vocational training through ongoing individualised support and financial assistance to overcome barriers to participating in work or training
Australian Migrant Resource Centre	Women's Employment into Action (WEIA)	Assist migrant and refugee women into the workforce by providing culturally appropriate accredited training, prevocational non-accredited training, and individualised support
Community Corporate	Employer-led Refugee Employment Project (ELREP)	Assist migrants, refugees, and disadvantaged youth to build their skills and capability for work through an employer-led, culturally customised employment program
Productivity Bootcamp	Build and Grow	Assist at-risk youth to find work in the trade industry through an intensive training program that develops trade-related and job-readiness skills, as well as individualised coaching support
Two Good Foundation	The Work Work Program	Assist women who have experienced homelessness, domestic violence and complex trauma into employment through providing paid on-the-job training, facilitating accredited training in employable skills, and facilitating a 6-month paid work placement in the aged care or hospitality industry

Due to its early exit from the program, Train and Care is excluded from further commentary and analysis throughout this report.

This evaluation assesses both the TFSTTLP program as a PBO program, and the PBO agreements that service providers entered into, which had significant overlap but demonstrated some variation. This distinction is highlighted in Figure 3.

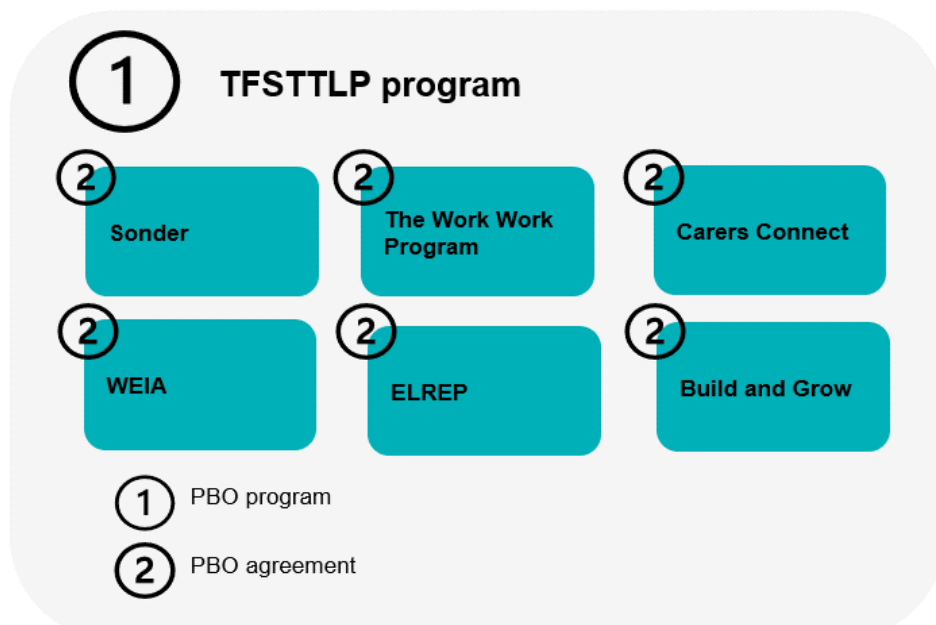


Figure 3: Program structure

The program's PBO agreements can be characterised as PBO agreements that retain some elements of a traditional grant agreement. Up to 50% of the overall payment, based on project costs, was linked to performance as measured by agreed outcome metrics. At the same time, the detail that project activities are specified in the agreements and level of reporting required on activities and acquittals was more extensive than for some other PBO agreements. Notably, other outcomes-based funding programs commissioned by the department, like the PBO Trials under the SII project, also have reporting requirements commonly associated with traditional grant agreements. Another difference to some other PBO agreements, such as the department's PBO Trials, is that service providers did not receive financial reward beyond their project costs for meeting performance targets.

This evaluation assesses the program at the program level *and* the PBO agreements that came under it. This enables findings on both the design and implementation of individual PBO agreements, and the commissioning of several PBO agreements under one program.

In the following subsections, key elements of the program's PBO agreements are defined. This background is assumed throughout the rest of the evaluation. For more detail, see 'Appendix 1: PBO Decision Framework'.

Outcome metrics

Outcome metrics define the outcomes that service providers will work towards and how they will be measured. The 3 outcome metrics used across the PBO agreements in the program are presented in Table 2. Note that Outcomes 1 and 2 have a longer-term indicator.

Table 2: Outcome metrics used in the program

Outcome	Definition
Outcome 1 Exiting income support due to employment	Participant must have remained off Income Support Payments for at least 32 days in a consecutive 6-week period, where the exit reason is employment
Outcome 1 (Longer Term) Exiting income support due to employment	Participant must have remained off Income Support Payments for at least 137 days in a consecutive 26-week period, where the exit reason is employment
Outcome 2 Increased employment income	Participant must earn an amount of employment income at least \$1,153 or \$2,307 (according to the project) above the participant's baseline in a consecutive 6-week period
Outcome 2 (Longer Term) Increased employment income	Participant must earn an amount of employment income at least \$5,000 or \$10,000 (according to the project) above the participant's baseline in a consecutive 26-week period
Outcome 3 Commencing or returning to study	Participant must start receiving a student payment during their outcome period

This evaluation's primary focus is Outcomes 1 and 2, given they are relevant to most service providers and participants, with a secondary focus on Outcome 3. All 6 service providers were contracted to support Outcomes 1 and 2, and 3 service providers were contracted to support Outcome 3. The longer-term indicators of Outcomes 1 and 2 are out of scope, given the data used to evaluate the program was analysed before all participants had the opportunity to achieve them.

Performance targets

Performance targets describe what service providers need to achieve to receive outcome payments. The performance targets for each outcome payment were structured consistently across the agreements, as shown in Table 3. Key variations across service providers included the number of instances required and the combination of Outcomes 1, 2 and 3 prescribed. Notably, the department agreed with 2 service providers to adjust their performance target for outcome observation

period 1 to zero. This reflected time needed to ramp up recruitment and service delivery.

Table 3: Performance targets used in the program

Payment	Performance target
Outcome payment 1	x instances of participants achieving Outcomes 1, 2 or 3, during outcome observation period 1, defined as the contractual activity start date to March 2022
Outcome payment 2	y instances of participants achieving Outcomes 1, 2 or 3, during outcome observation period 2, defined as March to October 2022
Outcome payment 3	z instances of participants achieving Outcomes 1, 2 or 3, during outcome observation period 3, defined as October 2022 to April 2023
	and
	provided service to at least X individuals cumulatively across all 3 outcome observation periods
Outcome payment 4	Y instances of participants achieving Outcomes 1 or 2 (Longer Term), cumulatively across all 3 outcome observation periods

The number of instances required for each outcome payment was set based on data analysis of the outcomes achieved by each service provider under the TTL Fund. The way that performance targets were constructed is discussed further in the section ‘Suitability of performance targets’ in this report.

Payment structure

A PBO agreement’s payment structure determines how much service providers will be paid and when. The agreements under the program paid service providers based on their project costs. The percentage of at-risk funding – tied to the achievement of outcomes – ranged between 35–50% of total project costs across service providers. All service providers received 2 upfront establishment payments in Stage 1 of the program and up to 4 outcome payments in Stage 2 the program. During Stage 1 of the program, the department worked with service providers to agree on their outcomes-based funding model and performance targets. During Stage 2, service providers transitioned to operate under the funding model and performance targets agreed to. Figure 4 shows the percentage of funding across establishment payments and outcome payments for service providers with performance targets for all 3 outcome observation periods. Their percentage of at-risk funding was approximately 50%.

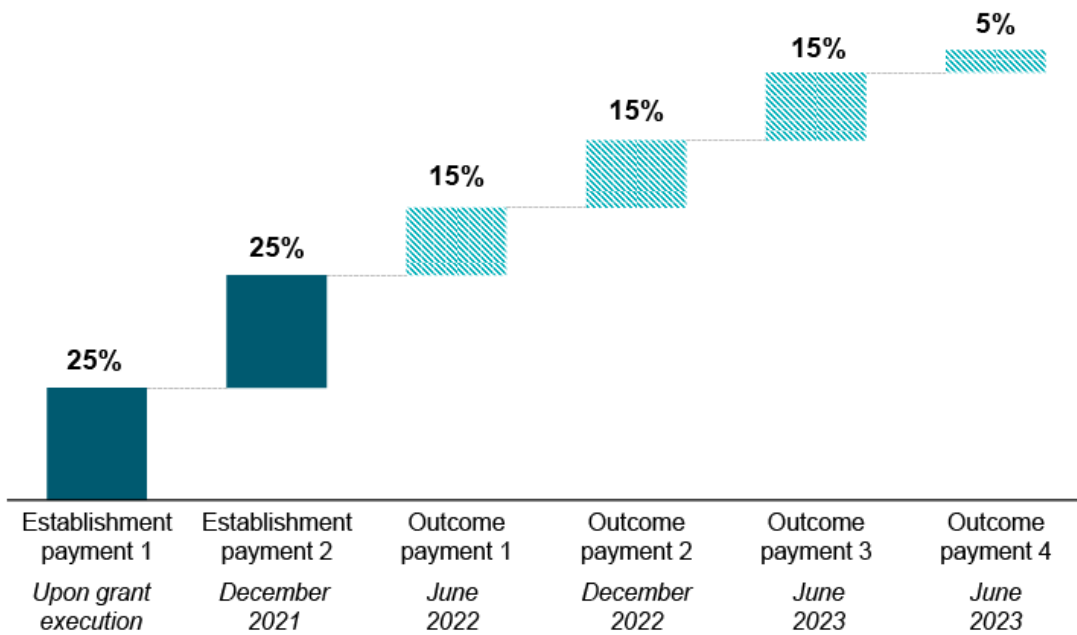


Figure 4: Typical payment structure for service providers with performance targets for all 3 outcome observation periods

Figure 5 shows the percentage of funding across establishment payments and outcome payments for service providers with performance targets for outcome observation periods 2 and 3 only. Their percentage of at-risk funding was approximately 35%.

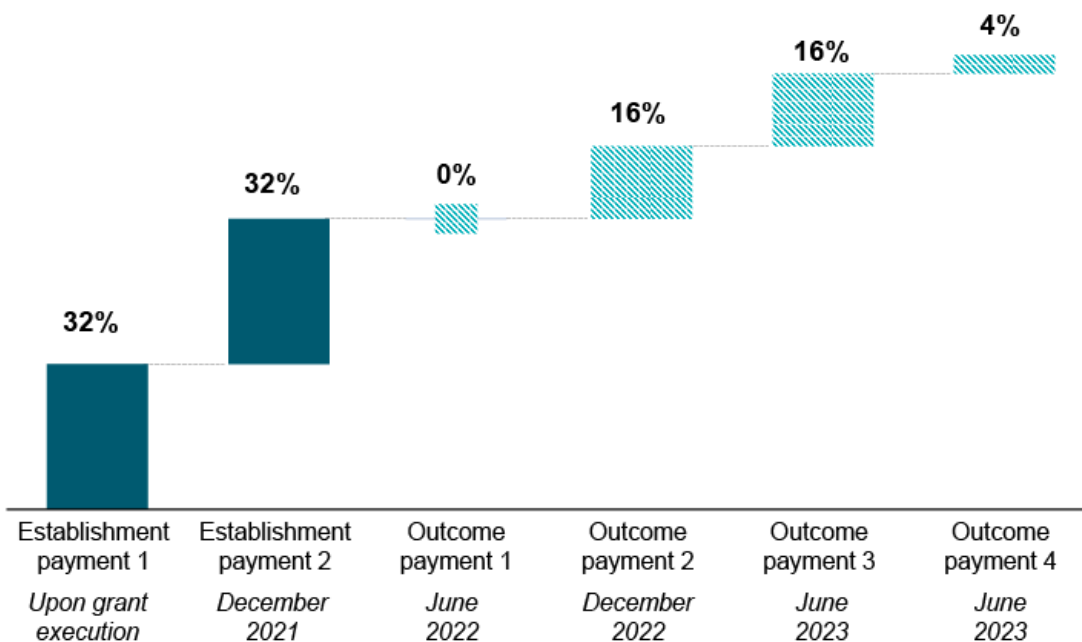


Figure 5: Typical payment structure for service providers with performance targets for outcome observation periods 2 and 3 only

The outcome payments are binary in nature, meaning that service providers receive the full payment if they meet their performance target, but need to undergo a review process if they do not, as part of the Outcome Progress Reviews, described below.

Participants and relevant subgroups for measuring outcomes

The rules and processes that determine who gets to participate in a service funded through a PBO agreement and who is measured for outcomes have a significant impact on what the service provider gets paid for.

The **participant group** is the people who receive a service. The service providers supported a wide range of participant cohorts, as described in Table 1. The eligibility criteria for participant groups varied across the projects.

The **evaluation group** is the subset of participants, for a given project, that are counted towards the achievement of Outcomes 1, 2 and 3. In the program, they were defined as participants who had:

- given consent for their de-identified personal information to be used by the department for evaluating the service provider's performance
- at least 3 support sessions reported in the department's Data Exchange (DEX) system
- a statistical linkage key that could be used to link their DEX and welfare data.

DEX is the department's grant and program reporting database. Funded service providers use it to report on activities, participants, and milestones.

An **outcome observation group** consists of those participants in the evaluation group for whom it is possible to observe whether the given outcome was achieved in their welfare data. For Outcome 3, the outcome observation group is equivalent to the evaluation group, because being able to be linked ensures that any student payments will be visible. For Outcomes 1 and 2, the outcome observation group is typically a subset of the evaluation group, as these outcomes are not able to be observed for all participants. This occurred when participants were not receiving income support (or another supplementary payment for Outcome 2).



Figure 6: Subgroups of project participants that are relevant to measuring outcomes

The counterfactual

A key feature of PBO agreements is the use of counterfactuals. Understanding what would have likely happened in the absence of a given project, through comparing with a counterfactual, increases understanding of what outcomes can be linked to the project. This is shown in Figure 7, where the outcomes that can be linked to the project are the difference between what the evaluation group achieved and the counterfactual estimate.

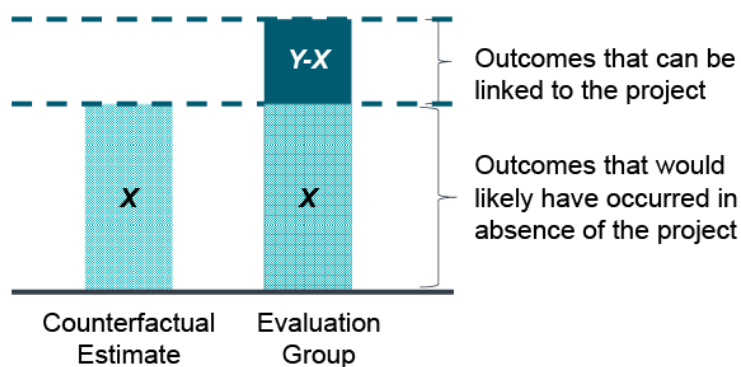


Figure 7: How counterfactuals increase understanding of what can be linked to a given project

The program constructed a counterfactual for each service provider using a matched comparison group method (Hanita et al. 2017). The comparison group is constructed from a sample of non-participants in welfare data, matched based on characteristics such as demographic information, welfare payment history, relative geographic disadvantage, and point in time. The purpose of the comparison group is to increase the understanding of what outcomes could be linked to service providers in the current environment. It was not incorporated into the payment structure, like for some other PBO agreements, but was considered in payment decisions if performance targets were not met.

Outcome Progress Reviews

A critical feature of the program, built into each of the PBO agreements, is a quarterly meeting with each service provider called the Outcome Progress Review. The review has 3 main objectives. First, to agree on service providers' progress towards the performance targets. Second, to understand underlying factors and identify potential remedies for any underperformance. Third, to discuss and agree on any changes that may be required in the funding agreement. This last objective was to allow flexibility throughout the course of a given funding agreement, to respond to unexpected circumstances that may impact service providers. The Outcomes Progress Reviews reflected the program's commitment to setting realistic targets for service providers.

A theory of change for the program

A theory of change articulates the strategic narrative for why an organisation or program exists, what it does, and how what it does leads to the intended impact for the people it seeks to serve.

The program tests how PBO agreements between the department and service providers can drive better employment outcomes for participants, ultimately improving their overall wellbeing. The theory of change in Figure 8 shows how these activities can lead over time to the intended impact, through a simplified chain of cause and effect. This includes short- and longer-term changes, or outcomes, for participants, service providers, and the department itself.

Key inputs shown in Figure 8 include \$12.6 million funding for the service providers, and support from 4 full time equivalent (FTE) department staff. The outcomes presented for participants, service providers, and the department are discussed in the following chapters. The intended impact resulting from these outcomes is that:

- Participants increase their economic independence, which contributes to overall wellbeing.
- Service providers consistently make evidence-based decisions focused on outcomes, delivering services that meet the needs of participants.
- The department makes transparent policy decisions based on effective outcomes measurement, which delivers better value for money for government.

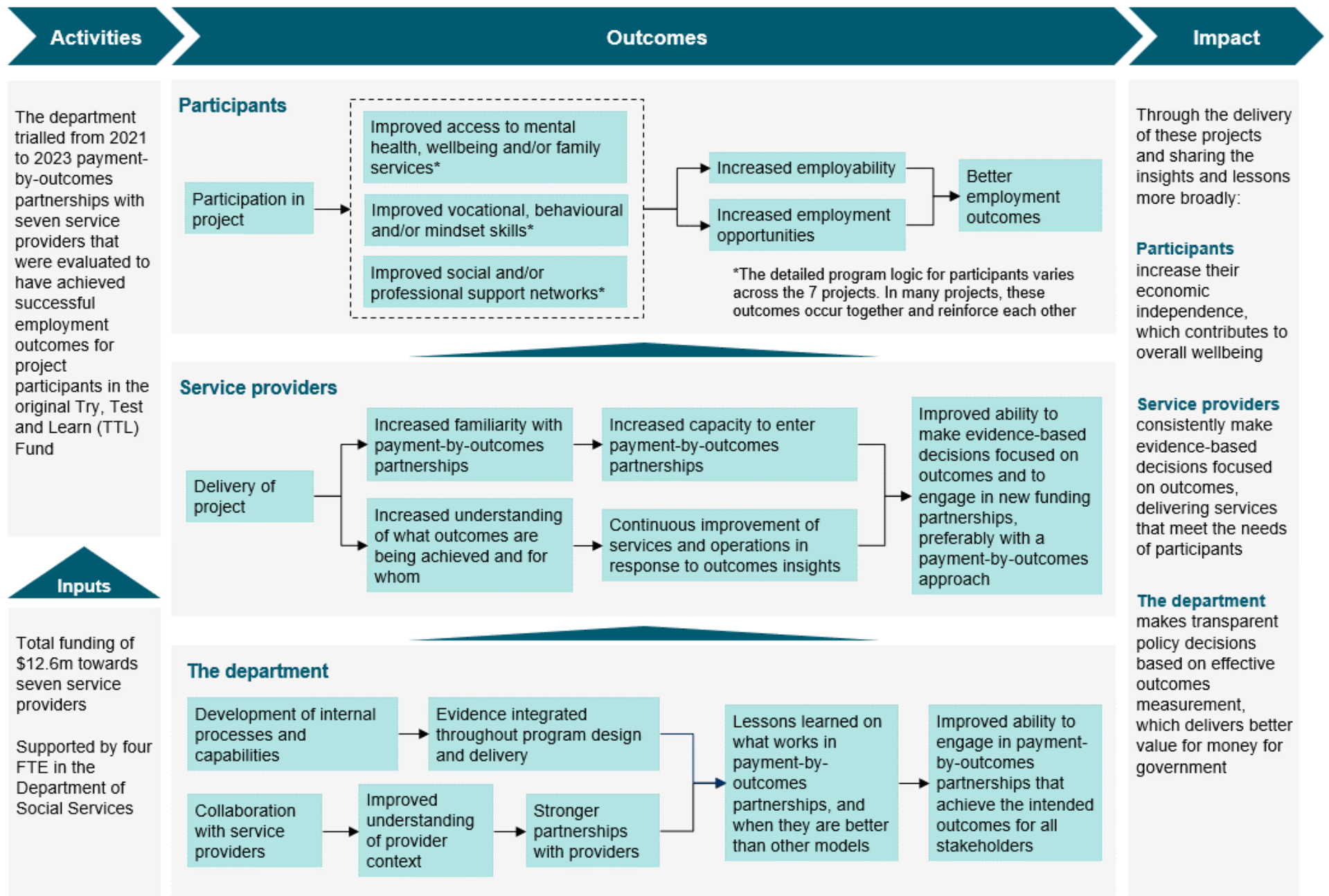


Figure 8: Theory of change for the program

What this evaluation addresses

This evaluation assesses the extent to which the program achieved the outcomes for participants, service providers, and the department, that are set out in the theory of change in Figure 8. The report is intended primarily for program managers or decision makers who are considering embarking on PBO approaches within the department, and more broadly within government.

The following 3 chapters detail the assessment of what the program changed for participants, service providers, and the department, as follows.

For **participants**:

- Who and how many people were supported by the program?
- To what extent did the program contribute to participants achieving the outcomes that service providers were contracted to support, and other outcomes?
- How suitable were the program's outcome metrics and performance targets for tracking improved participant outcomes?

For **service providers**:

- To what extent did the program contribute to service providers increasing their capability to engage in PBO agreements?
- To what extent did the program contribute to service providers increasing their ability to improve participant outcomes, through understanding how outcomes are being achieved, and adjusting their service delivery accordingly?
- To what extent did the program contribute to the increased likelihood of service providers securing continued funding for their projects?

For the **department**:

- To what extent did the program contribute to the department building stronger partnerships with service providers?
- To what extent did the program contribute to the department strengthening its capabilities to design and implement PBO programs?
- To what extent did the program contribute to the department increasing its understanding of what works in PBO programs, and in which contexts they can be most effective in achieving the intended impact?

Note that these questions are not mutually exclusive, given the interconnectedness between the different outcomes for participants, service providers, and the department, in the theory of change for the program.

'Appendix 2: Evaluation methodology' describes the evaluation methodology. 'Appendix 1: PBO Decision Framework' summarises the evaluation's assessment of the different design and implementation choices that have impacted the intended outcomes of the program. This informs considerations for future PBO programs and agreements.

What the program changed for participants

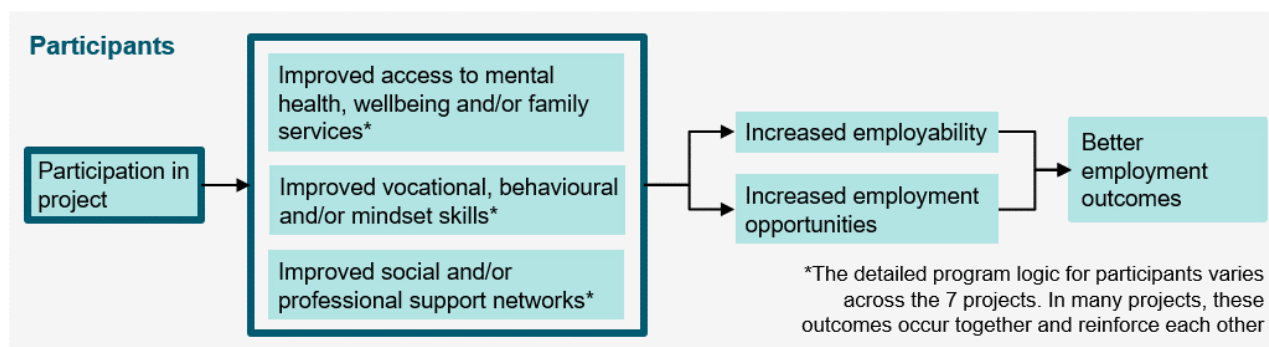


Figure 9: Intended participant outcomes from the program's theory of change

This section assesses what the program changed for participants, organised around the intended participant outcomes described in the program's theory of change. Specifically, findings on the extent to which the program contributed to the following are presented:

- Improved access to services, improved skills, and improved support networks.
- Increased employability and employment opportunities.
- Better employment outcomes.

This is shown in Figure 9.

In PBO agreements, there is a difference between what matters, what gets measured, and what service providers get paid for. For the program, linking people at risk of long-term welfare dependence to sustainable employment was what mattered. Outcome metrics that tracked better employment outcomes were what got measured. Meeting the performance targets, constructed based on these outcome metrics, was what service providers got paid for. By contrast, in traditional grant programs there is also a difference between these 3 things, but service providers get paid to deliver *activities*. In this section, who was supported by the program, the outcomes that they achieved, and the suitability of the outcome metrics and performance targets in tracking improved participant outcomes is assessed.

Participation across a diverse range of cohorts

The program supported 860 participants from a diverse range of cohorts including carers, migrants, and younger people. All were at risk of long-term welfare reliance, although barriers to employment varied across the groups.

The program had a total target number of 706 participants across the 6 service providers evaluated. Targets for individual service providers ranged from 38 to 200. The targets are distributed fairly evenly within this range.

Across service providers, 860 participants were supported. All 6 service providers met their target number of participants. See Table 4 for a view of participant numbers by project.

Table 4: Participant numbers

Project	Target number of participants	Actual number of participants
Build and Grow	148	148
Carers Connect	70	71
ELREP	150	253
Sonder	200	226
The Work Work Program	38	51
WEIA	100	111
Total	706	860

Recruiting participants was a crucial first step to supporting them to achieve an outcome measure. Service providers were successful in meeting their target number of participants. In consultation, some service providers remarked that recruitment was more difficult than under the TTL Fund because less people were unemployed and therefore seeking employment support. One service provider remarked:

We barely hear from employment service providers anymore – partly because the unemployment rate is low. They have also been less motivated to pay for things which get people into jobs such as uniforms.

Some expanded their referral networks or updated their recruitment methods to meet the target. Some recounted recruitment taking longer than expected and occurring irregularly over time. For those that did find recruitment difficult, having a target number of participants in the performance target for outcome payment 3 helped incentivise their recruitment efforts.

As presented in Table 1, service providers supported a diverse range of cohorts, including carers, migrants, and older people. All were at risk of long-term welfare dependence, although the most material barriers to employment varied across the groups. For example, migrants were more likely to be impacted by language barriers than carers, whereas carers were more likely to be impacted by reduced work availability due to caring responsibilities. Common barriers to employment experienced by different cohorts, discussed in consultation with service providers, are shown in Table 5.

Table 5: Common barriers to employment for different cohorts supported in the program (not exhaustive)

Cohort	Common barriers to employment
Carers and young parents	<ul style="list-style-type: none"> • Caring responsibilities that make it difficult to work • Poor access to transport • Lack of work experience or qualifications.
Migrants and refugees	<ul style="list-style-type: none"> • Limited experience in Australian workplaces and culture • Overseas qualifications and work experience not valued by employers • Limited English language proficiency.
Women experiencing homelessness and domestic violence	<ul style="list-style-type: none"> • Childcare responsibilities (for single mothers) • Lack of safety and stability in housing • Trauma, addiction, and mental health challenges.

The common barriers that different cohorts faced and how they compounded likely affected their potential to achieve the outcomes. Analysis of program data shows that the significant characteristics that made outcomes more difficult to achieve were higher welfare payment history, local socio-economic disadvantage, lower employment income, age, and lower education level. Implications of this are discussed in the department’s Impact Analysis Report.

The evaluation group is the subset of participants who outcomes are measured for. It is important to consider the proportion of participants in the evaluation group because service providers’ chances of meeting their performance targets increased with this proportion. This is true for all outcomes-based funding programs where performance targets are set as numbers not rates. The proportion of participants in the evaluation group across service providers ranged from 74–90%, as shown in Table 6. Participants were not included in the evaluation group if they did not provide consent, did not have 3 support sessions reported in DEX, or did not have a statistical linkage key. Of these 3 criteria, service provider feedback suggests that not having a statistical linkage key had the greatest impact on evaluation group numbers. Analysis of program data shows that being from a cultural and linguistic diverse (CALD) background had an influence on statistical linkage keys. The effect size was relatively small, but statistically significant, with an approximate 2% lower likelihood. This aligns with feedback from service providers, who noted that non-Western naming conventions introduced difficulties to statistical linkage. This leads to greater uncertainty about projects’ impact on participants from CALD backgrounds.

Table 6: Evaluation group numbers and percentage of total participants in evaluation group

Project	Number of participants in evaluation group	Percentage of total participants in evaluation group
Build and Grow	120	81%
Carers Connect	60	85%
ELREP	218	86%
Sonder	167	74%
The Work Work Program	43–46	84–90%
WEIA	95	86%

Note that throughout the report, numbers are sometimes presented as ranges due to data confidentiality requirements.

Improved employment outcomes specified in agreements

Most projects achieved the outcomes specified in their PBO agreements. There is evidence that the program significantly contributed to participants increasing their income. There are, however, limitations to the strength of the evidence available.

The program contracted service providers to support up to 3 different outcomes:

- Outcome 1 – Exiting income support due to employment
- Outcome 2 – Increased income
- Outcome 3 – Commencing or returning to study.

The extent to which service providers supported participants to achieve these outcomes and the trends in how they were achieved are explored in the following subsections.

Outcome 1 – Exiting income support due to employment

The program contributed to participants exiting income support by helping them to gain employment and increase their employment income.

Outcome 1 counted towards the performance targets for all 6 service providers. Across these service providers, 104–110 participants achieved Outcome 1. This outcome represents significant progress towards sustainable employment, increased economic independence, and linked improvements in overall wellbeing. Where the comparison is possible, Outcome 1 rates were similar or higher than under the TTL

Fund. However, this is not conclusive by itself. Consultation with service providers and DSS pointed to changes in the external environment that made it harder to support participants to achieve Outcome 1. For example, the low unemployment rate meant that there was a smaller pool of potential participants, made up of people experiencing more complex barriers to employment than their peers in the TTL Fund. Competition for entry-level jobs was high, with 15 job seekers for every entry-level job in June 2022 (Anglicare Australia 2022). This suggests that service providers needed to work harder to support the same proportion of participants to exit income support due to employment as in the TTL Fund. If this is the case, then service providers arguably performed at a higher level than simple comparison of Outcome 1 rates suggests.

Participants achieved Outcome 1 at a similar or higher level than their comparison groups, with the Outcome 1 rate ranging from 1–5% above the comparison group rate. At the surface, this suggests that in the absence of the projects, many participants who achieved Outcome 1 would have achieved it even if they had not participated in the project. Several factors may contribute to this:

- People in the comparison groups may have engaged with other community and employment programs that supported them to achieve Outcome 1.
- People in the comparison groups may have achieved Outcome 1 acting independently of formal supports.
- People experiencing more complex barriers to employment may need more time to exit income support than the period that their outcomes were measured for in the program. So, capturing improvements relative to the comparison group would require a follow up study.

The comparison group rates are one way to increase understanding of the extent to which outcomes can be linked to the projects. Information shared by service providers in Outcome Progress Reviews complements this by highlighting the consistent and in-depth support that participants received. Taken together, this suggests that although some participants may have achieved Outcome 1 without participating in the project, their participation contributed to their success.

The number of participants in the outcome observation group, who achieved Outcome 1, Outcome 1 rate, comparison group rate, and TTL Fund rate for each service provider is shown in Table 7.

Table 7: Outcome 1 achievement

Project	Participants in outcome 1 observation group	Participants that achieved outcome 1	Outcome 1 rate	Comparison group rate	TTL Fund rate
Build and Grow	10	< 5	n.p.	12%	28%
Carers Connect	40	5	12%	7%	n.p.
ELREP	208	48	23%	18%	24%
Sonder	142	29	20%	19%	20%
The Work Work Program	42	< 5	n.p.	4%	23%
WEIA	91	20	22%	17%	9%

Data analysis indicates that Outcome 1 was out of reach for many participants in the short-term. All service providers had at least 50% of participants demonstrate no progress towards Outcome 1 – meaning they spent zero days off welfare in the measurement period. Three service providers had at least 75% of participants demonstrate no progress. Recalling the differences in common barriers to employment experienced by different cohorts in Table 5, the link between the level of support required to achieve Outcome 1 and how much time this takes should be considered when evaluating service provider performance. This is explored further in the report sections ‘Time to Outcomes 1 and 2’ and ‘Suitability of performance targets’

Outcome 2 – Increased income

The program contributed to participants increasing their employment income by supporting them to engage in casual, part time, or full-time work, depending on their personal circumstances and goals.

Outcome 2 counted towards the performance targets for all 6 service providers. Across these service providers, 195–201 participants achieved Outcome 2. This reflects the significant change in employment outcomes that many participants achieved by engaging in casual, part time, or full-time work. For some participants, for example carers, this represented success as they realistically couldn’t achieve Outcome 1 due to work availability. For other participants, it represented an important step on a longer journey towards Outcome 1.

Outcome 2 rates were similar or lower than under the TTL Fund. Again, the external environment, participant demographics, and the shorter timeframe over which outcomes were measured for the program, must be considered when evaluating service provider performance relative to the TTL Fund.

Participants achieved Outcome 2 at a higher level than their comparison groups, with the Outcome 2 rate ranging from 15–33% above the comparison group rate. This suggests that the projects made a significant contribution to participants achieving Outcome 2. Again, it is important to note that:

- People in the comparison group may have engaged with other community and employment programs that supported them to achieve Outcome 2.
- There may be underlying factors like work availability or English proficiency not visible in the welfare data, that affect their likelihood of achieving Outcome 2 but vary between participants and the people in their comparison groups.

Service providers shared that participants were generally motivated and committed to improving their employment outcomes. This builds understanding of the extent to which outcomes can be linked to the projects by putting participants back in the centre. Projects made a significant contribution to participants achieving Outcome 2 by providing consistent and in-depth support to motivated and committed participants.

The number of participants in the outcome observation group, who achieved Outcome 2, Outcome 2 rate, comparison group rate, and TTL Fund rate for each service provider is shown in Table 8.

Table 8: Outcome 2 achievement

Project	Participants in outcome 2 observation group	Participants that achieved outcome 2	Outcome 2 rate	Comparison group rate	TTL Fund rate
Build and Grow	10	< 5	n.p.	13%	23%
Carers Connect	46	12	26%	11%	19%
ELREP	205	98	48%	15%	49%
Sonder	143	47	33%	18%	41%
The Work Work Program	42	< 5	n.p.	7%	32%
WEIA	90	36	40%	16%	41%

Three service providers were able to support more than 50% of their participants to demonstrate at least some increase in income. Notably, all supported migrants and refugees. One contributing factor to their success could be that Outcome 2 was closely tied to their intervention model – that is, the activities that participants undertook as part of their projects were more simply and directly linked to increasing income. This could be related to the common barriers to employment that the migrants and refugees supported by the program faced.

Four service providers had participants within 25% of their Outcome 2 threshold – which meant some of their participants had a considerable increase in income above their baseline, but not enough to meet the threshold. This number was significant for ELREP (14 participants) and Sonder (10 participants). However, counting these participants would not change whether any service providers for the program met their performance target total. This is discussed further in the report section ‘Suitability of outcome metrics’.

The link between Outcomes 1 and 2

Outcome 1 can be seen as an extension of Outcome 2.

Consider the following hypothetical example:

Before starting with WEIA, Jacinta relied on JobSeeker payments. After completing WEIA’s training course, Jacinta found a job working 2 days a week at her local library. Her income increased enough that she achieved Outcome 2. With further support from her case worker, Jacinta found a second job at the childcare centre connected to the library. Her income increased enough that she was no longer eligible for welfare, and she achieved Outcome 1.

The link between Outcomes 1 and 2 may have provided extra incentive for service providers to provide in-depth support to participants so that they could achieve both outcomes. Approximately one in three participants who achieved Outcome 2 also achieved Outcome 1. One in two participants who achieved Outcome 1 also achieved Outcome 2.

One benefit of the program contracting for 2 linked outcomes is that it can help inform outcome metric selection in future PBO agreements. The merits of Outcomes 1 and 2 are discussed in the report section ‘Suitability of outcome metrics’.

Time to Outcomes 1 and 2

There is evidence that Outcomes 1 and 2 were achieved faster under the program than for the same projects in the TTL Fund.

Projects funded by the program operated under PBO agreements for an average of 548 days (18 months). Participants were recruited throughout this period. When evaluating the extent to which service providers supported participants to achieve outcomes, it is important to understand the expected time to achieve outcomes.

In the following analysis, the expected time needed to achieve an outcome is the time when 50% of participants who will achieve that outcome have achieved it by. This method of time to event analysis accounts for the possibility that participants

may still achieve the outcome, even if it has not been observed before the end of the measurement period. As shown in Figure 10, the expected time needed to achieve Outcome 1 across service providers was 163 days (5.4 months). The expected time needed to achieve Outcome 2 was 99 days (3.3 months). An important consideration for the program is that participants who were recruited towards its completion could be on track to achieve Outcomes 1 or 2, but not achieve it in time to be counted towards performance targets.

Participants across projects took less time to achieve Outcomes 1 and 2 in the program than in the TTL Fund. This is also shown in Figure 10 – the expected time needed to achieve Outcome 1 was 163 days (5.4 months) in the program compared to 179 days (5.9 months) in the TTL Fund, and 99 days (3.3 months) in the program compared to 148 days (4.9 months) in the TTL Fund to achieve Outcome 2. This trend holds for most service providers. The only exception was Sonder for Outcome 1.

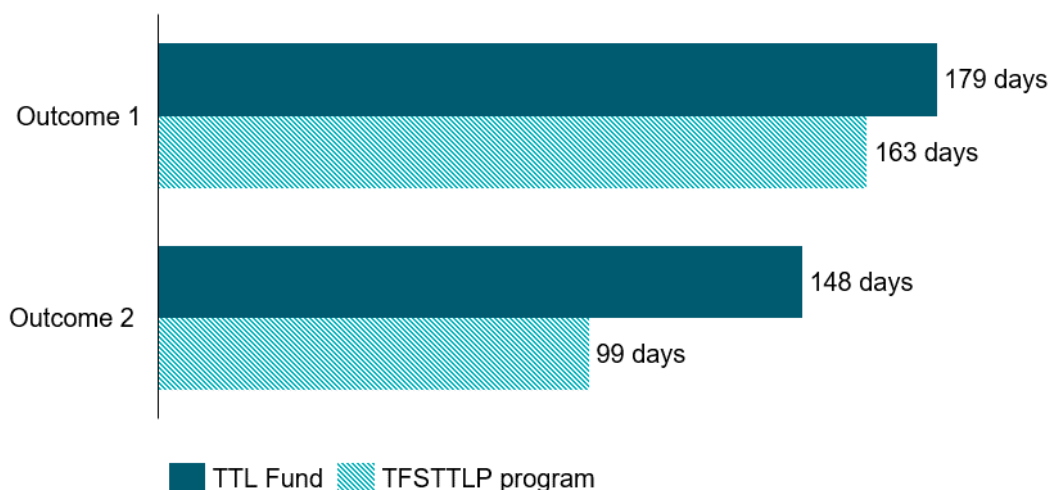


Figure 10: Expected time to outcomes across service providers in the program and TTL Fund

Factors that contributed to this trend should be considered on a case-by-case basis. As discussed above, service providers believed that more work was required to support participants to achieve Outcomes 1 and 2 in the program than in the TTL Fund, due to changes in the external environment and the greater complexity of participants’ barriers to employment within the program. At the same time, the structure of the outcome payments incentivised service providers to support participants to achieve Outcomes 1 and 2 at a cadence that meant they would meet their performance targets. So, the service providers’ PBO agreements appeared to have compelled them to work harder to support participants to achieve outcomes sooner. Future evaluation could consider whether achieving outcomes sooner affects the sustainability of outcomes for participants, to inform how accelerating support should be considered when designing PBO agreements. This relates to how well the outcome metrics correlate with impact, discussed in ‘Appendix 1: PBO Decision Framework’.

The expected time to achieve Outcomes 1 and 2 varied across service providers. To maintain confidence in the time to event analysis, expected times at the service

provider level are only presented for service providers who supported at least 20 participants to achieve the relevant outcome. The expected time to achieve Outcome 1 ranges from 154–194 days. The expected time to achieve Outcome 2 ranges from 86–142 days. It is important to emphasise that variation between service providers does not necessarily indicate that some service providers were more effective than others. The time to achieve Outcomes 1 and 2 was influenced by several factors including the barriers to employment experienced by participants and type of supports provided.

In Figure 11, the expected times for participants supported by Sonder, WEIA, and ELREP to achieve Outcomes 1 and 2 are presented:

- Sonder: Outcome 1, 194 days; Outcome 2, 142 days
- WEIA: Outcome 1, 166 days; Outcome 2, 116 days
- ELREP: Outcome 1, 154 days; Outcome 2, 86 days.

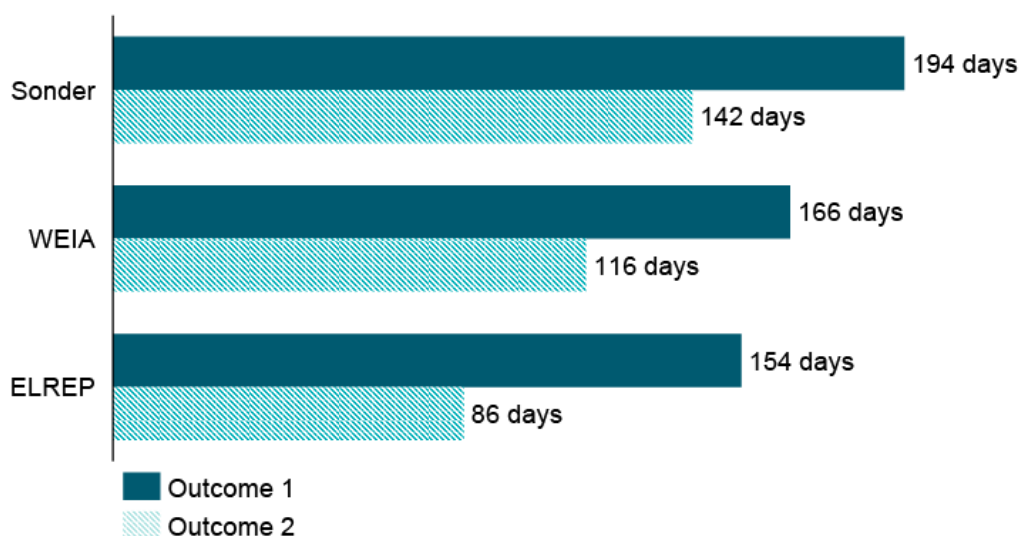


Figure 11: Expected time to Outcomes 1 and 2 by service provider

Implications of the variability in expected time to achieve Outcomes 1 and 2 across service providers will be discussed further in the report section ‘Suitability of performance targets’.

Outcome 3 – Commencing or returning to study

Although a low number of participants achieved Outcome 3, these instances can be confidently linked to service providers based on validation in the Outcome Progress Reviews and follow-up data review activities.

Outcome 3 counts towards the performance targets for three of the six service providers. 15–18 participants achieved it across these service providers. It is important to note that although a relatively small number of participants achieved Outcome 3 compared to Outcomes 1 and 2, this partly reflects the tailoring of support to individual participants. Only some participants wanted to be supported to engage in formal study.

Outcome rates are similar or higher than under the TTL Fund. However, all are 15% or less, so the difference of a few additional participants in either the program or the TTL Fund achieving outcomes could sway this. The relevance of Outcome 3 as an outcome metric is discussed in the report section ‘Suitability of outcome metrics’.

The number of participants in the outcome observation group, who achieved Outcome 3, Outcome 3 rate, and TTL Fund rate for each service provider is shown in Table 9.

Table 9: Outcome 3 achievement

Project	Participants in outcome 3 observation group	Participants that achieved outcome 3	Outcome 3 rate	Comparison group rate	TTL Fund rate
Carers Connect	60	9	15%	Not available	6%
Sonder	167	< 5	n.p.	Not available	5%
WEIA	95	5	5%	Not available	8%

Improved outcomes additional to those specified in agreements

All service providers reported that participants achieved several outcomes that were not measured by the program’s outcome metrics but are critical to achieving the contracted outcomes, such as improving employability skills and overcoming practical or non-vocational barriers.

The projects funded through the program aimed to achieve a range of different outcomes for their participants, additional to the outcomes specified in their agreements. These additional outcomes are articulated in the program logics, reporting, and evaluations completed for each project under the TTL Fund.

In consultation, service providers reported that they had observed participants achieving many of these additional outcomes. While employment is important, service providers perceived that the outcomes specified in their funding agreements do not fully reflect the value of the outcomes delivered by their projects. The additional outcomes achieved by participants are also important.

The additional outcomes reported by service providers can be grouped into 3 categories that are described further below. These align with the short and longer-term outcomes for participants, as well as the intended impact, that are articulated in the program’s theory of change, shown in the report section ‘A theory of change for the program’.

Overcoming barriers to employment

Each of the projects provided personalised supports to identify and address a variety of barriers to employment and financial independence. Pertinent barriers to employment varied across the different participant cohorts, as described in Table 5 above. Outcomes reported by service providers in this category include:

- Increased access to secure housing.
- Improved English language proficiency and numeracy skills.
- Improved vocational skills and accredited and non-accredited training that improve participants' likelihood of gaining employment.
- Improved 'soft skills' and mindset changes that improve participants' likelihood of gaining and maintaining employment, including improved communication, conflict resolution, professionalism, and accountability.
- Increased access to childcare support so that parents can access employment.

Intermediate employment outcomes

Participants achieved several intermediate outcomes in the process of achieving the outcomes specified in the agreements. Examples reported by service providers include:

- Improved job-search skills – these skills included using networks to find employment, interview skills, and resume writing.
- Increased effort to search and apply for jobs – for participants who are long-term unemployed, this behavioural change can represent significant progress towards increasing employment income, even if not successful.
- Commencing casual or part-time employment – some participants could only take on casual or part-time employment for a range of reasons including childcare responsibilities or disability. Service providers reported that these participants were unlikely to have earned enough income to meet the thresholds specified in the outcome metrics for Outcome 2. However, this still represented progress towards increased economic participation for some participants.

Service providers stated that these outcomes are important indicators of individual progress as each participant joins a project with a different set of circumstances and barriers, so achieving an intermediate outcome such as applying for jobs can represent significant progress in their life.

Wellbeing outcomes

Service providers reported that their projects also contributed to a variety of broader wellbeing outcomes. These can be understood as precursors to long-term employment and financial independence but can also contribute to other positive outcomes for participants. Examples noted include:

- Improved mental or physical health.
- Improved sense of self-worth and dignity.

- Increased connection to community through being involved in a program or workplace.
- Improved relationships with family, including improved relationships for young job seekers with parents, and improved relationships for mothers reunited with their children, in part because they can demonstrate to child protection that they are training, earning an income, and receiving support.

These additional outcomes were described in the program logics, reporting, and evaluations for each project under the TTL Fund, but not measured or consistently reported on under providers' PBO agreements or through mechanisms including the Activity Work Plan Reports or Outcomes Progress Reviews. The following subsection provides further commentary on the suitability of the outcome metrics and considerations for measuring additional outcomes such as the above.

Assessment of outcome metrics and performance targets

The program's outcome metrics and performance targets balance intended and unintended design consequences with opportunities to enhance their suitability further.

This section assesses the suitability of the program's outcome metrics and performance targets. It considers the intended and unintended consequences that result from how outcome metrics and performance targets were designed. The assessment finds that there may be opportunities to enhance both elements in the future. These include capturing different levels of participant and service provider achievement, and the time needed to achieve outcomes.

Suitability of outcome metrics

The outcome metrics were suitable for capturing the program's correlation with government savings, and real impact for participants. Opportunities to capture different levels of participant achievement could be considered in the future.

Previous analysis conducted for the department provides is strong evidence that the program's outcome metrics track government savings, in the form of reduced welfare expenditure, and real impact for participants. This points to their suitability for PBO programs which aim to increase employment for people at risk of long-term welfare dependence.

The outcome metrics are binary, which meant that participants were assessed as either meeting or not meeting each outcome. For Outcomes 1 and 2, an alternative would be to assess participants on scales of maximum number of days off welfare and maximum income above their baseline within a 6-week period. This would support different levels of success to be captured. A compromise would be to use a binary outcome metric to decide whether a participant counts towards performance targets but set up outcomes measurement so that progress towards the threshold is tracked.

The department implemented an outcome threshold analysis to show the number of participants who had achieved results at levels lower than the outcome thresholds.

This data was discussed with service providers during outcome progress review meetings, to represent participants progressing towards the outcome threshold.

When considering the comparative merits of Outcomes 1 and 2, Outcome 2 is more sensitive to individual participants' circumstances and what success looks like for them. This is due to measuring increased income relative to each individual participant's baseline. On the other hand, Outcome 1 tracks a more long-term outcome, which goes to the crux of what the program is trying to achieve.

Outcomes 1 and 2 are better proxies for increasing employment for people at risk of long-term welfare dependence than Outcome 3. Outcome 3 was included as an outcome metric for projects who intended to support participants to engage in formal education pathways, if they desired to, because education is linked to employment. Contracting these service providers to achieve Outcome 3 helped capture their ability to tailor their support to individual participants' needs and goals. It also enabled the program to trial contracting for intermediate outcomes.

Broadening what gets measured and paid for in PBO agreements is something that is receiving increased attention by commissioning parties and service providers (Wang and Xu 2022). It reflects a shared desire to measure what matters. The program trialled this and learnt about what to consider for future PBO agreements. Given a primary outcome or outcomes, the following could be considered when deciding intermediate outcomes to be measured and contracted for:

- How are they linked to the primary outcome(s) – if they are intermediate outcomes whose contribution to the primary outcome(s) is evidence-based, this strengthens the case to pay for them.
- Whether they are linked to other positive outcomes that the commissioning party wants to track or compensate for – for example, wellbeing outcomes that contribute to government savings in areas beyond the target issue.
- How many participants they are likely to be relevant to – the greater the number of participants that an intermediate outcome is relevant to, the less likely that statistical error will impact a service provider's results.
- Whether they can be measured and verified – for example, the program employed Outcome 3 because it was visible in the welfare data. An alternative solution would be needed to measure outcomes which are not visible in existing administrative data sets.
- The cost of additional measurement and verification – establishing reliable data collection and validation processes for intermediate outcomes may be expensive and come at the expense of supporting more participants.
- Whether they can be supported within the measurement period.
- Introducing complexity could potentially make it more difficult for service providers to understand what they are working towards.

Suitability of performance targets

Performance targets were designed with rigour, informed through collaboration with service providers and data analysis, which contributed to their suitability. Additional considerations for the design of future performance targets include adding a buffer for statistical error when there are small numbers of participants and carrying out more detailed modelling of recruitment and achievement of outcomes over time.

The suitability of the program's performance targets was influenced by the number of participants, time needed to achieve outcomes, and period-by-period split. Following a brief overview of how the performance targets were constructed, these factors are discussed in turn. It is important to note that the circumstances in which performance targets were set, which was characterised by uncertainty about the future environments that service providers would operate in and limited time available to set performance targets.

Performance targets were informed by data analysis

The program's process to construct the performance targets proposed to service providers can be described in 2 steps:

1. Set the performance target total.
2. Split the performance target total over the 3 outcome observation periods.

The first step is shown in Figure 12. The performance target total was set based on data analysis of outcomes achieved by the service providers under the TTL Fund. For each outcome that a service provider was contracted to support, the expected number of participants in the outcome observation group for the program was multiplied by the rate that the outcome was achieved by that service provider in the TTL Fund. This gave an expected number of instances of the outcome. The performance target total was calculated by adding the expected number of instances for all outcomes that a service provider was contracted to support.

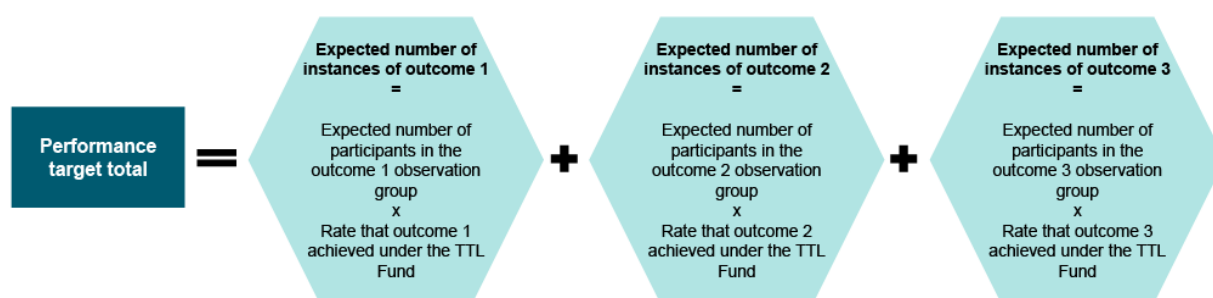


Figure 12: Set the performance target total

The second step is shown in Figure 13. The performance target total was split over the 3 outcome observation periods based on the assumption that it would take time for service providers to gain momentum, so less outcomes were expected to be observed in outcome observation period 1. This is shown in the suggested split in Figure 13, which is 20:40:40 across the 3 outcome observation periods. Three service providers negotiated to revise their target for outcome observation period 1

to zero. This is shown in the revised split in Figure 13, which is 0:50:50 across the 3 outcome observation periods. It was assumed that participants would be recruited on a regular basis.

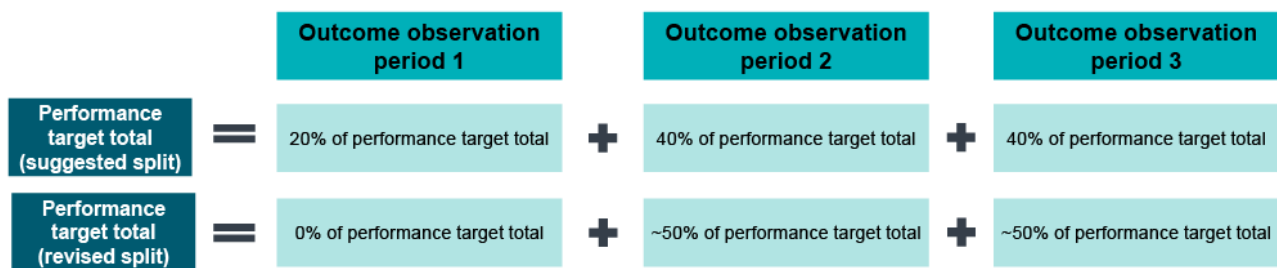


Figure 13: Split the performance target total over the 3 outcome observation periods

The department provided a baseline analysis document to each service provider that provided an overview of the decision points informing their proposed performance targets and detailed analysis of historical performance. Service providers were encouraged to work through each of the decision points and consider whether the guidelines, outcome thresholds, and targets were realistic. The department encouraged negotiation and performance targets were only transferred to the funding agreements once they had been agreed to by service providers.

Performance targets were set during a period of significant community, political and economic change

Performance targets were set in late 2021. In the baseline analysis documents provided to service providers, the department recognised that the COVID-19 pandemic was having a major impact on the national economy and local socio-economic conditions. The department and service providers believed that changing external conditions may impact participant recruitment and service delivery. For example, participant demographics and local job markets could be affected. However, it was difficult to predict the exact ways and to what extent this would occur for different service providers. The department took several steps to work with service providers to agree on realistic performance targets that would reflect these changing conditions, including conducting data analysis to explore the potential impact of COVID-19 and being transparent about the risk that they believed service providers were taking on. Nevertheless, uncertainty about the future environments that service providers would operate in was difficult to incorporate into performance targets. This is a challenge that future PBO programs will face.

The challenges that the changing community, political, and economic context presented for setting realistic performance targets influenced the design of the program’s Outcome Progress Reviews process. These reviews allowed flexibility throughout the course of the program, to respond to unexpected circumstances that may impact service providers. This reflected the program’s commitment to setting service providers up for success. The Outcome Progress Reviews are discussed in more detail in subsequent chapters and ‘Appendix 1: PBO Decision Framework’.

Outcome observation group numbers relate to performance targets

For each outcome, the outcome observation group is all participants whose outcomes count towards a service provider's performance targets and can be seen in the welfare data. As shown in Figure 12, the department used guideline numbers of participants in the outcome observation groups when calculating proposed performance targets. This was to support setting realistic performance targets – it meant that performance targets were set based on guideline numbers of participants whose outcomes would actually count and be seen, which would likely be different to the number of participants recruited. The guideline numbers of participants in the outcome observations groups were based on guideline proportions of participants with a statistical linkage key and visible outcomes in welfare data. If these proportions were lower in practice, then it could impede service providers' chances of achieving their performance targets because not all outcomes would be observed. The challenge of being able to measure outcomes for all participants will affect most PBO programs.

Three service providers had fewer participants in their outcome 1 and 2 observation groups than in their guidelines. This meant they needed to support a larger proportion of their participants to achieve outcomes than in the TTL Fund to achieve their performance target. Three service providers had more participants in their outcome 1 and 2 observation groups than in their guidelines. This meant they could still achieve their target while supporting a smaller proportion of participants to achieve outcomes.

For all service providers except one, the guideline proportion of participants in the outcome observation groups increased relative to what was observed in the TTL Fund. This was due to guidelines that specified increased proportions of participants with a statistical linkage key and visible outcomes in welfare data. One reason for their proposed increase was to incentivise service providers to produce quality statistical linkage key data. In turn, this would enable better longitudinal analysis of participant outcomes before and after participation and increase the overall quality of the evidence underlying the program. Service providers had the opportunity to negotiate the increased proportions.

Reflecting on their experiences, service providers shared in consultation that increasing statistical linkage rates required significant work, as it was affected by a number of factors such as participants reporting different names or spellings to the service provider and Centrelink. Five out of six service providers achieved the guideline linkage rate and all six exceeded their linkage rate under the TTL Fund. Despite this and although all service providers also met their recruitment targets, some still had fewer participants in their outcome 1 and 2 observation groups than in their guidelines. PBO programs need to consider the rationale behind target observation group sizes and potential risks to service providers, to reduce the possibility that performance targets are harder to reach than intended.

Another consideration related to the suitability of the performance targets is capping enrolment, so that a minimum proportion of participants must be supported to achieve outcomes, and the risk of harder-to-support participants missing out on support is decreased. The program took steps to ensure that harder-to-support participants received support by using historical performance under the TTL Fund, where providers were encouraged to support people with the highest level of need, as the baseline. This made it more likely that they could provide support at a

comparable level. Nevertheless, at the extreme, one service provider's outcome 1 and 2 observation groups were approximately 58% larger than what was in the guidelines. If enrolment was capped, then a higher level of support could have been directed to participants if needed.

Confidence in service providers' performance based on the outcomes data is limited by the number of participants

Statistical error is the difference between a value obtained from a data collection process and the 'true' value. In a PBO context, it affects confidence in service providers' performance based on the outcomes data. Statistical error can occur due to:

- the number of participants whose outcomes are measured
- the characteristics of the participants whose outcomes are measured and how they compare to the characteristics of all participants
- mistakes in how outcomes are measured.

Lower statistical error reduces the risk that the department pays for outcomes which occurred by chance and service providers are underpaid due to bad luck. Importantly, quantifying the statistical error can inform setting performance targets.

Increasing the number of participants whose outcomes are measured decreases the likelihood of statistical error. Several factors made it difficult to increase the number of participants in the program, including the amount of funding available, wraparound service delivery models used by projects, and the size and scale of service provider operations in specific locations. The program therefore provides an opportunity to trial and learn from using the PBO approach with smaller participant numbers. Nevertheless, policy makers should consider the desired level of confidence in service providers' performance when designing PBO programs, as supporting service providers to support more participants (where this is feasible and appropriate for the service provider and their intervention) can increase confidence in their performance by decreasing the likelihood of statistical error.

A confidence interval provides a range of likely values for the performance of a service provider. It has an associated confidence level, expressed as a percentage, that expresses how confident we are in the range. A confidence level of 68% means that if repeated measurements were taken, the performance of the service provider will fall within the confidence interval approximately 68% of the time. Suppose that a service provider aims to support 25% of their participants to achieve a given outcome. If they are successful, then we can be 68% confident that the observed outcome rate will be within the confidence intervals illustrated in Figure 14. The confidence intervals are shown as vertical bands and become narrower as the number of participants increases.

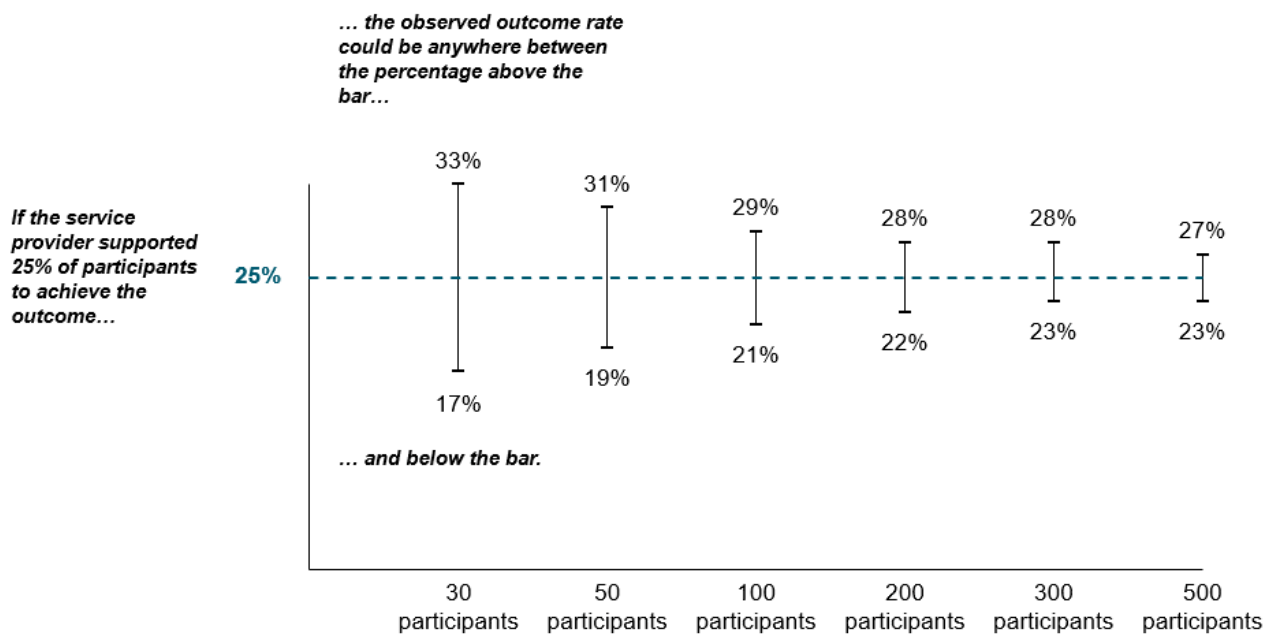


Figure 14: Confidence intervals with increasing numbers of participants, for service provider that supports 25% of participants to achieve an outcome, at a confidence level of 68%

The confidence intervals for a service provider that supports 25% of participants to achieve an outcome, at a confidence level of 68%, are also shown in Table 10.

Table 10: Confidence intervals with increasing numbers of participants, for service provider that supports 25% of participants to achieve an outcome, at a confidence level of 68%

Number of participants	Lower bound for observed outcome rate	Upper bound for observed outcome rate
30	17%	33%
50	19%	31%
100	21%	29%
200	22%	28%
300	23%	28%
500	23%	27%

In the program, the number of participants in the evaluation groups for individual service providers ranged from 43–218. So, the confidence intervals for achievement of outcomes are wide. Even for an evaluation group with 200 participants, if the service provider supported 50 people to achieve a given outcome (25% of participants), then we would expect the observed outcome rate to be anywhere between 44–56 people achieving the outcome (22–28% of participants).

To partly offset the risk that service providers were underpaid due to bad luck, the performance targets were constructed as an aggregate across Outcomes 1, 2 and 3. If a service provider did not support the expected number of instances of Outcomes 1, 2 or 3 used when constructing the performance target total, they could compensate by supporting additional instances of another outcome. This design decision enhanced the suitability of the performance targets, under constraints where increasing the number of participants was not possible.

To further enhance the suitability of the performance targets, buffer for bad luck in outcomes measurement could have been incorporated. For the program, the worst-case scenario for a service provider would be that the observed outcome rate for each contracted outcome underrepresents their actual performance. If the department would like to give service providers the benefit of the doubt, performance targets could be lowered to reflect this potential for statistical error. For the program, this could have involved using the lower bound of the confidence interval for each target outcome rate when constructing the aggregate performance target.

The time needed to achieve outcomes must be modelled relative to the measurement period

The department estimated that 4.5 months was a realistic outcome window on balance, with differences expected to be observed across outcomes and participants. The time to event analysis in Table 11 shows that across service providers, the expected time needed to achieve Outcome 1 was 5.4 months and Outcome 2 was 3.3 months. The expected time is when 50% of participants who will achieve that outcome have achieved it. For the participants that will achieve Outcomes 1 and 2, the likelihood of achieving them within 3 and 6 months is shown in Table 11. To support confidence in the analysis, likelihoods are only presented for service providers who supported at least 20 participants to achieve the relevant outcome.

Table 11: Likelihood of achieving Outcomes 1 and 2 within 3 and 6 months, given the outcome will be achieved

Project	Achieve Outcome 1 within 3 months	Achieve Outcome 1 within 6 months	Achieve Outcome 2 within 3 months	Achieve Outcome 2 within 6 months
ELREP	7%	65%	56%	96%
Sonder	22%	44%	36%	74%
WEIA	13%	63%	42%	58%

Service providers faced some challenges in meeting performance targets, such as:

- For several providers there was not enough time to recruit and support enough participants to meet the performance target for outcome observation period 1.

- Participants who were recruited towards the end of the program could be on track to achieve an outcome, but not achieve it in time to be counted towards the performance target.
- Some service providers had longer expected times to achieve outcomes than others. Given that the time that outcomes were measured for was consistent across service providers, this may have made it more difficult for them to achieve outcomes in time.

The suitability of the performance targets could have been enhanced by extending the process used when setting targets. A high-level process is shown in Table 12.

Table 12: Opportunities to extend the process used to set performance targets in the program

Step	How this was carried out in the program	Opportunities to extend
1. Model recruitment of participants over time.	The department and service providers set performance targets on the assumption that that at least 40% of participants would be recruited in each of outcome observation periods 1 and 2.	For service providers where this may not occur, recruitment could be modelled to reflect predicted month-to-month variation.
2. Set an evidence-based expected time to achieve each outcome.	The department used domain knowledge about how long it takes to achieve each outcome when constructing performance targets. It was assumed that 4.5 months was a realistic outcome window for Outcomes 1, 2, and 3 – with differences likely to be observed across outcomes and participants. Service providers were asked to consider the expected duration of participation before an outcome would typically be achieved when reviewing the performance targets.	When the data is available, the department could conduct time to event analysis to understand the expected time to achieve each outcome and expected variation between participants. This should be shared with service providers.

Step	How this was carried out in the program	Opportunities to extend
<p>3. Model how many participants are likely to achieve each outcome over time, taking expected outcome observation group sizes into account.</p>	<p>The program’s approach can be characterised as ‘top-down’ – that is, the number of participants that were likely to achieve each outcome was calculated, taking expected outcome observation group sizes into account. This was then split over time.</p>	<p>There is opportunity to take a ‘bottom-up’ approach – where given month to month recruitment numbers and the expected outcome observation group sizes, a view of month-to-month achievement of outcomes is built up.</p>
<p>4. Model progress against the performance target over time, based on when participants are likely to achieve each outcome and how the performance target is constructed.</p>	<p>The program used a 20:40:40 split on the assumption that it would take time for service providers to gain momentum, so less outcomes were expected to be observed in outcome observation period 1. Some service providers negotiated to revise their target for outcome observation period 1 to zero, reflecting extra time needed to ramp up.</p>	<p>Given that some outcomes take longer to achieve than others, extend the bottom-up approach described above to model progress against the performance targets. This might mean that outcomes which take longer to achieve might only count towards performance targets later in the measurement period.</p>
<p>5. Set measurement dates at regular intervals – for example, every 3 or 6 months from the beginning of the intervention.</p>	<p>The program did not have the opportunity to negotiate measurement dates, as funding decisions needed to be made in June 2023. They were set approximately every 3 months.</p>	<p>None – future PBO programs should also set measurement dates that reflect department needs and support regular feedback.</p>
<p>6. Use the expected progress against the performance target at the measurement dates as cumulative performance targets.</p>	<p>The program set period-by-period performance targets. The Outcome Progress Reviews provided the opportunity to count surplus outcomes achieved in one period towards the performance target for another period.</p>	<p>Overlay measurement dates that reflect department needs with modelling completed. Use cumulative performance targets so service providers can have an opportunity to ‘catch up’ on missed performance targets.</p>

Extending the process used to set performance targets in the program will enable future PBO programs to further tailor their performance targets to individual service providers. It will allow the department to build on the transparency inherent in the baseline analysis documents shared with service providers to provide an even stronger case for why each service provider’s performance targets are realistic.

What the program changed for service providers

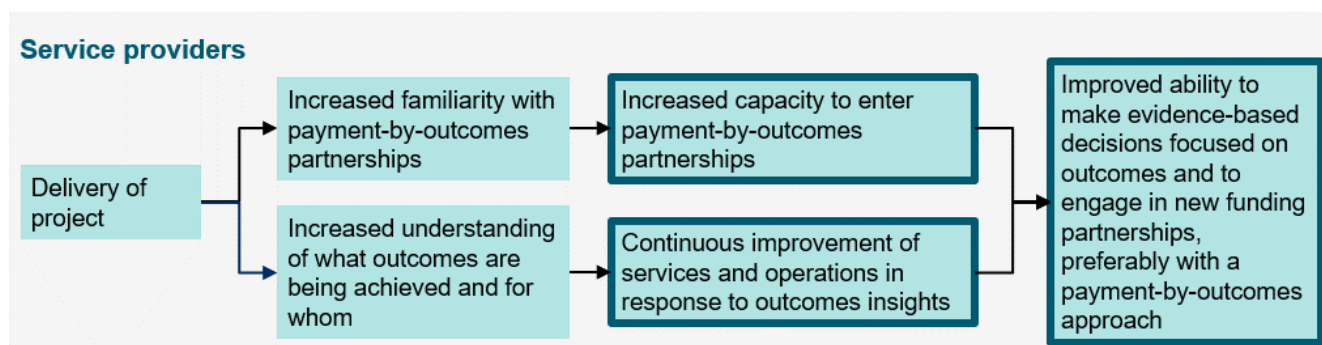


Figure 15: Intended service provider outcomes from the program's theory of change

This section assesses what the program changed for service providers, organised around the intended service provider outcomes described in the program's theory of change. Specifically, findings on the extent to which the program contributed to the following are presented:

- Increased capacity to engage in PBO agreements.
- Increased capacity to undertake continuous improvement of services and operations in response to outcomes insights.
- Increased likelihood of transitioning to new funding partnerships, preferably new PBO agreements.

These outcomes are shown in Figure 15. Findings in this section are drawn from stakeholder consultations with service providers.

Increased capacity to engage in PBO agreements

The program helped to increase the capacity of service providers to engage in PBO agreements by increasing capabilities and infrastructure required to collect, manage, and report outcomes data. Some also increased their capacities related to financial and risk management.

Service providers needed to improve their data capabilities and infrastructure to meet contracted reporting requirements and understand data on outcomes and performance targets. As one service provider interviewee commented:

It's been a real stretch moving towards outcome payments and the maths behind it. It's stretched our capacity around outcome measurement and data. I think about smaller organisations' abilities to take this on, it takes a lot of time.

Another shared:

You need a 'DEXpert' on the team, and a level of data analysis capabilities across the team to analyse the department's reports on outcomes.

Larger organisations appeared better placed to immediately meet these requirements – for example, organisations that had staff with experience and skills in using DEX, ensuring data quality, and government reporting requirements. One service provider reflected:

We think we're really good at data. This showed us we are, but the devil is in the detail. We learnt a lot from it. We were able to really build better infrastructure in our organisation that can only help us in future.

Another commented:

We were well positioned with the expertise of our staff, but we needed to increase resourcing to manage data and still deliver the service. We invested in building an in-house database [to interface with DEX] as we couldn't rely on the DEX [web-based portal] system.

Some service providers also reported that they had built capacity around financial management and forecasting to manage risks. These service providers noted they would enter any future PBO agreements with a better sense of these risks and what needed to be considered. As one service provider interviewee shared:

We made some changes to data management and reporting to capture business requirements and look at outcomes and financials closer together. At first it was a complex shift to manage data and financials to determine progress. Main problem is that there's a delay in when you input data and get feedback, you are not getting real time feedback, so you are always slightly paying catch up. Our understanding of outcomes-based funding has increased – we changed some of our systems to enable this.

Another interviewee commented:

We would definitely want to do another PBO. But we would want to do more testing and go in with open eyes around the performance targets and assumptions.

Increased capacity to undertake continuous improvement of services and operations in response to outcomes insights

The program reinforced some service providers' focus on continuously improving services to deliver better outcomes for participants. However, there were opportunities for growth in the program's mechanisms to support service providers in making evidence-informed improvements through the collection and sharing of outcomes data.

PBO agreements aim to deliver better outcomes for participants, compared to traditional grant funding, through several mechanisms. These include:

- Collecting and sharing useful and timely data on participant outcomes achieved to track progress and inform service delivery adaptations and improvements.
- Giving providers the flexibility to decide how they want to allocate funding or adapt and improve service delivery to maximise outcomes as needed.
- Incentivising providers to maximise participant outcomes by tying a portion of funding to agreed performance targets.

All service providers reported they already had a strong focus on achieving the best possible outcomes for participants. Nevertheless, some service providers did report that features of the program further strengthened this focus or enabled them to adapt and improve project activities. However, consultations also found that the mechanisms to collect and share outcomes data with service providers to

understand performance and inform ongoing improvements faced a number of limitations.

Flexibility to adapt services to improve outcomes

Service providers' perspectives on the extent to which the program encouraged and enabled them to improve participant outcomes were mixed. Some service providers shared that the program made this possible by providing the flexibility to adapt and change service delivery as needed during the course of the program, as demonstrated by the quote below:

I suppose [TFSTTLP] increased our focus on exit strategies – there has been a dip in employment results... We have probably increased our wraparound services particularly while on the program to help them through it... but these things don't stop when they exit the program, we're playing a greater role in post-program support, we're helping them work with and identify employers who will be right for them. A number of factors encouraged this, but the grant enabled us to invest more into it.

However, these perceptions were not shared by all service providers. One service provider shared that the flexibility to make changes was in practice limited and making changes involved a cumbersome process to approve changes.

Other service providers noted that the program was more flexible than the TTL Fund, in terms of allowing for funding to be used for a wider range of purposes, rather than enabling greater adaptation during the course of the program. For example, one provider shared that they were able to use the funding to purchase types of equipment for participants to help overcome barriers to employment, which was not permitted under the TTL Fund:

Compared to the TTL Fund, TFSTTLP has given us more flexibility, we can be more inclusive of participants' needs – for example using the funding to help participants overcome financial barriers applying for and going to work.

Another service provider commented:

This project has enabled us to develop non-accredited training and provide wraparound services, which has distinguished us from other providers.

Accountability to improve outcomes

Another factor that helped to strengthen service providers' focus on outcomes was the increased accountability to achieve measured outcomes in order to meet performance targets and receive payment. Some service providers noted that these elements of the program encouraged staff to focus on achieving the best outcomes. Some noted that, while they were already heavily focused on outcomes, they saw PBO agreements like those in the program as important for their sector to improve accountability. One service provider stated that:

It's a great way of funding. It forces staff to work towards the best possible outcomes for clients.

Another commented:

We believe in it [payment by outcomes] – it's the way forward for social services to create accountability to participants. It's about ensuring success is measured by real results as opposed to ticking the box.

Another noted that they thought PBO models would make a larger difference for organisations that were not already focused on outcomes:

I think PBOs make a difference for some organisations that aren't outcomes focused already – they're important for accountability.

However, as noted below, some providers noted that the greater focus on achieving contracted outcomes could lead to unintended consequences due to other outcomes, which are not specified in contracts, being deprioritised.

Access to timely and useful data on outcomes

Consultations found that the program faced challenges in helping providers to understand their progress towards achieving outcomes, or how they might adapt projects to improve outcomes. Service providers were very positive about the department's approach to sharing and discussing performance results, which was described as open, collaborative, and supportive. This is discussed in the report section 'Stronger partnerships with service providers'. However, feedback also suggests that the outcomes data faced issues which affected the potential for it to support continuous improvement.

Some service providers stated that the timeframe between completing an outcome observation period and receiving results was too long to be useful. One service provider commented:

The problem we had was there's a delay from when we put our data in to when you get your feedback. So you're never completely getting feedback in real time as to how you're tracking. So you're always playing catch up with your outcomes.

Another also noted data delays as a challenge:

The data is quite delayed. The follow up with the reports is very slow... I think in our meeting in November we were reviewing data that ended in July. So we're always about 4 months behind in those discussions.

The department noted that significant delays of the kind mentioned in the quote directly above only affected one round of data analysis and sharing.

Another issue was that some service providers thought they had achieved more outcomes than the department's data indicated. Some were uncertain about their progress, the accuracy of the department's data, their ability to meet performance targets, and what actions might be taken to improve outcomes. One service provider stated:

Because the data wasn't matching it was always really tricky to know exactly where we were with the matched data, which looked very different to our data. So that was really challenging, because at the time we obviously thought financially, that was going to impact our organisation, and then had to make changes in our organisation.

Another service provider commented:

The reporting was good, but it never feels like enough, it leaves lots of questions. It just left us wondering – why does our information not match what these reports are saying? The discussion of amendments was collaborative, but we didn't understand what we were seeing in the reports.

To address this issue, the department developed a process for service providers to access data reports with limited and non-identifiable participation information, so that service providers could identify any instances where they believed outcomes had not been accurately counted, for verification and review with the department. The process also enabled service providers to follow up on instances where linkage to the outcomes data had not been successful.

Finally, the program collected and shared data on the outcomes specified in service providers' PBO agreements, which are a subset of the range of outcomes supported by each project. This is discussed in further detail in the report section 'Improved outcomes additional to those specified in agreements' for detail. This data could help service providers make informed decisions to improve the contracted outcomes, but not necessarily the additional outcomes that are also valued by service providers. This was identified by some service providers as a risk or unintended consequence of being held accountable to contracted outcomes as a subset of the range of outcomes created. Some service providers shared that the focus on contracted outcomes risked having a negative impact on their approach to working with each participant holistically. As one service provider commented:

The risk is not being able to articulate evidence of a participant's success story in all its abundance – we determined outcomes in TTL, but not in TFSTLLP, where it's all based on the income metric [that's not adapted to our cohort with] many of our participants choosing to work part-time.

Another service provider stated:

In TFSTLLP we're suddenly focused on the [contracted] outcomes, what can I change in our activities to increase these outcomes, but knowing that a lot of outcomes weren't showing because of things outside of our control. The panic about the outcomes and the money was only having a negative impact on the way that we operate.

The program was established to deliver specific outcomes related to employment and exiting income support, so it makes sense that these outcomes were the focus of data collection. However, without additional evaluation activities to measure broader outcomes, the risk is that outcomes data shared back with service providers does not provide a full enough picture of their performance, particularly given the funded projects took a holistic approach to understand the needs of job seekers to overcome barriers to employment.

As noted above in the report section 'Suitability of outcome metrics', the inclusion of broader outcomes in PBO agreements is receiving increased attention from policy-makers and commissioners as an important area for future consideration. Broadening what gets measured and contracted for needs to be balanced against increased costs linked to establishing reliable data collection and validation processes for additional outcomes and introducing complexity that makes it difficult for service providers to understand what they are working towards.

Increased likelihood of transitioning to new funding partnerships

Five of the six service providers have received ongoing funding under block-funded grant agreements from July 2023. However, there is limited evidence of the extent to which this can be attributed to the program.

The program does not appear to have supported service providers to identify and secure new sources of funding to continue delivering projects at the completion of the program. Most service providers reported a strong interest to engage in another PBO partnership, based on their experience in the program. However, most have been unsuccessful in securing continued outcomes-based funding for their projects. Five of the 6 providers are receiving continuing funding under block-funded grants from July 2023.

One service provider reported that it had tendered to join a specialist panel that may provide the opportunity to continue funding and delivering their project, but that this was not guaranteed. Two service providers reported they were actively seeking PBO opportunities but have so far been unsuccessful. One shared:

It's been really difficult to find other funding sources. We did a large advocacy campaign for funding and there wasn't a lot of interest. The landscape has changed, there is less money flowing into this space, less philanthropic support. It's seen as Workforce Australia's problem.

Another commented:

We struggle to afford to prepare materials needed to pitch to funders, also this project is more about long-term outcomes whereas funders which have one-year programs expect short-term outcomes. We're open to outcomes-based funding opportunities.

What the program changed for the department

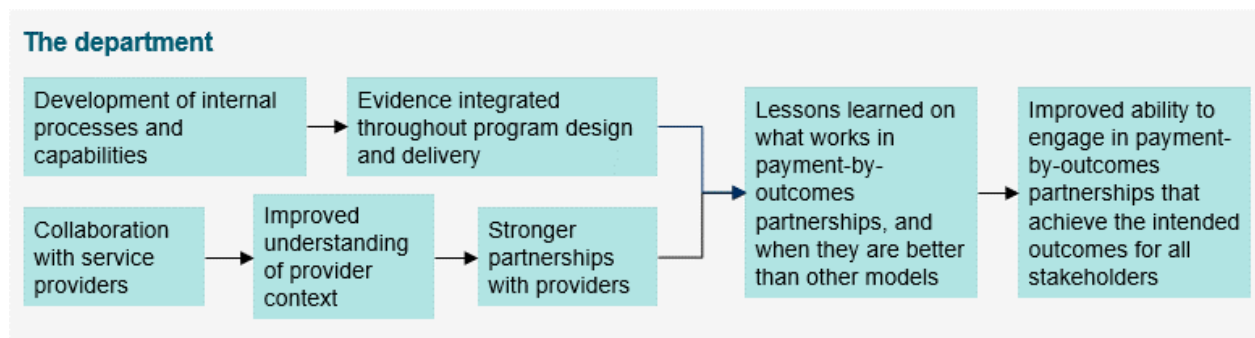


Figure 16: Intended department outcomes from the program's theory of change

This section assesses what the program changed for the department, organised around the intended department outcomes described in the program's theory of change. Specifically, findings on the extent to which the program contributed to the following are presented:

- Stronger partnerships with service providers.
- Increased capabilities to design and implement PBO programs.
- Increased understanding of what works in PBO programs, and in which contexts they can be most effective in achieving the intended impact.

This is shown in Figure 16. Findings in the first 2 sections are drawn from stakeholder consultations across the department and with service providers, while those in the final section are drawn from data analysed across the whole evaluation.

Stronger partnerships with service providers

Developing stronger partnerships with service providers was one of the significant changes achieved through the program for the department. A pivotal factor cited by both service providers and department staff as contributing towards stronger relationships was the regular opportunity to meet and discuss progress through the quarterly Outcome Progress Reviews.

Service providers were overall very positive about the collaboration with the department during the program. As one service provider interviewee shared:

The department are genuinely interested in trying to understand [us] – it's not always the case with funders.

Another service provider interviewee remarked:

The department always appreciated knowing how the work was implemented and the actual impact it was having on people, more than numbers. They showed respect and recognition to the team, [it was] not just about ticking boxes.

This tone was set from the beginning of the program, when the department initiated conversations with the selected service providers from the TTL Fund. Several service providers reported being pleased by the department's willingness to discuss and agree to changes they suggested, whether those changes were to tweak the

original intervention, to broaden the participant eligibility criteria, or to modify the payment structure or performance targets proposed by the department.

A pivotal factor cited by service providers as contributing towards stronger relationships during project implementation was the regular opportunity to meet and discuss progress with the department, through the quarterly Outcome Progress Reviews. While the stipulated focus of these meetings was to agree on progress towards the performance targets, which would determine whether outcome payments would be paid, service providers reported that the spirit of these conversations was consistently understanding and collaborative.

Service providers appreciated the department acknowledging and investigating issues with their own data analysis when there were discrepancies in reported outcomes. They were also appreciative of the department's willingness to be flexible and to work together to find solutions when service providers faced unexpected difficulties. One example was to adjust eligibility criteria when service providers had difficulties recruiting a sufficient number of eligible participants. Another example was to carry over excess outcomes achieved in an outcome observation period to the following period. One service provider interviewee remarked:

The department has been fabulous to work with, they've been supportive, [...] they've really worked alongside us to make outcomes funding work.

Another service provider interviewee shared:

Definitely commend the [department] team. Even when there were hard things they couldn't move, we felt they wanted us to succeed. They were not putting up barriers for us to fail. It was a genuine partnership, a commitment to solving problems together.

These sentiments were broadly echoed by department staff who were in direct contact with service providers. They saw the rapport built with service providers over time, which for certain staff members dated from the beginning of the TTL Fund, as critical to service providers being willing to share openly about their challenges, which created the possibility to explore solutions together. As one department interviewee reflected:

None [of the Outcome Progress Reviews] turned into bickering or arguments – which can happen easily. Everyone went into it on the one hand with a sense of good will, and on the other hand, realistic and pragmatic about constraints they're working in.

Another department interviewee commented:

There was not a focus on 'why wasn't the project achieving the targets', more about understanding what was going on. 'Let's understand this together'.

Some program team staff in the department voiced their frustration, however, with Funding Arrangement Managers (FAMs) also holding working relationships with service providers, with there being turnover of several FAMs over the period of the program, and limited communication between FAMs and the program team. This was not reported by most service providers as a significant issue in their relationship with the department, although one interviewee did suggest that having a single 'go-to' contact person at the department would have enabled them to voice and address concerns as they arose.

Increased capabilities to design and implement PBO programs

The program contributed to the department identifying its current level on each of the key capabilities needed to design and implement PBO programs. There is evidence that it strengthened certain capabilities within the department such as obtaining and analysing quality data, nurturing collaborative partnerships, and managing contracts constructively.

There are several key capabilities that are critical for the department to successfully design and implement PBO agreements. These capabilities are described in Table 13 and based on capabilities identified as necessary for commissioning parties of PBO programs and tailored to the department's context. Many of these capabilities support and reinforce each other, so it is important to consider them as a set.

Table 13: Capabilities identified as critical for the department to successfully design and implement PBO programs

Capability	Description
Obtain and analyse quality data	<p>This capability involves being able to set up the necessary data software, systems, and quality-assurance processes to ensure that data can be reliably obtained, that the data obtained is of high quality, and that it can be consistently shared with service providers in time for them to act on it operationally. This includes ensuring compatibility with service provider data systems and alignment with service provider data capabilities. Public Interest Certificates may be required, and data sharing agreements across departments or between different levels of government may also need to be considered.</p> <p>Once data obtained, this capability involves being able to analyse both quantitative and qualitative data accurately, and to recognise the limitations of a given data set or analysis.</p> <p>Data preparation and analysis may need to involve multiple data teams in the department.</p>
Nurture collaborative partnerships	<p>This capability starts with having a genuine interest in service providers and an understanding of the challenges that they may face due to their operating model or broader operational context.</p> <p>Key components include mutually committing to a shared purpose, clearly communicating and understanding respective roles and responsibilities and mutual expectations, recognising and mitigating power imbalances in governance arrangements, agreeing on processes to resolve disagreements early and respectfully, and proactively adapting as the relationship evolves.</p>

Manage contracts constructively	This capability involves being able to set up and administer a contract in a way that enables working in collaborative partnership at the same time. This includes ensuring that financial risk and reward as reflected in the payment model is balanced for both parties, that contractual provisions for handling disagreement or unforeseen circumstances are fair, and that there are built-in processes that facilitate issues to be identified and addressed as they arise.
Communicate clearly	This capability involves being able to communicate complex concepts or mechanisms in a way that can be easily understood by audiences with varying levels of data literacy and understandings of outcomes management. This applies both within government and with service providers.
Build internal alignment	This capability involves being able to build and proactively maintain the authorising environment for exploring PBO agreements, particularly as stakeholders change. This includes ensuring a high-level internal champion throughout.

The paragraphs below describe an initial assessment of the current level of each of these capabilities as demonstrated in the program, and in certain cases how they were strengthened through undertaking the program. These are based on what was shared by department interviewees.

Obtain and analyse quality data

Several staff considered that the way data was obtained and used to measure outcomes in the program was of ‘a very high standard’. One interviewee shared that merely trialling the PBO agreements ‘tied to [grant] money’ with service providers had been the driving force behind building internal capability to achieve that standard.

The following aspects were highlighted by staff:

- The building of the comparison group, critical for understanding what participant outcomes could be linked to the program.
- The considered choice of the outcome metrics, which drew on data that could be accessed through the department’s existing data systems. One department interviewee commented that the way that the data had been ‘pulled’ through data linkage ensured a more robust data set than relying on service providers to provide the data.
- Securing relevant approvals and ensuring reliable linkage between the department’s DEX and DOMINO (Data Over Multiple Individual Occurrences) systems.
- The way that the linked administrative data enabled participant outcomes to be assessed in the years and months before participation, and will enable follow up evaluation after the program.

Obtaining reliable data depended not only on internal departmental capabilities, but also on those of partner service providers to systematically collect the necessary data and to use DEX correctly. This is addressed further in the report section 'What service providers need to have in place' below.

To help support alignment between service providers and the department on the analysis of outcomes data, the department established a process for service providers to have access to data reports to enable verification and review of outcome results and data linkage. This involved working with the department's Legal Services Branch to establish a suitable process.

Nurture collaborative partnerships

As detailed in the previous section 'Stronger partnerships with service providers', all department staff interviewed, especially those who engaged directly with service providers throughout the course of the program, demonstrated genuine interest in the work that the service providers were delivering, along with the operational challenges faced by service providers.

The program emphasised regular engagement with service providers, from the set-up of each grant agreement to the quarterly Outcome Progress Reviews. This contributed to deepening department staff members' understanding of the service providers' operational contexts in general, as well as individual variations. This is shown in adjustments to the standard PBO agreement during the set-up phase, as well as flexibility on eligibility criteria and outcome payment timelines in response to unforeseen circumstances during implementation.

The Outcome Progress Reviews not only contributed towards building a shared understanding with service providers, but also towards building staff members' collaboration capabilities, with one department interviewee describing the continuous improvement observed:

The Outcome Progress Reviews evolved with time. [By the end, we had a] robust agenda and minutes, end-to-end documentation of what we discussed, action items, and an opportunity for the service provider to adjust that documentation. It kept the dialogue going, and at the next meeting we could build on that. I felt that the most recent ones I participated in were so smooth as we'd built all these lessons into the process.

Manage contracts constructively

Service providers that outperformed their performance targets did not receive a financial reward – they recuperated 100% of their project costs. This is unlike many other PBO agreements that award additional funds as incentives, and to acknowledge the greater financial risks involved for service providers. Most service providers did not comment on this, emphasising their gratitude at being able to continue delivering services that they believe are achieving good outcomes for participants. One service provider remarked, in relation to the funding agreement, that the department did have 'some work to do on equity and fairness'. Aside from this, other features of the contract were broadly seen as appropriate.

As mentioned above, the explicit contractual provision for the quarterly Outcome Progress Reviews together with the spirit in which they were conducted were seen by both department and service provider interviewees as substantially contributing towards strengthening the partnership.

Only one PBO agreement was terminated before the program's conclusion. As mentioned in the report section 'What the program is', Train and Care exited the program in mid-2022, citing unexpected difficulties with recruiting participants, with the success of their recruitment methods having been heavily impacted by COVID restrictions. They did not respond to requests for an interview, however, conversations with department staff and written exchanges indicate that agreements on termination and associated payments were reached without issue.

Communicate clearly

PBO agreements were new for several people in the department and within service providers. While the program's funding agreements were cited by a number of interviewees as being 'complex', they also emphasised the importance of communication in 'demystifying' that complexity. As one department interviewee reflected:

We have a responsibility to articulate complex things in a simple way. [The funding model] has become so complex that we can't articulate it effectively.

Some service providers commented that, given the complexity of the agreements, the department could have 'unpacked it a bit more'.

Suggestions from service provider interviewees included conducting a more in-depth induction session with the intention to ensure that service providers genuinely understood how the agreements worked and to reduce misinterpretation, and providing clearer documentation upfront that could be more easily understood by non-specialists.

The department prepared reporting guidelines for service providers to explain the outcome measurement and payments in plain terms, the process of reporting, and to answer common questions about the PBO grants. Baseline analysis documents were prepared for each service provider with an executive summary of their proposed performance targets and detailed analysis of historical performance to support the target setting process.

Build internal alignment

One of the challenges cited by several department staff in relation to the department's ability to align internally was the shift in mindset required on how the department works with service providers. As one department interviewee reflected:

We need to shift from the mindset of giving out money to partnering with people to achieve meaningful outcomes.

Some department interviewees identified the need to 'educate across the department better so that everyone gets [outcome-based funding]', and to address some of the misconceptions surrounding PBO agreements. It was emphasised that this needed to be in language that everyone can understand irrespective of their

professional background, and in communication formats tailored to different hierarchical levels.

The hope was expressed that a shared understanding of the potential consequences of PBO agreements would then facilitate alignment across the department on if and how to continue exploring them. Shared understanding across a broad base would also strengthen continuity in policy direction, reducing the potential negative impact of manager or executive turnover in the department.

A number of department interviewees shared that they had learned more about ‘what it takes to trial something new’, highlighting the need to champion the initiative internally, to be persistent, and to ensure a high-level internal champion throughout, with one interviewee citing that this needed to be at least at the level of Deputy Secretary.

Beyond the department, interviewees cited the need for better alignment with other government departments on policy changes – such as the formation of Workforce Australia in July 2022 – that would directly impact service providers’ ability to meet their outcomes. Suggestions included ensuring early communication or systematic cross-departmental consultation, to be able to avoid or at least mitigate unintended consequences on existing programs.

Understanding better what works in PBO programs

Both department and service provider interviewees remarked that the trial nature of the program encouraged them to apply a learning lens to their experiences. Interviews were accordingly rich with lessons learned and suggestions for improvement in future PBO programs. The lessons learned in this section complement and expand on the elements addressed throughout the report and are categorised under 3 broad themes: what service providers need to have in place, the role of department capabilities and culture, and key considerations for design and implementation.

What service providers need to have in place

Like the department, there are a number of capabilities and other characteristics that enable a service provider to successfully participate in PBO programs, and that were voiced by both service provider and department interviewees. These are described in Table 14. They are based on capabilities identified in the review of key literature and evidence that supported the development of the PBO Decision Framework, together with opinions expressed by interviewees.

Table 14: Service provider characteristics that enable successful participation in PBO program

Characteristic	Description
Minimum viable product	<p>This starts with a robust program logic for the proposed project, ideally supported with evidence from a small-scale trial.</p> <p>This was true for all service providers participating in the program, as their proposed interventions were successfully trialled under the TTL Fund.</p>
Robust financial viability	<p>Sufficiently robust financial viability across the overall operating model enables the service provider to cover a potential shortfall in funding due to not securing outcome payments, without impacting the delivery of its other services.</p> <p>This was cited as a key characteristic for service providers by both service provider and department interviewees.</p>
Ability to identify and manage risks	<p>A service provider needs to be able to identify factors within and outside of their control that may impact the achievement of outcomes.</p> <p>For factors within their control, appropriate actions should be put in place to mitigate the risk and monitored throughout the program.</p> <p>For factors outside of their control, the impact of potential future events should be analysed in a scenario planning process and integrated into assessment of whether performance targets are feasible. This is particularly critical during contract negotiation when performance targets are being set.</p>
Ability to manage contracts effectively	<p>This starts with negotiating contract terms with the department that accurately reflect the service provider’s objectives and risk appetite, based on its current financial situation.</p> <p>Once the contract is signed, a service provider needs to be able to manage the contract effectively, in a way which ensures financial viability if targets are not met. This includes effectively managing the budget of a non-standard funding agreement, and proactively using contract provisions to renegotiate or amend targets or planned activities as pertinent.</p>

Ability to obtain and analyse quality data	<p>Subject to the department confirming that the existing data collection framework is compatible with service provider systems, a service provider needs to be able to implement the required processes to consistently collect high-quality data as part of service delivery, and to share this with the department through the agreed channels. Once data is obtained, a service provider needs to be able to analyse both quantitative and qualitative data accurately to draw meaningful insights for service delivery.</p> <p>One service provider reported that ‘it would have been a very different program if we didn’t have our own DEXpert!’. Another emphasised the importance of data analysis capabilities across the team to be able to analyse – and challenge, if needed – the department’s performance reports.</p>
Appetite for innovation	<p>A key intended benefit of PBO agreements is to incentivise service providers to use outcomes data throughout the program to inform changes to service delivery. This requires the service provider to have an appetite to innovate based on what they are learning from the data.</p>

The role of department capabilities and culture

The program highlighted capabilities that are critical for successful design and implementation of PBO programs. This is discussed above in the report section ‘Increased capabilities to design and implement PBO programs’. It also brought the role of department culture in shaping the effort required to support PBO programs to the fore. Department staff had insightful reflections about engaging in PBO agreements within the department’s current context to support department priorities. As one interviewee shared:

We have to recognise that there is a spectrum for [outcomes-based] models. And even if you pick a model on that spectrum, it needs to be customised for the cohort, type of service, etc. This is not standard for government. It takes real time, and we need to understand there are *always* unintended consequences. The question is which ones are most or least material for what we are trying to achieve.

Others reflected on the ‘common dilemma’ in government programs of having funding for a pre-defined and relatively short period, while wanting to achieve outcomes for the most disadvantaged groups. One interviewee shared:

Working with disadvantaged groups takes time and we need to be willing to do that [...] how might we change this funding approach?

Some interviewees shared ideas on how to ensure that trials in the department achieve their objective. As one interviewee suggested:

We have to think more from the beginning on what the program is for. Is it mainly to generate findings or to achieve outcomes? And then we need to ensure shared understanding of this by all stakeholders.

Another proposed a number of questions that need to be asked:

What happens if the trial succeeds? What happens if it doesn't? Have we thought about how this fits into the reality of government – existing funding cycles, existing processes and programs? These are questions we need to think more about before launching the trial.

Another interviewee reflected:

If a program is meant to be a trial, then we need to ensure that we have allocated enough resources and time to obtain meaningful learnings. This might also mean thinking about resourcing capability uplift if the trial requires new capabilities.

Thinking of where to from here for PBO programs at the department, one interviewee commented that, given the intense work required to support just 6 providers over the 2-year period, it may be best to trial them further before scaling. Another commented that any scaling or replicating of the program would require a step change in the funding mechanisms that government uses to commission programs and services, and in the approach to data governance and privacy.

A reflection from a number of interviewees was that employment outcomes – the focus of the program – might be particularly well suited to future PBO programs. One reason cited was the value for money for government through the direct saving to welfare spending. Another reason cited was the ability to measure the outcomes through existing welfare data, which was considered to be a relatively objective and practical measure.

A key lesson learned from the program is that the capabilities of department staff, systems, processes, and tools, are partly enabled by department culture. To support further development of department capabilities and ensure that future PBO programs are set up for success, an enabling spirit of experimentation and learning must be genuinely supported across the department.

Key considerations for design and implementation

Alongside other initiatives like the PBO Trials, the program contributes to the department's knowledge on how to optimise the design and implementation of PBO programs. These findings have been presented throughout the report and an extended assessment of the different design and implementation choices that have impacted the intended outcomes of the program is presented in 'Appendix 1: PBO Decision Framework'. Key considerations for the design and implementation of future PBO programs are summarised in Table 15 below.

Table 15: Key considerations for design and implementation of future PBO programs

Element	Lessons learned
Timeframe	<p>At the beginning of the program, enough time needs to be built in to ensure that data systems and quality assurance processes for outcomes measurement are properly set up, to minimise the risk of data quality or other issues once the program is running with service providers. More time at the outset also supports greater shared understanding of the risk being agreed to by service providers and time for scenario planning.</p> <p>In addition to this, real change takes time to occur and be seen. PBO programs are set up for success when there is sufficient time for service providers to support participants to achieve outcomes, for them to be observed in the data, and have contingencies if outcomes are not achieved. For interventions that work with vulnerable cohorts, the time needed to achieve outcomes like exiting welfare may be extensive and will vary across participants. Opportunities to extend the program’s process for setting performance targets are described in the report section ‘Suitability of performance targets’.</p>
Evaluation group size	<p>The number of participants supported by a service provider impacts the confidence in service provider performance based on the outcomes data. Increasing the size of the evaluation group increases confidence. However, important considerations include:</p> <ul style="list-style-type: none"> • increased cost to government • potential scalability challenges for service providers • potential lower levels of support provided to individual participants. <p>It is important to acknowledge that when setting target evaluation group sizes, the department was limited by funding constraints and some service providers’ intensive service support models, which could not be scaled easily. Two steps taken to increase confidence in service provider performance were validation in the Outcome Progress Reviews and follow-up data review activities.</p> <p>For future PBO programs, the department should consider that when less than 500 participants are supported, small increases in participant numbers can support material increases in confidence. This could inform funding decisions or selection of service providers. Where participant numbers are restricted, the department could incorporate a buffer for statistical error into performance targets.</p>
Outcome metrics	<p>Key strengths of the outcome metrics selected for the program was their correlation with impact and government savings, and their objectivity. Their binary nature had mixed consequences. Binary</p>

Element	Lessons learned
	<p>outcome metrics were chosen to minimise ‘cherry-picking’ clients that were easier to support, and because they were relatively straightforward to communicate and be understood by government decision-makers and service providers. However, different levels of success for individual participants were not captured. Future PBO programs could consider using frequency outcome metrics that capture participant improvement (or not) on a scale. This can be separate to the decision about whether to count participants towards performance targets.</p> <p>Another key lesson relates to what the outcome metrics do and do not capture. From the start of the program, the department acknowledged that the outcome metrics were not intended to capture all the value created by service providers, and that other intermediate and wellbeing outcomes supported were still important. Service providers appreciated the genuine interest that the department showed in these outcomes. However, they would like to see options to broaden what gets measured and contracted for explored in future PBO programs. This appetite was mirrored in department staff, who also acknowledged increased costs linked to establishing reliable data collection and validation processes for additional outcomes.</p>
Performance targets	<p>The difficulties that the department faced when predicting the impact of external factors post COVID-19 on the ability of service providers to achieve outcomes was acknowledged in interviews with the department and service providers, as was the department’s clear intent to set realistic performance targets in partnership with service providers. Some service providers may not have fully understood the role that data analysis played in informing the performance targets. Service providers shared in consultation that increasing statistical linkage required significant work that was more than expected.</p> <p>Future PBO programs could consider investing more time into stepping through the performance targets’ construction with service providers, including modelling recruitment against expected time to achieve outcomes, against progress towards performance targets. This need is greater for smaller service providers that may not have internal financial modelling capabilities.</p>
Payment structure	<p>As discussed in the report section ‘Manage contracts constructively’, many interviewees agreed that future PBO agreements must be fairer towards service providers, providing the potential for a commensurate financial reward to balance their increased financial risk, and noting that this would also provide incentive for service innovation.</p>

Element	Lessons learned
	<p>The program used a binary, period-by-period payment structure. The Outcome Progress Reviews were intended to provide flexibility for service providers that fell short of their performance targets by creating a forum for the department and service providers to explore the underlying factors. If the service provider had been affected by extenuating circumstances, revisions to the PBO agreement or partial/full payment could be agreed to. These provisions are outlined in the Outcome Progress Review parameters defined in service providers' payment schedules.</p> <p>To be more sensitive to service provider performance and reduce financial risk for service providers, future PBO programs could consider using a tiered or linear payment structure, with a cap on the maximum payment amount, or using a cumulative payment approach.</p> <p>These 2 payment structure decisions may also give service providers greater assurance that just missing their performance targets or achieving them at a different sequence to what was planned will be rewarded.</p>
Outcome Progress Reviews	<p>The Outcome Progress Reviews were intended to provide flexibility to accommodate for unexpected circumstances that may impact service providers. This reflected the program's commitment to setting service providers up for success. While the Outcome Progress Reviews did provide flexibility to a certain degree, interviewees who participated in them acknowledged that it would be beneficial in the future to build in guidelines for 'treatment options' that help guide what path to follow in certain scenarios. These would need to be 'just right' to be useful, providing enough structure without being too rigid.</p>
Data collection	<p>The program used a sophisticated approach to data collection and measurement within the time and funding available. However, some data and measurement integrity and timing challenges were experienced, as outlined in the report sections 'Access to timely and useful data on outcomes' and 'Obtain and analyse quality data'. Future PBO programs should consider solutions fit for their purpose and time, as well as solutions that would support the department to optimise data collection for PBO programs in the long-term.</p> <p>For future PBO programs where welfare data is not pertinent, alternative data sources need to be explored. One idea is to use validated data collection instruments that are generally accepted in the community service sector and flexible enough to be tailored to a particular intervention, with a 'translation matrix' that enables it to be 'grafted' onto the department's DEX system.</p>

Appendix 1: PBO Decision Framework

SVA developed a PBO Decision Framework to support the assessment of the program’s design and implementation. This was developed through a review of key literature and evidence, and SVA’s experience in developing and advising the department and other government agencies on the design and implementation of a number of PBOs. Based on current evidence and literature in the PBO space, Table 16 presents general criteria that PBO programs should aim to optimise the balance of. Note that many of these criteria can be extended to non-PBO programs.

Table 16: Criteria for PBO programs to balance

Criteria	What this looks like for a PBO program
Clear goal(s)	<p>A PBO program should have clear goal(s) and understand their relative priority. These may include:</p> <ul style="list-style-type: none"> • improved participant outcomes • improved outcomes measurement • service provider innovation • capability building for service providers • capability building for the commissioning party • greater accountability to achieve outcomes • reusable documents, processes and systems for future PBO agreements or other applications • insights and evidence for future policy and program development.
Outcomes focus	<p>A PBO program should be centred on meeting the needs of individuals and communities by supporting clearly defined and measurable outcomes, rather than by prescribing activities or outputs.</p>
Data and measurement integrity	<p>A PBO program should have robust systems in place for accurately measuring and verifying the achievement of outcomes.</p>
Adaptation within limits	<p>A PBO program should balance standardisation at the program level to support streamlining processes and doing things at scale, with some tailoring for each agreement that comes under it.</p>
Partnership	<p>Each agreement in a PBO program should be designed and implemented in partnership between the service provider and commissioning party. This requires:</p>

- regular and transparent communication
- mutual understanding of shared information
- joint problem solving
- clear roles and responsibilities.

Risk and reward sharing	<p>Each agreement in a PBO program should distribute risk and reward between the service provider, commissioning party, and any third parties in a way that:</p> <ul style="list-style-type: none"> • creates incentives to achieve outcomes • encourages collaboration to achieve outcomes • supports equity • addresses power imbalances.
Responsiveness	<p>Each agreement in a PBO program should have structures in place to respond to situations where the service provider is impacted by circumstances materially different to what was assumed during its design.</p>

A PBO has many elements. Decisions need to be made about each of these elements during the design phase, and each decision may bring both intended and unintended consequences. The relevance and implications of these consequences depends on the PBO's context. In addition, how to optimise the design and implementation of PBOs in specific contexts is still being explored. PBOs are the exception not the rule for commissioning – just 24 have been deployed or are under development in Australia (Bollen and Sainty 2022).

The Decision Framework is organised around the key questions that need to be answered when designing a PBO:

- How are the target social issue and intervention program identified?
- How are participant cohorts defined and enrolled?
- How are outcome metrics chosen, defined, and expressed?
- What is the counterfactual?
- How are the performance targets defined?
- What is the payment structure?
- How is the contract set up?

Under each question, key design elements are defined, and likely consequences associated with different options are presented. The program is assessed against each design element with reference to the choices made, key consequences for the department and service providers, how things played out in practice, and linked considerations for future PBO programs.

How are the target social issue and intervention identified?

A PBO program needs to be clear on the target social issue it addresses, and why PBO is appropriate before commissioning begins. The level of evidence behind an intervention impacts the level of risk and innovation involved in service delivery. In Table 17 below, the program is assessed against different design elements related to target social issue and intervention identification, and considerations for future PBO programs are presented.

Table 17: PBO Decision Framework - How are the target social issue and intervention identified?

Design element	Assessment of the program against the design element	Considerations for future PBO programs
<p>Target social issue identification: Effective social issue definition involves clearly describing the issue, size and profile of the population affected, and analysis of government costs.</p>	<p>The program’s target social issue – long-term unemployment and welfare reliance – was defined comprehensively, drawing on earlier work completed for the TTL Fund. There was an understanding of government costs and targeted provision of services to priority groups, such as migrants and carers. However, the department did not re-evaluate the size the eligible population in projects’ locations, instead relying work done for the TTL Fund and service providers’ analysis of the communities that they operated in.</p>	<p>Consider sizing the eligible population in projects’ locations, to understand the magnitude of need and ensure that there is sufficient number and concentration of eligible people to participate in the projects.</p>
<p>Program identification (commissioning and tender approach): Programs can be identified through a range of commissioning approaches. For example, open market</p>	<p>The program selected service providers to participate in the program based on their success under the TTL Fund. The development process for their funding agreements was expedited compared to</p>	<p>Consider dedicating more time and effort at the outset to ensure that all parties understand what is being agreed to, establish clear roles and responsibilities, and plan for different scenarios. This</p>

Design element	Assessment of the program against the design element	Considerations for future PBO programs
<p>vs direct, expression of interest vs request for proposal, time-bound vs open ended. When setting tender requirements, the department can set fixed requirements or flexibility regarding elements like the intervention model, outcome metrics, counterfactual, and payment structure.</p>	<p>other PBO agreements. The grant agreements with an additional payment schedule that service providers signed contained less detail compared to contractual documents for some other Australian PBOs, especially regarding enrolment processes and the triggers for contractual reviews.</p>	<p>includes discussing details of the contract and assumptions so that providers understand risks and implications. Consider documenting program procedures and contract terms in greater detail in the future to provide clarity and assurance to service providers. Small extensions in time spent upfront can avoid complications down the track.</p>
<p>Understanding of program logic: A program logic explains how a project's activities lead to its desired outcomes and impact.</p>	<p>There was a moderate to strong understanding of the program logics for the projects funded by the program. Components including time needed to achieve outcomes, the assumptions and external factors that that may affect participation and outcomes, and the breadth of outcomes supported were considered.</p>	<p>Consider dedicating more time and effort to understanding the time needed to achieve outcomes, including variation between participants, before selection of service providers and finalising agreements. When the measurement period is fixed, this might indicate greater suitability of some interventions over others and can be used to inform performance targets.</p>
<p>Evidence for program's estimated impact – historical performance across contexts: Funding a project with demonstrated success in a similar context increases confidence in its estimated impact. On the other hand, funding a project with limited existing success can enable innovation and</p>	<p>All projects for the projects funded by the program were selected because they demonstrated success under the TTL Fund, although their level of success varied. Some projects made changes to their service delivery for the program,</p>	<p>When expanding eligibility criteria to new cohorts, or for small cohorts, consider tying payments to participation targets but not outcome targets. For example, the Arc Social Impact Bond has a target of 423 participants, including 40 women. Given predicted differences between the outcomes achieved by men and women</p>

Design element	Assessment of the program against the design element	Considerations for future PBO programs
<p>doesn't necessarily prevent future success.</p>	<p>most often expanding eligibility criteria to new cohorts.</p>	<p>and the small number of women supported, the service provider Vacro will receive enrolment payments depending on the number of women involved and outcome payments depending on the progress demonstrated by participating men.</p>
<p>Evidence for program's estimated impact – data and evaluation quality: The quality of data available to substantiate a project's estimated impact affects whether it is selected for a PBO program.</p>	<p>The quality of evidence underpinning the projects funded under the program varied. Evidence comprised the TTL Fund evaluation findings, and outcomes data analysis completed in late 2020 (similar to subsequent baseline analysis completed to set performance targets).</p>	<p>Depending on the PBO program's goal(s), prioritise funding projects with more or less evidence. For example, if the PBO program aims to promote innovation, then the importance of its existing data and evaluation quality may be less than if its primary aim is to improve participant outcomes by a specific amount.</p>

How are participant cohorts defined and enrolled?

The rules and processes that determine who gets to participate in a service funded through a PBO agreement and who is measured for outcomes have a significant impact on what the service provider gets paid for. The target cohort should be defined broadly enough to ensure that the right people can access the support. In Table 18 below, the program is assessed against different design elements related to defining and enrolling participants, and considerations for future PBO programs are presented.

Table 18: PBO Decision Framework - How are participant cohorts defined and enrolled?

Design element	Assessment of the program against the design element	Considerations for future PBO programs
<p>Eligibility criteria: Eligibility criteria determine who can participate in a funded service. Narrowly defined criteria enable specific cohorts to be supported and can reduce the risk of ‘cherry-picking’ easier-to-support clients or ‘parking’ harder-to-help clients. However, it can limit the eligible pool of people and require more complex assessment processes. On the flipside, widely defined criteria can increase the pool of eligible participants and simplify assessment processes but might increase the risk of ‘cherry-picking’ or ‘parking’.</p>	<p>Five projects used a combination of wide criteria (such as wide age ranges) with narrow criteria (such as minimum levels of English language proficiency). The 2 others used wide criteria. Notably, not all the eligibility criteria used by projects is visible in the welfare data.</p> <p>The income support/welfare criterion used across projects is very wide. Someone could be recently unemployed and on income support for one day, or long-term unemployed with barriers to employment and on income support for over a year. This may make performance targets too easy/hard to achieve.</p>	<p>Consider including a catch-all criterion in the contract for circumstances where people who fall within the target cohort do not meet eligibility criteria so the parties can agree to include people even when they don't meet the criteria but would benefit from the intervention.</p> <p>For future employment focussed PBOs, consider using a more specific income support/welfare criterion that excludes people who have been unemployed for a very short period.</p>

Design element	Assessment of the program against the design element	Considerations for future PBO programs
<p>Identification and referral process: A project funded through a PBO agreement has many options for identification and referral of potential participants. These options vary by the level of responsibility assigned to the government, service provider, and other stakeholders. Whoever holds this responsibility bears the 'volume risk' - the risk if there's not as many participants in the program as predicted so outcomes can't be achieved.</p>	<p>Service providers were responsible for recruiting participants and used their own referral networks to do so. So, service providers held the volume risk. There were no controls on the number of participants that could be enrolled and service providers were encouraged to increase enrolment if they were having difficulty achieving outcomes. This is different to many other number-based payments (including rate cards) where an enrolment cap is often included to prevent churning.</p>	<p>Consider sizing the eligible population in projects' locations in the program identification phase to mitigate volume risk for service providers.</p>
<p>Verification of eligibility of participants: PBO agreements may require verification of participants' eligibility at various stages of the contract. At one extreme, verification of participants' eligibility can be trust-based. At the other, verification may occur by rigorous verification of records using government data.</p>	<p>Participant eligibility was specified in service providers' grant agreements and the proportion of participants that met the eligibility criteria was monitored. Service providers took steps to verify participant eligibility like asking participants to present a Centrelink statement during recruitment. Consequences of lower-than-expected eligibility may include reduced support for the target cohort, service providers supporting participants whose outcomes were not measured, and potential termination of service providers' agreements.</p>	<p>To prevent service providers in future employment focussed PBOs from unknowingly supporting participants whose outcomes will not be measured and therefore reduce the risk that they take on, consider investing in developing a solution for verifying participant eligibility related to unemployment and welfare. To minimise costs, understand what criteria are most important – for example, be in receipt of income support or at risk of long-term welfare dependence. Use more rigorous verification for more important criteria</p>

Design element	Assessment of the program against the design element	Considerations for future PBO programs
		<p>and lighter touch verification for less important criteria.</p> <p>In the absence of a fit-for-purpose solution, provisions could be made to reduce performance targets given higher than expected ineligibility of participants.</p>
<p>Evaluation group definition: The evaluation group is the group of participants that are counted towards the achievement of contracted outcomes.</p>	<p>The evaluation group was defined as the subset of participants who met 3 criteria: they had provided consent, had 3 support sessions reported in DEX, and had a statistical linkage key in DEX that could be linked to welfare data. If a participant received less than 3 support sessions, any outcome observed could not be reasonably attributed to participating in a project, so the minimum support sessions criterion helps avoid false outcome counts.</p>	<p>In many PBO programs, a minimum support sessions criterion is not included.</p> <p>For future PBO programs, consider carefully whether including a minimum support sessions criterion could create perverse incentives. Although this did not apply to the program, when performance targets are set as rates or enrolment is capped, a minimum number of support sessions criterion may create a perverse incentive for providers to churn through participants with only 1-2 support sessions and only continue with participants who look like they will achieve successful outcomes.</p>
<p>Evaluation group size: A larger evaluation group reduces the likelihood of statistical error, reducing the risk of governments paying for outcomes which</p>	<p>The size of the evaluation groups ranged from 55 participants through to 218 participants. When setting target evaluation group sizes, the department</p>	<p>To increase the confidence in service provider performance based on measured outcomes, prioritise funding service providers to support higher</p>

Design element	Assessment of the program against the design element	Considerations for future PBO programs
<p>occurred by chance and service providers being underpaid due to bad luck. For this reason, PBO agreements tend to operate at scale, supporting 300 participants or more.</p>	<p>was limited by funding constraints and the recognition that several projects have highly intensive service support models to meet the needs of people with high levels of disadvantage. To increase the evaluation group size could diminish the level of support (and hence disfavour those most in need) or increase the cost to government and pose scalability challenges for service providers.</p>	<p>numbers of participants. The Outcomes Payment Framework suggests a minimum participant group size of approximately 500 per PBO agreement to reduce potential statistical error in results. When less than 500 participants are supported, consider that small increases in participant numbers can still support material increases in confidence.</p> <p>Where participant numbers are restricted, consider incorporating a buffer for statistical error into performance targets.</p>

How are outcome metrics chosen, defined, and expressed?

A PBO agreement must define the outcomes that service providers will work towards and how outcomes will be measured. Outcome metrics need to provide clear goals for service providers. Ideally, they are also closely aligned to impact and government savings. In Table 19 below, the program is assessed against different design elements related to outcome metrics, and considerations for future PBO programs are presented.

Table 19: PBO Decision Framework - How are outcome metrics chosen, defined, and expressed?

Design element	Assessment of the program against the design element	Considerations for future PBO programs
<p>Outcome metric correlation with impact and government savings: It is important to distinguish what matters and what gets measured. To the extent that a PBO agreement is motivated by creating impact for participants or government savings, it is important that measurement of service provider performance is aligned with this.</p>	<p>There is strong evidence that the program’s outcome metrics track government savings, in the form of reduced welfare expenditure, and real impact for participants. However, like in many PBO programs, the outcome metrics do not capture all the value created by service providers.</p>	<p>Explore broadening what gets measured and contracted for beyond the primary outcome(s).</p>
<p>Objectivity: It is best practice for outcome metrics to minimise the role of human judgement in their determination.</p>	<p>The program used objective outcome metrics that make it easier to agree on results. They rely on quantifiable welfare data rather than subjective judgements – for example, participants feeling ‘more job-ready’.</p>	<p>Like in the program, continue to include objectivity as a criterion to be promoted when selecting outcome metrics for a PBO program.</p>

Design element	Assessment of the program against the design element	Considerations for future PBO programs
<p>Understandability: It is desirable that outcome metrics can be easily understood by the people working to support the outcomes that they are tracking.</p>	<p>Complexity is present in Outcome 2 (increased employment income) due to its definition, where it may not be clear why the margins of \$1,153 and \$2,307 above the participant’s baseline were chosen.</p>	<p>Consider dedicating more time and effort at the outset to ensure that all parties understand the way that the outcome metrics were developed and how they are relevant.</p>
<p>Outcome metric types: Outcome metrics can take different forms. An important distinction is between binary metrics which are ‘pass or fail’ and frequency metrics where results occur on a discrete or continuous scale.</p>	<p>The program employed binary outcome metrics. This made it difficult to understand different levels of participant achievement, beyond whether they achieved or did not achieve the outcome.</p>	<p>In order to capture the extent to which all participants improved against the outcomes or not, consider using frequency outcome metrics.</p> <p>Even if a binary metric is used for counting participants towards performance targets, prioritise using them for outcomes measurement.</p>
<p>Number and combination of outcome metrics: A PBO agreement’s number and combination of outcome metric types should be considered on a case-by-case basis because it is critical to setting fair performance targets.</p>	<p>Two outcome metrics in the program – Outcome 1 and Outcome 2 – are linked. Outcome 1 can be seen as an extension of Outcome 2, which may have encouraged service providers to provide in-depth support to participants to support them to achieve both outcomes. Using 2 linked outcomes may help inform outcome metric selection in the future.</p>	<p>Understand the comparative merits of Outcomes 1 and 2 when selecting outcome metrics in the future. Commissioning parties should consider outcome metrics which have been used successfully in other PBO programs or have been recommended for use based on analysis or evaluation activities.</p>

Design element	Assessment of the program against the design element	Considerations for future PBO programs
<p>Measurement periods: measurement periods are a fixed time during which outcomes are measured – for example, the number of people who achieve a given outcome over the 12-month period commencing on their enrolment. The period length should balance giving service providers a fair opportunity to achieve outcomes, enabling outcome metrics that indicate sustained outcomes to be adopted, and supporting feedback at a cadence that meets service provider and department needs.</p>	<p>The program was split into 3 outcome observation periods of 5–6 months. Outcomes were measured period-by-period. The first outcome observation period varied in length depending on when the projects commenced. While outcome observation periods appear to have supported outcome metrics that indicate sustained outcomes and timely feedback, making the periods longer may have given service providers a fairer opportunity to achieve outcomes.</p>	<p>Use measurement dates – for example every 3 or 6 months from when the project started – where outcomes are measured cumulatively. These can be tailored to department needs like end of financial year.</p> <p>If there is a strong rationale for measuring outcomes within discreet outcome observation periods, understand the length needed to achieve and observe outcomes before deciding on outcome observation period lengths.</p>

What is the counterfactual?

PBO agreements employ counterfactuals. Understanding what would have happened in the absence of an intervention increases understanding of what outcomes can be linked to the service provider. In Table 20 below, the program is assessed against different design elements related to the counterfactual, and considerations for future PBO programs are presented.

Table 20: PBO Decision Framework - What is the counterfactual?

Design element	Assessment of the program against the design element	Considerations for future PBO programs
<p>Counterfactual methodology: A range of options are available for establishing a counterfactual, ranging on a spectrum from randomised control trials (the most rigorous, but most expensive), to educated guesses (the least rigorous, but least expensive).</p>	<p>The program used a matched comparison method to construct a comparison group for each service provider. The comparison group was constructed from a sample of similar non-participants from welfare data.</p>	<p>A fixed historical baseline counterfactual methodology was used, which should be considered in future PBO programs.</p>
<p>Understanding of counterfactual: A strong understanding of the counterfactual, including its limitations, is important for establishing confidence in what would have happened in the absence of a funded project.</p>	<p>A key distinction between PBO agreements and grant agreements is that PBO agreements support understanding what would have happened in the absence of the intervention. Careful consideration went into setting up the comparison group. However, understanding is limited by:</p> <ul style="list-style-type: none"> • What the welfare data can show – which may not include all eligibility criteria like work availability or English proficiency. • The fact that people in the comparison group may engage with other community and employment programs. 	<p>Consider elevating the role of the counterfactual in Outcome Progress Reviews.</p> <p>Where there is strong confidence in the counterfactual, consider using it to set performance targets.</p>

How are the performance targets defined?

Performance outcome targets prescribe what service providers need to achieve to receive outcome payments. In Table 21 below, the program is assessed against different design elements related to performance targets, and considerations for future PBO programs are presented.

Table 21: PBO Decision Framework - How are the performance targets defined?

Design element	Assessment of the program against the design element	Considerations for future PBO programs
<p>Evidence for performance targets: Outcome performance targets should be based on evidence and sensitive to the project's current context.</p>	<p>Performance targets were constructed in a standardised way based on historical performance under the TTL Fund and negotiation between service providers and the department. Instances where outcome performance targets were revised to zero for outcome observation period 1 demonstrate sensitivity to individual provider context.</p>	<p>Consider extending the approach used in the program as described in the report section 'Suitability of performance targets'.</p> <p>Consider adding buffer for potential statistical error based on evaluation group size.</p>
<p>Number and proportion of participants that outcomes can be observed for: Performance targets often make assumptions about the number and proportion of participants that outcomes can be observed for.</p>	<p>When setting the performance targets, the assumed proportion of participants in the outcome observation groups increased relative to what was observed in the TTL Fund for all service providers except one. This was related to guidelines about increased statistical linkage and visibility of outcomes in welfare data.</p>	<p>Consider the rationale behind target observation group sizes and potential risks to service providers, to reduce the possibility that performance targets are harder to reach than intended.</p>

What is the payment structure?

A PBO agreement’s payment structure determines how much service providers will be paid and when. Decisions around the payment structure have important implications for the level of financial risk that service providers and government take on. In Table 22 below, the program is assessed against different design elements related to payment structure, and considerations for future PBO programs are presented.

Table 22: PBO Decision Framework - What is the payment structure?

Design element	Assessment of the program against the design element	Considerations for future PBO programs
<p>Payment basis: Options include payment per outcome, payment by proportion of value generated for government (in terms of estimated financial savings), and payment by proportion of project costs.</p>	<p>The program used payment by proportion of project costs.</p>	<p>Like in the program, explore the feasibility and suitability of different payment bases.</p>
<p>Payment timing: Outcome payments can be period-by-period or cumulative.</p>	<p>The program assessed performance within each outcome observation period to inform payment for that period. One consideration in this decision was the chance that if providers exceeded performance targets early, they may stop providing services.</p> <p>This approach confounds the risk from small evaluation group sizes, especially for outcome observation period 1. Unless revisions were agreed to in the Outcome Progress Reviews, service providers could not catch up on missed</p>	<p>To reduce financial risk for service providers, consider using a cumulative payment approach that assures service providers the opportunity to catch up on missed outcome payments.</p>

Design element	Assessment of the program against the design element	Considerations for future PBO programs
	<p>outcome payments. There was at least one example of a service provider being allowed to carry over outcomes from one period to the next following an Outcome Progress Review.</p>	
<p>Payment structure: A payment structure describes how payments increase according to achievement of outcomes. A binary payment structure means that a service provider receives the full payment if they meet the performance target but nothing if they fail. Tiered and linear payment structures offer staggered payments based on the level of outcomes achieved, usually up to a certain point. They are more sensitive to different degrees of performance.</p>	<p>The program used a binary payment structure. This may have increased risk for service providers because missing the target meant that they received no payment, regardless of how close they got. The Outcome Progress Reviews were intended to offset this risk in cases where service providers were close.</p>	<p>Consider using a tiered or linear payment structure to be more sensitive to service provider performance, with a cap on the maximum payment amount.</p> <p>Consider providing more structure for 'how close is close enough' for partial or full payment based on Outcome Progress Reviews. There is a need to balance:</p> <ul style="list-style-type: none"> • Preventing the nominal treatment options from acting as a prescription, applied without critical assessment of the circumstances that do play out. • Creating some assurance for service providers about treatment options in the event of underperformance.
<p>Absolute/relative payment approach: Payment approaches can be absolute or relative, which is a distinction that relates to whether payments reflect the counterfactual. Under an absolute approach, the department pays for all</p>	<p>The program used an absolute approach. The counterfactual was not included in the definition of performance targets. However, the counterfactual was set up to be considered in Outcome Progress Reviews, with the intention of</p>	<p>Consider the level of confidence in the counterfactual's estimate of what would have happened in the absence of an intervention when deciding whether to</p>

Design element	Assessment of the program against the design element	Considerations for future PBO programs
<p>outcomes achieved. Under a relative approach, the department pays for outcomes achieved above the counterfactual.</p>	<p>establishing whether the performance targets were fair.</p>	<p>use an absolute/relative payment approach.</p>
<p>Percentage of at-risk funding for service providers: In a PBO agreement, the percentage of funding tied to the achievement of outcomes is considered at-risk.</p>	<p>Two service providers had approximately 35% of their funding at-risk, while 4 service providers had approximately 50% of their funding at-risk. The impact of this level of financial risk depends on individual service providers' contexts and the level that the targets are set at. As a basic example, for a \$1 million contract, \$500,000 at risk will be different for a large provider with annual revenue of \$100 million compared to a small provider with annual revenue of \$5 million. If a target is set at a very low level (for example, similar to the counterfactual – so that service providers could still hit the target if they do nothing), then the probable loss is small. If it is a higher target (for example, above the counterfactual, possible for a well designed and implemented program), then the risk is higher.</p> <p>Nevertheless, the fact that the payment is based on a proportion of project costs means that service providers risked</p>	<p>Consider dedicating more time and effort at the outset to ensure that service providers have a strong understanding of financial risk by conducting financial modelling and exploring options to reduce financial risk when desired by the service provider. Not all service providers, especially smaller ones, will have this capability in house.</p> <p>Like in the program's Outcome Progress Reviews, continue to explore options to reduce financial risk in recognition of unexpected circumstances, when desired by the service provider.</p>

Design element	Assessment of the program against the design element	Considerations for future PBO programs
	<p>losing up to 50% of their project budget if they carried out activities to the end of their contract without meeting any of their performance targets.</p>	
<p>Risk and reward principles: A PBO agreement strives to create a fair balance between risk and reward for service providers, the department, and third party investors. If the service provider/third party investor stand to lose money, then they should be compensated with a return for taking on that risk.</p>	<p>Some service providers were better placed than others to absorb the financial risk that they took on in the program. Service providers that outperformed their performance targets did not receive financial reward – they recuperated 100% of their project costs. One service provider had third party financial contributions, and some received in-kind support. Across service providers, understanding of changes in financial risk over time if they didn't meet their performance targets could have been improved.</p>	<p>Consider dedicating more time and effort at the outset to ensure that service providers have a strong understanding of financial risk by conducting financial modelling and exploring options to reduce financial risk when desired by the service provider. These options could include third party investors, philanthropy, or adjusting the percentage of at-risk funding.</p> <p>Consider rewarding service providers when they outperform their targets, setting an overall cap on payments that is between 110% and 125% of payments expected in the target performance.</p>

How is the contract set up?

A PBO agreement prescribes outcomes, reporting requirements, meetings, and opportunities to terminate the agreement agreed to between parties. In Table 23 below, the program is assessed against different design elements related to contract decisions, and considerations for future PBO programs are presented.

Table 23: PBO Decision Framework - How is the contract set up?

Design element	Assessment of the program against the design element	Considerations for future PBO programs
<p>Contracting form: When designing a PBO agreement, there are choices around the form of contract and suite of documents that support the implementation of the core contract. Possible forms of contract could be grant agreement and implementation agreement. Additional documents could be a payment schedule or Partnership/Operations Manual.</p>	<p>Under the program, service providers signed a grant agreement with an additional payment schedule.</p>	<p>Conduct a detailed assessment of whether the grant agreement was fit for purpose and whether any amendments need to be made or a new contract template needs to be created to support this funding model.</p>
<p>Focus on outcomes: A key feature of PBO agreements is their focus on describing the outcomes that service providers must achieve to receive funding, while leaving service providers with a relatively high degree of autonomy in other areas, such as decisions on activities and measuring outputs.</p>	<p>The grant agreements contained detailed information on the target outcomes, but also prescribed some activities additional to the outcome metrics.</p>	<p>Consider the optimal level of detail to be included in the grant agreement for activities and KPIs additional to the outcome metrics. This could help inform whether amendments need to be made or a new contract template needs to be created to support this funding model.</p>

Design element	Assessment of the program against the design element	Considerations for future PBO programs
<p>Reporting requirements: Reporting requirements should focus on outcomes. Any additional reporting should support understanding trends in how/when outcomes are achieved – for example, participant engagement data.</p>	<p>All service providers were required to provide a range of reports including Activity Work Plan Reports approximately every 3 months, as well as an annual statement of compliance and financial acquittal reports. The department produced performance evaluation reports every 3 months.</p>	<p>Develop a set of reporting principles that ensure reporting focuses on outcomes and how/when outcomes are achieved under an overarching concept of ‘minimum viable reporting’. Example principles could be flexibility or curiosity from all parties.</p>
<p>Governance: Governance should prescribe regular collaborative meetings that are inquiry based, informed by input, output, and outcome data, and capture learnings.</p>	<p>The Outcome Progress Reviews were central to the program's contract governance. They were scheduled following the release of each performance evaluation report, approximately every 3 months.</p>	<p>Like in the program, prescribe regular meetings as part of the program's governance. It is important that these meetings allow time to discuss learnings and implications of the data, in addition to reviewing the results achieved.</p>
<p>Contractual reviews: Contractual reviews provide formality and fair processes through which to review how a PBO agreement is tracking relative to the planned assumptions and to renegotiate terms if things are materially different to planned. Review triggers should be clear - they may include low enrolments, poor performance, counterfactual reviews, or project costs.</p>	<p>The Outcome Progress Reviews were the forum for contractual reviews. At each Outcome Progress Review, the number of participants enrolled into the evaluation group and progress towards the performance targets were discussed. If the service provider had not met their performance target or seemed unlikely to, then reasons and potential remedies were addressed. There was an opportunity to negotiate whether the service provider would continue, including any variation, waivers,</p>	<p>Consider dedicating more time and effort to exploring different performance scenarios before finalising the agreements. Risk should not compromise service provider viability and the costs of core delivery overheads. Step different review triggers out in detail and nominal treatment options, and document them. There is a need to balance:</p> <ul style="list-style-type: none"> • Preventing the nominal treatment options from acting as a prescription,

Design element	Assessment of the program against the design element	Considerations for future PBO programs
	<p>consents or amendments to support them to do so. The agreement allowed the department and the service provider to agree to make a full outcome payment even if the performance target was not met. This occurred for several service providers.</p> <p>Service providers' payment schedules prescribed that both they and the department should act 'reasonably and in good faith' and gave both parties the right of reply during negotiation. The department could not decline a payment or change or terminate the contract without the option of recourse from service providers. However, some department staff and service providers felt the department held more power than service providers in these decisions.</p>	<p>applied without critical assessment of the circumstances that do play out.</p> <ul style="list-style-type: none"> • Creating some assurance for service providers about treatment options in the event of underperformance.
<p>Termination provisions: Termination provisions describe when/who can trigger the end of the contract and how termination payments are determined. They should include fair payment for work done but not yet measured,</p>	<p>The program's termination provisions were outlined in the Outcome Progress Review parameters defined in service providers' payment schedules. Following a 30-day period of working together to address enrolment or performance issues following an Outcome Progress Review, both service provider and the</p>	<p>Like in the program, ensure that termination provisions involve a period of working together to explore alternative options before termination is agreed to, and prescribe fair payment for work completed but not yet measured.</p>

Design element	Assessment of the program against the design element	Considerations for future PBO programs
<p>adjustments for 'fault', and considerations of transition out activities.</p>	<p>department had the opportunity to terminate the agreement. This option was exercised for one service provider, with Train and Care and the department terminating their agreement effective 30 June 2022. If service providers were tracking to achieve their performance target, a proportionate early termination payment would be made.</p>	
<p>Evaluation and contribution to evidence: A PBO agreement can set up mechanisms to capture and communicate insights, including performance levels and recommendations for future design and implementation of PBO agreements.</p>	<p>The program's main mechanisms for capturing insights on how to design and implement PBO agreements were the Outcome Progress Reviews and evaluation activities set out in service providers' contracts. Generally, best practice is to report on insights and performance levels for each PBO agreement publicly. For example, social impact bonds that must report to investors. However, given the trial nature of the program and small scale of the individual projects, the program plans to prioritise sharing general, future-focussed lessons learned, including those in this evaluation.</p>	<p>Continue to share lessons learned from PBO programs widely. Use a targeted approach for communicating findings at different levels of the department.</p>

Appendix 2: Evaluation methodology

The department commissioned SVA from January to July 2023 to evaluate the program.

Evaluation scope, audience, and purpose

The overall purpose of the evaluation was to help inform future policy-making and program decisions around the application of PBO programs, within the department and across the Australian Government. The evaluation has several intended audiences. Within the department, these include:

- The Outcomes, Trials, and Evidence (OTE) Section – as the team who administered the program, the OTE Section seeks to gain insights into the success and outcomes of the program and learn about how to improve the design and implementation of PBO programs in the future.
- Department senior executives – as part of their responsibility to drive a reform agenda within the department and increase focus on outcomes, they want to learn about how to make PBO programs work.
- The Office of the Minister for Social Services – this evaluation will communicate what the program is, what the program has achieved, and lessons learned about opportunities to apply outcomes-based funding agreements across social services.
- The Social Impact Investing Unit – this evaluation will deliver lessons that may be applied to their own trials and program decisions with outcomes-based funding agreements.

The primary external audiences for the evaluation are the 7 service providers involved in the program. The evaluation will share findings and insights about the effectiveness of the program, and lessons for service providers and the department about opportunities to improve in future PBO programs.

In this context, the evaluation aimed to explore 2 focus areas:

- To what extent did the program result in better outcomes for participants, innovative or more efficient service delivery for grant recipients, and ultimately better value for money for the department?
- How effectively were service providers able to transition to new funding sources, and if those were outcomes-based funding agreements?

The following evaluation questions were developed with the department under these focus areas:

- Leading practice: To what extent does the program reflect evidence on leading practice as applicable to the specific context?
- Changes for service providers: To what extent has the program resulted in changes for service providers? How successfully did providers make these changes?
- Participant outcomes: In what ways has the program contributed to improved participant outcomes?

- Value for money: In what ways has the program delivered value for money for Government?
- Lessons for the future: How effectively has the department supported the program to achieve its goals? What are the opportunities to improve the design and implementation of outcomes-based funding agreements in the future?
- Transition: To what extent has the program enabled service providers to transition to new funding sources? What type of funding sources and agreements?
- Barriers and enablers: What factors have impacted service providers' abilities to transition to new funding sources?
- Lessons for the future: How could the department have better supported service providers to transition to new funding sources?

Evaluation methodology

The evaluation used a mixed-methods theory-based methodology. The program's theory of change, shown in Figure 8, was developed to describe the underlying theory of how the program contributes to its intended outcomes, and provide a framework for structuring data collection and answering the evaluation questions. Data was collected using a mixed-methods approach that utilised a range of qualitative and quantitative sources:

- Program documentation – including program design documents, policy documents, correspondence between the department and service providers, performance evaluation reports, and previous evaluations.
- Analysis of quantitative data on participant outcomes collected by service providers and the department through the DEX system and Centrelink.
- Semi-structured interviews with participating service providers and department staff – noting that Train and Care, who terminated their contract early, declined to participate.

Data on participant outcomes was analysed in the department's system using the statistical software package R. Data analyses explored the number of outcomes achieved, correlation between achievement of different outcomes, individual participants' progress against the outcome thresholds, confidence levels, and the expected time to achieve outcomes. These analyses were conducted for program participants, and for TTL Fund participants and the comparison group when pertinent.

Options to conduct consultations with participants who had been supported by the funded projects were assessed. The assessment concluded that their inclusion would not be valuable as little or no evidence would be available from participants about the success of the PBO model, as distinct from their normal experiences of service provision.

The evaluation scope excluded:

- Quantifying the net or total impact of the program on government welfare spending (impact to date or predicted future impact).

- In-depth assessment and comparison of the effectiveness or efficiency of individual projects funded through the program. Although the evaluation assessed the extent to which projects achieved intended outcomes, the evaluation's aim was to assess the success and value of the program to draw out lessons for the future, rather than focus on what was achieved by individual service providers.

Glossary

Activity Work Plan

Specifies a project's activity details, deliverables, timeframes for delivery, measures of achievement, and budget.

Activity Work Plan Report

Documents progress against the Activity Work Plan for the reporting period.

At-risk funding

Funding tied to the achievement of outcomes.

Baseline analysis document

Prepared by the department for each service provider. Provides an overview of the decision points informing their proposed performance targets, based on data analysis of outcomes achieved under the TTL Fund.

Commissioning party

The person, company, institution, or organisation that leads the direction and financing of a PBO program. The commissioning party for the program was the department.

Comparison group

A group of non-participants who are similar in characteristics to non-participants. The comparison group for each project was constructed from a sample of non-participants in welfare data, matched based on:

- time period
- income earned prior to participation
- age
- Aboriginal and Torres Strait Islander status
- number of dependents
- age of dependents
- young parent status
- migrant status
- remoteness area
- SEIFA disadvantage
- welfare payment amounts in the year and 5 years prior to participation
- welfare payment type prior to participation
- single or partnered.

Comparison group rate

The rate at which a project's comparison group achieved a given outcome.

Confidence interval

Provides a range of likely values for the performance of a service provider. A confidence interval has an associated confidence level, expressed as a percentage, that expresses confidence in the range.

Counterfactual

What would have happened in the absence of a given project.

Culturally and linguistically diverse (CALD)

People who were born overseas and speak a language other than English at home.

Data Exchange (DEX) system

The department's grant and program reporting database. Funded service providers use it to report on activities, participants, and milestones.

Data Over Multiple Individual Occurrences (DOMINO)

Data mart that allows the department to track changes in individual life outcomes over time by linking different areas of data reporting. This offers insights into a person's interactions with Social Security Payments and department managed programs.

Department

The Department of Social Services, a department of the Australian Government.

Eligibility criteria

Criteria that determine who can participate in a funded project.

Employment income

Income earned from paid work, excluding income from gifts, welfare payments, rent, investments, or superannuation.

Establishment payments

Two payments paid upon execution of the grant agreement and transitioning to the outcomes-based funding model.

Evaluation group

The subset of participants, for a given project, who are counted towards the achievement of Outcomes 1, 2 or 3. The evaluation group was defined as participants who had:

- given consent for their de-identified personal information to be used by the department for evaluating the service provider's performance
- at least 3 support sessions reported in the DEX system
- a statistical linkage key that could be used to link their DEX and welfare data.

Expected time needed to achieve an outcome

The time when 50% of participants who will achieve that outcome have achieved it by.

Income Support Payment

Any income support payment issued to a Participant by Centrelink, including:

- ABSTUDY
- Age Pension
- Austudy
- Carer Payment
- Disability Support Pension
- JobSeeker Payment
- Parenting Payment
- Widow Allowance
- Youth Allowance.

Income Support Payments do not include Supplementary Benefit payments.

Outcome 1

Exiting income support due to employment. To achieve Outcome 1, a participant must have remained off Income Support Payments for at least 32 days in a consecutive 6-week period, where the exit reason is employment.

Outcome 1 (Longer Term)

Exiting income support due to employment. To achieve Outcome 1 (Longer Term), a participant must have remained off Income Support Payments for at least 137 days in a consecutive 26-week period, where the exit reason is employment.

Outcome 2

Increased employment income. To achieve Outcome 2, a participant must earn an amount of employment income at least \$1,153 or \$2,307 (according to the project) above the participant's baseline in a consecutive 6-week period.

Outcome 2 (Longer Term)

Increased employment income. To achieve Outcome 2 (Longer Term), a participant must earn an amount of employment income at least \$5,000 or \$10,000 (according to the project) above the participant's baseline in a consecutive 26-week period.

Outcome 3

Commencing or returning to study. To achieve Outcome 3, a participant must start receiving a student payment during their outcome period.

Outcomes-based funding

Funding arrangements where the performance of an intervention is measured relative to a baseline or counterfactual, and a certain portion of payments are linked to the intervention's performance as measured by agreed outcome metrics.

Outcome Measurement Date

The dates the Performance Evaluation Reports were calculated up until, which are:

- 31 December 2021
- 25 March 2022
- 1 July 2022
- 7 October 2022
- 30 December 2022
- 7 April 2023.

Outcome metrics

Define the outcomes that service providers will work towards and how they will be measured.

Outcome observation group

Consists of those participants in the evaluation group for whom it is possible to observe whether the given outcome was achieved in their welfare data.

Outcome observation period

Fixed times during which outcomes are measured. The program had 3 outcome observation periods:

- Outcome Observation Period 1: from the activity start date to 25 March 2022
- Outcome Observation Period 2: from 26 March 2022 to 7 October 2022
- Outcome Observation Period 3: from 8 October 2022 to 7 April 2023.

Outcome payment

Payment tied to the achievement of outcomes set out in a service provider's performance targets.

Outcome Progress Review

Quarterly meeting between the department and each service provider used to review progress towards the performance targets, understand underlying factors and identify potential remedies for any underperformance, and discuss and agree on any changes that may be required in the funding agreement.

Outcome rate

The rate at which a project's outcome observation group achieved a given outcome.

Participant group

People enrolled in a project.

Participant baseline period

Time period prior to a participant's enrolment used for calculating the amount of income earned, which is used for testing whether Outcome 2 is achieved.

Payment by outcomes (PBO) agreement

A type of outcomes-based funding characterised by most performance risk being retained by the service provider and low accountability for project costs. Depending on the government jurisdiction, PBO agreements are also known as PBO contracts, social impact investments, payment by results (PBR), and Partnerships Addressing Disadvantage (PAD).

Payment by outcomes (PBO) program

One or more PBO agreements funded under the same initiative.

Payment by Outcomes (PBO) Trials

An 8-year initiative of the department to co-develop, implement, and evaluate 3 outcomes-based funding arrangements in the social services sector, under the SII project.

Payment structure

Determines how much service providers will be paid and when.

Performance Evaluation Report

Document prepared by the department and released to the service provider, which gives statistics on participants' progress towards performance targets, up until a fixed date (the Outcome Measurement Date).

Performance targets

Describe what service providers need to achieve to receive outcome payments.

Program

The Transition Funding for Successful Try, Test and Learn Projects (TFSTTLP) program.

Projects

The projects funded under the TFSTTLP program.

Social impact bonds

A type of outcomes-based funding characterised by performance risk being shared between a contracted service provider and third-party investors.

Social Impact Investing (SII) project

Aims to inform the Government's approach to growing Australia's social impact investing market through capacity building and trials aiming to test the effectiveness of different financial models to address social disadvantage.

Statistical error

The difference between a value obtained from a data collection process and the 'true' value.

Statistical linkage key

A key that enables 2 or more records belonging to the same individual to be brought together. For the program, this was an individual's records in DEX and the welfare data.

Student Payment

Payment issued to a Participant by Centrelink, including:

- ABSTUDY
- Austudy
- Youth Allowance (apprentice)
- Youth Allowance (student)
- Pensioner Education Supplement
- Education Entry Payment.

Student Income Support Payments do not include Youth Allowance (job seeker).

Support Session

Service session provided to a Participant and reported in DEX, not counting the service types of 'intake/assessment' or 'information/advice/referral'.

Theory of change

Articulates the underlying theory of how a policy or program will lead to its intended outcomes, when implemented as intended. A theory of change can also include a description of the nature of the problem that the policy or program responds to.

Time to event analysis

Data analysis method that accounts for the possibility that participants may still achieve the outcome, even if it has not been observed before the end of the measurement period.

Try, Test and Learn (TTL) Fund

Delivered trials of new or innovative projects to support people in the community who face greater disadvantage and are at higher risk of long-term unemployment and welfare reliance. It provided traditional block funding grants totalling \$96 million to 52 projects from 2016 to 2021.

TTL Fund rate

The rate at which a project's outcome observation group achieved a given outcome under the TTL Fund.

Workforce Australia

Workforce Australia is the employment service delivered by the Department of Employment and Workplace Relations. It includes an online service and a network of providers to deliver personalised support to Australians so that they can find and keep a job, change jobs, or create their own job.

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