Commissioning Better Outcomes

Glossary of Key Terms July 2016

Additional terms: – contract specific provisions that form an integral part of an agreement.

Baseline: – a means to work out the success of an intervention using the data relating to the circumstances before an intervention and analysing the difference.

Binary result: - yes or no achievement of an outcome. In this case, there is no possibility of part meeting the outcome.

Black box approach: - when procuring an 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 savings that can be directly realised as reductions in spending. For instance, reducing the number of children in care could generate cashable savings because fewer residential places will be needed. Some savings are unlikely to be directly cashable, such as 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. So, if a local SIB resulted in fewer phone calls to the police and that was scaled up nationwide, cash savings might be generated by employing fewer people to answer phones.

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

Commissioner: - this is the public sector body contracting a Payment by Results (PbR) or SIB. The commissioner commits to funding outcomes payments. These bodies include government departments, local authorities, NHS bodies and police commissioners. CBO and LCF will only fund local public commissioners.

Commissioning Better Outcomes

Glossary of Key Terms July 2016

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. 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: – a means to deliver insight into what might have happened had a SIB not been used by analysing the results of interventions in other similar circumstances.

Control group: - can be used as a counterfactual. A means to deliver insight into what might have happened had a SIB not been used. For example, analysing prisoners with similar offending records who are not participating in the SIB. It can also be a baseline assessment. For example, using prisoners from a previous year, different geographical areas, or a national average.

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 study to test SIB design and viability. 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. These include intervention appropriateness; target policy area; internal stakeholder engagement, including the finance and procurement leads and external stakeholder engagement, including investors and providers.

Commissioning Better Outcomes

Glossary of Key Terms July 2016

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 service provider.

Internal rate of return: - a calculation used to work out the actual rate of return of an investment after all costs have been considered. This is used to determine if there is value in committing funds, and is a measure of the profitability of potential investments.

Intervention: - the activity that the service provider engages to achieve the outcomes.

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

Metrics: - unit of measurement to create desired incentives

Non-cashable savings: - benefits that cannot be converted into cash, for example, the reduction in demand for public services as a result of a SIB intervention might mean that projected future expenditure does not need to occur.

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, such as better health rather than inputs, such as the number of doctors or outputs, such as the number of operations. The outcomes in a SIB should be predefined and measurable.

Outcome scenarios: - to represent different possible outcomes where an outcome can be partially met and are rated against a rates table of possible outcomes. The proposal is normally planned to achieve a base or median scenario and a high scenario representing the best possible outcome to be funded and the low scenario indicating the break-even point, below which the proposal becomes uneconomic to run.

Commissioning Better Outcomes

Glossary of Key Terms July 2016

Participants: - the people actually benefitting from / participating in activities which form part of the intervention. They are said to be participating in the activities as they are often consulted in terms of need, as well as project delivery.

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.

Payment mechanism: - this is the way that payments are made in the 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.

Procurement: - formal procedure which records the criteria required in order to comply with invites to suppliers to provide goods and / or services.

Risk share: - a method of reducing the risks involved with an investment, such as by reducing the stakes and investing with others.

Risk transference: - how risk is distributed between stakeholders.

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

SIB financials: - the financial model developed to assess potential savings as a result of the intervention.

Commissioning Better Outcomes

Glossary of Key Terms July 2016

Social Impact bond (SIB): - SIBs are funding structures for PbR contracts. They allow socially motivated investors to provide upfront financing to service providers for interventions, aiming to improve social outcomes. The commissioner or others agree to pay PbR outcomes payments to the investors, normally through an intermediary or special purpose vehicle delivering the SIB, based on whether the social outcomes are delivered. If the programme is not successful, the government may not pay anything (depending on the terms of the contract); but if it is successful, investors receive a return on their investment.

Social innovation: – this term refers to how new ideas to tackle social problems or address social needs are developed. These ideas may encompass creative products, services, initiatives or new delivery model.

Social issue: – refers to an issue that impacts on a significant number of people within a society.

Social policy area: - applies to government policy supporting human wellbeing. Examples are living conditions, child protection, crime and criminal justice.

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.

Stakeholder: - a person or organisation with an interest or concern in a venture or business.

Statutory Provision: - a service or provision that a public body is required to deliver under statute either directly or indirectly through a third-party agency

Commissioning Better Outcomes

Glossary of Key Terms July 2016

Step-down service: - the cost of stopping an existing service, such as redundancy payments. 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.

Value for money: - this is the balance between quality and cost of an activity, where the right price is paid for the right service or level of support.

Voluntary ex-ante transparency notice (VEAT): - a 10-day notice of intent to award to a service provider a contract during which time any other provider can challenge that decision if they feel they could also be in a positon to deliver the service. Used by commissioning bodies in place of a full tender process.

Well-being star: - method of measuring or indicating success. It is a qualitative tool available on licence for supporting and measuring change when working with people by measuring the outcomes (that indicate a change in wellbeing) against a mix of outcomes and mapping the overall impact across all the outcomes to show the overall change in that person's wellbeing.

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.