
Performance Based Contracting Workshop

Managing for Results!

Presented by



Module 1

Performance Management Fundamentals



Workshop Learning Objectives

- Learn Performance Management and Performance Based Contracting (PBC) fundamentals
- Understand the State of Vermont Five Step Contracting Process
- Learn how to apply PBC concepts to your Agency contracts and grants

Change...

“Without changing our pattern of thought,
we will not be able to solve the problems
we created with our current pattern of thought”

- Albert Einstein



What is Performance Management?

Performance Management is a set of activities to ensure that goals are consistently being met and outcomes are delivered in an effective and efficient manner



Performance Management Activities

Performance Management requires 4 major activities:

- Desired performance must be defined in terms of specific outcomes
- Innovative strategies for achieving desired outcomes must be developed
- Current performance must be measured and documented
- Progress toward desired outcomes must be monitored

Achieve Greater Performance through Outcome Management



Why Measure Performance?

- To continuously improve services
- To strengthen accountability
- To communicate results of programs and services
- To provide better information for effective decision-making and resource allocation



Performance Measurement is Used to:

- Set performance goals
- Allocate and prioritize resources
- Inform managers to either confirm or change current policy or program directions to meet those goals
- Report on the success of meeting those goals



What is Performance Measurement?

Performance measurement is the regular systematic collection, analysis and reporting of data that tracks resources used, work produced and whether specific outcomes were achieved



What is Outcome Management?

- Outcome Management is a set of methods, processes, tools and techniques for planning, selecting, managing and realizing results
- An outcome is the desired result of an initiative to meet a need or solve a problem (e.g. to reduce gun related crime by 25% within 5 years by implementing a national gun registry)
- Outcome Management is focused on the outcomes or results
- Outcome management is a link to performance indicators

PBC is a Subset of Outcome Management

Examples of Outcomes

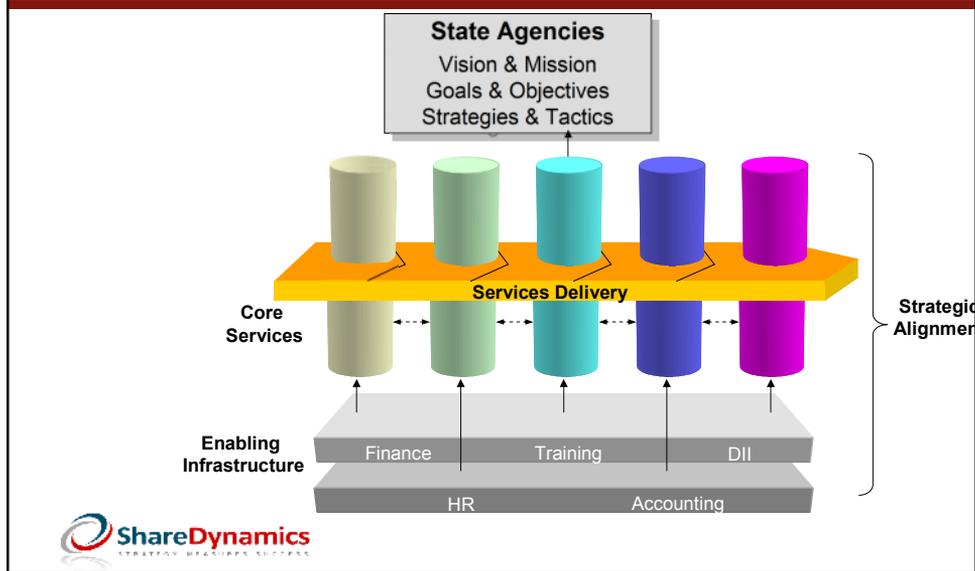
Financial:

- Decreased cost of operations
- Decreased energy consumption (costs)
- Increased economic development
- Decreased risk of loss

Non-Financial:

- Increased service levels
- Decreased time to complete process / transaction
- Increased compliance with regulations
- Increased privacy protection
- Increased customer satisfaction
- Reduced wait times
- Created environmental benefits
- Increased quality of life / social benefits

State Services Delivery



Strategic Planning and Performance Measurement

- If we have performance measurement without strategic planning, **we know how fast we are going**, but do not know whether we are going in the right direction
- If we have strategic planning without performance measurement, **we know we are going in the right direction**, but we don't know whether we are getting there



Strategic Planning and Performance Measurement - continued

Strategic Planning is a process of looking toward the future to:

- Identify why an organization exists (MISSION)?
- What it will look like if it achieves its mission?
- Determine concrete steps to achieve its mission (GOALS and OBJECTIVES)
- Determine measures that will indicate progress on your strategic plan (PERFORMANCE MEASURES)
- Data that tell if you are achieving results on your strategic plan are Performance Measures



Strategic Planning and Performance Measurement Hierarchy

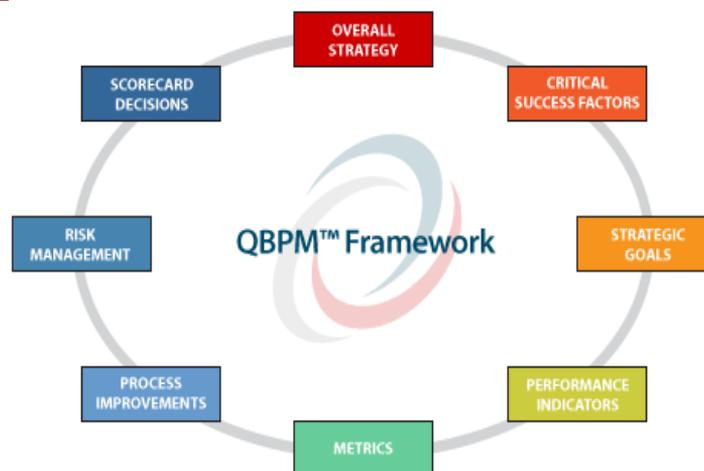


Critical Success Factors

- Measures for effectiveness and efficiency where satisfactory performance is essential in order for a business to succeed
- Characteristics, conditions, or variables that have a direct influence on a customer's satisfaction with a specific business process
- The set of things that must be done right if the vision is to be achieved



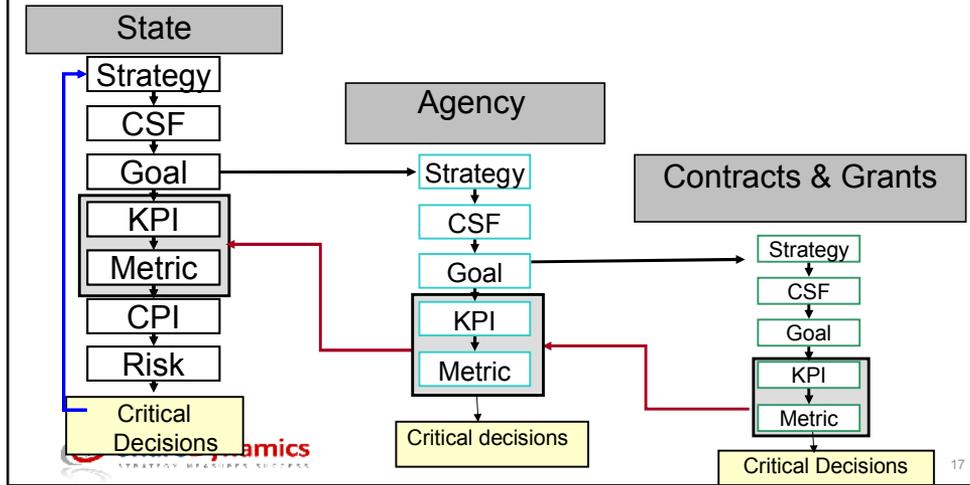
Performance Management Approach



Cascading Strategies

Stakeholders are linked by strategy and goals aligned with their role and mission

Performance indicators are standardized within stakeholder levels to allow traceability, roll-ups, and more credible decisions



Performance Based Contracting Overview



What is Performance Based Contracting?

“Performance based contracting is one that focuses on the outputs, quality, and outcomes of the service provision and may tie at least a portion of a contractor payment as well as any contract extension or renewal to their achievements” (Martin, 2003)



Performance Based Contracting (PBC)

- Involves strategies, methods, and techniques that describe and communicate measurable outcomes rather than specific processes
- It is structured around defining a service requirement in terms of performance objectives: it is a method of acquiring *what is required and not how it is accomplished*



PBC Objectives

- Maximize performance
- Encourage competition and innovation
- Risk shift to the contractor - contractors become responsible for achieving objectives through use of their own processes
- Achieve savings - experience in both government and industry demonstrated that the use of performance requirements results in cost savings



PBC Example

Service Description: Provide taxi service

- **Old description:** drive to passenger pickup, pull over the curb, put vehicle in park, wait passenger, open door, drive to destination
- **Results oriented description:**
 - Expected result: pickup passengers on time
 - Expected performance: arrive within five minutes of an agreed upon time
 - Standard: be 95% on time (within the five minutes)
 - Metrics: % of pickups that comply with the standard (or the percentage that don't)
 - Failure to perform within the standard would result in contract price reduction



Activities, Outputs, Outcomes, and Impacts

- **Activities:** Intended processes, tools, events, technology, and actions used to bring about the intended changes or results
- **Outputs:** are direct products of program activities
- **Outcomes:** are the specific changes expected as a result of contract/grant
- **Impact:** is the fundamental intended or unintended change as a result of contract/grant activities (usually long term - 7-10 years)



Types of Performance Indicators

- Input
- Output
- Efficiency
- Service Quality
- Outcome



Performance Indicators Should

- Be quantifiable and measurable
- Be relevant, understandable, timely, consistent, comparable and reliable
- Constitute a family of measures:
 - Input
 - Output
 - Efficiency
 - Service Quality
 - Outcome



Performance Based Contracting Guiding Principles

- Strive to define clear, concise requirements
- Focus on specific work outcomes
- Ensure that outcomes are measurable
- Use value-based incentives to motivate contractor achieve highest levels of performance and quality
- Focus on the outcomes rather than the process
- Ensure clear communications



PBC Lingo

- **Mission & Strategy:** What you are going to do and how do you plan to meet the mission?
- **Critical Success Factors (CSF):** Statement of what is critical to meet the strategy
- **Goals:** Specific and measurable accomplishments to be achieved within a specified time
- **Key Performance Indicators (KPIs):** How are we performing against our target?
- **Metrics:** A quantitative measure of performance



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Strategy

- Strategies are methods to achieve goals and objectives
- A strategy is the mean of transforming inputs into outputs and outcomes, with the best use of resources
- Formulated from vision/mission and objectives



Planning for Grants & Contracts

- Review department mission and goals
- Determine contract goals and objectives
- Identify how the resulting contract will support goals and mission of the department
- Analyze requirements and create a list
- Prioritize requirements



What is Mission?

- Reason for the Agency existence and its unique contribution
- Identifies What, Why, and for Whom Agency serves
- Answers the major questions:
 - Who are we as an organization?
 - Whom do we serve?
 - What are the basic actions needed to accomplish mission?



Goals & Objectives

- Clear targets for specific action
- Achievable and measurable
- Set direction for the strategies
- Should answer questions:
 - Does each goal describe an outcome as specific target and time frame?
 - Do the objectives relate to results or outcomes instead of internal processes?
 - Are the objectives logically connected to outcomes?



Quantifiable Strategic Objectives Example

Too vague

⇒ *Improve Customer Service*

More precise

⇒ *Reduce average customer wait times by 30% by year end*

Make sure your objectives have direct relationship to goals and goals are directly related to mission and values!



Without Measuring, Decision Makers Have No Basis For:

- ✓ Knowing what is going on in their enterprise
- ✓ Effectively making and supporting decisions
- ✓ Specifically communicating performance expectations
- ✓ Identifying performance gaps
- ✓ Providing feedback that compares performance to a standard
- ✓ Identifying performance that should be rewarded



Mission Examples

Agency of Human Services: ... to improve the conditions and well-being of Vermonters and protect those who cannot protect themselves.

DCF: ...to foster the healthy development, safety, well-being, and self-sufficiency of Vermonters to:

- Reduce poverty and homelessness;
- Improve the safety and well-being of children and families;
- Create permanent connections for children and youth;
- Provide timely and accurate financial supports for children, individuals, and families



Module 2

State of Vermont Performance Based Contracting Process



Taking Vermont to a new level of Performance!

Requires following activities:

- Current performance must be measured and documented
- Desired performance must be defined in terms of specific outcomes
- Innovative strategies for achieving desired outcomes must be developed
- Progress toward desired outcomes must be monitored

Performance Management Activities

Performance Management requires 4 major activities:

- Desired performance must be defined in terms of specific outcomes
- Innovative strategies for achieving desired outcomes must be developed
- Current performance must be measured and documented
- Progress toward desired outcomes must be monitored

Achieve Greater Performance through Outcome Management

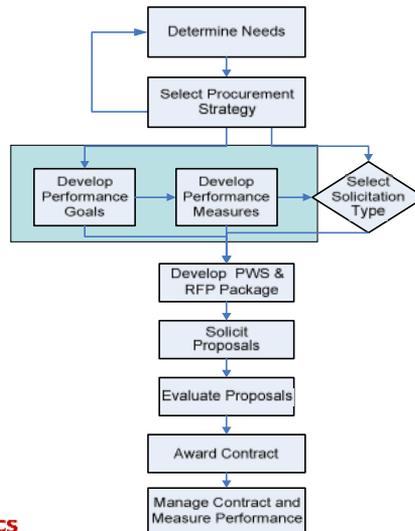


State of Vermont Five-step Process

- **Step 1:** Planning
- **Step 2:** Measures & Indicators
- **Step 3:** Statement of Work and RFP
- **Step 4:** Evaluate & Award
- **Step 5:** Monitor & Manage Contracts



Vermont Contract & Grant Development Process



Step 1: Planning

http://my.pentelic.com/peracp/layer-332/next.htm?ID=1295462594

Edit Performance Based Contracting (Master) layer

Outline

Performance Bas (Layer)

Planning Measures & Indicators SOW & RFP Evaluate & Award Monitor & Manage Cont...

Performance Based Contracting (Master) Layer: Planning Slice

Process

Review Mission & Goals Determine Service Needs Determine Procurement Strategy Identify Risks & Determine Contingencies

People

Deliverables

Create B...

The screenshot shows the 'Edit Performance Based Contracting (Master) layer' interface. At the top, there is a navigation bar with 'Performance Bas (Layer)' selected. Below this, a horizontal bar represents the 'Performance Based Contracting (Master) Layer' with segments for 'Planning', 'Measures & Indicators', 'SOW & RFP', 'Evaluate & Award', and 'Monitor & Manage Cont...'. The 'Planning' segment is highlighted in yellow. Below this, the 'Performance Based Contracting (Master) Layer: Planning Slice' is shown, which includes a 'Process' section with four steps: 'Review Mission & Goals', 'Determine Service Needs', 'Determine Procurement Strategy', and 'Identify Risks & Determine Contingencies'. On the left side, there are tabs for 'Process', 'People', and 'Deliverables'. At the bottom right, there is a 'Create B...' button.



Determine Service Needs: The Process

- Review agency mission and goals
- Determine what services are needed
- Identify what resources are available (inputs)
- Identify what is to be provided (outputs)
- Identify what needs to be accomplished (outcomes)
- Identify customers
- Establish success indicators



Determine Services

- Identify major activities
- Focus on major activities
 - Critical to success of agency's mission
 - Consume significant portion of service budget
 - Politically sensitive or frequently in spotlight
 - Significant customer service focus
- Group activities that have common objectives and/or customers



Service Analysis Questions

Who

- *Who is in need of this service?*
- *Who says service is needed?*
- *Who is impacted ?*

What

- *What will happen if this service is not provided?*
- *What will be missing?*
- *What people/areas will be impacted?*

Where

- *Where the service be provided?*
- *Where the service will have the most impact?*

When

- *When is the service be needed?*
- *When did this service began?*

Why

- *Why is this service needed?*
- *Why?*
- *Why?*

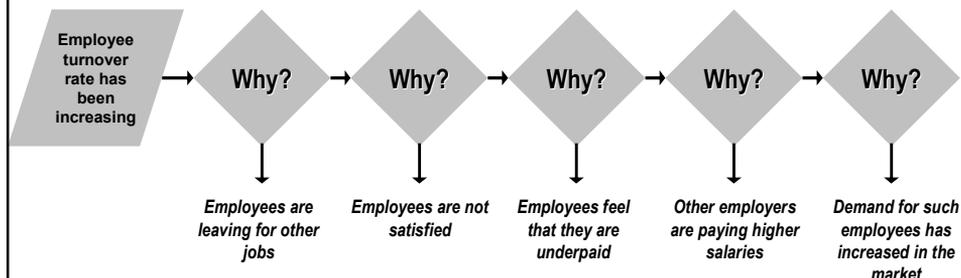
How

- *How should the process work?*
- *How is this service currently handled?*



Making sure the service fits the need: The Five Why's Technique

Five Why's is a technique that refers to the practice of asking, five times, to determine applicability of the service



5 Why's - Example

- Why is our largest customer unhappy?
 - Because deliveries have been late
- Why have our deliveries been late?
 - Because production has been behind schedule
- Why has production been behind schedule?
 - Because there is a shortage of parts
- Why are we having a shortage of parts?
 - Because incoming inspection has rejected a large number of parts
 - Why are we rejecting so many parts?
 - Because purchasing switched to a cheaper supplier that has inconsistent quality



Exercise 1: Service Need Definition



PBC Workshop
Exercise 1: Service Needs Definition

Mission			
Planned Service or Grant	Question	Answer	Service Description
	What?		
	For Who?		
	Where?		
	When?		
	Why?		
	How? (Quality/Efficiency/Standards)		



What is Logic Model?

- Methodology used for program planning and evaluation
- A picture of a program
- A way to show relationship between what we put in (inputs), what we do (outputs) and results that occur (outcomes)
- Sequence of in/then relationships



"It may be a model, Captain, but it's highly illogical!"
www.FalstreeAlliance.org



Developing Logic Model

- “Begin with the end in mind”
- Start by asking:
 - What results are we seeking?
 - What are we hoping to accomplish?
 - How will we accomplish it?



Logic Model: Start with Impacts

Resources	Activities	Outputs	Outcomes	Impact
In order to accomplish our set of activities, we will need the following:	In order to perform our service, we will conduct the following activities:	We expect that once completed these activities will produce the following evidence of service delivery:	We expect that if completed or ongoing these activities will lead to the following changes in 1-3 then 4-6 years:	We expect that if completed these activities will lead to the following changes in 7-10 years:
				



Logic Model Example

Inputs	Outputs	Outcomes		
What we invest	What we do (Strategies)	Short-term	Medium-term	Long-term
Staff Dollars Volunteers Materials Equipment Technology	Workshops Outreach Inspections	Awareness Knowledge Attitudes Skills	Behavior Decisions Policies	Conditions: Environment Social Economic Civic
				



Be Aware

Logic Model...

- Represents intention not reality
- Focuses on expected outcomes
- Doesn't address:
Are we doing the right thing? (Process Effectiveness and Efficiency)

Use Logic Model for Strategy Definition Only!



Exercise 2: Outputs & Outcomes



Mission	
Service Description	
Outputs	Outcomes

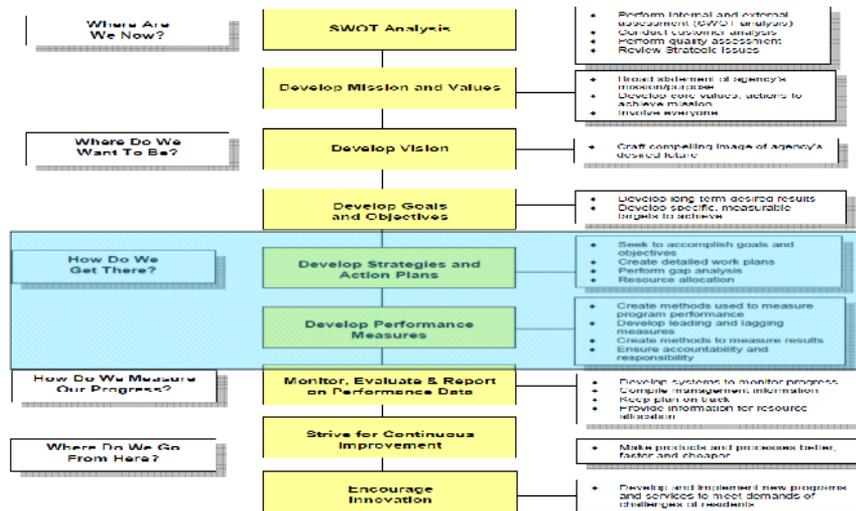


What is Procurement Strategy?

- Determines the most appropriate way of acquiring goods or services
- Identifies activities
- Identifies risks and determines contingencies



Strategic Planning for Results



Adopted from Matt H. Evans' Strategic Planning Model

Planning Procurement Strategy

- Is the strategy a clear statement of what will be done?
- What is planned?
 - What approach will be used to accomplish the plan?
- Does the strategy link to Agency mission and priorities?
- Does each strategy address:
 - Where are we now?
 - Where do we need to be?
 - How will we close the gap?
 - How will we monitor our progress?



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Procurement Strategy Planning Process

- Identify scope and expected outcomes
- Do market research for available solutions
- Select performance measures (intermediate outcomes, outputs and work processes)
- Develop a Performance Work Statement
- Select contractor
- Monitor and manage performance



Service Goal Statement

- States what is to be accomplished (outcome)
- States what is to be provided (output)
- States why the contract is initiated
- Identifies customers
- Begins with “To and a verb”



Best
Practice

Example: “To provide maternity, infant and child care and case management to at-risk women, infants and children in order to achieve optimum health and well-being”.



Service Goal Template

To provide/produce (service or product)

to (customer)

in order to (statement of
accomplishment)



Service Objectives

- Support Agency mission and goals
- Reflect planned benefits to customers
- Allow measurement of progress
- Quantify portion of the goal that will be accomplished within the fiscal year
- Describe quantifiable future target (optional)



Objective Statement Template

To improve/reduce/maintain
(accomplishment)

By (a number or percent), (from X to Y)

Toward a target of (a number)



Be Sure To:

- Quantify objectives
- Associate objectives with an outcome
- Word outcomes the same as objectives
- Provide a complete family of measures
- Avoid confusing indicators (e.g., efficiency and service quality)
- Define service areas by program objective/customers rather than process function



Integrate Components

Integrate all components from the top to the bottom:

Mission > Goals > Objectives > CSF >
Measures > Targets > Indicators



Critical Success Factors

- Measures for effectiveness and efficiency where satisfactory performance is essential in order for a business to succeed
- Characteristics, conditions, or variables that have a direct influence on a customer's satisfaction with a specific business process
- The set of things that must be done right if the vision is to be achieved



Identify Risks & Contingencies

- Identify Risks:
 - Strategy Risks
 - Contract Risks
 - Vendor Risks
- Determine Contingencies



Exercise 3: Goals & CSFs



Mission				
Service Description				
Outputs	Outcomes	Strategies (to provide service?)	Service Goals	CSF



Module 3

Performance Measures



Step 2: Measures & Indicators

<https://my.matrix.com/pe-app-files/2/index.html?time=1.9762594>

FdI Performance Based Contracting (Master) Layer

The screenshot shows a software interface with a navigation menu on the left containing "Out-Info", "Performance Bas (Layer)", "Process", "People", and "Deliverables". The main content area features a horizontal process flow diagram with five stages: "Planning", "Measures & Indicators" (highlighted in yellow), "SOW & RFP", "Evaluate & Award", and "Monitor & Manage Contr". Below this, a section titled "Performance Based Contracting (Master) Layer - Measures & Indicators Slice" contains three sequential buttons: "Develop Performance Measures", "Develop Performance Targets", and "Develop Performance Indicators (K-Is)". A "Create B..." button is visible on the right side of the interface.



Performance Measuring is:

- A process of assessing progress toward achieving goals
- Assessing efficiency with which resources are used to provide services (outputs)
- Assessing the quality of outputs:
 - How well services are delivered to customers?
 - Are customers satisfied (service quality)?

PROCESS: Any activity or group of activities that takes an input, adds value to it, and provides an output to a customer

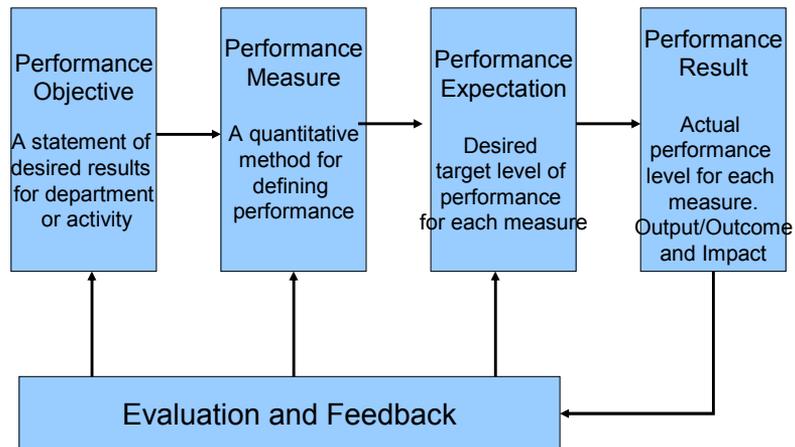


Linking Measures to Procurement Strategy

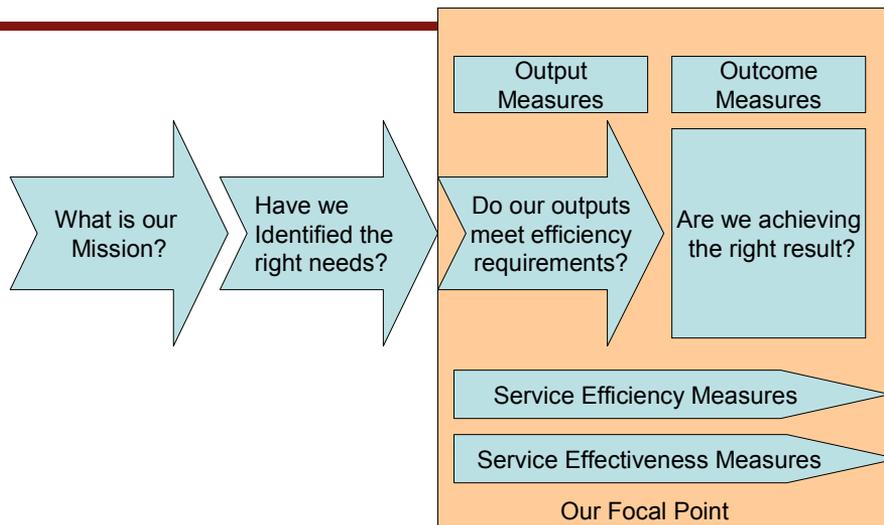
- Performance measures help translate an organization's mission, vision and strategy into tangible objectives
- Sometimes it helps to ask yourself what is the WORST thing that would happen if your service didn't exist?
- Measure how well you're achieving your mission (not specific strategies)



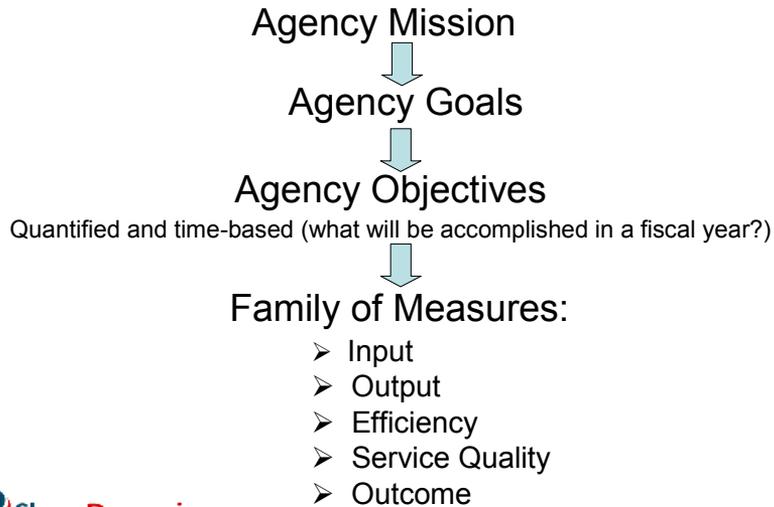
Performance Measurement Terms



Types of Performance Measures



Agency Mission & Family of Measures



Family of Measures

Terminology	Definition	Examples
Input	Value of resources used to produce an output.	<ul style="list-style-type: none"> • Dollars budgeted/spent • Staff hours used
Output	Quantity or number of units produced. Outputs are activity-oriented, measurable, and usually under managerial control.	<p><i>Output:</i></p> <ul style="list-style-type: none"> • Highbly interviews conducted • Library books checked out • Children immunized • Prisoners boarded • Purchase orders issued
Efficiency	Inputs used per unit of output (or outputs per input).	<ul style="list-style-type: none"> • Cost per appraisal • Plans reviewed per reviewer
Service Quality	Degree to which customers are <u>satisfied</u> with a program, or how <u>accurately</u> or <u>timely</u> a service is provided.	<ul style="list-style-type: none"> • Percent of respondents satisfied with service • Error rate per data entry operator • Frequency of repeat repairs • Average days to address a facility work order
Outcome	Qualitative consequences associated with a program/service, i.e., the ultimate benefit to the customer. External forces can sometimes limit managerial control. Outcome focuses on the ultimate "why" of providing a service.	<ul style="list-style-type: none"> • Reduction in fire deaths/injuries • Percent of job trainees who hold a job for more than six months • Percent of juveniles not reconvicted within 12 months • Adoption/redemption rate of impounded animals



Outputs & Output Measures

- Outputs are the goods and services produced by an agency
- Output Measures are the tools, or indicators, to count the services and goods produced by the agency
- Example: The number of people receiving a service; the number of services delivered



Developing Performance Measures

- Clearly understand the purpose and scope of overall grant/contract
- Identify outcomes (required and desirable)
- Identify outputs (deliverables)
- Define measures
- Link measures to outputs and outcomes



Questions for Output Measures:

- Is the output reliably measurable?
- Will it measure the same thing over time?
- Will the measurement data be available on a continuing basis?
- Is the output measure directly related to the agency's strategies?
- Does the output measure show the quantity of work performed? Can the measure be stated in unit cost terms?
- Is the output measure clear? Are the terms used generally accepted and defined?
- Will the measure be easily understood by those who are not familiar with the subject?



Output Measures

Output measures are tools used to measure performance of the agency in implementing its strategies and to evaluate the efficiency of the implementation of the strategic plan



Outcomes

- Outcomes are the quantified results, or impacts of government action
- Progress is assessed by comparing outcomes to objectives through the use of measures
- Outcomes are the effects-both intended and unintended-of the agency outputs on a particular population or problem area



Outcome Measures

Outcome measures are tools to evaluate performance of the agency in achieving its goals and to measure the effectiveness of the implementation of the strategic plan



Expressing Performance

Numeric

Easy to measure and report

May not be very insightful in understanding performance

Commonly used for inputs and outputs

EXAMPLES:

of volunteers available
of workshops conducted
of donors solicited
of grant applications submitted

Percentages

Relatively easy to measure and report

More insightful in understanding performance

Used for inputs, outputs, and outcomes

EXAMPLES:

% of participants who made pledges
% of budget used for outside help
% of association members renewing

Ratios

Relatively easy to measure and report

Very meaningful and useful for comparative benchmarking

Used for inputs, outputs, and outcomes

EXAMPLES:

Total funds raised to total costs
Average donation per donor
Volunteer to donor ratio
Total funds raised to total days required



Questions for Outcome Measures

- Is the outcome measure directly related to the agency's goals?
- Is the outcome measurable? Will it be consistent over a period of time? Will the data be available?
- Does the outcome measure show what change the action will produce? What info is needed to tell if the change is occurring?
- Can the agency gather data without incurring excessive costs? Could sampling techniques or other cost-effective alternatives be used to collect the data?
- Is the outcome measure clear? Are the terms accepted and defined? Will the measure be easily understood?
- Will the outcome measure enable a decision for agency's action?



What is Performance Indicator?

Performance Indicators or Key Performance Indicators (KPIs) are quantitative measurements of performance that reflect *progress towards original goals and targets*



Performance Indicators Should:

- Be quantifiable and measurable
- Be relevant, understandable, timely, consistent, comparable and reliable
- Constitute a Family of Measures:
 - Input
 - Output
 - Efficiency
 - Service quality
 - Outcome



Types of Performance Indicators

Input Indicators:

- Resources used to produce an output

Examples:

- Costs
- Labor hours

Output Indicators:

- Quantity of units produced
- Typically under managerial control

Examples:

- Miles of pipe inspected
- Clients served



Types of Performance Indicators - continued

Efficiency Indicators:

- Ratio of inputs used per unit of output (or outputs per input)
- Examples:
 - Cost per unit: cost per ton of refuse collected, cost per prisoner boarded, cost per transaction, etc.
 - Productivity: hours per consumer complain, plans reviewed per reviewer, etc.



Types of Performance Indicators - continued

Service Quality Indicators:

- How satisfied customers are
- How accurately a service is provided
- How timely a service is provided
- Examples:
 - Percentage of respondents satisfied with service
 - Frequency of repeat repairs
 - Average wait time



Types of Performance Indicators - continued

Outcome Indicators:

- Are qualitative consequences associated with a program/service?
- Focus on the ultimate why of providing the service
- Examples:
 - Reduction in fire deaths/injuries
 - Increase in job trainees who hold a job for more than six months
 - Decrease in low birth-weight babies



Indicator Definitions & Examples

Category	Definition	Example
Input	Resources used to produce an output.	Cost (direct costs plus fringe benefits) Staff hours
Output	Quantity or number of units produced. Activity-oriented, measurable and usually within managerial control.	Residential properties assessed Clients served Calls responded to
Efficiency	Inputs per unit of output or Outputs per input.	Cost per appraisal Appraisals per appraiser
Service Quality	Timeliness, accuracy and/or customer satisfaction of the service provided.	Errors per data entry operator Response time Percentage of customers satisfied
Outcome	Qualitative consequences associated with a program/service. Focuses on the ultimate "why" of providing a service.	Job trainees who hold a job for more than six months



Example

Goal: Increase the likelihood that goods offered for sale to consumers are properly measured, priced, and marketed

Objective	Strategy	Outputs	Outcomes
<ul style="list-style-type: none"> Decrease violations of weights and measures laws 	<ul style="list-style-type: none"> Certify measuring devices. Remove inaccurately measured, priced or marketed goods from sale. Penalize violators 	<ul style="list-style-type: none"> Number of devices inspected; Number of enforcement actions taken 	<ul style="list-style-type: none"> Percent of weighing and measuring devices inspected in compliance with weights and measures law
	<ul style="list-style-type: none"> Conduct piece rate surveys to verify accurate payments to farm workers 	<ul style="list-style-type: none"> Number of surveys completed 	



Types of Performance Measures Example

Examples of the four types of performance measures

Outcome Measures	Output Measures	Efficiency Measures	Input Measures
Percentage of clients rehabilitated	Number of clients served	Average cost per client served	Number of clients eligible for services
Percentage of entities in compliance with requirements	Number of inspections conducted	Average cost per inspection	Number of entities subject to inspection/regulation
Percentage of applications	Number of applications processed	Average time (days) to process license applications	Number of applications received



Output Indicators

- What was produced/provided
- Usually end in “ed”
- Questions to ask
 - What services were delivered?
 - What volume was provided?
 - How many units of service?



Output Indicators

Service Area	Indicator
Delinquent Tax Collection	Delinquent taxes collected (\$)
Probate Processing	Fiduciary appointments conducted
Juvenile Community-Based Residential Services (CBRS)	CBRS child care days provided
Fire Suppression	Incidents responded to
Senior-Based Services	Clients served
Library Circulation Materials	New materials circulated
Human Resources	Vacancies filled
Custodial Services	Square footage cleaned



Efficiency Indicators

Inputs used per unit of output

- Cost per unit where the input is \$
- Productivity where the input is hours/staff

Examples

- Cost per senior lunch served
- Cost per client
- Investigations conducted per investigator
- Hours per occupancy inspection



Efficiency Indicators

Service Area	Indicator
Delinquent Tax Collection	Cost per delinquent dollar collected
Probate Processing	Cost per fiduciary appointment
Juvenile Community-Based Residential Services (CBRS)	CBRS cost per placement
Fire Suppression	Cost per incident
Senior-Based Services	Cost per client
Library Circulation Materials	Cost per new material circulated
Human Resources	Cost per vacancy filled
Custodial Services	Cost per square foot cleaned



Service Quality Indicators

- Measures customer satisfaction, timeliness and/or accuracy of service
- Examples
 - Customer surveys
 - Response logs
 - Error rates



Service Quality Indicators Example

Service Area	Indicator
Delinquent Tax Collection	Percent of bills deliverable
Probate Processing	Average waiting time (in weeks)
Juvenile Community-Based Residential Services (CBRS)	Percent of parents satisfied with CBRS
Fire Suppression	Average suppression response time
Senior-Based Services	Percent of clients satisfied with services provided
Library Circulation Materials	Browsing fill rate
Human Resources	Satisfaction rate with vacancy processing
Custodial Services	Percent of customers satisfied with custodial services



Outcome Indicators

- Describe the impact or benefit of the service on the customer
- Describe what was changed or accomplished as a result of the service
- Questions to ask:
 - *How has the customer benefited?*
 - *Why is the customer better off?*
 - *What is the impact of the service?*



Indicators Example

Cost Center Goal		Outcome Indicator				
To provide maternity, infant and child health care and/or case management to at-risk women, infants and children in order to achieve optimum health and well-being.		Immunization Completion Rate for Children Using Health Department Services				
Service Area	Service Area Objectives	Input Indicator	Output Indicator	Efficiency Indicator	Service Quality Indicator	Outcome Indicator
Immunization	To improve the immunization completion rate of children served by the HD by 3 percentage points from 77% to 80%, toward a target of 90%, which is the Healthy People 2010 goal.	Budget and actual costs	Vaccines given	Cost per vaccine	Percent of parents satisfied with service	Percent with age-appropriate immunization



Performance Targets

- For each measurement, you should have at least one performance target
- Targets should stretch the organization to higher levels of performance
- Incremental improvements over current performance can be used to establish targets
- Targets put focus on your strategy
- When you reach your targets, you have successfully executed your strategy



Setting Targets: Stretch but Realistic!

- Benchmarking
- National standards
- Mandates
- Board direction
- Past performance
- Internal goals



Exercise 4: Indicators & Targets



Mission

Service Description

Output Indicators	Outcome Indicators	Service Quality Indicators	Efficiency Indicators	Targets



Module 4

Develop Performance Work Statement and RFP



Step 3: Performance Work Statement & RFP

<https://my.sharepoint.com/:file?id=12/index.html?ms=1295467894>

Edit Performance Based Contracting (Master) layer

Performance Plan (Layer)

Planning | Measures & Indicators | SOW & RFP | Evaluate & Award | Monitor & Manage Contract

Performance Based Contracting (Master) Layer - SOW & RFP Slice

Process

Develop Statement of Work (SOW) → Select Contract Type & PBC Model → Develop Evaluation Criteria → Assemble RFP Package → Release RFP

People

Deliverables

Create D...

The Share Dynamics logo is located at the bottom left of the slide. It features a stylized circular icon with a blue and red gradient, followed by the text "Share Dynamics" in a bold, sans-serif font. Below the company name, the tagline "STRATEGY. MEASURES. SUCCESS." is written in a smaller, all-caps font.

What is Performance Work Statement (PWS)?

- Describes requirements in terms of measurable outcomes
- Includes measurable standards to determine if performance outcomes have been met
- Defines acceptable performance
- Includes incentives to address how to manage low performance.
- Includes QA plan to describe how contractor performance will be measured and assessed against standards



Characteristics of PWS

- The detailed work statement describes what the contractor is to accomplish
- Should address what, who, when, where, how
- What is to be done? What are the deliverables?
 - Who is going to do it?
 - When it is going to be done?
 - Where will it be done?
 - How it will be done and how you can tell when it is done?



Importance of PWC

- The PWS becomes the basic management document for operation of the function
- It must clearly define the work to be done and the performance standards expected (quality, quantity, and timeliness)
- The PWS should also define the satisfactory level of performance, and provide a range of acceptable performance



Generic Types of Work Statements

Conceptually, Work Statements fall into three classes

- functional specifications
- performance specifications
- design specifications

Work statements will rarely consist of pure functional, performance or design specifications. However, they will almost always consist of some combination of these types.



Functional Specifications

- The functional specification is the broadest type of work description
- It requires only that the contractor achieve an end result
- It does not specify the means of achieving that result or the processes or procedures which the contractor is required to use in performance



Performance Specifications

- A performance specification is next in the breadth of the work statement
- It differs from the functional specification in that it specifies the means by which the performance objective is to be achieved



Detail or Design Specifications

- The detail or design specification is the most restrictive of the three types
- Not only is the means of performance specified, the processes and procedures which must be used in performing the work are prescribed
- While the contractor has no freedom to choose how to perform, it will not be liable if the methods specified do not achieve the end result



Performance Based Work Statements

- The aim of a Performance Work Statement (PWS) is to describe the work in terms of outputs as opposed to methods of performance: *the PWS should state what is to be done, not how to do it*
- The contractor is given the responsibility and the freedom of determining how the result is to be achieved and closely resemble a functional or performance specification



Objectively Measurable Outputs

The outputs should be stated in objective terms:

Example:

- Number of units to be produced
- The timeliness of submission of reports
- Number of days
- The number of defects
- Any other requirement which can be measured by numbers



Be Aware:

- Many requirements are not capable of being described as objective outcomes
- In some instances, especially for service requirements, it may be necessary to state the outcome in terms which require that the determination of compliance will be the exercise of judgment



Inclusion of Processes or Procedures

- In some cases, the inclusion of processes or procedures may be necessary for mission requirements
- Processes or procedures should not be specified as a means of controlling the contractor or assuring that the contractor will perform satisfactorily
- Those objectives will be met by selecting a capable and trustworthy contractor



Performance Work Statement Development



Key Elements of Performance Work Statement

- A statement of required services in terms of results (outcomes/outputs)
- A measurable performance statement for each outcome
- An Acceptable Quality Level (AQL) for each result

*Descriptive: What? When? How Many?
Not Prescriptive: (Not How)*



Performance Assessment Plan

- Performance assessment plan describes how State personnel will evaluate and assess contractor performance
- The plan is based on the premise that the contractor is responsible for managing quality standards that meet the terms of the contract
- The plan should be developed in conjunction with the PWS and list methods of assessment for each performance objective against performance standards



Examples of Performance Standards

- Delivery times
- Timeliness (meeting due dates, schedule)
- Response time
- Error rates - # of mistakes
- Accuracy rate – same as errors but in %
- Service delivery (be on time 95% of time)



Results Orientation

- Quality of service or product
- Quantity of service or product
- Timeliness
- Accuracy
- Customer satisfaction

The standards of measurement are results oriented



Benefits of Results Orientation

- Better performance
 - Results oriented
- Better price
 - Best practices and less mandated “how to’s” reduces cost
- Contractor has flexibility and incentive to be innovative
 - Contractor motivated to save money



Exercise 5: PWS



Mission	
Service Description	
Performance Requirements	
Performance Standards	
Incentives	



The Focus: PBC

“Performance based contracting is one that focuses on the outputs, quality, and outcomes of the service provision and may tie at least a portion of a contractor payment as well as any contract extension or renewal to their achievements” (Martin, 2003)



PBC Typically

- Emphasizes results related to output, quality, and outcomes rather than how work is performed
- Has an outcome orientation and clearly defined objectives and timeframes
- Uses measurable performance standards and quality assurance plans
- Provides performance incentives and ties payment to outcomes

PBC is a Performance Based Contracting Framework for the delivery of products or services where payment is directly related to performance

Benefits of PBC

- Improvement and delivery of better services and improved outcomes
- Clear program goals and expectations
- Fiscal flexibility for providers to achieve desired results
- Groundwork set for program evaluation and monitoring
- Encouragement of contractors to find innovative and cost effective ways to deliver services
- Less frequent but more meaningful monitoring



How PBC Models Different?

- Amount and timing of payments
- Extent to which incentives and disincentives are offered
- Level of financial risk assumed by contractor
- Type of information collected from contractors and the frequency of reports on performance
- Extent that contractors were involved in developing performance indicators
- Reinvestment of the savings



PBC Process

- Develop clear work statements
- Describe requirements in terms of results required rather than methods in work performance
- Establish realistic pay-point and reward milestones
- Use incentives
- Share “best practices” for achieving outcomes

“What gets measured, gets done.”
- Peter Drucker



Model #1: Low Contractor Risk

- Performance measures (output, quality, outcome) included in contracts and reported on by contractors
- Contractor baselines for measures are determined and service targets are negotiated or predetermined
- Contractors required to track and report on these measures
- Contract extension is tied to the level of accomplishments but compensation is not
- Little contractor risk because cost reimbursement continues to be primary payment



Model 1 Example

Example of Milestone Method:

Milestone	Case Rate
1. Child referred to contractor (process)	25%
2. 60 day report to state (process)	25%
3. 180 report to state (process)	25%
4. Child achieves permanent placement (outcome)	25%



Model #2: Moderate Contractor Risk

- Contractors are compensated at fixed rate of specific milestones
- Contractors may incur loss if they do not meet milestones for a particular client
- Agency can control amount of risk by including a mix of performance milestones and non-performance (input and process), as well as varying weight assigned



Model 2 Example

Example of Milestone Method:

Michigan has long been contracting out its adoption services, although historically performance measurements have been more process than outcome oriented. In 1992, it began a program that rewarded agencies with different payments based on the speed with which they made the placement. Under this model, providers are rewarded for achieving outcomes, or for unique recruitment efforts.

According to the Michigan DHS website, the reimbursement levels are as follows:

Residential Rate (placing a child for adoption directly from residential care within 120 days)	\$10,000
MARE (Michigan Adoption Resource Exchange) Rate	\$ 9,325
Five month premium rate	\$ 8,660
Enhanced Rate (adopted within 7 months of TPR)	\$ 6,520
Standard Rate (adopted within 7 months of wardship)	\$ 4,160

Source: http://www.michigan.gov/dhs/0,1607,7-124-5452_7116-23480--,00.html



Model #3: Major Contractor Risk

- In this model, agencies under PBC are required to accept a certain percentage of their caseload in new referrals, and move a percentage to permanency every year. If the agency exceeds case closure expectations, an agency could reduce caseloads without a loss in revenue.
- Contractors that do not close the appropriate number of cases must continue to provide care and services without additional payment.



Model 3 Example

The state of North Carolina decided to implement the PBC outcome approach to adoption services in 1999. This type of model constitutes a major financial risk for providers since it ties compensation directly to the achievement of specific outcomes. The providers are paid percentages of an "average placement cost" at certain milestones. If they do not meet these outcomes, they will not receive compensation.

Example:

Outcome	Average Placement Cost
1. Child placed for adoption	60%
2. Adoption finalized	20%
3. Adoption intact for one year	20%



Be Reasonable!

According to the Government Accountability Office

» “ ... *that standards are not set so high to drive up the cost of service or too low that they may act as a disincentive to good contract performance.*”



PBC Impact Example

Florida Department of Children and Families

The following is a summary assessment of 516 performance based contracts awarded by the Florida DCF for substance abuse and mental health services.

- 80% of contractors meeting client specific performance standards
- 44% of contracts require corrective actions
- 61% of contracts have payment reductions
- 18 contracts extended for 6 months
- 3 contracts were terminated

Source: <http://dcfdashboard.dcf.state.fl.us/>

Wayne County, MI (Foster care services)

- Across all categories, private agencies exceeded agency contract expectations
- Average number of days from case acceptance to permanent placement for the 4 agencies was 133 days (contract requirement was 315 days)
- Average number of days from case acceptance to termination of parental rights was 272 days (contract limit was 600 days)
- Between April 1997- March 2001, 43% of children were reunified with a parent or 57% with relative. 83% were reunified within the required timeframe.
- Agencies freed 656 children for adoption, 81% within the required timeframe



Source: Freundlich and Gerstenzang, 2003.

Design and Implementation of PBC

Define Success

- Performance goals should reflect and reinforce the agency's broader objectives
- Contracts should be designed to address specific services
- Involve number of different stakeholders and organizations in planning effort

Select Performance Measures

- Performance indicators should be clearly measurable, fair, and reliable
- Define current performance level and set level of expected performance



Design and Implementation of PBC - continued

Collaboration with Providers

- Involve providers in the establishment of performance indicators and reporting for better buy-in

Ensure capacity in providers

- Conduct feasibility study of current provider capacity

Staff and Contractor Training

- Adequate training on processes and procedures in advance of implementation

Internal Management Systems

- Good data system is key to measuring and monitoring performance



Contract Types



Firm Fixed Price Contract:

- A firm fixed price contract is not subject to any cost adjustment
- Has maximum risk for the contractor by placing full responsibility for costs on the contractor
- Provides maximum incentive to control costs on the contractor
- Should be used for routine repetitive services where:
 - specific, well-defined work scopes and outputs can be written
 - quantities and rate of delivery is known at the outset of the contract;
 - available cost or pricing information permits realistic estimates



Fixed Price Incentive Contracts

- It is a fixed price contract that provides for adjusting profit and establishing the final contract price by a formula based on the relationship of final negotiated total cost to total target cost
- Particularly useful where the use of a firm fixed price contract is not prudent because of the level of uncertainties, but where these uncertainties are not of such a degree as to justify the use of a cost type contract



Cost Reimbursement Contract:

- This type of contracts provides for payment of allowable incurred costs to the extent prescribed in the contract
- The contractor is obligated to proceed with performance of the specified work in accordance with the terms of the contract
- An estimated cost is established in the contract



Incentive Contracts

- The incentive contracts are used when services can be acquired at lower cost and/or with improved delivery by relating the amount of profit to the contractor's performance
- Incentive contracts are designed to obtain specific objectives by:
 - Establishing reasonable, attainable, and clearly communicated targets and/or
 - Including incentive arrangements to motivate contractor efforts



Types of Incentives

- Incentives can be monetary, non-monetary, positive, or negative
- Can be based on cost, on schedule, or on quality of performance

The Goal is to motivate the best-quality performance!



The Feds Approach FAR

- Ensure that PBC used to the maximum extend practical
- Use contract types that best fits the work and likely to motivate contractors
- Quality assurance plan shall contain measurable inspection and acceptance criteria corresponding to the performance standards of the Statement of Work



Exercise 6

Develop Agency Specific Model
for PBC

Group Discussion & Presentation



Module 5

Evaluate Proposals & Award Contract



Step 4: Evaluate Proposals

https://my.picmatrix.com/oc_app/oc_33c/index.html?mc=129462594

Ctrl Performance Based Contracting (Master) Layer

Outline

Performance Based Contracting (Master) Layer

Planning Measures & Indicators SOW & RFP Evaluate & Award Monitor & Manage Contract

Performance Based Contracting (Master) Layer - Evaluate & Award Slice

Process

Receive Responses Evaluate Proposals Write Contract

Deliverables

Create RFP

The screenshot shows a software interface for 'Performance Based Contracting (Master) Layer'. At the top, there is a navigation bar with a 'Performance Based Contracting (Master) Layer' dropdown menu. Below this, a horizontal timeline or process flow is visible, with segments for 'Planning', 'Measures & Indicators', 'SOW & RFP', 'Evaluate & Award' (highlighted in yellow), and 'Monitor & Manage Contract'. On the left side, there are three vertical tabs: 'Process', 'Deliverables', and 'Create RFP'. The main content area displays a flowchart for the 'Evaluate & Award' slice, consisting of three sequential steps: 'Receive Responses', 'Evaluate Proposals', and 'Write Contract', each in a light blue box with arrows pointing from left to right. The 'ShareDynamics' logo is located at the bottom left of the interface.

Proposal Evaluation

- Review contract mission and goals
- Develop evaluation criteria
- Analyze proposals against evaluation criteria
- Review risks
- Extend offer & write contract



Develop Evaluation Criteria

- Review Critical Success Factors
- Analyze cost realism
- Analyze management approach

Use your best judgment!



Exercise 7: Evaluation Criteria



Mission				
Service Description				
CSF	Cost Effectiveness	Vendor Experience	Additional Evaluation Questions	Evaluation Criteria



Module 6

Contract Performance Monitoring & Control



Step 5: Contract Monitoring & Control

The screenshot displays the 'Edit Performance Based Contracting (Master) Layer' interface. A navigation bar at the top shows the current path: Planning - Measures & Indicators - SOW & RFP - Evaluate & Award - Monitor & Manage Contract Slice. The main content area is titled 'Performance Based Contracting (Master) Layer - Monitor & Manage Contract Slice' and features a 'Process' sidebar with 'Assess & Monitor Contract Performance' selected. Below this, a list of tasks is shown:

1. Assure Traceability of Contract Goals to Actual Performance
2. Assess Performance
3. Determine monitoring risk
4. Assign monitoring process (PIMatrix process)

The ShareDynamics logo is visible at the bottom left of the screenshot.

Quality Assurance & Performance Assessment

- Quality Assurance is a function of “assuring” that the contract is performed according to required quality standards
- The Performance-based contracting approach places the burden of Quality Assurance on the contractor
- *The State/Government is responsible for assessing contractor performance by conducting periodic Performance Assessments*

Quality Assurance



Contract Monitoring

- Monitoring of contracts defines actions to be taken to ensure required results are delivered according to contract standards
- It is critical to prepare a monitoring plan in advance of the contract agreement
- PBC offers contractors more flexibility over timing and amount of services to achieve desired outcomes



Contract Monitoring - continued

- The focus is on monitoring and evaluating outputs and outcomes
- The enforcement of penalties must be considered during planning
- Agencies must have the ability to enforce the consequences if providers fail to meet contract requirements



Monitoring Contract Execution

- Assure traceability of Agency & contract goals with actual performance
 - Make sure to review original contract goals and performance measures with actual performance results
- Assess Performance
- Monitor Performance Risks

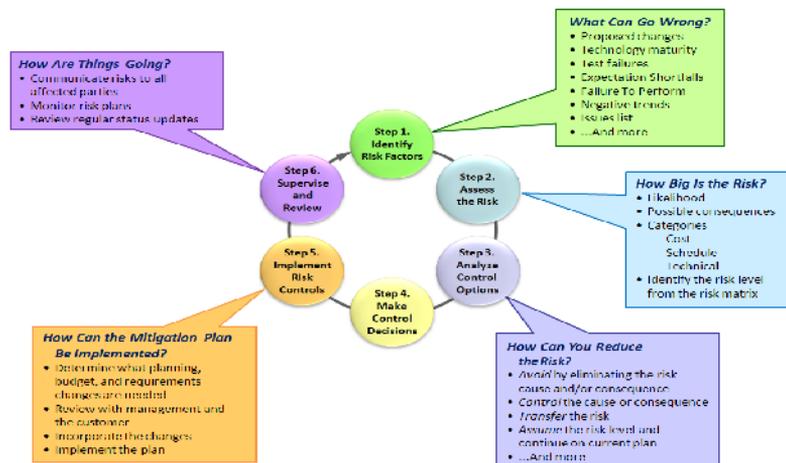


Performance Assessment Methods

- Random sampling
- Customer feedback & surveys
- Trend analysis
- Customer visits



Monitoring Performance Risks



Module 6

Contract Performance Monitoring & Control



Step 5: Contract Monitoring & Control

A screenshot of a web-based software interface. The browser address bar shows a URL starting with 'https://my.piematrix.com'. The page title is 'Edit Performance Based Contracting (Master) Layer'. The interface features a navigation bar with tabs: 'Planning', 'Measures & Indicators', 'SOW & RFP', 'Evaluate & Award', and 'Monitor & Manage Contract'. The 'Monitor & Manage Contract' tab is active and highlighted in yellow. Below the navigation bar, there is a main content area with a header 'Performance Based Contracting (Master) Layer - Monitor & Manage Contract 9/16'. A sidebar on the left contains a 'Process' menu with 'Assess & Monitor Contract Performance' selected. The main content area displays a list of tasks under the heading 'Assess & Monitor Contract Performance':

1. Assure traceability of Contract Goals to Actual Performance
2. Assess Performance
3. Determine monitoring risk
4. Assign monitoring process (PIEmatrix process)

The interface includes various icons for user management, settings, and help. At the bottom left, the 'ShareDynamics' logo is visible with the tagline 'STRATEGY. MEASURES. SUCCESS.'

Quality Assurance & Performance Assessment

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- The Performance-based contracting approach places the burden of Quality Assurance on the contractor
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Quality Assurance



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Contract Monitoring - continued

- The focus is on monitoring and evaluating outputs and outcomes
- The enforcement of penalties must be considered during planning
- Agencies must have the ability to enforce the consequences if providers fail to meet contract requirements



Monitoring Contract Execution

- Assure traceability of Agency & contract goals with actual performance
 - Make sure to review original contract goals and performance measures with actual performance results
- Assess Performance
- Monitor Performance Risks

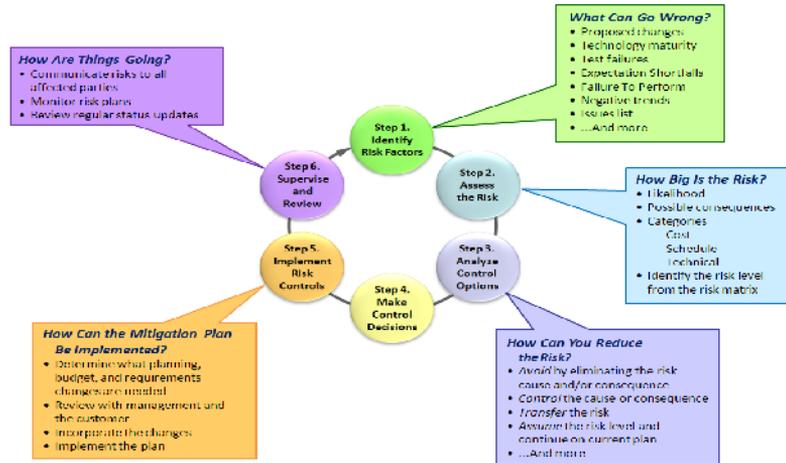


Performance Assessment Methods

- Random sampling
- Customer feedback & surveys
- Trend analysis
- Customer visits



Monitoring Performance Risks



Exercise 7: Evaluation Criteria

Mission

Service Description

CSF	Cost Effectiveness	Vendor Experience	Additional Evaluation Questions	Evaluation Criteria

PBC Workshop
Exercise 4: Performance Indicators

Mission

Service Description

Performance
Requirements

Performance Standards

Incentives

PBC Workshop
Exercise 4: Performance Indicators

PBC Workshop
Exercise 4: Performance Indicators

Mission

Service Description

Output Indicators	Outcome Indicators	Service Quality Indicators	Efficiency Indicators	Targets

PBC Workshop
Exercise 3: Goals CSF

Mission		
Service Description		
Strategies to Provide Service	Service Goals	CSF

PBC Workshop
Exercise 2: Outputs Outcomes

Mission	
Service Description	
Outputs	Outcomes

PBC Workshop
 Exercise 1: Service Needs Definition

Mission			
Planned Service or Grant	Question	Answer	Service Description
	What?		
	For Who?		
	Where?		
	When?		
	Why?		
	How? (Quality/Efficiency/Standards)		