OUTCOME AS A SERVICE

What Transfers, What Does Not, and What the Contract Has to Do

Sixty years of performance-contracting history says risk is redistributed, not eliminated. Here's what actually moves.

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The premise, the evidence, and what the contract has to specify.

01 The claim that outcome pricing removes 100% of buyer risk

02 What the historical record shows, across sixty years

03 Three risk categories that never transfer

04 Four conditions the model needs to actually work

05 What the contract has to specify

£467M

Additional cost to the UK taxpayer after Transforming Rehabilitation's volume-risk assumptions failed

The Ministry of Justice tested a 2% volume swing. Actual volumes came in 16 to 48% below assumption. Source: National Audit Office.

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$234B

Of enterprise application software spend Gartner estimates is exposed to agentic arbitrage by 2030

Roughly 20% of global SaaS spend. Source: Gartner, July 2026.

40%+

Of agentic AI projects Gartner forecasts will be cancelled by the end of 2027

On grounds of cost escalation, unclear value, or inadequate risk controls. The outcome vendor funds delivery ahead of payment, so the buyer underwrites its balance sheet. Source: Gartner, June 2025.

Three categories of client exposure survive any payment mechanism.

Non-transferable risk

Statutory duty, regulatory obligation, and safety accountability generally cannot be delegated. The payment mechanism decides who bears the cost, not who bears the duty.

Retained-control risk

Whoever controls a variable must bear its risk, or the contract is unpriceable. Data quality and demand volume are usually client-controlled.

Second-order risk

Capability erosion, switching cost, and counterparty solvency are not covered by a no-cure-no-pay clause.

Outcome pricing works only where four conditions hold together.

1. **The outcome is observable within a useful period**
   Engine flying hours, yes. Reoffending data, which takes two years to mature, no.

2. **The vendor controls the dominant causal variable**
   Rolls-Royce controls the engine. A welfare-to-work provider does not control the labour market.

3. **Measurement is standardised and independently verifiable**
   Energy contracting has IPMVP. AI outcome contracts currently have no equivalent protocol.

4. **The caseload is homogeneous, or priced by segment**
   The UK Work Programme's payment groups were too crude, and the incentive concentrated effort on the easiest cases.

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> An outcome contract without an independently verifiable measurement basis is a fixed-price contract with a dispute attached.

OUTCOME AS A SERVICE, SECTION 10

Five controls that address the failure modes above.

- ✓ **Outcome taxonomy**

Price hard, provable outcomes per unit. Gate soft, judgement-based ones instead of pricing them.

- **Baseline and normalisation**
  Adjust the baseline to reporting-period conditions, the IPMVP convention, not raw historical data.
- **Paired metrics**
  Every payment metric needs a counter-metric that detects the gaming behaviour it invites.
- **Portability and step-in rights**
  Enforced during the term, not invoked at exit, or the contract becomes an indefinite dependency.

The commercial model matters less than the instrumentation beneath it.

Read the full piece for the contract architecture, the suitability test, and what government and infrastructure buyers need to add.

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