



Outcomes-Based Contracting

Defining outcome metrics

An outcome is a change for an individual as a result of a service or intervention. An outcome metric is the indicator selected to measure whether that outcome has been achieved.

How metrics are different with outcomes-based contracting

Outcome metrics used in outcomes-based contracting are distinctly different to key performance indicators used in traditional funding approaches.

Funding model	Traditional funding approaches	Outcomes-based contracting
Metric type	Key performance indicator (KPI).	Outcome metric.
Description	Tracks activities, outputs, or process milestones by reporting on “what was done to support people”.	Tracks meaningful outcomes (or progress toward outcomes) for service users by measuring “what changed for the people supported”.
Purpose	Used to monitor service delivery activities, budget adherence and compliance.	Used to assess impact of a service, support continuous learning, and align stakeholders’ efforts.
Examples	Number of participants served. Number of sessions delivered. % of funds spent and adherence to planned budget. Submission of financial and activity reports on schedule. Number of case managers employed to deliver the service.	Number of days spent in hospital. Number of presentations to homelessness services. % of service users who report improvements in wellbeing. Number of job placements. Amount of award wage income reported by service users. % children reunified with their families.

Metric considerations

Alignment with policy objective

An outcome metric should clearly align with your policy objectives and allow commissioners to assess whether they are achieving this.

Broader monitoring and evaluation framework

Not all outcome metrics need to be linked to payments. You can develop a broader set of outcome metrics that can be used to inform adaptive service delivery and evaluate the impact of the service.

Data sources

Outcome metrics linked to payments should rely on existing data sources where possible so you can minimise investment into new data collection systems and processes. There are typically two different data sources that can be considered.

Data source	Advantages	Challenges
Government	- May require lower level of verification. - Service provider resourcing effort is reduced. - Better suited to establishing counterfactuals and relative measurement approaches.	- Access may be limited or delayed. - Requires greater commissioner resourcing. - Service providers need to collect additional data to match participants to dataset. - Often reliant on existing datasets.
Service provider (or service users)	- Potential to be quicker and more direct. - Can capture broader set of outcomes not linked to use of government services (e.g. self-reported wellbeing). - Can more readily inform changes to service delivery on the ground.	- Requires higher level of verification. - Subject to 'survivorship bias' or inaccuracy. - Creates additional administrative burden for service provider. - May impact relationship between provider and participants. - Unlikely to be able to establish robust counterfactual so better suited for absolute measurement approaches.

Objectivity

Outcome metrics linked to payments should rely on quantifiable and verifiable data rather than human judgement. This ensures there is minimal ambiguity in definition and measurement.

Perverse incentives

Linking payments to outcomes creates a financial incentive to achieve the outcomes. Therefore, it is important to ensure that these outcome metrics do not encourage service providers to behave in a way that is detrimental to service users and the objectives of the outcomes-based contract to maximise payments. For example, an outcome that can only be assessed as a 'pass' or 'fail' (e.g. an individual does or does not re-offend) can sometimes create perverse incentives.

Attribution

Attribution is about proving the *additional impact* of a service – i.e. the outcomes that can reasonably be credited to a service over and above what would have happened anyway. See the 'Understanding Outcome Measurement' factsheet for more information.

Outcome metrics that use government data

There are a wide range of outcome metrics that rely on government data sources.

Employment

Outcome Metric	Detail	Government
Income support payments	Dollars of income support paid	Commonwealth
Income support periods	Number of periods receiving income support	Commonwealth
Off welfare	Whether off benefits for at least x number of weeks	Commonwealth
Income	Dollars of (non-welfare) income	Commonwealth
Job placements	Number of job placements	Commonwealth
Job duration outcome	12- or 26-week employment outcome achieved	Commonwealth

Housing

Outcome Metric	Detail	Government
Rent assistance payments	Dollars of rent assistance	Commonwealth
Homelessness support services	Number of presentations to specialist support services	State / Territory

Health

Outcome Metric	Detail	Government
Hospital bed days	Number of days in hospital	State / Territory
National weighted activity units	Relative cost of healthcare provision	State / Territory
Emergency department visits	Number of presentations to Emergency Department	State / Territory
Mortality	Incidence of death, or other morbidity events	State / Territory
MBS and PBS spending	Cost to Commonwealth based on schedule fees	Commonwealth

Justice

Outcome Metric	Detail	Government
Recidivism	Re-entry into custody	State / Territory
Charges	Number of charges	State / Territory
Proven offences	Number of proven offences, potentially by severity	State / Territory
Incarceration	Number of days in remand or serving custodial sentences, or total length of sentences awarded	State / Territory
Parole completions	Completion of parole period without violation	State / Territory

Learn more

- Clearly define who a service is for in **Identifying a Target Cohort**
- Develop an approach to assessing impact in **Understanding Outcome Measurement**
- Determine how much to pay for an outcome in **Pricing Outcomes**
- Self-assess your readiness for outcomes-based contracting in the **Readiness Checklist**