

Outcomes-based contracting

Capability building for First Nations organisations

October 2023

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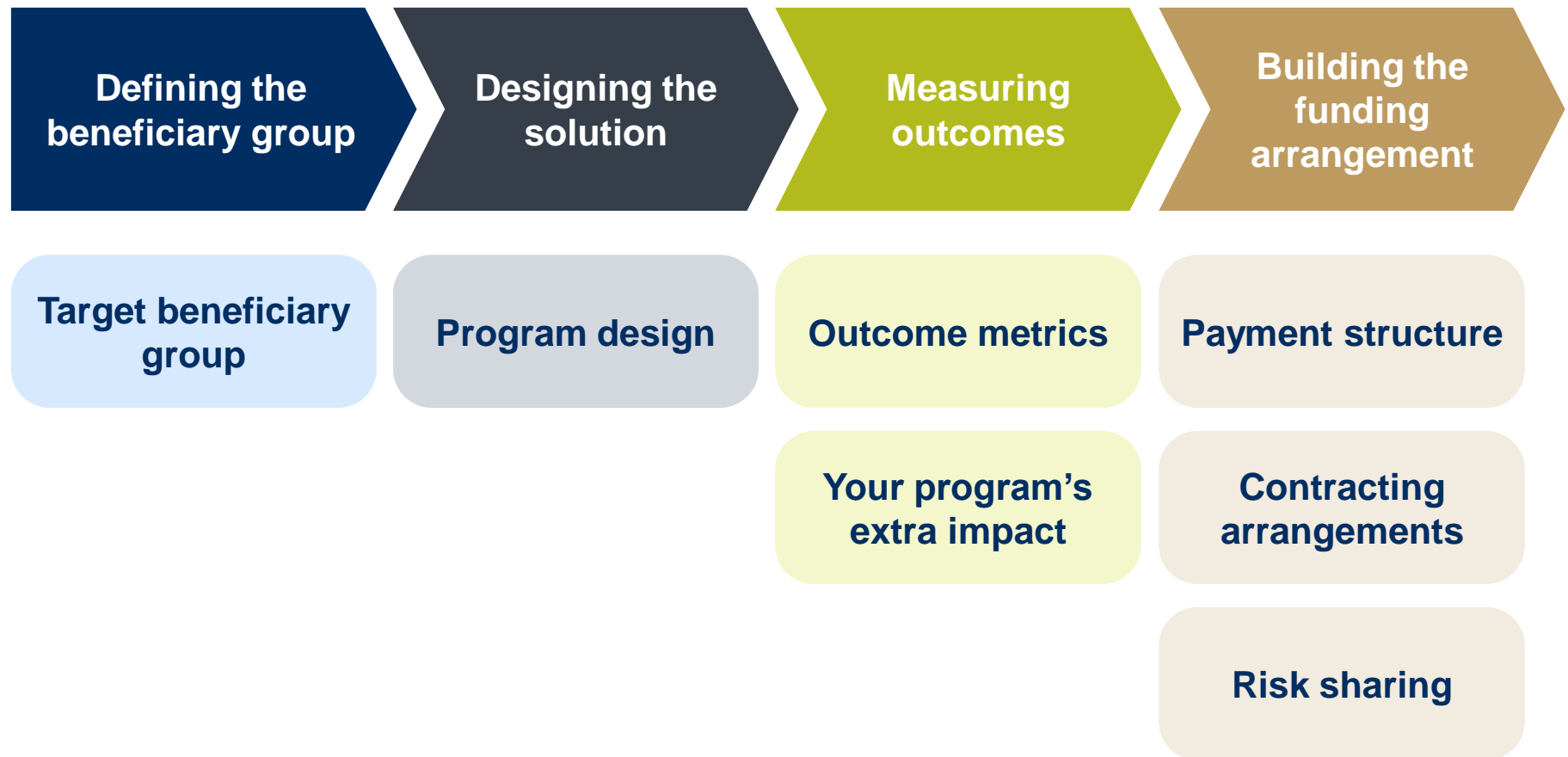


Module 1

An introduction to outcome-based contracting

October 2023

Framework: outcomes contract development



Workshop objectives

At the end of this workshop, you should have:

- An understanding of the **principles** underpinning outcomes-based contracts
- An understanding of the process and stages in designing and delivering an outcomes-based contract
- An understanding of the key **risks for service providers**
- Had an opportunity to **apply outcomes contracting theory** to your organisation's own priorities (at a high level)
- A better view of whether an outcomes-based contract is **appropriate** for your organisation

SVA introduction

Social Ventures Australia is a not-for-profit organisation that works with partners to alleviate disadvantage – towards an Australia where all people and communities thrive.



Ventures



Consulting



Policy and
Advocacy



Impact
Investing

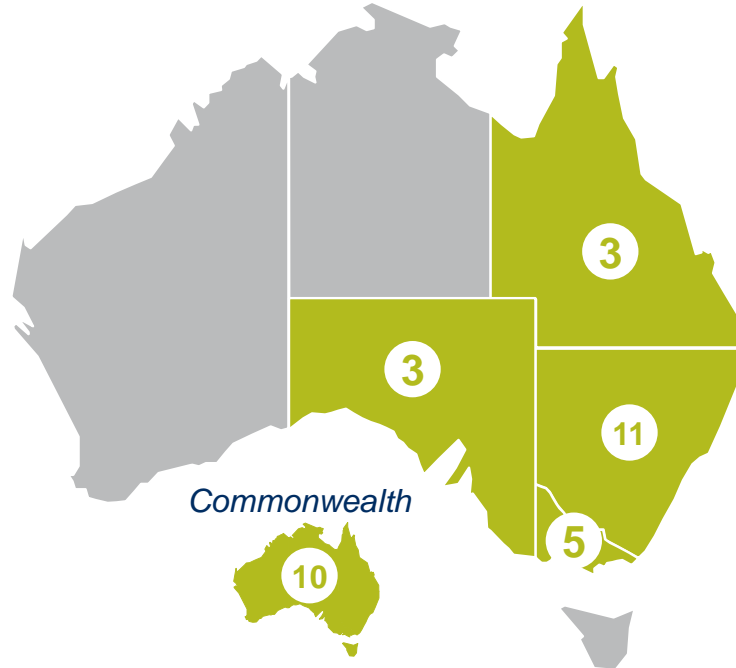


SVA

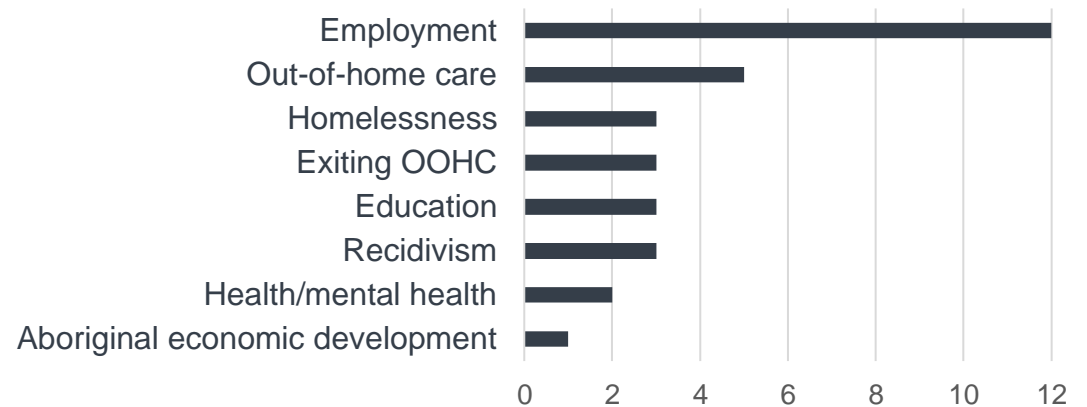
The landscape in Australia

Over 30 outcomes-based contracts, including 17 SIBs, have been deployed in Australia to address a broad range of social issues

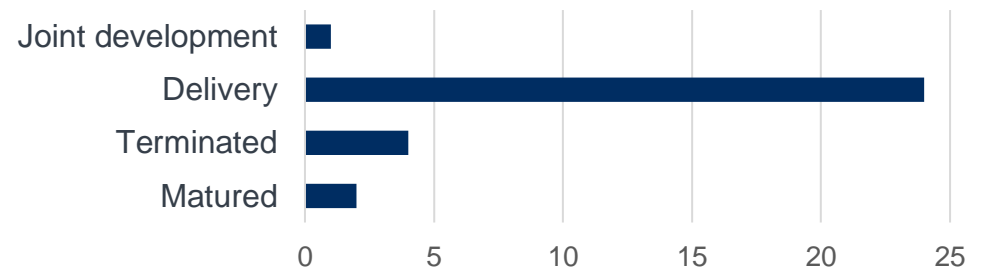
Contracts by jurisdiction



Contracts by target area



Contracts by status



Benefits of an outcomes-based approach

Outcomes-based contracting can support **innovation** by providing flexibility to better meet the needs of individuals receiving support. It can improve accountability for outcomes and help build **evidence** about what works.

Innovation

Provides flexibility for you to adapt programs in response to community needs, as funding is based on outcomes and not specific activities.

Evidence

Builds an evidence base of what works which can be used to communicate the impact of your services with new/existing partners and funders.

Collaboration

Through clear alignment on the outcomes partners seek to achieve, partners can adapt programs more easily to help improve outcomes, sharing risks and rewards across all partners.

What is outcomes-based contracting?

Outcomes-based contracting is an approach that governments use to commission services for a clearly defined cohort with clearly defined outcomes. This means that part of the government funding is dependent on outcomes that are achieved. It can come in many different forms ...

Social Impact
Investment (SII)

Payment by Results
(PbR)

Partnership
Addressing
Disadvantage (PAD)

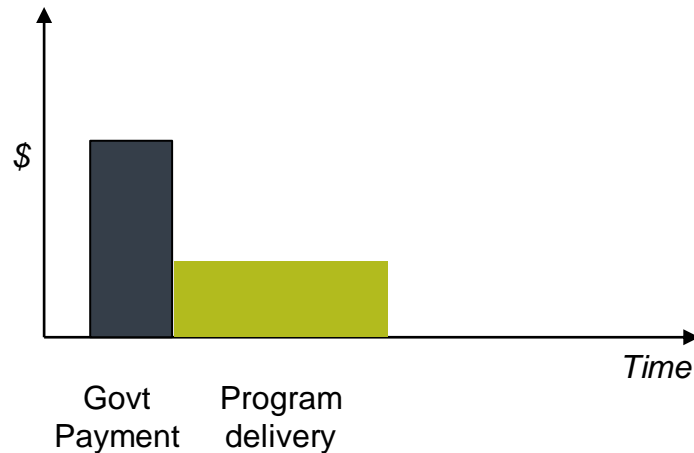
Payment by
Outcomes (PBO)

Pay-for-Success

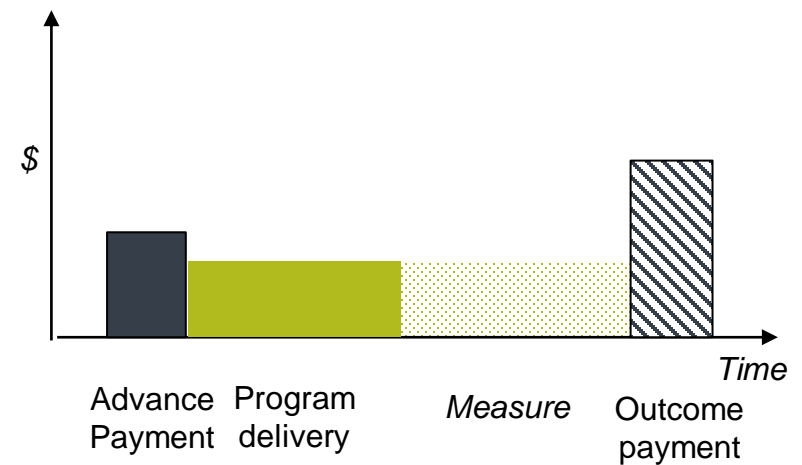
Social Impact Bond
(SIB)

Outcomes-based contracts vs grants

Grant agreement



Outcomes-based contract

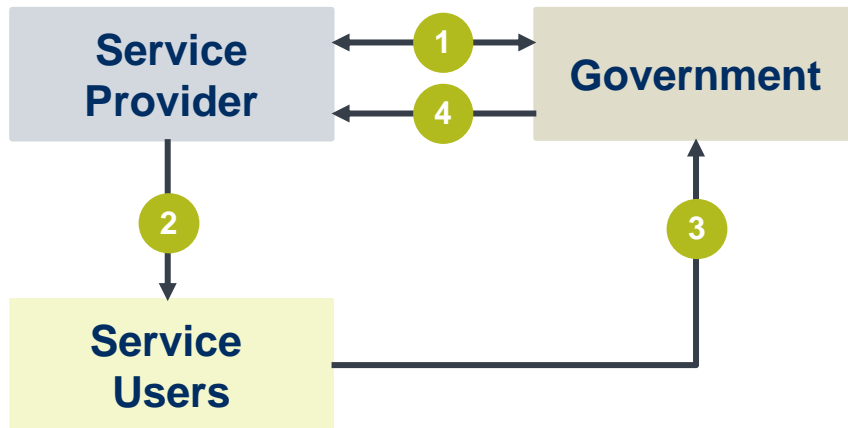


- Fixed payment in advance based on activity
- Short term funding cycle
- Acquittals for underspend

- Smaller payment in advance
- Later payment based on measured outcome (could be nil)
- Longer term funding cycle
- **Sharing of risk/return**

Outcomes-based contracts

A service provider may enter into an outcomes-based contract directly with government. The service provider achieves a financial benefit if outcomes are better than planned, but also carries the financial risk of lower payments if outcomes are poor.

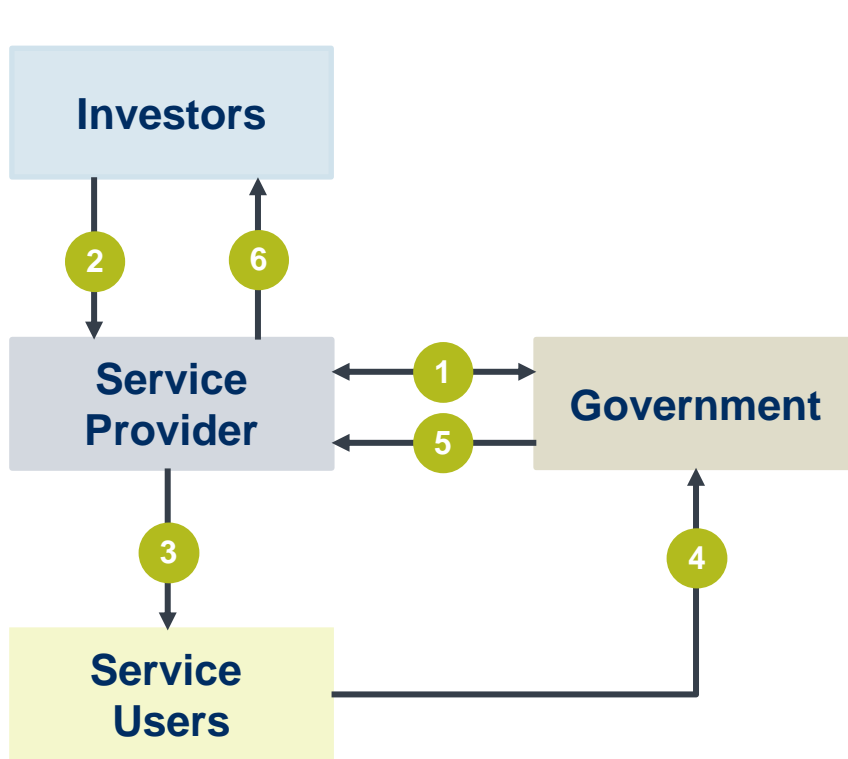


- 1 Service provider enters an outcomes-based contract with Government to pay on the basis of measured outcomes
- 2 Service provider delivers program to service users, leading to improved outcomes
- 3 The improved outcomes generate savings for government
- 4 Government pays service provider if outcomes are achieved according to the outcomes-based contract

This example is simplified. Government typically provides some advance payments throughout the project, not just at the end based on outcomes

Social impact bonds

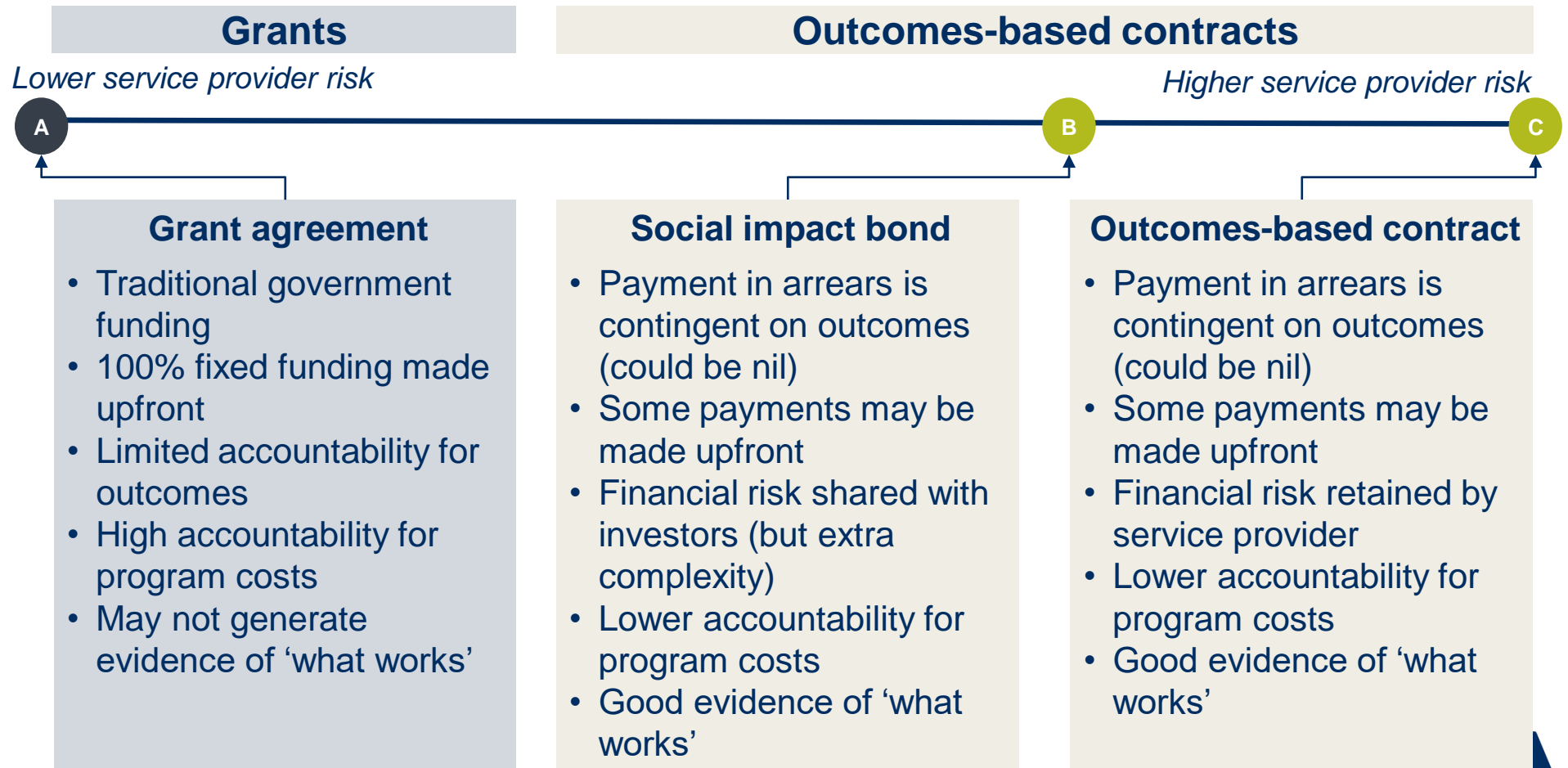
A social impact bond is a special type of outcomes-based contract where investors provide capital up front. Investors, rather than the service provider, bear the risk of poorer outcomes, but also the financial benefit if outcomes are better than expected.



- 1 Service provider enters outcomes-based contract with Government to pay on the basis of measured outcomes
- 2 Investors provide upfront capital to co-fund the provision of services
- 3 Service provider delivers program to service users, leading to improved outcomes
- 4 The improved outcomes generate savings for government
- 5 Government pays if outcomes are achieved according to the outcomes-based contract
- 6 Outcomes payments provide investors with a performance-linked return

The spectrum of options

There are different types of outcomes-based contracts, which have different levels of risk for service providers



Challenges and benefits

It can be challenging ...

- **Long development phase** – often 1 to 3 years
- **Requires focus and effort** – including operational, data, finance and executive input (plus external support)
- **In the spotlight** – transparency of results, good or bad

... but the hard work is rewarded

- **Longer contract terms** – usually 4 to 7 years, giving financial and operational certainty
- **Larger scale** – can support more people in more locations, relative to smaller philanthropic funding
- **Flexible funding** – can change how funds are spent based on service users' needs and 'know how' in achieving outcomes
- **Broad learnings** – collaborative partnerships with alignment of outcomes sought can provide learnings that improve service delivery
- **Build an evidence base** – measuring outcomes can allow you to build a strong evidence base which can be an enabler for future funding

Illustrative development process



Inputs and outputs

Inputs

- Accountable, qualified people
- Financial and program design
- Time
- Data
- Goodwill and flexibility
- Project management

Outputs

- Definitions
- Measures and data sources
- Financial model
- Process maps
- Legal structure and contracts

Beneficiary group

Years 1-4 students with high absenteeism, or behind in their educational attainment in Victoria (300 students). Aboriginal and Torres Strait Islander students prioritised.

Referral pathway

Schools: eligible students identified by schools and prioritised by DET; schools are selected based on eligibility criteria

Program elements



*12 months of individualised support
(additional 12 months if required)*

Outcome metrics

- Number of days absent from school

Outcome measurement

- Decrease measured relative to the students' expected days absent (*calculated using the student's days absent in the year prior program, and adjusted based on historical absentee patterns*)
- Measured over 24 months post enrolment (larger weighting in first 12 months)
- Students excluded if unable to participate

Contract details

- **Contracting agency:** Victorian Department of Education and Training
- **Term:** 2021-2027 (5-year service delivery period; referrals at end of prior year)
- **Risk sharing:** with investors through \$5m SIB

Beneficiary group

3 to 4-year-old children from families in Tasmania that hold a Concession Card and who are not engaged in early learning.

Program elements

Connects children and their families with early learning in the year before kindergarten. This is done by providing children and their carers with targeted playgroups and 1:1 support, both prior to entering kindergarten and during the first three months of kindergarten to ensure a smooth school transition.

15 months support: 6 months family engagement, 6 months pre-kinder readiness + 3 months of school readiness.

Referral pathway

Internal and External services: Eligible children referred by Community based services and Healthcare services. Chosen locations are high need areas based on Tasmanian Department of Education data.

Output and Outcome metrics

- Total number of children enrolled
- Attendance at pre-kindergarten learning sessions
- Achievement of development markers at kindergarten

Output and Outcome measurement

- Number of children in the Measurement Group
- Attendance and Development measured against baseline metrics based on analysis of experience of target population in Tasmania in recent years

Contract details

- **Contracting agency:** Commonwealth Department of Social Services
- **Additional Funding:** Paul Ramsay Foundation (matching DSS)
- **Term:** 2021-2026
- **Risk sharing:** Borne by 54 Reasons

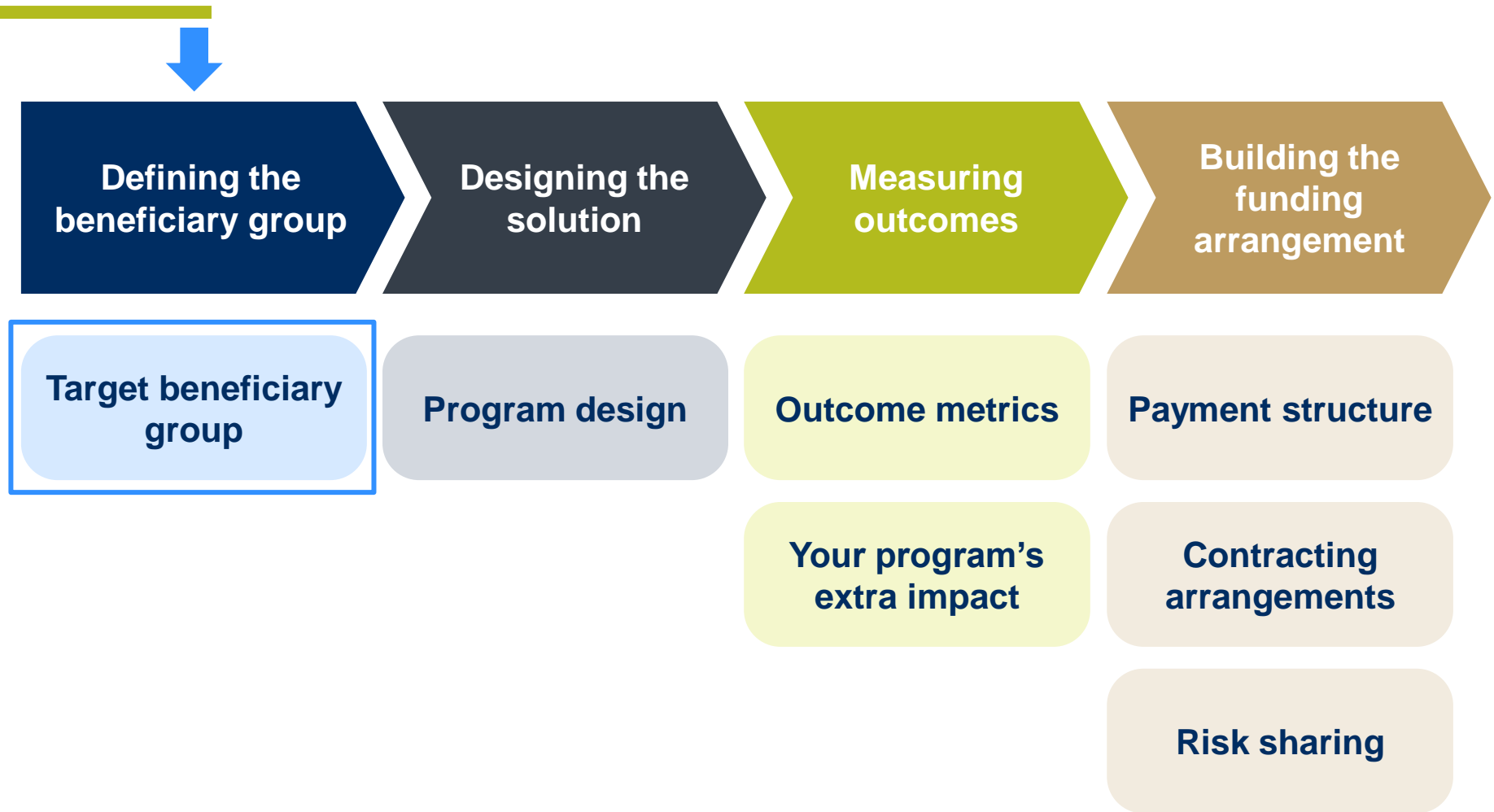


Module 2

Defining the beneficiary group

October 2023

Framework: outcomes contract development



Who are the ‘target beneficiary group’?

Target beneficiary Group: everyone potentially eligible for the program

Common criteria:

- Gender
- Age
- Location
- Occurrence of an event (e.g. previously in out-of-home care)
- Time since an event (e.g. has received a welfare payment for 13 or more fortnights in the year immediately prior to enrolment)
- Assessment/classification (e.g. able to commit to the program)

Desirable characteristics:

- Objective
- Inclusive
- Large
(dependent on size of impact)

Considerations for eligibility criteria

Flexible or wide/generic

- Larger eligible pool
- Simpler to determine if eligible
- 'Value for money' for government is less clear
- Higher risk of 'cherry picking' people who would have done well anyway

Objective and narrow

- Smaller eligible pool
- More complex to determine if eligible
- 'Value for money' for government is clearer
- Lower risk of 'cherry picking'

Balancing theory and reality:
To be eligible for support, participant must meet the eligibility criteria

The enrolment process

Enrolment: the process of including eligible individuals in the group that will have their outcomes measured (i.e. the 'Measurement Group')

Typically, there are four key steps:



Referral pathways

How will eligible participants be identified and connected to your program?

Systematised referrals

- Government data used to develop a list of eligible individuals
- No human judgement in prioritisation
- Every referral is enrolled

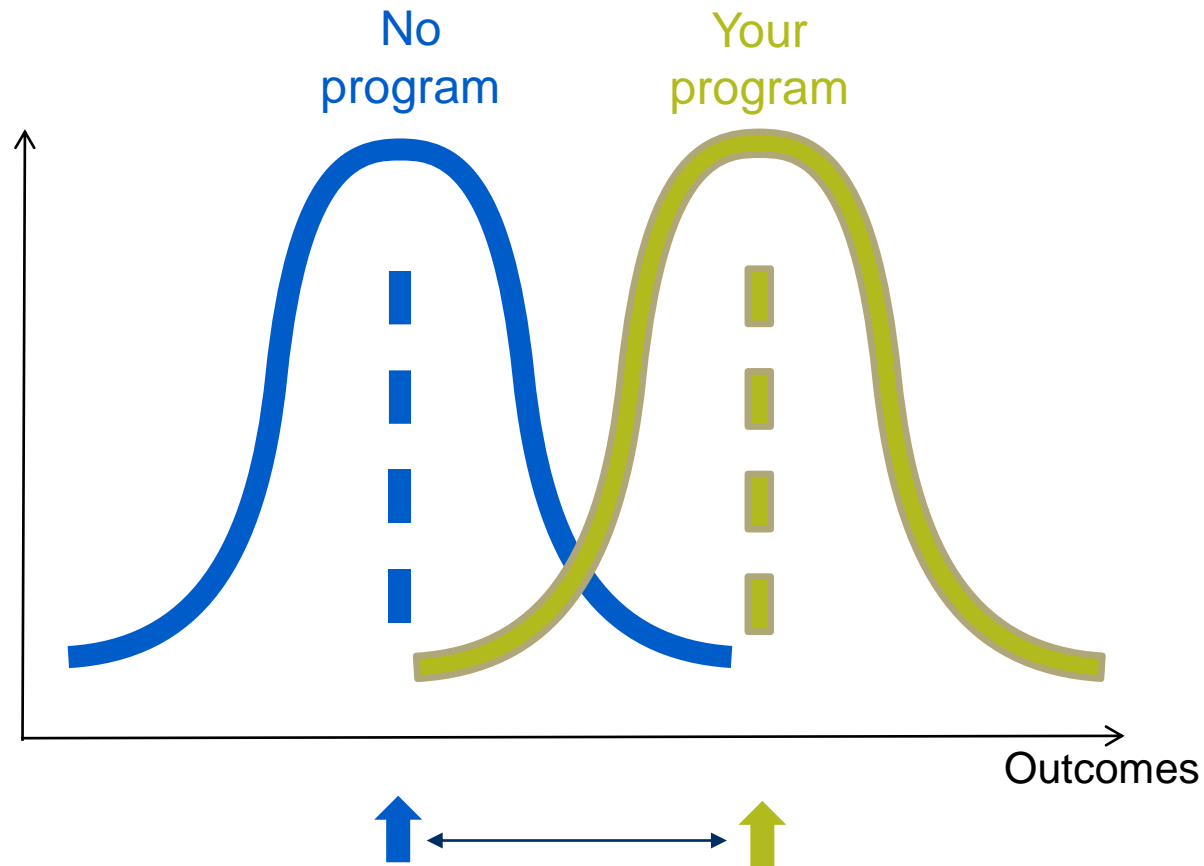
Government initiated referrals

- Government responsible for identifying and referring eligible individuals
- Can be identified using data or 'on the ground'

Referral network

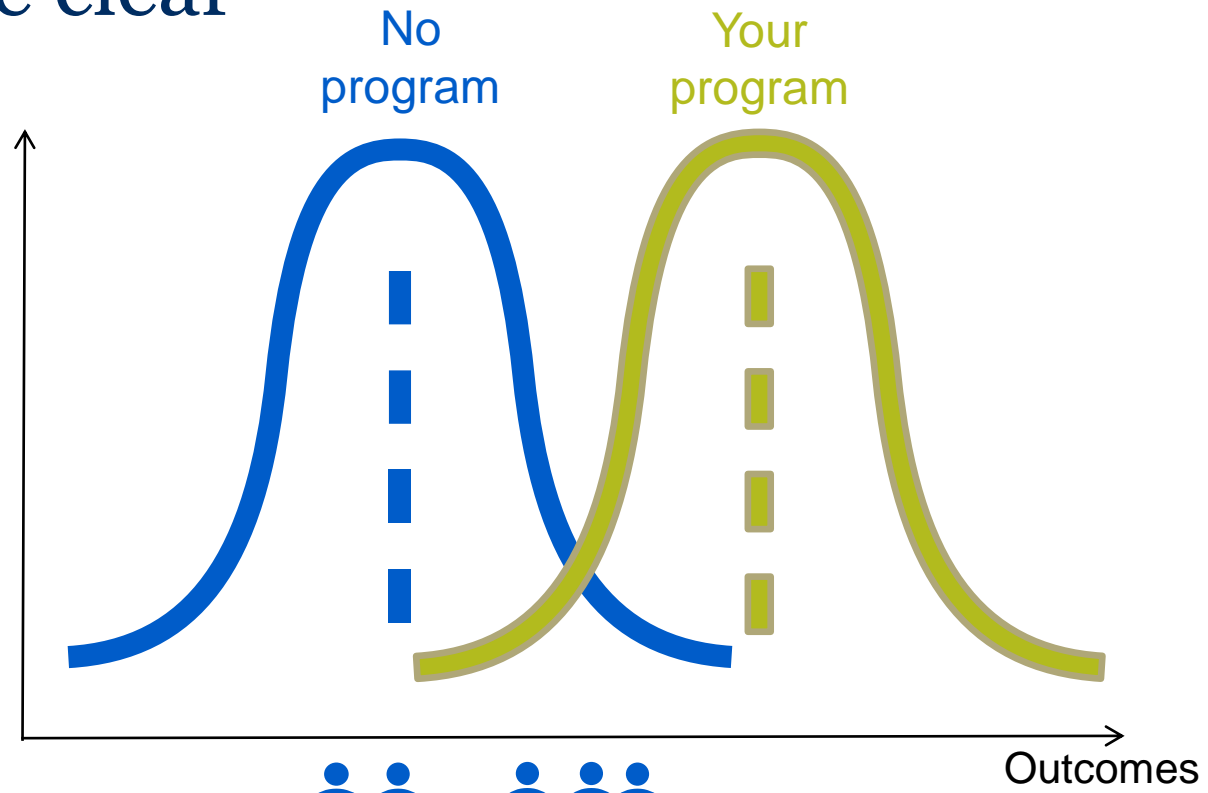
- Reliance on an organisation's broad range of community networks and referral partners to identify eligible individuals
- Additional time is required to establish networks for new programs

Participants could achieve a wide range of outcomes

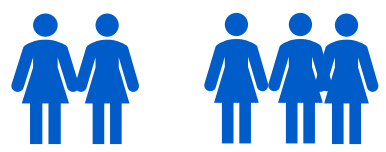


We will only know the outcomes of those measured.
The size of the measurement group will affect how reliably your program's performance can be assessed.

With a small measurement group, your impact may not be clear



No program



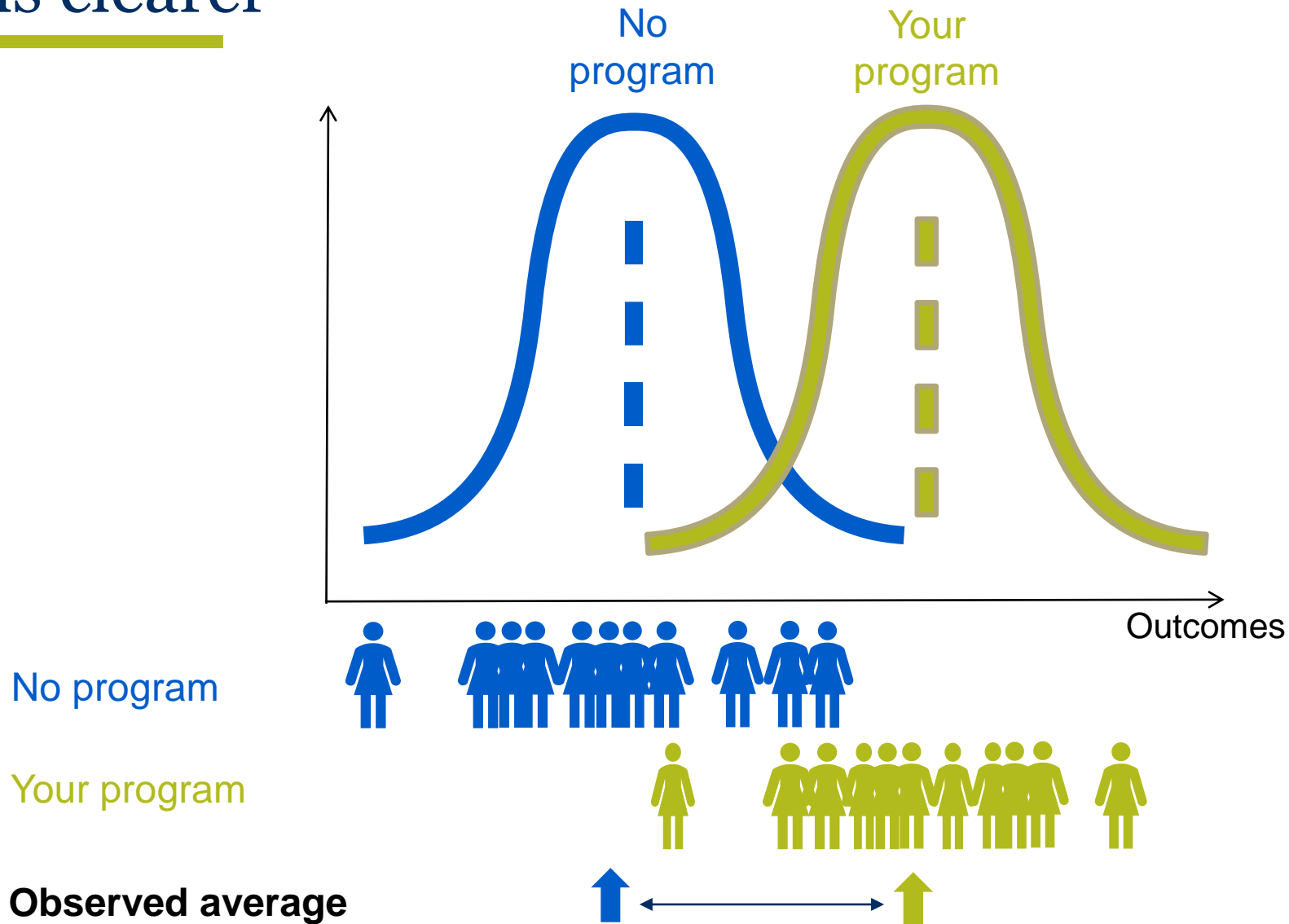
Your program



Observed average



With a bigger measurement group, the difference is clearer



A program with big effect may not need a big measurement group

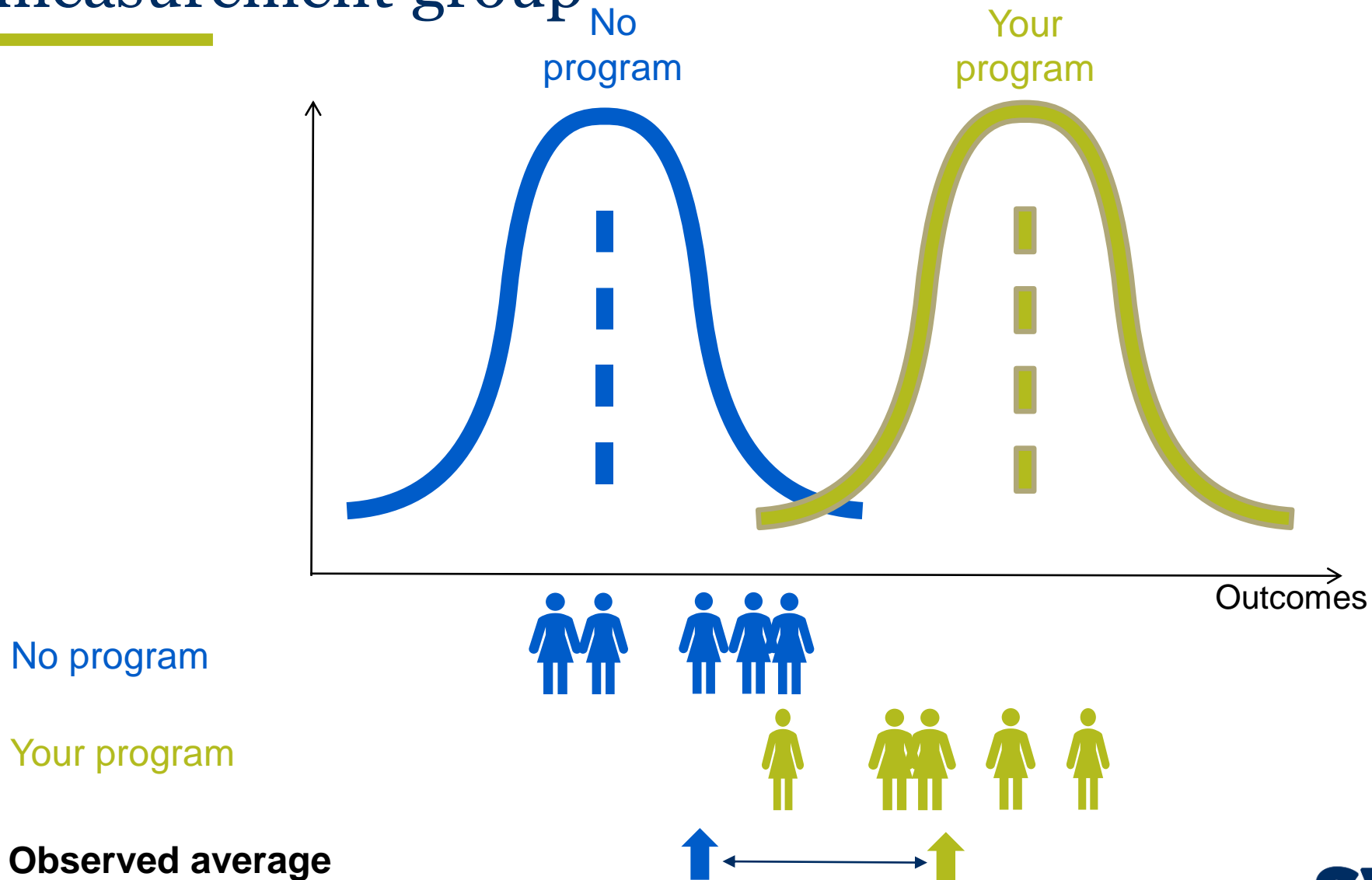


Illustration: Target beneficiary group

	Side by Side SIB <i>Primary school students</i>	Play2Learn+ PBO <i>Pre-school children</i>
Eligible child definition	<ul style="list-style-type: none"> • is enrolled at an Agreed School • is in Prep or Year 1, 2 or 3 • has either: <ul style="list-style-type: none"> ○ been Absent from school for 21 or more days over the first three terms of their Referral Year or ○ been Absent from school for 14 or more days over the first three terms of their Referral Year and is Under-attaining 	<ul style="list-style-type: none"> • resides in the catchment area for a Specified School • has a Parent that holds a Concession Card • was or will be 3 years old at the nearest 1 January and • is not engaging in more than 10 hours per week of Childcare
Referral pathways	Department of Education initiated referrals	Referral network: 54 Reasons and external services such as Community based services and Healthcare services

Your turn: Target beneficiary group



Ask yourself the following questions:

- 1. Who is your target beneficiary group?*
- 2. How big is it?*

Things to consider:

- What are the 'fixed' filters? (e.g. gender, age)
- What triggers entry to or exit from the target beneficiary group? (e.g. birthday, event, assessment)
- How would you find eligible individuals?
- How would you (and government) know someone is in the target beneficiary group?
- Where will the data to verify eligibility come from? How will you obtain this data?
- What proportion of those eligible would you need to enrol?

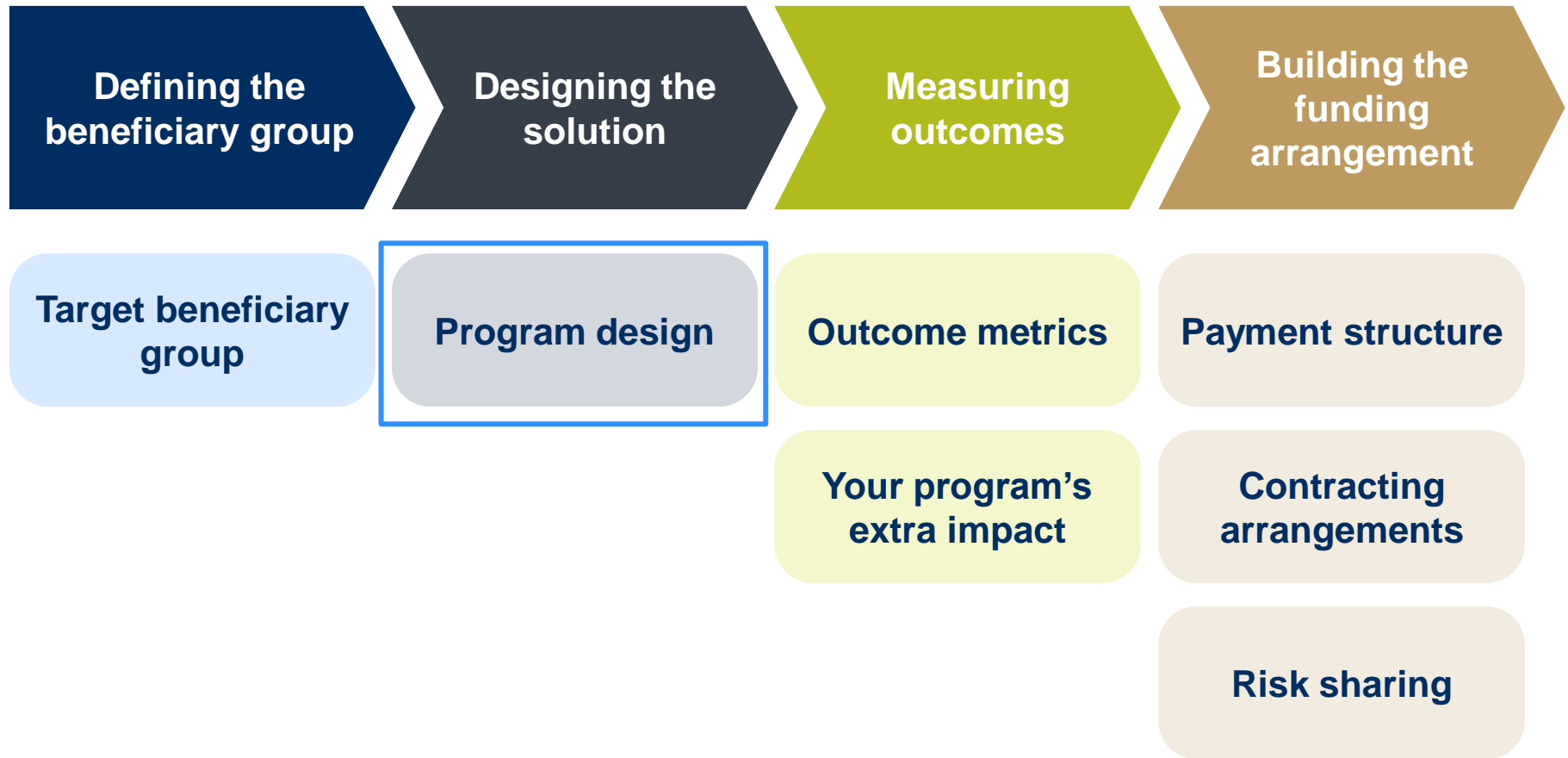


Module 3

Designing the solution

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Framework: outcomes contract development



Defining your program

Why

- Program logic or theory of change
- Estimated impact and supporting evidence

What

- Program activities
- Services

Who

- Number of participants
- Finding and enrolling participants

Where

- Catchment area
- Place based / outreach

When

- Length of support (at individual and program level)
- Event-triggered support

How

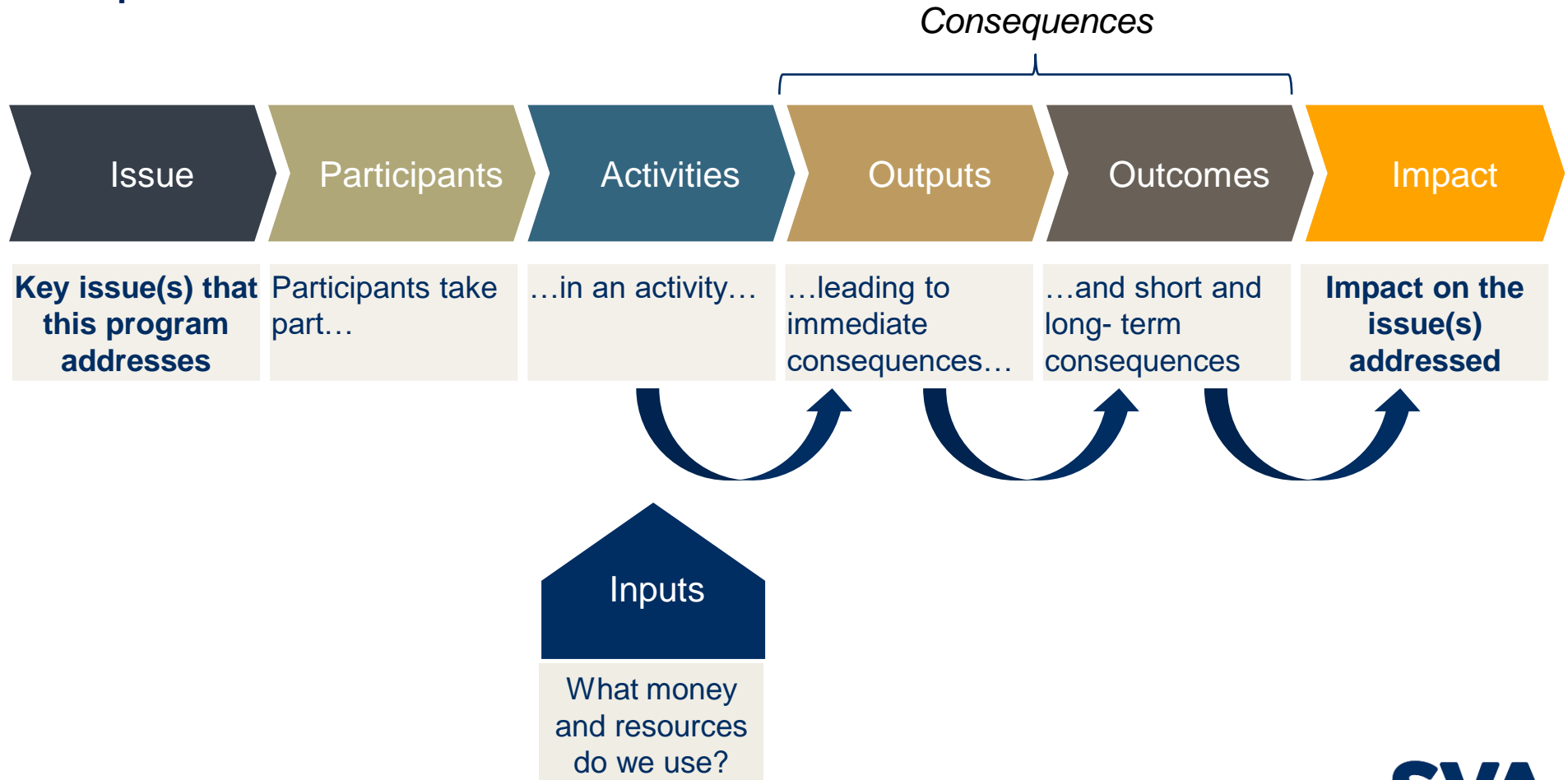
- Physical and human resources and capability required
- Collaboration or leverage

How Much

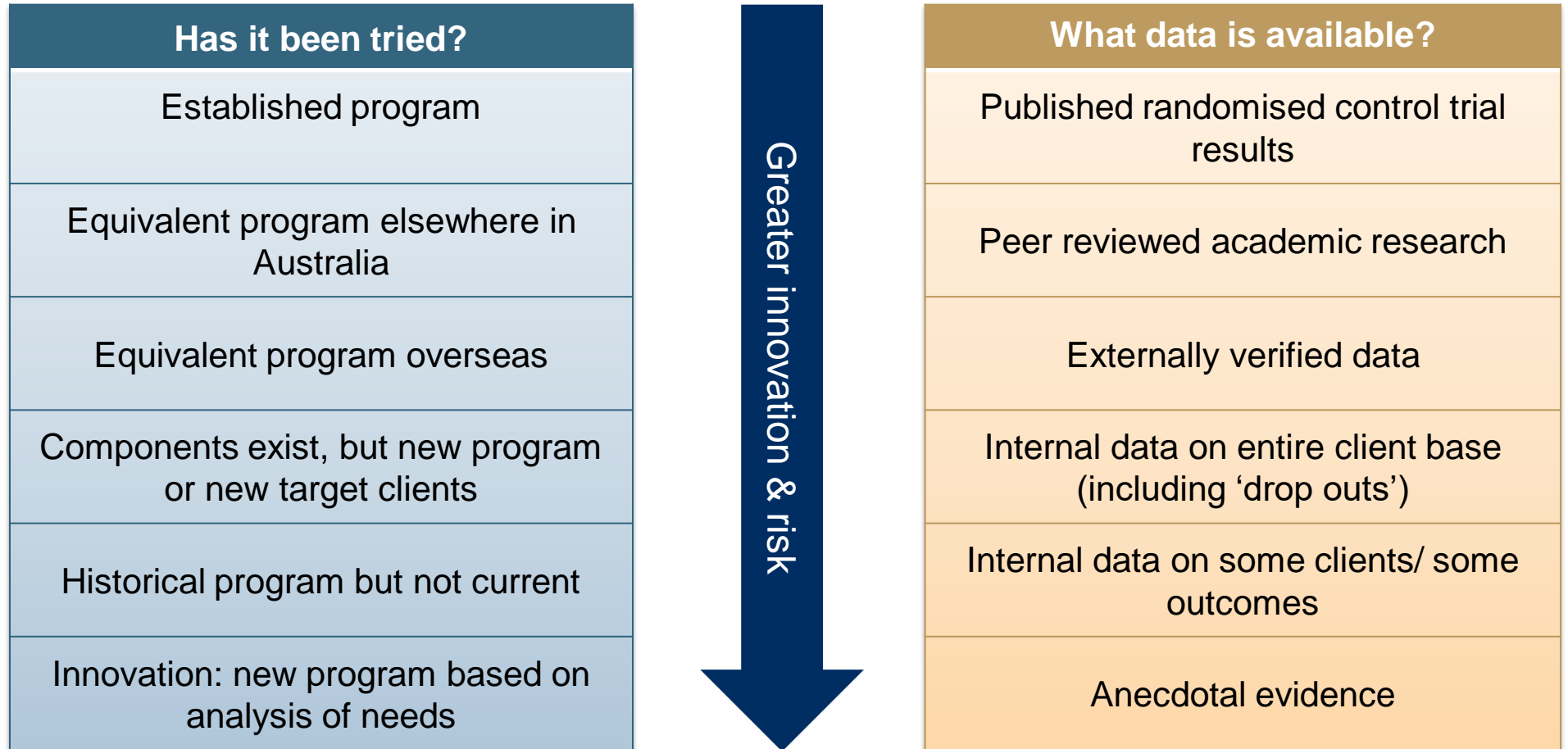
- Overheads/fixed costs
- Variable costs

“Why?”: Program Logic tells a story of change

It provides a framework for understanding the relationship between activities and consequences.



“Why?”: Data provides evidence for impact



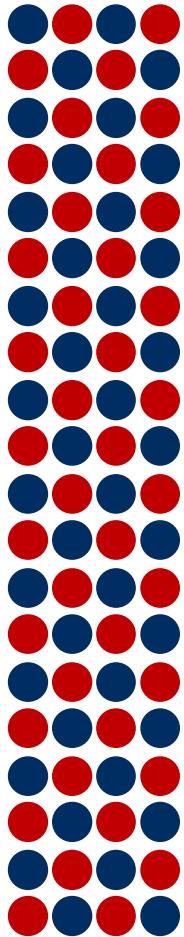
“What”: Service definition

Program needs to be clear:

- Are there ‘phases’ or ‘levels’ to support?
- Are there other services that you are dependent on?
- How will the service components be integrated?
- What do participants get; what do they need to do?
- Do services differ by cohort/segment?
- How do people move between levels of support?
- How will your service complement existing support for participants?

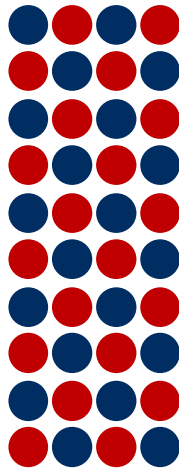
As is or ‘with a twist’?

“Who”: Measurement Group

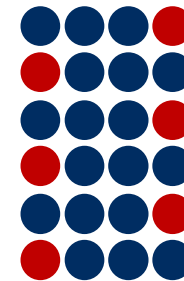


All the people who meet the agreed eligibility criteria

- The *Measurement Group* determines Outcome payments
- The *Participating Group* engages with the service
- Not all people who are measured will participate – some may disengage
- Measurement Group should reflect your Target Beneficiaries
- Both groups need clear rules about who is included



All the people whose outcomes will be measured to determine performance



Those that actively engage within the service

Target Beneficiaries

Measurement Group

Participating Group



“When?”: Length of services

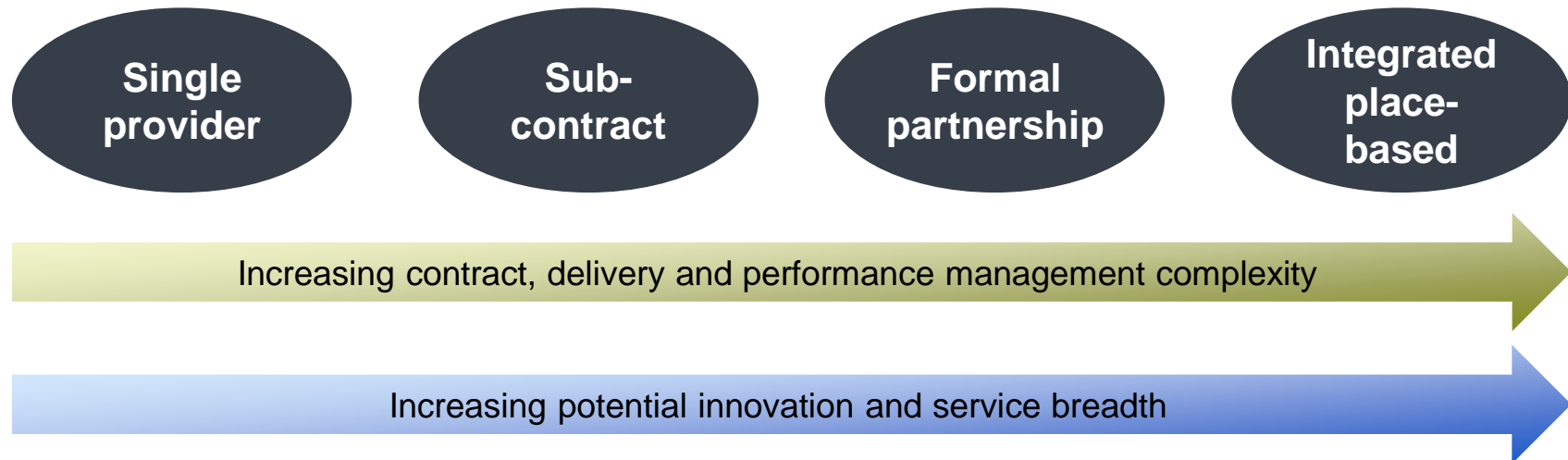
Average and **maximum** time **each person** is supported

- Influences the outcome measure
- Impact on cost
- Impact on size of Measurement Group
- Exit process – when and how does your program support finish?
- Plan for what happens when a person leaves the program

Total program length

- Years people are enrolled + Years of service delivery

“How?”: Collaborating with other service providers



Considerations:

- Who ‘drives’ the design, plays a key role in delivery and has primary accountability?
- Need for coherent group of service providers (complementary skills, consistent culture and approach)
- Practicalities e.g. sharing client information and co-ordination
- Differences in risk appetite
- How to share program costs, risks, benefits
- Broader application – e.g. regional model

“How much?”: Fully costed service delivery

Consider:

- Set up costs (eg: recruitment, office fit-out)
- Cost of acquiring new capability (systems, data systems, people etc)
- Case loads (including ramp up/down)
- Per participant costs
- Per staff member costs
- Fixed costs
- Ongoing overheads (e.g. share of management and back-office costs)

Illustration: Program design (1)

	Side by Side SIB <i>Primary school students</i>	Play2Learn+ PBO <i>Pre-school children</i>
Why	<ul style="list-style-type: none"> • Improve the engagement and learning outcomes of primary school students • Limited evidence base (new program, although some elements have been deployed) 	<ul style="list-style-type: none"> • Improve child development and wellbeing for at-risk children and their families • Limited evidence base (new program, although some elements have been deployed)
What	<ul style="list-style-type: none"> • Student and family support at home, educational case management at school and professional learning and mentoring for teachers 	<ul style="list-style-type: none"> • Targeted goal-oriented group work and home visiting and virtual support
Who	<ul style="list-style-type: none"> • 300 students in Years 1 to 4 with high absenteeism, or behind in their educational attainment in Victoria 	<ul style="list-style-type: none"> • 300 3 to 4-year-old Tasmanian children from families that hold a Concession Card and who are not engaged in early learning

Illustration: Program design (2)

	Side by Side SIB <i>Primary school students</i>	Play2Learn+ PBO <i>Pre-school children</i>
Where	<ul style="list-style-type: none"> 9 schools in Northern Melbourne, Gippsland and Western Melbourne Staggered school commencement 	<ul style="list-style-type: none"> Number of school catchment areas across Tasmania
When	<ul style="list-style-type: none"> 12 months of individualised support, with additional 12 months available for students that require ongoing support 5 annual intakes and total of 6 years of service delivery 	<ul style="list-style-type: none"> 15 months support including 6 months family engagement, 6 months pre-kinder readiness + 3 months of school readiness 4 annual intakes and total of 5.25 years of service delivery
How	<ul style="list-style-type: none"> Two service providers (Berry Street and Victorian Aboriginal Child Care Agency (VACCA)) Integrated team, VACCA staff supporting Aboriginal children and providing cultural awareness support for whole program 	<ul style="list-style-type: none"> Single service provider (54 Reasons)

Your turn: Program design



Refer to your Workbook:

1. *Why?*
2. *What?*
3. *Who?*
4. *Where?*
5. *When?*
6. *How?*
7. *How much?*

Things to consider:

- What are you doing currently? What do you plan to adapt for this program?
- What are service gaps, complementary services, opportunities to innovate?
- Do you/your service delivery partners have the required capabilities?

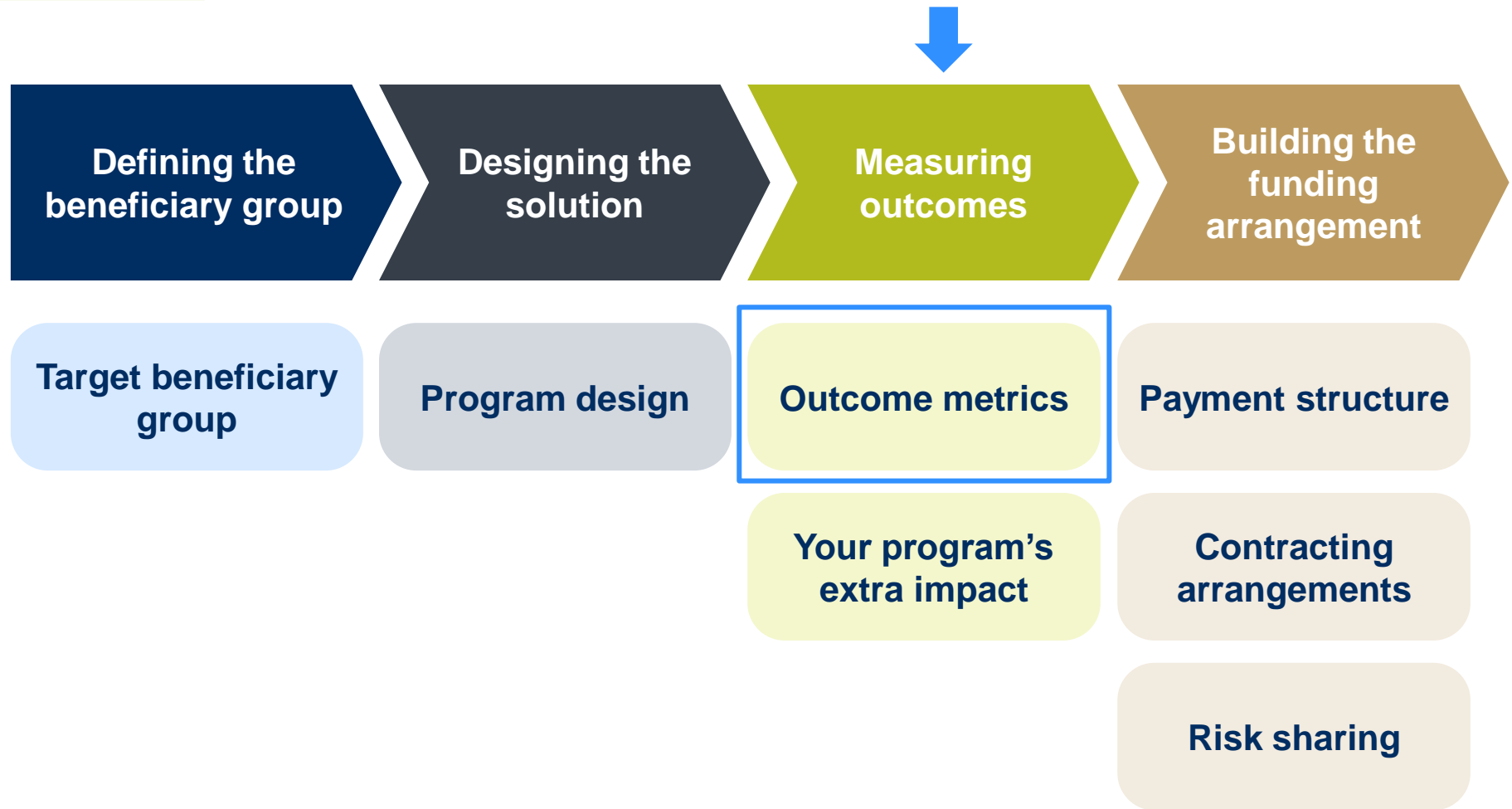


Module 4

Measuring outcomes

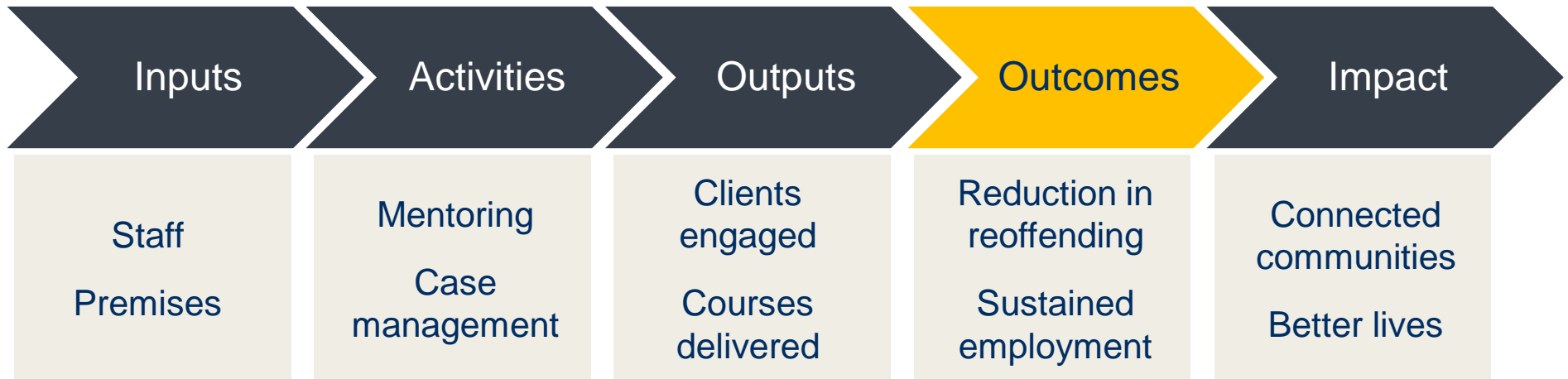
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Framework: outcomes contract development



What is an outcome?

Outcome: The changes that occur for people, organisations, systems, or communities during or after a program



In an outcomes contract, it is essential that outcomes are measurable

Selecting an outcome metric

Alignment with impact

- 1-2 simple metrics which are a proxy for improved outcomes
- Long-term impact may not be observed quickly, so short-term or intermediate outcomes metrics are preferred

Practical to implement

- Data – preferably good quality existing data sets
- What other time, cost, consents, approval processes and validation is required?

Objective vs subjective

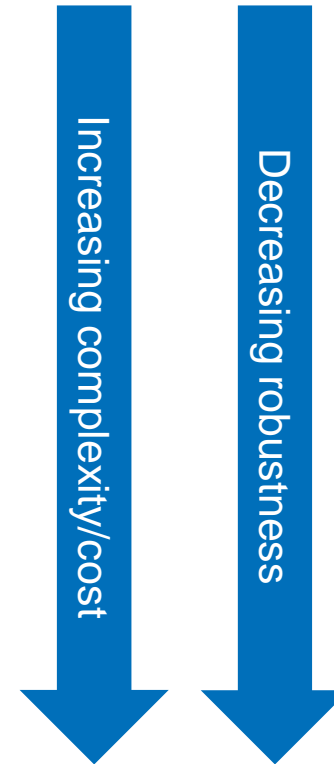
- Can you count it?
- Objective outcome measures make it simpler and easier to agree on the results

Incentives

- Right incentives – e.g. continued improvement
- Limit unintended effects

Possible data sources

1. Contracting government
(e.g. NSW Department of Communities and Justice, Department of Education, Department of Social Services)
2. Third party
(e.g. Child care centre, employer, other government departments that aren't the 'contracting' department)
3. Service provider
4. Participants



Metric types

1. Binary

Outcome metrics are restricted to pass/fail

Example: A child does / does not achieve 17 or more Kindergarten Development Check markers

2. Frequency (Discrete Values)

Outcome metrics can be a number of values, but they are discrete and finite

Example: The number of Kindergarten Development Check markers achieved (max 21)

3. Frequency (Continuum)

Outcome metrics will fall along a continuum

Example: School attendance rate over a year

Illustration: Employment related metrics

Measure	Detail	Data Source	Type	Aim
Income Support Payments	Dollars of income support paid	Australian Government	Frequency (Continuum)	Decrease
Income Support Periods	Number of periods receiving income support	Australian Government	Frequency (Discrete)	Decrease
Off welfare	Whether off benefits for at least X weeks	Australian Government	Binary	Increase
Income	Dollars of (non-welfare) income	Australian Government	Frequency (Continuum)	Increase
Job Placements	Number of job placements	Australian Government	Frequency (Discrete)	Ambiguous
Job duration outcome	12- or 26-week employment outcome achieved	Australian Government	Binary	Increase
Employed weeks	Number of weeks an employment outcome is achieved	Australian Government / service provider	Frequency (Discrete)	Increase
Productive time	Hours spent in work or work-like activities such as volunteering	Service provider/ participant	Frequency (Continuum)	Increase

Illustration: Outcome metrics

	Side by Side SIB <i>Primary school students</i>	Play2Learn+ PBO <i>Pre-school children</i>
Metric	<p>Outcome 1: school attendance (primary metric)</p> <ul style="list-style-type: none"> the number of Recorded Days Absent during each of the intervention year and the following 'monitoring' year <p>Outcome 2: educational attainment</p> <ul style="list-style-type: none"> Level based on English Online Interview or teacher judgement 	<p>Outcome 1: engagement</p> <ul style="list-style-type: none"> The number of children Enrolled in the Measurement Group <p>Outcome 2: Launching into Learning (LiL) attendance</p> <ul style="list-style-type: none"> The proportion of children that attend 10+ Launching into Learning⁽¹⁾ sessions between their Enrolment Date and the start of school <p>Outcome 3: development milestones</p> <ul style="list-style-type: none"> The proportion of children with a Kindergarten Development Check 1 that achieve 17 or more (out of 21) markers

(1) School readiness program funded by the Tasmanian Government

Your turn: Outcome metrics



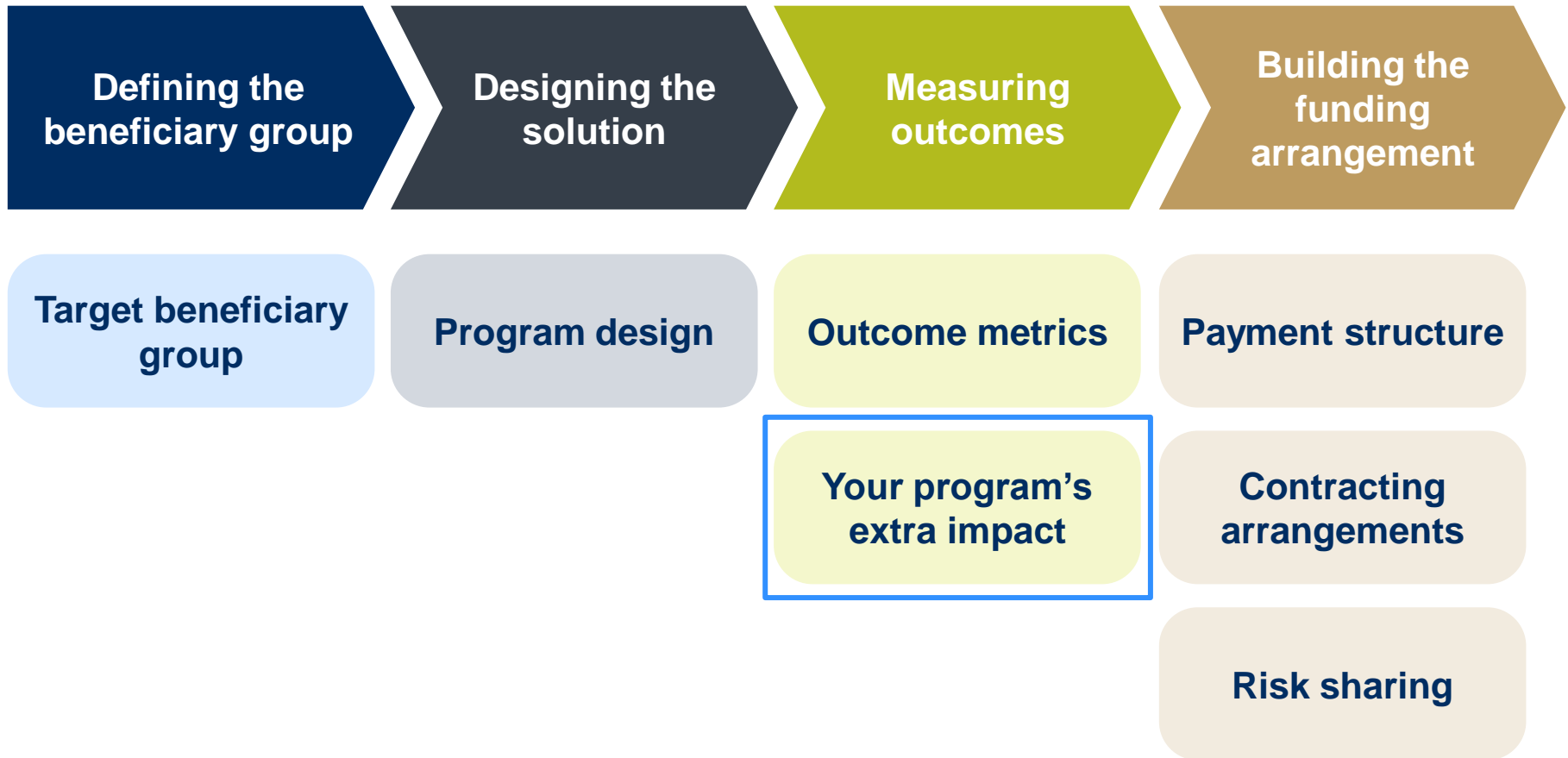
Ask yourself the following questions:

- 1. What outcome metrics could you use?*
- 2. Which one(s) are preferred, and why?*
- 3. Where would the data come from?*

Things to consider:

- Proxy vs perfection (correlation with social impact)
- Certainty vs closure – when or for how long is it appropriate to measure?
- Objectivity – can you count it? Where will data come from?
- Any unintended effects?
- Binary/frequency?

Framework: outcomes contract development



The 'extra' impact of your program

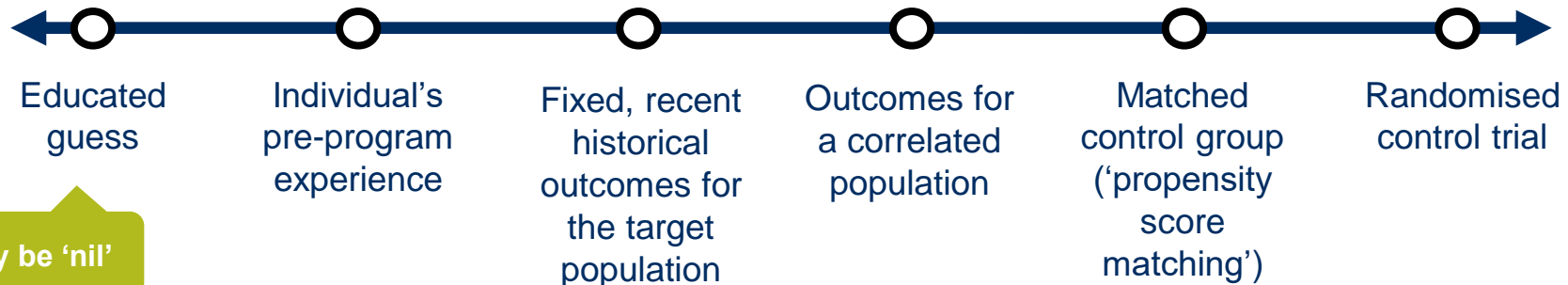


Impact is measured relative to a baseline

Baseline:

the estimation of what would have happened in the absence of the program

There are lots of ways to estimate the baseline:



Increasing complexity; increasing accuracy (theoretically)

Consider:

- Population variability and trends
- Population size and proportion in the measurement group
- Confounding impact of other programs
- Ethical and practical implications of Randomised Control Trial
- Quality of data available for Propensity Score Matching
- Complexity / cost involved in building a control group

Other factors may impact the measured outcome

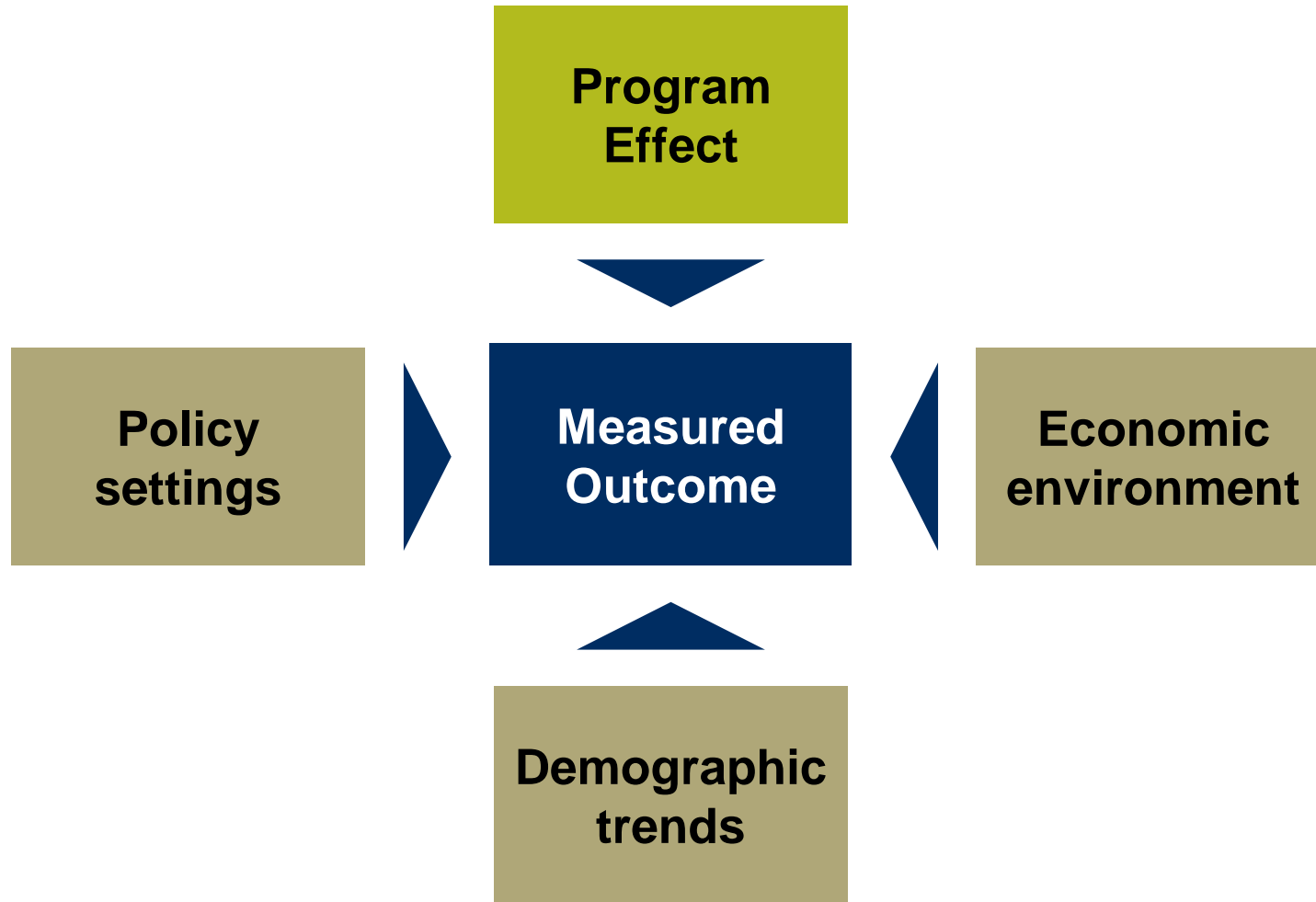


Illustration: Baseline for extra impact

	Side by Side SIB <i>Primary school students</i>	Play2Learn+ PBO <i>Pre-school children</i>
Baseline	<p>Separate attendance baseline for each of the intervention year and the following monitoring year that is determined by:</p> <ul style="list-style-type: none"> the number of Days Absent for each student in their Referral Year (i.e. the year prior to enrolment) a 'progression factor' based on historical absentee patterns for the target population (e.g. absenteeism is expected to be 88% lower on average in the intervention year) 	<p>Outcome 1: engagement</p> <ul style="list-style-type: none"> No baseline for number of enrolments (absolute measure) <p>Outcome 2: Launching into Learning (LiL) attendance</p> <ul style="list-style-type: none"> Fixed rate based on analysis of historical LiL attendance by the target beneficiary group <p>Outcome 3: development milestones</p> <ul style="list-style-type: none"> Separate fixed rates for boys and girls (due to large gender differences) based on analysis of KDC attainment rates in 2016-2021, with adjustment for population trends

Your turn: Your program's extra impact



Ask yourself the following questions:

- 1. How will you determine what would have been expected to happen (the baseline) and what's achievable (the target)?*
- 2. Why is that the best option?*
- 3. Where will the data come from?*

Things to consider:

- Complexity and cost
- Size of the Measurement Group relative to the Target beneficiary Group
- Quality of current population data
- Variability and trends in historical data

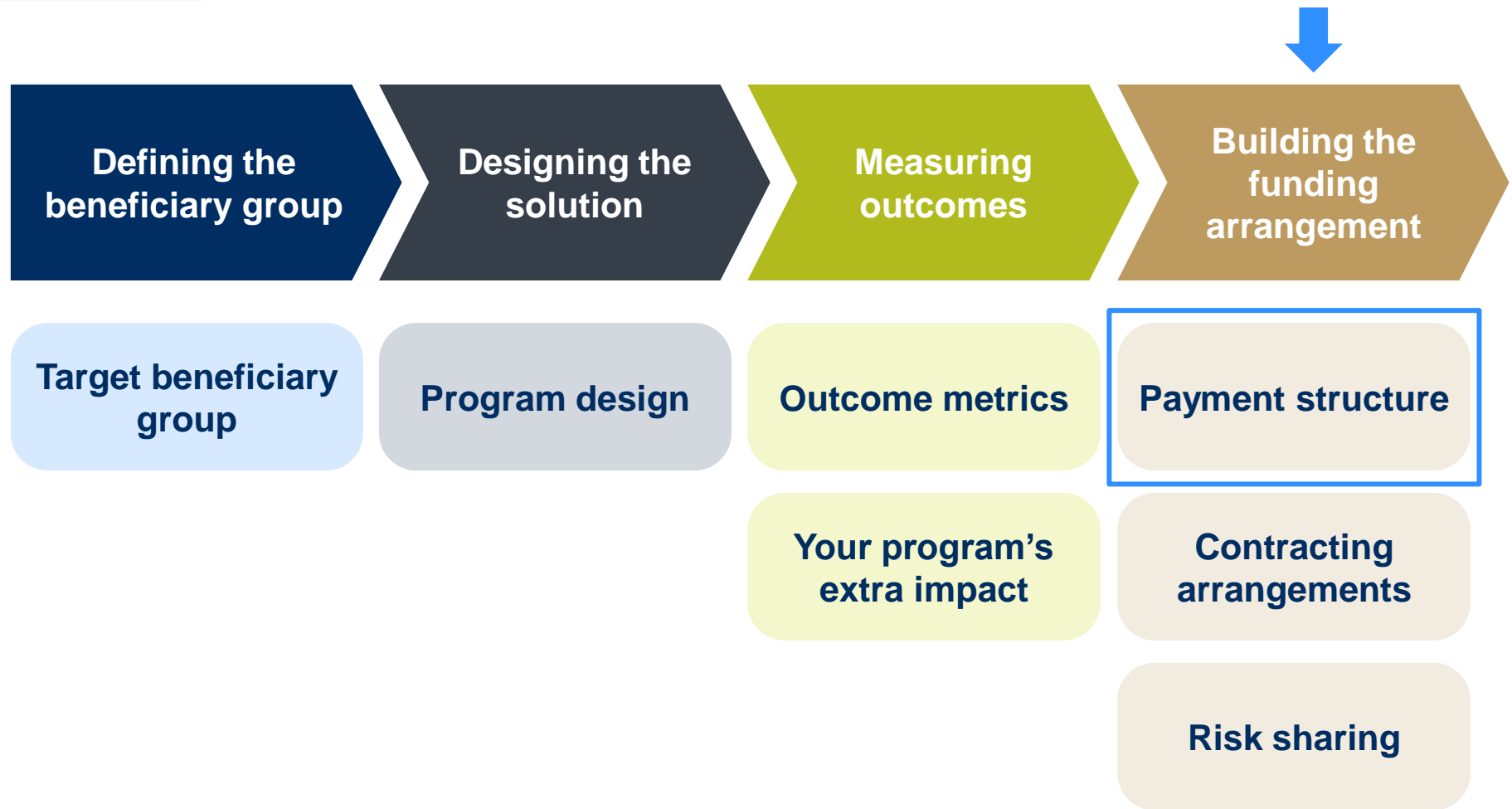


Module 5

Building the funding arrangement

October 2023

Framework: outcomes contract development



Considerations for Payment structure

Available funding

- What is the maximum government funding?
- Are there other sources of funding (e.g. philanthropy)?
- Is there a maximum proportion of funding that is paid in advance?

Program delivery costs

- How much do you expect it will cost to deliver your program?
- When will the costs occur for each cost category?

Outcome metrics

- How long after enrolment will outcomes be able to be measured?
- What is the flow of participants through your program over time?
- What are the preferred outcome metric/s for the program?

Risk appetite

- What is the biggest loss you could tolerate?
- Could philanthropists or investors provide co-funding to share the risk?

Payment types

1. Fixed

- Often called a Standing Charge or Advance Payment.
- Often paid quarterly in advance, sometimes repayable on termination.
- Represents a fixed % of budgeted program expenses.

2. At Risk or variable

Output based

- Linked to achievement of 'outputs' (e.g. enrolments, job placements).
- More likely to be paid for **all** outputs (not just the 'extra' number above some minimum threshold).
- Generally used to mitigate volume risk or provide interim payment/cashflow prior to achievement of outcomes.

Outcomes-based

- Linked to achievement of outcome metric/s (e.g. sustained reduction in welfare dependency).
- More likely to be a 'relative' measure (the extra impact of your project).

How could 'at-risk' payments be structured?

Proportion of program costs

- Payments expressed as a **% of target payments** (which are based on program costs).
- % figure is determined by the level of performance (can be *cumulative* or *year-by-year*).
- Example: Newpin SA SIB.

Payment per outcome (or rate card)

- Payments expressed as a **\$ per outcome**, which increase linearly as the number of positive outcomes grows.
- Dependant on both *number* of participants and *rate* of success.
- Example: \$5,000 per job placement.

Proportion of Value generated

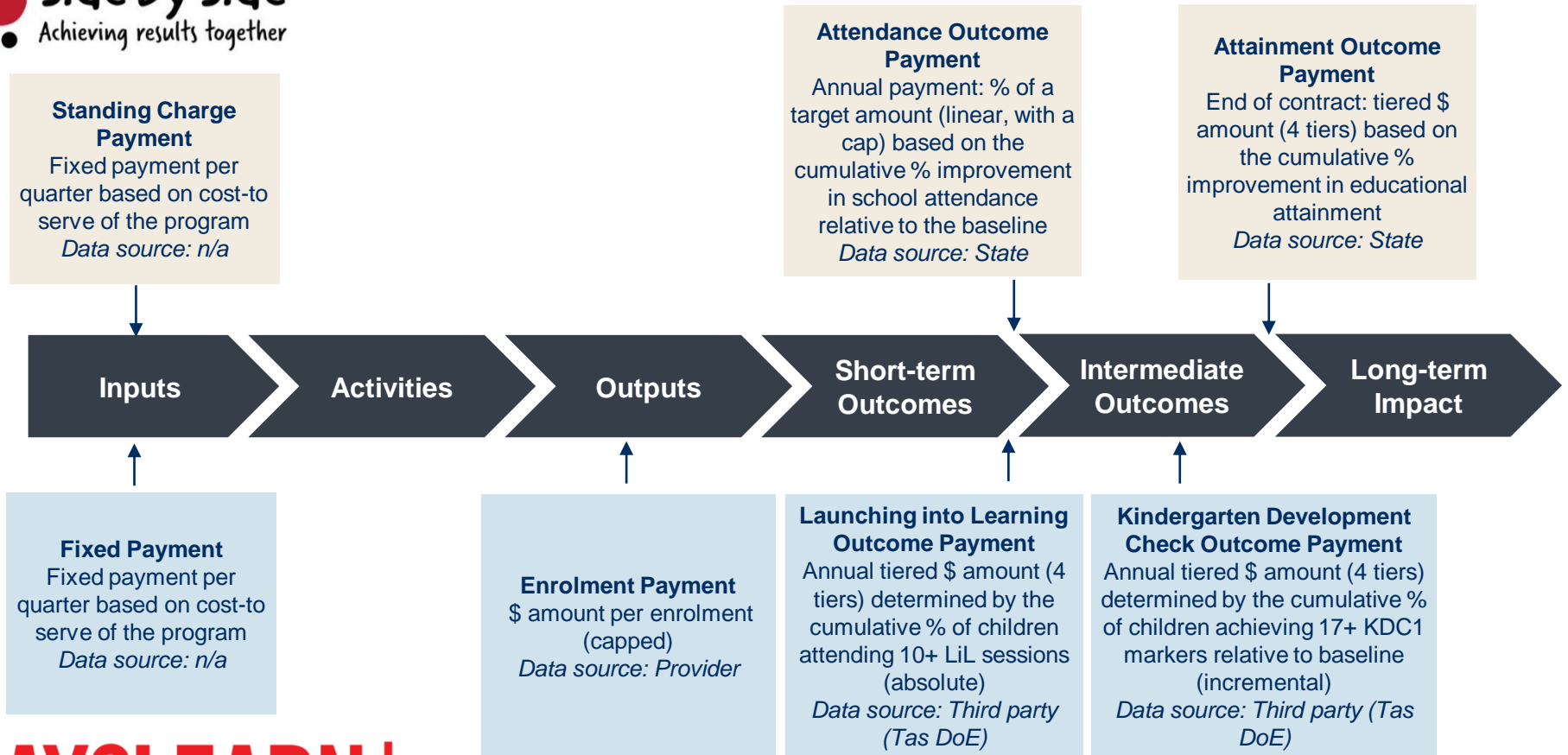
- Payments expressed as a **% share of the value** generated by the program for the Government (generally reduced costs).
- Example, 100% of first \$10m value generated and 25% of next \$20m, where value generated is calculated as \$1,000 per 'saved' hospital bed day.

Payment level approaches

The examples below illustrate the financial implications of using different payment structures. 'Target' impact is assumed to be a 10% increase in measured outcomes.

Approach	Description and illustration	Implications for payments
Binary	<p>Performance is either:</p> <ul style="list-style-type: none"> • Success (>10% uplift) = 100%; or • Failure (<10% uplift) = 0% 	
Bands	<p>Performance falls into bands (illustrative only):</p> <ul style="list-style-type: none"> • Band 1: 0-5% uplift – 0% • Band 2: 5-10% uplift – 50% • Band 3: 10-15% uplift – 100% • Band 4: >15% uplift – 110% 	
Linear	<p>% paid is calculated as actual uplift / 10%, capped at 110%</p>	

Illustration: payment examples



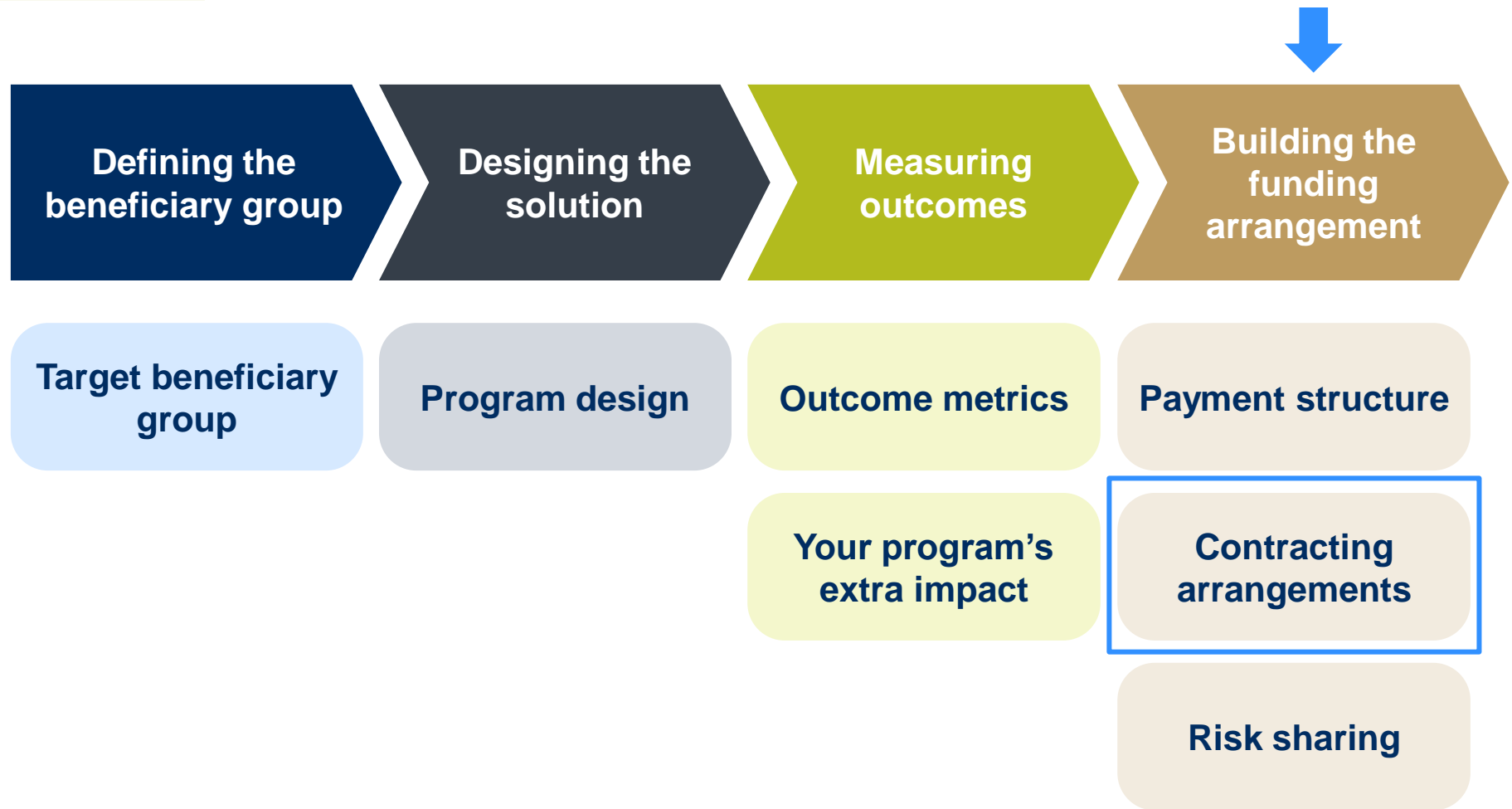
PLAY2LEARN+



Setting performance targets

- Refer to available evidence on similar programs or your own data:
 - Is that evidence relevant to the current context?
 - Be aware of limitations of your data (e.g. only measuring individuals that engage in the program and are therefore more likely to get a good result).
- Balance the desire to ‘sell’ the program (i.e. setting higher performance targets) and being realistic so you don’t set the program up for failure
- Understand implications for Outcome Payments if you miss targets:
 - Consider the spectrum of possible and likely results
 - Think about what assumptions you’ve made along the way

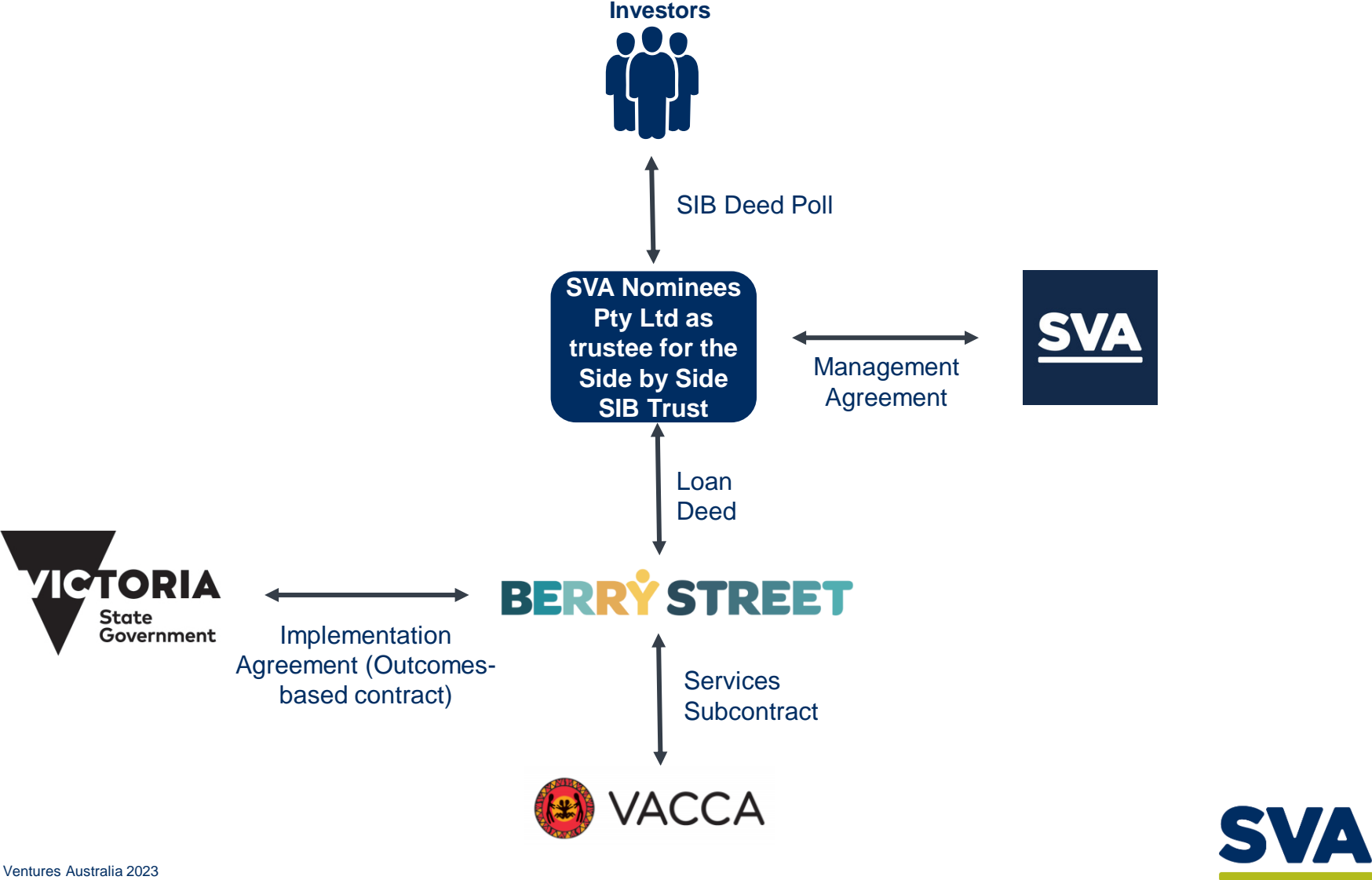
Framework: outcomes contract development



Contracting structures

- Often a Service Provider will contract directly with Government
- The contract may look similar to a grant agreement, but with a range of additional terms that help define outcomes, how they will be measured and how much will be paid based on different outcomes and outputs
- There may also be subcontracts between the lead Service Provider and other partner organisations involved in service delivery
- Contracting for SIBs may be more complex:
 - There will be special contracts with investors setting out their investment terms
 - A Special Purpose Vehicle may be required to aggregate money from investors and government

Illustration: Side by Side SIB



Framework: outcomes contract development



Key risks with outcomes-based contracts

Program Logic	The program, if delivered as designed, does not deliver the planned outcomes due to flaws in program logic or overestimation of impact
Implementation	The service delivery organisation is unable to implement the program as designed (e.g. staffing problems, poor process quality control)
Volume	The Measurement Group size is smaller than anticipated due to lower enrolments than planned
Disengagement	Individuals included for measurement purposes 'drop out' of the program and so have poorer outcomes
Data reliability	Data used to measure outcomes is incomplete or inaccurate
Baseline	The baseline does not represent a fair benchmark against which to measure performance
Policy	Government priorities change, creating impediments to successful implementation or difficulties in generating incremental improvements
Statistical error	Measured outcomes are distorted by random variations, particularly for small groups

Funding the financial risks

Your own reserves

- Think about how much financial risk you can bear

Philanthropy

- Examples include:
- Grants
 - 'Insurance' – committed contribution if/when loss arises

Impact Loan

- Sub-commercial loan, with returns lower than 'market' returns, or linked to performance

Investor Capital via a SIB

- Capital raised from private investors
- Returns linked to outcomes and risk
- Likely to require some capital to be returned, even if performance is poor (e.g. 50%)

Illustration: risk sharing

	Side by Side SIB <i>Primary school students</i>	Play2Learn+ PBO <i>Pre-school children</i>
Risk sharing	<p>Risk shared by:</p> <ul style="list-style-type: none"> • Vic Govt, through fixed payments and retention of volume (enrolment) risk • Investors, through a \$5 million social impact bond • Berry Street, through residual outcomes payment risk (and as an investor) • VACCA as an investor 	<ul style="list-style-type: none"> • Material volume and performance risk borne by Dept of Social Services (and Paul Ramsay Foundation) through fixed payments • Some volume risk borne by 54 Reasons (engagement payments) • Some performance risk borne by 54 Reasons
Checks	<ul style="list-style-type: none"> • Counterfactual Review to ensure baseline is fair. • Early termination rights if performance is poor 	<ul style="list-style-type: none"> • Counterfactual Review to ensure baseline is fair • Early termination rights if performance is poor

Your turn: the financial arrangement



Ask yourself the following questions:

- 1. How will you fund the part of program costs not covered by Advance Payments?*
- 2. Who would be the key parties?*
- 3. Direct contract or intermediated?*

Things to consider:

- Ability to fund program costs and absorb losses (downside risk)
- Collaborative service delivery?



Module 6

Bringing it all together

October 2023

Summing up:

What is included in an outcomes contract?

Eligibility criteria

- Eligibility criteria agreed upfront as part of outcome-based contract
- Links back to the opportunity to create social benefit and reduce the need for avoidable government support

Enrolment process

- Structured referral pathways, determine who bears risk if fewer than expected referrals
- Rigorous assessment process to ensure eligibility and consent

Measurement group

- Eligible individuals 'enrolled' in the Measurement Group will be measured.
- Includes individuals who disengage

Scale

- The measured result may not be a true reflection of your program's impact if the Measurement Group or the potential impact is small

Outcome metrics

- Outcome measures would ideally demonstrate longer-term impact
- May also include combination of outputs and short-term outcomes

Baseline

- Outcomes measured relative to a baseline (i.e. the extra impact)
- Baseline is what would have happened in the absence of the program

What capability do service providers need?

Strategic Alignment

- Clarity on ‘the why’, and what is different
- Appetite to be in the spotlight

Governance & financial controls

- Long term viability
- Outcome focus

Good client management system – Database & processes

- Finding and engaging referrals
- Identifying client needs
- Services delivered
- Lead indicators that can help you track progress
- Responsive to outcome data (adapt and innovate)

Capacity to implement

- Staff recruitment and skilling
- Financial acumen
- Property and infrastructure management
- Data reporting and analysis

A perspective on success factors

- Time kills deals – concentrated effort is needed particularly during Joint Development Phase
- Agree the principles up front – What are we aiming for? What is most important?
- Accountability – consistent involvement of decision makers
- Understand the politics, and the cultural challenges
- Data and modelling – not sexy, but central

The potential challenges

Long
(development)

Large
(effort)

Rigid
(contracting)

Niche
(application)

The potential positives

Long
(contract)

Large
(scale)

Flexible
(activities)

Broad
(learnings)

Your turn: bringing it together



Ask yourself the following questions:

- 1. Is outcome based contracting suitable for your organisation? Why/why not?*
- 2. If yes, how do you plan to take the conversation forward in your organisation?*
- 3. If no, is there anything you think you should do to be 'outcomes contract ready' in 3-5 years?*

Interested in learning more?

Sharing knowledge across the sector is critical to building sector capacity and ensuring the learnings are applied across other programs



OSII's Knowledge Hub

A range of tools to help you learn more about Impact Investing.

[READ MORE](#)



UK Government Outcomes Lab (GoLab)

A global knowledge hub from the University of Oxford, covering outcomes-based contracting and impact bonds.

[READ MORE](#)



Brookings Institute

Up to date analysis and research of the development of the global impact bond and outcomes funds markets globally

[READ MORE](#)

SVA also has a range of useful resources

Many of our resources focus on SIBs, and the lessons are relevant to a wide range of outcomes-based contracts.



A guide to outcomes contracting and SIBs

After 10 years of outcomes contracting in Australia, we share insights and answer questions here in one place.

[READ MORE](#)



Social impact bonds: a letter from the frontline

After seven years 'in the trenches' working on social impact bonds (SIBs), Elyse Sainty shares her insights around SIB myths and legends.

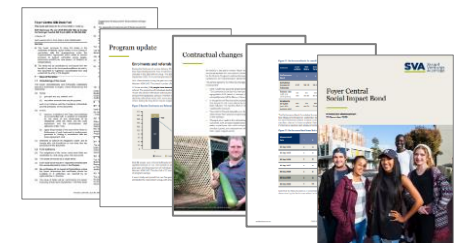
[READ MORE](#)



Is your program suitable for a Social Impact Bond?

A practical guide to help you self-assess your program's appropriateness for an outcomes-based contract or a social impact bond.

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