

Commissioning Better Outcomes and the Social Outcomes Fund

Glossary of Key Terms

Black box approach - When procuring a payment by results (PbR) intervention, the commissioner can specify the intervention required or leave this up to the bidder. The latter approach is called a 'black box' approach to delivering outcomes because the commissioner doesn't specify what the intervention should be; they simply agree to pay for outcomes if they are delivered.

Bond - This is the generic name for a tradable loan security issued by governments and companies as a means of raising capital. Social Impact Bonds (SIBs) are a distinct form of financial instrument as defined below.

Cashability -When calculating savings, commissioners calculate the proportion of those savings that can be directly realised as reductions in spending, i.e. are 'cashable'. Some savings are unlikely to be directly cashable - for example a small reduction in police call outs. The cashability of an intervention is partly linked to the scale of the intervention and may therefore be scaleable: if a SIB resulting in fewer phone calls to the police was scaled up nationwide, cash savings might be generated by employing fewer people to answer phones.

Cohort - The group of people with whom the PbR or SIB intervention works. This can be defined by the method of referral (for example, children at risk of entering the care system) or by pre-defined criteria to ensure similar characteristics (for example, troubled families with drug or criminality problems that affect children's educational experiences).

Commissioner - The public sector body contracting a PbR or SIB. The commissioner commits to funding the outcomes payments of the SIB.

Co-commissioner - A public sector body that is also part of the PbR or SIB contract. The co-commissioner commits to funding part of the outcomes payments alongside the lead commissioner.

Co-payment - A range of organisations can agree to meet part of the outcomes payments: for instance in 2010 the Big Lottery Fund agreed to meet part of the outcomes payments for the Peterborough Prison SIB led by the Ministry of Justice.

Counterfactual - The measure against which the cohort's success is examined. It can be a control group (e.g. prisoners with similar offending records who are not participating in the SIB) or it can be a baseline assessment (e.g. prisoners from a previous year, different geographical areas, or a national average).

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Deadweight - The amount of improvement in the outcome that would have happened without the intervention. If the commissioner pays for this it is referred to as deadweight because they are paying for something they would have received anyway.

De-commissioning - To stop commissioning an existing service. This could be for a variety of reasons including the service no longer being required.

Equity - Ownership interest in a company in the form of common stock (Ordinary shares) or preferred stock.

Feasibility study - A detailed financial study to test the design and viability of a SIB. This involves building a financial model to calculate costs, savings, and cashability of savings. Aside from the model, other significant elements may affect feasibility of a SIB: appropriateness of the intervention; the target policy area; the engagement of both internal stakeholders (e.g.: the finance and procurement leads) and external stakeholders (e.g.: investors and providers).

Intermediary - Often an intermediary is used when designing a SIB. The intermediary can fulfil various functions including advice on SIB design as well as negotiating terms between the commissioner, investor and provider.

Intervention - The activity that the service provider engages to achieve the outcomes in the PbR agreement.

Investor - An organisation or individual providing upfront money to a service provider to run an intervention in exchange for a usually uncertain financial return.

Outcome - An outcome is the effect on a cohort that a service tries to achieve, such as reduced unemployment. SIBs focus on achieving social outcomes (e.g.: better health) rather than inputs (e.g.: number of doctors) or outputs (e.g.: number of operations). The outcomes in a SIB should be predefined and measurable, or have close proxies.

Payment by results (PbR) - This is a contract whereby a commissioner makes payments if certain outcomes are achieved. PbR can be linked to the entire payment or to a proportion of it. In a PbR contract, service providers need to secure money to run the service until outcomes payments are triggered.

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Payment mechanism - This is the way that payments are made in the PbR agreement. This includes the exact event that will trigger payments as well as the payment schedule.

Perverse incentives - These 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 be in care out of it. Perverse incentives can be managed, for example, by separating decision makers from payment beneficiaries.

Service provider- An organisation that delivers the intervention to a cohort.

Social Impact bond (SIB) - SIBs are funding structures for Payment by Results (PbR) contracts. They allow socially motivated investors to provide upfront financing to service providers for interventions, aiming to improve social outcomes. 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 receive a return on their investment.

Social Return - This is an outcome relating directly to society and societal gain, often as opposed to pure financial gain from a financial return.

Social Venture - Organisations that tackle social problems, including Registered Charities, Social enterprises, Community and voluntary organisations, Social businesses, Charities, Mutuals and Co-operatives.

Special Purpose Vehicle (SPV) - An SPV is a legal entity created solely to deliver or host a particular financial transaction or series of transactions. Forming an SPV is a standard approach when contracting with a group of entities, but has tax implications especially where it is for profit.

Step down service - Often the outcomes in a PbR/SIB aim to reduce demands on a particular service, leading to savings. This could lead to increased demand in another area: if a drug user is diverted from prison into treatment, then the latter is referred to as a 'step down service'. When estimating the costs and benefits of a PbR/SIB the costs of any step down services need to be included.

Working capital - The money required to cover an organisation's running costs and operations, such as rent, salaries, and other overhead costs. In a SIB, investors provide upfront working capital to smaller providers that might not otherwise be able to work on a payment by results basis.