



Introduction to outcomes-based contracting

Outcomes-based contracting is an approach to commissioning services where contracts are structured around specific, measurable outcomes.

It focuses on the real-world changes a program achieves. Examples include:

- Families being reunited
- Getting and keeping a job
- Securing stable housing
- Reducing re-offending.

There are different kinds of outcomes-based contracts. They are sometimes referred to as payment by outcomes or by results. A social impact bond is one type of outcomes-based contract where private investors provide upfront funding to deliver a service.

Why use it

This approach can help achieve a range of policy objectives. It is often used where traditional funding approaches haven't delivered impact or have failed to address entrenched disadvantage.

Outcomes-based contracting is:



Iterative and flexible, allows service providers to **innovate** and identify what works.



Able to focus on long term impact and reduce demand for acute services, by supporting measurable **early intervention and prevention approaches**.



Data driven, evidence-based, and **able** to learn about entrenched disadvantage.



A means to **test new ways of working** to deliver better, adaptive, services.



An opportunity to **unlock capital** and **partner with other commissioners and philanthropy**.



Able to **align the efforts of diverse stakeholders** around common outcomes.



An opportunity to **share risk** and **provide more accountability** of public funds.

What's different about outcomes-based contracting

Outcomes-based contracting differs significantly to traditional funding approaches.

Component	Traditional funding approaches	Outcomes-based contracting
 What's contracted?	Contract describes the service inputs and outputs (e.g. number of clients supported, or types of activities delivered)	Contract describes the measurable outcomes which are sought for defined cohorts (e.g. a reduction in welfare consumption)
 Service model	Program design is agreed upfront and can be hard to change service model once contract is in place.	Allows flexibility for service providers to deliver what is needed and learn, adapt and change approach to meet people's needs
 Target cohort	Broad or flexible eligibility, with focus on responding to people that present to the service	Specific eligibility criteria for targeted cohorts of people experiencing disadvantage
 Reporting focus	Reporting on activities and outputs, often short-term (i.e. 6 monthly during service delivery).	Reporting on progress toward outcomes and long-term impact (i.e. 2 years after service finishes)
 Relationship between parties	Tends to be grounded on compliance, contract management and performance	Parties work together and share data and learnings, to achieve outcomes
 Payment terms	Payments made upfront or based on activities delivered	Both upfront and outcomes-based payments
 Performance reviews	Reviews are centred on outputs. Tends to use service provider data, with limited understanding of outcomes achieved	Reviews are centred on outcomes. Uses a mix of government and service provider data to understand outcomes achieved
 Financial benefit and risk allocation	Financial benefits and risks typically held by commissioner	Financial benefits and risks are shared between the commissioner and service provider (and investors for social impact bonds)

Outcomes Fund and outcomes-based contracting

The Australian Government has committed \$100 million to establish the Commonwealth Outcomes Fund. The Outcomes Fund will provide opportunities for outcomes-based contracting projects by making payments to Governments (State and Territory) and service providers to address entrenched disadvantage.

Learn more

- Define who a service is for in **Identifying a Target Cohort**
 - Identify indicators of real-world changes that align with your policy objectives in **Defining Outcome Metrics**
 - 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**
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