Australian Government
Department of Social Services

Outcomes-based contracting

Checklist for outcomes-based contracting

This checklist is designed to help you self-assess your readiness for outcomes-based contracting. It will highlight areas where you are well-prepared and identify aspects that may need further work before you begin your outcomes-based contracting journey.

Below the checklist, you'll find instructions for interpreting your responses, additional guidance for each question, along with suggested next steps to help you strengthen your readiness.

This checklist is designed for print or reference purposes and is not an interactive form.

Policy objective

Question	Yes	No	Unsure
Is there a clearly defined policy objective that outcomes-based contracting will help you achieve?			

Cohort identification

Question	Yes	No	Unsure
Have you defined your target cohort using well defined eligibility criteria?			
Can service providers and referring organisations easily identify and enrol people from the target cohort?			
Can your target cohort be identified within existing datasets?			
Have you estimated the size of your target cohort?			
Is your target cohort large enough to support your policy objectives and achieve meaningful results?			

Outcome measurement

Question	Yes	No	Unsure
Have you identified outcome metrics that are aligned with your policy objectives?			
Have you identified outcome metrics that are linked to payments (i.e., payment metrics)?			
Are your payment metrics unambiguous and can be objectively determined?			
Do you (or service providers) have access to existing data sources to measure your payment metrics?			
Do your payment metrics create the right behaviours and avoid unintended consequences?			
Do you have a clear method for determining how much impact is attributable to the service?			

Outcome pricing

Question	Yes	No	Unsure
Do you have enough information to set fair and realistic prices for outcomes?			
Do you have a view of the outcomes funding parameters (i.e., maximum funding, minimum funding, proportion of fixed funding)?			
Have you considered how payments will reflect the additional impact created by the service (and not due to other existing services or external factors)?			

Implementation

Question	Yes	No	Unsure
Does your organisation have the capabilities required to support outcomes-based contracting?			
Do service providers have appetite for operating under an outcomes-based contracting approach?			
Do services providers currently have, or could they develop the capacity to take on this approach?			
Have you identified an appropriate process for engaging the market?			
Have you decided whether you will be adopting standardised or bespoke payment terms for service providers?			

Interpreting your completed checklist

If your checklist responses were:

- 'Yes', then you are likely ready to embark on your outcome-based contracting journey. See 'where to next?' for some practical next steps
- 'Unsure', then more information is needed to determine if you are ready for outcomes-based contracting. See guidance below and factsheets for more information
- 'No', then you are likely not ready and you may need to consider adjustments to ensure your policy objective is suitable for outcomes-based contracting.

Additional guidance for completing the checklist

Policy objective

Defining your policy objective is important because outcomes-based contracting works best when you have a clear long-term goal. This means you should be clear on what you want to achieve beyond the initial contract period.

See the '**Introduction to Outcomes-Based Contracting**' factsheet for more information.

Cohort identification

Cohort identification is important in outcomes-based contracting because clearly defining *who* the service is for ensures that outcomes can be measured accurately, fairly attributed to the service and priced appropriately.

This means you should:

- Use well defined eligibility criteria to define your target cohort
- Check that:
    - Referring organisations are able to find the target cohort, and
    - Service providers are able to confirm eligibility when enrolling individuals
- Be able to identify the target cohort in existing datasets if you are estimating a counterfactual (i.e., what would have happened without the service)
- Understand the size and location of the target cohort as:
- Too small or geographically dispersed cohorts result in operational challenges, and
    - Larger and geographically concentrated cohorts can generate more robust results and evidence, whilst potentially being more cost-effective.

See the '**Cohort Identification**' factsheet for more information.

Outcome measurement

In the context of outcomes-based contracting, outcome measurement is important because it allows you to assess impact, determine payments, provide real-time results to enable adaptive service delivery and generate deeper insight about the efficacy of the service.

This means you should:

- Define metrics that clearly indicate progress toward policy objectives

- Define metrics that can be used to trigger payments and also form part of a broader monitoring and evaluation framework
- Define payment metrics that:
  - Are meaningful for the impact you seek and easy to measure,
  - Use existing data sources where possible to avoid investment in new collection processes and systems (data availability and governance may constrain the scope of your measurement approach), and
  - Encourage positive behaviours and avoid perverse incentives (i.e., unintended harmful actions) from service providers
- Consider how you might estimate what would have happened anyway (i.e., a counterfactual) to show additional impact of a service. This can be considered as part of the broader monitoring and evaluation framework. Consideration should be given to your policy objectives, cost, complexity, robustness and ethics.

See the '**Outcome Metrics**' and '**Understanding Outcome Measurement**' factsheets for more information.

Outcomes pricing

Pricing outcomes in outcomes-based contracting is important to ensure that incentives are aligned between commissioners and service providers, risk is appropriately shared and value for money is demonstrated for the commissioner.

This means you should:

- Use the cost to achieve the outcomes and the value of benefits arising from the outcomes to inform the agreed price of outcomes
- Define clear funding parameters, including:
  - The maximum and minimum funding, and
  - The proportion of fixed vs. outcome-based payments (this can be flexible but will require service providers to propose their own payment terms)
- Ensure that payments reflect additional outcomes attributable to the service. This means that payments are tied to results that the service provider can realistically deliver, rather than outcomes influenced by external factors (e.g., other services, economic conditions, policy settings).

See the '**Understanding Pricing of Outcomes**' factsheet for more information.

Implementation

Your outcomes-based contracting approach needs to be feasible to implement for it to be successful. This means you should consider:

- Additional support within your organisation to support this approach (i.e. a senior champion)
- New capabilities within your organisations to implement this approach (i.e. data, financial modelling, project management, contract design)
- New capabilities and additional capacity service providers may require to take on this approach (e.g., financial risk management, data management, project management). You may need to consider capacity building for your sector
- Supports service providers may need to manage the financial risk associated with the outcomes-based contract. You may need to consider having higher fixed payments or encouraging risk-sharing models (e.g., with investors or philanthropy) for service providers

- Your approach for engaging the market or sector (e.g., expression of interest, time bound proposals, rolling proposals) that aligns with your objectives
- Whether you will utilise standardized or bespoke payment terms as:
  - Standardised terms are faster to negotiate, help set clearer priorities, and enable broader learnings, and
  - Bespoke terms can be tailored but are slower to negotiate and limits learning and market development to a project-by-project basis.

Next steps

After completing the checklist, you may find there are areas to strengthen before starting outcomes-based contracting.

Here are some practical next steps:

- **Start the conversation internally**: share your checklist results with others in your organisation and discuss what needs to change or improve
- **Connect with experts**: Speak to a central government agency about outcomes-based contracting and engage external specialists to help build capability or advise on designing your initiative
- **Explore trusted resources**: UK Government Outcomes Lab; NSW Office of Social Impact Investment; Victorian Department of Treasury and Finance; Social Ventures Australia