

Payment for Outcome Contracts

Typical Structures

Lead Contractor	SPV	Dedicated Prime Contractor ('PC')	Service Provider ('SP')
Overview	<u>Intermediated SIB</u> Legal entity set up for purpose of facilitating the SIB by contracting with stakeholders and intermediating	<u>Intermediated SIB</u> Legal entity which facilitates SIB by contracting with stakeholders, intermediating cash flows and	<u>Direct Contracting Structure</u> Organisation which is delivering the service receives funding directly from investors and contracts directly
Example	Fusion Housing, West Yorkshire	Ways to Wellness, Newcastle	HCT, London
Typical Features			
Ownership	Typically the SIB investors, but delivery organisation could invest to gain exposure to performance risk	SIB investors. Although delivery organisation could theoretically invest to gain exposure to performance risk, the Col risk is greater than in SPV structure due to active contract management role expected from	A PBR contract does not change ownership. For a Charity, there is no ownership. For a CIC or other mission-driven CLS, owners are varied, but typically different from the PBR/SIB investors
Governance	Board of Directors typically includes representatives of investors, contracted performance manager and an external Chair. Regardless of ownership, service providers may also be on Board.	Board of Directors typically includes representatives of investors, contracted performance manager and an external Chair. Service providers may also be on Board, but Col must be managed.	Typically, PBR/SIB investors would not be directors of a previously established service provider, for which the SIB is only one of many activities & income streams. Investors rely on SIB loan contract T&C to
Staffing and infrastructure	Typically no staff, purely legal entity with bank account and financial reporting.	Staffed per SIB scale and technical needs, typically strong sector and commissioning knowledge, as well as data M&E skills. In addition to cashflow management and financial reporting, it usually	Contracting directly should not require additional staff or skills in the SP beyond those required when entering into a SIB with an SPV or PC structure <i>unless</i> Performance Management is undertaken by the SP.
Financing	Investors fund SPV through equity and debt instruments.	Investors fund SPV through equity and debt instruments.	Investors loan directly to SP, with soft terms - some performance-linked repayment triggers to enable risk-
Service Delivery	Usually a single service provider, but could accommodate several if robust performance	Multiple service providers are required, and active contract management expected.	Undertaken directly by the SP, usually on its own, although sub-contracting is feasible
Performance Management	Typically it is the SPV which externally contracts PM, but in a case where delivery organisations are investors in the SPV, the other investors may choose to contract PM directly to reduce Col.	Usually undertaken internally by the PC as it overlaps with contract management activity and the PC's incentives are aligned with those of investors.	PM can be undertaken by the SP (within terms of the SIB contract or through a separate contract) or the investor may contract an external specialist. Factors considered by investors in deciding PM structure are cost, capacity and skills of SP, complexity and risk of SIB outcomes and conflict of interest.
Considerations			
Suitability	* Single SP seeking to transfer all/most outcomes risk to investor	* Multiple providers needed, different geographies * Specialised technical and regulatory knowledge applies in sector and intervention * Greater flexibility in contracting SP's is sought	* Small contracts, where full SIB structure too costly * Large and experienced SPs with capacity to share some risk and possibly PM
Challenges	* Scoping and budgeting appropriate level of external PM	* Intensive support and PM is costly, so large and usually long-term contracts required to sustain.	* Limited options for changing SP in event of performance shortfall * Col management can be more complex