

APPROACHES TO PERFORMANCE- BASED CONTRACTING (PBC) FOR SOCIAL SERVICES

Lawrence L. Martin, MSW, MBA, PhD
Professor and Senior Research Associate
Center for Community Partnerships
University of Central Florida
Orlando, Florida
martinl@mail.ucf.edu



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INTRODUCTION

Published literature on PBC for social services began appearing in the late 1980s (e. g., Wedel & Colston, 1988), gathered momentum in the 1990s (e. g., Else et. al, 1992; Kettner and Martin, 1993, 1995; Hardina, 1996; Commons, McGuire, & Riordan, 1997; Lahti, 1997; Vinson, 1999) and continues to occupy the interests of researchers, academics and practitioners today (e. g., McEwen & Nelson-Phillips, 2007; Shaver, 2006; Heinrich & Choi, 2006; Fischer, Wasserman & Wolf, 2006; McCulloch & Associates, 2005 a; Daly, Tucker-Tatlow & Gibson, 2005). Despite its age, and the continued interest it attracts, PBC for social services remains an underdeveloped area. The existing research and literature can best be described as descriptive, exploratory and based primarily upon single case examples.

This paper attempts to advance the study of PBC for social services beyond the single case example by:

- identifying various approaches to PBC for social services that have been, or are currently being, utilized,
- identifying approaches to PBC from other service areas that may have implications for social services, and
- cataloging the various identified approaches to PBC according to the degree of risk for performance failure that is transferred to contractors.

Before discussing these primary purposes, however, it is first necessary to lay a foundation by addressing three preliminary questions: What is performance in government funded program and services? What is performance-based contracting (PBC)? What is the difference between PBC and incentive contracting?

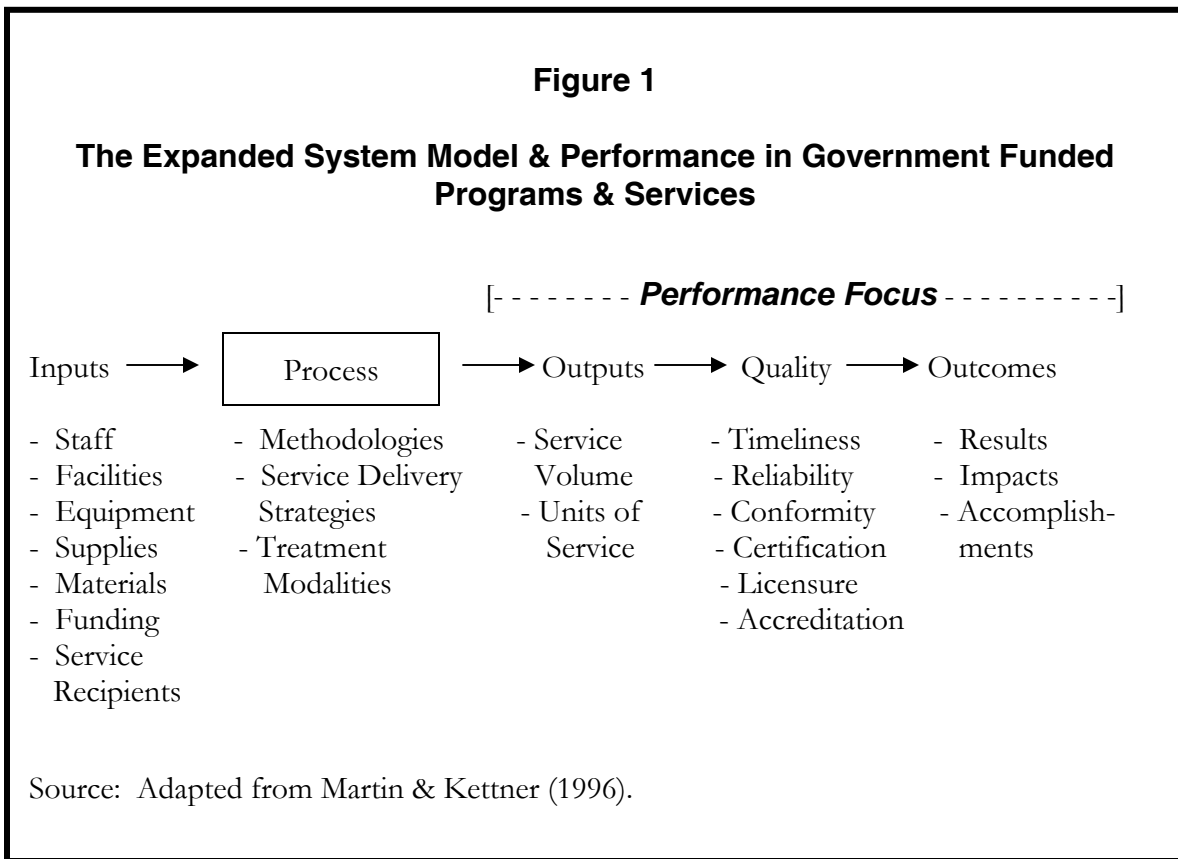
WHAT IS PERFORMANCE?

The issue of what constitutes “performance” in government funded programs and services is fairly well settled today. Because of the *Government Performance & Results Act* (GPRA) at the federal level and the service efforts and accomplishments (SEA) reporting initiative of the Government Accounting Standards Board (GASB, 1994) at the state and local government levels, performance is generally taken to mean the *outputs, quality* and *outcomes* of government programs and services. The “expanded systems model” (Martin & Kettner, 1996) can be utilized to explain more fully the concept of performance (see Figure 1).

The performance focus downplays considerations of what goes into government funded programs and services (inputs) and how they operate (process) and instead emphasizes considerations of: (1) *outputs* (the amount of service provided), *quality* (the quality of the service provided) and *outcomes* (the results, impacts or accomplishments) of service provision.

Thus, GPRA and GASB SEA reporting provide a comprehensive approach to performance that includes efficiency (outputs), quality and effectiveness (outcomes).

Having clarified the concept of “performance” in government funded programs and services, this conceptualization can now be utilized as a bridge to a discussion of what constitutes performance-based contracting (PBC).



WHAT IS PERFORMANCE- BASED CONTRACTING (PBC)?

There is no generally accepted definition of PBC. Wedel and Colston (1988) made this observation some 20 years ago. Fast forwarding to the present day, the situation remains largely unchanged (e. g., Edwards and Nash 2006; Martin, 2005a; Lamonthe, 2004). Angela Styles, former Administrator of the Office of Federal Procurement Policy (OFPP), has identified the lack of definitional clarity as a major impediment to the increased use of PBC:

“In part, I believe the problem centers on a lack of clarity regarding the definition of what constitutes a performance-based contract. Based on my experience, there is considerable

disagreement among agencies regarding the requirements to qualify a contract as performance-based” (Styles, 2001, p. 11)

PBC is perhaps best understood as an “umbrella” term that incorporates a variety of different approaches that can vary significantly depending upon the level of government (federal, state or local) and the type of service (social services versus non-social services). For example, PBC for social services in Illinois does not mean the same thing as PBC for social services in Maine or in Florida or in Arizona (Martin, 2003, 2002a). Additionally, the federal government has its own unique approach to PBC, for social services and non-social services, codified in the *Federal Acquisition Regulation* (Part 37 - Service Contracting).

Martin (1997) has proposed a working definition of PBC that utilizes the conceptualization of performance set forth in the *Government Performance & Results Act* (GPRA) and GASB’s SEA reporting initiative. According to this definition:

“A performance-based contract is one that focuses on the *outputs, quality* and *outcomes* of service provision and may tie at least a portion of a contractor’s payment as well as any contract extensions to their accomplishment” (Martin, 1997:1 & 8).

The definition has been generally well received in the social work, social services, public administration and government procurement literatures. The definition has also been used in several studies of PBC (for social services and non-social services) conducted by think tanks (e. g., the Urban Institute, the Reason Foundation, the Pioneer Institute and the IBM Center for the Business of Government); universities (e .g., University of Kentucky; San Diego State University; University of Maine) and state and local governments (e. g., State of Washington and King County) (Quality Improvement Center, 2006; FCS Group, 2006; King County Auditor’s Office, 2006; Fisher, Wasserman & Wolf, 2006; Daly, Tucker-Tatlow & Gibson, 2004; Wyld, 2003; Segal & Moore, 2002; Segal, Moore & Summers, 2002; Liner, Dusenbery & Vinson, 2000; Lahti, 1999; Vinson, 1999).

Because the definition employs systems elements (outputs, quality and outcomes) and because it builds upon GPRA and GASB’s SEA reporting, a common frame of reference and language is provided by which social workers, social service professionals, public administrators and government procurement officials can engage in meaningful dialogue with a minimum of confusion. Of course, each social service program must develop output, quality and outcome performance measures before PBC can be utilized.

WHAT IS THE DIFFERENCE BETWEEN PERFORMANCE- BASED CONTRACTING (PBC) & INCENTIVE CONTRACTING?

At first blush, attempting to differentiate PBC from incentive contracting may seem like a distinction without a difference. This is not the case! All performance-based contracts are incentive contracts, but not all incentive contracts are performance-based contracts.

Both PBC and incentive contracting utilize rewards and penalties (sometimes referred to as positive and negative incentives) in attempts to change contractor behaviors. In the case of PBC, the desired change in contractor behaviors is to focus more on output, quality and outcome performance. In the case of incentive contracting, the desired change in contractor behaviors can be performance related or non-performance related. For example, an incentive contract can include positive and negative incentives tied to cost or staffing reductions without regard for performance. A frequently utilized incentive contract is one where contractors are allowed to retain a percentage of any cost savings achieved irrespective of performance considerations. These types of incentive contracts, because they are *not* tied to some level of output, quality or outcome performance, do not, strictly speaking, constitute PBC. When an incentive contract is tied to performance, then it can also be said to constitute PBC.

Having dealt with the three questions (What is performance?, What is PBC? What is the difference between PBC and incentive contracting?), attention is now directed to a discussion of approaches to PBC.

APPROACHES TO PERFORMANCE-BASED CONTRACTING (PBC)

The argument can be made that the development of PBC for social services has been hindered by the vertical silos that constitute the three major professions most involved in the process: (1) social work, (2) public administration and (3) government procurement. As Mann & Gibleman (1996) have noted, when it comes to social services contracting, there is little cross fertilization between social workers and public administrators who seldom consult each other's literature. The same criticism applies to government procurement officials (Martin, 2002c).

Based on a review of the social work, social services, public administration and government procurement literature, as well as, a Google search and the author's own professional contacts, some 11 major approaches to PBC can be identified (see Figure 2). These major approaches to PBC are arrayed in terms of the amount of risk for performance

Figure 2

Approaches to PBC

Minimal Contractor Risk

- Performance Reporting Approaches
- Bonus Approaches

Moderate Contractor Risk

- Stet-Up/Step-Down Approaches
- Hold Back Approaches
- Gain Sharing Approaches
- Milestone Approaches

Major Contractor Risk

- Output Approaches
- Case Rate Approaches
- Outcome Approaches
- Caseload Approaches
- U. S. Federal Government Approach

failure (*minimal, moderate, major*) that is transferred to contractors.¹ The theory of PBC suggests that at least some risk for performance failure should be transferred from government contracting agencies to contractors in order to encourage the latter to focus more on performance. (e. g., McBeath & Meezan, 2007; Heinrich & Choi, 2006; Martin, 2005b, 2004; Gordon, 2001).

Risk for performance failure is taken to mean the incurrence of some financial or other penalty when contractor performance fails to meet agreed upon standards or levels. In traditional social services contracting (non-PBC), utilizing cost reimbursement payment mechanisms, the risk for performance failure is largely, if not exclusively, born by government contracting agencies. This situation exists because under the terms of cost reimbursement contracts, contractors are usually reimbursed for expenses incurred without regard to issues of performance (Martin & Miller, 2006).

In the sections that follow, the 11 major approaches to PBC are examined in more detail. Where case examples could be located, they are included in order to extend the discussion. It is important to note that in many instances, the case examples represent snap-shots of particular programs (social service and non-social service) or demonstration projects at specific points in time. Some of the PBC approaches examined in the case examples have

¹ The author acknowledges that different orderings are possible, perhaps even inevitable, depending upon the assumptions made about how much risk is actually transferred to contractors.

undergone minor evolutionary changes over time, others have experienced major reconfigurations and a few have been abandoned altogether for various reasons.

PERFORMANCE REPORTING APPROACHES

The first of the major approaches to PBC identified in Figure 2 is referred to as: “performance reporting.” The choice of terminology was coined by the author and does not represent any generally accepted nomenclature. Performance reporting approaches are found almost exclusively in the social services. These approaches simply require that performance measures (output, quality, outcome) be included in contracts and reported on by contractors. Figure 3 is an example of some of the performance measures included in the state of Florida’s performance reporting approach for child welfare services. Contractor baselines for each of the performance measures are determined and then service level targets are either negotiated or predetermined by the Florida Department of Children & Families (Florida DCF). Contractors are required to track and report on these performance measures, but compensation and/or contract extensions are not necessarily tied to any levels of accomplishment.

Figure 3

State of Florida Child Welfare Performance Measures

<u>Performance Measures</u>	<u>Baseline</u>	<u>6/30/08 Target</u>
1. 95% of children will not be abused or neglected		
2. No more than 1% of children served in out-of-home care will experience maltreatment		
3. No more than 9% of children Will be removed with 12 months of a prior reunification		
4. The % of children reunified within Within 12 months of the latest Removal shall equal at least 76.2%		

Source: Adapted from Florida DCF (2006).

Some might suggest that simply including performance measures and requiring contractors to report on them is a necessary, but insufficient, condition for a contract to be considered PBC. However, this approach does meet the definition of PBC being utilized in this paper and at least some research (e. g., Lu, Ma & Yuan, 2001; Commons, McGuire & Riordan, 1997) suggests that this approach does in fact result in contractors focusing more on output, quality and outcome performance. Additionally, two states (Maine and Florida) make statutory references to this approach as constituting performance-based contracting for social services.²

In the case of the state of Maine, the requirement that performance measures be included in what it calls performance-based contracting for social services (without tying compensation or contract extensions to their accomplishment) appears to have been a conscious decision on the part of the legislature (Clary, Ebersten & Harlor, 2000; Maine DHS, 1997). In the case of Florida, the decision of the state legislature may well have been unconscious; the issue is unclear. Nevertheless, the Florida legislature also refers to its performance reporting approach as performance-based contracting (Lamonthe, 2004; Florida DCF, 2000).

Performance reporting approaches to PBC transfer little if any risk for performance failure to contractors because cost reimbursement continues to be the primary payment mechanism.

BONUS APPROACHES

Bonus approaches to PBC attempt to increase a focus on output, quality and outcome performance by allowing contractors to earn additional compensation or contract extensions by meeting or exceeding defined levels. In bonus approaches, the method of payment frequently remains cost reimbursement. Consequently, bonus approaches again represent minimal risk to contractors.

Bonus approaches can take a number of different forms. In the following sections, three bonus approaches are described: (1) award fee, (2) award term, and (3) benchmarking.

² It is interesting to note that the state legislatures in Maine and Florida never actually defined “performance-based contracting,” assuming perhaps that the term had some universal meaning.

Award Fee

One bonus approach to PBC utilized by federal departments and agencies is called: award fee. This bonus approach is not generic to the social services, but is utilized for a variety of services. The award fee bonus approach is said to be the most common form of PBC at the federal level (Edwards & Nash, 2006).

In award fee bonus approaches, multiple output, quality and outcome performance measures are included in contracts, but due to their nature, it is difficult to place positive incentives on any single one. The measures are “bundled” (treated as a group) and contractors can earn a positive incentive (an award fee) for meeting or exceeding specified levels of performance. Utilization of the award fee bonus approach is governed by the *Federal Acquisition Regulation*, the federal government’s rules and regulations for procurement and contracting.

The amount of the award fee contractors can earn is identified up front as part of the contract. As a result, contractors are aware of the financial implications of superior performance. The *Federal Acquisition Regulation* grants to federal contracting officers almost total discretion in deciding what proportion (all, some, none) of award fees is to be paid to contractors.

Award Term

Another bonus approach utilized extensively by the federal government is called: award term. While state and local governments may not use the same terminology, they do in fact utilize this bonus approach to PBC. Under an award term bonus approach, contractors are offered extensions to their existing contracts if they meet output, quality and outcome performance standards. Language is included up front in the original contracts specifying the length of the award term bonuses (e.g., one year, two years, etc.). Award term bonus approaches to PBC are attractive to contractors because they can receive additional government work without having to compete. Award term bonus approaches have low to zero cost implications for government contracting agencies because additional compensation is not involved. Award term bonus approaches are also in keeping with the current policy emphasis of federal, state and local governments on the use of “past performance” as a decision criterion in government contracting.

Benchmarking

Another bonus approach to PBC involves additional compensation that contractors can earn for performance that exceeds specific benchmarks. This bonus approach is also referred to as a “hurdle” (USGAO, 2006). Again the financial implications of superior performance are made clear to contractors up front as part of the original contract.

An example of a benchmarking bonus approach is provided by the state of Alaska's "Temporary Assistance Program." The Temporary Assistance Program allows contractors to earn additional compensation for exceeding contract performance standards (see Figure 4). The state of Alaska establishes specific levels of minimum performance (benchmarks) for each of the performance measures shown in Figure 4. Contractors can earn predetermined bonus payments when they exceed any of these performance benchmarks.

Figure 4

**State of Alaska Temporary Assistance Program
Performance Measures**

- 1) Percent of adults who obtain employment within 60 days,
- 2) Percent of adults with earnings,
- 3) Percent of employed adults who retain employment for four months,
- 4) Percent of employed adults with earning progression,
- 5) Percent of cases closed with earnings,
- 6) Percent of cases closed with earning that do not return to Temporary Assistance within six months.

Source: State of Alaska (2007).

An interesting derivation of the benchmarking bonus approach was utilized in the Arizona Works program. Operated as a welfare-to-work demonstration project, the Arizona Works program utilized indefinite benchmarks or what the U. S. Government Accountability Office (USGAO, 2006) refers to as "variable targets." In this unique benchmarking bonus approach (see Figure 5), the contractor's performance on five measures was compared to a similar program operated directly by a department within the government contracting agency. For the contractor to earn any bonus payments, it had to beat the government's performance by at least 30%.³ While the Arizona Works project compared a contractor's performance to that of the government, this benchmarking bonus approach to PBC could also be utilized with two or more contractors.

³ The 30% figure appears somewhat arbitrary. The question might be asked, Why not 20%, 15% or even, 10%? Nevertheless, the contractor agreed to this challenge.

Figure 5

Performance Measures for Arizona Works Project

1. Number of individuals placed in jobs.
2. Number of individuals placed in highest and most appropriate jobs.
3. Reduction in welfare caseload.
4. Reduction in length of stay on public assistance.
5. Number of individuals placed in jobs who continue in those jobs for at least 90 days.

Source: Adapted from Arizona DES (2001); Martin (2002b).

STEP-UP/STEP-DOWN APPROACHES

Step-up/step-down approaches place contractors at moderate risk for performance failure. In this approach, performance levels are stepped-up and stepped-down from a baseline. The baseline represents minimal acceptable performance. Performance above or below the baseline has associated positive or negative financial implications.

An example of the step-up/step-down method is provided by the City of Charlotte, North Carolina's contract for help desk services (see Table 1). For superior performance above the baseline, the contractor can earn additional compensation up to 2% of its monthly billings. Conversely, for inferior performance below the baseline, the contractor can be penalized by having its monthly billings reduced by up to 4%.

In a PBC approach such as this, numerous performance measures can be employed, each of which is stepped-up and stepped-down in a similar fashion. The implications of superior and inferior performance are made quite clear to contractors by this approach to PBC.

Table 1

Step-Up/Step-Down Approaches

Bonus	Performance Level
2.0 % Bonus	92% and Above
1.5 % Bonus	90% - 91%
1.0 % Bonus	88% - 89%
0.0 % Bonus	86% - 87%
----- 85% Baseline -----	
	84% 1% Reduction
	83% 2% Reduction
	82% 3% Reduction
	81% and Below 4% Reduction
	Penalty

Source: Adapted from Martin (2002b).

HOLD BACK APPROACHES

Hold back approaches to PBC involve the government contracting agency retaining a portion of a contractor's compensation (e. g, 10%, 15%, etc.) and releasing it only if contractor performance is considered acceptable. Hold back approaches place contractors at moderate risk for performance failure.

A simple application of the hold back approach applied to a one year (12 month) cost reimbursement social service contract might involve dividing the contractor's total compensation by 13. The contractor is paid 1/13 of the total contract amount monthly according to the terms of the contract. An additional 1/13 of the total contract amount is held back and paid to the contractor only after the contract term has expired and only if the contractor's performance is acceptable. A detailed definition of acceptable performance must, of course, to included up front as part of the contract.

GAIN SHARING APPROACHES

Gain sharing approaches involve contractors generating a portion (or in some cases all) of their compensation from cost savings achieved or additional revenues generated as a result of service provision. Gain sharing approaches fall into two main categories: (1) share-in-savings and (2) revenue sharing. Gain sharing approaches place contractors at moderate to major risk for performance failure depending upon the proportion of compensation tied to cost reduction or revenue enhancement.

Share-In-Savings

In share-in-savings, incentives (bonus payments or other forms of increased compensation), are utilized to encourage contractors to reduce service delivery costs. The incentives are generated from contractor cost savings, hence the name: share-in-savings. Share-in-savings contracting was first utilized by the private sector and involved targeted reductions in energy consumption and related costs.

Share-in-savings contracting has been adopted by the federal government which considers this approach to constitute PBC (Drabkin, 2005; USGAO, 2003). Following the definition being utilized in this paper, share-in-savings is more correctly thought of as “incentive” contracting and would only truly constitute PBC when also tied to the accomplishment of output, quality or outcome performance.

An example of a share-in-savings approach tied to performance and applied to a social service is provided by the case of the Wisconsin Works (W-2) program (See Table 2). The W-2 program is Wisconsin’s approach to job training and placement services under the federal “Temporary Assistance for Needy Families” (TANF) program. Under the W-2 program, contractors that generate contact savings (while meeting all 1st bonus levels) are allowed to keep as “unrestricted profits” any amounts up to two percent of the contract budget. Contractors are allowed to keep an additional two percent if they met the 2nd bonus levels (Heinrich & Choi, 2006, p. 17).

Revenue Sharing

Revenue sharing approaches are just the reverse of share-in-savings. In revenue sharing approaches, contractors can earn incentives payments (bonus payments or other forms of increased compensation), tied to increased revenue generation. An example of a revenue sharing approach is provided by contracts awarded by some states under the federal Title IV-D Child Support Enforcement Program. The purpose of the Title IV-D program is to collect child

Table 2

Wisconsin Works (W-2) Use of Share-in-Savings Approach

Performance Standards	Base Level	1st Bonus Level	2nd Bonus Level
Entered Employment	35% of participants	40%	45%
Average Wage Rate	Equal to or Greater than base year	Base + 2%	Base + 5%
Job Retention (30 days)	75% of participants	80%	85%
Job Retention (180 days)	50% of participants	55%	60%
Health Insurance Provided	30% of participants	35%	40%

Source: Adapted from Heinrich & Choi (2006).

support payments from parents who are in arrears. States have used revenue sharing contracts with collection agencies whose compensation (partially or totally) is related to the amount of delinquent child support payments collected (USGAO, 1997).

While it is questionable how applicable revenue sharing approaches are to the social services, share-in-savings approaches clearly have at least some application.

MILESTONE APPROACHES

In milestone approaches to PBC, clients are essentially treated as individual projects. Each client has a definable start point (entrance into service) and a desired end point (exit from service) and identifiable major milestones along the way. This approach is most likely borrowed from construction contracting which has a start date (ground breaking) and a stop date (a completed structure) and readily identifiable milestones along the way (e. g, foundation, framing, plumbing, dry walling, roofing, etc.) with contractors receiving “progress payments” as the milestones are accomplished.

Milestone contracting has been used in the areas of child welfare and job training/welfare-to-work programs. Three examples of milestone approaches are provided by the states of Kansas, Oklahoma and Pennsylvania. Unlike cost reimbursement contracts, where contractors costs are covered, under milestone approaches, contractors are compensated at fixed rates for the accomplishment of specific client milestones. If a contractor does not achieve all milestones for a particular client, it may incur a loss for that client. Thus, for contractors, milestone approaches can involve moderate to major risk for performance failure. Government contracting agencies can mitigate somewhat the amount of risk for performance failure that is transferred to contracts by including a mix of performance (output, quality and outcome) milestones and non-performance (input and process) milestones, as well as varying the relative weights assigned to the milestones.

Kansas Milestone Approach

The state of Kansas experimented with a milestone approach for child welfare services (see Table 3). Under the Kansas approach, a case rate (based on the average cost of care) was negotiated with contractors who received a proportion of that case rate (a progress

Table 3	
Kansas Milestone Approach for Child Welfare Services	
Milestone	Case Rate
1. Child referred to contractor (process)	25%
2. 60 day report to state (process)	25%
3. 180 day report to state (process)	25%
4. Child achieves permanent placement (performance)	25%

Source: Adapted from Martin (2003).

payment) when they accomplished any of four major milestones. However, only one of the four major milestones adopted by Kansas was actually performance related (child permanency placement); the other milestones were essentially process measures.

Oklahoma Milestone Approach

The state of Oklahoma utilized a milestone approach for job training and placement services for persons with disabilities (see Table 4). This milestone approach also utilized a case rate. An interesting feature of the Oklahoma milestone approach is the greater percentage (60%) of contractor compensation tied to output, quality and outcome performance as compared to the Kansas example.

Table 4

Oklahoma Milestone Approach

Milestone	Case Rate
1. Determination of Need (process)	10%
2. Vocational Preparation (process)	10%
3. Job Placement (output)	10%
4. Job Training (process)	10%
5. Job Retention (quality/outcome)	15%
6. Job Stabilization (outcome)	20%
7. Case Closure (outcome)	25%

Sources: Adapted from: Oklahoma DRS (n.d.); Martin, (2002c); Liner et al. (2001); Frumkin (2001).

Pennsylvania Milestone Approach

Yet another milestone approach was tried by the state of Pennsylvania. An experimental jobs program called “Community Solutions,” utilized a milestone approach, but rather than being tied to a case rate, contractors were compensated at a fixed-fee or fixed rate for each milestone accomplished (see Table 5).

Table 5

Pennsylvania Milestone Approach

Milestone	Fee
1. Client Assessment Completed (process)	\$1,000
2. Job Placement (output)	\$1,000
3. Medical Benefits Included (quality)	\$ 400
4. Job Retention: clients remains employed for 12 months (outcome)	\$1,600

Adapted from: Paulsell & Wood (1997); Martin (2003)

OUTPUT APPROACHES

Output approaches to PBC for social services directly link contractor compensation to the amount of service provided (see Table 6). Output approaches are also referred to as “unit cost contracting” (Kettner & Martin, 1987) and are perhaps the oldest form of PBC for social services. Under output approaches, contractors are paid a fixed-fee, fixed price or fixed rate (identified in the contract) for each output, or unit of service, provided. Output approaches represent a major transfer of risk for performance failure to contractors who only receive compensation for the actual number of outputs (units of service) provided at the specified contract rate or price.

The state of Arizona has utilized output approaches to PBC for social services for several years. Arizona has developed a dictionary and taxonomy of human services that includes standardized service definitions as well as standardized output, or unit of service, definitions (Arizona DES, 2007).

Output approaches to PBC are favored by international development and international aid organizations such as: the United States Agency for International Development (USAID), the World Bank, the United National Development Program and the Asian Development Bank (World Bank, 2007). There is also an international organization (Global Partnership on Output-Based Aid, 2007) that promotes the use of output approaches. The reason output approaches are preferred by international development and aid groups is that it allows them to tie compensation to performance, but excludes outcomes which are harder to achieve in developing countries.

Table 6

Output Approaches

<u>Social Service</u>	<u>Output Performance Measure</u>	<u>Price or Unit Cost</u>
Home Delivered Meals	One Meal	\$ _____
Outreach	One Hour Of Staff Time	\$ _____
Transportation	One Trip Per Person One-Way	\$ _____
Information & Referral	One Request	\$ _____

Source: Adapted from Arizona DES (2007).

CASE RATE APPROACHES

Case rate approaches pay contractors a fixed amount (per month, per year, per contract) to provide services to clients for as long as they remain in care. Case rate approaches are actually a form of “managed care” (Kamerman & Kahn, 1998).

Strictly speaking, case rate approaches represent a type of incentive contracting and do not constitute PBC. The incentive in case rate approaches is to move clients out of care as quickly as possible because contractor compensation is fixed and not tied to the amount of services provided or the length of time in care. To the extent that there is any anticipated performance expected of contractors, it is more implied than stated. The implied performance is that contractors will achieve positive outcomes with clients, but the true emphasis is on simply closing cases.

For case rate approaches to constitute PBC, they need to be tied to output, quality or outcome performance. One approach to transforming case rate approaches into PBC is to overlay them with milestones. Both the Kansas and Oklahoma milestone approaches discussed earlier utilized a case rate tied, at least partially, to output, quality and outcome

performance. The degree of risk for performance failure transferred to contractors in case rate approaches is major.

CASELOAD APPROACHES

Caseload approaches utilize targeted reductions in client caseloads as an outcome performance measure where case closures also represent appropriate outcome performance. For example, in child welfare a child permanency placement represents both a case closure as well as an appropriate outcome performance measure. Without the link between outcomes and case closures, caseload approaches might more correctly be classified as incentive contracting. However, by manipulating caseloads to encourage contractors to focus more on case closures and client outcomes, caseload approaches do meet the definition of PBC utilized in this paper. Depending upon the type of contractor compensation and the method of payment (e. g., case rate), caseload approaches can also represent a form of managed care.

Caseload approaches represent major risk to contractors for performance failure. Contractors that do not close the appropriate number of cases must continue to provide care and services to those clients with attendant cost implications.

Probably the best know example of a caseload approach was one previously utilized by the state of Illinois. The Illinois Department of Children & Family Services (Illinois DCFS) was the recipient of a Harvard University innovation award for this innovative approach to PBC for social services. The premise of the Illinois caseload approach was one of manipulating caseload to increase contractors' focus on outcome performance in the form of child permanency placements. The Illinois caseload approach has evolved over time and has involved various caseload and compensation methods. The example illustrated in Table 7 is an extrapolation of one iteration of the Illinois caseload approach with one of its contractors, Cook County.

In the example illustrated in Table 7, the contractor (Cook County) enters the new contract term with a baseline number of cases. Under the terms of the new performance-based contract, the contractor agrees to accept 24% increase in cases during the next 12 months and to close 24% of its caseload (child permanency placements) during the same time period. In the first scenario (S1), the contractor receives a 24% increase in new cases and meets contract outcome expectations by also closing 24% of existing cases. In this instance (S1), the contractor's overall caseload remains the same. In the second scenario (S2), the contractor receives a 24% increase in new cases, but only closes 15% of existing cases. In this instance (S2), the contractor's overall caseload increases by 9%. In the third scenario (S3), the contractor receives a 24% increase in new cases and closes 30% of existing cases. In this instance (S3), the contractor's caseload decreases by 6%. By achieving more child permanency placements (outcomes), the contractor can actually reduce its overall caseload, something that does not necessarily happen in other approaches to PBC for social services.

Table 8

Illinois Caseload Approach

	Current Caseload	New Referrals	Cases Closed	New Caseload
S1.	Baseline	24%	24%	Same
S2	Baseline	24%	15%	9% ↑
S3	Baseline	24%	30%	6% ↓

Source: Adapted from Illinois Department of Children & Families (Illinois DCFS, n.d.)

OUTCOME APPROACHES

Outcome approaches to PBC tie contractor compensation directly and exclusively to results, accomplishment, or impacts. Outcome approaches constitute major risk to contractors for performance failure because they are only paid for the outcomes actually achieved. The state of North Carolina experimented with an outcome approach to PBC for adoption services (see Table 8). In the North Carolina example, a case rate was utilized tied to outcome milestones.

Table 8

North Carolina Outcome Approach

Milestone	Average Placement Cost
1. Child Placed for Adoption (outcome)	60%
2. Adoption Finalized (outcome)	20%
3. Adoption Intake for one year (outcome)	20%

Source: Adapted from Martin 2003; Vinson (1999)

THE FEDERAL APPROACH

The Federal government has its own unique approach to PBC. The policy and procedural guidance governing the federal approach to PBC is set forth in the *Federal Acquisition Regulation* (FAR). The FAR states that it is the policy of the federal government that all service contracts be performance-based to the greatest extent possible. The FAR applies equally to social service contracts and non-social service contracts entered into by departments and agencies of the federal government. Contractor risk for performance failure is major under the federal approach to PBC due to the general complexity of federal contracts as well as the precise specification of contractor expectations.

According to the FAR, and as set forth by the Office of Federal Procurement Policy (OFFP), for a federal contract to be considered FBC, it **must** contain four critical elements (Figure 6).

Figure 6

Federal Requirements for PBC

1. **Performance Requirements** that define in measurable terms the work to be accomplished or the service to be provided.
2. **Performance Standards** that define the allowable deviation, if any, from the performance requirements. Also called the AQL (acceptable quality level).
3. **Quality Assurance Plan** that specifies the means by which contractor performance will be determined and documented. Acceptable methods include:
 - 100% inspection
 - Random Sampling
 - Periodic Inspection
 - Customer Input
 - Third Party Certification
4. **Positive & Negative Incentives** that are tied to the quality assurance plan (If critical to agency mission or if large expenditures of federal funds are involved).

Source: Adapted from OFPP (1997); Martin (2002b).

A detailed discussion of the federal policies, regulations and procedures governing PBC is beyond the scope of this paper. However, a hypothetical example of what a federal performance-based contract for a social service (adoption services) might look is illustrated in Figure 7.

SUMMARY & CONCLUSION

This paper began with a discussion of three issues: (1) What is performance in government funded programs and services? (2) What is performance-based contracting? (3) What is the difference between PBC and incentive contracting. This discussion was followed by an identification of some 11 major approaches to PBC for social services gleaned from the social work, social services, public administration and government procurement literatures. The 11 major approaches were arrayed in terms of the degree of risk for performance failure transferred to contractors. Each of the 11 major approaches was also discussed in some detail and case examples, where available, were provided to extend the discussion.

The major contribution of this paper is the identification and cataloguing of the 11 major approaches to PBC for social services. To the author's knowledge, no such attempt has previously been made. While this paper is admittedly a first step in the more systematic examination of PBC for social services, it is nevertheless believed to be a step in the right direction.

No attempt was made in this paper to determine which, if any, of the 11 major approaches to PBC for social services constitute "best practices." However, this is the logical next step in advancing the study and understanding of PBC for social services.

Figure 7

**Federal Approach to Performance-Based Contracting (PBC)
For Adoption Services**

Specifications of Tasks/ Statement of Objectives	Performance Measures/ Performance Requirements	Performance Standards Acceptable Quality Level	Incentives and Penalties	Monitoring/ Quality Assurance Plan
To provide quality adoption services (process)	Accreditation by Council on Accreditation (COA)	100%	-Incentive = Reimbursement for cost of accreditation - Penalty = no new referrals/ loss of contract	Third Party Certification
To sever parental rights (process)	All children to be adopted have parental rights severed	100%	-Incentive = none - Penalty = No new referrals/ loss of contract	100% Inspection
To conduct home studies (process)	All adoptive parents have a completed home study with a favorable adoption recommendation	100%	-Incentive = none -Penalty = no new referrals/ loss of contract	100% Inspection
To place children for adoption (output)	All children to be adopted are placed in adoptive homes	100%	-Incentive = \$1,000 bonus	100% Inspection
To secure final decrees of adoption (outcome)	All children to be adopted have finalized decrees of adoption	100%	-Incentive = none - Penalty = loss of contract	100% Inspection
To finalize adoptions: adoption in tact for 12 months (outcome)	All adopted children remain with their adoptive families for a minimum of 12 months	90%	-Incentive = \$5,000 bonus	100% Inspection

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