

Q&As - Commissioning Better Outcomes and the Social Outcomes Fund

1. What is the aim of these two outcomes funds?

Both these outcomes funds aim to grow the market in Social Impact Bonds (SIBs) and other outcomes-based investment instruments by providing development funding, specialist support and by paying for a proportion of outcomes payments. Commissioning Better Outcomes has been set up by the Big Lottery Fund. The Social Outcomes Fund (SOF) is a Government (Cabinet Office) funded initiative.

2. What are the differences between the two outcomes funds?

CBO and SOF are two separate outcomes funds, administered by Big Lottery Fund and the Cabinet Office respectively. Our shared overarching aim is to grow the market in SIBs, while each fund has a specific focus that reflects the missions of the Big Lottery Fund and Cabinet Office.

- For the Big Lottery Fund, this is to enable more people, particularly those most in need, to lead fulfilling lives, in enriching places and as part of successful communities. CBO will **not** provide top-up outcomes payments for SIBs that replicate or replace services that a public body has a statutory duty to provide.
- For the Cabinet Office, this is to catalyse and test innovative approaches to tackling complex issues using outcomes based commissioning.

Both funds encourage active engagement with the VCSE sector.

3. What is Payment by Results?

A 'payment by results' (PbR) contract is one where a commissioner (normally a public sector organisation) agrees to make a payment to a service provider if certain outcomes are achieved. The PbR element of the payment is only triggered when the outcomes are achieved. This means the commissioner only pays when tangible outcomes are achieved and evidenced. It also means that some service providers may need to secure money to run the service until outcomes payments are triggered.

4. What is a Social Impact Bond (SIB)?

SIBs are one type of funding structure for PbR contracts. In a SIB investors provide upfront finance to service providers who do not have the financial resources to wait until outcomes are achieved and payments are received. Government agrees to pay PbR outcomes payments to the investors based on whether the social outcomes are delivered.

If the programme is not successful, government may not pay anything (depending on the terms of the contract), but if it is, investors will receive a return on their investment.

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5. Why are you interested in SIBs?

SIBs are an innovative and increasing popular tool for enabling social enterprises and charities to deliver payment by results contracts by securing the upfront finance they need to deliver services in advance of outcomes being achieved and payments being made.

SIBs also provide service deliverers with greater flexibility, allowing them more room for innovation and greater freedom to demonstrate solutions that work. Through our two outcomes funds the Big Lottery Fund and the Cabinet Office aim to support the development of more new SIBs. We also expect to learn more about what works and what doesn't work to inform future SIBs.

6. How could Voluntary, Community and Social Enterprise organisations (VCSEs) benefit from SIBs?

Providers from the VCSE sector are often prohibited from getting involved in Payment by Results (PbR) contracts because they do not have the financial resources to wait until outcomes are achieved before they are paid. Entering into a SIB means that the VCSEs and other smaller charitable sector service providers can access the upfront capital they need to deliver interventions under a PbR contract.

As these funds aim to grow the SIB market, we anticipate that this will lead to increased opportunities for VCSE providers to deliver more interventions.

7. What do you mean by "other outcomes based investment instruments"?

SIBs are just one type of investment instrument which can support PbR. Other investment instruments that can be used include loans, equity and other types of bonds. The type of investment instrument selected and the terms (usually) agreed between a commissioner and service provider at the outset are normally dependent on the final payment terms.

8. How much money is available?

The Big Lottery Fund has up to £40 million available through Commissioning Better Outcomes. Up to £3 million of this total has been set aside for development funding.

The Cabinet Office has up to £20 million available through the Social Outcomes Fund.

9. What type of SIB models are you looking to support?

We will only offer top ups to create new SIBs and will not pay for additional outcomes for existing SIBs. This is because one of the key aims of the funds is to grow the SIB market. We will only support SIBs that:

- Have a clear emphasis on social outcomes resulting in long term gains
- Address complex, entrenched, expensive social issues.
- Include a measurable outcomes framework.
- Have the potential to attract external investment

We do not want to prescribe the sorts of interventions or outcomes that will be commissioned. We will look to support SIBs that enable a wide variety of organisations to deliver innovative and effective services to people and communities, across a wide range of policy areas - from crime and employment, to health and housing, and children's services and addiction.

10. How do I apply?

There is a single application process with common forms for both outcomes funds to make applying as simple as possible. All applications will be assessed by both funders.

11. Who will be eligible to apply?

Commissioners, providers or intermediaries can all submit an expression of interest (EoI). However, we expect development grant requests and full applications to be from a commissioning organisation (typically a public sector organisation). For example:

- Local Authorities, seeking to improve outcomes for troubled families.
- Central Government Departments, seeking to reduce problem drug use.
- Clinical Commissioning Groups, seeking to reduce hospitalisation.
- Police and Crime Commissioners, seeking to reduce gang membership.

In exceptional circumstances we will consider development grant applications and full applications from other organisations (such as providers, including VCSE organisations, or intermediaries), as long as there is a commissioner involved. If this is the case, then you **must** contact us to discuss this before submitting your application.

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12. When can VCSE organisations get involved, if the application is done by commissioners?

Commissioners, intermediaries and service providers (including VCSE organisations) can become involved at any stage in the process up to final application. Any organisation involved in developing a SIB can submit an expression of interest (EoI); but, as set out above (Q&A11), we do expect requests for development funding and full applications to be submitted by a commissioning organisation (typically a public sector organisation).

As detailed above (Q&A11), in exceptional circumstances we will consider full applications from other organisations who have contacted us in advance of making an application.

13. Do VCSEs delivering a service through a SIB carry the financial risk if outcomes aren't achieved and outcomes payments are not made?

No, SIBs are designed specifically to transfer the financial risk away from VCSE providers to investors. Investors provide the upfront capital that enables VCSE providers to deliver an intervention under an outcomes-based contract.

The commissioner makes outcome payments based on whether the outcomes are delivered and it is these outcomes payments that are used to repay investors.

If the intervention is not successful, the commissioners may not pay anything and investors will not get their money back. It is important that this is made clear to investors before they enter into any agreement.

14. How else is the VCSE sector going to be involved in CBO?

Although CBO is primarily targeted at public services commissioners, VCSEs will have opportunities to get involved by acting as delivery partners. We particularly encourage active engagement with the VCSE sector throughout the process, and, in CBO guidance, specifically ask commissioners to ensure that they:

- Consult with a wide range of potential delivery partners, including those from the VCSE sector;
- Find support for their SIB from a range of different stakeholders such as other commissioners, investors, delivery partners and prime contractors; and
- Be aware of their obligations under the Public Services (Social Value) Act 2012 by considering how any procurement might improve the economic, social and environmental wellbeing of the local area.

15. What will the application process consist of?

There is a single, two stage application process for both funds which consists of an expression of interest (EoI) and, once this is approved, a full application.

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If you are successful at the Eol stage you can apply for development funding to help you develop your SIB. This funding is available to you prior to submitting your full application.

If you are successful in your full application, you will be made an in-principle offer. The commissioner involved in your SIB will then need to openly procure for delivery partners and raise any investment if required.

Your offer will be confirmed once you have fulfilled any conditions, which will be set out in your in-principle offer.

16. How detailed does my Expression of Interest need to be?

We recommend you read through the guidance in our About Commissioning Better Outcomes and the Social Outcomes Fund document in full before starting to fill in the form. It's located at www.biglotteryfund.org.uk/sioutcomesfunds.

You can download an Eol form from the Fund's website. You will need Adobe Reader version 10.0 or above installed on your computer. You can submit an Eol at any time, but all forms must reach us before 30 June 2015. We won't accept any Eols after this.

We do not expect you to have completed a full feasibility study of your project to answer the questions in the Eol, but when we assess your Eol we'll be looking for high-level information about what you want to do including:

- the social issue you want to address;
- who will be commissioning the intervention;
- the outcomes you are targeting and how you plan to measure them;
- potential savings, including the cashability of those savings;
- the proportion of payments that will be based on outcomes
- the potential intervention, how much it would cost and whether there are providers able to deliver it; and
- whether any social investment will be required and potential interest from investors.

17. What support is available to applicants?

Please contact us direct with any questions ahead of submitting your Eol at sioutcomesfunds@biglotteryfund.org.uk. We have appointed an experienced support contractor to work on a one to one basis with applicants submitting an expression of interest. They will also provide further support to applicants who are successful at Eol stage as outlined at Q&A 20 below.

Applicants successful at Eol stage also have the option of applying for a development grant to buy in technical support to help develop and review the feasibility of SIB proposals. See Q&A 19 below.

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The support arrangements set out above are designed to provide you with the standard level of assistance needed to submit an Eol.

The Cabinet Office Centre for Social Impact Bonds also provides light-touch support to SIB developers and has produced a series of tools and resources to help develop SIBs.

- **The Knowledge Box** is modular resource containing the latest thinking on SIBs
- A template and guidance for **developing payment by results contracts**
- You can contact the Centre for Social Impact Bonds by emailing sibs@cabinet-office.gov.uk

18. How much can I apply for?

We will only contribute a minority portion of the total outcomes payments and expect the average contribution to be around 20 per cent of the total outcomes payments.

There is no minimum or maximum funding available for each SIB but we expect the average amount of funding to be around £1 million

In exceptional circumstances we may be prepared to pay a greater portion of outcome payments. Please discuss this with us before applying.

Prior to submitting your full application, you can apply for between £10,000 and £150,000 to purchase technical support to fund the development of your project. You can apply for this support through a development grant application.

In exceptional circumstances, you may be able to make a case for development funding over and above this £150K limit. In these cases any application will require our prior approval.

19. What can I use a development grant for?

Development grants can be used to purchase technical support including, but not limited to: identifying savings (to the commissioner and other organisations) and their value; estimating cashability of savings and identifying ways of realising them; defining the cohort and referral pathway; refining and pricing of outcomes; developing metrics; and developing the structure of the SIB.

20. Please tell me more about the support contractor arrangements?

The support contractor will actively engage and support commissioners (and potentially other stakeholders) to submit an Eol to the two Outcomes Funds. They will do this by:

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- Disseminating information to help you raise awareness and increase understanding of SIBs among your stakeholders
- Engaging with you as an applicant with trained advisors
- Creating interactive learning tools and guides
- Dealing with your queries as an applicant
- Supporting you in developing your proposals through the EoI stage

Following any successful EoI, the support contractor will carry out an assessment of your development needs.

They will then signpost you to support providers who may assist you with developing your full funding application.

Please note that if you choose to seek support and advice from our support contractor, which we strongly advise you to do, you are not obliged to choose the contractor as your preferred support provider. The support contractor will provide you with access to a provider matching database.

You are free to choose the most appropriate support provider to meet your project's needs.

21. When will I receive payment?

If you are successful in applying for development funding, we will agree the payment schedule with you when we set up your grant.

Outcomes payments will be made in arrears, and only if and when the outcomes measures set out in the full application and which form part of your offer, are achieved.

22. When do I need to apply?

You can submit your expression of interest at any time but your form must reach us before 30 June 2015.

Applications for development funding can also be submitted at any time, but must be submitted by 31 December 2015.

Likewise, full applications can be submitted at any time (once you have passed EoI stage) and must be submitted by 31 July 2016. All top-up outcomes payments must be drawn down by 31 March 2023.

23. Can you give me further examples of the perverse incentives referred to in the EoI?

Perverse incentives occur when a payment incentivises undesirable behaviour inadvertently. For example if a payment is made to reduce the number of children in care there could be a perverse incentive to bring children who should

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be in care out of it inappropriately. Perverse incentives can be managed by, for instance, separating decision-makers from the beneficiaries of outcomes payments

You may also need to be aware of the effect of step down services where the outcomes of your PbR/SIB aiming to reduce demand in one area, lead to increased demand in another area as detailed in the [glossary of terms](#). Similarly, there is a risk that deliverers may seek to maximise actual outcomes by skimming: working with beneficiaries who are least costly to work with and, therefore, distorting outcomes payments.

24. How do you expect to learn from this programme?

We have set out specific objectives for each outcome fund:

- Big Lottery Fund looks to increase learning and enhance collective understanding of how to develop and deliver successful SIBs.
- The Cabinet Office is looking to increase capacity by testing cashability of savings and gathering evidence to determine performance of interventions, increase evidence on the impact of interventions and improve outcome valuation.

We expect funded proposals to contribute towards the attainment of these objectives and will be contracting an evaluation of the programme which will assess learning and delivery of related objectives across both funds.

25. How do I get further information about these two funds?

You can obtain guidance about the outcomes funds and download an EoI form from: www.biglotteryfund.org.uk/sioutcomesfunds

If you want to discuss your idea with us in advance of submitting your EoI, you can send an email to:

sioutcomesfunds@biglotteryfund.org.uk