



Australian Government

Department of Defence

ASDEFCON (SUPPORT)

**Supplement to the Conditions of Contract Handbook
for Performance Based Contracting Attachments**

**(including Attachment P, Attachment Q and
Annex C to Attachment B)**

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INTRODUCTION

Purpose and Scope

The *ASDEFCON (Support)* version 3.0 template has been developed to assist Defence Materiel Organisation (DMO) staff to implement Productivity and Performance Based Contracts (PPBCs). This supplement to the *ASDEFCON (Support)* Conditions of Contract Handbook provides a general introduction to PPBCs and guidance related specifically to the definition of Key Performance Indicators (KPIs) and performance assessment activities, Other Performance Measures (OPMs), and the calculation of Performance Payments applicable to the following contract documents:

- a. Attachment P, Performance Assessment (including KPIs);
- b. Attachment Q, Other Performance Measures; and
- c. Annex C to Attachment B, Performance Payments.

General information regarding PPBCs is available in the DMO PPBC Handbook. The SOW Tailoring Guide also provides detailed guidance for all SOW clauses, including those particular to PPBCs.

Defined terms used in this document have the meaning given in the *ASDEFCON (Support)* Glossary.

Productivity and Performance Based Contracts

The DMO defines a Performance Based Contract (PBC) as a contract that is structured to motivate the Contractor to achieve particular outcomes, rather than the performance of individual activities. In the DMO, strategic contracting initiatives are focussed on two key objectives, namely:

- a. enhancing the ability to meet Defence capability preparedness requirements (ie, both readiness and sustainability)¹, and
- b. reducing the Total Cost of Ownership (TCO)².

PBCs address the first of these objectives but, other than an initial redesign of support, they contain no inherent process for achieving further savings. A PPBC combines the benefits of a PBC with further mechanisms to obtain Efficiencies that will lead to reductions in TCO. The Efficiencies element may sit outside the usual performance-management framework; however, changes that reduce cost are not always independent of performance.

For further information regarding the general objectives, concepts and principles of PBCs / PPBCs for use by the DMO, readers should refer to the DMO's PPBC Handbook.

The Performance Management Framework

The performance-management framework in a PBC links required Capability Outcomes to Contractor performance and from Contractor performance to a range of tailored rewards and remedies. This framework includes several components covering the definition, planning, measurement, reporting, and assessment of performance, where the assessed performance results are then used to employ a targeted range of rewards and remedies with the aim of motivating contractor behaviour in a way that enables the Outcomes required by Defence.

To determine Contractor performance in the provision of Services, and the contribution to the required Outcomes, PBCs use Performance Measures. While there are various types of Performance Measures, *ASDEFCON (Support)* uses a simple approach with only two categories: KPIs and OPMs.

KPIs are Performance Measures that measure the contribution of the Contract towards achieving Outcomes. A KPI may use a single Performance Measure or combine a number of measures in order to provide an effective indication of Contractor performance. KPIs are linked to Performance Payments, as the principle way of motivating the Contractor under a PBC. KPIs may also be linked to other rewards and remedies specified in the Contract.

OPMs are used for a multitude of purposes, such as validating the effectiveness of KPIs, measuring other Contractor Services, and as lead indicators of the future health of the Materiel System. OPMs

¹ For further information on preparedness, see ADDP 00.2, 'Preparedness and Mobilisation'.

² TCO is the total cost to the Commonwealth, both direct and indirect, of the products being supported over the life of type of the Mission System(s). The TCO includes all costs associated with in-service operations, logistics support, and disposal.

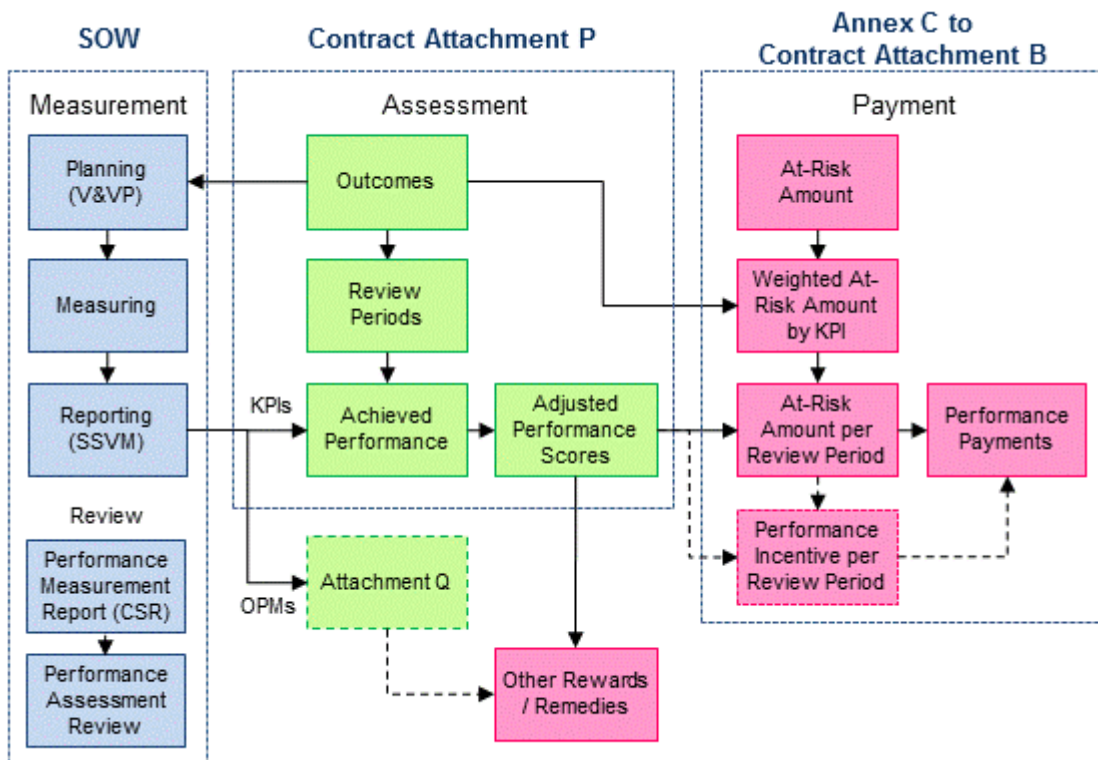
are not linked to Performance Payments, but may be linked to other rewards and remedies specified in the Contract.

The *ASDEFCON (Support)* template does not prescribe what the KPIs and OPMs should be. Drafters need to define these and include them based on the scope of Services and the characteristics of the Products being supported. Drafters should seek assistance from domain and PBC specialists when developing KPIs and OPMs, particularly to understand the commercial implications and the associated relationships between KPIs and risk.

The *ASDEFCON (Support)* template provides the necessary performance-measurement framework clauses on which to develop a PBC/PPBC. The major PBC components are:

- COC clause 6, Performance, Acceptance and Ownership;
- COC clause 7, Price and Payment;
- Annex C to Attachment B, Performance Payments;
- Attachment P, Performance Assessment (using KPIs);
- Attachment Q, Other Performance Measures;
- SOW clause 3.4, Support Services Communication Strategy; and
- SOW clause 10, Verification and Validation (V&V).

The following diagram outlines the relationship between components.



For further explanation of the structure of the performance-management framework, refer to the “Performance Management with KPIs” section of the PPBC Handbook.

As a final point, the template components listed are **not** the starting point for developing a PBC/PPBC. A support procurement strategy, either stand-alone or as part of an Acquisition and Sustainment Implementation Strategy (ASIS), should be developed beforehand to clearly articulate the performance requirements (being traceable to the required Outcomes) and the attributes of the performance-management framework proposed for the support contract(s).

GUIDANCE FOR ATTACHMENT P, PERFORMANCE ASSESSMENT

Introduction:

Attachment P itself provides a table of contents that includes the KPIs listed in Annex A. Once the KPIs have been added to the Annex the table should be updated, to update the table of contents field click on it and press the “F9” key this will add the KPIs to the list.

The KPIs are inserted in the heading of Annex A where they sit inside bookmarked fields. Once these headings are updated, clicking on each other occurrence and pressing the “F9” key will ensure consistent naming throughout the document.

Note that although positions for five KPIs are included in the template, this is only for convenience. The correct number and nature of KPIs must be determined individually for each contract.

1 OVERVIEW OF PERFORMANCE ASSESSMENT

1.1 Scope

<u>Sponsor:</u>	DMO Standardisation Office and Commercial Policy and Practice Branch
<u>Status:</u>	Core
<u>Purpose:</u>	To introduce the purpose of the performance assessment process.
<u>Policy:</u>	Nil
<u>Guidance:</u>	This introductory statement explains how the performance-assessment process, as part of the overall performance-management framework, is intended to encourage Contractor performance against the Commonwealth’s required Outcomes, which appear in Annex A.
<u>Drafter’s Action:</u>	This clause should be retained in the RFT without alteration.
<u>Related Clauses:</u>	COC clause 1.2.2, Interpretation (objectives subclause).
<u>Further Reading:</u>	Nil

1.2 Performance Assessment and Performance Management – For Information Only

<u>Sponsor:</u>	DMO Standardisation Office and Commercial Policy and Practice Branch
<u>Status:</u>	Optional
<u>Purpose:</u>	To provide an overview of the performance assessment process in this Attachment in relation to the overall performance-management framework for the Contract.
<u>Policy:</u>	Nil
<u>Guidance:</u>	The clause explains the scope of the performance assessment process as applicable to each of the level 1 clauses within this Attachment and elsewhere in the Contract. This section of the Attachment, which contains a summary similar to the ‘General’ section of this guide, is optional. It may be retained for information purposes, to help provide context to persons involved with the operation of the Contract who are not aware of this drafting guidance. This section may be removed from future updates of the template as the methodology becomes better known.
<u>Drafter’s Action:</u>	The drafter should remove reference to the PIP if not required (replace clause 1.2.3b with ‘Not used’).
<u>Related Clauses:</u>	As listed in the clause itself. Attachment M, Glossary.
<u>Further Reading:</u>	Nil

2 KEY FEATURES OF THE PERFORMANCE ASSESSMENT PROCESS

2.1 Required Outcomes and KPIs

<u>Sponsor:</u>	DMO Standardisation Office and Commercial Policy and Practice Branch
<u>Status:</u>	Core
<u>Purpose:</u>	To state the intent of the performance assessment process and the use of KPIs.
<u>Policy:</u>	Nil
<u>Guidance:</u>	<p>The clause identifies the intent of the performance assessment process as a way of evaluating the Contractor's contributions to Outcomes. Outcomes towards which the Contract contributes are listed in clause 2.1 of Annex A. The second clause emphasises the role as a quantitative assessment of performance, rather than a subjective or opinion-based assessment.</p> <p>This is the first in a number of clauses that specify how the performance assessment process functions.</p>
<u>Drafter's Action:</u>	This clause should be retained in the RFT without alteration.
<u>Related Clauses:</u>	<p>Other subclauses of clause 2.</p> <p>Clause 2.1 to Annex A to Attachment P, Outcomes and KPI Table.</p>
<u>Further Reading:</u>	PPBC Handbook

2.2 Review Period

<u>Sponsor:</u>	DMO Standardisation Office and Commercial Policy and Practice Branch
<u>Status:</u>	Core
<u>Purpose:</u>	To specify the function of Review Periods in the application of the performance assessment process.
<u>Policy:</u>	Nil
<u>Guidance:</u>	<p>Review Periods are primarily used to break up each year into periods that are more effective for monitoring the Contractor's Achieved Performance, acting to overcome situations of poor performance, and for further planning and management of Services. It may also be impractical to hold all Performance Payments (calculated from the results for each Review Period) until the end of the year.</p> <p>Clause 2.2.1 states that a Review Period is applied to the measurement of KPIs.</p> <p>Clause 2.2.2 identifies the start of the first Review Period for all KPIs, and that the length of Review Periods for each KPI is specified in Annex A (clause 2.1). The default is the Operative Date, which is defined in COC clause 1.4. If the start date is other than the Operative Date (eg, if required to align with financial years), this clause should be amended. Drafters should also refer to the Performance Implementation Period (PIP) in clause 0 and Annex C to Attachment B, as the start of the first Review Period does not mean that all aspects of the performance assessment process must be applied from that date.</p> <p>Clause 2.2.3 states that each subsequent Review Period commences immediately after the previous one. Note that Annex C to Attachment B allows KPI measurement to be suspended within a Review Period.</p>
<u>Drafter's Action:</u>	Amend clause 2.2.2 if the Operative Date will not be the start date for Review Periods.
<u>Related Clauses:</u>	<p>Other subclauses of clause 2.</p> <p>Annex A to Attachment P, Outcomes and KPI Table.</p>
<u>Further Reading:</u>	PPBC Handbook

2.3 Achieved Performance and the Adjusted Performance Score

<u>Sponsor:</u>	DMO Standardisation Office and Commercial Policy and Practice Branch
<u>Status:</u>	Core

Purpose: To identify the generation and use of Adjusted Performance Scores as part of the performance assessment process.

Policy: Nil

Guidance: The Achieved Performance result against each KPI is converted into an Adjusted Performance Score, which is expressed as a percentage of the Required Performance Level.

When the Contractor's Achieved Performance is the same as the Required Performance Level, the Adjusted Performance Score is scored at 100%. Variation above and below the Required Performance Level should reflect the relative value of the performance results. For example, if performance exceeds this Required Performance Level, but it is of no added value to Defence, the Adjusted Performance Score remains 100%.

The advantage of using Adjusted Performance Scores is that it allows the results for all KPIs, which are based on different Performance Measures and measurement bases, to be converted into a percentage score. For example, an Achieved Performance of 70% for one KPI and 48 hours for another may match their respective Required Performance Levels, so both would be converted to an Adjusted Performance Score of 100%.

In Annex C to Attachment B, the Adjusted Performance Score will be used to determine Performance Payments.

As part of the performance assessment, this clause states that the Adjusted Performance Score for each KPI will be calculated from the Achieved Performance, in accordance with the KPI's definition in Annex A.

Drafter's Action: This clause should be retained in the RFT without alteration

Related Clauses: Other subclauses of clause 2.

Annex A to Attachment P, KPI definitions.

Further Reading: PPBC Handbook

2.4 Performance Bands

Sponsor: DMO Standardisation Office and Commercial Policy and Practice Branch

Status: Core

Purpose: To state and explain the use of Performance Bands as part of the performance assessment process.

Policy: Nil

Guidance: The Adjusted Performance Score for each KPI, as described in clause 2.3, is used to express performance as a percentage score, which reflects its relative value. With the possible range of performance divided into four Performance Bands of Achieved Performance, the Adjusted Performance Score for each KPI can be determined differently for each Performance Band, as illustrated by the red line in Figure P-1 of Attachment P.

These Performance Bands are also referenced from other parts of the Contract to link rewards and remedies to particular levels of performance.

There is more than one way to create an Adjusted Performance Score, such as:

- a. using a performance curve (as illustrated in Figure P-1) and associated formulae to define mathematical relationships between the Achieved Performance and the Adjusted Performance Score; or
- b. via a look-up table that uses columns and rows to define the required relationships³.

³ Look-up tables are typically not used in *ASDEFCON (Support)*, which is based around performance curves and associated formulae. Notwithstanding, two of the four examples provided in the [Worked KPI Examples](#) are based around look-up tables.

Where formulae are used, each formula represents a different straight-line segment of the 'curve' crossing each of the Performance Bands.

Clauses 2.4.1 and 2.4.2 state the use of the four Performance Bands (without the explanation given above) and that methods for converting Achieved Performance into an Adjusted Performance Score are specific to each KPI. Clause 2.4.3 describes, as a word picture, the relative value of results in each of the bands.

Results in Performance Bands I and II will, through Annex C to Attachment B, be used to determine Performance Payments. The difference in the slope of the line between the two bands affects how rapidly the Performance Payments decrease as results move further away from the Required Performance Level.

Results in Performance Band III would not result in any Performance Payment being made, and is likely to incur other contractual remedies, such as liquidated damages, stop payments, or (in the extreme case) termination. Accordingly, an Adjusted Performance Score other than zero (0) in the Performance Band is generally not be required. However, a straight-line formula could be used to calculate a negative score in this band, if necessary, to calculate, for example, an amount of liquidated damages; however, this approach is difficult to justify in logic terms (ie, it is difficult to link the Achieved Performance, via a straight-line formula, to the costs that the Commonwealth has incurred). **Of note, drafters are not to use a straight-line formula in this Performance Band to link a negative score to Performance Payments.** Other remedies are available for performance in this Performance Band, and these should be used instead.

Results in Performance Band IV may be linked to a Performance Incentive, which adds to the Performance Payment for the related KPI, if the added performance provides benefit to Defence. The amount of the Performance Incentive is calculated using an Adjusted Performance Score that is greater than 100%, which can also be determined by a straight-line formula for this band. Alternatively, if there is no added benefit, the Adjusted Performance Score remains at 100%.

Developing the Performance Bands and formulae requires skill and forethought. The Required Performance Level should be derived (directly or indirectly) from Outcomes defined in Materiel Sustainment Agreement (MSA) product schedules. The transition from Performance Band II to III represents the level where meaningful Outcomes cannot be achieved, not that there is no performance. For example, if a fleet requires 70% availability for a planned level of Capability, that equates to an Adjusted Performance Score of 100% (ie, the Required Performance Level). However, if 40% allows only minimal training to be sustained, and no real Capability, then the Adjusted Performance Score should drop to 0% (at the between Performance Bands II and III). The transition between Performance Bands I and II may be interpreted from the word pictures for those bands (not by dividing the range of performance in half). It should also be remembered that performance is assessed across the duration of a Review Period, hence daily fluctuations between one band and another will even out over the Review Period.

Setting the Required Performance Level and the associated 'knee' in the curve at the boundary of Performance Bands I and II are key considerations and are directly linked to the risk perceived by the Contractor. Ultimately, this risk assessment translates through to the Contract Price. Specialist expertise, therefore, should be sought when defining these performance curves, including both the points and the associated slopes of the lines.

ASDEFCON (Support) consolidates all payments in Attachment B; and results in Performance Bands I, II and IV will result in Performance Payments calculated in accordance with that Attachment. A number of clauses in the Contract refer to Performance Band III, requiring Remediation Plans and other possible actions as a result of such poor performance.

Drafter's Action: This clause should be retained in the RFT without alteration.

Related Clauses: Other subclauses of clause 2.

Annex A to Attachment P, KPI definitions.

Further Reading: PPBC Handbook

2.5 Missing Data

<u>Sponsor:</u>	DMO Standardisation Office and Commercial Policy and Practice Branch
<u>Status:</u>	Core
<u>Purpose:</u>	To identify the actions to be taken if performance measurement data is incomplete.
<u>Policy:</u>	Nil
<u>Guidance:</u>	Performance measurement data that is missing has the ability to distort the Achieved Performance results and the performance assessment process in general, particularly for those parameters that are used in the calculation of Achieved Performance. However, due to unplanned availabilities of information management systems, or other tools used to collect and/or store performance data, missing data remains a possibility. The first course of action is usually to replace the missing data from an alternate source, where that source is sufficiently accurate for measuring the same parameters.

Clause 2.5.1 identifies that missing parameters and measurement data, which cannot be replaced, may be excluded from the calculations or otherwise compensated for through COC clause 6.5 for performance relief. Assuming there was no obvious change in performance for that period (ie, the data hasn't been 'lost' in order to hide a particular failing), the options may be to assume the average performance of the Review Period for the missing period, or to omit the period from Achieved Performance calculations.

Clause 2.5.2 identifies, in descending order, the options for replacing missing data for a KPI, if required to do so.

Drafter's Action: This clause should be retained in the RFT without alteration.

Related Clauses: Other subclauses of clause 2.

Annex A to Attachment P, KPI definitions.

Clause 10 of the draft SOW, including the V&VP and SSVM.

Further Reading: Nil

3 PERFORMANCE IMPLEMENTATION PERIOD

3.1 Performance Assessment during the Performance Implementation Period

<u>Sponsor:</u>	DMO Standardisation Office and Commercial Policy and Practice Branch
<u>Status:</u>	Optional (To be included when a PIP is included in Annex C to Attachment B)
<u>Purpose:</u>	To define the objectives of the PIP and acknowledge that the performance assessment process will be modified accordingly.
<u>Policy:</u>	Nil
<u>Guidance:</u>	There are a number of reasons why it is impractical to apply full performance-management framework at the start of a Contract. The most challenging issue is the appropriate matching of performance to payment when aspects the Contractor's organisation, processes or even the delivery of systems from Defence or other contractors, remain unstable.

As the main contractual impact of the PIP is to affect the Performance Payments; details of the PIP stages and the associated changes to At-Risk Amounts and KPI weightings, which affect the Performance Payments, are detailed in Annex C to Attachment B.

For KPIs to function during a PIP, they may need to be defined in scalable terms. For example, an availability KPI that requires a percentage of the total fleet to be available, rather than a set number (eg, X vehicles, communication terminals, etc., available at all times) would (once the fleet has reached a minimum size) naturally scale as systems are delivered from acquisition. Note that KPIs with Required Performance Levels that change over time (time-variant KPIs⁴) may also be

⁴ Refer to the worked examples on the DMO Standardisation Office, Procurement and Contracting DRN site.

designed to compensate for changes occurring early in a PBC; however, this is only applicable to a limited number of KPIs.

Clause 3.1.1 identifies that the details of the PIP are included at Annex C to Attachment B, and that this will modify the performance assessment process.

Clause 3.1.2 identifies some of the common reasons why it is impractical to implement the full performance assessment process at the start of a Contract. This list may be amended to suit the specific nature of the Contract.

Clause 3.1.3 clarifies that the purpose of the PIP is not to trial different approaches; rather, it is intended to allow the performance measurement and assessment processes to be bedded down.

Drafter's Action: If a PIP is not required, the subclauses may be deleted and replaced with 'Not used'.

Drafters may amend the list under clause 3.1.1 for relevance to the Contract.

Other subclauses should be retained in the RFT without alteration.

Related Clauses: Clause 2.2 of this Attachment, which includes the commencement date

Annex A to Attachment P, KPI definitions.

Annex C to Attachment B, Performance Payments.

Further Reading: PPBC Handbook

GUIDANCE FOR ANNEX A TO ATTACHMENT P KEY PERFORMANCE INDICATORS

1 INTRODUCTION

1.1 Purpose

Sponsor: DMO Standardisation Office and Commercial Policy and Practice Branch

Status: Core

Purpose: To state the purpose of this annex.

Policy: Nil

Guidance: Nil.

Drafter's Action: This clause should be retained in the RFT without alteration.

Related Clauses: Nil

Further Reading: Nil

2 OUTCOMES AND KPI INFORMATION

2.1 Outcomes and KPI Table

Sponsor: DMO Standardisation Office and Commercial Policy and Practice Branch

Status: Core

Purpose: To identify the relationship between Outcomes and the use of KPIs to evaluate Contractor performance, and to tabulate basic parameters for each of the KPIs.

Policy: Nil

Guidance: This clause, comprising a table and an explanation for the table, identifies how KPIs are traceable to the high-level Outcomes and states the Required Performance Level and Review Period duration for each KPI.

Outcomes and Contributory Outcomes. Table P-1 is used to show Outcomes. Examples of these Outcomes include 'Mission System Capability', 'system availability' and 'rapid deployability', as derived from the Materiel Sustainment Agreement (MSA product schedules).

Outcomes are broken down into contributory outcomes, which are those elements provided by the Contractor to assist with achieving the higher-level Outcomes required by Defence. These contributory outcomes must be aligned with the nature and scope of the contracted effort. An ASIS or support procurement strategy is used as a basis for defining the Service and performance requirements for the Contract, and the expected contribution to Outcomes. KPIs should provide a logical measure of the contribution that the Contract makes to the required contributory outcomes.

For example, an Outcome of 'Directed Level Of Capability (DLOC) Achievement'⁵ may have three contributory outcomes provided by the Contractor: 'Mission Systems available to Defence', 'supply of spares to Defence Maintenance', and 'Training simulator availability'. Each of these contributory outcomes would be measured and evaluated using a different KPI. The supply of spares, for example, could have a KPI of demand satisfaction rate⁶, which is calculated by using Performance Measures for both high and routine priority demands.

Key Performance Indicators. The KPIs developed should be "SMART", meaning that they are Specific, Measureable, Attainable, Relevant and Timely. For further explanation of these qualities, refer to the Performance Measures section of the PPBC Handbook.

⁵ For further information on DLOC, refer to ADDP 00. 2, 'Preparedness and Mobilisation'.

⁶ As discussed for KPI-02 under the [Worked KPI Examples](#) (on the DMO Standardisation Office, Procurement and Contracting DRN site), demand satisfaction rate is a difficult Performance Measure to use.

KPIs must also be independent of each other (ie, orthogonal) to minimise interactions and unexpected consequences. Bringing KPIs together in a framework where they overlap, complement each other, or conflict, can be counter-productive, unless deliberately constructed to create a balance. For example, a contract with one KPI for availability and another for reducing cost (eg, using a variable cost component or by affecting another Commonwealth expense) can be constructed to involve the Contractor in achieving the cost-capability balance.

Alternatively, a contract with KPIs for availability and scheduled maintenance effectiveness can be counter-productive because maintenance effectiveness contributes to availability. If both were linked to rewards and remedies, there could be 'double-dipping'. The contractor could also 'game' / trade-off the two KPIs (eg, if the achievement of depot maintenance effectiveness is looking poor, but availability is on target, resources could be switched from other activities to depot maintenance because reducing availability for a small financial loss may be better than taking a larger loss on the maintenance). In these cases, it can be better to keep the main KPI (ie, availability) and use the other as a Performance Measure for tracking the 'health' of the Contract, and subsequently use that measurement information to help fault-find any causes of availability shortfalls.

To minimise conflicting situations, **there should be no more than 3-5 KPIs in a Contract**. The only situation where this number may be exceeded is where there are multiple major Workstreams in a Contract (eg, maintenance of two different classes of ship). In these circumstances, there may be up to 3-5 KPIs per Workstream. For minor Workstreams, however, alternative rewards and remedies should be considered, rather than trying to tie these into the performance-management framework using KPIs that are dwarfed by other parts of the Contract. For further explanation, refer to the Defining KPIs section of the PPBC Handbook.

As the number of KPIs increases, the incentivising power of each individual KPI is diluted (eg, because the amount of money At-Risk is divided across more KPIs) and the associated measurement and management burden increases. This translates into cost for both parties.

Required Performance Levels. The Required Performance Level for each KPI will most likely be unique, even where common KPIs are used. These performance levels should originate from the Outcome for which each KPI is linked; however, it can be difficult to translate this high-level objective into a Required Performance Level. For example, a Materiel System may be required to achieve a level of operational availability and a particular rate of effort. To translate these requirements into the number of systems provided to Defence units for operations and the corollary maintenance and supply requirements (eg, or how fast spare parts will be required), involves many intermediate factors to be considered.

Setting the Required Performance Level is a key aspect of the performance-management framework. This level is intended to represent the Commonwealth's requirement and should be treated similarly to a specification (eg, it should not be artificially inflated because it is considered "too easy to meet"). The level of performance required to obtain an incentive (or to minimise disincentives) must also be considered. Setting the level too high when additional performance is desired, but the system itself is not readily supported at that level (ie, due to its supportability characteristics) or Defence has control of inputs (eg, quantities of spares), is more likely to encourage the Contractor to factor risk into an increased Contract Price, rather than encourage greater performance and value for money.

Given the complexities associated with setting the Required Performance Level, specialist expertise should be sought when defining this level, and the associated Performance Bands that are developed with respect to this level.

Table P-1 requires the Required Performance Level for each KPI to be inserted. This may be a simple 'static' requirement that does not vary, or a 'dynamic' time-variant requirement, where the Required Performance Level varies from one month to another. An example (KPI-03 in KPI Worked Examples⁷) for Mission System availability allows for variations in fleet size, Contractor deeper maintenance and

⁷ Refer to the DMO Standardisation Office, Procurement and Contracting website on the Defence Restricted Network.

modification programs that can be forecast, resulting in a performance target that will change on a month-by-month basis. Where the description of the Required Performance Level is too large to fit within the table, it should be included in the definition of the KPI, with reference to the applicable clause entered into this table.

Review Periods. Table P-1 requires the Review Periods for each KPI. KPI Review Periods may be of different lengths within the one contract. For example, most KPIs may have quarterly Review Periods, while one may be reviewed annually. The duration of Review Periods must be determined based on the needs of each KPI and the practicality of operating the performance-management framework. If a Review Period is too short, results may be statistically unrepresentative due to short-term fluctuations. However, a Review Period that is too long, it could mean that the KPI cannot be used to enact a timely response to poor performance. For further explanation, refer to the Defining KPIs section of the PPBC Handbook.

Drafter's Action: Drafters are to fill in the Outcomes, contributory outcomes and KPIs in Table P-1, based on the objectives for the Contract and the performance that will be measured.

Drafters are required to insert the Required Performance Level and the Review Period for each KPI into the table – these may not be determined until a more detailed analysis of each KPI (needed for the following sections) have been performed. If a KPI is 'time-variant' (the Required Performance Level changes over time), the entry into the table should refer to either the applicable KPI definition in this Annex (noting that this would require a regular CCP for updates) or a separately prepared 'KPI Performance Measurement Plan' to be provided by the Commonwealth or jointly developed at CSPRs and appended to the V&VP.

Of note, only the names of the Outcomes are required in the table (the actual numbers may be classified); however, the Required Performance Levels require quantitative entries.

Related Clauses: KPI definitions in the subsequent clauses of this Annex.

Clause 4 of Annex C to Attachment B, Performance Implementation Period, KPIs can be suspended during the PIP.

Further Reading: Further information about KPIs, Required Performance Levels and Review Periods is available in the PPBC Handbook.

3 KPI-01: [...INSERT KPI NAME...]

Sponsor: DMO Standardisation Office and Commercial Policy and Practice Branch

Status: Core (the number of KPIs is optional)

Purpose: To specify the purpose, nature and requirements for each KPI and for determining the Achieved Performance Score for each KPI.

Policy: Nil

Guidance: Following the introduction, each level 1 clause in this Annex addresses an individual KPI. These KPI definition clauses, which are outlined below, are repeated for each KPI used in the performance assessment process. The definition of each KPI includes subclauses covering:

- a. an explanation of the purpose and definition of the KPI;
- b. measurement requirements for the KPI, including specific planning details or tools to be used;
- c. an explanation of how the Achieved Performance for the KPI for the Review Period is determined; and
- d. the details for determining the Adjusted Performance Score from the Achieved Performance.

The *ASDEFCON (Support)* template does not prescribe any particular KPIs to be used; however, worked examples⁸ are available to demonstrate the tailoring of the clauses. The KPIs, and their Required Performance Levels, must be determined from the high-level Outcomes required for the Defence Capability and from the Contract (refer to clause 2 of Attachment P), before undertaking any tailoring of the performance assessment process and the KPI descriptions in this annex.

Each KPI will be unique and must be adapted to the needs of the individual Contract. Some KPIs will be fairly similar for contracts of a similar nature, and subject matter experts in each DMO Division may be able to provide advice on commonly used KPIs for that domain. Some common KPIs may be able to be adapted by simply adjusting the Required Performance Levels and Performance Bands for the required KPIs. Other KPIs will be quite new and unique, and will require substantial change to clause 3.1 and subsequent clauses. Specialist advice can make this task substantially easier.

Drafter's Action: Refer to each subclause.

Related Clauses: Nil

Further Reading: Nil

3.1 KPI Explanation

Sponsor: DMO Standardisation Office and Commercial Policy and Practice Branch

Status: Core (with options)

Purpose: To describe the purpose and definition of the KPI.

Policy: Nil

Guidance: This initial explanation describes for the reader (Commonwealth and Contractor) the purpose of the KPI and how it is described either through measurement and/or calculation using subordinate Performance Measures. The draft clauses provide a basic structure for the consistent definition of KPIs, in the understanding that each explanation may be quite different.

For clause 3.1.1 the name of the KPI should be updated (it is a cross-referenced field, update with "Shift+F9") and a written description of the KPI inserted. The description also provides an opportunity to explain the relationship between the Outcome and the KPI if needed.

Suggested optional clauses for clause 3.1.2 allows for a more precise description, using either (Option A) a mathematical formula and/or more specific details about how to define or calculate the KPI, or (Option B) a list of associated parameters or measurement data that is required. In some cases the measurement required for the KPI will be inherently obvious in its name (eg, hours lost for X per Review Period) and neither option will be required.

Where a formula is inserted (Option A), each factor used in the formula (which may be Performance Measures in their own right) should be defined. In some instances a single formula may be very complex, and it may be preferable to make a statement regarding the formula, or require a second formula. For example, the KPI could be based on a number of parameters (eg, Demand Satisfaction Rates for different priority levels) but the KPI itself is a weighted score or average from the various parameters. Sometimes a second calculation will need to be included in this clause (eg, for a weighted average) or, if the same as Achieved Performance (ie, performance against the KPI for the full Review Period), in clause 3.3.

If the KPI is determined without a formula (Option B); for example, the KPI is based on the count of certain events or exceptions to an acceptable outcome, then the parameter(s) or other forms of measurement data that will be needed to determine the Achieved Performance against the KPI (in clause 3.3) should be listed and defined as required.

When developing this clause it is important to understand and distinguish between the KPI and Achieved Performance for the KPI in clause 0. For example, a KPI for

⁸ Refer to the DMO Standardisation Office, Procurement and Contracting website on the Defence Restricted Network.

a help desk could be “average response time” but the Achieved Performance in clause 0 could be either “the number of days during the Review Period when response time exceeded X [threshold]” or “the (mean) average response time for the Review Period” – depending on what best suits the Contract. Similarly, a KPI for “System Availability” could be measured daily but planned on a monthly basis with a 3-monthly Review Period – in which case the Achieved Performance may be the “weighted (due to the different lengths of months) average for monthly System Availability” or the “average daily System Availability” for the entire Review Period. Clearly, the KPI and the Achieved Performance will not produce identical results due to the time period over which each is determined.

Drafter’s Action: The drafter is to fill in the applicable KPI definition. The drafter should then select and develop either Option A or Option B, as applicable, to define the factors used to measure or calculate the KPI (or delete both if the parameters are completely obvious from the KPI’s name). Make the amendments to best explain the KPI, while using the suggested clauses to provide a consistent structure for this Annex.

Related Clauses: Other subclauses of clause 3.

Further Reading: Refer to environment / domain specific guidance on KPIs and their determination (eg, ASD PBC Handbook) and the PPBC Handbook.

Refer also to the worked example KPIs⁹, not for KPIs that will be suited to an individual contract, but as examples of the extent to which this clause may be tailored in different situations.

3.2 KPI Measurement

Sponsor: DMO Standardisation Office and Commercial Policy and Practice Branch

Status: Core

Purpose: To define requirements for the collection of parameters and measurement data (ie, Performance Measures) required for determining performance against the KPI.

Policy: Nil

Guidance: This clause 3.2 allows the drafter to insert and define any mandatory measurement requirements related to this KPI, including the factors used to calculate or otherwise determine it.

Clause 3.2.1 allows for basic requirements to be entered, such as measurement at a set time of the day. This can be expanded to include the measurement at a set location, or on a continuous basis, or other requirement. If the Commonwealth does not wish to specify any mandatory requirements (and leave it to the Contractor’s V&VP to describe these measurement processes), then the clause should be deleted and replaced with ‘Not used’ or replace it with “KPI-01 shall be measured in accordance with the Approved V&V Plan”.

Clauses 3.2.2 and 3.2.3 allow for conditions or ‘rules’ for the measurement, scoring, or other method used for determining performance against the KPI to be described. These help to explain the boundaries for measuring data for the KPI and the applicable conditions. Quite often these conditions are needed to exclude Commonwealth involvement, as a factor, when determining Contractor performance (ie, Commonwealth involvement must be allowed for or ‘carved out’) in the applicable process and/or measurements. Detailing these rules can be achieved by a list, as per clause 3.2.2, and/or a flowchart / decision tree / scoring table or other diagrammatic representation under clause 3.2.3. For example, conditions and the decision logic in a flow chart would explain what would happen to the measurement / recording process if a Defence unit changed the priority of a spare part demand half way through an order being processed. The ASD PBC Handbook includes a number of examples illustrating such rules and conditions.

Clauses 3.2.4, which is optional, allows for specific performance measurement tools and data collection activities to be defined for incorporation into the Contractor’s V&VP. This draft clause provides the option to explicitly identify the required information sources, including those to be sourced through Defence

⁹ Refer to the DMO Standardisation Office, Procurement and Contracting website on the Defence Restricted Network.

information management systems or other tools (eg, customer reporting). This approach would only be used where the Commonwealth wishes to mandate a particular information source. If this is not required to be defined, the clause should be deleted.

Drafter's Action: The drafter is to fill in the applicable details, such as the times for measurement, prerequisite and other condition and/or diagrams, as required. Drafters should also use the optional clause as the starting point for defining the various information sources and tools or, if not required, delete the clause. Use the suggested clauses to provide a consistent structure for this Annex.

Related Clauses: Other subclauses of clause 3.

Clause 10.2 of the draft SOW, V&V Planning.

Further Reading: Refer to environment / domain specific guidance on KPIs and their determination (eg, ASD PBC Handbook) and the PPBC Handbook.

Refer also to the worked example KPIs¹⁰, not for examples that will be suited to an individual contract, but as examples of the extent to which this clause may be tailored in different situations.

3.3 Achieved Performance

Sponsor: DMO Standardisation Office and Commercial Policy and Practice Branch

Status: Core

Purpose: To describe the method for determining the Achieved Performance for the KPI for the Review Period.

Policy: Nil

Guidance: As per the guidance for clause 3.1, a KPI as measured or calculated is not always the same as the Achieved Performance for the entire Review Period. Clause 3.3 allows the method for determining the Achieved Performance, from the collected KPI parameters and performance data, to be clearly articulated.

A KPI may be measured by event or determined on a daily, monthly, or other basis that reflects the contributory outcomes that the Contract provides. Often the KPI will be designed to reflect the way that the Outcome is described (eg, daily availability, at-sea days per month, etc), which won't necessarily match the Review Period.

The Achieved Performance may be based on an average (mean or median), a weighted average, scoring, or some other means as applicable for the entire Review Period and as suited to the KPI and Contract. The determination process described under clause 3.3 may require additional formula (eg, for averages or weighting different parameters), conditions and/or diagrams for using the KPI results to determine the Achieved Performance for the Review Period.

Drafter's Action: The drafter is to describe how the Achieved Performance is to be determined. If formula and conditions are needed, clauses similar to clauses 3.2.1, 2 and 3 may be used, changing "KPI-01" for "Achieved Performance for KPI-01 for the Review Period" or similar, to achieve consistency. Make other amendments as necessary.

Related Clauses: Other subclauses of clause 2

Further Reading: Refer to environment / domain specific guidance on KPIs and their determination (eg, ASD Performance Based Contracting Handbook) and the PPBC Handbook.

3.4 Adjusted Performance Score

Sponsor: DMO Standardisation Office and Commercial Policy and Practice Branch

Status: Core

Purpose: To describe the method for determining the Adjusted Performance Score.

Policy: Nil

¹⁰ Refer to the DMO Standardisation Office, Procurement and Contracting website on the Defence Restricted Network.

Guidance: The Adjusted Performance Score is used to convert Achieved Performance for a KPI (using any unit of measure) into a single percentage score. These percentage scores then provide a common basis for later use in determining Contract rewards and remedies.

There are a number of methods that can be used to obtain an Adjusted Performance Score from the Achieved Performance for a Review Period, including calculation using formulae for a curve (or set of curves), or look-up tables. The method can be dictated by the nature and measurement base of the Achieved Performance (the 'input' use to determine the Adjusted Performance Score).

Adjusted Performance Score Curves:

The main method used in *ASDEFCON (Support)*, and as included in Attachment P, is to define an Adjusted Performance Score 'curve', where the Achieved Performance can be translated into an Adjusted Performance Score (based on mathematical relationships), as shown in Figure P-1 of Attachment P and Figure 1 below:

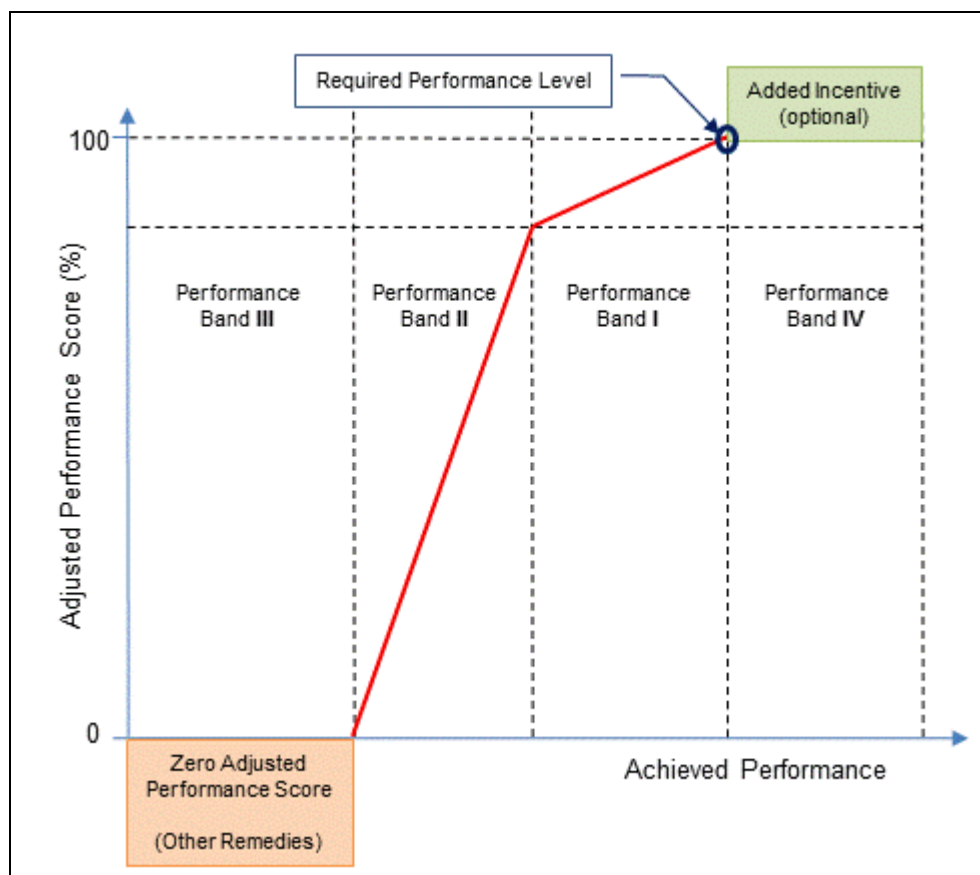


Figure 1: Performance Curve (Performance worse to left)

A mathematical, straight-line formula (ie, $y = m \cdot x + c$, using a gradient or slope (m) and starting coordinates), defines the conversion from Achieved Performance (x) to the Adjusted Performance Score (y) for each Performance Band. Depending on the level of performance achieved, a different formula is used for the applicable performance band. Further explanation is provided in the "Performance Bands and Levels" section of the PPBC Handbook.

When using this approach, the formula for each straight-line segment of the curve must be defined. For Performance Bands III and IV a very simple formula may be applicable (ie, $APS = 100\%$ for Performance Band IV, and $APS = 0\%$ for Performance Band III). The approach adopted will depend on how the Adjusted Performance Score is to be used for Performance Incentives (for Performance Band IV) and/or in the rare cases of those liquidated damages where the cost to the Commonwealth is linear against performance and can be accurately forecast (for Performance Band III).

Figure 1 (above) is typical of many KPIs where a higher Achieved Performance is generally better and poorer or worse than expected performance appears on the left. However, for other KPIs, such as one based on an average delay time, a lower numerical result is better and the shape of the curve appears reversed, as shown below in Figure 2.

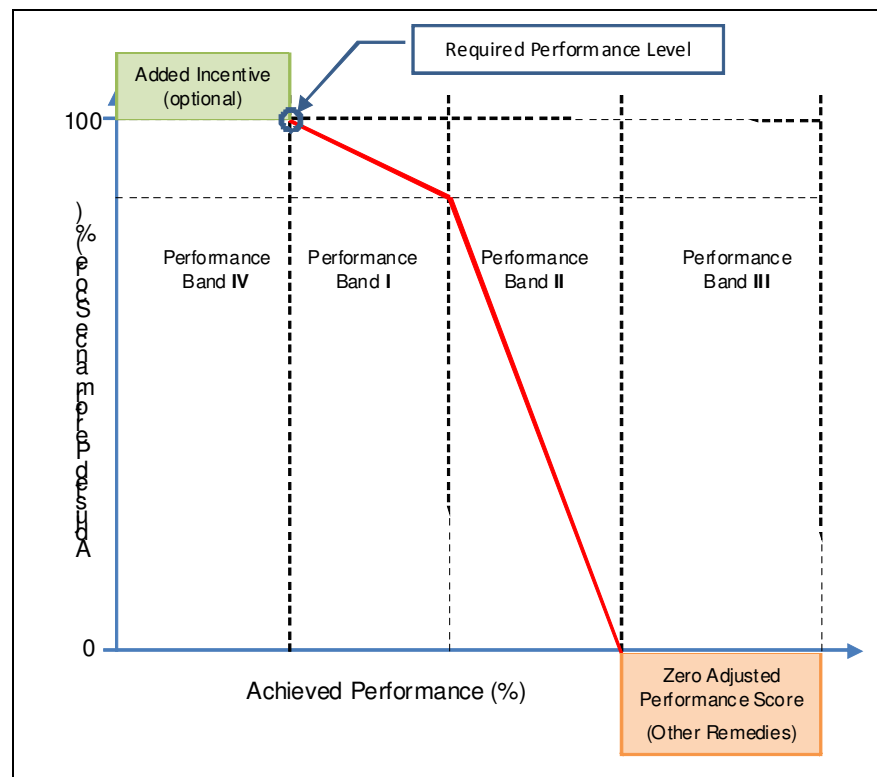


Figure 2: Performance Curve (Performance Worse to the Right)

For accuracy, the Adjusted Performance Score must be determined using the applicable formula for the Performance Band's segment of the curve – not by 'reading off the chart'. Clause 3.4 is used to identify the formula to be used for each Performance Band, as per Table P-2 of Attachment P. The drafter needs to determine the values to be used in developing each formula and the boundaries of the Performance Bands. Refer to the earlier guidance for clause 2.4 of Attachment P (as opposed to this Annex) and the PPBC Handbook for information about setting the Required Performance Level and Performance Bands.

Starting with the Required Performance Level (eg, from the MSA product schedule) and an Adjusted Performance Score of 100%, provides the first point (shown as "(A, 100)" in Figure P-1 of Attachment P). The Required Performance Level also represents the boundary between Performance Bands I and IV. The values for the other points (B to E, and F) in Figure P-3 must also be determined.

Once values for the turning and end points in Figure P-1 have been identified, these values (ie, for A through F) are entered into the table to set the boundaries of the Performance Bands and to develop the formulae. Each formula needs to be resolved as far as possible, so that only the "Achieved Performance" (ie, the value to be input during the Contract) and the result are non-numerical values. For example:

$$\text{APS} = 1.5 \times (\text{Achieved Performance} - 60) + 85$$

could be the formula for Performance Band I, if the Required Performance Level was 60, the gradient of the line (change in 'y' values over the change in 'x' values) was 1.5 and the Performance Band began where the Adjusted Performance Score was 85 (value for C in the Figure P-3).

Performance Incentives:

The Adjusted Performance Score should be expressed as a percentage, with 100% indicating that the Required Performance Level has been achieved. In some instances over-performance (ie, Achieved Performance that is above the Required Performance Level) may be utilised by, and be beneficial for, Defence. This can be encouraged through the use of Performance Incentives.

To provide a Performance Incentive, *ASDEFCON (Support)* uses a simple method of extending the Adjusted Performance Score above 100% in Performance Band IV, and using this score to calculate a Performance Incentive in accordance with Annex C to Attachment B. In this Annex, the formula for the Adjusted Performance Score curve in Performance Band IV needs to create results of greater than 100%. If no Performance Incentive is offered, then the maximum Adjusted Performance Score must be 100% (ie, "APS = 100%" is the formula for Performance Band IV).

Liquidated Damages:

Liquidated damages may be sought in response to very poor performance, where the outcome of this poor performance would cause the Commonwealth to incur additional costs. The extent of liquidated damages will be determined in accordance with Attachment D and COC clause 7.12, which may also use the Adjusted Performance Score. In these (rare) cases, the Adjusted Performance Score would result in a negative value (eg, -10%) through the formula for the Adjusted Performance Score curve – but this value could relate to prices / costs other than Performance Payments, if detailed in Attachment D. Notwithstanding, there are logic challenges with linking liquidated damages to the Adjusted Performance Score, as discussed earlier (guidance for clause 2.4).

Drafter's Action: Drafters need to determine if the method of obtaining the Adjusted Performance Score, from the Achieved Performance, will use a set of Adjusted Performance Score curves, or some other method. The selected method must then be described and result in an Adjusted Performance Score, where the Required Performance Level equates to 100% and other values produce results in a Performance Band (I to IV), which can be referenced from other parts of the Contract (eg, Annex C to Attachment B).

When using Adjusted Performance Score curves (default method), the boundaries and formulae must be defined for each Performance Band and inserted into Table P-2. It is important to have each formula reviewed, checked, and example calculations performed and checked again, to ensure that they have been developed correctly and produce the expected output values of Adjusted Performance Score for various input values for Achieved Performance.

Drafters should seek specialist advice when developing the method to be used to define the Adjusted Performance Score.

Related Clauses: Other subclauses of clause 3.

Clause 2 of Attachment P, which summarises the determination of the Adjusted Performance Score.

Annex C to Attachment B, which defines how Performance Payments will be determined from the Adjusted Performance Scores.

COC clause 1.8, Expiry and Commonwealth's Option to Extend (extensions may be dependent on performance not occurring in Performance Band III and II).

COC clause 6.2, Performance Management

COC clause 6.4 Performance Shortfalls

COC 6.12 Remediation of Performance Problems

COC clause 7.9, Stop Payment Events

COC clause 7.12 and Attachment D, if liquidated damages require a negative Adjusted Performance Score to determine the compensation that will be sought.

Further Reading: Nil

3.5 Operation of formulae for Adjusted Performance Score – FOR INFORMATION ONLY

<u>Sponsor:</u>	DMO Standardisation Office and Commercial Policy and Practice Branch
<u>Status:</u>	Optional
<u>Purpose:</u>	To better illustrate the method for determining the Adjusted Performance Score.
<u>Policy:</u>	Nil
<u>Guidance:</u>	<p>The clause 3.4 (previous) defines how the Adjusted Performance Score is determined from the Achieved Performance for a KPI for a Review Period. To better illustrate to the reader (Commonwealth or Contractor) how this works a graphical representation is inserted under clause 3.5. If a graphical representation is not required, the subclause may be deleted and replaced with “Not used”.</p> <p>A diagram, and any added explanation under this clause, is for information / illustration purposes only. Developing such a diagram can also assist the drafter to develop the table under clause 3.4.</p>
<u>Drafter’s Action:</u>	Drafters should draft a suitable diagram showing the Performance Bands and the Adjusted Performance Score curve. The diagram may be developed in Microsoft® PowerPoint, Visio or another software package and generally saved as a graphic information format (gif) file, Windows® meta file (wmf), or as a Word drawing.
<u>Related Clauses:</u>	Clause 3.4.

4 KPI-02: [...INSERT KPI NAME...]

<u>Sponsor:</u>	DMO Standardisation Office and Procurement and Contracting Branch
<u>Status:</u>	Core (the number of KPIs is optional)
<u>Purpose:</u>	To assist in tailoring the annex.
<u>Policy:</u>	Nil
<u>Guidance:</u>	The template clauses provided for KPI-02 are the same as KPI-01, without the notes to drafters and example diagrams. This approach makes it is easier to copy and paste these clauses as a standard set when defining additional KPIs.
<u>Drafter’s Action:</u>	Copy the subclauses of clause 3 as a template for defining additional KPIs.
<u>Related Clauses:</u>	Nil
<u>Further Reading:</u>	Nil

GUIDANCE FOR ATTACHMENT Q, OTHER PERFORMANCE MEASURES

<u>Sponsor:</u>	DMO Standardisation Office and Commercial Policy and Practice Branch
<u>Status:</u>	Optional (To be included when Other Performance Measures (OPMs) are required under the Contract).
<u>Purpose:</u>	To specify the OPMs used within the Contract.
<u>Policy:</u>	Nil
<u>Guidance:</u>	Attachment Q is used to specify the OPMs used by the Contract. OPMs may be used for a number of reasons, as listed at clause 1.1. OPMs are not always required and, if this is the case, then the contents of the annex may be deleted and replaced with "Not used".
<u>Drafter's Action:</u>	Refer to guidance for individual clauses. If no OPMs are used in the Contract, all subordinate clauses should be deleted and replaced with a single "Not used".
<u>Related Clauses:</u>	Nil
<u>Further Reading:</u>	Nil

1 INTRODUCTION

1.1 Purpose

<u>Sponsor:</u>	DMO Standardisation Office and Commercial Policy and Practice Branch
<u>Status:</u>	Core
<u>Purpose:</u>	To state the purpose of this Attachment.
<u>Policy:</u>	Nil
<u>Guidance:</u>	This clause identifies the possible purposes for including OPMs in a Contract, which are explained in the following paragraphs.

The effectiveness of KPIs is crucial for aligning a Contractor's priorities with Defence's required Outcomes. An ineffective KPI will, ultimately, result in rewards and remedies that do not truly reflect the value of the Services provided and that may, in the long term, be detrimental to both parties. To ensure KPIs are effective, one or more OPMs may be required. For example, a KPI for system availability (eg, the worked example for KPI-03) could be ineffective if too much slack is built into the Depot Maintenance (DM) schedule. Hence, a 'Depot Maintenance effectiveness' OPM, which compares the actual duration and labour hours against a forecast, can help to determine if the nominated number of systems in DM, which is used when setting the Required Performance Level for a KPI, is appropriate. Another example OPM, which can be used to assess the effectiveness KPIs for the supply of RIs and Non-RIs, is the rate (%) of RIs and Non-RIs being delivered and then rejected during Acceptance checks. A high number, or sudden rise, could indicate that the KPI is becoming ineffective (by driving undesirable behaviour) by encouraging deliveries at the expense of product quality (for Non-RIs) or maintenance quality (for RIs).

Some OPMs will be used to measure the performance of the Contractor even though that performance is not linked to calculating a Performance Payment (which requires a KPI). In these cases, the OPM may be linked to another reward or remedy within the Contract. For example, an OPM could measure performance against a compliance requirement, where failure to achieve the required level could result in the need for a Remediation Plan that is linked to the Stop Payment provisions. In some cases, these OPMs can be used as 'gates' that must be successfully passed before the Contractor can receive Performance Payments calculated from KPIs or to be granted Award Terms. For example, no Performance Payment will be payable against a KPI if there has been a failure to comply with a particular requirement (eg, safety, quality or technical regulation) that is measured using the OPM. In this instance, the OPM would usually be specified in this Annex and then identified within the list of conditions to be applied before determining a Performance Payment (which would need to be added to COC clause 7.11).

OPMs can also be used to measure the ‘health’ of the Materiel System, including Mission Systems / equipment and Support Systems. A common OPM for Mission Systems / equipment is the reliability or arising rate of failures for various subsystems, which acts as a lead indicator for increasing maintenance demands as a system ages. An OPM for the Support System could be the number of “no fault founds” during Contractor maintenance, which can indicate poor training of Defence maintainers (who are submitting serviceable Repairable Items for repair), poor but not necessarily incorrect technical data (eg, hard to follow), or Support and Test Equipment (S&TE) that is ineffective or out of calibration. Usually OPMs in this category require some form of management response, either through investigation and corrective action or future planning.

In some cases, an OPM could be used for a combination of the above reasons. For example, the reason a KPI may be becoming less effective could be related to a change in the ‘health’ of a component of the Materiel System. A more specific example of this is that the Required Performance Level for a KPI may be becoming less and less unachievable (hence possibly unrealistic and ineffective) because of the deteriorating reliability of an ageing system (ie, the OPM for system health is also used to validate the achievable nature of the Required Performance Level).

Drafter’s Action: Tailor the generic list of reasons for having OPMs to match only those purposes for the individual OPMs included in this Annex. This is normally the last part of the Attachment to be tailored.

Related Clauses: Nil

Further Reading: Nil

1.2 Content

Sponsor: DMO Standardisation Office and Commercial Policy and Practice Branch

Status: Core

Purpose: To list the OPMs defined in this Attachment, and to act like a table of contents.

Policy: Nil

Guidance: Each OPM used in the Contract is listed in this Attachment. This clause lists the OPMs and is used for quick reference.

Drafter’s Action: The drafter must update the names of the OPMs in the subclause list. This is done by creating the heading for the OPM and bookmarking its name. This list is then constructed using a cross-reference to the bookmark to ensure consistent naming, as explained for KPIs in Attachment P.

Related Clauses: Nil

Further Reading: Nil

2 [... INSERT OPM NAME ...]

2.1 Purpose of the OPM

Sponsor: DMO Standardisation Office and Commercial Policy and Practice Branch

Status: Core

Purpose: To identify the purpose for including the individual OPM in the Contract.

Policy: Nil

Guidance: The major reasons for using OPMs are described at the start of the guidance for Attachment Q, and listed at clause 1.1. This clause identifies the specific purpose, or purposes, for including the individual OPM in the Contract.

Draft clauses are provided for each of the three main reasons for having an OPM. One or more of the optional clauses should be selected as the basis for describing the purpose(s) for which the OPM will be used.

If the OPM assists to validate the effectiveness of a KPI, then the KPI’s name (and number for cross-referencing purposes) should be inserted into the clause for option A.

If the OPM is used to evaluate Contractor performance that is not linked to a KPI, then a description of the Services being measured should be inserted for option B.

If the OPM is to be used in measuring 'system health', 'efficiency' or some other factor, then the description should be developed and included in the clause for option C.

Drafter's Action: The drafter must select and complete the applicable option, or options, for describing the purpose(s) of the OPM.

Related Clauses: clause 1.1.

Further Reading: Nil

2.2 Description of the OPM

Sponsor: DMO Standardisation Office and Commercial Policy and Practice Branch

Status: Core

Purpose: To define the individual OPM and how it will be measured.

Policy: Nil

Guidance: This clause enables the drafter to include a definition the OPM and how it is to be measured. This can be accomplished in much the same way as the 'explanation' of a KPI, using mathematical formulae and conditional flow charts if necessary.

For further guidance for defining the OPM, refer to the guidance for KPIs in clause 3.1 of Annex A to Attachment P. In addition, details for the OPM will need to include the measurement period and, if used to assess Contractor performance, applicable performance requirements or thresholds.

Drafter's Action: The drafter must select and complete the applicable option or options for including the OPM.

Related Clauses: Nil

Further Reading: Nil

GUIDANCE FOR ANNEX C TO CONTRACT ATTACHMENT B, PERFORMANCE PAYMENTS

Note: The following guidance is specifically for Annex C to Attachment B. However, to operate, Annex C also requires that details for the:

- a. **Core Services Fee;**
- b. **Excluded Amounts;**
- c. **Recurring Services Fee;**
- d. **At-Risk Amount; and**
- e. **Base Fee,**

are included in Annex B to Attachment B. Definitions for the above terms are included in the Glossary at Attachment M.

1 INTRODUCTION

<u>Sponsor:</u>	DMO Standardisation Office and Commercial Policy and Practice Branch
<u>Status:</u>	Core
<u>Purpose:</u>	To define the scope and purpose of Annex C to Attachment B.
<u>Policy:</u>	Nil
<u>Guidance:</u>	The introduction outlines the purpose of Annex C, in defining how Performance Payments are calculated, and refers to the COC clauses for making those payments.
<u>Drafter's Action:</u>	This clause should be retained in the RFT without alteration.
<u>Related Clauses:</u>	Nil
<u>Further Reading:</u>	Nil

2 AT-RISK AMOUNTS

2.1 Allocating an annual At-Risk Amount to KPIs

<u>Sponsor:</u>	DMO Standardisation Office and Commercial Policy and Practice Branch
<u>Status:</u>	Core
<u>Purpose:</u>	To define the At-Risk Amount and how it is allocated to KPIs for Review Periods.
<u>Policy:</u>	Nil
<u>Guidance:</u>	<p>The total of the At-Risk Amount is a portion of the Core Services Fee placed 'At-Risk' and paid based on Contractor performance as measured against KPIs. This clause details how the At-Risk Amount is allocated to KPIs, based on their weighting, and subsequently divided up for the KPI's Review Periods.</p> <p>Firstly, it should be noted that the Core Services Fee does not include payment for S&Q work performed under the Contract, Task-Priced Services or Recurring Services that are classed as 'Excluded Amounts' in Annex B to Attachment B. Hence the Core Services Fee, to which the At-Risk Amount is applied, is usually a significant portion, but not all, of the Recurring Services Fee. Other performance-management methods may be required for Services paid for by other means (eg, milestone payments for the completion of stages in a high-value S&Q Service)</p> <p>The annual total At-Risk Amount, in dollars, will be detailed in Table B-1, in Annex B to Attachment B. The Table identifies the portion (At-Risk Percentage) of the Core Services Fee that will become the At-Risk Amount. The template requires the drafter to include a set percentage for the At-Risk Amount in TDR D-3 (in Annex D to Attachment A to the conditions of tender). The higher the percentage, the greater will be the incentivising power of the At-Risk Amount; however, as the percentage is increased, there will be commensurate implications for the tendered</p>

offers. If the percentage is set too high, some potential tenderers may not bid due to the perceived undue levels of risk, while other tenderers would be likely to incorporate risk dollars into their tendered pricing. The ability to select a percentage will also be influenced by the degree of available competition.

Drafters could leave this percentage for the tenderers to propose; however, as a general principle, the Commonwealth should always define its requirements in its RFTs, particularly one such as this, which is likely to be a significant consideration in source selection. As such, the drafter should set the required percentage or, as a minimum, identify a narrow range of allowable percentages in TDR D-3 and Annex B to Attachment B, rather than leave each tenderer to propose different percentages in their tender responses (an evaluation of this nature would be quite challenging).

Depending on the relative importance of the KPIs, different portions of the At-Risk Amount are allocated to different KPIs, creating a 'weighting'. The initial allocation of the At-Risk Amount to KPIs is also annual, with the At-Risk Amount per KPI determined by multiplying the weighting for the KPI by the total At-Risk Amount. The At-Risk Amount for an individual KPI is then divided up into equal amounts for each Review Period over which the Contractor's performance against the KPI is reviewed. The result is an At-Risk Amount per KPI per Review Period. The Review Periods, which can be different for different KPIs, are defined for each KPI in clause 2.1 of Annex A to Attachment P.

Some KPIs may also allow for a Performance Incentive to be paid. When used, a Performance Incentive is calculated based on a percentage of the At-Risk Amount that exceeds 100%, as determined by Attachment P.

Drafter's Action: Drafters must insert the percentage amounts, representing the KPI weightings, and the number of Review Periods per KPI, from Attachment P, into Table C-1.

As a related requirement, drafters must also insert the At-Risk Amount percentage (of the Core Services Fee) into TDR D-3 and Table B-1 of Annex B to Attachment B. The actual dollar amounts will not be able to be determined and inserted into the table until contract negotiations.

All other clauses should be included in the RFT without alteration.

Related Clauses: All subclauses under clause **Error! Reference source not found..**

Annex B to Attachment B, Recurring Services.

Annex A to Attachment P, which defines each KPI and its Review Period.

TDR D-3, Items relevant to Performance Management.

Further Reading: Nil

3 PERFORMANCE PAYMENTS

Sponsor: DMO Standardisation Office and Commercial Policy and Practice Branch

Status: Core

Purpose: To define how the Performance Payments are calculated.

Policy: Nil

Guidance: The Performance Payment comprises, for each KPI, an At-Risk Amount and, optionally, a Performance Incentive, which are determined for each Review Period.

The At-Risk Amount is the dollar amount that is placed "at risk" and reduced when the Contractor is not achieving the Required Performance level for a KPI. In essence, the At-Risk Amount represents the pre-agreed amount that can be deducted from the Core Services Fee for non-performance by the Contractor. The At-Risk Amount is neither a penalty nor a form of liquidated damages (because it does not refund any costs incurred by the Commonwealth due to the Contractor's

non-performance); instead, it represents the value associated with the degree of non-achievement of the required contractual outcomes.

Performance Incentives are optional, and may be applied to all, some, or none of the KPIs within the Contract. These act as a reward for over-performance when this additional performance is of value to the Commonwealth.

Drafter's Action: Refer to subordinate clauses.

Related Clauses: Refer to subordinate clauses.

Further Reading: Performance Payments section of the PPBC Handbook.

3.1 Entitlement to payment of the At-Risk Amount

Sponsor: DMO Standardisation Office and Commercial Policy and Practice Branch

Status: Core

Purpose: To define how the payable portion of the At-Risk Amount is calculated.

Policy: Nil

Guidance: The At-Risk Amounts to be paid for each KPI are calculated for each Review Period for that KPI (ie, if KPIs have different Review Periods, not all At-Risk Amounts will be calculated at the same time).

The formula within the clause is used to determine the At-Risk Amount, in all or part, that the Contractor will be entitled to as a Performance Payment. The amount is calculated from the At-Risk Amount allocated to a KPI for a Review Period (from Table C-1) and the Adjusted Performance Score for that KPI for that Review Period (as determined in accordance with Attachment P).

A Performance Incentive, if applicable to the KPI, would be payable if the Adjusted Performance Score was greater than 100%. Accordingly, to calculate the At-Risk Amount portion of the Performance Payment the Adjusted Performance Score must be capped at 100% as shown in the definition of 'B'.

Drafter's Action: This clause should be included in the RFT without alteration.

Related Clauses: Clause 3.2, Entitlement to Performance Incentives.

Clause 3.3, Interim Payments

Annex A to Contract Attachment P

Further Reading: Nil

3.2 Entitlement to Performance Incentives

Sponsor: DMO Standardisation Office and Commercial Policy and Practice Branch

Status: Optional (To be included where Performance Incentives are included in the Contract)

Purpose: To define how the Performance Incentive amounts are calculated.

Policy: DPPM, Section 2, Chapter 2.2

Guidance: Including a Performance Incentive within the Contract is way of encouraging a level of performance that is greater than the Required Performance Level. In accordance with the Financial Management and Accountability Act 1997, Defence may only pay a supplier an incentive payment for superior performance when the superior performance is of benefit to Defence. This is because the additional payments must meet the value-for-money test laid down in the Commonwealth Procurement Guidelines.

Where this value-for-money test can be met, the Commonwealth Representative may be prepared to offer a Performance Incentive as a reward for the additional

performance. If no Performance Incentive is required for any KPI in Attachment P, then the optional clause may be deleted and replaced with a single “Not used”.

Background:

If planning to use Performance Incentives in *ASDEFCON (Support)*, there are a number of issues that the drafter should be aware of. Firstly, the template includes only a simplistic method for determining Performance Incentives, which has the following consequences:

- a. The Performance Incentives are only for use with KPIs defined in Attachment P. Other Incentive Payments that may be offered under the Contract (eg, for increasing AIC or achieving cost savings) are independent and are to be included in Annex G to Attachment B.
- b. A Performance Incentive, when offered, is determined for each applicable KPI on an individual basis, subject to the conditions that must be met prior to granting any Performance Incentive, in accordance with COC clause 7.11, restrictions on certain payments.
- c. The Performance Incentive is, for simplicity, implemented as an extension of the At-Risk Amount, and is basically calculated the same way. If there is no At-Risk Amount for the KPI, then there can be no Performance Incentive.
- d. As an extension of the At-Risk Amount, a Performance Incentive is subject to the same Review Periods as the At-Risk Amounts.
- e. As an extension of the At-Risk Amount and calculation, a Performance Incentive is created when an Achieved Performance Score exceeds 100%. Therefore, the maximum Performance Incentive amount cannot simply be entered as a set figure, it has to be calculated by working out how much would be payable for each KPI where the maximum Achieved Performance Score exceeds 100%.
- f. As an extension of the At-Risk Amount, the weightings for each KPI for the Performance Incentive are set by two parameters. Firstly, the weighting applied to the At-Risk Amount and, secondly, the maximum Adjusted Performance Score obtainable for each KPI. For example, two KPIs equally weighted for At-Risk Amounts can have different weightings for Performance Incentives by setting their maximum Achieved Performance Scores obtainable to 110% and 120% respectively. While slightly more complex to set up, this enables the greater simplicity in the operation of the clauses in Annex C to Attachment B once the Contract is signed.

If this simplistic approach to Performance Incentives is too inflexible, drafters will need to develop an alternative methodology. In this instance, expert commercial and technical assistance, with experience in *ASDEFCON (Support)*, should be sought to develop the methodology.

Clauses:

Clause 3.2.1 provides explanation of how a Performance Incentive amount, as part of the Performance Payment for applicable KPIs, is determined from an Adjusted Performance Score that is able to exceed 100% (ie, for performance above the Required Performance Level). Refer to the guidance for Annex A to Attachment P for details on how this is achieved. Essentially, this is the same calculation used for the At-Risk Amount to be paid, in accordance with clause 3.1, but it only applies to that portion of the Achieved Performance Score that exceeds 100%.

Clause 3.2.2 provides a table to capture the actual maximum dollar amounts for the Performance Incentives once these are known. Typically, this table will not be able to be completed until after the prices are finalised during contract negotiations. The formulae in clause 3.2.1 enable the maximum to be determined by using the maximum possible Adjusted Performance Score from Attachment P.

Drafter's Action: Drafters need to either include the optional clauses for Performance Incentives, or replace the clause with 'Not used'. Noting that the remainder of the tailoring effort is in defining the Adjusted Performance Score calculations in Attachment P, the clause should be included in the RFT without alteration.

Drafters (or the Commonwealth Representative during contract negotiations) must later insert the actual dollar amounts into the table under clause 3.2.2. once these are able to be calculated.

Related Clauses: Clause 3.1, Entitlement to payment of the At-Risk Amount.

Clause 3.5, Suspension of measurement of a specified KPI.

Clause 4, Performance Implementation Period (the PIP excludes Performance Incentives).

COC clause 7.11, Restrictions on Certain Payments.

Annex A to Contract Attachment P

Further Reading: Nil

3.3 Interim Payments

Sponsor: DMO Standardisation Office and Commercial Policy and Practice Branch

Status: Optional

Purpose: To define the process for making interim payments for Performance Payments.

Policy: Nil

Guidance: The Performance Payment is determined from the Adjusted Performance Score following the end of each Review Period; however, so not to withhold monies from the Contractor for several months while waiting for the end of a Review Period, this clause allows for interim payments. Reconciliation is then required (see clause 3.4) after the Review Period, to match the total Performance Payment payable to what will actually be paid.

The need for interim payments is based on the duration of the Review Periods. If Review Periods are short (eg, one or two months), then interim payments may not be required and the clause can be replaced with "Not used". For longer Review Periods, and when there is no need to withhold money until the end of the Review Period (when the actual Performance Payment is calculated), the clause should be included. Clause 3.4 must also be included or 'not used' together with this clause.

The amount (of the At-Risk Amount) to be paid monthly on account to the Contractor must be determined by the drafter / Commonwealth Representative. With an expectation of the Contractor achieving the Required Performance Levels for all KPIs, the interim payments would account for most of the value of the At-Risk Amount (eg, 80% – 100%), divided up on a monthly basis. In the event of poor performance (in Performance Bands II or III), the Commonwealth has the right to reduce to amount paid on an interim basis until a continued period of improved performance is achieved.

Clause 3.3 includes the necessary provisions for defining the value of interim payments, and reducing the amount paid in the event of poor performance.

Drafter's Action: If interim payments will not be made, then the clauses below 3.3 may be deleted and replaced with a single "Not used". (Note that 3.4 must also be removed if this clause is not used.)

If interim payments will be made, the drafter is to insert the percentage of the At-Risk Amount to be paid on an interim basis, where indicated.

Related Clauses: Clause 2.1, which identifies the At-Risk Amounts.

Clause 3.4, Reconciliation of Interim Payments against the Performance Payments.

Further Reading: Nil

3.4 Reconciliation of Interim Payments against the Performance Payments

Sponsor: DMO Standardisation Office and Commercial Policy and Practice Branch

Status: Optional (to be included / excluded with clause 3.3).

Purpose: To reconcile the amount of interim payment that has been made, during the Review Period, against the actual Performance Payments amount payable for the Review Period.

Policy: Nil

Guidance: The Performance Payment payable is determined at the end of a Review Period, after any interim payments for that Review Period have been made. As a consequence, a reconciliation of the interim payments made against the actual Performance Payments payable is required.

This clause must be included or excluded from the Contract together with clause 3.3, which allowed for interim payments to be made. If not required, this clause may be deleted and replaced with "Not used".

If the interim payments paid were less than the Performance Payment payable, then the Commonwealth must pay an additional amount; however, if the Performance Payment is less than the interim payments already made, the Contractor will owe money to the Commonwealth. Money owed to the Commonwealth is recovered in accordance with COC clause 12.11, which provides the option to either deduct the amount from a future claim or for it to be paid within 30 days.

Drafter's Action: Drafters are to include this clause or delete it and replace it with "Not used" consistent with the tailoring of clause 3.3. If required, this clause should be included in the RFT without alteration.

Related Clauses: Clauses 3.1 and 3.2, used to determine the Performance Payment amount.

Clause 3.3, Interim Payments.

COC clause 12.11, Right of Commonwealth to Recover Money.

Further Reading: Nil

3.5 Suspension of measurement of a specified KPI

Sponsor: DMO Standardisation Office and Commercial Policy and Practice Branch

Status: Core (with optional clauses for Performance Incentives)

Purpose: To define the process for adjusting the Performance Payments when the measurement of KPIs has been suspended for all or part of a Review Period.

Policy: Nil

Guidance: From time to time there may be reasons to suspend the usual measurement and determination of KPIs. This clause is used to determine how the Performance Payment is adjusted to account for the period(s) of suspension.

There can be a number of reasons for suspending KPIs; for example, to stop measurement for a KPI during the annual stand-down period from late December to early January. Alternatively, a KPI may be suspended because an urgent modification or other event, which could not have reasonably been forecast or allowed for by the Contractor, will prevent the Required Performance Level for the

KPI from being achievable – effectively this second example pre-empts a claim for performance relief being made by the Contractor in accordance with COC clause 6.5.

If the KPI is suspended for the whole Review Period, then the Contractor will be entitled to the full At-Risk Amount as a Performance Payment, but any Performance Incentive, if applicable to the KPI, will not be available.

For periods of suspension that are less than a full Review Period, the Performance Payments are determined on a pro-rata basis. Meaning that the full At-Risk Amount is paid pro-rata for the period of suspension and the Performance Payments are calculated in the usual manner for the performance provided over the balance of the Review Period when performance was measured. For example, if in a 3-month Review Period a KPI is suspended for one month, then the full At-Risk Amount for that one month is payable, and the Achieved Performance Score, calculated for the remaining two months, will be used to determine the Performance Payment payable for that two month period.

The calculation for the At-Risk Amount payable is in two parts, the first part of the equation is the 'normal' (not suspended) period using the Adjusted Performance Score to determine the amount for that period. The second part of the equation determines the pro-rata At-Risk Amount for the remainder of the Review Period. The equation for the Performance Incentive only applies to the 'normal' (not suspended) period, as no Performance Incentive is attributable to the period of suspension (ie, equals zero).

Drafter's Action: Drafters are to include or exclude the optional clauses for Performance Incentives based on the use of Performance Incentives for KPIs within the Contract. Otherwise, all sub-clauses should be included in the RFT without alteration.

Related Clauses: Clause 2.1, Allocating an annual At-Risk Amount to KPIs.
 Clauses 3.1 and 3.2, used to determine the Performance Payment amount.
 COC clause 6.5, Performance Relief.

Further Reading: Nil

4 PERFORMANCE IMPLEMENTATION PERIOD

Sponsor: DMO Standardisation Office and Commercial Policy and Practice Branch

Status: Optional (To be used when it is not feasible to commence the full Performance Payments from the outset and there is a need to transition to the full regime over a period time)

Purpose: To allow for changes in the extent (scope) of the Performance Payments during an initial Performance Implementation Period (PIP).

Policy: Nil

Guidance: The PIP allows the Performance Payments and the associated performance assessment processes to be introduced over one or more stages, when it is inappropriate to commence the full provisions of the performance-management framework at the start of a Contract. The PIP is generally used to introduce the framework during an initial period of instability in the provision of Services, for the reasons described in clause 3 of Attachment P. If there is no PIP, the clause may be deleted and replaced with 'Not used'.

The PIP may involve either a single stage or a number of stages over which the performance assessment processes and Performance Payments are introduced. Typically, a greater amount of the Performance Payment may be linked to each subsequent stage. A single-stage approach could begin with no Performance Payment, or limited Performance Payment, but full operation of all performance assessment processes (in Attachment P). A multi-stage PIP may increase the amount of Performance Payment with each stage, as illustrated in Figure 3.

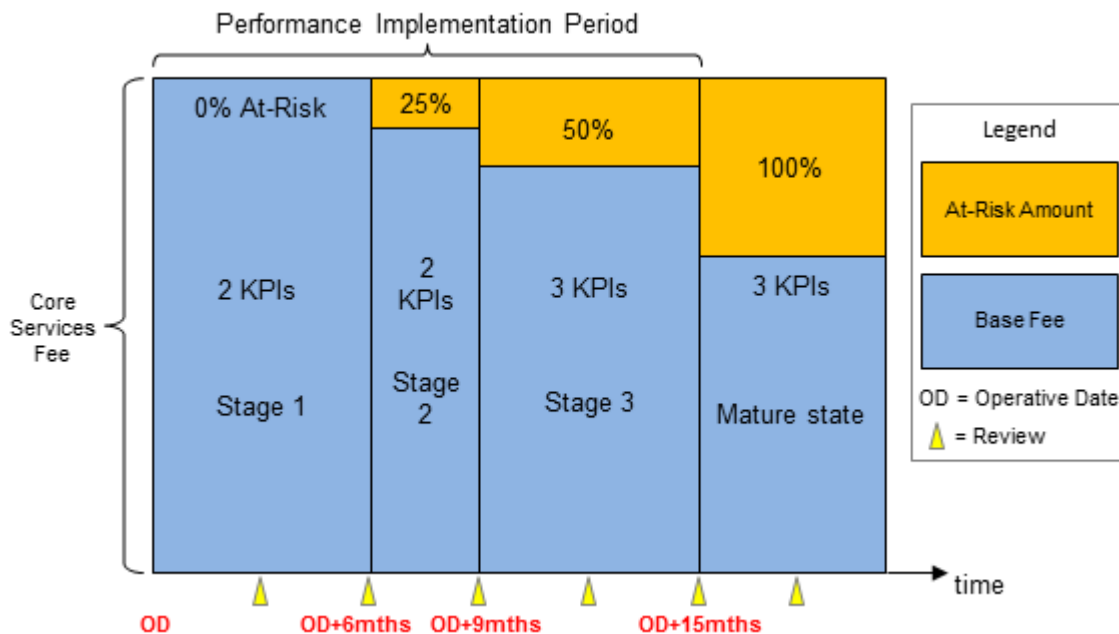


Figure 3 - Multi-Stage Performance Implementation Period

Performance Payments are not the only possible variables for each stage. Some KPIs may not be used because the Contractor’s related activity does not ramp up until sometime after the other KPIs. For example, for a new type of Mission System, the Contractor’s depot maintenance performance may not be measurable for some years until the first system enters this maintenance activity; however, supply performance may be measurable from the Operative Date or shortly thereafter.

Clause 4.1.1 defines the start and duration of the PIP. This clause may require amendment should the PIP last for greater than one year or not start on the Operative Date. The end date for the PIP should be established to coincide with the start of a Review Period, as illustrated in Figure 3, although it is not required that each stage of the PIP only last for one Review Period.

Clause 4.1.2 is an optional clause, to be included for a multi-stage PIP, like the example illustrated in Figure 3. The duration of each stage is to be entered into the sub-clauses, with additional sub-clauses added for additional stages, if required.

Clause 4.1.3 highlights that, at the end of the PIP, the modifications for the PIP will no longer apply and the full performance-management framework and Performance Payment regime is to be implemented.

Based on the need for one or multiple stages, optional clauses A or B are to be selected. The adjustments to the full Performance Payment regime for each stage of the PIP (either single or multiple) then need to be described through modifications as to how Table B-1 (modified by Table C-2) and Table C-1 (modified by Table C-3) should be read.

Usual modifications for the PIP include suspending or changing the weightings of individual KPIs and reducing the At-Risk Amount that will be subjected to Performance Payment calculations. Suspending a KPI (eg, because the related Service hasn’t begun) is the same as setting its weighting to zero (0%); hence, to account for all of the At-Risk Amount being used, weightings for other KPIs must be increased, such that the total of the weightings is again equal to 100%. In some cases, all KPIs may be required but weightings will be adjusted because the some Services (assessed by KPI) may only function at a reduced rate, while other

Services will begin at close to the mature rate of effort (but in each case the weightings must still sum to 100%). Reducing the At-Risk Amount reduces the risk to the Contractor of reduced Performance Payments during an initial period of setting-up and establishing Services; however, it still provides motivation to perform, particularly if the PIP runs for more than 12 months.

The draft clauses are intended to assist the description of these modifications but cannot account for the possibilities in every contract, hence drafters will need to develop these to suit their own Contract's requirements.

Where there are multiple stages and the changes can be presented graphically (eg, as per Figure 3 or with more detail), figures / diagrams may be added under this clause to aid in understanding the PIP process.

Drafter's Action: Select clause 4.1.2 for a multi-stage PIP, if required, and select from Options A and B, also based on the need for a single stage or multi-stage PIP. Use the suggested clauses and populate applicable table fields as a starting point for describing the adjustments to the Performance Payment regime that will be applicable to each stage.

Drafters should insert the At-Risk percentage inserted into Table C-2, if reduced from the At-Risk percentage in Table B-1. If the same At-Risk Amount is used (ie, adjustments to the PIP are limited to changes to KPI weightings), then sub-clause a. and Table C-2 can be deleted.

Drafters should insert the PIP weightings and Review Periods into Table C-3, where the weightings are changed for the PIP. If the weightings remain the same as Table C-1, then sub-clause b, and Table C-3 can be deleted. In this instance sub-clause c. should also be deleted as the suspension equates to a weighting of 0%, which is not feasible without changing the weightings for the other KPIs

If any KPIs are suspended (ie, weighting is zero) then the At-Risk Amount that would have been attributed to that KPI needs to be removed from the PIP's At-Risk Amount, as modified under sub-clause a. For example, if the At-Risk Amount is 12% of the Core Service Fee and only one KPI suspended, and the weighting of that KPI is normally 25%, then the At-Risk percentage in Table C-2 would be 9% (ie, the remaining three-quarters of the 12%).

Related Clauses:

Table B-1 in Annex B to Attachment B.

Table C-1 in this Annex.

Clause 3 of Attachment P.

Further Reading: Nil