ANNEX B – Guidance for completing the financial submission

The financial schedule attached at Annex A is comprised of 7 worksheets:

Yellow tabs require bidder input. Grey tabs do not require bidder input, and are simply used to calculate various outputs based on the data from the yellow tabs.

Overview of each tab

1) **Summary Sheet** (Bidder Input required)

This sheet provides a selected summary of key outputs from the bidder submission, including financial outputs (such as investment required, projected investor return) as well as bidder performance against selected financial funding capability tests and relevant value for money outputs. The only inputs required on this sheet are the name of the bidding organisation and the contact details of the person completing the form.

2) **Inputs - Outcomes and Payment** (Bidder Input Required)

This sheet forms the main provider financial submission. It is composed of a number of sections; and requires bidders to input e.g. proposed tariff for each outcome, the number of each outcome to be achieved per quarter. Detailed guidance for completing this tab is provided below.

3) **Inputs - Bidder Cost Profile** (Bidder Input Required)

Providers are asked to provide forecast programme costs on a quarterly basis in line with their delivery plan. These costs should be input on a cash flow basis - i.e. when the provider expects costs to be paid, rather than incurred. Detailed guidance for completing this tab is provided below.

4) **Financial Funding Capability Sheet** (Bidder Input Required)

This sheet requires bidders to list the source, amount and type of funding committed to support their bids. It uses this information to calculate the pass/fail of the financial viability assessment and the undue financial risk assessment. Detailed guidance for completing this tab is provided below.

5) **Outcomes & Payments Profile**

This sheet calculates outcomes payments using information from the Outcomes and Payments Profile and Bidder Cost Profile sheets. Please note that it is assumed that outcomes payment will be made in the quarter after outcomes are achieved. The sheet does not require any input from the bidder.

6) VFM Calculation Sheet

This sheet is provided for bidder reference only, and illustrates the calculation of **Value for Money** metrics which will inform the Fair Chance Fund scoring process. The sheet does not require any input from the bidder – all relevant provider information is sourced from the Outcomes and Payments Profile and Bidder Cost Profile sheets. Each bidder's metrics will be assessed against those of other bidders to provide a score.

7) Cash Flow Statement

This section is calculation only, and compares assumed outcome payments to be received by the bidder (from the *Outcomes and Payment* tab) with costs incurred, on a quarterly basis (from the *Bidder Cost Profile* tab) to produce a net programme cash flow. This profile is summed to produce a cumulative programme cash position over the life of the programme.

The minimum cash balance on this schedule - the minimum cumulative programme cash position – provides a proxy for the forecast peak working capital requirement that the provider's programme entails and is considered as part of the financial viability assessment

Detailed submission guidance for each tab

2) Inputs: Outcomes and Payments

Bidders are required to provide their bid tariff levels and forecast expected outcomes with the cohort with which they will be working.
Bidders are asked to complete the yellow cells only. Bidder data will be automatically summed in the grey cells at the end of each row.

Bidder Tariffs
Bidders are required to provide their bid tariff levels for each outcome. The sheet then compares these inputs to the Fair Chance Fund maximum tariff levels and calculates an implied discount for each. Bidders should not submit tariff levels in excess of the specified maximum Fair Chance Fund tariff levels. Please note that there is no facility to discount the assessment fee tariff, which will be paid at the stated level

Referrals to the scheme
Bidders are required to profile the number of young people they expect to be referred to the scheme in each of the first four quarters of the delivery period. The sum of these cells should reflect the bidder's anticipated total cohort size. Please note that we will not pay for outcomes for anyone accepted onto the scheme after December 2015, and will prefer bids which have a balanced profile of referrals over the first four quarters over bids which concentrate referrals in the later part of the year.

Assumed profile of outcomes achieved
Bidders are required to profile the approximate number of young people they expect to achieve each outcome stated in their bid over each quarter of the delivery period. This profile should reflect the bidder's delivery plan.

3) Bidder Cost Profile

Bidders are required to provide quarterly forecasts of programme costs in line with their delivery plan. These costs should be input on a cash flow basis - i.e. when the provider expects costs to be paid, rather than incurred.
Bidders are asked to complete the yellow cells only. Bidder data will be automatically summed where required in the grey cells.

Six cost headings are provided:

- Staff costs – expenditure on direct provider employees and subcontractors.

- Participant costs – costs incurred on behalf of cohort members, for example travel costs or spot purchase of services.

- Other operating costs – other costs of delivering the programme, including premises and infrastructure costs.

- Contingency – any cost contingency which providers wish to allocate to programme costs.

- Fixed financing costs – where debt with fixed repayments or fees will be used to finance the programme, the forecast cash costs should be included here. Where debt financing is being arranged it should also appear in the Financial Funding Capability sheet (see below). If debt finance is listed in the Financial Funding Capability sheet, we would expect to see corresponding entries in the fixed financing costs row. Surplus – where bidders are budgeting for a fixed surplus on operating costs to be paid to the provider(s), then these amounts should be included here.

These headings are then further broken down into sub-categories for each cost type. Bidders need not fill in a line item for every cost type

4) Financial Funding Capability

In addition to value for money scoring, bids will be subject to a separate financial/funding capability assessment, conducted in two parts. A pass on both elements is required for bids to be considered. This assessment is a separate element of the bid evaluation and does not form part of the value for money scoring.

The Financial viability assessment and the Undue financial risk assessment are based on the information provided in the financial submission.

Please note that grant arrangements will be subject to a further due diligence assessment, which will be undertaken with successful bidders following the bid assessment.

In order to be able to fully evaluate financial viability and undue risk, bidders are requested to provide the following documentation for organisations contributing funds (this requirement does not apply to any individuals contributing funds, but further information may be requested as part of the due diligence process following the bid assessment) :

- Financial accounts for the current year and a bank letter outlining the current cash & credit position of each organisation which will be contributing funds.
- A signed statement of turnover to date for the current trading year of each provider organisation which will be contributing funds.
- Where possible and applicable, written confirmation of any support available from parent organisation or third parties (in the form of guarantee or performance bond).

Financial viability assessment

This assessment aims to ensure that bidders have sufficient resources to successfully deliver the contract on a payment-by-results basis. Bidders will be required to demonstrate their ability to fund the full amount of their forecast peak working capital requirement, with 20% headroom, and to identify the sources and structure of this funding.

Bidders will be required to provide in-principle commitment letters from funders matching the amounts identified in their financial submission

Bidders should identify all committed sources of funding for their bid, including specification of the amount committed and the type of finance being provided. The sources of funding identified here should match letters of commitment provided in bid submissions. Bidders are asked to categorise each funding source into one of four categories:

- Outcomes finance – new programme funding from an external source with a contractual repayment profile which is entirely contractually dependent on the achievement of programme outcomes. Bidders must provide a letter of commitment from the identified funder confirming the in-principle availability of this funding. Outcomes finance should be input on the basis of the **bid as a whole** (i.e. the total across all providers). This information should be populated in the table which starts at row 5.

- Internal funding – programme funding from a provider's own internal resources. Providers must provide a letter of commitment from their board confirming the in-principle availability of this funding. Internal funding should be shown separately for **each** provider (if any) who is contributing funds from this source. This information should be populated in the table which starts at row 18. The *Funder Name* column should be populated with *"N/A".*

- New grant or equity funding – new programme funding to a provider from an external source with no contractual repayment profile (i.e. provided as a grant or non-repayable equity investment). Providers must provide a letter of commitment from the identified funder confirming the in-principle availability of this funding. New grant or equity funding should be shown separately for **each** provider (if any) who is contributing funds from this source. This information should be populated in the table which starts at row 18, using a new row for each separate grant/equity funding received by each provider. In each case, the *Funder Name* column should be populated with the name of the organisation providing the new grant or equity.

- Debt (non-outcomes finance) – new programme funding to a provider from an external source with a contractual repayment profile which is **NOT** dependent on the achievement of programme outcomes (e.g. an unsecured loan facility where financing costs and repayment amounts are agreed up front irrespective of programme outcomes). Providers must provide a letter of commitment from the identified funder confirming the in-principle availability of this funding. Debt funding should be shown separately for **each** provider (if any) who is contributing funds from this source. This information should be populated in the table which starts at row 18, using a new row for each loan/other form of debt received by each provider. In each case, the *Funder Name* column should be populated with the name of the organisation providing the loan/other form of debt.

The total committed funding for the whole bid is compared with the level of committed funding required to pass the Financial viability assessment. This amount is calculated as the minimum cumulative programme cash position over the programme intervention period (taken from the *Bidder Cost Profile sheet*) increased by a required headroom of 20%. If bidders have total committed funding above this level then they pass the financial viability assessment.

Undue financial risk assessment
The undue financial risk assessment aims to ensure that providers are not putting their organisation at excessive risk by entering into the outcomes-based contract. The assessment process will recognise the character of different funding sources; including those forms of capital which have repayment profiles contingent on the achievement of programme outcomes.

Providers are asked to input the amount of internal unrestricted funds available to the provider at last audited balance sheet date. This amount should be identifiable in the audited accounts provided to DCLG with the bid submission

DCLG will assess **each provider** by examining the relationship between:

- Usage of internal provider funding, including funds that are repayable but not contingent on achieving outcome (i.e. new grant or equity); and

- Unrestricted funds available to providers, based on the most recent, audited accounts available. A minimum ratio of 2:1 in favour of unrestricted funds will be required to pass the assessment.

Bidders should therefore ensure each provider is included in the calculation, by selecting the relevant name from the dropdown list. The data populated for each provider and their sources of finance should then feed through to the Undue Financial Risk Assessment table automatically.

If **any** provider, which is contributing funds, fails the Undue financial risk assessment, the bid as a whole will fail.

For example: A bid with one provider contributing funds identifies a peak working capital requirement of £1.0m (including the required 20% headroom). The bidder proposes to fund this gap with:

- £0.4m in outcomes-finance from social investors (committed in principle, repayment subject to delivery of outcomes);
- £0.3m of its own reserves (committed in principle by the board of the provider);
- £0.2m of debt with a repayment profile unconnected to outcomes (committed in principle); and
- £0.1m in new grant funding (committed in principle).

The social investment with a repayment profile directly linked to the achievement of the programme outcomes, and the new grant funding (no repayment profile) is not considered as it is low risk for the provider. The provider must demonstrate that it has unrestricted funds of at least two times the remaining amount of internal funding and debt. In this case, this would require £1.0m (2 x (£0.3m + £0.2m)) in order to pass the assessment.