

Chapter 3

Economy—Working Towards Establishing Outcomes-Based Contracts

1.0 MAIN POINTS

In 2015-16, the Ministry of the Economy started to use of a form of outcomes-based contracts for its labour programs such as the Adult Basic Education—Essential Skills for the Workplace Program (ESWP)—training programs for unemployed or underemployed with the objective of improving their employability.

The Ministry worked with suppliers to incorporate into ESWP contracts what it expected program participants to gain from the training. However, it did not always do it in a way that allowed determination of what was achieved. Therefore, the Ministry cannot know if its ESWP training programs have improved employability of program participants (primarily Aboriginal people).

In addition, although the Ministry refers to its ESWP contracts as outcomes-based, it paid suppliers of ESWP training programs in the same way as it pays other suppliers. That is, it pays them based on the delivery of the training programs and not results achieved.

As such, the Ministry is in the early stages of using outcomes-based contracting. The form of outcomes-based contracting that it is using does not align contracted terms of payment with the suppliers' achievement of agreed-upon outcomes. In addition, it does not use incentives to promote suppliers' achievement of agreed-upon outcomes. These features are key to obtaining overall better value, better performance, and lower costs for contracted services.

2.0 INTRODUCTION

This chapter describes the results of our audit of the Ministry's processes for establishing outcomes-based contracts for the delivery of its Adult Basic Education—Essential Skills for the Workplace Program.

2.1 Adult Basic Education—Essential Skills for the Workplace Program: Use of Outcomes-Based Contracting

The Ministry is responsible for increasing employment opportunities for Saskatchewan people. Under *The Ministry of the Economy Regulations, 2014* (s.3), the Ministry is to coordinate, develop, promote, and implement policies and programs related to:

- › Training and career-related services
- › Increasing participation in the labour market
- › Support for employers in meeting their labour market needs



The Ministry administers programs designed to develop skills of those under-represented in the labour market. For example, its Adult Basic Education programs are intended to assist adults in furthering their education and to acquire essential skills. The Ministry has defined essential skills for the workplace to include reading, document use, numeracy, writing, oral communication, working with others, thinking, computer use, and continuous learning.¹

The purpose of ESWP, an Adult Basic Education subprogram, is to help low-skill job seekers to acquire the essential skills required to work in local businesses, and to assist employers to hire and retain workers. ESWP provides general and job-specific programs at a basic level for learners with low levels of literacy and numeracy to prepare them for entry-level jobs. The Ministry has assigned responsibility for ESWP to its Labour Market Development Division (Division).

In 2015-16 and consistent with the *Ministry of the Economy Plan for 2015-16*,² the Division started using outcomes-based contracting (see **Section 6.0** for defining features of outcomes-based contracting).

The Ministry states that the primary purpose of using outcomes-based contracting is to improve client outcomes in the most efficient and effective manner. The Ministry expects including specific outcomes directly in contracts would help suppliers place more focus on achieving those outcomes. In addition, the Ministry expects to measure a supplier's performance based on how well the supplier achieved those outcomes.³

The Ministry budgeted \$2.3 million (2015-16: \$2.5 million) for ESWP outcomes-based contracts in 2016-17. During 2015-16, the Ministry entered into 21 outcomes-based contracts for ESWP with certain post-secondary institutions (e.g., Carlton Trail College, Parkland College, Saskatchewan Polytechnic) located across the province. In 2015-16, the Ministry spent \$1.7 million under these contracts.

Not effectively establishing outcomes-based contracts increases the following risks: the Ministry not attracting sufficient suppliers willing to provide services under outcomes-based contractual arrangements, suppliers not delivering the expected results for the under-represented groups (e.g., not increasing employment readiness or essential skills and ultimately participation in the workforce), and inefficient use of money and resources.

3.0 AUDIT OBJECTIVE, SCOPE, CRITERIA, AND CONCLUSION

The objective of this audit was to assess the effectiveness of the Ministry of the Economy's processes for establishing outcomes-based contracts for the delivery of its Adult Basic Education—Essential Skills for the Workplace Program for the period of September 1, 2015 to August 31, 2016.

We examined the Ministry's related processes, policies, and procedures. We interviewed Ministry staff responsible for outcomes-based contracting, and examined key related

¹ <http://abclifeliteracy.ca/nine-essential-skills> (6 January 2017).

² The *Ministry of the Economy Plan for 2015-16* listed the key action of launching outcomes-based contract management with community-based organizations to support the shared commitment to good results for job seekers and employers. This action is part of its strategy to engage under-represented groups in the Saskatchewan workforce. www.finance.gov.sk.ca/PlanningAndReporting/2015-16/EconomyPlan1516.pdf (18 May 2016).

³ Ministry of the Economy, *Outcomes-based Contract Management—Supplier Handbook*, (2015), p. 4.

documentation. We tested a sample of request for proposals (RFPs) for ESWP contracts, and signed ESWP contracts.

To conduct this audit, we followed the standards for assurance engagements published in the *CPA Canada Handbook – Assurance*. To evaluate the Ministry's processes, we used criteria based on our related work, reviews of literature including reports of other auditors, and consultations with management. The Ministry's management agreed with the criteria (see **Figure 1**).

Figure 1 – Audit Criteria

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| <ol style="list-style-type: none"> 1. Determine desired outcomes <ol style="list-style-type: none"> 1.1 Identify target populations 1.2 Define clear and measurable outcomes to be achieved 1.3 Seek input from service provider(s) to confirm outcomes are achievable 1.4 Set accountability for results 2. Establish ways to measure outcomes <ol style="list-style-type: none"> 2.1 Determine data sources to evaluate outcomes 2.2 Set performance indicators 2.3 Gather baseline data 2.4 Define frequency of ongoing measurement 3. Set payment structure to attract service providers and achieve desired outcomes <ol style="list-style-type: none"> 3.1 Set pay based on progress towards achieving desired outcomes 3.2 Define due dates 3.3 Consider negative and positive incentives 4. Align RFPs and contracts with desired outcomes <ol style="list-style-type: none"> 4.1 RFPs contain sufficient expectations (e.g., target population, expected employment services, timelines and expected results) 4.2 Contracts structure reflects expectations and the Ministry's desired outcomes |
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We concluded that, for the period of September 1, 2015 to August 31, 2016, the Ministry of the Economy had, other than for the following areas, effective processes for establishing its form of outcomes-based contracts for the delivery of its Adult Basic Education—Essential Skills for the Workplace Program.

The Ministry is not always using clearly defined and measurable outcomes in its ESWP contracts. Use of clear and measurable outcomes will help it determine whether services provided under ESWP contracts result in quantifiable improvements for training program participants (clients).

The Ministry is in the early stages of using outcomes-based contracting. The form of outcomes-based contracting that it is using does not align contracted terms of payment with the suppliers' achievement of agreed-upon outcomes. In addition, it does not use incentives to promote suppliers' achievement of agreed-upon outcomes. These features are key to obtaining overall better value, better performance, and lower costs for contracted services.

4.0 KEY FINDINGS AND RECOMMENDATIONS

In this section, we describe our expectations (in italics) and our key findings and recommendations related to the audit criteria in **Figure 1**.



4.1 Determining Desired Outcomes

We expected that the Ministry would identify the target populations associated with ESWP and the population's common needs with respect to securing and attaining employment. The Ministry would, in consultation with potential service providers (suppliers), define clear and measurable desired outcomes in a manner that attracts supplier participation in the program.

We expected that the Ministry would develop a request for proposal (RFP) that contained sufficient expectations (e.g., outlined expected results and timelines). The Ministry's outcomes-based contracts would clearly specify expected roles and responsibilities of each party.

4.1.1 Guidance on Outcomes-Based Contracting Process Readily Available

The Ministry gave its staff and relevant suppliers clear and useful guidance on its outcomes-based contracting process.

In 2013, the Ministry, with the assistance of an outside consultant, developed a Manual (i.e., *Contract Management Manual—Enhanced Outcomes-Based Contracting*) for its staff and later a companion manual (i.e., *Outcomes-based Contract Management—Supplier Handbook* [Supplier Manual]) for suppliers to move towards contracting for results (i.e., outcomes) as opposed to just the delivery of specific services (deliverable). It decided to use this approach for some of its contracts, such as ESWP contracts.

In the Supplier Manual, the Ministry states the following:

- › Under the Outcomes-Based Contract Management (OBCM) process, the Ministry will create contracts which:
 - Identify specific client outcomes that are being purchased,
 - Incorporate rating criteria and acceptability standards to ensure that quantifiable improvements are made for clients, and
 - Provide flexibility for suppliers to adopt innovative practices to achieve client outcomes

- › Although contracts will include a list of specific client outcomes that must be achieved, the Ministry will not prescribe how the outcomes must be achieved. Suppliers will use their expertise to determine which services should be provided in order to achieve the best outcomes for clients in the most effective and cost-efficient manner.

- › The primary purpose of OBCM is to improve client outcomes in the most efficient and effective manner. By negotiating specific outcomes directly into each contract, the suppliers understand what they are responsible for achieving and how their performance will be measured.

The Ministry defines outcome as the measurable change in a client's actions, attitude, behaviours, knowledge and/or perceptions, which was brought about by the supplier during the contract.

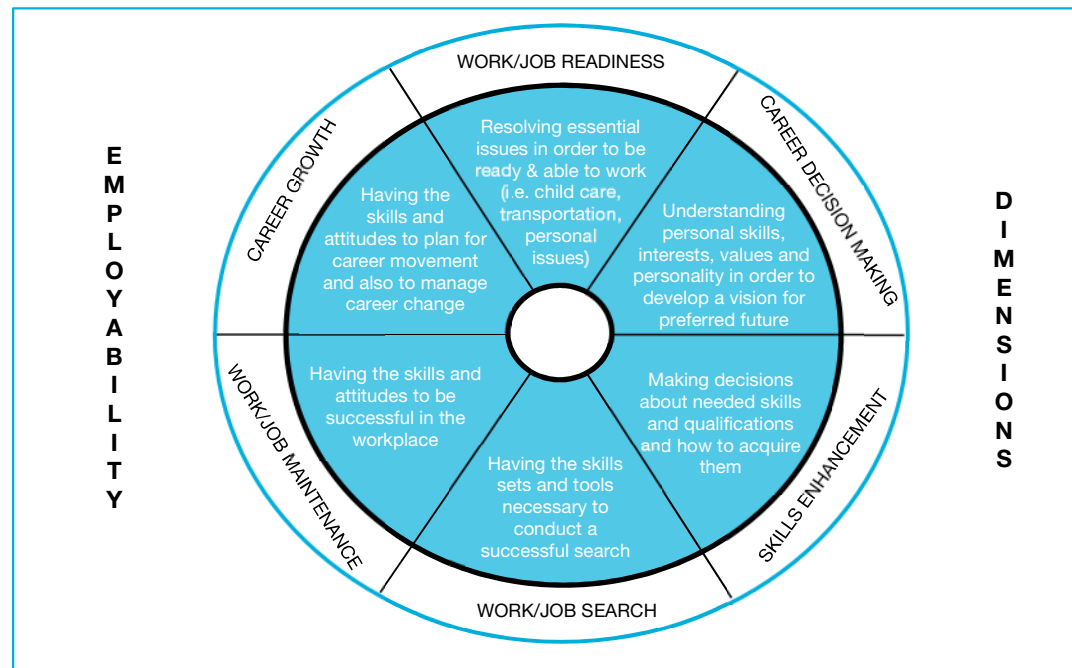
The Ministry keeps these manuals current and readily available to applicable staff and relevant suppliers.

4.1.2 Common Employability Needs and Broad Outcomes Defined

Using market research and its experience from other Adult Basic Education Programs, the Ministry identified the following barriers that most often impede individuals with low literacy skills (its target population, clients) from having sustained employment and attending and staying in training programs. These barriers include lack of: basic literacy skills, child care, transportation to workplace or training facility, attendance, and cultural support. In addition, it noted training programs often lacked sufficient follow up with the individuals after the program was completed.

As part of its outcomes-based contracting process, the Ministry adopted the Canadian Career Development Foundation's Employability Dimensions Wheel (see **Figure 2**). The wheel provides an overview of the various stages that clients may experience in the course of their career. It has six employability dimensions which range from Work/Job Readiness for individuals with basic needs (such as child care, transportation, personal issues like housing), to Career Growth for employed individuals who want to further their careers.

Figure 2—Adopted Employability Dimensions Wheel



Source: Ministry of the Economy, *Outcomes-based Contract Management—Supplier Handbook*, (2015), p. 9.

The Ministry's outcomes-based contract manuals include a list of broad possible client outcomes and examples of ways to measure the achievement of outcomes (see **Figure 3**). It maintained its listing in its outcomes-based contract management manuals referred to above. The Ministry aligned these outcomes and acceptability levels⁴ with the

⁴ Instead of performance indicators, the Ministry of the Economy's outcomes-based contracting program uses the terms metrics (i.e., to measure outcome) and acceptability levels (i.e., the Ministry's desired level of performance for the contract; minimum performance the Ministry will accept from a supplier).



employability dimensions to enable services provided within a contract to respond to a client’s career phase and help them overcome key barriers. It vetted the outcomes and acceptability levels with potential suppliers prior to their finalization.

Figure 3—Examples of Pre-determined Client Outcomes and Related Metrics

Outcome	Measuring Tool	Metric	Acceptability Level
Employability Dimension: Work/Job Readiness			
Participants (clients) will receive the required employment supports to assist with their attachment to the labour market	Supplier reports	Percentage of participants that access employment supports to secure and obtain employment	90% of participants access employment supports and obtain employment
Participants increase their sense of responsibility for their own choices and behaviors	Participant evaluation Informal assessment tools Counsellor observation reports	Percentage of participants that self-identify as having an increased understanding of responsibility for their own choices and behaviours Percentage of participants that demonstrate increased responsibility for their own choices and behaviours	75% of participants self-identify as having an increased understanding of responsibility for their own choices and behaviours 75% of participants have an increased sense of responsibility for their own choices and behaviors
Participants access an employment experience (work assessment, work placement, job shadow, etc.)	Service provider evaluation Participant evaluation	Percentage of participants that participate in a work experience, assessment or job shadow	25% of participants accessing service will participate in a work experience, assessment or job shadow 10% of participants will secure employment after the employment experience
Employability Dimension: Skills Enhancement			
Participants will have an enhanced multi-cultural awareness and understanding	Participant evaluation Supplier reports	Percentage of participants that self-report as having an enhanced multi-cultural awareness and understanding Percentage of participants that have an enhanced multi-cultural awareness and understanding as reported by the supplier	100% of participants will self-report as having an enhanced multi-cultural awareness and understanding 100% of participants have an enhanced multi-cultural awareness and understanding as reported by the supplier
Participants will obtain necessary skills, certification, tickets, and/or licensing to meet employer qualifications in their occupation of choice	Participant evaluation Supplier reports	Percentage of participants that receive the necessary certification for their desired employment Percentage of employers who self-report as being satisfied with participant training	70% of participants receive necessary certification for their desired employment 70% of participants self-report as being satisfied with participant training 70% of employers are satisfied with participant training

Source: Ministry of the Economy, *Outcomes-based Contract Management—Supplier Handbook*, Appendix A and *Performance Monitoring Information Outcomes-based Contract Management*, (2015).

The Ministry does not expect all outcomes to apply to all contracts. Rather, as part of contract negotiations with each supplier of services, it expected the following:

- › The Ministry and the supplier would select, from the Ministry’s pre-determined listing, and agree on client-specific outcomes and metrics appropriate for the particular services being contracted (agreed-upon outcomes)

- › The Ministry and the supplier would decide, using the Ministry’s pre-determined listing as guidance, on how best to measure the agreed-upon outcomes (performance measures)
- › The contract would include the agreed-upon outcomes and performance measures

In addition, the Ministry developed an outcomes-based contract template. The template defined the roles and responsibilities of the Ministry and of the supplier. It included setting out the following:

- › Key deliverables (the work the supplier performs) (e.g., instruction in computer skills, personal growth, and employability skills)
- › The nature and timing of reporting from the supplier to the Ministry (e.g., interim, final, and follow-up reports submitted by specified dates)
- › The agreed-upon outcomes and performance measures
- › Terms (timing and basis of amounts) of payment as long as the Ministry is reasonably satisfied services have been properly completed (e.g., pay 40% of eligible expenditures on receipt of interim report and verification of eligible expenditures to date)

Under the contract template, suppliers are responsible for tracking and reporting to the Ministry on the progress in achieving the agreed-upon outcomes that the contract specifies. Suppliers can use various methods and assessment tools (e.g., tests of participants, surveys) to determine each of their participants’ level of understanding of subject areas relating to obtaining and retaining employment. The Ministry expects suppliers to use agreed-upon assessment tools at the beginning of the project to establish a baseline level of understanding, and near the end of the program to assess each of their participants’ level of improvement.

4.1.3 Target Population for ESWP Identified

Consistent with the workforce strategy in the *Saskatchewan Plan for Growth – Vision 2020 and Beyond* (Saskatchewan Plan for Growth), the Ministry identified Aboriginal people as an under-represented group in the workforce.

Saskatchewan’s current workforce is aging, and expected retirements will significantly reduce its labour supply.⁵ As reflected in the Saskatchewan Plan for Growth, the Government anticipates the need for an increase in workers through, in part, increased participation of under-represented groups (e.g., Aboriginal people) in the labour force.

However, a large disparity between employment rates and graduation rates for Aboriginal people and non-Aboriginal people exists in Saskatchewan. As of December 2015, the unemployment rate for Saskatchewan Aboriginal people was 12% as compared to Saskatchewan’s overall unemployment rate of 5%.⁶ At June 2015, 58% of Aboriginal students graduated high school as compared to 84% for all Saskatchewan students.⁷

⁵ Government of Saskatchewan, *Saskatchewan Plan for Growth – Vision 2020 and Beyond*, p. 37.

⁶ www.stats.gov.sk.ca/stats/labour2015/lfsDecember15.pdf (17 January 2017).

⁷ Ministry of Education, *Annual Report for 2015-16*, p. 14.



Also at June 2015, 40% of Aboriginal students graduated on time compared to 75% of all Saskatchewan students who graduated on time.^{8,9}

The Ministry recognizes under-represented groups of potential workers face barriers to employment or often do not make a permanent attachment to the labour market.¹⁰

In addition, the Ministry recognized individuals with an academic level equivalent to less than Grade 5 would likely not have the communication and math skills required for basic entry-level positions. The Ministry identified their need for basic reading and writing skills, and skills in applying for and maintaining employment.

Since 2010-11, the Ministry designed ESWP to focus on providing training services to individuals with an academic level equivalent of less than Grade 5 to assist these individuals in attaining and keeping entry-level jobs. Because Aboriginal people make up the majority of these individuals, they are the primary target population for ESWP. Aboriginal people made up 95% of ESWP program participants in 2015-16.¹¹ The Ministry expected that giving Aboriginal people access to ESWP would help reduce the current disparity in employment rates, and increase their readiness to enter the workforce.

4.1.4 Request for Proposal Identifies Broad Desired Outcomes Applicable for ESWP Contracts

The Ministry used its RFP process to identify the broad desired outcomes for ESWP and to attract suppliers' interest in delivering services.

In April 2015, the Ministry issued an RFP for ESWP. The ESWP RFP clearly indicated that the Ministry plans to follow its outcomes-based contract management process.

Consistent with its outcomes-based contract management process, the ESWP RFP described, at a high level, ESWP's broad desired outcomes of providing learners with essential skills to enter the workforce and maintain employment. It selected these from its listing of pre-determined outcomes.

In addition, the ESWP RFP provided sufficient detail on the roles and responsibilities of both the Ministry and the potential service provider during this process (e.g., the Ministry is to provide the format of the reports; supplier is responsible for completing and submitting those reports to the Ministry).

The ESWP RFP stipulated that *any First Nation or Métis community, community school, community-based organization, immigrant serving organization, and post-secondary institution in Saskatchewan may submit a proposal, however, they must work in partnership with a publicly funded post-secondary institution in Saskatchewan.*¹²

The ESWP RFP specified the following: learners with low level of literacy and numeracy¹³ as the target population for the program, the expected date of completion of the delivery of the program, and a maximum project budget per program delivery site.

⁸ Ibid., p. 14.

⁹ The *Saskatchewan Plan for Growth* document defines 'on time' as graduating within three years of entering grade ten.

¹⁰ Request for Proposal (RFP # ECON-RFP9), p. 34.

¹¹ Information provided by the Ministry of the Economy.

¹² Request for Proposal (RFP # ECON-RFP9), p. 3.

¹³ Literacy levels 1 and 2 using definitions of Saskatchewan Literacy Network. Information about the Network is available at <http://saskliteracy.ca/essential-skills/professional/benchmarks/> (16 January 2017).

The ESWP RFP included the Ministry's expectation that the suppliers provide services that align with learning outcomes set out in Saskatchewan Literacy Network's Circle of Learning for literacy levels 1 and 2 and included a copy of this publication.¹⁴ Level 1 and 2 learners need to develop communication, numeracy, lifelong learning, and interpersonal skills.¹⁵ The ESWP RFP asked the suppliers to include, in their proposal submission, details on how they plan to meet these broad desired outcomes.

4.2 Establishing Methods to Measure Achievement of Outcomes

For each agreed-upon outcome, we expected the contract would include the minimum expected level of performance, how the outcomes would be measured, and relevant measuring tools. We expected the Ministry would gather baseline data for each these measures to enable identification of improvements and changes. Finally, we expected the Ministry would define how often it expected the supplier to measure and report on progress.

4.2.1 Consistent Use of Measurable Outcomes in ESWP Contracts Needed

The ESWP contracts did not always include measurable outcomes and as a result, it was difficult to determine the minimum level of performance the Ministry expected to accept.

The ESWP RFP resulted in the Ministry negotiating and entering into 21 ESWP contracts in 2015-16 for learning programs with post-secondary institutions (e.g., Carlton Trail College, Parkland College, Saskatchewan Polytechnic) located across the province.

Consistent with its outcomes-based contract management process, through negotiations for each project, the Ministry agreed with each supplier on outcomes (agreed-upon outcomes), and related measuring tools, metrics, and acceptable levels (agreed-upon performance measures).

For the six ESWP contracts we tested, each used the Ministry template and included the expected content.

For each of the six contracts we tested, the contract clearly set out the agreed-upon outcomes and performance measures. The agreed-upon outcomes and performance measures aligned with those included in the Ministry's listing. However, as described below, some of these outcomes were not measurable.

As expected, given the broad desired outcome for ESWP, we found many of the six contracts contained the same or similar agreed-upon outcomes and performance measures. For the six contracts tested, the number of agreed-upon outcomes in each ranged from 6 to 15; on a combined basis, the six contracts contained 16 unique agreed-upon outcomes. For those six contracts, the number of agreed-upon performance measures in each contract ranged from 8 to 18; on a combined basis, the six contracts contained 21 unique performance measures.

¹⁴ http://saskliteracy.ca/wp-content/uploads/2015/01/Circle-of-Learning_Final-April-2016.pdf (16 January 2017).

¹⁵ www.economy.sk.ca/abe (6 September 2016).



For the six contracts we tested:

- › Four of 16 agreed-upon unique outcomes were not well defined; the four unique outcomes were: participants have an enhanced multi-cultural awareness and understanding; participants have an enhanced labour market connection; participants improve their self-awareness and self-management skills; and participants experience increased employment opportunities.
- › Nine of 21 agreed-upon unique performance measures were not measurable.

For example, all six contracts included an agreed-upon *percentage of participants will secure employment* (percentage ranged from 10% to 50%) but did not define employment either in the contracts or elsewhere (e.g., Supplier Manual or RFP). Without the parameters to qualify as employment (such as the minimum number of months a participant is employed after completion of training), it is unclear if a participant working one day or one week would constitute employment.

For another example, five contracts included an agreed-upon measure of *80% of participants will acquire life/employability skills which support goals* but did not provide information on how to determine if participants acquired the skills or how many skills they needed to acquire. Information provided in each of the contracts tested and in supplementary information (e.g., Supplier Manual) was limited to examples of life/employability skills (e.g., communication, literacy and numeracy skills, personal management skills, team work).

We recognize that not all measures (e.g., access a work experience) can be quantitative and, at times, qualitative measures (e.g., improving self-awareness) may need to be used. However, those measures need to be clearly defined and have agreed upon methods to determine whether the outcome has been met.

Not having clear definitions makes measuring the extent of achievement of the agreed-upon outcome difficult and subject to interpretation. Unclear definitions may result in inconsistent interpretation of expectations between the Ministry and the supplier on the minimum performance that is acceptable. As such, contrary to the Ministry's primary purpose of using outcomes-based contracting, suppliers may not clearly understand what they are responsible for achieving and how the Ministry plans to measure their performance.

Also, since the Ministry uses the same outcomes and measures in many ESWP contracts, inconsistent interpretation of them can reduce the Ministry's ability to compare results from one contract to another. In addition, outcomes that are not readily measurable makes determining the level of improvement or change in participants difficult and at times, impossible.

Without consistent use of measurable outcomes, the Ministry cannot know whether using outcomes-based ESWP contracts is making quantifiable improvements for ESWP participants.¹⁶ Therefore, the Ministry cannot know if its ESWP programs improved participants' employability.

¹⁶ Ministry of the Economy, *Outcomes-based Contract Management – Supplier Handbook*, p. 2.

- 1. We recommend that the Ministry of the Economy use clearly defined and measurable outcomes to know whether quantifiable improvements are made for program participants (clients).**

The majority of the ESWP outcomes-based contracts are general training programs to assist low-skill job seekers to enter the workforce. Two of the six contracts we tested were for a specific training program (e.g., security officer training). Both of these contracts only contained general outcomes (e.g., participants will access an employment experience).

4.2.2 ESWP Supplier Reporting Requirements Clear and Contracts Sufficiently Monitored

ESWP contracts included clear reporting requirements; suppliers submitted required reports.

To evaluate the extent to which each outcome is achieved, the Ministry required suppliers to submit a variety of reports.

When determining reporting requirements for ESWP contracts, the Ministry required its staff to assess the risk of each ESWP project. It provides its staff with guidance to help them assess risks. Staff are to base their assessments on factors such as the size of program, and previous history with the supplier. The Ministry had documented guidelines to help staff determine the minimum reporting required for each contract (information to submit during the project [interim] and at the end of the project [final]).

For the six ESWP contracts we tested, the Ministry followed these guidelines when determining reporting requirements. Each contract we tested specified required reports and the dates by which the supplier must submit them.

The Ministry maintains reporting templates. The templates set out information suppliers are to include in the required reports. Reports are to include information on the progress on the achievement of the outcomes and key deliverables. For the six ESWP contracts we tested, the Ministry gave suppliers these reporting templates.

Under its outcomes-based contract management process, the Ministry expects its staff to review reports suppliers submit under each contract, and assess the level of achievement of the agreed-upon outcomes. In addition to reports from suppliers, it expects its staff to gather additional information through interactions (e.g., meetings, e-mails, and phone conversations) with suppliers (and at times participants) and on-site visits. The Ministry expects staff to use this monitoring to corroborate information in the supplier reports.

For the six ESWP contracts we tested, we found, in all cases:

- For agreed-upon quantitative performance measures, the suppliers gathered baseline data to enable tracking of the participant's level of improvement over the term of the program



- › The ESWP contracts included clear reporting requirements (e.g., submission of interim and final reports)
- › The suppliers submitted required reports
- › Ministry staff monitored the contracts through review of supplier-submitted reports, discussions with the suppliers, and on-site visits
- › Ministry staff documented the results of their monitoring

4.3 Setting Payment Structure to Attract Service Providers and Foster Achievement of Desired Outcomes

We expected that the Ministry would set payment on each contract based on progress the supplier made towards achieving desired outcomes. We expected that the contracts would have both positive and negative incentives.

4.3.1 ESWP Outcomes-Based Contracting in Early Stages— Payment Terms Not Tied to Achievement of Outcomes

The form of outcomes-based contracting the Ministry used did not link the amounts paid to ESWP suppliers to achievement of outcomes specified in individual ESWP contracts. Rather, like conventional service contracts, it based payments under ESWP contracts on its receipt of required reports that set out services delivered.

As noted in **Section 2.1**, the Ministry was in the early stages of using outcomes-based contracting. The form of outcomes-based contracting it used at this stage did not include all of the defining features of outcomes-based contracting. See **Section 6.0** Outcomes-Based Contracting for the three defining features of typical outcomes-based contracting.

In the development of its Manual, the Ministry decided not to use financial incentives at this stage of its use of outcomes-based contracting. The Ministry considered that use of financial incentives at this early stage would deter suppliers from participating. The Ministry indicated it was starting to work with suppliers to educate them on the differences between service-based and outcomes-based contracts, and the benefits of their effective use.

Consistent with this decision, we found none of the ESWP contracts included positive or negative financial incentives.

Positive financial incentives can include a bonus when the supplier exceeds expectations in meeting the outcomes specified in the contract; negative financial incentives can include withholding all or a portion of the contract amount for not achieving agreed-upon outcomes.

Incentives can provide suppliers with additional motivation to achieve agreed-upon outcomes and can generate supplier interest in participating in a program. In addition, use

of incentives in outcomes-based contracts may encourage suppliers to adopt innovative practices to achieve client outcomes.

Without including incentives in its ESWP contracts, the Ministry is at risk of not meeting its objectives for its longer-term use of outcomes-based contracting.

2. We recommend that the Ministry of the Economy reconsider the use of financial incentives in its outcomes-based contracting.

Under its outcomes-based contract management process, the agreed-upon outcomes in a contract are to reflect the minimum performance the Ministry will accept from a supplier.¹⁷

Consistent with the Ministry contract template, the Ministry specified payment terms in each ESWP contract. The contracts made payments contingent upon the Ministry's receipt of required supplier reports, and, as previously noted in **Section 4.1.2**, the Ministry being reasonably satisfied services have been properly completed.¹⁸

The Ministry did not give its staff or suppliers guidance as to what constitutes *being reasonably satisfied that services have been properly completed*. Without such guidance, this provision is subject to interpretation. We found the Ministry did not use this provision as a way to move toward paying suppliers for minimum performance.

For each of the nine contracts we tested:

- › In all cases, the Ministry received the supplier reports specified in the contract when and as required
- › In all cases, the Ministry paid the supplier upon its receipt of required reports; it made interim payments during the contract, and a final payment upon receipt of a final progress report
- › For the seven contracts where suppliers did not achieve all of the agreed-upon outcomes, the Ministry did not reduce amounts paid (paid approximately \$650,000). Six of these seven suppliers did not achieve between 13% to 55% of the agreed-upon outcomes; each of these contracts had between six and nine agreed-upon outcomes. For one contract, the Ministry paid the full contract amount of \$100,000 even though the supplier did not achieve any of the seven agreed-upon outcomes.

While a supplier may not achieve all of the agreed-upon outcomes, not linking amounts paid under ESWP contracts to the achievement of at least a portion of those agreed-upon outcomes seems contrary to the Ministry's objective of using outcomes-based contracting and to the defining features of outcomes-based contracting. Having a payment structure that includes rewards and risks tied to achievement of agreed-upon outcomes is a defining feature of outcomes-based contracting (see **Section 6.0 Outcomes-Based Contracting**).

¹⁷ Ministry of the Economy, *Outcomes-based Contract Management— Supplier Handbook*, p. 17.

¹⁸ Ministry of the Economy template outcomes-based contract, Schedule B.



Not linking amounts paid to achievement of outcomes makes the ESWP contracts like conventional service contracts. Conventional service contracts base payment on the supplier's delivery of work in general as opposed to results achieved (outcomes-based).

Not including this defining feature in ESWP contracts negates their value as outcomes-based. In addition, it may result in the Ministry not achieving its objective of using outcomes-based contracting. Not adequately designing payment provisions at an appropriate level increases the risk of suppliers not coming forward to provide desired services or the Ministry not achieving agreed-upon outcomes.

3. We recommend that the Ministry of the Economy align contracted terms of payment with the suppliers' achievement of outcomes for its outcomes-based contracting.

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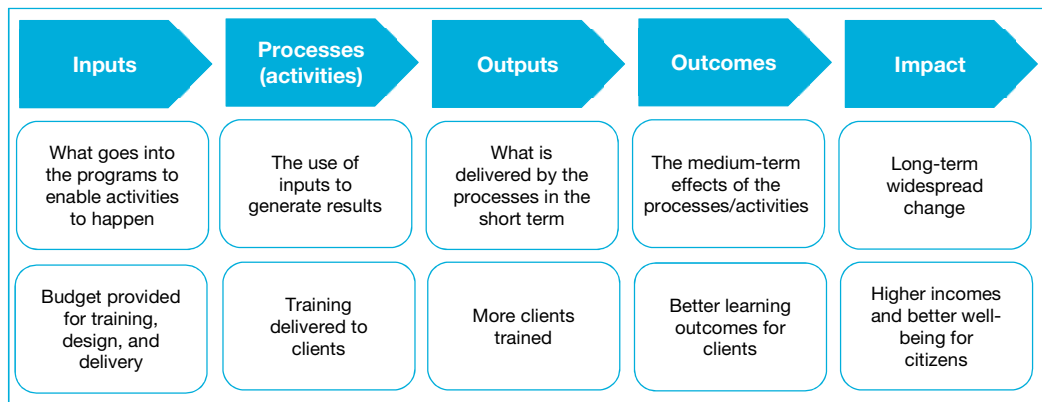
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6.0 OUTCOMES-BASED CONTRACTING

Conventional service contracts primarily base payment on the provision of services (e.g., the provision of a training course). Whereas, the purpose of outcomes-based contracting is to obtain overall better value, better performance, and lower costs. Outcomes-based contracting requires output-based specifications and procedures that require service providers to devise the most effective and efficient way to perform the work.¹⁹

Outcomes-based contracting shifts the focus from inputs and activities (the resources and procedures used) to outputs, outcomes, and impact (the results of the objective) (see **Figure 4**).

Figure 4—Distinction between Inputs, Outputs, and Outcomes



Source: Adapted from: National Audit Office, UK, 2015. *Outcome-based payment schemes: government's use of payment by results*, p. 12.

Outcomes-based contracting is a form of contracting that explicitly includes the following three characteristics:²⁰

1. Having a clear definition of a series of objectives and indicators by which to measure service provider performance

¹⁹ <http://pwc.blogs.com/deals/2015/08/outcome-based-contracts.html> (25 January 2017).

²⁰ <http://pwc.blogs.com/deals/2015/08/outcome-based-contracts.html> (25 January 2017).



2. Collecting data on the performance indicators to assess the extent to which service provider successfully implemented the defined services
3. Having performance lead to consequences for the service providers, such as provision of rewards or imposition of performance adjustments (i.e., positive and negative incentives)

If utilized correctly, outcomes-based contracting can provide the following benefits:²¹

- › Innovation on the part of the service provider
- › Alignment of service objectives with the agency requesting the service and the service provider
- › Increase motivation for the service provider to achieve the best outcome to maximize its financial gain

²¹ www.corrs.com.au/publications/corrs-in-brief/outcome-based-contracting-is-on-the-up-who-s-doing-it-why-and-what-you-need-to-know-about-it/ (29 April 2016).