Australian Government
Department of Social Services

Outcomes-based contracting

Understanding outcome measurement

Outcome measurement is the process of assessing whether meaningful changes have occurred for an individual that received a service.

The importance of measurement

Outcome measurement is important to different stakeholders – such as service providers, communities and commissioners – for a variety of reasons. In the context of outcomes-based contracting, outcome measurement is central to determining whether the commissioner's policy objectives have been achieved.

It's important because it:

- assesses impact, by determining whether targeted outcomes and policy objectives have been achieved
- informs payments, so funding to service providers is linked to improvements in agreed outcome metrics
- supports adaptive service delivery, by providing feedback to adapt services to meet users' needs over time
- provides deeper insight, by generating insight into what services are effective, and the value generated to support further investment.

Key concepts related to outcome measurement

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.

A **counterfactual** is an estimate of what would have happened anyway. There are a range of approaches to estimating a counterfactual. Each has different benefits and limitations. Cost, complexity, robustness and ethics need to be considered with selecting an approach.

Approach	Overview
Assumption-based estimate	Using available data to inform assumptions about what would have happened anyway.
Individual's pre-service experience	Each individual's experience before participating in the service forms their own historic baseline.
Historical baseline for target cohort	Past outcomes for a similar population using historical data are analysed to set a baseline.

Approach	Overview
Matched control group	A comparison group is constructed based on the attributes of the individuals participating in the service.
Randomised control trial	Individuals are randomly allocated to participate in the service or to receive other services as usual.

Randomised control trials are considered the most reliable way to estimate the counterfactual.

Alternative approaches – like using an individual's service experience or historical data for the target population – while not always as accurate, can offer a simpler and more cost-effective way to estimate what would have happened anyway.

When designing a contract, commissioners need to weigh up the benefits and limitations of each approach, to select the most appropriate.

Individual and cohort measurement

Outcomes can be assessed at an **individual level**, where each service user is assessed separately to determine whether they achieved an outcome (e.g., whether a child reunified with their parents after participating in the service for 18 months).

Outcomes at an individual level are typically then aggregated across all service users to assess the impact of the service (e.g., the number or proportion of children that are reunified with their families). This will inform the data sources that are used for measurement (see 'Defining Outcome Metrics' for more information).

Outcomes do not need to be assessed at an individual level and can instead be aggregated for all service users at a **cohort level** (e.g. the total number of presentations to specialist homelessness services by all service users).

For each metric, it is important to distinguish between measuring outcomes at an individual level and at a cohort level because it impacts how success is defined, what data needs to be collected and how payments are calculated.

Outcome verification

Outcome metrics linked to payments are typically verified to ensure credibility and transparency in measured outcomes. There are three options for verifying outcomes:

1. Engaging an external organisation to independently review and certify measured outcomes and calculate payments. This is an additional cost for the commissioner but can provide greater confidence in the results
2. Appointing the commissioner's contract manager to review and verify measured outcomes and calculate payments in accordance with the outcomes-based contract
3. Setting up the service provider to self-report measured outcomes and claim payments from the commissioner. This is less costly for the commissioner but can lead to lower confidence in the results.

Case study 1: Aspire Social Impact Bond

Overview

The Aspire Social Impact Bond aimed to provide people experiencing chronic homelessness in Adelaide with assistance with securing stable accommodation, job readiness training, and pathways to training, employment and life skills development.

The commissioner (the Government of South Australia) sought to explore a range of initiatives to promote innovation in the delivery of social and community services.

Outcome measurement

There were three outcome metrics linked to payments:

1. Hospital bed days: the number of days spent in hospital bed over a three-year period
2. Convictions: the number of convictions recorded in respect of offences over a three-year period
3. Accommodation periods: the number of emergency accommodation periods accessed over a three-year period.

Each outcome metric was measured relative to a counterfactual. The counterfactual was initially determined using analysis of service usage rates for a historic group of people experiencing homelessness in metropolitan Adelaide. The counterfactual was subsequently updated during the life of the program to more fairly reflect the complexity and characteristics of the individuals entering the Aspire program. The revised counterfactual reflected Aspire participants' average service usage over the two-year period prior to commencing the program.

Outcome metric	Counterfactual rate per person per year	Recorded rate per person per year	Initial target reduction	Actual reduction
Hospital bed days	5.9	4.2	15 per cent	29 per cent
Convictions	1.2	0.8	15 per cent	33 per cent
Accommodation periods	1.1	0.3	50 per cent	73 per cent

Other metrics used to inform ongoing service delivery were the number of participants housed, the number of participants maintaining their housing and the number of job placements. An evaluation was commissioned separately which measured a broad range of outcomes to better understand the effectiveness of the Aspire program and why it was effective.

Case study 2: Greater Manchester Refugee Integration Partnership

Overview

The Greater Manchester Refugee Integration Partnership aims to increase the self-sufficiency and integration of newly granted refugees, helping them to move into work, learn English, access housing and build links in their local communities.

The commissioner (the UK Home Office), through the Refugee Transitions Outcomes Fund, is seeking to encourage new partnerships and evaluate activities to better understand what works for refugees.

Outcome measurement

There were eight outcome metrics linked to payments:

1. Intermediate employability outcome: undertaking volunteering or work experience alongside improvements on two further individualised employability targets
2. Employment entry: entering employment or self-employment
3. Employment sustained: sustaining employment or self-employment for three months
4. Housing entry: entering safe and secure accommodation
5. Housing sustained: sustaining housing for three months
6. Integration plan: completing a person-centred individualised integration plan covering all areas relevant to their integration journey
7. Six-month integration improvement: completed individualised integration plan, with improvement on two or more six-month progress targets
8. Twelve-month integration improvement: completed individualised integration plan, with improvement on two or more 12-month progress targets.

These outcome metrics were not measured relative to a counterfactual for the purpose of determining payments.

The evaluation of the Refugee Transitions Outcomes Fund considers the impact of the initiative relative to a matched control group.

Learn more

- Understand the basics of outcomes-based contracting in **Introduction to outcomes-based contracting**
- 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**
- Determine how much to pay for an outcome in **Pricing Outcomes**
- Self-assess your readiness for outcomes-based contracting in the **Readiness Checklist**